



MBIA Insurance Corporation
Statutory-Basis Financial Statements
December 31, 2009 and 2008

Report of Independent Auditors

To the Board of Directors and Shareholders of
MBIA Insurance Corporation:

We have audited the accompanying statutory statements of admitted assets, liabilities and capital and surplus of MBIA Insurance Corporation (the "Company") as of December 31, 2009 and 2008, and the related statutory statements of income and changes in capital and surplus, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Note 2 to the financial statements, the Company prepared these financial statements using accounting practices prescribed or permitted by the Insurance Department of the State of New York, which practices differ from accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between the statutory basis of accounting and accounting principles generally accepted in the United States of America are material.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Company as of December 31, 2009 and 2008, or the results of its operations or its cash flows for the years then ended.

In our opinion, the financial statements referred to above present fairly, in all material respects, the admitted assets, liabilities and capital and surplus of the Company as of December 31, 2009 and 2008, and the results of its operations and its cash flows for the years then ended, on the basis of accounting described in Note 2.

As discussed in Note 1 to the financial statements credit rating downgrades in 2008 caused a significant reduction in insurance activities and, in 2009, the Company did not write any new business. Also as discussed in Note 1, in February 2009, the Company received regulatory approvals to establish a separate U.S. public finance financial guarantee insurance company.

Our audit was conducted for the purpose of forming an opinion on the basic statutory basis financial statements taken as a whole. The accompanying Summary Investment Schedule, Supplemental Investment Risks Interrogatories and Supplemental Schedule of Reinsurance Disclosures of the Company as of December 31, 2009 and for the year then ended are presented for purposes of additional analysis and are not a required part of the basic statutory basis financial statements. The effects on the Summary Investment Schedule, Supplemental Investment Risks Interrogatories and Supplemental Schedule of Reinsurance Disclosures of the variances between the statutory basis of accounting and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material. As a consequence, the Summary Investment Schedule, Supplemental Investment Risks Interrogatories and Supplemental Schedule of Reinsurance Disclosures do not present fairly, in conformity with accounting principles generally accepted in the United States of America, such information of the Company as of December 31, 2009 and for the year then ended. The Summary Investment Schedule, Supplemental Investment Risks Interrogatories and Supplemental Schedule of Reinsurance Disclosures have been subjected to the auditing procedures applied in the audit of the basic statutory basis financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic statutory basis financial statements taken as a whole.

PriceWaterhouseCoopers LLP

May 28, 2010

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MBIA INSURANCE CORPORATION
STATUTORY-BASIS STATEMENTS OF ADMITTED ASSETS, LIABILITIES and CAPITAL and SURPLUS
(Dollars in thousands except share and per share amounts)

| | December 31, 2009 | December 31, 2008 |
|---|-------------------|-------------------|
| Admitted Assets | | |
| Investments: | | |
| Fixed-maturity securities, at amortized cost (fair value \$757,440 and \$6,012,289, respectively) | \$739,735 | \$6,204,195 |
| Securities purchased under agreements to resell | - | 1,343,947 |
| Secured loan with affiliate | 1,600,000 | 2,000,000 |
| Short-term investments, at amortized cost which approximates fair value | 643,878 | 997,103 |
| Investment in subsidiaries | 616,400 | 702,538 |
| Tax and loss bonds | - | 170,250 |
| Investments in unaffiliated common stock, at fair value | 137,119 | 48,862 |
| Investments in preferred stock, at carry value (2008 fair value of \$38,528) | - | 47,170 |
| Investment in real estate, net of depreciation | 65,000 | 92,262 |
| Other investments | 109,121 | 237,015 |
| Total investments | 3,911,253 | 11,843,342 |
| Cash and cash equivalents | 536,499 | 1,005,771 |
| Total cash and investments | 4,447,752 | 12,849,113 |
| Accrued investment income | 11,615 | 109,733 |
| Current tax receivable | 283,808 | 185,949 |
| Deferred tax asset | 83,300 | 79,115 |
| Reinsurance recoverable on paid losses | 13,219 | 206,079 |
| Other assets | 27,412 | 102,659 |
| Total admitted assets | \$4,867,106 | \$13,532,648 |
| Liabilities, Capital and Surplus | | |
| Liabilities: | | |
| Deferred premium revenue | \$539,518 | \$4,005,837 |
| Loss and loss adjustment expense reserves | 560,955 | 1,870,697 |
| Contingency reserve | 1,447,665 | 2,594,927 |
| Securities sold under agreements to repurchase | - | 1,343,947 |
| Borrowed money | 276,842 | - |
| Amounts withheld for account of others | 21,051 | 55,029 |
| Payable for investments purchased | 13,004 | 34 |
| Other liabilities | 122,983 | 159,755 |
| Total liabilities | 2,982,018 | 10,030,226 |
| Capital and Surplus: | | |
| Common stock, par value \$220.80 per share; authorized, issued and outstanding - 67,936 shares; 2008 par value \$150 per share; authorized, issued and outstanding -100,000 shares | 15,000 | 15,000 |
| Series A non-cumulative perpetual preferred stock, par value \$1,000 per share, liquidation value \$100,000 per share; authorized - 4,000.08 shares, issued and outstanding - 2,759.08 shares | 275,908 | 275,908 |
| Surplus notes | 952,655 | 952,655 |
| Additional paid-in capital | 777,220 | 1,899,851 |
| Unassigned surplus | (135,695) | 359,008 |
| Total capital and surplus | 1,885,088 | 3,502,422 |
| Total liabilities, capital and surplus | \$4,867,106 | \$13,532,648 |

The accompanying notes are an integral part of the financial statements.

MBIA INSURANCE CORPORATION
STATUTORY-BASIS STATEMENTS OF INCOME

(Dollars in thousands)

| | Years ended December 31, | |
|---|--------------------------|---------------|
| | 2009 | 2008 |
| Revenues: | | |
| Gross premiums written | (\$509,339) | \$1,455,348 |
| Ceded premiums | (2,627,353) | (25,956) |
| Net premiums written | (3,136,692) | 1,429,392 |
| Decrease (increase) in deferred premium revenue | 3,532,661 | (522,472) |
| Net premiums earned | 395,969 | 906,920 |
| Expenses: | | |
| Losses incurred | 1,733,026 | 3,068,675 |
| Loss adjustment expenses incurred | 181,733 | 5,877 |
| Other underwriting (income) expenses incurred | (702,733) | 311,366 |
| Total underwriting expenses | 1,212,026 | 3,385,918 |
| Net underwriting loss | (816,057) | (2,478,998) |
| Investment income: | | |
| Net investment (loss) income | (9,271) | 411,809 |
| Net realized (losses) gains, (less tax of (\$44,543) and (\$16,368)) | (82,723) | (30,398) |
| Net investment (loss) gain | (91,994) | 381,411 |
| Other (expense) income, net | (37,206) | 58,896 |
| Loss before income taxes (after capital gains tax) | (945,257) | (2,038,691) |
| Benefit for income taxes | (261,083) | (625,935) |
| Net loss | (\$684,174) | (\$1,412,756) |

The accompanying notes are an integral part of the financial statements.

MBIA INSURANCE CORPORATION
STATUTORY-BASIS STATEMENTS OF CHANGES IN CAPITAL AND SURPLUS

For the years ended December 31, 2009 and 2008

(Dollars in thousands except share amounts)

| | Common Stock | | Preferred Stock | | Additional Paid-in Capital | Surplus Notes | Unassigned Surplus | Total Capital and Surplus |
|--|--------------|----------|-----------------|------------|----------------------------------|------------------|-----------------------|---------------------------------|
| | Shares | Amount | Shares | Amount | | | | |
| Balance, January 1, 2008 | 100,000 | \$15,000 | - | \$ - | \$ 1,296,470 | \$ - | \$2,351,582 | \$ 3,663,052 |
| Net loss | - | - | - | - | - | - | (1,412,756) | (1,412,756) |
| Change in non-admitted assets | - | - | - | - | - | - | (1,055,852) | (1,055,852) |
| Change in surplus notes | - | - | - | - | - | 952,655 | - | 952,655 |
| Change in foreign currency translation | - | - | - | - | - | - | 4,644 | 4,644 |
| Change in contingency reserve | - | - | - | - | - | - | 123,989 | 123,989 |
| Tax and loss bonds, net | - | - | - | - | - | - | (615,301) | (615,301) |
| Change in net unrealized gain (loss) on investment in subsidiaries | - | - | - | - | - | - | (111,206) | (111,206) |
| Change in net unrealized gain (loss) on other investments, net of tax | - | - | - | - | - | - | 32,175 | 32,175 |
| Change in net deferred income taxes | - | - | - | - | - | - | 1,041,733 | 1,041,733 |
| Perpetual preferred shares | - | - | 2,759.08 | 275,908 | 111,690 | - | - | 387,598 |
| Capital contribution from MBIA Inc. | - | - | - | - | 486,500 | - | - | 486,500 |
| Share-based compensation net of deferred income taxes | - | - | - | - | 5,191 | - | - | 5,191 |
| Balance, December 31, 2008 | 100,000 | 15,000 | 2,759.08 | 275,908 | 1,899,851 | 952,655 | 359,008 | 3,502,422 |
| Net loss | - | - | - | - | - | - | (684,174) | (684,174) |
| Change in non-admitted assets | - | - | - | - | - | - | (445,771) | (445,771) |
| Change in foreign currency translation | - | - | - | - | - | - | 122,275 | 122,275 |
| Change in contingency reserve | - | - | - | - | - | - | 1,147,263 | 1,147,263 |
| Change in net unrealized gain (loss) on investment in subsidiaries | - | - | - | - | - | - | 99,000 | 99,000 |
| Change in net unrealized gain (loss) on other investments, net of tax | - | - | - | - | - | - | (25,626) | (25,626) |
| Change in net deferred income taxes | - | - | - | - | - | - | 453,041 | 453,041 |
| Redemption of common shares | (32,064) | (4,809) | - | - | (1,123,557) | - | - | (1,128,366) |
| Increase in par value of common shares | - | 4,809 | - | - | - | - | - | 4,809 |
| Dividends on preferred shares | - | - | - | - | - | - | (13,754) | (13,754) |
| Special dividends paid on common shares | - | - | - | - | - | - | (1,146,957) | (1,146,957) |
| Share-based compensation net of deferred income taxes | - | - | - | - | 926 | - | - | 926 |
| Balance, December 31, 2009 | 67,936 | \$15,000 | 2,759.08 | \$ 275,908 | \$ 777,220 | \$ 952,655 | (\$135,695) | \$1,885,088 |

The accompanying notes are an integral part of the financial statements.

MBIA INSURANCE CORPORATION
STATUTORY-BASIS STATEMENTS OF CASH FLOWS

(Dollars in thousands)

| | Years ended December 31 | |
|--|-------------------------|--------------|
| | 2009 | 2008 |
| Cash from operations | | |
| Premiums (paid) collected, net of reinsurance | (\$ 2,981,059) | \$ 1,402,128 |
| Net investment income | 127,531 | 459,708 |
| Miscellaneous income | 11,743 | 39,109 |
| Total | (2,841,785) | 1,900,945 |
| Loss and loss adjustment expense payments | 2,648,461 | 2,142,212 |
| Commissions and expenses (received) paid | (227,723) | 446,516 |
| Federal income taxes received | (374,266) | (476,825) |
| Total | 2,046,472 | 2,111,903 |
| Net cash used by operations | (4,888,257) | (210,958) |
| Cash from investments | | |
| Proceeds from investments sold, matured or repaid: | | |
| Fixed-maturity securities | 6,123,607 | 5,863,484 |
| Stocks | 231,611 | 14,832 |
| Other invested assets | 202,543 | 483 |
| Proceeds from repayment of secured loan with affiliate | 400,000 | - |
| Miscellaneous proceeds | 41,838 | 77,620 |
| Total investment proceeds | 6,999,599 | 5,956,419 |
| Cost of investments acquired: | | |
| Fixed-maturity securities | 630,580 | 3,547,187 |
| Stocks | 115,792 | 112,969 |
| Real estate, net of depreciation | 1,994 | 4,962 |
| Other invested assets | 32,890 | 229,774 |
| Miscellaneous applications | 194,651 | 45,270 |
| Total investments acquired | 975,907 | 3,940,162 |
| Net cash provided by investments | 6,023,692 | 2,016,257 |
| Cash from financing and miscellaneous sources | | |
| Cash provided: | | |
| Proceeds from issuance of surplus notes, net of expense and repurchase | - | 933,808 |
| Capital contribution from MBIA Inc. | - | 486,500 |
| Issuance of preferred stock, net of repurchases | - | 387,590 |
| Net proceeds from borrowed money | 276,842 | - |
| Surplus paid in | 925 | 5,199 |
| Total other cash provided | 277,767 | 1,813,097 |
| Cash applied: | | |
| Net transfers (to) from affiliates | (56,345) | 54,045 |
| Securities sold under agreement to repurchase | 1,353,050 | (1,003,277) |
| Redemption of common shares and other returns of capital | 1,123,557 | - |
| Special dividends paid on common shares | 1,146,957 | - |
| Dividends paid on preferred shares | 12,748 | - |
| Other applications | (321) | 21,622 |
| Total other cash (used) applied | 3,579,646 | (927,610) |
| Net cash (used for) provided by financing and miscellaneous sources | (3,301,879) | 2,740,707 |
| Net change in cash, cash equivalents and short-term investments | (2,166,444) | 4,546,006 |
| Reclassification of secured loan to affiliate ⁽¹⁾ | - | (2,000,000) |
| Cash, cash equivalents and short-term investments - beginning of year | 3,346,821 | 800,815 |
| Cash, cash equivalents and short-term investments - end of year | \$ 1,180,377 | \$ 3,346,821 |

⁽¹⁾ During 2009, the Company reclassified its secured loan to affiliate of \$2,000,000 from short-term investments to a separate component in the balance sheet "secured loan to affiliate." The prior year balance sheet classification was changed to conform to the current year presentation. Also, in 2009, the Company received \$400,000 in proceeds from repayment of part of the secured loan and classified that cash receipt in "proceeds from fixed-maturity investments" in the statement of cash flows. In 2008, the origination of the secured loan to affiliate was classified in "cost of fixed-maturities acquired" in the statement of cash flows.

The accompanying notes are an integral part of the financial statements.

MBIA INSURANCE CORPORATION
NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS
As of and for the years ended December 31, 2009 and 2008

1. Business and Organization

MBIA Insurance Corporation, an entity domiciled in the state of New York (“MBIA”, “MBIA Corp.” or the “Company”) is a wholly-owned subsidiary of MBIA Inc. (“Parent Company”). MBIA Inc. was incorporated in Connecticut on November 12, 1986 as a licensed insurer and, through a series of transactions during December 1986, became the successor to the business of the Municipal Bond Insurance Association (the “Association”), a voluntary unincorporated association of insurers writing municipal bond and note insurance as agent for the member insurance companies.

The guarantees of MBIA Corp. insure structured finance and asset-backed obligations, privately issued bonds used for the financing of public purpose projects, which are primarily located outside of the United States (“U.S.”) and that include toll roads, bridges, airports, public transportation facilities, utilities and other types of infrastructure projects serving a substantial public purpose, and obligations of sovereign and sub-sovereign issuers. Structured finance and asset-backed securities (“ABSs”) typically are securities repayable from expected cash flows generated by a specified pool of assets, such as residential and commercial mortgages, insurance policies, consumer loans, corporate loans and bonds, trade and export receivables, leases for equipment, aircraft and real property.

The financial guarantees issued by MBIA Corp. generally provide unconditional and irrevocable guarantees of the payment of the principal of, and interest or other amounts owing on, insured obligations when due or, in the event MBIA Corp. has the right at its discretion to accelerate insured obligations upon default or otherwise, upon MBIA Corp.’s election to accelerate. Certain investment agreement contracts written by MBIA Inc. and its subsidiaries are insured by MBIA Corp. and if MBIA Inc. and its subsidiaries were to have insufficient assets to pay amounts due, MBIA Corp.’s insurance coverage would be drawn upon to make such payments. MBIA Corp. has also insured debt obligations of its affiliates, including medium-term notes issued by MBIA Global Funding, LLC and Meridian Funding Company, LLC (“Meridian”) and provides reinsurance to its insurance subsidiaries. MBIA Corp. has also written insurance policies guaranteeing the obligations of an affiliate, LaCrosse Financial Products, LLC (“LaCrosse”), under credit default swaps (“CDS”), including termination payments that may become due upon certain events including the insolvency or payment default of the financial guarantor or the CDS issuer.

MBIA Corp. writes business both in the U.S. and outside of the U.S. Business outside of the U.S. is generally written through MBIA UK Insurance Limited (“MBIA UK”), a financial guarantee insurance company licensed in the United Kingdom. MBIA UK also insures the policies previously insured by MBIA Assurance S.A. (“MBIA Assurance”), a French insurance company owned by MBIA Corp. which was dissolved in 2007 after the transfer of MBIA Assurance’s obligations to MBIA UK. MBIA UK writes financial guarantee insurance in the member countries of the European Economic Area and other regions outside the United States. In February 2007, MBIA Corp. incorporated a new subsidiary, MBIA México, S.A. de C.V. (“MBIA Mexico”), through which it writes financial guarantee insurance in Mexico. These subsidiaries principally provide insurance for public infrastructure financings, structured finance transactions and certain obligations of financial institutions in the international markets. Pursuant to a reinsurance agreement with MBIA Corp., a substantial amount of the risk insured by MBIA Mexico and MBIA UK is reinsured by MBIA Corp.

MBIA Corp. also manages a business through one other subsidiary, Capital Markets Assurance Corporation (“CMAC”), acquired in February 1998 when MBIA Inc. merged with CapMAC Holdings, Inc. (“CapMAC”). The net insured exposure of this subsidiary is 100% reinsured by MBIA Corp.

MBIA Corp.’s business has historically relied upon triple-A credit ratings. The loss of those ratings in the second quarter of 2008 resulted in a dramatic reduction in MBIA Corp.’s insurance activities. As of December 31, 2009, MBIA Insurance Corporation was rated BB+ with a negative outlook by Standard & Poor’s Corporation (“S&P”) and B3 with a negative outlook by Moody’s Investors Service, Inc. (“Moody’s”).

In February 2009, after receiving the required regulatory approvals, MBIA Inc. established and capitalized National Public Finance Guarantee Corporation (“National”), as a U.S. public finance-only financial guarantor, which was previously named MBIA Insurance Corp. of Illinois (“MBIA Illinois”) and previously owned by MBIA Corporation. In connection with the establishment of National, the stock of MBIA Illinois was transferred to a newly established intermediate holding company, which is wholly-owned by MBIA Inc. Additionally, National was further capitalized with approximately \$2.1 billion from funds distributed by MBIA Insurance Corporation to MBIA Inc. as

MBIA INSURANCE CORPORATION
NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS
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a dividend and return of capital, which MBIA Inc. contributed to National through the intermediate holding company.

In February 2009, MBIA Corp. entered into a quota share reinsurance agreement effective January 1, 2009 pursuant to which MBIA Insurance Corporation ceded all of its U.S. public finance exposure to National and into an assignment agreement under which MBIA Insurance Corporation assigned its rights and obligations with respect to the U.S. public finance business that MBIA Insurance Corporation assumed from Financial Guaranty Insurance Corporation (“FGIC”). The exposure transferred to National under the reinsurance and assignment agreements totaled \$553.7 billion of net par outstanding. The reinsurance and assignment enables covered policyholders and certain ceding reinsurers to make claims for payment directly against National in accordance with the terms of those agreements.

To provide additional protection to its policyholders, National also issued second-to-pay policies for the benefit of the policyholders covered by the above reinsurance and assignment agreements. These second-to-pay policies, which are direct obligations of National, are held by a trustee and provide that if MBIA Insurance Corporation or FGIC, as applicable, do not pay valid claims of their policyholders, the policyholders will then be able to make claims directly against National.

MBIA Corp. is no longer insuring new credit derivative contracts except in transactions related to the reduction of existing derivative exposure. The structured finance market continues to recover from the global credit crisis with new issuance volume, though increasing, still well below historical averages. It is unclear how or when MBIA Corp. may be able to re-engage this market.

MBIA Corp. did not write any new business during 2009.

Liquidity

Liquidity risk arises in MBIA Corp. when claims on insured exposures result in payment obligations, when operating cash inflows fall due to depressed new business writings, lower investment income, or unanticipated expenses, or when invested assets experience credit defaults or significant declines in fair value.

Since the fourth quarter of 2007, MBIA Corp. has made \$5.1 billion of cash payments, before reinsurance, associated with insured second-lien residential mortgage-backed securities (“RMBS”), as well as settlement payments relating to CDS contracts referencing collateralized debt obligation (“CDO”)-squared and multi-sector CDOs. Among MBIA Corp.’s outstanding insured portfolio, these types of insured exposures have exhibited the highest degree of payment volatility and continue to pose material liquidity risk to MBIA Corp.’s structured finance and international insurance business. As a result of the current economic stress, MBIA Corp. could incur additional payment obligations beyond these mortgage-related and CDO exposures, which may be substantial, increasing the stress on MBIA Corp.’s liquidity.

Since the first quarter of 2008, MBIA Corp. has paid \$3.9 billion of claims, before reinsurance, on policies insuring second-lien mortgage securitizations. MBIA Corp. believes these payments were driven primarily by tens of thousands of ineligible mortgages being placed in the securitizations in violation of the representations and warranties of the sellers/servicers. As a result, payments have been far in excess of the level that might be expected in an economic downturn. MBIA Corp. believes the current liquidity position of MBIA Corp. is adequate to make expected future payments on these exposures, but the degree of loss within these transactions has been unprecedented, and continued elevated levels of payments will cause additional stress on MBIA Corp.’s liquidity position.

In general, MBIA Corp.’s financial guarantee contracts and CDS contracts cannot be accelerated, thereby mitigating liquidity risk. However, under the terms of MBIA Corp.’s insured CDS contracts, the insured counterparty may have a right to terminate the CDS contracts upon an insolvency or payment default by the guarantor (by MBIA Corp. or MBIA UK) or LaCrosse, the entity that issued the CDS insured by MBIA Corp. or MBIA UK. Obligors, defaults, credit impairments and adverse capital markets conditions such as MBIA Corp. is currently experiencing can create payment requirements as a result of MBIA Corp.’s irrevocable pledges to pay principal and interest, or other amounts owing on insured obligations, when due. Additionally, MBIA Corp. requires cash for the payment of

MBIA INSURANCE CORPORATION
NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS
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operating expenses, as well as principal and interest related to its surplus notes. MBIA Corp. also provides guarantees to the holders of MBIA Inc.'s asset/liability products debt obligations. If MBIA's asset/liability products segment or MBIA Inc. were unable to service the principal and interest payments on its debt and investment agreements, the holders of the insured liabilities would make a claim under the MBIA Corp. insurance policies. In 2008, MBIA Corp. lent \$2.0 billion to the asset/liability products segment, via MBIA Inc., on a secured basis for the purpose of minimizing the risk that such claim would be made. The loan matures in the fourth quarter of 2011. During the fourth quarter of 2009, a total of \$400 million of the secured loan was repaid; and an additional \$75 million was prepaid in January 2010. MBIA Corp. expects that the loan will be fully repaid, however, the timing of the ultimate repayment may be affected by the performance of assets in the asset/liability products investment portfolio and by MBIA Inc.'s requirements to post collateral against guaranteed investment contracts, swap contracts and internal and external borrowing facilities.

In order to monitor liquidity risk and maintain appropriate liquidity resources for payments associated with MBIA Corp.'s residential mortgage related exposures, MBIA Corp. employs a stress scenario-based liquidity model using the same "Roll Rate Default Methodology" as it uses in its loss reserving. Using this methodology, MBIA Corp. estimates the level of payments that would be required to be made under stress-level default assumptions of the underlying collateral taking into account MBIA Corp.'s obligation to cover such defaults under MBIA Corp.'s insurance policies. These estimated payments, together with all other significant operating, financing and investing cash flows are forecasted over the next 24-month period on a monthly basis and then annually thereafter to the final maturity of the longest dated outstanding insured obligation. The stress-loss scenarios and cash flow forecasts are frequently updated to account for changes in risk factors and to reconcile differences between forecasted and actual payments.

In addition to MBIA Corp.'s residential mortgage stress scenario, MBIA Corp. also monitors liquidity risk using a Monte Carlo estimation of potential stress-level claims for all insured principal and interest payments due in the next 12-month period. These probabilistically determined payments are then compared to MBIA Corp.'s invested assets. This theoretic liquidity model supplements the scenario-based liquidity model described above providing MBIA Corp. with a robust set of liquidity metrics with which to monitor its risk position.

MBIA Corp. manages liquidity with the goal of maintaining cash and liquid securities in an amount in excess of all projected stress scenario payment requirements. To the extent MBIA Corp.'s liquidity resources fall short of its target liquidity cushions under the stress-loss scenario testing, MBIA Corp. will seek to increase its cash holdings position, by selling or financing assets in its investment portfolio or drawing upon one or more of its contingent sources of liquidity.

2. Summary of Significant Accounting Policies

Basis of Presentation

The statutory financial statements of MBIA Corp. are presented on the basis of accounting practices prescribed or permitted by the National Association of Insurance Commissioners ("NAIC") *Accounting Practices and Procedures Manual*. In September of 2009, the New York State Insurance Department ("NYSID") became accredited under the NAIC's Financial Regulations Standards and Accreditation Program. Therefore, as per Regulation Number 172 of the New York State Insurance Law, NYSID has adopted the NAIC's *Accounting Practices and Procedures Manual* in its entirety subject to any conflicts with state regulations, or where the state statutes or regulations are silent.

MBIA Corp. has a NYSID permitted practice which allows the Company to account for Channel Reinsurance Ltd. ("Channel Re") as an unaffiliated common stock rather than as an affiliate. Channel Re is a financial guarantee reinsurance company in which MBIA Corp. holds a 17.4% ownership interest. The NYSID has also prescribed the treatment of estimated lease receipts related to an MBIA Corp. paid loss as a "non-admitted" asset, while NAIC SAP would require these anticipated receipts to offset loss reserves. As of December 31, 2009 and 2008, MBIA Corp. has reduced admitted assets by zero and \$0.5 million, respectively, related to these estimated lease receipts. The permitted/prescribed practices described above do not have a material impact on MBIA Corp.'s financial results.

MBIA INSURANCE CORPORATION
NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS
As of and for the years ended December 31, 2009 and 2008

The accompanying statutory-basis financial statements have been prepared in conformity with Statutory Accounting Principles (“SAP”), which differs in some respects from accounting principles generally accepted in the United States of America (“GAAP”). The more significant of these differences are as follows:

- Upfront premiums are earned on a SAP basis proportionate to the scheduled periodic maturity of principal and payment of interest (“debt service”) to the original total principal and interest insured. Additionally, under SAP, installment premiums are earned on a straight-line basis over each installment period generally one year or less. Under GAAP, MBIA Corp. recognizes and measures premium revenue over the period of the contract in proportion to the amount of insurance protection provided. Upfront and installment premium revenue is measured by applying a constant rate to the insured principal amount outstanding in a given period to recognize a proportionate share of the premium received or expected to be received on a financial guarantee insurance contract. Additionally, under GAAP, installment premiums receivable are recorded at the present value of the premiums due or expected to be collected over the period of the insurance contract using a discount rate which reflects the risk-free rate at the inception of the contract;
- under SAP, acquisition costs are charged to operations as incurred rather than GAAP’s requirement to defer and amortize the costs as the related premiums are earned;
- a contingency reserve is computed on the basis of statutory requirements, and is not permitted under GAAP;
- Loss reserves are reported net of insurance loss recoverables and are discounted using a rate equal to the yield-to-maturity of MBIA Corp.’s fixed-income portfolio, excluding investments in money market funds and alternative investments and including an intercompany secured loan. Under GAAP, loss reserves are discounted using a risk-free rate as of the measurement date and are reported net of the unearned premium revenue and gross of insurance recoverables which are reported as an asset;
- salvage and subrogation generally are recorded as a reduction to loss and loss adjustment expense (“LAE”) reserves for GAAP and statutory reporting. In certain instances under GAAP, the Company records salvage and subrogation, including insurance loss recoverables, as an asset. This would occur, for example, when the Company becomes entitled to the underlying collateral of an insured credit under salvage and subrogation rights as a result of a claim payment and the recovery of such salvage is reasonable and estimable;
- assets and liabilities relating to reinsurance are reported on a net basis. Therefore, incurred losses and LAE are reported net of reinsurance recoverables and deferred premiums are reported net of prepaid reinsurance premium. Under GAAP, these reinsurance balances are required to be shown on a gross basis as an asset;
- certain assets, which consist primarily of deferred tax assets, premium receivables over 90 days, prepaid expenses and certain electronic data processing equipment described as “non-admitted”, are excluded from the balance sheet and charged directly to unassigned surplus under SAP. Non-admitted assets were approximately \$636 million and \$190 million at December 31, 2009 and 2008, respectively. Under GAAP, these amounts are typically reflected as assets;
- changes in net deferred income taxes are recognized as a separate component of gains and losses in surplus. Under GAAP, changes in MBIA Corp.’s net deferred income tax balances are either recognized as a component of net income or other comprehensive income depending on how the underlying pre-tax impact is reflected;
- the IRS permits financial guarantee insurance companies a tax deduction for increases to the statutory contingency reserve specifically relating to the issuance of U.S. state and local obligations, as defined under section 103 of the Internal Revenue Code of 1986, as amended. Such deduction is allowable provided that the financial guarantee insurance company purchase a special series Tax and Loss bonds (“T&L bonds”) issued by the U.S. Treasury equal to the tax benefit derived. As a result of MBIA Corp.’s reinsurance transaction with National, MBIA Corp. no longer holds any statutory contingency reserves relating to the issuance of U.S. state and local obligations. As such, MBIA Corp. is neither eligible to make a tax deduction for any increases to the statutory contingency reserves nor eligible to purchase the related T&L bonds. As of December 31, 2009, MBIA Corp. no longer has any T&L bonds outstanding;

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- investments in bonds are generally carried at amortized cost under SAP. Accordingly, unrealized changes in fair value are not reflected in the statutory-based statements of income and changes in capital and surplus or the statutory statements of admitted assets, liabilities and capital and surplus. Bonds not qualified to be carried at amortized cost are carried at fair value as required by the NAIC with the differences between these values recorded directly to unassigned surplus net of an adjustment for deferred federal income taxes, rather than recording the difference in unrealized gains and losses through shareholders' equity. Unrealized gains and losses on common stocks are recorded directly to unassigned surplus net of an adjustment for deferred federal income taxes. Investments in subsidiaries and affiliates are valued pursuant to Section 1414 *Valuation of Investments* of the New York Insurance Statutes;
- financial guarantees of derivatives are not recorded at fair value, while under GAAP, guarantees that do not qualify for the financial guarantee scope exception under accounting principles for derivative instruments and hedging activities are recorded at fair value;
- variable interest entities are not consolidated by the primary beneficiary under statutory requirements.
- surplus notes are recorded as a component of policyholders surplus, while under GAAP, surplus notes are recorded as a long-term debt obligation; and
- the statements of cash flows reconcile to cash and cash equivalents under GAAP rather than cash, cash equivalents and short-term investments. In addition, under SAP, cash flows from operations are reported consistent with the statement of income.

See "Note 7: Reconciliation of Statutory Accounting to GAAP-Basis Accounting" for the reconciliation of statutory-based capital and surplus to GAAP-based shareholders' equity.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and demand deposits with banks with an original maturity of less than 90 days. Cash equivalents also include bonds and commercial paper with a maturity of less than 90 days at time of purchase.

Investments

Bonds with an NAIC designation of 1 or 2 that are not backed by other loans are reported at amortized cost. Amortized cost is calculated using the effective interest method. For bonds purchased at a price below par value, discounts are accreted over the remaining term of the bond. For bonds purchased at a price above par value, which have call features, premiums are amortized to the call date that produces the lowest yield. For premium bonds that do not have call features, such premium is amortized over the remaining term of the bond.

Investments in bonds with an NAIC designation of 3 through 6 that are not backed by other loans are reported at the lower of amortized cost (as described above) or fair value as determined by the NAIC's Securities Valuation Office ("SVO"). In the event the SVO has not determined the fair value of a security, fair value amounts are determined by using independent market sources, when available, and appropriate valuation methodologies when market quotes are not available. In cases where specific market quotes are unavailable, interpreting market data and estimating market values require considerable judgment by management. Accordingly, the estimates presented are not necessarily indicative of the amount MBIA Corp. could realize in the market.

Loan-backed bonds and structured securities with NAIC designation of 1 or 2 are reported at amortized cost using the effective interest method, including anticipated prepayments at the date of purchase. Changes in the estimated cash flows from the original purchase assumptions are accounted for using the retrospective method. However, the prospective method is used to value interest only securities or securities where the yield has become negative.

Loan-backed bonds and structured securities with NAIC designation of 3 through 6 are reported at the lower of amortized cost or fair value as determined by the SVO. In the event the SVO has not determined the fair value of a

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security, fair value amounts are determined by using independent market sources, when available, and appropriate valuation methodologies when market quotes are not available. In cases where specific market quotes are unavailable, interpreting market data and estimating market values require considerable judgment by management. Accordingly, the estimates presented are not necessarily indicative of the amount MBIA Corp. could realize in the market.

Investment income is recorded as earned. All investment income due and accrued with amounts that are over 90 days past due are non-admitted. As of December 31, 2009 and 2008 there were no non-admitted assets for investment income due and accrued. Realized gains and losses on the sale of investments are determined by specific identification and are included in the Statement of Income as a separate component of revenues. Unrealized gains and losses from the revaluation of bonds and common stocks not valued at amortized cost are credited or charged to unassigned surplus.

The NAIC adopted Statement of Statutory Accounting Principles (“SSAP”) 43R “Loan-backed and Structured Securities,” effective September 30, 2009. SSAP 43R establishes principles for investments in loan-backed and structured securities and increased disclosures regarding other-than-temporarily impaired securities see “Note 3: Investments” and “Note 4: Investment Income and Gains and Losses” for further information. MBIA Corp. did not recognize a transition adjustment as a result of implementing SSAP 43R.

In 2001, MBIA Corp. implemented the retrospective methodology due to requirements stated in SSAP 43, “Loan-backed and Structured Securities.” For loan-backed securities, the Company has elected to use the book value as of January 1, 1994 as the cost for applying the retrospective adjustment method to securities purchased prior to that date. Prepayment assumptions for single class and multi-class mortgage/asset-backed securities were obtained from an independent third-party data service or internal estimates. MBIA Corp. used independent third-party pricing services in determining the fair value of its loan-backed securities. The retrospective adjustment method is used to value all securities except for interest only securities or securities where the yield has become negative. These securities are valued using the prospective method.

Short-term investments and cash equivalents are stated at amortized cost, net of any unrealized foreign exchange gain or loss, which approximates fair value.

Common stocks are stated at fair value except for investments in stocks of subsidiaries. Investments in stocks of subsidiaries are carried on a statutory equity basis.

Preferred stocks are stated in accordance with SSAP 32 “Investments in Preferred Stock (including investments in preferred stock of subsidiary, controlled, or affiliated entities).” Perpetual preferred stocks with an NAIC designation of P1 and P2 are carried at fair value while perpetual preferred stocks with an NAIC designation of P3 through P6 are carried at the lower of cost or fair value. Redeemable preferred stocks with an NAIC designation of RP1 and RP2 are carried at amortized cost while redeemable preferred stocks with an NAIC designation of RP3 through RP6 are carried at the lower of amortized cost or fair value.

In accordance with Section 1414 *Valuation of Investments* of the New York Insurance Statutes, investments in the stock of subsidiaries and affiliates are valued at their statutory equity basis (approximately \$616 million and \$703 million at December 31, 2009 and 2008 respectively). CMAC, MBIA Mexico, and MBIA UK Holdings Ltd. are carried as “Investments in Subsidiaries” on the Company’s Statutory-Basis Statements of Admitted Assets, Liabilities and Capital and Surplus.

The Internal Revenue Service permits financial guarantee insurance companies a deduction for increases to the statutory contingency reserve resulting in the purchase of T&L bonds equal to the tax benefit derived. T&L bonds purchased are recorded as admitted assets and credited to surplus.

MBIA Corp.’s investment portfolio containing all of its securities is reviewed no less than quarterly in order to identify those securities in which fair value is less than amortized cost in order to assess whether such a decline in value is other-than-temporary. An investment is considered for a potential other-than-temporary impairment if it meets any of the following criteria:

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1. The security's current fair value is less than current book value by a magnitude of 5% or greater, and the fair value has been less than book value for a period of greater than twelve months; or
2. The security's fair value is less than current book value by a magnitude of 20% or greater.

If any of the above criteria are met, further analysis is performed to determine whether the impairment is other-than-temporary. In assessing whether a decline in value is other-than-temporary, MBIA Corp. considers several factors, including but not limited to (a) the magnitude and duration of the decline, (b) credit indicators and reasons for the decline, such as general interest rate or credit spread movements, credit rating downgrades, issuer specific changes in credit spreads, and the financial condition of the issuer, and (c) any guarantees associated with a security such as those provided by investment-grade financial guarantee insurance companies. Based on this assessment, if MBIA Corp. believes that either (a) the investment's fair value will not recover to an amount equal to its amortized cost or (b) MBIA Corp. does not have the ability and intent to hold the investment to maturity or until the fair value recovers to an amount at least equal to amortized cost, it will consider the decline in value to be other-than-temporary. If MBIA Corp. determines that a decline in the value of an investment is other-than-temporary, the investment is written down to its fair value and a realized loss is recorded in net income.

For loan-backed and structured securities, MBIA Corp. estimates cash flows expected to be collected over the life of the security. If MBIA Corp. determines that if, based on current information and events, there is a decrease in cash flows expected to be collected (that is they will be unable to collect all cash flows expected at acquisition plus any additional cash flows expected to be collected arising from changes in estimate after acquisition) an other-than-temporary impairment shall be considered to have occurred. For loan-backed securities that management has no intent to sell and believes that it is more likely than not such securities will not be required to be sold prior to recovery, only the credit loss component of the other-than-temporary impairment is recognized as a net realized loss, while the rest of the fair value loss is recognized as a reduction to unassigned funds (surplus). If management intends to sell the security or if management believes that it is more likely than not such securities will be required to be sold prior to recovery, the entire amount of the unrealized loss is recognized as a realized loss. These assessments require management to exercise judgment as to whether an investment is impaired based on market conditions and trends and the availability of relevant data.

Premium Revenue Recognition

In December 2009, the NAIC adopted an amendment to SSAP 60 "Financial Guaranty Insurance." As a result of the amendment, MBIA Corp. is required to provide additional disclosures regarding premiums and loss reserves. See "Note 9: Change in Losses and Loss Adjustment Expenses Incurred" and "Note 16: Premium Revenue" for more information.

The Company's premiums written consist of upfront premiums and installment premiums received and accrued for policies issued in current and prior years. Upfront premiums are earned proportionately to the scheduled periodic maturity of debt service to the original total principal and interest insured. Installment premiums are earned on a straight-line basis over each installment period, generally one year or less. Unearned premiums represent the portion of premiums written in prior years that is applicable to the unexpired risk of insured obligations. When an insured obligation is retired early, is called by the issuer, or is in substance paid in advance through a refunding accomplished by placing U.S. Government securities in escrow, the remaining unearned premium is earned at that time, since there is no longer risk to MBIA Corp. The amounts earned from refundings were \$26 million and \$314 million in 2009 and 2008, respectively. As the outstanding principal of an installment-based policy is paid down by the issuer of an MBIA-insured obligation, less premium is collected and recognized by MBIA Corp. Additionally, MBIA Corp. may receive premiums upon the early termination of installment-based policies, which are earned when received.

Premiums ceded to reinsurers reduce the amount of earned premium MBIA Corp. will recognize from its insurance policies. For both upfront and installment policies, ceded premium is recognized in earnings in proportion to and at the same time the related gross premium revenue is recognized.

Ceding commission income is recognized in earnings at the same time the related premium is recognized. However, ceding commission income that exceeds the anticipated acquisition costs of the business ceded will be established as

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a liability, equal to the difference between the anticipated acquisition cost and the reinsurance commission received. The excess ceding commission income is amortized pro-rata over the period which the ceded unearned premium is amortized.

The Company does not utilize anticipated investment income as a factor in the premium deficiency calculation. The Company had no premium deficiency as of December 31, 2009 and 2008.

Fees and Expense Reimbursements

The Company collects advisory fees in connection with certain transactions. These fees are included as a reduction to Other Underwriting Expenses Incurred within the Statements of Income and represent \$10 million and \$7 million for the years ended December 31, 2009 and 2008, respectively.

Loss and Loss Adjustment Expense Reserves

MBIA Corp.'s financial guarantee insurance provides an unconditional and irrevocable guarantee of the payment of the principal of, and interest or other amounts owing on, insured obligations when due or, in the event that MBIA Corp. has the right, at its discretion, to accelerate insured obligations upon default or otherwise, upon such acceleration by MBIA Corp. Loss and LAE reserves are established by MBIA Corp.'s Loss Reserve Committee, which consists of members of senior management, and require the use of judgment and estimates with respect to the occurrence, timing and amount of a loss on an insured obligation.

MBIA Corp. recognizes loss reserves on a contract-by-contract basis where an insured event has occurred (i.e., a payment default on the insured obligation) or a loss is expected in the future based upon credit deterioration which has already occurred and has been identified. Case reserves are measured based on the probability-weighted present value of expected net cash inflows and outflows to be paid under the contract, discounted using a rate equal to the yield-to-maturity of MBIA Corp.'s fixed-income investment portfolio, excluding investments in money market funds, alternative investments and including an intercompany secured loan rate as of the measurement date, in a manner consistent with the prior year. The loss reserve is subsequently remeasured each reporting period for expected increases or decreases due to changes in the likelihood of default and potential recoveries. Subsequent changes to the measurement of the loss reserve are recognized as losses incurred in the period of change. Measurement and recognition of loss reserves is reported net of any reinsurance. MBIA Corp. estimates the likelihood of possible claims payments and possible recoveries using probability-weighted expected cash flows based on information available as of the measurement date, including market information. The methods for making such estimates are continually reviewed and any adjustments are reflected in the period determined. Once a case basis reserve is established for an insured obligation, MBIA Corp. continues to record premium revenue to the extent premiums have been or are expected to be collected on that obligation.

This reserving methodology is different from case basis reserves that are established by traditional property casualty insurance companies, which determine loss reserves only upon the occurrence of an insured event when reported. The Company does not establish loss reserves for all payments due under an insured obligation. Case basis reserves cover the estimated amount of principal and interest the Company expects to pay on its insured obligations and the costs of settlement and other loss mitigation expenses, net of expected recoveries. MBIA Corp. recognizes potential salvage and subrogation recoveries on paid losses based on a similar probability-weighted net cash flow projection discounted using the same rate discussed above, as of the measurement date. Such recovery amounts are reported within "Loss and loss adjustment expense (LAE) reserves" on MBIA Corp.'s balance sheet.

When MBIA Corp. becomes entitled to the underlying collateral of an insured obligation under salvage and subrogation rights as a result of a settled claim, it reports this type of salvage and subrogation as a contra liability within "Loss and LAE reserves."

A number of variables are taken into account in establishing specific case basis reserves for individual policies. These variables include the creditworthiness of the underlying issuer of the insured obligation, whether the obligation is secured or unsecured and the expected recovery rates on the insured obligation, the projected cash flow or market value of any assets that support the insured obligation and the historical and projected loss rates on such assets. Factors that may affect the actual ultimate underwriting losses for any policy include the state of the

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economy, changes in interest rates, rates of inflation and the salvage values of specific collateral. The methodology for determining when a case basis reserve is established may differ from other financial guarantee insurance companies, as well as from other property and casualty insurance companies.

Management believes that the Company's reserves are adequate to cover the net cost of claims. However, because the reserves are based on management's judgment and estimates, there can be no assurance that the ultimate liability will not exceed such estimates.

RMBS Reserves

In determining the RMBS case basis reserves recorded as of December 31, 2009, which relate to RMBS backed by home equity lines of credit ("HELOCs") and closed-end second mortgages ("CES"), the Company employed a multi-step process using a database of loan level information which allowed it to determine borrower payment status, including delinquencies and charge-offs. The Company relied upon this database to determine the likelihood of a delinquent loan being charged off. The information was then used in conjunction with a proprietary internal cash flow model and a commercially available model to estimate expected ultimate cumulative losses to MBIA Corp. insured bonds. The "Current Roll to Loss" approach, described below, was used for estimating expected future defaults for loans that are current (not delinquent).

The following are the principal assumptions used with respect to the underlying loans to determine the expected losses on MBIA Corp. insured RMBS transactions:

- MBIA Corp. assumed that loans reported as delinquent as of November 30, 2009 would default during the following six months at an assumed default rate based on the number of days that the loan was delinquent at such time (the "Roll Rate Default Methodology").
- The Roll Rate Default Methodology involves reviewing on a transaction-specific basis the percentage of 30-59 and 60-89 day delinquent loans that became 90 days delinquent ("Roll to Loss"). Generally, the rates of Roll to Loss are calculated for the previous three months and averaged. The Company made the assumption that 100% of the 90 or more days delinquent loans would result in a loss. The Roll to Loss was then applied to the amounts in the respective delinquency buckets based upon delinquencies as of November 30, 2009 to estimate all delinquencies as of the current reporting period.
- For loans that are in delinquency buckets as of November 30, 2009, MBIA Corp.'s model assumes that the proportion of them that will roll to loss in accordance with the roll rate methodology are charged off when they are 180 days delinquent. Thus, currently delinquent loans determine the charge-offs in MBIA Corp.'s model for the six months following November 2009.
- For loans that are current (not delinquent), MBIA Corp. derived the Current Roll to Loss rates by multiplying the percentage of loans in the 30-59 days bucket and the Roll to Loss rates for the 30-59 days delinquency bucket. MBIA Corp. applied this percentage each month going forward to the remaining current pool balance to project future losses. For example, if 10% of the loans in the pool are in the 30-59 days delinquency bucket and the transaction's performance suggests that 30% of those loans will be charged off, the Current Roll to Loss rate for the transaction is 3%. MBIA Corp.'s model would assume that 3% of the currently performing loans are charged off after six months.
- The period of elevated losses is the time from November 2009 until the time at which MBIA Corp. estimates that the Current Roll to Loss rate will begin to decline. MBIA Corp.'s current transaction-specific assumptions are that the periods of elevated losses will end between June and December 2010. It is then assumed that the losses will reduce linearly to 25% of their original value over the next six months (i.e. 3% will linearly reduce to 0.75% over six months). After that six-month period, MBIA Corp. further reduced the Current Roll to Loss rate to 0% by early 2014 with the expectation that the performing seasoned loans and an economic recovery will eventually result in loan performance reverting to historically low levels of default. For loans that remain current (not delinquent) throughout the projection period, MBIA Corp. assumes that voluntary prepayments occur at the average rate experienced in the most recent three-month

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period. In developing multiple loss scenarios, stress is applied by elongating the Current to Loss rate for various periods, simulating a slower improvement in transaction performance.

- MBIA Corp. assumed servicer advances for delinquent loans to be zero.
- MBIA Corp. assumed that all defaulted loans will result in a total loss of principal after a six-month liquidation period.

In addition, for transactions secured by HELOCs, the model considered borrower draws and repayment rates. For HELOCs, the current three-month average draw rate was used to project future draws on the line. For HELOCs and transactions secured by fixed rate CES, the three-month average conditional repayment rate (“CRR”) was used to project voluntary principal repayments. Cash flows also assumed a constant basis spread between floating rate assets and floating rate insured debt obligations (the difference between Prime and LIBOR interest rates, minus any applicable fees). For all transactions, cash flows considered allocations and other structural aspects of a transaction, including managed amortization periods, rapid amortization periods and claims against MBIA Corp.’s insurance policy consistent with such policy’s terms and conditions.

The estimated net claims from the procedure above were discounted to a net present value reflecting MBIA’s obligation to pay claims over time and not on an accelerated basis. The above assumptions represent MBIA’s best estimates of how transactions will perform over time.

MBIA Corp. monitors portfolio performance on a monthly basis against projected performance, reviewing delinquencies, roll rates, prepayment rates (including voluntary and involuntary) and default rate trends. In the event of a material deviation in actual performance from projected performance, MBIA Corp. would increase or decrease its case basis reserves quarterly accordingly. If defaults and losses remained at the peak levels MBIA Corp. is modeling for six months longer than in its probability-weighted outcome, the addition to MBIA Corp.’s case basis loss and LAE reserve would be approximately \$200 million.

Contingency Reserve

A contingency reserve is established for the protection of all policyholders by direct charges to unassigned surplus and is established by the Company for past business and new business, as follows:

- For policies in force prior to July 1, 1989, MBIA Corp. establishes and maintains a contingency reserve equal to 50% of the cumulative earned premiums on such policies.
- For policies written on or after July 1, 1989, a contingency reserve, which represents the greater of 50% of premiums written or a stated percentage of the principal guaranteed dependent on the category of obligation insured, is established over a 15 to 20 year period. The stated percentage ranges from 0.55% on municipal general obligation bonds to 2.5% on certain industrial development bonds and non-investment grade obligations.

Contingency reserves are established and maintained net of collateral and reinsurance. The reserves may be released in the same manner in which they were established and withdrawals, to the extent there may be excess, may be made with either the prior written approval of the Superintendent of the NYSID or upon thirty days prior written notice, depending upon the circumstances specified in Article 69, Section 6903 of the New York Insurance Law. Contingency reserves established for policies which are terminated, matured or net of refundings to the extent that the refunded issue is paid off or secured by obligations which are directly payable or guaranteed by the U.S. government may be released without prior approval or notice. The Company’s contingency reserve as of December 31, 2009 and 2008 was \$1.4 billion and \$2.6 billion, respectively.

Securities Purchased Under Agreements to Resell and Securities Sold Under Agreements to Repurchase

Securities purchased under agreements to resell and securities sold under agreements to repurchase are accounted for as collateralized transactions and are recorded at book value. It is MBIA Corp.’s policy to take possession of securities borrowed or purchased under agreements to resell. Repurchase agreements with third parties are primarily

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entered into for cash management purposes, to invest or obtain cash on a short-term basis, and are only transacted with high quality dealer firms. MBIA Corp.'s investment guidelines require that these repurchase agreements to be fully collateralized, with collateral valued at market value and additional collateral delivered if there is a shortfall. Cash collateral received is invested in short-term investments and the offsetting collateral liability is included in aggregate write-ins for liabilities. As of December 31, 2009 and 2008, MBIA Corp. had zero and \$1.3 billion in repurchase agreements outstanding.

Income Taxes

For the year ended December 31, 2009 and the year ending December 31, 2010, the NAIC has temporarily replaced SSAP 10 "Income Taxes" with the enactment of SSAP 10R "Income Taxes-Revised," which changed the limitations placed on the admissibility of deferred tax assets. Under SSAP 10, the amount of deferred tax assets that an insurance company could admit was limited to the lesser of deferred tax assets expected to reverse in one year or 10% of adjusted statutory policyholders' surplus. In accordance with the revised SSAP 10R, the amount of deferred tax asset that an insurance company may admit is now limited to the lesser of deferred tax assets expected to reverse in three years or 15% of adjusted statutory policyholders' surplus. The incremental difference between the two pronouncements must be set aside in a special surplus account that is not part of unassigned surplus. SSAP 10R is effective for 2009 annual financial statements and 2010 interim and annual financial statements only. Unless there is further action by the NAIC, SSAP 10 will be reinstated as authoritative guidance for accounting and reporting of income taxes for statutory financial statements after 2010. The Company has not elected to admit additional DTAs pursuant to SSAP 10R, paragraph 10(e).

MBIA Corp. is included in the consolidated tax return of its Parent Company. The method of allocation between the companies is subject to written agreement, approved by MBIA Inc.'s Board of Directors. Allocation is generally based upon separate return calculations. However, to the extent that the consolidated tax liability of the Parent Company and its subsidiaries are less than MBIA Corp.'s tax liability on a separate company basis, MBIA Corp. would report the lesser of the two which includes the tax benefit of the other members' taxable losses that MBIA Corp. received under the tax allocation agreement. Intercompany tax balances are settled annually following the Parent Company's filing of its federal income tax return.

The provision for federal income taxes is based on income from operations. Deferred income taxes are provided based on temporary differences between the financial reporting and tax bases of assets and liabilities.

The Internal Revenue Code permits financial guarantee insurance companies to deduct from taxable income amounts added to the statutory contingency reserve, subject to certain limitations. The tax benefits obtained from such deductions must be invested in non-interest bearing U.S. Government T&L bonds. MBIA Corp. records the tax benefit that is related to the contingency reserve deduction as a credit to unassigned surplus and the corresponding purchases of the T&L bonds as admitted assets. The amounts deducted must be restored to taxable income when the contingency reserve is released, at which time MBIA Corp. may present the T&L bonds for redemption to satisfy the additional tax liability.

Use of Estimates in the Preparation of the Financial Statements

The preparation of financial statements in conformity with SAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. As additional information becomes available or actual amounts become determinable, the recorded estimates are revised and reflected in operating results. Actual results could differ from those estimates.

Reclassifications

Certain reclassifications have been made to prior year balances in order to conform to the current year presentation.

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3. Investments

The Company's investment objective is to optimize long-term, after-tax returns while emphasizing the preservation of capital through maintenance of high-quality investments with adequate liquidity. The Company's investment policies limit the amount of credit exposure to any one issuer. The bond portfolio consists of high-quality (average rated Double-A) taxable and tax-exempt investments of diversified maturities.

The following tables set forth the amortized cost and fair value of the bonds and equity investments included in the investment portfolio of MBIA Corp., as of December 31, 2009 and 2008. Fair value of the bonds is based upon valuations adopted and approved by the NAIC's SVO.

| <u>In thousands</u> | As of December 31, 2009 | | | |
|---|--------------------------------|-----------------------------|------------------------------|-----------------------|
| | Amortized Cost | Gross | | Fair Value |
| | | Unrealized Gains | Unrealized Losses | |
| | | | | |
| U.S. Governments | \$ 5,971 | \$ 124 | \$ - | \$ 6,095 |
| All Other Governments | 55,965 | 1,359 | - | 57,324 |
| Special Revenue and Special Assessment Obligations | 1,442 | 102 | 0 | 1,544 |
| Industrial and Miscellaneous | 669,401 | 46,439 | (30,319) | 685,521 |
| Hybrid Securities | 6,956 | - | - | 6,956 |
| Total fixed-maturity investments | <u>\$ 739,735</u> | <u>\$ 48,024</u> | <u>\$ (30,319)</u> | <u>\$ 757,440</u> |
| Investments in unaffiliated common stock | 123,172 | 13,947 | - | 137,119 |
| Total fixed-maturity investments and stock | <u>\$ 862,907</u> | <u>\$ 61,971</u> | <u>\$ (30,319)</u> | <u>\$ 894,559</u> |
| Secured loan with affiliate | 1,600,000 | | (819,819) | 780,181 |
| Total fixed-maturity investments, unaffiliated common stock and secured loan | <u>\$ 2,462,907</u> | <u>\$ 61,971</u> | <u>\$ (850,138)</u> | <u>\$ 1,674,740</u> |

| <u>In thousands</u> | As of December 31, 2008 | | | |
|---|--------------------------------|-----------------------------|------------------------------|-----------------------|
| | Amortized Cost | Gross | | Fair Value |
| | | Unrealized Gains | Unrealized Losses | |
| | | | | |
| U.S. Governments | \$ 432,918 | \$ 24,934 | \$ (297) | \$ 457,555 |
| All Other Governments | 262,323 | 9,304 | (8) | 271,619 |
| States, Territories and Possessions | 268,790 | 4,226 | (6,588) | 266,428 |
| Political Subdivisions of States, Territories and Possessions | 499,805 | 4,346 | (18,232) | 485,919 |
| Special Revenue and Special Assessment Obligations | 3,409,571 | 32,665 | (209,366) | 3,232,870 |
| Industrial and Miscellaneous | 1,330,788 | 29,779 | (62,669) | 1,297,898 |
| Total fixed-maturity investments | <u>\$ 6,204,195</u> | <u>\$ 105,254</u> | <u>\$ (297,160)</u> | <u>\$ 6,012,289</u> |
| Preferred stock | \$ 47,170 | \$ 28 | \$ (8,670) | 38,528 |
| Investments in unaffiliated common stock | 51,546 | 1,199 | (3,883) | 48,862 |
| Total fixed-maturity investments and stock | <u>\$ 6,302,911</u> | <u>\$ 106,481</u> | <u>\$ (309,713)</u> | <u>\$ 6,099,679</u> |
| Secured loan with affiliate | 2,000,000 | - | (510,158) | 1,489,842 |
| Total fixed-maturity investments, unaffiliated common stock and secured loan | <u>\$ 8,302,911</u> | <u>\$ 106,481</u> | <u>\$ (819,871)</u> | <u>\$ 7,589,521</u> |

Included in the tables above are bonds carried at amortized cost of approximately \$3.8 million and \$3.9 million as of December 31, 2009 and 2008, respectively, which were on deposit with various regulatory authorities to comply with insurance laws. The fair value of those bonds was approximately \$3.9 million and \$4.1 million as of December 31, 2009 and 2008, respectively.

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The following table sets forth the distribution by contractual maturity of the Company's bonds at amortized cost and fair value as of December 31, 2009. Contractual maturities may differ from expected maturities because borrowers may have the right to call or prepay obligations.

| <u>In thousands</u> | <u>Amortized Cost</u> | <u>Fair Value</u> |
|--|-----------------------|-------------------|
| Due in one year or less | \$ 44,488 | \$ 44,566 |
| Due after one year through five years | 20,501 | 21,447 |
| Due after five years through ten years | 15,547 | 16,010 |
| Due after ten years through fifteen years | 13,907 | 18,278 |
| Due after fifteen years through twenty years | 6,998 | 7,018 |
| Due after twenty years | 17 | 23 |
| Mortgage-backed | 638,277 | 650,098 |
| Total fixed-maturity investments | <u>\$ 739,735</u> | <u>\$ 757,440</u> |

The following table sets forth the gross unrealized losses of the Company's bonds and stock investments as of December 31, 2009. The table has segregated investments that have been in a continuous unrealized loss position for less than twelve months from those that have been in a continuous unrealized loss position for twelve months or longer.

| <u>In thousands</u> | <u>As of December 31, 2009</u> | | | | | |
|---|--------------------------------|--------------------|----------------------------|--------------------|-------------------|--------------------|
| | <u>Less than 12 Months</u> | | <u>12 Months or Longer</u> | | <u>Total</u> | |
| | <u>Fair</u> | <u>Unrealized</u> | <u>Fair</u> | <u>Unrealized</u> | <u>Fair</u> | <u>Unrealized</u> |
| | <u>Value</u> | <u>Losses</u> | <u>Value</u> | <u>Losses</u> | <u>Value</u> | <u>Losses</u> |
| U.S. Governments | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| All Other Governments | - | - | - | - | - | - |
| States, Territories and Possessions | - | - | - | - | - | - |
| Political Subdivisions of States, Territories and Possessions | - | - | - | - | - | - |
| Special Revenue and Special Assessment Obligations | - | - | 15 | 0 | 15 | 0 |
| Industrial and Miscellaneous | 165,463 | (12,939) | 52,925 | (17,380) | 218,388 | (30,319) |
| Total fixed-maturity investments | <u>\$ 165,463</u> | <u>\$ (12,939)</u> | <u>\$52,940</u> | <u>\$ (17,380)</u> | <u>\$ 218,403</u> | <u>\$ (30,319)</u> |
| Common stock | - | - | - | - | - | - |
| Preferred stock | - | - | - | - | - | - |
| Total | <u>\$ 165,463</u> | <u>\$ (12,939)</u> | <u>\$52,940</u> | <u>\$ (17,380)</u> | <u>\$ 218,403</u> | <u>\$ (30,319)</u> |

As of December 31, 2009, the Company's bond and equity investment portfolios had a gross unrealized loss of approximately \$30.3 million. There were nine securities that were in an unrealized loss position for a continuous twelve-month period or longer. Eight of the nine securities had unrealized losses in which the book value exceeded market value by more than 5%.

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The following table sets forth the gross unrealized losses of the Company's loan-backed and structured securities as of December 31, 2009 that have been in a continuous unrealized loss position for less than twelve months from those that have been in a continuous unrealized loss position for twelve months or longer.

| In thousands | As of December 31, 2009 | | | | | |
|--|-------------------------|--------------------|---------------------|--------------------|-------------------|--------------------|
| | Less than 12 Months | | 12 Months or Longer | | Total | |
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| Single class mortgage-backed securities | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Multi-class residential mortgage-backed securities | 51,881 | (10,764) | 26,354 | (4,677) | 78,235 | (15,441) |
| Multi-class commercial mortgage-backed/asset-backed securities | 95,706 | (2,162) | 26,570 | (12,703) | 122,276 | (14,865) |
| Structured securities | 54,000 | (40,881) | - | - | 54,000 | (40,881) |
| Total loan-backed securities | <u>\$ 201,587</u> | <u>\$ (53,807)</u> | <u>\$52,924</u> | <u>\$ (17,380)</u> | <u>\$ 254,511</u> | <u>\$ (71,187)</u> |

The Company has evaluated whether the unrealized losses in its investment portfolios were other-than-temporary considering the circumstances that gave rise to the unrealized losses, along with MBIA Corp.'s ability and intent to hold these securities to maturity or until such time as to recover an amount equal to their amortized cost. See "Note 2: Summary of Significant Accounting Policies" for further information regarding the analysis performed in determining if a security is other-than-temporarily impaired.

Based on its evaluation, during 2009, MBIA Corp. recognized an impairment on one structured security. Prior to the current-period impairment, the amortized cost of the security was \$180 million. The impairment recognized in earnings was a realized loss of \$85.1 million. The amount represents the decline in present value of cash flows expected to be collected below the amortized cost basis of the security. As of December 31, 2009 the fair value of the security was \$54.0 million and the amortized cost basis after the current-period other-than-temporary impairment was \$94.9 million. MBIA Corp. did not have any loan-backed or structured securities with an other-than-temporary impairment that has not been recorded in earnings. As of December 31, 2008, MBIA Corp. recognized an \$8.9 million impairment related to a fixed-income security.

MBIA determined that the unrealized losses on the remaining securities in its portfolio were temporary in nature because its impairment analysis, including projected future cash flows, indicated that the Company would be able to recover the amortized cost of impaired assets. The Company also concluded that it has both the ability and intent to hold these securities until their fair values recover to an amount at least equal to amortized cost or to maturity.

4. Investment Income and Gains and Losses

The following table includes investment income from MBIA Corp. for the years ended December 31, 2009 and 2008. Investment expenses primarily include amounts paid and payable related to MBIA Corp.'s surplus note transaction. During 2009, net realized gains and losses on bonds were largely due to investment security sales that were generated as a result of the restructuring of MBIA Corp. see "Note 1: Business and Organization" for further information.

| In thousands | Years ended December 31, | |
|------------------------------|--------------------------|-------------------|
| | 2009 | 2008 |
| Fixed-maturity | \$ 125,927 | \$ 437,400 |
| Short-term investments | 6,371 | 37,380 |
| Other investments | 12,867 | 13,724 |
| Interest on secured loan | 61,686 | 15,866 |
| Gross investment income | <u>\$ 206,851</u> | <u>\$ 504,370</u> |
| Investment expenses | 216,122 | 92,561 |
| Net investment (loss) income | <u>\$ (9,271)</u> | <u>\$ 411,809</u> |

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The components of net realized gains and losses for the years ended December 31, 2009 and 2008 are as follows:

| <u>In thousands</u> | <u>Years ended December 31,</u> | |
|---|---------------------------------|--------------------|
| | <u>2009</u> | <u>2008</u> |
| Fixed-maturity: | | |
| Gains | \$ 110,259 | \$ 30,395 |
| Losses | (151,206) | (69,066) |
| Net | (40,947) | (38,671) |
| Other investments: | | |
| Gains | 26,372 | 1,357 |
| Losses | (112,690) | (9,452) |
| Net | (86,318) | (8,095) |
| Total net realized losses, before taxes | <u>\$ (127,265)</u> | <u>\$ (46,766)</u> |

During 2009, MBIA Corp. recognized a \$25.2 million impairment loss on its real estate investment property held for sale due to an independent appraisal value of \$65.0 million compared with a net admitted value of \$92.3 million as of December 31, 2008. This realized loss is included within “Net realized (losses) gains” on the Company’s Statement of Income. See “Note 18: Subsequent Events” for further information.

In addition, see “Note 2: Summary of Significant Accounting Policies” for a description of the general categories of information MBIA Corp. considers in determining whether a security is other-than-temporarily impaired. See “Note 3: Investments” for a discussion on securities impaired in 2009 and 2008.

5. Fair Value of Financial Instruments

For financial instruments recorded at their carrying amount, the estimated fair value amounts of financial instruments shown in the following table have been determined by the Company using available market information and appropriate valuation methodologies. In certain instances, considerable judgment may be required to interpret market data in order to develop estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amount the Company could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amount.

For assets and liabilities recorded on the balance sheet at fair value, Accounting Standards Codification Topic 820, “Fair Value Measurements and Disclosures” under GAAP establishes a disclosure hierarchy for inputs used in measuring fair value. Observable inputs are those the Company believes that market participants would use in pricing the asset or liability developed based on market data. Unobservable inputs are those that reflect the Company’s beliefs about the assumptions market participants would use in pricing the asset or liability developed based on the best information available. The hierarchy is broken down into three levels based on the observability and reliability of inputs as follows:

- Level 1-Valuations based on quoted prices in active markets for identical assets or liabilities that the Company has the ability to access.
- Level 2-Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.
- Level 3-Valuations based on inputs that are unobservable and supported by little or no market activity and that are significant to the overall fair value measurement.

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Valuation Methodologies

Bonds – The fair value of bonds that are recorded on the balance sheet at amortized cost are based upon the market prices published by the NAIC, if available. If the NAIC SVO published market price is not available, an independent third-party source is used.

For bonds that are recorded on the balance sheet at fair value, the fair value is obtained using recently executed transactions or market price quotations where observable. When observable price quotations are not available, fair value is determined based on cash flow models with yield curves, bond or single name credit default swap spreads and diversity scores as key inputs. These bonds are generally categorized in Level 2 of the fair value hierarchy; in instances where significant inputs are unobservable, they are categorized in Level 3 of the hierarchy.

Short-term investments – Short-term investments are carried at amortized cost, which approximates fair value.

Cash and cash equivalents, Accrued investment income, Receivable for investments sold and Payable for investments purchased – The carrying amounts of these items are a reasonable estimate of their fair value.

T&L Bonds – These bonds are carried at book value, which approximates fair value.

Common and preferred stock – The fair value of common is based upon quoted market prices, if available. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities. Common stocks of uncombined subsidiaries and affiliates in which MBIA Corp. has an interest of 20% or more are carried on a statutory equity basis. Perpetual preferred stocks with an NAIC designation of P1 and P2 are carried at fair value while perpetual preferred stocks with an NAIC designation of P3 through P6 are carried at the lower of cost or fair value. Redeemable preferred stocks with an NAIC designation of RP1 and RP2 are carried at amortized cost while redeemable preferred stocks with an NAIC designation of RP3 through RP6 are carried at the lower of amortized cost or fair value.

Real estate – The investment in real estate represents land occupied by the Company. As discussed in Note 4: Investment Income and Gains and Losses,” the investment in real estate is carried at fair value as of December 31, 2009 while it was carried at depreciated cost as of December 31, 2008.

Other investments – Other investments are recorded at book value and include the Company’s interest in equity securities (including exchange-traded closed-end funds) and premium tax credit investments. The carrying value of these investments approximates fair value.

Derivative assets – The fair value of derivative asset is the price the company would receive to sell a derivative asset or paid to transfer a derivative liability (an exit price) in an orderly transaction between market participants at the measurement date.

Securities purchased under agreements to resell – The fair value of securities purchased under agreements to resell are determined based on the underlying securities received that back the repurchase agreements and depending on the observability of significant inputs, are categorized in Level 2 or 3 of the fair value hierarchy.

Secured loan with affiliate – The fair value of the secured loan is based on the underlying securities received that back the agreement, irrespective of MBIA Inc.’s intent and ability to hold these investments.

Deferred premium revenue – The fair value of the Company’s deferred premium revenue is the unearned premium reserve on policies net of reinsurance premiums plus the present value of premium receivables.

Loss and LAE reserves – The carrying amount is composed of the present value of the expected cash flows for specifically identified claims. Therefore, the carrying amount is a reasonable estimate of the fair value of the reserve.

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Securities sold under agreements to repurchase – The fair value of securities sold under agreements to repurchase are determined based on the underlying securities provided that back the repurchase agreements and depending on the observability of significant inputs, are categorized in Level 2 or 3 of the fair value hierarchy.

| In thousands | As of December 31, 2009 | | As of December 31, 2008 | |
|---|--------------------------------|-----------------------------|--------------------------------|-----------------------------|
| | Carrying Amount | Estimated Fair Value | Carrying Amount | Estimated Fair Value |
| Assets: | | | | |
| Bonds | \$ 739,735 | \$ 757,440 | \$ 6,204,195 | \$ 6,012,289 |
| Securities purchased under agreements to resell | - | - | 1,343,947 | 1,343,947 |
| Secured loan with affiliate | 1,600,000 | 780,181 | 2,000,000 | 1,489,842 |
| Short-term investments | 643,878 | 643,878 | 997,103 | 997,103 |
| Tax and loss bonds | - | - | 170,250 | 170,250 |
| Investment in unaffiliated common stock | 137,119 | 137,119 | 48,862 | 48,862 |
| Investment in preferred stock | - | - | 47,170 | 38,528 |
| Real estate | 65,000 | 65,000 | 92,262 | 92,262 |
| Other investments | 107,886 | 106,161 | 232,206 | 232,206 |
| Derivative asstes | 11,095 | 11,095 | - | - |
| Cash and cash equivalents | 536,499 | 536,499 | 1,005,771 | 1,005,771 |
| Accrued investment income | 11,615 | 11,615 | 109,733 | 109,733 |
| Receivable for investments sold | 1,235 | 1,235 | 4,809 | 4,809 |
| Liabilities: | | | | |
| Deferred premium revenue | \$ 539,518 | \$ 1,913,234 | \$ 4,005,837 | \$ 6,036,038 |
| Loss and LAE reserves | 560,955 | 560,955 | 1,870,697 | 1,870,697 |
| Securities sold under agreements to repurchase | - | - | 1,343,947 | 1,343,947 |
| Payable for investments purchased | 13,004 | 13,004 | 34 | 34 |

Fair Value Measurements

The following fair value hierarchy table presents information about the Company's assets and liabilities measured at fair value on a recurring basis as of December 31, 2009:

| In thousands | Fair Value Measurements at Reporting Date Using | | | |
|--|---|--|--|--|
| | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Balance as of December 31, 2009 |
| Assets: | | | | |
| Investments: | | | | |
| Fixed-maturity investments: | | | | |
| Industrial and miscellaneous | \$ - | \$ 369 | \$ 64,754 | \$ 65,123 |
| Hybrid securities | - | 6,956 | - | 6,956 |
| Other fixed income - unaffiliated | - | - | 54,000 | 54,000 |
| Investments in unaffiliated common stock | 8,127 | 128,992 | - | 137,119 |
| Derivative assets | - | 11,095 | - | 11,095 |
| Total assets | \$ 8,127 | \$ 147,412 | \$ 118,754 | \$ 274,293 |
| Liabilities: | | | | |
| Total liabilities | \$ - | \$ - | \$ - | \$ - |

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Level 3 Analysis

Level 3 assets were \$118.8 million as of December 31, 2009, and represented approximately 43% of total assets measured at fair value.

The following tables present information about changes in Level 3 assets and liabilities measured at fair value on a recurring basis for the year ended December 31, 2009. Gains and losses reported in this table may include changes in fair value that are attributable to both observable and unobservable inputs.

Changes in Level 3 Assets and Liabilities Measured at Fair Value on a Recurring Basis for the Year Ended December 31, 2009

| In thousands | Balance, Beginning of Year | Realized Gains / (Losses) | Unrealized Gains / (Losses) Included in OCI | Purchases, Issuances and Settlements, net | Transfers in (out) of Level 3, net (1) | Ending Balance | Change in Unrealized Gains (Losses) for the Period Included in Earnings for Assets still held at December 31, 2009 |
|--|---|--|--|--|---|---------------------------|---|
| Assets: | | | | | | | |
| Fixed-maturity securities | \$ 12,577 | \$(85,119) | \$ - | \$ 64,413 | \$126,883 | \$118,754 | \$ - |
| Securities purchased under agreement to resell | 548,770 | - | - | (548,770) | - | - | - |
| Total assets | \$561,347 | \$(85,119) | \$ - | \$ (484,357) | \$126,883 | \$118,754 | \$ - |
| Liabilities: | | | | | | | |
| Securities sold under agreement to repurchase | \$548,770 | \$ - | \$ - | \$ (548,770) | \$ - | \$ - | \$ - |
| Total liabilities | \$548,770 | \$ - | \$ - | \$ (548,770) | \$ - | \$ - | \$ - |

(1) - Transferred in and out at the end of the period.

Transfers into Level 3 were \$126.9 million for the year ended December 31, 2009. These transfers were principally for securities where inputs, which are significant to their valuation, became unobservable or observable during the year. Industrial and miscellaneous and other fixed income - unaffiliated, constituted the majority of the affected instruments. Realized losses included in earnings pertaining to Level 3 assets for the year ended December 31, 2009 were \$85.1 million and are included with "Net realized (losses) gains" on the Company's Statutory-Basis Statement of Income.

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6. Income Taxes

The components of deferred tax assets (“DTA’s”) and deferred tax liabilities (“DTL’s”) are as follows. References to paragraphs are those within SSAP 10R “Income Taxes”:

| In thousands | 2009 | | | 2008 | | |
|--|-----------------|----------------|--------------|-----------------|----------------|--------------|
| | Ordinary | Capital | Total | Ordinary | Capital | Total |
| Gross deferred tax assets | \$ 934,893 | \$59,126 | \$ 994,019 | \$295,411 | \$3,116 | \$298,527 |
| Statutory valuation allowance | - | - | - | - | - | - |
| Adjusted gross deferred tax assets | 934,893 | 59,126 | 994,019 | 295,411 | 3,116 | 298,527 |
| Gross deferred tax liabilities | (293,018) | (7,171) | (300,189) | (59,109) | - | (59,109) |
| Net deferred tax asset (liability) before admissibility test | 641,875 | 51,955 | 693,830 | 236,302 | 3,116 | 239,418 |
| Admitted pursuant to paragraph 10.a. | 16,179 | - | 16,179 | - | - | - |
| Admitted pursuant to paragraph 10.b. | 64,748 | 2,373 | 67,121 | 79,115 | - | 79,115 |
| Admitted pursuant to paragraph 10.c. | 293,018 | 7,171 | 300,189 | 59,109 | - | 59,109 |
| Total admitted under paragraph 10.a., 10.b. and 10.c | 373,945 | 9,544 | 383,489 | 138,224 | - | 138,224 |
| Admitted pursuant to paragraph 10.e.i. | n/a | n/a | n/a | n/a | n/a | n/a |
| Admitted pursuant to paragraph 10.e.ii. | n/a | n/a | n/a | n/a | n/a | n/a |
| Admitted pursuant to paragraph 10.e.iii. | n/a | n/a | n/a | n/a | n/a | n/a |
| Total admitted under paragraph 10.e.i., 10.e.ii and 10.e.iii | n/a | n/a | n/a | n/a | n/a | n/a |
| Admitted deferred tax asset | 373,945 | 9,544 | 383,489 | 138,224 | - | 138,224 |
| Deferred tax liability | (293,018) | (7,171) | (300,189) | (59,109) | - | (59,109) |
| Net admitted deferred tax asset (liability) | 80,927 | 2,373 | 83,300 | 79,115 | - | 79,115 |
| Non-admitted deferred tax asset | 560,948 | 49,582 | 610,530 | 157,187 | 3,116 | 160,303 |
| Increase in non-admitted deferred tax asset | \$ 403,761 | \$46,466 | \$ 450,227 | \$ - | \$ - | \$ - |

n/a - not applicable

The Company has not elected to admit additional DTAs pursuant to SSAP 10R, paragraph 10(e).

The Company has no unrecognized deferred tax liabilities for amounts described in SSAP No. 10R, paragraph 6d., and paragraph 31 of accounting principles for income taxes.

Income tax expense differs from the amount obtained by applying the federal statutory rate of 35%. Current income taxes incurred consist of the following major components:

| In thousands | 12/31/09 | 12/31/08 |
|---|---------------------|--------------------|
| Current income tax benefit | \$ (234,800) | \$(640,213) |
| Prior year over (under) accrual of tax reserves | (26,283) | 14,277 |
| Realized capital losses benefit | (44,543) | (16,368) |
| Federal income tax benefit | <u>\$ (305,626)</u> | <u>\$(642,304)</u> |

The tax effects of temporary difference that give rise to significant portions of DTAs and DTLs are as follows:

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| In thousands | | | | |
|--------------------------|-------------------|-------------------|-------------------|------------------|
| DTA's | 12/31/09 | 12/31/08 | Change | Character |
| Contingency reserve | \$ 443,981 | \$ - | \$ 443,981 | Ordinary |
| Losses incurred | 229,433 | - | 229,433 | Ordinary |
| AMT credit carryover | - | 52,675 | (52,675) | Ordinary |
| Unearned premium reserve | 23,536 | 112,141 | (88,605) | Ordinary |
| Compensation | 34,434 | 36,104 | (1,670) | Ordinary |
| Debt issuance costs | - | 6,332 | (6,332) | Ordinary |
| Capital gain adjustments | 51,955 | 3,116 | 48,839 | Capital |
| Foreign exchange gains | 18,623 | - | 18,623 | Ordinary |
| Unrealized losses | 51,626 | 46,398 | 5,228 | Ordinary |
| Other | 6 | 15,905 | (15,899) | Ordinary |
| Gross DTA's | <u>\$ 853,594</u> | <u>\$ 272,671</u> | <u>\$ 580,923</u> | |

| In thousands | | | | |
|----------------------------------|---------------------|--------------------|---------------------|------------------|
| DTL's | 12/31/09 | 12/31/08 | Change | Character |
| Loss reserve - accounting method | \$ (90,398) | \$ - | \$ (90,398) | Ordinary |
| International operations | (69,366) | (33,255) | (36,111) | Ordinary |
| Unrealized gains | - | - | - | Ordinary |
| Other | - | - | - | Ordinary |
| Gross DTL's | <u>\$ (159,764)</u> | <u>\$ (33,255)</u> | <u>\$ (126,509)</u> | |

| In thousands | | | |
|---|-----------------|-----------------|-------------------|
| | 12/31/09 | 12/31/08 | Change |
| Total deferred tax assets | \$ 853,594 | \$ 272,671 | \$ 580,923 |
| Total deferred tax liabilities | (159,764) | (33,255) | (126,509) |
| Net deferred tax asset (liability) | <u>693,830</u> | <u>239,416</u> | <u>454,414</u> |
| Tax effect of unrealized gains (losses) | | | <u>(5,228)</u> |
| Change in net deferred income tax | | | <u>\$ 449,186</u> |

Prior to tax year 2009, the Company treated losses incurred for tax purposes similarly to its statutory accounting treatment, which called for no deferred taxes. At the end of 2008, the Company filed for a change in method of accounting for its losses incurred that permitted a tax deduction only if claim payments were made on such losses. This became effective in the beginning of 2009 and thus required the need to establish deferred taxes for the difference in treatment.

In 2009, the Company established a deferred tax asset related to contingency reserves. Deferred taxes on contingency reserves must be established to the extent corresponding tax and loss bonds are not purchased. The Company has no tax and loss bonds with respect to the contingency reserve and thus requires deferred taxes.

The provision for federal income taxes incurred is different from that which would be obtained by applying the statutory federal income tax rate to income before income taxes. The significant items causing this difference are as follows:

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| <u>In thousands</u> | <u>Amount</u> | <u>Tax Effect</u> | <u>Effective Tax Rate</u> |
|---|------------------|---------------------|---------------------------|
| Income before taxes | \$ (989,800) | \$ (346,430) | 35% |
| Tax exempt interest and dividend received deduction | (18,321) | (6,412) | 1% |
| Meals and entertainment | 184 | 64 | 0% |
| Nondeductible transaction costs | 5,211 | 1,824 | 0% |
| Excessive remuneration | 2,000 | 700 | 0% |
| Other | 955 | 334 | 0% |
| Taxable income | <u>(999,771)</u> | <u>(349,920)</u> | <u>35%</u> |
| | | | |
| Prior year adjustment | | 924 | 0% |
| Foreign tax credit | | (1,149) | 0% |
| Foreign tax | | 1,868 | 0% |
| Contingency reserve | | (443,981) | 45% |
| Other items | | 37,448 | -4% |
| Taxable income | | <u>(754,810)</u> | <u>76%</u> |
| | | | |
| Federal income tax incurred (benefit) | | (305,626) | 31% |
| Change in net deferred income tax | | (449,184) | 45% |
| Total statutory income tax | | <u>\$ (754,810)</u> | <u>76%</u> |

At December 31, 2009, the Company did not have any net operating loss carry forwards expiring through the year 2029. Additionally, at December 31, 2009, the Company did not have any loss carryforwards expiring through the year 2014 or any alternative minimum tax credit carryforwards.

The following is income tax expense for 2008 and 2009 that is available for the recoupment in the event of future net losses:

| <u>In thousands</u> | <u>Ordinary</u> | <u>Capital</u> | <u>Total</u> |
|---------------------|------------------|----------------|------------------|
| <u>Year</u> | | | |
| 2007 | \$ - | \$ - | \$ - |
| 2008 | 16,179 | - | 16,179 |
| 2009 | - | - | - |
| Total | <u>\$ 16,179</u> | <u>\$ -</u> | <u>\$ 16,179</u> |

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As of December 31, 2009, the Company's federal income tax return was consolidated with the entities listed below. The method of allocation between the companies is subject to a written agreement approved by the board of directors of each company. Allocation is based upon separate return calculations. Intercompany tax balances are settled annually following the filing of its federal income tax return by MBIA Inc.

MBIA Inc.
 CAH Asset Holdings, Inc.
 Capital Markets Assurance Corporation
 CapMac Holdings
 CapMac Investment Management Inc.
 Colorado Investor Services Corporation
 MBIA Capital Corporation
 MBIA Capital Management Corp.
 MBIA Investment Management Corporation
 MBIA Municipal Investors Service Corporation
 MBIA Services Company
 Municipal Issuers Service Corporation
 Municipal Tax Collection Bureau, Inc
 National Public Finance Guarantee Holdings, Inc.
 National Public Finance Guarantee Corporation
 Optinuity Alliance Resource Corporation
 LatAm Capital Advisors, Inc
 Triple-A One Funding Corporation

It is MBIA Corp's policy to record and disclose interest and penalties related to income taxes as a component of income taxes in the Statement of Income. For the year ended December 31, 2009, MBIA Corp. has recorded a benefit of \$3 million as the total amount of interest and penalties related to income taxes.

For the year ended December 31, 2009, the total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate was approximately \$6 million.

7. Reconciliation of Statutory Accounting to GAAP-Basis Accounting

The following is a reconciliation of MBIA Corp's statutory capital and surplus to shareholders' equity presented on a GAAP-basis. See "Note 2: Summary of Significant Accounting Policies" for an explanation of the differences.

| <u>In thousands</u> | <u>As of December 31,</u> | |
|--|---------------------------|---------------------|
| | <u>2009</u> | <u>2008</u> |
| Statutory capital and surplus | \$ 1,885,088 | \$ 3,502,422 |
| Premium revenue recognition | 352,892 | 929,435 |
| Deferral of acquisition costs | 214,079 | 560,632 |
| Loss reserves | 1,994,700 | 981,335 |
| Contingency reserves | 1,447,665 | 2,594,927 |
| Income tax liabilities, net | (69,515) | 1,103,470 |
| Investments, including unrealized gains (losses) | (20,373) | (119,838) |
| Surplus notes | (952,655) | (952,655) |
| Goodwill | - | 76,938 |
| Derivative assets and liabilities | (3,816,145) | (5,470,801) |
| Non-admitted assets and other items | 659,086 | 107,796 |
| GAAP-basis shareholder's equity | <u>\$ 1,694,822</u> | <u>\$ 3,313,661</u> |

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The following is a reconciliation of statutory income to net income (loss) presented on a GAAP-basis for MBIA Corp.

| <u>In thousands</u> | <u>Years ended December 31,</u> | |
|--|---------------------------------|-----------------------|
| | <u>2009</u> | <u>2008</u> |
| Statutory net loss | \$ (684,174) | \$ (1,412,756) |
| Premium revenue recognition | (135,254) | (84,002) |
| Amortization of acquisition costs | (216,477) | (74,805) |
| Incurred losses | 1,131,822 | 1,722,685 |
| Change in fair value of insured derivatives | 1,474,165 | (2,198,672) |
| Deferred income taxes | (606,896) | 345,108 |
| Net gain on derivative instruments | - | 250,000 |
| Surplus notes (issuance cost and interest expense) | 65,970 | (44,148) |
| Commissions | (659,822) | 166,343 |
| Other | 40,327 | (58,064) |
| GAAP-basis net income (loss) | <u>\$ 409,661</u> | <u>\$ (1,388,311)</u> |

8. Capital and Surplus and Dividend Restrictions

MBIA Corp. has 67,936 common shares authorized, issued and outstanding as of December 31, 2009, with a par value of \$220.80. All shares are Class A shares.

MBIA Corp. has 2,759 shares of Series A preferred stock issued and outstanding as of December 31, 2009, with a par value of \$1,000 and a liquidation preference of \$100,000 per share. See the *Preferred Stock* section included herein for additional information on the preferred stock issuance during 2009.

New York State insurance law regulates the payment of dividends by financial guarantee insurance companies and provides that such companies may not declare or distribute dividends except out of statutory earned surplus. Under New York State insurance law, the sum of (i) the amount of dividends declared or distributed during the preceding 12-month period and (ii) the dividend to be declared may not exceed the lesser of (a) 10% of policyholders' surplus, as reported in the latest statutory financial statement on file with the NYSID, or (b) 100% of adjusted net investment income for such 12-month period (the net investment income for such 12-month period plus the excess, if any, of net investment income over dividends declared or distributed during the two-year period preceding such 12-month period), unless the Superintendent of the NYSID approves a greater dividend distribution based upon a finding that the insurer will retain sufficient surplus to support its obligations.

On February 17, 2009, MBIA Corp. declared and paid a dividend of \$1.2 billion to MBIA Inc. related to the restructuring of MBIA Insurance Corporation, after receiving prior approval from the Superintendent of the NYSID. The \$1.2 billion dividend together with a \$945 million return of capital represents the \$2.1 billion distributed to MBIA Inc. to further capitalize National. As a result of the above, MBIA Corp. is not expected to be able to pay dividends, including dividends on its preferred stock, following its year end 2009 statutory financial statement filing due to an earned surplus deficit as of December 31, 2009. In 2008, MBIA Corp. did not declare or pay any dividends to MBIA Inc.

As a result of the establishment of National and the reinsurance of the MBIA Corp. and FGIC portfolios by National, MBIA Corp. exceeded as of the closing date certain single and aggregate risk limits under New York and Illinois insurance law. MBIA Corp. obtained waivers from the NYSID of such limits. In connection with the waivers, MBIA Corp. submitted a plan to the NYSID to achieve compliance with the applicable regulatory limits. Under the plan, MBIA Corp. agreed not to write new financial guarantee insurance for certain issuers until they were in compliance with their single risk limits and agreed to take commercially reasonable steps, including considering reinsurance, the addition of capital and other risk mitigation strategies, in order to comply with the regulatory single and aggregate risk limits. As a condition to granting the waiver, the NYSID required that, upon written notice from the NYSID, MBIA Corp. as applicable, would cease writing new financial guarantee insurance

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if it were not in compliance with the risk limitation requirements by December 31, 2009. National and MBIA Corp. continue to work with the NYSID to achieve compliance with the single and aggregate risk limits.

In the fourth quarter of 2008, MBIA Corp. recorded a contingency reserve of \$350 million related to the FGIC reinsurance transaction in accordance with New York State insurance law. Additionally, MBIA Corp. reduced its contingency reserve related to guarantees on investment management services affiliated companies. MBIA Corp. has also received approval from the NYSID for a decrease in contingency reserves of \$235 million related to losses that passed the severity test as per section 6903 of New York insurance law.

MBIA Corp. has no restrictions on unassigned surplus as of December 31, 2009. Additionally, MBIA Corp. owns no common stock in affiliates for special purposes as of December 31, 2009.

The portion of unassigned funds (surplus) represented by cumulative net unrealized capital gains is \$282.5 million after deducting applicable deferred taxes of \$40.5 million.

Surplus notes

On January 16, 2008, MBIA Corp. issued \$1 billion of 14% fixed-to-floating rate surplus notes due January 15, 2033 as presented in the following table (in thousands):

| Date Issued | Interest Rate | Par Value (Face Amount of Notes) | Carrying Value of Note | Principal And/Or Interest Paid Current Year (2009) | Total Principal And/Or Interest Paid | Unapproved Principal And/Or Interest | Date of Maturity |
|-------------|---------------|----------------------------------|------------------------|--|--------------------------------------|--------------------------------------|------------------|
| 1/16/2008 | 14% | \$1,000,000 | \$952,655 | \$133,372 | \$250,328 | \$ - | 1/15/2033 |

As of December 31, 2009 and 2008, MBIA Corp. had \$952.7 million in surplus debentures outstanding. During 2009, MBIA Corp. received approval from the NYSID to pay the January and July 2009 and January 2010 interest payments. As such, during 2009, MBIA Corp. has recorded \$200 million in interest expense related to the surplus notes within "Net investment income" on the Statement of Income.

During the third quarter of 2008, with NYSID approval, MBIA Corp. repurchased \$47 million par value outstanding of its surplus notes at a weighted-average price of \$77.08. Net gains from repurchasing the surplus notes in 2008 totaled \$10 million. The gain was recorded in "Miscellaneous income" on the Statement of Income. No surplus notes were repurchased in 2009.

The surplus notes were issued to Lehman Brothers Inc., Morgan Stanley & Co. Incorporated, J.P. Morgan Securities Inc., Banc of America Securities LLC, BNY Capital Markets, Inc., Deutsche Bank Securities Inc., HSBC Securities (USA) Inc. and KeyBanc Capital Market Inc. in exchange for cash.

The surplus notes have an initial interest rate of 14% until January 15, 2013 and thereafter at an interest rate of three-month LIBOR plus 11.26% from and including January 15, 2013 to but excluding the date on which the notes are paid in full, payable quarterly in arrears on January 15, April 15, July 15, and October 15 of each year, beginning on April 15, 2013. Interest and principal payments on the surplus notes are subject to prior approval by the Superintendent of the NYSID. The surplus notes are callable at par at MBIA Corp.'s option on the fifth anniversary of the date of issuance and every fifth anniversary thereafter, subject to prior approval by the Superintendent and other restrictions. The cash received from the issuance of surplus notes was used for general business purposes. The debt issuance costs are included in "Other income (expense), net" on MBIA Corp.'s Statutory-Basis Statements of Income.

The notes will be unsecured debt obligations and were issued in accordance with Section 1307 of the New York Insurance Law. The notes will rank equally with any future surplus notes or similar obligations of MBIA Corp., and will be subordinate in right of payment to all other existing and future indebtedness, policy claims and other creditor

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claims of MBIA Corp. Each payment of interest on or principal of the notes (including upon redemption) may be made only with the prior approval of the NYSID and only out of surplus funds available for such payments under the New York Insurance Law.

Preferred Stock

MBIA Corp. had access to \$400 million through the Money Market Committed Preferred Custodial Trust (“CPCT”) facility issued by eight trusts (the “Trusts”), which were created for the primary purpose of issuing CPCT securities and investing the proceeds in high-quality commercial paper or short-term U.S. Government obligations. MBIA Corp. had a put option to sell to the Trusts the preferred stock of MBIA Corp. in exchange for proceeds of \$400 million. Any preferred stock issued by MBIA Corp. would be perpetual and non-cumulative. Preferred stock has preference over common stock upon liquidation.

In November 2008, MBIA Corp. exercised the put option to sell to the Trusts the perpetual preferred stock issued by MBIA Corp. Upon MBIA exercising the put option, the Trusts transferred proceeds of \$400 million to MBIA Corp. in exchange for 4,000 shares of non-cumulative perpetual preferred stock. Once the proceeds were received, MBIA exercised its right to terminate the CPCT facility by making a fixed-rate election. As a result, the Trusts were terminated and third-party investors received a pro-rata share of MBIA Corp.’s preferred stock. Subsequently, MBIA purchased 1,241 shares of the preferred stock at \$10,000 per share.

As of December 31, 2009 and 2008, MBIA Corp. had 2,759 shares of the preferred stock issued and outstanding. In accordance with MBIA’s fixed-rate election, the dividend rate on the preferred stock was determined using a fixed-rate equivalent of LIBOR plus 200 basis points. Each share of preferred stock has a par value of \$1,000 with a liquidation preference of \$100,000. The holders of the preferred stock are not entitled to any voting rights as shareholders of MBIA Corp. and their consent is not required for taking any corporate action. Subject to certain requirements, the preferred stock may be redeemed, in whole or in part, at the option of MBIA Corp. at any time or from time to time for cash at a redemption price equal to the liquidation preference per share plus any accrued and unpaid dividends thereon at the date of redemption for the then current dividend period and any previously accumulated dividends payable without interest on such unpaid dividends. As of December 31, 2009, dividends in the amount of \$14 million were declared on the preferred stock, of which \$13 million had been paid. Payment of dividends on MBIA Corp.’s preferred stock is subject to the same restrictions that apply to dividends on common stock under New York State insurance law. MBIA Corp. is not expected to be able to pay dividends on its preferred stock, following its year end 2009 statutory financial statement filing due to an earned surplus deficit as of December 31, 2009.

On May 13, 2009, MBIA Corp. announced that it commenced a tender offer for any and all of the outstanding Series A Perpetual Preferred Stock, Series B Perpetual Preferred Stock, Series C Perpetual Preferred Stock, Series D Perpetual Preferred Stock, Series E Perpetual Preferred Stock, Series F Perpetual Preferred Stock, Series G Perpetual Preferred Stock and Series H Perpetual Preferred Stock, in each case, with a par value of \$1,000.00 per share and a liquidation preference of \$100,000.00 per share (collectively, the “Preferred Shares”). In the tender offer, holders of Preferred Shares will have the opportunity to tender some or all of their Preferred Shares at a purchase price of \$10,000.00 per Preferred Share, plus accrued but unpaid dividends, if any, up to, but not including, the date the Preferred Shares are purchased, net to the seller in cash and without interest. The tender offer expired at 5:00 P.M., New York City Time, on June 11, 2009. The tender offer is not contingent upon any minimum number of Preferred Shares being tendered or the availability of financing.

During 2009, MBIA Inc. repurchased 1,082 (39 percent of the outstanding) shares of the outstanding preferred stock of MBIA Corp. at a purchase price of \$10,000 per share or 10% of the face value, of which 1,012 shares were repurchased in connection with the above mentioned tender offer. As of December 31, 2009, 2,759.08 preferred shares of MBIA Corp. remained outstanding with a carrying value of \$275.9 million. The carrying value represents the \$400 million of proceeds received reduced by the carrying value of the 1,241 shares repurchased.

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9. Change in Losses and Loss Adjustment Expenses Incurred

A summary of the components of the liability for loss and LAE reserves are shown in the following table:

| <u>In thousands</u> | <u>As of December 31,</u> | |
|---|---------------------------|---------------------|
| | <u>2009</u> | <u>2008</u> |
| Gross loss and LAE reserves, January 1 | \$ 1,838,008 | \$ 1,052,247 |
| Losses ceded to National | 179,316 | - |
| Adjusted gross loss and LAE reserves, January 1 | 2,017,324 | 1,052,247 |
| Less: Reinsurance recoverable | 146,628 | 125,845 |
| Net loss and LAE reserves, January 1 | 1,870,696 | 926,402 |
| Plus: Incurred losses and LAE related to: | | |
| Current year | 484,024 | 2,139,266 |
| Prior years | 1,430,735 | 935,286 |
| Total incurred losses and LAE | 1,914,759 | 3,074,552 |
| Less: Paid losses and LAE related to: | | |
| Current year | 268,887 | 922,169 |
| Prior years | 2,655,222 | 1,208,088 |
| Total paid losses and LAE | 2,924,109 | 2,130,257 |
| Less: Foreign currency revaluation | 121,075 | - |
| Net loss and LAE reserves, December 31 | 560,955 | 1,870,697 |
| Add: Reinsurance recoverable | 500,081 | 146,628 |
| Gross loss and LAE reserves, December 31 | <u>\$ 1,061,036</u> | <u>\$ 2,017,325</u> |

Total net case basis activity was \$1.9 billion and \$3.1 billion in 2009 and 2008, respectively. Net case basis activity during 2009 primarily consisted of \$800 million related to insured Multi-Sector CDOs and \$942 million related to insured obligations from RMBS exposure. Net case basis activity during 2008 primarily consisted of \$1.5 billion related to insured Multi-Sector CDOs and \$1.5 billion related to insured obligations from RMBS exposure.

MBIA Corp.'s insured credit derivatives contracts have similar terms and conditions to MBIA Corp.'s financial guarantee insurance contracts, and MBIA Corp. is not required to post collateral to a counterparty, thereby avoiding the liquidity risks more typical of market standard credit default swaps. MBIA Corp. manages its insured credit derivatives portfolio the same way it manages its other insurance contracts, including the same monitoring process to detect impairment. In 2009, MBIA Corp. recorded \$477 million of additional case basis reserves related to 14 Multi-Sector CDOs. Additionally, MBIA Corp. paid losses of \$323 million on insured derivatives which partially represent the settlement of all or a portion of three CDO transactions.

During 2009, MBIA Corp. incurred loss and LAE of \$16 million primarily related to an insured first-lien alternative A-paper ("Alt-A") transaction. This transaction is unlike MBIA Corp.'s other Alt-A exposures as the underlying mortgages in this transaction are primarily adjustable-rate mortgages, which generally perform worse than Alt-A exposures with underlying fixed-rate mortgages. Delinquencies in the underlying mortgages in this transaction began increasing in the second half of 2008 and peaked in January 2009.

MBIA Corp. also insures mortgage-backed securities backed by mortgages that when originally underwritten were deemed to be prime and near prime, including second-lien residential mortgage securitizations HELOC loans and CES mortgages. Since the second half of 2007, MBIA Corp. has observed deterioration in the performance of several of its home equity transactions. As of December 31, 2009, MBIA Corp. has case basis reserves in a contra-liability position of \$702 million, net of salvage and subrogation of \$2.3 billion. The contra-liability position is

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primarily driven by \$1.4 billion of estimated recoveries resulting from ineligible mortgages included in insured second-lien residential mortgage and Alt-A securitization exposures that are subject to contractual obligations by sellers/servicers to repurchase or replace such mortgages, and approximately \$887 million related to recoveries of amounts expected to be paid from excess cash flows within the securitizations. During 2008, MBIA Corp. paid \$1.4 billion in claims, net of reinsurance and excluding \$14 million in recoveries.

Estimated Recoveries From Ineligible Mortgages

In 2009, MBIA Corp. continued the review of mortgage loans in its insured transactions. As a result, MBIA Corp. revised the expected net cash inflows in its loss reserve calculations based on an increasing likelihood of potential recoveries related to ineligible mortgage loans in certain insured first and second-lien and Alt-A residential mortgage loan securitizations that are subject to a contractual obligation by the sellers/servicers to repurchase or replace ineligible mortgage loans. MBIA Corp.'s updated recovery outlook was principally based on the following factors:

1. the strength of MBIA Corp.'s existing contract claims related to ineligible loan substitution/repurchase obligations;
2. the improvement in the financial strength of issuers due to mergers and acquisitions and/or government assistance, which will facilitate their ability to comply with required loan repurchase/substitution obligations. MBIA Corp. is not aware of any provisions that explicitly preclude or limit the successors' obligations to honor the obligations of the original sponsor. As a result, MBIA Corp. did not make any significant adjustments to MBIA Corp.'s estimated recoveries with respect to the credit risk of these sponsors (or their successors);
3. evidence of loan repurchase/substitution compliance by issuers for put-back requests made by other harmed parties consistent with MBIA Corp.'s assertions, including substantial amounts paid to Federal Home Loan Mortgage Corporation (FHLMC) for identical claims;
4. the favorable outcome for MBIA Corp. on Defendants' motions to dismiss in the actions captioned MBIA Insurance Corp. v. Countrywide Home Loans, Inc., et al, Index No. 08-602825 (N.Y. Sup. Ct.) and MBIA Insurance Corp. v. Residential Funding Co., LLC, Index No. 603552/08 (N.Y. Sup. Ct.) where the respective courts each allowed MBIA Corp.'s fraud claims against the Countrywide and RFC defendants to proceed; and
5. reserves established by certain sellers/servicers to cover such obligations.

Beginning in the first quarter of 2008, MBIA Corp. engaged loan level forensic review consultants to re-underwrite/review a sample of the mortgage loan files underlying MBIA Corp.'s HELOC, CES and Alt-A insured transactions. Certain HELOC and CES transactions that exhibited exceptionally poor performance were chosen for a re-underwriting review. Factors MBIA Corp. believes to be indicative of this poor performance include (i) a material increase in early and late stage delinquencies; (ii) material increases in charged-off loans; (iii) significant decreases in credit enhancement; and/or (iv) policy payments. MBIA Corp.'s forensic loan review determined that there were significant breaches of mortgage loan representations and material deviations from underwriting guidelines. Accordingly, MBIA Corp. has determined that thousands of loans were in fact contractually ineligible for inclusion in the securitized trusts insured by MBIA Corp. In turn, MBIA Corp. has submitted thousands of ineligible loans for repurchase/substitution to the sponsors or sellers/servicers. The unsatisfactory resolution of these contractual matters, in addition to fraudulent underwriting practices that MBIA Corp. believes were prevalent within certain issuers, has led to MBIA Corp.'s pursuing litigation with these issuers seeking the sellers/servicers to repurchase or replace ineligible mortgage loans and specifically perform under its contractual obligation and damages for both breaches of contractual obligations and fraud. MBIA Corp.'s forensic examination of loan repurchase/substitution requirements for various issuers remains ongoing.

During 2009, MBIA recognized estimated potential recoveries, net of reinsurance, of \$1.4 billion related to reviewed transactions. These recoveries were based on the expected values of transaction-specific distributions of possible outcomes (factoring in all known uncertainties). The outcomes include: 1) recovery of amounts related to charged off loan files that MBIA Corp. has already reviewed and found to breach representations; 2) recovery of amounts related to currently performing loans expected to be charged off in the future, assuming breach rates on those loans

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are consistent with breach rates on the population of loans MBIA Corp. has reviewed; and 3) recoveries assuming sellers/servicers repurchase all loans that were deemed to be in breach of the sellers/servicers' representations, estimated by applying the breach rates on loans MBIA Corp. has reviewed to the entire population of loans, including those not expected to be charged off. Probabilities are then assigned to each scenario, based on the extent of actual file reviews supporting the estimated recoveries, the risk of litigation, risk of error in determining breach rates, counterparty credit risk, the cost of litigation and potential for delay, and other sources of uncertainty. The sum of the probabilities assigned to all scenarios is 100 percent.

In the second and third quarters of 2009, MBIA Corp. assumed that the probability that it will recover more or less than the amount it is entitled to recover for those files already reviewed and found to be in breach of representations was the same. In the fourth quarter of 2009, MBIA Corp. changed this assumption and assumed that the probability that MBIA Corp. recover substantially more than the value of files already reviewed is higher than the probability that MBIA Corp. recover less as a result of the success of other parties in pursuing sellers/servicers for loan repurchases/replacements, the acknowledgment by certain sellers/servicers that they have significant exposure to put backs and the substantial reserves taken by sellers/servicers related to loan repurchases/replacements, positive developments in litigation that MBIA Corp. has initiated against sellers/servicers that we believe increase the probability that will obtain substantial recoveries, and other factors.

MBIA Corp. considered all relevant facts and circumstances, including the factors described above, in developing its assumptions on expected cash inflows, probability of potential recoveries (including the outcome of litigation) and recovery period. The estimated amount and likelihood of potential recoveries are expected to be revised and supplemented as facts and circumstances change and relevant information is available, including additional information on the mortgage loan pools. MBIA Corp. utilized the results of the above described loan file examinations to make demands for loan repurchases from originators and servicers or their successors and, in certain instances, as a part of the basis for litigation filings.

In accordance with the sellers'/servicers' covenants, the sellers/servicers have the option to cure, repurchase, or substitute ineligible loans. An ineligible loan which qualifies for a repurchase would be removed from the trust by the seller/servicer and in exchange for the loan the seller/servicer would be required to remit to the trust the repurchase price. Generally, the repurchase price (or obligation) is defined as follows: (i) 100% of the loan balance thereof (without reduction for any amounts charged off) and (ii) unpaid accrued interest at the loan rate on the outstanding principal balance thereof from the due date to which interest was last paid by the borrower to the first day of the month following the month of purchase. The proceeds from the repurchase of an ineligible loan may differ from the amount of loss incurred by MBIA Corp. For example, transactions are typically structured to provide a greater amount of inflows from the loan pool than outflows from the notes issued. To the extent that inflows, net of defaulted loans, were adequate to cover all or a portion of the payments due on the notes issued, MBIA Corp. would only be entitled to recover the amount of loss it incurred, if any.

To date, sellers/servicers have not substituted loans which MBIA Corp. has put back. However, if a loan were to be substituted, the original loan would be removed from the trust by the seller/servicer and all proceeds associated with the original loan would belong to the seller/servicer. The seller/servicer would then be required to place a new loan into the transaction and all future payments associated with the new loan would belong to the trust. Therefore, any defaults on the original loan would be recovered upon substitution.

MBIA Corp. believes that, on a contractual basis, the sellers/servicers in MBIA-insured mortgage transactions are obligated to cure, replace, or repurchase all the deficient loans for which MBIA Corp. has recorded potential recoveries. To date, only a nominal amount of the loans for which MBIA Corp. has incurred losses and put back have been repurchased. The unsatisfactory resolution of these put-backs has caused MBIA to initiate litigation with three of the sellers to enforce their obligations. MBIA Corp. has alleged several causes of action in its complaints, including breach of contract, fraudulent inducement and indemnification. MBIA Corp.'s \$1.4 billion of estimated potential recoveries do not include damages from causes of action other than breach of contract for failure to repurchase specific loans. While two of the sellers/servicers of MBIA Corp.'s transactions filed motions to dismiss MBIA Corp.'s fraudulent inducement, indemnification, and certain other claims, they have not moved to dismiss MBIA Corp.'s breach of contract claims. Furthermore, the sellers'/servicers' motions to dismiss MBIA Corp.'s fraud claims have been denied. Please refer to "Note 17: Contingencies and Commitments" for further information regarding MBIA Corp.'s legal proceedings.

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MBIA Corp. will continue to assess the level of expected recoveries based on additional forensic reviews on additional loans, developments in the pending litigation proceedings or in any new litigation that we file and other factors that could influence the amount of the recoveries. As a result the factors described above MBIA Corp.'s estimate of recoveries could change materially in the future.

Discount Rate

Loss reserves on financial guarantee business include amounts discounted on a non-tabular basis at 6.51% and 5.03% for the years ended December 31, 2009 and 2008, respectively. MBIA Corp. uses a discount rate equal to the yield-to-maturity of MBIA Corp.'s fixed-income investment portfolio, excluding investments in money market funds, alternative investments and including an intercompany secured loan as of the current reporting date. MBIA Corp. does not discount unpaid LAE reserves. The non-tabular discount for the years ended December 31, 2009 and 2008 was \$3.9 billion and \$3.2 billion, respectively.

Insured Portfolio Management Surveillance

MBIA Corp. continually reviews all the assumptions used in the assessment of the adequacy of the case-basis reserves for losses and LAE. While MBIA Corp. believes that its current reserves are adequate to meet its expected obligations, actual losses and loss expenses may deviate, perhaps substantially, from reserves reflected in MBIA Corp.'s statutory-basis financial statements and could have a material adverse effect on the its results of operations and financial condition.

MBIA Corp.'s Insured Portfolio Management Division ("IPM") monitors MBIA Corp.'s outstanding insured obligations with the objective of minimizing losses. IPM meets this objective by identifying issuers and/or transactions that, because of deterioration in credit quality or changes in the economic, regulatory or political environment, are at a heightened risk of defaulting on debt service of obligations insured by MBIA Corp. In such cases, IPM works with the issuer, trustee, bond counsel, servicer, underwriter and other interested parties in an attempt to alleviate or remedy the problem and avoid defaults on debt service payments. Once an obligation is insured, MBIA Corp. typically requires the issuer, servicer (if applicable) and the trustee to furnish periodic financial and asset related information, including audited financial statements, to IPM for review. IPM also monitors publicly available information related to insured obligations. Potential problems uncovered through this review, such as poor financial results, low fund balances, covenant or trigger violations and trustee or servicer problems or other events that could have an adverse impact on the insured obligation, could result in an immediate surveillance review and an evaluation of possible remedial actions. IPM also monitors and evaluates the impact on issuers of general economic conditions, current and proposed legislation and regulations, as well as state and municipal finances and budget developments.

Insured obligations are monitored periodically. The frequency and extent of such monitoring is based on the criteria and categories described below. Insured obligations that are judged to merit more frequent and extensive monitoring or remediation activities due to a deterioration in the underlying credit quality of the insured obligation or the occurrence of adverse events related to the underlying credit of the issuer are assigned to a surveillance category ("Caution List-Low," "Caution List-Medium," "Caution List-High," or "Classified List") depending on the extent of credit deterioration or the nature of the adverse events. IPM monitors insured obligations assigned to a surveillance category more frequently and, if needed, develops a remediation plan to address any credit deterioration.

MBIA Corp. does not establish any case basis reserves for insured obligations that are assigned to "Caution List-Low," "Caution List-Medium," or "Caution List-High", as credits assigned to those classifications do not result in loss expectations, if any, for the respective credits. In the event MBIA Corp. expects to pay a claim with respect to an insured transaction, it places the insured transaction on its "Classified List" and establishes a case basis reserve. The following provides a description of each surveillance category:

"Caution List – Low" - Includes issuers where debt service protection is adequate under current and anticipated circumstances. However, debt service protection and other measures of credit support and stability may have declined since the transaction was underwritten and the issuer is less able to withstand further adverse events. Transactions in this category generally require more frequent monitoring than transactions that do not appear within a surveillance category. IPM subjects issuers in this category to heightened scrutiny.

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“Caution List – Medium” - Includes issuers where debt service protection is adequate under current and anticipated circumstances, although adverse trends have developed and are more pronounced than for “Caution List – Low.” Issuers in this category may have breached one or more covenants or triggers. These issuers are more closely monitored by IPM but generally take remedial action on their own.

“Caution List – High” - Includes issuers where more proactive remedial action is needed but where no defaults on debt service payments are expected. Issuers in this category exhibit more significant weaknesses, such as low debt service coverage, reduced or insufficient collateral protection or inadequate liquidity, which could lead to debt service defaults in the future. Issuers in this category have breached one or more covenants or triggers, have not taken conclusive remedial action, and IPM adopts a remediation plan and takes more proactive remedial actions.

“Classified List” - Includes all insured obligations where MBIA Corp. has paid a claim and where a claim payment is probable and estimable. Generally, IPM is actively remediating these credits where possible, including restructurings through legal proceedings, usually with the assistance of specialist counsel and advisors.

The following table provides information about the financial guarantees and related loss reserves (“net claim liability”) included in each of MBIA Corp.’s surveillance categories as of December 31, 2009:

| \$ in millions | Surveillance Categories | | | | |
|---|--------------------------------|--------------------------------|------------------------------|----------------------------|-----------------|
| | Caution List Low | Caution List Medium | Caution List High | Classified List | Total |
| Number of policies | 220 | 80 | 21 | 156 | 477 |
| Number of issues ⁽¹⁾ | 53 | 31 | 17 | 108 | 209 |
| Remaining weighted average contract period (in years) | 8.0 | 9.9 | 5.0 | 13.0 | 11.2 |
| Gross insured contractual payments outstanding: | | | | | |
| Principal | \$ 10,136 | \$ 3,323 | \$ 2,563 | \$ 29,934 | \$45,956 |
| Interest | 4,884 | 2,111 | 379 | 17,542 | 24,916 |
| Total | <u>\$ 15,020</u> | <u>\$ 5,434</u> | <u>\$ 2,942</u> | <u>\$ 47,476</u> | <u>\$70,872</u> |
| Gross claim liability | \$ - | \$ - | \$ - | \$ 9,023 | \$ 9,023 |
| Less: | | | | | |
| Gross potential recoveries | - | - | - | 3,602 | 3,602 |
| Discount, net | - | - | - | 3,924 | 3,924 |
| Reinsurance | - | - | - | 549 | 549 |
| Net claim liability | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 948</u> | <u>\$ 948</u> |
| Net unearned premium reserve | \$ 31 | \$ - | \$ 1 | \$ 47 | \$ 79 |

(1) - An “issue” represents the aggregate of financial guarantee policies that share the same revenue source for purposes of making debt service payments.

The following table presents changes in MBIA Corp.’s loss and LAE reserve for the twelve months ended December 31, 2009. Changes in the loss and LAE reserve attributable to the accretion of the discount on the loss reserves, changes in discount rates, changes in the timing and amounts of estimated net payments and changes in assumptions are recorded in “Losses and loss adjustment expenses” in MBIA Corp.’s Statement of Income. LAE reserves are expected to be settled within a one year period and are not discounted. As of December 31, 2009, the rate used to discount the claim liability was 6.51 %.

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In millions

| Loss and LAE Reserve as of December 31, 2008 | Gross Loss Payments | Accretion of Claim Liability Discount | Changes in Discount Rate | Changes in Timing of Payments, Amount of Net Payments and Assumptions | Changes in LAE Reserves | Change in Reinsurance | Loss and LAE Reserve as of December 31, 2009 |
|---|---------------------------|--|-----------------------------------|--|-------------------------------|--------------------------|---|
| \$ 1,870 | \$ (2,809) | \$ 29 | \$ 45 | \$ 1,931 | \$ (200) | \$ (305) | \$ 561 |

Remediation actions may involve, among other things, waivers or renegotiations of financial covenants or triggers, waivers of contractual provisions, the granting of consents, transfer of servicing, consideration of restructuring plans, acceleration, security or collateral enforcement, actions in bankruptcy or receivership, litigation and similar actions. The types of remedial actions pursued are based on the insured obligation's risk type and the nature and scope of the event giving rise to the remediation. As part of any such remedial actions, MBIA Corp. seeks to improve its security position and to obtain concessions from the issuer of the insured obligation. From time to time, the issuer of an MBIA Corp.-insured obligation may, with the consent of MBIA Corp., restructure the insured obligation by extending the term, increasing or decreasing the par amount or decreasing the related interest rate, with MBIA Corp. insuring the restructured obligation.

10. Net Insurance In Force

MBIA Corp. guarantees the payment of principal of, and interest or other amounts owing on, municipal, asset-/mortgage-backed and other non-municipal securities. MBIA Corp.'s net insurance in force represents the aggregate amount of the insured principal of, and interest or other amounts owing on insured obligations, net of cessions to reinsurers. MBIA Corp.'s ultimate exposure to credit loss in the event of nonperformance by the issuer of the insured obligation is represented by the net insurance in force in the tables that follow.

The insurance policies issued by MBIA Corp. are unconditional and irrevocable guarantees of the payment of the principal and the interest or other amounts owing on, insured obligations when due. The obligations are generally not subject to acceleration, except that MBIA Corp. may have the right, at its discretion, to accelerate insured obligations upon default or otherwise. Certain guaranteed investment contracts written by MBIA Inc. and guaranteed by MBIA Corp. are terminable upon ratings downgrades, and if MBIA Inc. were to have insufficient assets to pay the termination payments, MBIA Corp.'s insurance would be drawn on to make such payments. These amounts have been excluded in the tables that follow.

The creditworthiness of each insured obligation is evaluated prior to the issuance of insurance, and each insured issue must comply with MBIA Corp.'s underwriting guidelines. Further, the payments to be made by the issuer on the bonds or notes may be backed by a pledge of revenues, reserve funds, letters of credit, investment contracts or collateral in the form of mortgages or other assets. The right to such funds or collateral would typically become MBIA Corp.'s upon the payment of a claim by MBIA Corp.

MBIA Corp. maintains underwriting guidelines based on those aspects of credit quality that it deems important for each category of obligation considered for insurance. For global public finance transactions these include economic and social trends, debt and financial management, adequacy of anticipated cash flow, satisfactory legal structure and other security provisions, viable tax and economic bases, adequacy of loss coverage and project feasibility. For global structured finance transactions, MBIA Corp.'s underwriting guidelines, analysis and due diligence focus on counterparty credit and operational quality. MBIA Corp. also analyzes the quality of asset pools as well as their historical and projected performance. The strength of a structure, including legal segregation of the assets, cash flow analysis, the size and source of first loss protection, asset performance triggers and financial covenants are also reviewed. Such guidelines are subject to periodic review by a senior risk committee, which is responsible for establishing the criteria for MBIA Corp.'s underwriting standards as well as maintaining the standards in its insurance operations.

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As of December 31, 2009, net insurance in force, which represents principal and interest and other amounts owing on insured obligations, net of cessions to reinsurers, had an expected maturity range of 1-47 years. The distribution of net insurance in force by geographic location, excluding \$7.3 billion and \$8.5 billion relating to transactions guaranteed by MBIA Corp. on behalf of various investment management services affiliated companies as of December 31, 2009 and 2008, respectively, is presented in the following table:

| In billions | As of December 31, | | | |
|-----------------------------|---------------------------|-----------------------------------|---------------------------|-----------------------------------|
| | 2009 | | 2008 | |
| | Net Insurance in Force | % of Net Insurance in Force | Net Insurance in Force | % of Net Insurance in Force |
| Geographic Location | | | | |
| Delaware | \$ 1.1 | 0.4% | \$ 3.8 | 0.3% |
| New York | 1.1 | 0.4% | 86.3 | 7.2% |
| California | 0.5 | 0.2% | 163.6 | 13.7% |
| Minnesota | 0.3 | 0.1% | 11.1 | 0.9% |
| Nebraska | 0.2 | 0.1% | 4.1 | 0.3% |
| Florida | 0.2 | 0.1% | 68.0 | 5.7% |
| Pennsylvania | 0.1 | 0.0% | 32.9 | 2.7% |
| Missouri | - | 0.0% | 10.9 | 0.9% |
| Alabama | - | 0.0% | 7.4 | 0.6% |
| Puerto Rico | - | 0.0% | 13.1 | 1.1% |
| Subtotal | 3.5 | 1.3% | 401.2 | 33.4% |
| Nationally diversified | 152.6 | 57.7% | 178.5 | 14.9% |
| Other states | - | 0.0% | 499.6 | 41.8% |
| Total United States | 156.1 | 59.0% | 1,079.3 | 90.1% |
| Internationally diversified | 36.5 | 13.8% | 43.9 | 3.6% |
| Country specific | 72.0 | 27.2% | 75.1 | 6.3% |
| Total non-United States | 108.5 | 41.0% | 119.0 | 9.9% |
| Total | \$ 264.6 | 100.0% | \$ 1,198.3 | 100.0% |

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The net insurance in force by type of bond is presented in the following table:

| In billions | As of December 31, | | | |
|--|---------------------------|-----------------------------------|---------------------------|-----------------------------------|
| | 2009 | | 2008 | |
| | Net Insurance in Force | % of Net Insurance in Force | Net Insurance in Force | % of Net Insurance in Force |
| Bond Type | | | | |
| Global public finance - United States: | | | | |
| General obligation | \$ - | 0.0% | \$ 322.2 | 26.8% |
| General obligation - lease | - | 0.0% | 69.1 | 5.8% |
| Municipal utilities | - | 0.0% | 162.8 | 13.6% |
| Tax-backed | - | 0.0% | 111.9 | 9.3% |
| Transportation | - | 0.0% | 93.0 | 7.8% |
| Higher education | - | 0.0% | 50.5 | 4.2% |
| Health care | - | 0.0% | 34.6 | 2.9% |
| Military housing | - | 0.0% | 21.7 | 1.8% |
| Investor-owned utilities ⁽¹⁾ | - | 0.0% | 15.8 | 1.3% |
| Municipal housing | - | 0.0% | 15.0 | 1.3% |
| Student loans | - | 0.0% | 7.0 | 0.6% |
| Other ⁽²⁾ | - | 0.0% | 4.4 | 0.4% |
| Total United States | - | 0.0% | 908.0 | 75.8% |
| Global public finance - non-United States: | | | | |
| International utilities | 19.9 | 7.5% | 18.6 | 1.6% |
| Sovereign and sub-sovereign ⁽³⁾ | 18.4 | 7.0% | 17.3 | 1.4% |
| Transportation | 14.7 | 5.6% | 14.1 | 1.2% |
| Local governments ⁽⁴⁾ | 0.7 | 0.3% | 0.9 | 0.1% |
| Municipal housing | - | 0.0% | 0.2 | 0.0% |
| Health care | 0.2 | 0.0% | 0.1 | 0.0% |
| Higher education | - | 0.0% | 0.1 | 0.0% |
| Total non-United States | 53.9 | 20.4% | 51.3 | 4.3% |
| Total global public finance | 53.9 | 20.4% | 959.3 | 80.1% |
| Global structured finance - United States: | | | | |
| Collateralized debt obligations ⁽⁵⁾ | 96.0 | 36.3% | 98.3 | 8.2% |
| Mortgage-backed residential | 25.6 | 9.7% | 28.6 | 2.4% |
| Mortgage-backed commercial | 0.6 | 0.2% | 0.7 | 0.1% |
| Consumer asset-backed: | | | | |
| Auto loans | 4.4 | 1.7% | 6.8 | 0.6% |
| Student loans | 2.1 | 0.8% | 2.8 | 0.2% |
| Manufactured housing | 2.6 | 1.0% | 2.7 | 0.2% |
| Other consumer asset -backed | 0.6 | 0.1% | 0.9 | 0.1% |

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| | | | | |
|---|-----------------|---------------|-------------------|---------------|
| Corporate asset-backed: | | | | |
| Operating assets: | | | | |
| Aircraft portfolio lease securitizations | 2.9 | 1.1% | 3.2 | 0.3% |
| Rental car fleets | 1.9 | 0.7% | 3.1 | 0.3% |
| Secured airline equipment securitization (EETC) | 3.0 | 1.1% | 3.1 | 0.3% |
| Other operating assets | 1.0 | 0.4% | 1.6 | 0.1% |
| Structured insurance securitizations | 8.2 | 3.1% | 10.0 | 0.8% |
| Franchise assets | 1.2 | 0.5% | 1.5 | 0.1% |
| Intellectual property | 3.9 | 1.5% | 4.1 | 0.3% |
| Other corporate asset-backed | 2.1 | 0.8% | 3.9 | 0.3% |
| Total United States | <u>156.1</u> | <u>59.0%</u> | <u>171.3</u> | <u>14.3%</u> |
| Global structured finance - non-United States: | | | | |
| Collateralized debt obligations ⁽⁵⁾ | 35.6 | 13.5% | 40.2 | 3.3% |
| Mortgage-backed residential | 2.8 | 1.1% | 8.5 | 0.7% |
| Mortgage-backed commercial | 5.4 | 2.0% | 6.2 | 0.5% |
| Corporate asset-backed: | | | | |
| Operating assets: | | | | |
| Aircraft portfolio lease securitizations | 1.8 | 0.7% | 2.1 | 0.2% |
| Secured airline equipment securitization (EETC) | 0.4 | 0.1% | 0.4 | 0.0% |
| Structured insurance securitizations | 0.1 | 0.0% | 0.1 | 0.0% |
| Franchise assets | 1.2 | 0.4% | 1.2 | 0.1% |
| Intellectual property | - | 0.0% | 0.8 | 0.1% |
| Future flow | 1.8 | 0.7% | 2.9 | 0.2% |
| Other corporate asset-backed | 5.5 | 2.1% | 5.3 | 0.5% |
| Total non-United States | <u>54.6</u> | <u>20.6%</u> | <u>67.7</u> | <u>5.6%</u> |
| Total global structured finance | <u>210.7</u> | <u>79.6%</u> | <u>239.0</u> | <u>19.9%</u> |
| Total | <u>\$ 264.6</u> | <u>100.0%</u> | <u>\$ 1,198.3</u> | <u>100.0%</u> |

(1) - Includes investor owned utilities, industrial development and pollution control revenue bonds.

(2) - Includes certain non-profit enterprises and stadium related financing.

(3) - Includes regions, departments or their equivalent in each jurisdiction as well as sovereign owned entities that are supported by a sovereign state, region or department.

(4) - Includes municipal owned entities backed by sponsoring local government.

(5) - Includes transactions (represented by structured pools of primarily investment grade corporate credit risks or commercial real estate assets) that do not include typical CDO structuring characteristics, such as tranched credit risk, cash flow waterfalls, or interest and over-collateralization coverage tests.

MBIA Corp. has also issued guarantees of certain obligations issued by its investment management affiliates that are not included in the previous tables. These guarantees take the form of insurance policies issued by MBIA Corp. on behalf of the investment management affiliates. Should one of these affiliates default on their insured obligations, MBIA Corp. will be required to pay all scheduled principal and interest amounts outstanding. As of December 31, 2009, the maximum amount of future payments that MBIA Corp. could be required to make under these guarantees, should a full default occur, is \$7.3 billion. These guarantees have a maximum range of maturity of 1-38 years. These guarantees were entered into on an arm's length basis and are fully collateralized by marketable securities. MBIA Corp. has both direct recourse provisions and subrogation rights in these transactions. If MBIA Corp. is required to make a payment under any of these affiliate guarantees, it would have the right to seek reimbursement from such affiliate and to liquidate any collateral to recover all or a portion of the amounts paid under the guarantee.

RMBS

MBIA Corp. insures mortgage-backed securities backed by subprime mortgages directly through RMBS securitizations. MBIA Corp. also has indirect exposure to subprime mortgages that are included in CDOs in which MBIA Corp. guaranteed the senior most tranche of such transactions. There has been considerable stress and continued deterioration in the subprime mortgage market throughout 2008 and 2009 reflected by increased

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delinquencies and losses, particularly related to subprime mortgage loans originated during 2005, 2006 and 2007. As of December 31, 2009, the Company had \$3.7 billion of net par outstanding from direct exposure to subprime mortgages and \$4.9 billion of indirect exposure to subprime mortgages in the form of performing collateral within CDOs compared with \$4.0 billion and \$7.3 billion, respectively, as of December 31, 2008. Of the \$4.9 billion of indirect exposure, \$4.4 billion was related to CDOs executed in derivative form. While subprime transactions directly guaranteed by MBIA Corp. include collateral consisting of mortgages originated during 2005, 2006, and 2007, given the amount of subordination below MBIA Corp.'s insured portion of such transactions available to absorb any losses from collateral defaults, MBIA Corp. currently does not expect material ultimate losses on these transactions. As of December 31, 2009, the Company had \$116 million of net par outstanding in two insured direct subprime mortgage transactions with 2005, 2006, or 2007 subprime mortgage collateral appearing on the Company's Classified List or Caution Lists. As of December 31, 2009, MBIA Corp. expected losses of \$9 million (on a discounted basis) on five secondary market multi-sector CDOs with net par outstanding of \$152 million that include subprime mortgage exposure and that were reported on MBIA Corp.'s Classified List. Additionally, there were fifteen secondary market multi-sector CDOs with net par outstanding of \$452 million that included subprime mortgage exposure and that were reported on MBIA Corp.'s Caution List.

Since the second half of 2008, MBIA Corp. has observed an increase in delinquencies in insured RMBS transactions, which peaked in January 2009, and a greater than expected level of losses being realized. The largest single contributor to MBIA Corp.'s losses appears to be the failure of most of the individual mortgage loans in many of MBIA Corp.'s insured transactions to comply with the underwriting guidelines represented to MBIA Corp. at origination. These breaches, combined with inadequate servicer performance and relatively few successful loan modifications, led to loss and LAE expense related to MBIA Corp.'s RMBS exposures of \$942 million in 2009. This provision primarily reflects additions to previously established reserves on certain deals rather than a material increase in the number of transactions requiring loss reserves. Included in the \$942 million were gross losses related to actual and expected future payments of \$2.8 billion, net of reinsurance. Offsetting these losses were actual and estimated potential recoveries of \$1.9 billion, net of reinsurance. The \$1.9 billion of estimated recoveries comprised approximately \$1.4 billion related to expected recoveries for ineligible mortgage loans in certain securitizations that are subject to the sellers'/servicers' contractual obligations to repurchase or replace those loans and approximately \$459 million related to amounts expected to be recovered from excess interest cash flow within the securitizations.

The majority of expected recoveries from RMBS transactions recorded in 2009 arise from a forensic review of defaulted mortgage loans in 30 first and second-lien mortgage loan securitizations. The representations and warranties in each insured RMBS securitization contractually obligate the seller to repurchase these ineligible loans at a price equal to their outstanding principal balance plus accrued interest or to replace them with eligible mortgage loans. While the Company believes that these mortgage loans are subject to repurchase or replacement obligations by the sellers/servicers, successful challenges of such determinations by the sellers/servicers could result in the Company recovering less than the amount of its estimated recoveries. The Company is continuing to review and evaluate additional mortgage loans in its insured RMBS pools and expects that there will be additional mortgages in these or in other transactions that are subject to a repurchase or replacement obligation by the seller/servicer. In addition, recoveries and damages from legal actions that MBIA Corp. has filed against certain of the seller-servicers could result in recoveries that are substantially higher than the amount currently recognized as recoveries. In addition, MBIA Corp. also recorded recoveries during 2009 based on expected receipts of excess interest in securitizations.

Since September 2008, MBIA Corp. initiated three separate litigations against two mortgage loan seller/servicers alleging, among other things, that such sellers/servicers made material misrepresentations concerning the quality of loans made by these seller/servicers, which were included in a number of MBIA-insured second-lien residential mortgage securitizations. In particular, complaints in these actions allege that a very high proportion of the defaulted loans in these securitizations were ineligible for inclusion and thus reflect breaches of the originators' representations with respect to such loans. In addition, the complaints allege that seller/servicers have failed to honor their contractual obligations regarding loan repurchases and ongoing servicing practices. For more information on these and other lawsuits commenced by MBIA Corp., refer to "Note 17: Contingencies and Commitments." The ineligibility of mortgages in the securitizations and the litigation in general will have no impact on the holders of the insured securities, as MBIA Corp. will continue to honor its payment obligations under its insurance policies.

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The following table presents the net par outstanding of MBIA Corp.'s direct RMBS insured exposure as of December 31, 2009 by S&P credit rating category:

| <u>In millions</u> | <u>Net Par Outstanding</u> | | | | | <u>Total</u> |
|------------------------|----------------------------|------------------------------|-----------------|-----------------|-----------------|------------------|
| | <u>Prime ALT-A</u> | <u>Prime non - ALT-A</u> | <u>Subprime</u> | <u>HELOC</u> | <u>CES</u> | |
| AAA | \$ 3,275 | \$ 220 | \$ 2,532 | \$ - | \$ 19 | \$ 6,046 |
| AA | 6 | 18 | 27 | - | - | 51 |
| A | 480 | 18 | 246 | 85 | 37 | 866 |
| BBB | 691 | 3 | 111 | 1,298 | 1,380 | 3,483 |
| Below investment grade | 802 | 1 | 764 | 4,509 | 5,019 | 11,095 |
| Total Net Par | <u>\$ 5,254</u> | <u>\$ 260</u> | <u>\$ 3,680</u> | <u>\$ 5,892</u> | <u>\$ 6,455</u> | <u>\$ 21,541</u> |

The following table presents the net par outstanding by vintage year of MBIA Corp.'s second-lien residential mortgage loan securitizations insured exposure as of December 31, 2009:

| <u>In millions</u> | <u>Net Par Outstanding</u> | | | |
|--------------------|----------------------------|-----------------------------|-----------------|---------------------------|
| | <u>HELOC</u> | <u>% of Total HELOC</u> | <u>CES</u> | <u>% of Total CES</u> |
| 2007 | \$ 815 | 14% | \$ 4,256 | 66% |
| 2006 | 2,102 | 36% | 2,040 | 31% |
| 2005 | 1,680 | 29% | - | 0% |
| 2004 | 1,022 | 16% | 103 | 2% |
| 2003 and prior | 273 | 5% | 56 | 1% |
| Total net par | <u>\$ 5,892</u> | <u>100%</u> | <u>\$ 6,455</u> | <u>100%</u> |

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The following table provides a listing of second-lien residential mortgage securitization and Alt-A transactions included in MBIA Corp.'s insured portfolio for which it has made claim payments as of December 31, 2009:

| <u>In millions</u> | | | | |
|---|-------------------------------------|--------------------------------|--|--|
| <u>Obligor Name</u> | <u>Original Net Par Insured</u> | <u>Net Par Outstanding</u> | <u>Net Losses Paid Since Inception</u> | |
| HELOC: | | | | |
| Countrywide Home Equity Master Trust 2005-M | \$ 2,000 | \$ 545 | \$ 151 | |
| Countrywide Home Equity Master Trust 2005-I | 2,000 | 496 | 199 | |
| Countrywide Home Equity Series 2005-E | 2,000 | 421 | 98 | |
| Countrywide Home Equity 2006-E | 1,500 | 503 | 171 | |
| Countrywide Home Loans Inc 2005-A 1-A, 2-A | 1,500 | 218 | 14 | |
| Countrywide Home Loans Inc 2004P | 1,500 | 137 | 5 | |
| GMACM 2006-HE4 | 1,159 | 764 | 92 | |
| GMAC Mortgage Corporation 2004-HE4 | 1,018 | 309 | 8 | |
| Countrywide Home Equity 2006-G | 1,000 | 325 | 262 | |
| Countrywide Home Equity Series 2007-E | 900 | 456 | 194 | |
| IndyMac Home Equity Line Asset-Backed Series 2006-H4 | 650 | 303 | 150 | |
| Residential Funding Home Equity Loan Trust 2007-HSA1 | 547 | 197 | 130 | |
| Residential Funding Home Equity Loan Trust 2006-HSA4 | 402 | 113 | 62 | |
| GMACM 2000-HE4 | 332 | 15 | - | |
| Residential Funding Home Equity Loan Trust 2006-HSA5 | 296 | 94 | 66 | |
| Residential Funding Mortgage Securities 2007-HSA3 | 235 | 103 | 4 | |
| GSR 2007-HEL1 | 133 | 59 | 35 | |
| Total HELOC | \$ 17,172 | \$ 5,058 | \$ 1,641 | |
| CES: | | | | |
| Countrywide Home Loans CWHEQ 2007-S1 | \$ 1,600 | \$ 902 | \$ 205 | |
| Countrywide Home Loans CWHEQ 2006-S10 | 1,600 | 830 | 99 | |
| Residential Funding Corporation 2007-HSA2 | 1,231 | 515 | 372 | |
| GMACM Home Equity Loan Trust 2007-HE1 | 1,186 | 602 | 24 | |
| Countrywide Home Loans CWHEQ 2006-S8 | 1,000 | 513 | 160 | |
| Countrywide Home Equity 2006-S9 | 1,000 | 513 | 115 | |
| Countrywide Home Loans CWHEQ 2007-S2 | 999 | 580 | 96 | |
| Credit Suisse Home Equity Mortgage Trust | 767 | 290 | 303 | |
| Flagstar Home Equity Loan Asset Backed Trust 2007-1 | 715 | 379 | 48 | |
| Countrywide Home Loans CWHEQ 2007-S3 | 700 | 412 | 66 | |
| Residential Funding Mortgage Securities 2007-HSA3 | 561 | 255 | 187 | |
| IndyMac Home Equity Mortgage Loan 2007-1 Class A & Class A-IO | 450 | 128 | 230 | |
| Flagstar 2006-1 | 384 | 184 | 6 | |
| IndyMac Home Equity Loan ABS Trust 2007-2 | 246 | 73 | 144 | |
| Morgan Stanley Mortgage Loan Trust 2007-9SL | 223 | 120 | 47 | |
| Total CES | \$ 12,662 | \$ 6,296 | \$ 2,102 | |
| Alt-A: | | | | |
| Deutsche Bank Alt-A Securities Trust 2007-AR3 | \$ 795 | \$ 498 | \$ 7 | |
| TBW 2006-6 | 94 | 94 | 1 | |
| TBW 2007-1 | 39 | 39 | 1 | |
| Total Alt-A | 928 | 631 | 9 | |
| Total | \$ 30,762 | \$ 11,985 | \$ 3,752 | |

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From an investment perspective, the Company does not have direct exposure through investment in subprime mortgage loans. At December 31, 2009, MBIA Corp. had indirect exposure to subprime mortgage risk through investments in residential mortgage backed securities. The book adjusted carrying value and the fair value of subprime RMBS was \$18.1 million and \$16.4 million, respectively. MBIA Corp. did not recognize an other-than-temporary impairment related to an investment in a subprime mortgage related security.

Multi-Sector CDOs

Since mid-2007, the multi-sector CDO portfolio has experienced stress related to the U.S. subprime mortgage crisis. As of the year ended December 31, 2009, loss reserves are established for 16 multi-sector CDOs. Loss reserves have been estimated for CDOs due to the degradation of underlying RMBS and CDO of ABS collateral. As of December 31, 2009, MBIA Corp. estimated loss reserves in connection with MBIA Corp.'s multi-sector CDO transactions, CDS and non-CDS contracts, aggregating to \$1.8 billion for which MBIA Corp. expects to incur actual net claims in the future. In the event of further deteriorating performance of the collateral referenced or held in the multi-sector CDO transactions, the amount of the loss reserves could increase materially.

Multi-sector CDOs are transactions that include a variety of structured finance asset classes in their collateral pools. The collateral in MBIA's insured multi-sector CDO transactions, including CDO-squared transactions, comprises prime and subprime RMBS, CDOs of ABS (multi-sector CDOs), corporate CDOs, collateralized loan obligation ("CLO"), ABS (e.g. securitizations of auto receivables, credit cards, etc.), CRE CDOs, CMBS, and corporate credits. Our insured multi-sector CDO transactions rely on underlying collateral originally rated single-A or above (CDOs of high-grade U.S. ABS) and collateral primarily originally rated triple-B (CDOs of Mezzanine U.S. ABS).

MBIA's multi-sector CDOs originally benefited from two sources of credit enhancement. First, the subordination in the underlying securities collateralizing the MBIA wrapped tranche must be fully eroded and second, the subordination below MBIA's insured tranche in the CDO transaction must be fully eroded before MBIA's insured interest is subject to a claim. MBIA's payment obligations after a default vary by deal and by insurance type. There are currently two policy payment types: (i) where MBIA insures current interest and ultimate principal; and (ii) where MBIA insures payments upon settlement of individual collateral losses as they occur after the complete erosion of deal deductibles, such payment profiles are referred to as "Asset Coverage with a Deductible."

11. Reinsurance

On February 17, 2009, MBIA Corp. ceded all of its U.S. public finance business to National by entering into a Quota Share Reinsurance Agreement with National, effective January 1, 2009 (the "MBIA Corp. Reinsurance Agreement"), and by assigning to National pursuant to a separate assignment agreement its rights, interests and obligations with respect to the U.S. public finance business of FGIC that was reinsured by MBIA Corp. pursuant to a reinsurance agreement with FGIC.

The portfolio transferred to National by reinsurance or through the assignment of the FGIC reinsurance agreement consists entirely of U.S. public finance business with total net par outstanding of approximately \$553.7 billion. The reinsurance and assignment transactions between MBIA Corp. and National, which became effective as of January 1, 2009, enable covered policyholders and certain ceding insurers to present claims for payment directly to National in accordance with the terms of the cut-through provisions of the MBIA Corp. Reinsurance Agreement and the FGIC reinsurance agreement. Under the terms of the cut-through provision in each of those agreements, the covered policyholders and ceding insurers are granted a third-party beneficiary right under the agreement with respect to the applicable cut-through provision only.

The reinsurance and assignment agreements between MBIA Corp. and National (including the right to present claims for payment directly to National described in the previous paragraph) can be terminated upon the mutual agreement of MBIA Corp. and National, which termination is subject to the receipt of insurance regulatory approvals. In addition, the MBIA Corp. Reinsurance Agreement may not be terminated if, after giving effect to the termination, the ratings assigned to the underlying securities or bonds would be downgraded or withdrawn. National may also assign the MBIA Corp. Reinsurance Agreement under certain circumstances to a reinsurer rated at least as highly as National, which assignment is subject to the receipt of insurance regulatory approvals. Upon establishment

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of National, MBIA Corp. commuted an existing reinsurance agreement with National pursuant to which MBIA Corp. reinsured 100% of all of the policies of MBIA Illinois. The commutation is effective as of January 1, 2009. No penalties were incurred in connection with the commutation.

Reinsurance enables MBIA Corp. to cede exposure for purposes of syndicating risk and increasing its capacity to write new business while complying with its single risk and credit guidelines. MBIA Corp. reinsures exposure to other insurance companies under various treaty and facultative reinsurance contracts, both on a proportional and non-proportional basis. In the event that any or all of the reinsurers are unable to meet their obligations, MBIA Corp. would be liable for such defaulted amounts. When a reinsurer is downgraded by one or more rating agency, less capital credit is given to MBIA under rating agency models and the overall value of the reinsurance to MBIA Corp. is reduced.

MBIA Corp. generally retains the right to reassume the business ceded to reinsurers under certain circumstances, including a reinsurer's rating downgrade below specific thresholds. In 2009, MBIA recaptured business from six reinsurers as a result of their rating downgrades. Additionally, business from two reinsurers was recaptured during 2009 unrelated to reassumption rights based on rating changes. MBIA Corp. will continue to evaluate its use of reinsurance during 2010, which may result in future portfolio commutations from reinsurers. MBIA Corp. also maintained other reimbursement agreements with its reinsurers that were not accounted for as reinsurance, which were commuted during 2009.

MBIA Corp. requires certain unauthorized reinsurers to maintain bank letters of credit or establish trust accounts to cover liabilities ceded to such reinsurers under reinsurance contracts. As of December 31, 2009, the total amount available under these letters of credit and trust arrangements was \$828 million. MBIA Corp. remains liable on a primary basis for all reinsured risk, and although MBIA Corp. believes that its reinsurers remain capable of meeting their obligations, there can be no assurance of such in the future.

The aggregate amount of insurance in force ceded by MBIA Corp. to reinsurers under reinsurance agreements was \$611.6 billion and \$76.2 billion as of December 31, 2009 and 2008, respectively. In addition, MBIA Corp. cedes to National the risk that reinsurance under the Third-Party Reinsurance Agreements is not collected for U.S. public finance exposures.

The distribution of ceded insurance in force by geographic location is presented in the following table:

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| In billions | As of December 31, | | | |
|-----------------------------|--------------------------------|-------------------------------------|--------------------------------|-------------------------------------|
| | 2009 | | 2008 | |
| | Ceded Insurance in Force | % of Ceded Insurance in Force | Ceded Insurance in Force | % of Ceded Insurance in Force |
| Geographic Location | | | | |
| California | \$ 105.5 | 17.3% | \$ 5.9 | 7.7% |
| New York | 52.2 | 8.5% | 3.1 | 4.1% |
| Florida | 43.2 | 7.1% | 1.4 | 1.8% |
| Texas | 34.9 | 5.7% | 1.7 | 2.2% |
| Illinois | 30.4 | 5.0% | 1.5 | 2.0% |
| New Jersey | 27.7 | 4.5% | 1.6 | 2.1% |
| Washington | 19.4 | 3.2% | 0.8 | 1.0% |
| Massachusetts | 17.4 | 2.8% | 2.1 | 2.8% |
| Michigan | 16.5 | 2.7% | 0.6 | 0.8% |
| Pennsylvania | 14.7 | 2.4% | 0.7 | 0.9% |
| Subtotal | 361.9 | 59.2% | 19.4 | 25.4% |
| Nationally diversified | 28.3 | 4.6% | 20.4 | 26.8% |
| Other states | 203.7 | 33.3% | 11.5 | 15.1% |
| Total United States | 593.9 | 97.1% | 51.3 | 67.3% |
| Internationally diversified | 10.3 | 1.7% | 12.1 | 15.9% |
| Country specific | 7.4 | 1.2% | 12.8 | 16.8% |
| Total non-United States | 17.7 | 2.9% | 24.9 | 32.7% |
| Total | \$ 611.6 | 100.0% | \$ 76.2 | 100.0% |

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The distribution of ceded insurance in force by type of bond is presented in the following table:

| In billions | As of December 31, | | | |
|---|--------------------------|-------------------------------|--------------------------|-------------------------------|
| | 2009 | | 2008 | |
| Bond Type | Ceded Insurance in Force | % of Ceded Insurance in Force | Ceded Insurance in Force | % of Ceded Insurance in Force |
| Global public finance - United States: | | | | |
| General obligation | \$ 186.4 | 30.5% | \$ 6.7 | 8.8% |
| General obligation - lease | 44.1 | 7.2% | 2.1 | 2.8% |
| Municipal utilities | 104.2 | 17.1% | 5.3 | 7.0% |
| Tax-backed | 72.1 | 11.8% | 3.5 | 4.6% |
| Transportation | 55.2 | 9.0% | 6.6 | 8.7% |
| Higher education | 33.9 | 5.5% | 1.1 | 1.4% |
| Health care | 26.4 | 4.3% | 3.3 | 4.3% |
| Municipal housing | 10.7 | 1.8% | 0.5 | 0.7% |
| Military housing | 21.8 | 3.6% | 0.5 | 0.7% |
| Investor-owned utilities ⁽¹⁾ | 12.9 | 2.1% | 0.8 | 1.0% |
| Student loans | 3.8 | 0.6% | 0.3 | 0.4% |
| Other ⁽²⁾ | 3.8 | 0.6% | 0.2 | 0.2% |
| Total United States | 575.3 | 94.1% | 30.9 | 40.6% |
| Global public finance - non-United States: | | | | |
| Sovereign and sub-sovereign ⁽³⁾ | 1.8 | 0.3% | 3.2 | 4.2% |
| International utilities | 1.5 | 0.3% | 2.9 | 3.8% |
| Transportation | 2.0 | 0.3% | 3.2 | 4.2% |
| Local governments ⁽⁴⁾ | 0.0 | 0.0% | 0.6 | 0.8% |
| Municipal housing | 0.0 | 0.0% | 0.0 | 0.0% |
| Health care | 0.0 | 0.0% | 0.1 | 0.1% |
| Higher education | 0.0 | 0.0% | 0.0 | 0.0% |
| Total non-United States | 5.3 | 0.9% | 10.0 | 13.1% |
| Total global public finance | 580.6 | 95.0% | 40.9 | 53.7% |
| Global structured finance - United States: | | | | |
| Collateralized debt obligations ⁽⁵⁾ | 14.7 | 2.4% | 14.4 | 18.9% |
| Mortgage-backed residential | 0.8 | 0.1% | 1.2 | 1.6% |
| Mortgage-backed commercial | 0.0 | 0.0% | 0.0 | 0.0% |
| Consumer asset-backed: | | | | |
| Auto loans | 0.1 | 0.0% | 0.4 | 0.5% |
| Student loans | 0.2 | 0.0% | 0.2 | 0.3% |
| Manufactured housing | 0.1 | 0.0% | 0.1 | 0.1% |
| Other consumer asset -backed | 0.1 | 0.0% | 0.1 | 0.1% |
| Corporate asset-backed: | | | | |
| Operating assets: | | | | |
| Aircraft portfolio lease securitizations | 0.4 | 0.1% | 0.5 | 0.7% |
| Rental car fleets | 0.3 | 0.1% | 0.7 | 0.9% |
| Secured airline equipment securitization (EETC) | 0.5 | 0.1% | 0.9 | 1.2% |
| Other operating assets | 0.0 | 0.0% | 0.1 | 0.1% |
| Structured insurance securitizations | 1.2 | 0.2% | 1.5 | 2.0% |
| Franchise assets | 0.1 | 0.0% | 0.1 | 0.1% |
| Intellectual property | 0.1 | 0.0% | 0.1 | 0.1% |
| Other corporate asset-backed | 0.0 | 0.0% | 0.2 | 0.3% |
| Total United States | 18.6 | 3.0% | 20.5 | 26.9% |

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Global structured finance - non-United States:

| | | | | |
|---|----------|--------|---------|--------|
| Collateralized debt obligations ⁽⁵⁾ | 9.2 | 1.5% | 10.2 | 13.4% |
| Mortgage-backed residential | 0.1 | 0.0% | 0.4 | 0.5% |
| Mortgage-backed commercial | 0.8 | 0.1% | 0.9 | 1.2% |
| Corporate asset-backed: | | | | |
| Operating assets: | | | | |
| Aircraft portfolio lease securitizations | 0.2 | 0.0% | 0.4 | 0.6% |
| Secured airline equipment securitization (EETC) | 0.0 | 0.0% | 0.0 | 0.0% |
| Structured insurance securitizations | 0.0 | 0.0% | 0.0 | 0.0% |
| Franchise assets | 0.0 | 0.0% | 0.1 | 0.1% |
| Intellectual property | 0.0 | 0.0% | 0.1 | 0.1% |
| Future flow | 0.5 | 0.1% | 1.0 | 1.3% |
| Other corporate asset-backed | 1.6 | 0.3% | 1.7 | 2.2% |
| Total non-United States | 12.4 | 2.0% | 14.8 | 19.4% |
| Total global structured finance | 31.0 | 5.0% | 35.3 | 46.3% |
| Total | \$ 611.6 | 100.0% | \$ 76.2 | 100.0% |

(1) - Includes investor owned utilities, industrial development and pollution control revenue bonds.

(2) - Includes certain non-profit enterprises and stadium related financing.

(3) - Includes regions, departments or their equivalent in each jurisdiction as well as sovereign owned entities that are supported by a sovereign state, region or department.

(4) - Includes municipal owned entities backed by sponsoring local government.

(5) - Includes transactions (represented by structured pools of primarily investment grade corporate credit risks or commercial real estate assets) that do not include typical CDO structuring characteristics, such as tranching credit risk, cash flow waterfalls, or interest and over-collateralization coverage tests.

As of December 31, 2009, the aggregate amount of insured par outstanding ceded by MBIA Corp. to reinsurers under reinsurance agreements was \$383.6 billion, compared with \$54.9 billion as of December 31, 2008. The following table presents information about companies who have entered into reinsurance contracts with MBIA Corp. and amounts recoverable under those contracts as of December 31, 2009.

In millions

| Reinsurers | Standard & Poor's Rating (Status) | Moody's Rating (Status) | Ceded Par Outstanding | LOC / | |
|---|--------------------------------------|----------------------------|--------------------------|-------------------|----------------------------|
| | | | | Trust Accounts | Reinsurance Recoverable |
| National Public Finance Guarantee Corporation | A (Developing) | Baa1 (Developing) | \$ 339,993 | \$ - | \$ 136 |
| Channel Reinsurance Ltd. | N/R ⁽¹⁾ | RWR ⁽²⁾ | 33,401 | 646 | 382 |
| Assured Guaranty Corp. | AAA (Negative Outlook) | Aa3 (Negative Outlook) | 5,375 | - | 14 |
| Mitsui Sumitomo Insurance Company Ltd. | AA (Negative Outlook) | Aa3 (Stable) | 3,503 | 176 | (20) |
| Assured Guaranty Re Ltd. | AA (Stable) | A1 (Negative Outlook) | 718 | 4 | 0 |
| Others | A+ or above | A1 or above | 643 | 3 | 1 |
| Total | | | \$ 383,633 | \$ 829 | \$ 513 |

(1) - Not rated.

(2) - Rating withdrawn.

MBIA Corp. owns a 17.4% equity interest in Channel Re. In March 2009, Moody's downgraded Channel Re to B3 and the rating was subsequently withdrawn. In March 2009, S&P downgraded Channel Re to BB+ and the rating was subsequently withdrawn. As of December 31, 2009, MBIA Corp. expects that Channel Re will continue to report negative shareholder's equity on a GAAP basis primarily due to unrealized losses on its insured credit derivatives based on fair value accounting. As of December 31, 2009, the reinsurance recoverable from Channel Re

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was \$382 million. MBIA Corp. believes that Channel Re had sufficient liquidity supporting its business to fund amounts due to MBIA Corp. In performing its assessment, MBIA Corp. determined that cash and investments, inclusive of approximately \$646 million that Channel Re had on deposit in trust accounts for the benefit of MBIA as of December 31, 2009, and borrowing facilities available to Channel Re were in excess of MBIA's exposure to Channel Re. Although the trust accounts limit the potential for Channel Re to default on its obligations to MBIA, there can be no assurance that Channel Re will not default on its obligations to MBIA that exceed the amounts already held in the trust accounts. MBIA Corp. can commute its reinsurance with Channel Re (including reinsurance of business ceded to National) at any time within 25 business days of notice. Commutation of reinsurance with Channel Re may result in negotiated payments to MBIA in excess of the amounts contractually due from Channel Re. In June 2009, Channel Re was placed into run-off by its Board of Directors and, in September 2009, a run-off plan was reviewed by the Bermuda Monetary Authority and approved by Channel Re's Board of Directors. The run-off plan stipulates that no additional business will be ceded to Channel Re and provides for the ongoing management of Channel Re during the run-off period.

Since December 2007, several of MBIA Corp.'s other financial guarantee reinsurers, including Assured Guaranty Corp., Assured Guaranty Re Ltd., and Old Republic Insurance Co. have had their credit ratings either downgraded or put on negative watch by one or more of the major rating agencies. Although there was no material impact on MBIA Corp. for any of these rating agency actions relating to these reinsurers, a further deterioration in the financial condition of one or more of these reinsurers could require the establishment of reserves against any receivables due from the reinsurers.

Premium Summary

The components of net premiums written and earned, including premiums assumed from and ceded to other insurers and reinsurers are set forth in the following table:

| <u>In thousands</u> | <u>Years Ended December 31,</u> | | <u>Years Ended December 31,</u> | |
|---------------------|---------------------------------|-------------------|---------------------------------|-------------------|
| | <u>2009</u> | | <u>2008</u> | |
| | <u>Written</u> | <u>Earned</u> | <u>Written</u> | <u>Earned</u> |
| Direct | \$ 407,062 | \$ 787,915 | \$ 523,159 | \$ 1,008,652 |
| Assumed | (916,402) | 23,607 | 932,189 | 36,034 |
| Gross | (509,340) | 811,522 | 1,455,348 | 1,044,686 |
| Ceded | (2,627,352) | (415,553) | (25,956) | (137,766) |
| Net | <u>\$ (3,136,692)</u> | <u>\$ 395,969</u> | <u>\$ 1,429,392</u> | <u>\$ 906,920</u> |

Ceding commissions received from (paid to) reinsurers, before deferrals and net of returned ceding commissions, were income of \$778 million and expense of \$181 million in 2009 and 2008, respectively.

The maximum amount of return commission, which would have been due reinsurers if all reinsurance contracts were canceled with the return of the unearned premium reserve would be \$637 million and \$76 million as of December 31, 2009 and 2008, respectively. The direct unearned premium reserve at December 31, 2009 and 2008 was \$3.0 billion and \$3.3 billion, respectively.

12. Information Concerning Parent, Subsidiaries and Affiliates

All outstanding voting shares of MBIA Corp. are owned by its parent company, MBIA Inc., an insurance holding company incorporated in the State of Connecticut and located in the State of New York.

As of December 31, 2009, MBIA Corp. reported \$3.0 million as an amount payable to MBIA Inc. and \$0.2 million as an amount payable to its subsidiaries and affiliates. As of December 31, 2008, MBIA Corp. reported \$0.9 million as an amount receivable from MBIA Inc. and \$61.1 million as a receivable from its subsidiaries and affiliates. During the first quarter of 2008, MBIA Corp. received a capital contribution from MBIA Inc. in the amount of \$486.5 million.

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MBIA Corp. is a party to a management fee agreement to provide management and administrative services in connection with insurance business to CMAC.

As previously discussed, in February 2009, after receiving the required regulatory approvals, MBIA Inc. established and capitalized National as a U.S. public finance-only financial guarantor, which was previously named MBIA Illinois and previously owned by MBIA Corp. In connection with the establishment of National, the stock of MBIA Illinois was transferred to a newly established intermediate holding company, which is wholly-owned by MBIA Inc. Additionally, National was further capitalized with approximately \$2.1 billion from funds distributed by MBIA Insurance Corporation to MBIA Inc. as a dividend and return of capital, which MBIA Inc. contributed to National through the intermediate holding company.

MBIA Corp. has entered into services agreements with National in order for them to provide to each other certain administrative and other support services. Effective January 1, 2010 this agreement was terminated and re-established with an affiliated entity Optinuity Alliance Resources, a wholly-owned subsidiary of MBIA Inc.

MBIA Corp. has provided guarantees for various members of the holding company group of MBIA Inc. At December 31, 2009, the total par outstanding, net of reinsurance and pledged collateral, was approximately 2% of MBIA Corp.'s total outstanding net par value.

In the fourth quarter of 2008, MBIA UK commuted a guarantee contract in respect of a particular structured finance CDO it had guaranteed. This CDO had suffered deterioration in performance in the underlying collateral. In order to mitigate the risk of incurring further losses and to reduce exposure to this guarantee, MBIA UK agreed to commute the contract and paid a net claim after reinsurance and salvage recovery of approximately \$35.4 million. As of December 31, 2008, the commutation claim had been paid in full and the salvage recovery had been received. There is no remaining exposure to this guarantee contract. During the fourth quarter of 2008, MBIA Corp. purchased the salvage asset from MBIA UK for \$180 million. As of December 31, 2009 and 2008, MBIA Corp. recorded this asset on Schedule BA – Part 1 at its fair value of \$54 million and \$180 million, respectively.

During the fourth quarter of 2008, as part of a capital restructuring, MBIA Corp. discharged an intercompany loan with MBIA UK in the amount of \$75.7 million in which MBIA Corp. subscribed an additional one million shares in MBIA UK.

From time to time MBIA Corp. may enter into transactions with related parties, which MBIA Corp. deems immaterial or which occur in the normal course of business and which are deemed to be transacted at “arm’s length” by management. Since 1989, MBIA Corp. has executed five surety bonds to guarantee the payment obligations of the members of the Association who had their S&P claims-paying rating downgraded from triple-A on their previously issued Association policies. In the event that they do not meet their Association policy payment obligations, MBIA Corp. will pay the required amounts directly to the paying agent. The aggregate outstanding exposure on these surety bonds as of December 31, 2009 is \$340 million.

MBIA Corp.'s investment portfolio is managed by Cutwater Asset Management Corp. (“Cutwater-AMC”, formally known as MBIA Capital Management Corp.), a wholly-owned subsidiary of Cutwater Holdings, LLC (formally known as MBIA Asset Management, LLC) which provides bond management services for MBIA Inc. and its affiliates, as well as third-party institutional clients. For the years ended December 31, 2009 and 2008, Cutwater-AMC charged fees of \$4.3 million and \$11.6 million, respectively, to MBIA Corp., based on the average market value of its investment portfolio in each period. These fees are reported as investment expense within “Net Investment Income” on the Company’s Statutory-Basis Statements of Income.

MBIA Corp. insures outstanding investment agreement liabilities for its investment management services’ affiliated companies. See “Note 10: Net Insurance in Force” for disclosure regarding the in force exposure.

On June 1, 1996, (and subject to periodic renewals) MBIA Corp. entered into an agreement with MBIA Inc. whereby MBIA Corp. held securities subject to agreements to resell of \$1.3 billion as of December 31, 2008. MBIA Corp. also transferred securities subject to agreements to repurchase of \$1.3 billion as of December 31, 2008. These agreements had a term of less than one year. Effective January 1, 2009, this intercompany repurchase agreement was terminated with MBIA Corp. and transferred to National as part of Transformation.

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During the fourth quarter of 2008, an intercompany secured loan was established between MBIA Inc. and MBIA Corp. for up to \$2 billion to support the projected liquidity needs of the asset/liability products segment of MBIA Inc. Pursuant to the loan, MBIA Inc. may transfer securities in its portfolio to MBIA Corp. in exchange for up to \$2 billion in cash. This loan has a term of three years. During 2009, MBIA Inc. repaid \$400 million of the loan to MBIA Corp. As of December 31, 2009 the loan had a balance of \$1.6 billion.

MBIA Corp. had no loans outstanding with any executive officers or directors during 2009 or 2008.

Investments in U.S. insurance subsidiaries are reported at their audited statutory book values, adjusted for unamortized goodwill, in accordance with the statutory equity method. Investments in foreign insurance subsidiaries are reported at their audited U.S. GAAP equity value adjusted to a statutory basis of accounting as provided for in paragraph 9 of SSAP 97 "Investments in Subsidiary, Controlled and Affiliated Entities."

13. Debt, Lines of Credit and Liquidity Facilities

Debt

During 2009, MBIA Corp. purchased ABS under the Federal Reserve's Term Asset-Backed Securities Loan Facility ("TALF"). TALF provides secured financing for ABS backed by certain types of consumer and small business loans. The TALF financing agreements represent term loans with varying maturities ranging from 3 to 5 years, and with varying coupon rates from 1.3% to 3.2%. These loans are non-recourse to MBIA Corp., less a discount, and are collateralized by the ABS purchased with the loan proceeds. The loans will be repaid with the proceeds from the maturity of the ABS. Collateral discounts are established by the Federal Reserve for each class of eligible collateral and determined based on price volatility. Under the program, MBIA Corp. can deliver the ABS to a special purpose vehicle created by the Federal Reserve in full defeasance of the loans.

As December 31, 2009, MBIA Corp. held ABS with a book and fair value of \$304 million and \$307 million, respectively, purchased under TALF and had \$277 million of secured financings from the Federal Reserve related to the purchase of these securities that are recorded in "Borrowed money" on the Balance Sheet. Interest paid during 2009 was \$3 million.

The maturity of debt obligations, excluding accrued interest and premiums or discounts, as of December 31, 2009 for each of the next five years and thereafter commencing in 2010 was:

| <u>In millions</u> | <u>2010</u> | <u>2011</u> | <u>2012</u> | <u>2013</u> | <u>2014</u> | <u>After 2014</u> | <u>Total</u> |
|--------------------|-------------|-------------|-------------|-------------|-------------|-------------------|--------------|
| TALF loans | \$ - | \$ 131 | \$ 128 | \$ 4 | \$ 14 | \$ - | \$ 277 |

Lines of Credit and Liquidity Facilities

MBIA Corp. maintained a \$450 million limited recourse standby line of credit facility with a group of major banks to provide funds for the payment of claims in excess of the greater of \$500 million of cumulative claims, net of recoveries, or 5% of average annual debt service with respect to U.S. public finance transactions. As a result of the reinsurance of all of MBIA Corp.'s U.S. public finance insurance exposure by National, MBIA Corp. voluntarily terminated the facility effective March 31, 2009. MBIA Corp. had no outstanding borrowings under the facility, and there were no early termination fees or premiums paid as a result of terminating the facility.

MBIA Corp. and MBIA Inc. maintained a revolving credit facility totaling \$500 million with a group of highly rated global banks. MBIA Corp. and MBIA Inc. elected to terminate the facility effective February 27, 2009 in accordance with its rights under the credit facility. As of the termination date, neither MBIA Inc. nor MBIA Corp. had outstanding borrowings under the facility, and there were no early termination fees or premiums paid as a result of terminating the facility.

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14. Retirement Plans and Deferred Compensation

MBIA Corp. participates in its parent company's pension plan, which covers substantially all employees. The pension plan is a qualified non-contributory defined contribution plan to which MBIA Corp. contributes 10% of each eligible employee's annual compensation. Annual compensation for determining such contributions consists of base salary, bonus and commissions, as applicable. Pension benefits vest over a five-year period with 20% vested after two years, 60% vested after three years, 80% vested after four years and 100% vested after five years. Pension expense related to the qualified pension plan for the years ended December 31, 2009 and 2008 was \$2.1 million and \$3.1 million, respectively.

MBIA Corp.'s parent company has a qualified profit sharing/401(k) plan in which it participates. The plan is a voluntary contributory plan that allows eligible employees to defer compensation for federal income tax purposes under Section 401(k) of the Internal Revenue Code of 1986, as amended. Effective January 1, 2008, employees may contribute, through payroll deductions, up to 25% of eligible compensation. Prior to 2008, employees were able to contribute up to 10% of eligible compensation. MBIA Corp. matches employee contributions up to the first 5% of such compensation. During 2008, the 401(k) plan was amended to allow 401(k) matching contributions to be made in the form of cash, whereby participants may direct the match to an investment of their choice. Prior to the amendment, the matching contribution was made in the form of MBIA Inc. common stock. The benefit of MBIA Corp.'s contributions vest over a five-year period with 20% vested after two years, 60% vested after three years, 80% vested after four years and 100% vested after five years. Generally, a participating employee is entitled to distributions from the plan upon termination of employment, retirement, death or disability. Participants who qualify for distribution may receive a single lump sum, transfer assets to another qualified plan or individual retirement account, or receive a series of specified installment payments. Profit sharing/401(k) expense related to the qualified profit-sharing/401(k) plan for the years ended December 31, 2009 and 2008 was \$1.7 million and \$1.5 million, respectively.

In addition to the above two plans, MBIA Corp. also participates in its parent company's non-qualified deferred compensation plan. Contributions to the above plans that exceed limitations established by federal regulations are then contributed to the non-qualified deferred compensation plan. The non-qualified pension expense for the years ended December 31, 2009 and 2008 was \$1.4 million and \$1.9 million, respectively. The non-qualified profit-sharing/401(k) expense for the years ended December 31, 2009 and 2008 was \$0.5 million and \$0.7 million, respectively. In addition, the interest credited to the non-qualified deferred compensation plan totaled \$0.6 million and \$3.1 million for the years ended December 31, 2009 and 2008, respectively.

MBIA Corp. participates in its parent company's 2005 Omnibus Incentive Plan (the "Omnibus Plan"), as amended May 7, 2009. The Omnibus Plan may grant any type of award including stock options, performance shares, performance units, restricted stock, restricted stock units and dividend equivalents. Following the effective date of the Omnibus Plan, no new options or awards were granted under any of the prior plans authorized by the MBIA Inc. shareholders.

The stock option component of the Omnibus Plan enables key employees to acquire shares of MBIA Inc. common stock. The stock option grants, which may be awarded every year, provide the right to purchase shares of MBIA Inc. common stock at the fair value of the stock on the date of grant. Some of the stock options granted in 2008 have a vesting schedule linked to MBIA Inc.'s market value performance. Options are exercisable as specified at the time of grant depending on the level of the recipient (generally four or five years) and expire either seven or ten years from the date of grant (or shorter if specified or following termination of employment).

Under the restricted stock component of the Omnibus Plan, certain employees are granted restricted shares of MBIA Inc.'s common stock. These awards have a restriction period lasting three, four or five years depending on the type of award, after which time the awards fully vest. During the vesting period these shares may not be sold. Restricted stock may be granted to all employees. The majority of restricted stock is granted to employees from the vice-president level up to and including the chief executive officer. Some of the awards granted in 2007 are linked to the growth in book value per share of MBIA Inc.'s common stock including certain adjustments (modified book value) over a three-year period following the grant date. Actual shares issued at the vesting date will be determined based on the growth in modified book value. If modified book value grows by 30% or more over the three year period

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then 100% of the award will vest. If the growth in modified book value over the three year period is lower than 30%, then the amount of restricted shares issued will be adjusted downward in proportion to the amount by which actual growth in modified book value is below 30%.

In February 2009 and May 2008, the shareholders of MBIA Inc. approved two restricted stock grants for the CEO, respectively. These two grants did not reduce the shares available for grant under the Omnibus Plan, as these grants were a separate approval by the shareholders of MBIA Inc. In addition, the vesting schedules of these grants are linked to MBIA Inc.'s market value performance.

MBIA Inc. maintains voluntary retirement benefits, which provide certain benefits to all of MBIA Corp.'s eligible employees upon retirement. A description of these benefits is included in MBIA Inc.'s proxy statement. One of the components of the retirement program, for those employees that are retirement eligible, is to continue to vest all outstanding stock options and restricted share awards linked to growth in modified book value beyond the retirement date in accordance with the original vesting terms and to immediately vest all outstanding time-based restricted share grants.

MBIA Corp.'s proportionate share of compensation cost for its participation in its parent company's stock option program for the years ended December 31, 2009 and 2008 totaled \$5.4 million and \$7.2 million, respectively. MBIA Corp.'s proportionate share of compensation cost related to the restricted stock program for the year ended December 31, 2009 was \$7.2 million. Compensation expense for the year ended December 31, 2008 was a negative expense of \$32.1 million. The negative expense was due to the cancellation and expense reversal of a restricted stock grant that was scheduled to vest in February 2008 and the estimated forfeiture of two restricted stock grants, scheduled to vest in February 2009 and February 2010, respectively, that are all linked to the growth in MBIA Inc.'s modified book value.

15. Derivatives

During 2004, MBIA Corp. sought and received approval from the NYSID for an Insured Portfolio Hedge Derivative Use Plan (the "Plan"). The Plan allows for the Company to enter into derivative instruments for the limited purpose of hedging and offsetting, either partially or completely (but not over-hedging), risks assumed in its financial guarantee portfolio (each such instrument, a "Hedge Derivative"). MBIA Corp.'s obligations under any Hedge Derivative entered into in accordance with this Plan will be limited to the payment of a fee to the counterparty to such instruments, and, in limited circumstances, termination payments upon the occurrence of certain events. The type of the Hedge Derivative purchased could be credit derivatives, interest rate derivatives, foreign exchange derivatives or "over the counter" diversified credit portfolios or indices or tranches of such indices. The tenor of any Hedge Derivative so purchased will not exceed the tenor of the risk position being hedged.

The purpose of this Plan is to allow MBIA Corp. to use additional and alternative means of risk transfer and portfolio management to supplement and diversify its traditional reinsurance. The Company intends to achieve these objectives through managing aggregate risk concentrations to individual users, managing overall portfolio exposures and correlations and managing concentrations in certain countries, sectors or geographical regions.

During 2009, MBIA Corp. entered into a foreign exchange hedge which was outstanding as of December 31, 2009. This transaction was entered into to mitigate the risk of an unfavorable change in the Australian Dollar ("AUD") to U.S. Dollar ("USD") foreign exchange rate on an underlying AUD bond. The notional amount of the put option in USD equivalents as of December 31, 2009 was \$225 million.

MBIA Corp. accounts for derivative transactions at fair value with changes in fair value recorded each period in current earnings. Hedge accounting is not applied. The put option was recognized and is measured at fair value in the financial statements. The fair value of the derivative asset at December 31, 2009 was \$11 million which is reported in the Statutory-Basis Statements of Admitted Assets, Liabilities and Capital and Surplus as a component of Other Assets, and the changes in fair value are reported as a component of Other Income, in MBIA Corp.'s Statements of Income. The net unrealized loss on the derivative for 2009 was \$2 million.

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16. Premium Revenue

In December 2009, the NAIC Statutory Accounting Principles Working Group adopted an amendment to SSAP 60 “Financial Guaranty Insurance,” requiring financial guarantee insurers to adopt expanded financial guarantee premium and loss related disclosures effective for the 2009 annual reporting period. The amendment requires additional disclosures on expected premiums to be earned and collected, a rollforward of loss reserves from the prior reporting period, and additional information on risk management activities used to monitor and track deteriorating financial obligations. As this amendment only required additional disclosures, there was no impact on the financial statements of MBIA Corp. See “Note 9: Change in Losses and Loss Adjustment Expenses Incurred” for the disclosure of loss reserve and risk management activities.

The following table presents a roll forward of MBIA Corp.’s undiscounted premiums receivable for the year ended December 31, 2009 as if all installment premium contracts were received on an up front basis:

| <u>In thousands</u> | | | <u>Adjustments</u> | | | <u>Reinsurance</u> |
|--------------------------|-------------------------|-----------------|----------------------------|--------------|----------------------------|----------------------|
| <u>Premiums</u> | | <u>Premiums</u> | | | <u>Premiums</u> | |
| <u>Receivable as of</u> | <u>Premium Payments</u> | <u>from New</u> | <u>Changes in Expected</u> | <u>Other</u> | <u>Premiums Receivable</u> | <u>Payable as of</u> |
| <u>December 31, 2008</u> | <u>Received</u> | <u>Business</u> | <u>Term of Policies</u> | | <u>as of December 31,</u> | <u>December 31,</u> |
| | | <u>Written</u> | | | <u>2009</u> | <u>2009</u> |
| \$ 3,269,086 | \$ (394,440) | \$ - | \$ (120,784) | \$ 38,455 | \$ 2,792,317 | \$ 846,674 |

The following table presents the undiscounted future amount of premiums expected to be collected and the period in which those collections are expected to occur:

| <u>In thousands</u> | <u>Expected</u> |
|----------------------------------|----------------------|
| | <u>Collection of</u> |
| | <u>Premiums</u> |
| <u>Three months ended:</u> | |
| March 31, 2010 | \$ 94,282 |
| June 30, 2010 | 95,241 |
| September 30, 2010 | 81,760 |
| December 31, 2010 | 94,714 |
| <u>Twelve months ended:</u> | |
| December 31, 2011 | 319,216 |
| December 31, 2012 | 284,810 |
| December 31, 2013 | 243,520 |
| December 31, 2014 | 217,020 |
| <u>Five years ended:</u> | |
| December 31, 2019 | 623,290 |
| December 31, 2024 | 283,356 |
| December 31, 2029 and thereafter | 455,108 |
| Total | <u>\$ 2,792,317</u> |

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The following table presents the unearned premium revenue balance and the future expected premiums earned revenue as of and for the periods presented:

| <u>In thousands</u> | <u>Unearned Premium Revenue</u> | <u>Expected Future Premium Earnings</u> | | <u>Estimated Earnings of Future Premium Collections</u> | <u>Total Expected Future Premium Earnings</u> |
|----------------------------------|---|---|---------------------|---|---|
| | | <u>Upfront</u> | <u>Installments</u> | | |
| December 31, 2009 | 3,065,816 | | | | |
| <u>Three months ended:</u> | | | | | |
| March 31, 2010 | 2,988,229 | 33,528 | 44,059 | 49,332 | 126,919 |
| June 30, 2010 | 2,917,281 | 47,432 | 23,516 | 78,533 | 149,481 |
| September 30, 2010 | 2,861,647 | 50,552 | 5,082 | 85,121 | 140,755 |
| December 31, 2010 | 2,812,647 | 43,110 | 5,890 | 86,455 | 135,455 |
| <u>Twelve months ended:</u> | | | | | |
| December 31, 2011 | 2,601,948 | 190,364 | 20,335 | 321,641 | 532,340 |
| December 31, 2012 | 2,427,708 | 162,170 | 12,070 | 286,604 | 460,844 |
| December 31, 2013 | 2,253,830 | 160,753 | 13,125 | 247,868 | 421,746 |
| December 31, 2014 | 2,096,731 | 145,594 | 11,505 | 221,358 | 378,457 |
| <u>Five years ended:</u> | | | | | |
| December 31, 2019 | 1,385,465 | 656,234 | 55,032 | 642,710 | 1,353,976 |
| December 31, 2024 | 803,325 | 519,344 | 62,796 | 289,588 | 871,728 |
| December 31, 2029 and thereafter | - | 725,845 | 77,480 | 469,956 | 1,273,281 |
| Total | | <u>\$ 2,734,926</u> | <u>\$ 330,890</u> | <u>\$ 2,779,166</u> | <u>\$ 5,844,982</u> |

17. Contingencies and Commitments

In the normal course of operating its business, MBIA Corp. may be involved in various legal proceedings. Additionally, MBIA Inc. may be involved in various legal proceedings that directly or indirectly impact MBIA Corp. MBIA Inc. has received subpoenas or informal inquiries from a variety of regulators, including the Securities and Exchange Commission (“SEC”), the Securities Division of the Secretary of the Commonwealth of Massachusetts, the Attorney General of the State of California, and other states’ regulatory authorities, regarding a variety of subjects, including soft capital instruments, disclosures made by MBIA Inc. to underwriters and issuers of certain bonds, disclosures regarding MBIA Inc.’s structured finance exposure, trading and valuation of managed collateral, MBIA Inc.’s communications with rating agencies, and the methodologies used by rating agencies for determining the credit rating of municipal debt. MBIA Inc. is cooperating fully with each of these regulators and is in the process of satisfying all such requests. MBIA Inc. may receive additional inquiries from these or other regulators and expects to provide additional information to such regulators regarding their inquiries in the future.

On July 23, 2008, the City of Los Angeles filed two complaints in the Superior Court of the State of California, County of Los Angeles, against the Company and others. The first complaint, against MBIA Inc., AMBAC Financial Group, Inc., XL Capital Assurance Inc., ACA Financial Guaranty Corp., Financial Guaranty Insurance Company, and CIFG Assurance North America, Inc., alleged (i) participation in a conspiracy in violation of California’s antitrust laws to maintain a dual credit rating scale that misstated the credit default risk of municipal bond issuers and created market demand for municipal bond insurance and (ii) participation in risky financial transactions in other lines of business that damaged each bond insurer’s financial condition (thereby undermining the value of each of their guaranties), and a failure to adequately disclose the impact of those transactions on their financial condition. These latter allegations form the predicate for five separate causes of action against each of the Insurers: breach of contract, breach of the covenant of good faith and fair dealing, fraud, negligence and negligent misrepresentation. Complaints making the same allegations against MBIA Inc. and nearly all of the same co-defendants were filed in Superior Court, San Francisco County, by the City of Stockton, the City of Oakland, the City and County of San Francisco, the County of San Mateo, the County of Alameda, the City of Los Angeles Department of Water and Power, by the Sacramento Municipal Utility District, and the City of Sacramento between

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July 23, 2008 and January 6, 2009. These cases are now part of a coordinated proceeding referred to as Ambac Bond Insurance Cases. On April 8, 2009, The Olympic Club filed a complaint against MBIA Corp. in the Superior Court of the State of California, County of San Francisco, making similar allegations of participation in risky financial transactions in other lines of business that allegedly damaged MBIA Inc.'s financial condition, and of a failure to adequately disclose the impact of those transactions on MBIA Inc.'s financial condition. These allegations form the predicate for the same initial five common law causes of action as those in the Ambac Bond Insurance Cases, as well as a California unfair competition cause of action. The Olympic Club does not include an antitrust or unjust enrichment cause of action. The Olympic Club case is being coordinated with the Ambac Bond Insurance Cases in San Francisco Superior Court. On August 31, 2009, the aforementioned plaintiffs, excluding the City of Sacramento and the Olympic Club, filed amended complaints identifying specific variable rate bond transactions with respect to the existing contract, fraud and negligence claims, and adding claims for unjust enrichment with respect to insured bonds issued by the plaintiffs during an unspecified period of time. A similar complaint alleging the same causes of action was filed by the City of Riverside. On the same day, the County of Contra Costa and Los Angeles World Airports filed new complaints and the City of Sacramento filed an amended complaint alleging the antitrust violation and unjust enrichment causes of action only. On March 1, Judge Richard A. Kramer struck the various complaints in their entirety, determining that they had not been pled with requisite specificity. Plaintiffs were given leave to re-plead.

The City of Los Angeles's second complaint named as defendants certain other financial institutions as well as bond insurers, including MBIA Inc., AMBAC Financial Group, Inc., Financial Security Assurance, Inc., Financial Guaranty Insurance Company and Security Capital Assurance Inc., and alleged fraud and violations of California's antitrust laws through bid-rigging in the sale of municipal derivatives to municipal bond issuers. Complaints making the same allegations against MBIA Inc. and nearly all of the same co-defendants were filed in Superior Court, Los Angeles County, by the County of San Diego on August 28, 2008, and in Superior Court, San Francisco County, by the City of Stockton on July 23, 2008, by the County of San Mateo on October 7, 2008, and by the County of Contra Costa on October 8, 2008. The City of Los Angeles and City of Stockton actions were removed to federal court and transferred by order dated November 26, 2008, to the Southern District of New York for inclusion in the multidistrict litigation *In re Municipal Derivatives Antitrust Litigation*, M.D.L. No. 1950; the San Diego County, San Mateo County, and Contra Costa County actions were removed to federal court and transferred to the Southern District of New York for inclusion in that proceeding by order dated February 4, 2009. All five plaintiffs filed amended complaints on September 15, 2009 alleging violations of both federal and California state antitrust laws. On December 10, 2009, four additional complaints were filed against MBIA Inc. and the other defendants by the Los Angeles World Airports, the Redevelopment Agency of the City of Stockton and the Public Financing Authority of the City of Stockton (filed jointly), the County of Tulare and the Sacramento Suburban Water District. On April 28, 2010, Judge Victor Marreo denied MBIA Inc.'s motion to dismiss. MBIA Inc.'s motion for reconsideration of that decision was denied on May 3, 2010.

On April 5, 2010, Tri-City Healthcare District, a California public healthcare legislative district, filed a complaint in the Superior Court of California, County of San Francisco, against MBIA Inc., MBIA Corp., National, and certain MBIA Inc. employees, among other parties (various financial institutions and law firms). The complaint purports to state 19 causes of action (12 against MBIA Inc.) for fraud, negligent misrepresentation, breach of fiduciary duty, breach of contract, economic duress and statutory claims for unfair business practices and violation of the California False Claims Act arising from Tri-City Healthcare District's investment in auction rate securities. MBIA Inc.'s response is due May 21, 2010.

On September 30, 2008, MBIA Corp. commenced an action in New York State Supreme Court, New York County, against Countrywide Home Loans, Inc., Countrywide Securities Corp. and Countrywide Financial Corp. (collectively, "Countrywide"). The complaint alleged that Countrywide fraudulently induced MBIA Corp. to provide financial guarantee insurance on securitizations of home equity lines of credit and closed end second liens by misrepresenting the true risk profile of the underlying collateral and Countrywide's adherence to its strict underwriting standards and guidelines. The complaint also alleged that Countrywide breached its representations and warranties and its contractual obligations, including its obligation to cure or repurchase ineligible loans as well as its obligation to service the loans in accordance with industry standards. In an order dated July 8, 2009, the New York State Supreme Court denied Countrywide's motion to dismiss in part, allowing the fraud cause of action to proceed against all three Countrywide defendants and the contract causes of action to proceed against Countrywide Home Loans, Inc. All parties have filed Notices of Appeal and defendants filed their answer to the complaint on

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August 3, 2009. On August 24, 2009, MBIA Corp. filed an amended complaint, adding Bank of America as a defendant and identifying an additional five securitizations. On April 29, 2010, Judge Eileen Bransten denied defendants' motion to dismiss Bank of America and allowed MBIA Corp.'s claims for successor and vicarious liability to proceed against Bank of America, as well as upholding MBIA Corp.'s amended fraud claim and its claim for breach of the implied covenant of good faith and fair dealing.

On July 10, 2009, MBIA Corp. commenced an action in Los Angeles Superior Court against Bank of America Corporation, Countrywide Financial Corporation, Countrywide Home Loans, Inc., Countrywide Securities Corporation, Angelo Mozilo, David Sambol, Eric Sieracki, Ranjit Kripalani, Jennifer Sandefur, Stanford Kurland, Greenwich Capital Markets, Inc., HSBC Securities (USA) Inc., UBS Securities, LLC, and various Countrywide affiliated Trusts. The complaint alleges that Countrywide made numerous misrepresentations and omissions of material fact in connection with its sale of certain residential mortgage-backed securities ("RMBS"), including that the underlying collateral consisting of mortgage loans had been originated in strict compliance with its underwriting standards and guidelines. MBIA Corp. commenced this action as subrogee of the purchasers of the RMBS, who incurred severe losses that have been passed on to MBIA Corp. as the insurer of the income streams on these securities. On November 3, 2009, MBIA Corp. filed an amended complaint. On December 4, 2009, the defendants filed demurrers, motions to stay the proceeding, and motions to strike MBIA Corp.'s jury trial demand. On January 29, MBIA Corp. filed its opposition papers to the defendants' demurrer and related motions. On April 14, 2010, the court heard oral argument on defendants' demurrers.

On October 15, 2008, MBIA Corp. commenced an action in the United States District Court for the Southern District of New York against Residential Funding Company, LLC ("RFC"). On December 5, 2008, a notice of voluntary dismissal without prejudice was filed in the Southern District of New York and the complaint was re-filed in the Supreme Court of the State of New York, New York County. The complaint alleges that RFC fraudulently induced MBIA Corp. to provide financial guarantee policies with respect to five RFC closed-end home equity second-lien and revolving home equity line of credit ("HELOC") securitizations, and that RFC breached its contractual representations and warranties, as well as its obligation to repurchase ineligible loans, among other claims. On December 23, 2009, Justice Fried denied RFC's motion to dismiss MBIA Corp.'s complaint with respect to MBIA Corp.'s fraud claims.

On April 1, 2010, MBIA Corp. commenced an action in New York State Supreme Court, New York County, against GMAC Mortgage, LLC. The complaint alleges fraud and negligent misrepresentation on the part of GMAC Mortgage, LLC in connection with the procurement of financial guarantee insurance on the three RMBS transactions, breach of GMAC Mortgage, LLC's representations and warranties and its contractual obligation to cure or repurchase ineligible loans and breach of the implied duty of good faith and fair dealing. GMAC Mortgage LLC's answer is currently due on May 14, 2010.

On December 14, 2009, MBIA Corp. commenced an action in New York State Supreme Court, New York County, against Credit Suisse Securities (USA) LLC, DLJ Mortgage Capital, Inc., and Select Portfolio Servicing Inc ("Credit Suisse"). The complaint seeks damages for fraud and breach of contractual obligations in connection with the procurement of financial guarantee insurance on the Home Equity Mortgage Trust Series 2007-2 securitization. The complaint alleges, among other claims, that Credit Suisse falsely represented (i) the attributes of the securitized loans; (ii) that the loans complied with the governing underwriting guidelines; and (iii) that Credit Suisse had conducted extensive due diligence on the securitized loans to ensure compliance with the underwriting guidelines. The complaint further alleges that the defendants breached their contractual obligations to cure or repurchase loans found to be in breach of the representations and warranties applicable thereto and denied MBIA Corp. the requisite access to all records and documents regarding the securitized loans. Oral argument on defendants' motion to dismiss was heard on May 4, 2010.

In its determination of expected ultimate insurance losses on financial guarantee contracts, MBIA Corp. has considered the probability of potential recoveries arising out of the contractual obligation by the sellers/servicers to repurchase or replace ineligible mortgage loans in certain second-lien mortgage securitizations, which include potential recoveries that may be affected by the legal actions against Countrywide, RFC, Credit Suisse and GMAC Mortgage. However, there can be no assurance that MBIA Corp. will prevail in these actions.

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On April 30, 2009, MBIA Corp. and LaCrosse Financial Products commenced an action in the New York State Supreme Court, New York County, against Merrill Lynch, Pierce, Fenner and Smith, Inc. and Merrill Lynch International. The complaint (amended on May 15, 2009) seeks damages in an as yet indeterminate amount believed to be in excess of several hundred million dollars arising from alleged misrepresentations and breaches of contract in connection with eleven credit default swaps (“CDS”) contracts pursuant to which MBIA Corp. wrote protection in favor of Merrill and other parties on a total of \$5.7 billion in collateralized debt obligations (“CDOs”) arranged and marketed by Merrill. The complaint also seeks rescission of the CDS contracts. On April 9, 2010, Justice Bernard Fried denied in part and granted in part Merrill Lynch’s motion to dismiss. On April 13, 2010, MBIA Corp. filed a notice of appeal with respect to the dismissal of its claims for fraud, negligent misrepresentation and breach of the implied covenant of good faith and fair dealing.

On January 21, 2010, MBIA Corp. and LaCrosse Financial Products commenced an action in New York State Supreme Court, Westchester County, against Royal Bank of Canada and RBC Capital Markets Corporation (“RBC”) relating to three CDS and related insurance policies referencing Logan CDO I, Ltd., Logan CDO II, Ltd. and Logan CDO III, Ltd. (the “Logan CDOs”). The complaint alleges RBC fraudulently or negligently induced MBIA Corp. to insure the Logan CDOs, claims for breach of contract and promissory estoppel, and challenges RBC’s failure to issue credit event and related notifications in accordance with contractual obligations for the Logan CDOs. RBC’s motion to dismiss has been fully briefed.

On October 14, 2008, June 17, 2009 and August 25, 2009, MBIA Corp. submitted proofs of claim to the FDIC with respect to the resolution of IndyMac Bank, F.S.B. for both pre- and post-receivership amounts owed to MBIA Corp. as a result of IndyMac’s contractual breaches and fraud in connection with financial guarantee insurance issued by MBIA Corp. on securitizations of home equity lines of credit. The proofs of claim were subsequently denied by the FDIC. MBIA Corp. has appealed the FDIC’s denial of its proofs of claim via a complaint, filed on May 29, 2009, against IndyMac Bank, F.S.B. and the FDIC, as receiver, in the United States District Court for the District of Columbia and alleges that IndyMac fraudulently induced MBIA Corp. to provide financial guarantee insurance on securitizations of home equity lines of credit by breaching contractual representations and warranties as well as negligently and fraudulently misrepresenting the nature of the loans in the securitization pools and IndyMac’s adherence to its strict underwriting standards and guidelines. On February 8, 2010, MBIA Corp. filed its amended complaint against the FDIC both in its corporate capacity and as conservator/receiver of IndyMac Federal Bank, F.S.B. for breach of its contractual obligations as servicer and seller for the IndyMac transactions at issue and for unlawful disposition of IndyMac Federal Bank, F.S.B.’s assets in connection with the FDIC’s resolution of IndyMac Bank, F.S.B. The FDIC’s motion to dismiss is due May 21, 2010.

On September 22, 2009, MBIA Corp. commenced an action in Los Angeles Superior Court against IndyMac ABS, Inc., Home Equity Mortgage Loan Asset-Backed Trust, Series 2006-H4, Home Equity Mortgage Loans Asset-Backed Trust, Series INDS 2007-I, Home Equity Mortgage Loan Asset-Backed Trust, Series INDS 2007-2, Credit Suisse Securities (USA), L.L.C., UBS Securities, LLC, JPMorgan Chase & Co., Michael Perry, Scott Keys, Jill Jacobson, and Kevin Callan. The Complaint alleges that IndyMac Bank made numerous misrepresentations and omissions of material fact in connection with its sale of certain RMBS, including that the underlying collateral consisting of mortgage loans had been originated in strict compliance with its underwriting standards and guidelines. MBIA Corp. commenced this action as subrogee of the purchasers of the RMBS, who incurred severe losses that have been passed on to MBIA Corp. as the insurer of the income streams on these securities. On October 19, 2009, MBIA Corp. dismissed IndyMac ABS, Inc. from the action without prejudice. On October 23, 2009, defendants removed the case to the United States District Court for the Central District of California. On November 30, 2009, the IndyMac trusts were consensually dismissed from the litigation. On December 23, 2009, federal District Court Judge S. James Otero of the Central District of California granted MBIA Corp.’s motion to remand the case to Los Angeles Superior Court. On March 25, 2010, the case was reassigned to Judge Carl West. An initial status conference is scheduled for May 10, 2010.

On February 2, 2010, MBIA Corp. and LaCrosse Financial Products, LLC brought an action in the High Court of Justice, Chancery Division, in London, relating to an MBIA Corp.-insured credit derivative transaction seeking an adjudication that the agreement was effectively and properly terminated by MBIA Corp. Royal Bank of Scotland is challenging the termination and its response to the claim was filed on March 4, 2010. A scheduling conference with the court is set for May 12, 2010.

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On December 9, 2009, MBIA Corp. and LaCrosse Financial Products commenced an action in United States District Court for the Southern District of New York against Cooperatieve Centrale Raiffeisen Boerenleenbank B.A. (“Rabobank”), The Bank of New York Mellon Trust Company, N.A., as Trustee (“Bank of New York Mellon”), and Paragon CDO Ltd. MBIA Corp, as controlling class under the relevant Indenture, commenced the action seeking declaratory relief and damages for breach of contract and negligence relating to the improper sale of certain reference obligations in the Paragon CDO portfolio pool. On January 15, 2010, Rabobank and The Bank of New York Mellon filed their answers. On February 16, 2010, Paragon CDO Ltd. was dismissed from the case with prejudice. On April 16, 2010, Rabobank and Bank of New York Mellon filed respective pleadings opposing MBIA Corp.’s motion for summary judgment and in support of their own cross-motions for summary judgment. MBIA Corp.’s responding papers are due May 14, 2010.

On March 11, 2009, a complaint was filed in the United States District Court of the Southern District of New York against MBIA Inc. and its subsidiaries, MBIA Corp. and National, entitled Aurelius Capital Master, Ltd. et al. v. MBIA Inc. et al., 09-cv-2242 (S.D.N.Y.). The lead plaintiffs, Aurelius Capital Master, Ltd., Aurelius Capital Partners, LP, Fir Tree Value Master Fund, L.P., Fir Tree Capital Opportunity Master Fund, L.P., and Fir Tree Mortgage Opportunity Master Fund, L.P. (the “Aurelius Plaintiffs”), purport to be acting as representatives for a class consisting of all holders of securities, instruments, or other obligations for which MBIA Inc., before February 18, 2009, issued financial guarantee insurance other than United States municipal/governmental bond securities. The complaint alleges that certain of the terms of the transactions entered into by MBIA Corp. and its subsidiaries, which were approved by the New York State Department of Insurance, constituted fraudulent conveyances under §§ 273, 274 and 276 of New York Debtor and Creditor Law and a breach of the implied covenant of good faith and fair dealing under New York common law. The Complaint seeks, inter alia, (a) a declaration that the alleged fraudulent conveyances are null and void and set aside, (b) a declaration that National is responsible for the insurance policies issued by MBIA Insurance Corporation up to February 17, 2009, and (c) an award of damages in an unspecified amount together with costs, expenses and attorneys’ fees in connection with the action. On February 11, 2010, Judge Sullivan entered an order denying MBIA Inc.’s motion to dismiss.

On April 6, 2009, a complaint was filed in the Court of Chancery for the State of Delaware entitled Third Avenue Trust and Third Avenue Variable Series Trust v. MBIA Insurance Corp. and MBIA Insurance Corp. of Illinois, CA 4486-UCL. Plaintiffs allege that they are holders of approximately \$400 million of surplus notes issued by MBIA Corp. (for purposes of this section, the “Notes”) in January 2008. The complaint alleges (Count I) that certain of the Transactions breached the terms of the Notes and the Fiscal Agency Agreement dated January 16, 2008 pursuant to which the Notes were issued. The complaint also alleges that certain transfers under the Transactions were fraudulent in that they allegedly left MBIA Corp. with “unreasonably small capital” (Count II), “insolvent” (Count III), and were made with an “actual intent to defraud” (Count IV). The complaint seeks a judgment (a) ordering the defendants to unwind the Transactions (b) declaring that the Transactions constituted a fraudulent conveyance, and (c) damages in an unspecified amount. On October 28, 2009, Vice Chancellor Strine entered an order dismissing the case without prejudice. On December 21, 2009, plaintiffs re-commenced the action in New York State Supreme Court, and it has been assigned to Justice James A. Yates.

On May 13, 2009, a complaint was filed in the New York State Supreme Court against MBIA Inc. and its subsidiaries, MBIA Corp. and National, entitled ABN AMRO Bank N.V. et al. v. MBIA Inc. et al. The plaintiffs, a group of 19 domestic and international financial institutions, purport to be acting as holders of insurance policies issued by MBIA Corp. directly or indirectly guaranteeing the repayment of structured finance products. The complaint alleges that certain of the terms of the transactions entered into by MBIA Inc. and its subsidiaries, which were approved by the New York State Department of Insurance, constituted fraudulent conveyances and a breach of the implied covenant of good faith and fair dealing under New York law. The complaint seeks a judgment (a) ordering the defendants to unwind the Transactions, (b) declaring that the Transactions constituted a fraudulent conveyance, (c) declaring that MBIA Inc. and National are jointly and severally liable for the insurance policies issued by MBIA Corp., and (d) ordering damages in an unspecified amount. On February 17, 2010, Justice Yates denied defendants’ motion to dismiss. On February 25, 2010, MBIA Inc. filed its Notice of Appeal of the denial to the Appellate Division of the New York State Supreme Court. On April 1, 2010, MBIA Inc.’s motion to stay the case pending appeal was denied. On April 7 and April 22, 2010, respectively, the New York State Insurance Department and the Aurelius Plaintiffs each filed a motion for leave to file an amicus brief in MBIA Inc.’s appeal. On March 22, 2010, MBIA Inc. filed its opening brief with the Appellate Division. On April 21, 2010, plaintiffs filed their opposition brief. MBIA Inc. filed its reply brief on April 30, 2010. On May 6, 2010, the Appellate

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Division granted the New York State Insurance Department's motion to file an amicus brief. Argument has been scheduled for June 2, 2010.

On June 15, 2009, the same group of 19 domestic and international financial institutions who filed the above described plenary action in New York State Supreme Court filed a proceeding pursuant to Article 78 of New York's Civil Practice Law & Rules in New York State Supreme Court, entitled ABN AMRO Bank N.V. et al. v. Eric Dinallo, in his capacity as Superintendent of the New York State Insurance Department, the New York State Insurance Department, MBIA Inc. et al. In its motions to dismiss the three above-referenced plenary actions, MBIA Inc. argued that an Article 78 proceeding is the exclusive forum in which a plaintiff may raise any challenge to the Transformation approved by the Superintendent of the Department of Insurance. The petition seeks a judgment (a) declaring void and to annul the approval letter of the Superintendent of the Department of Insurance, (b) to recover dividends paid in connection with the Transactions, (c) declaring that the approval letter does not extinguish plaintiffs' direct claims against MBIA Inc. and its subsidiaries in the plenary action described above. MBIA Inc. and the New York State Insurance Department filed their answering papers to the Article 78 Petition on November 24, 2009 and argued that based on the record and facts, approval of Transformation and its constituent transactions was neither arbitrary nor capricious nor in violation of New York Insurance Law. On April 7, 2010, Justice Yates ordered that the Article 78 proceeding continue on a separate, expedited schedule from the other three Transformation-related litigations.

MBIA Inc. and MBIA Corp. are defending against the aforementioned actions in which they are a defendant and expect ultimately to prevail on the merits. There is no assurance, however, that they will prevail in these actions. Adverse rulings in these actions could have a material adverse effect on MBIA Corp.'s ability to implement its strategy and on its business, results of operations and financial condition.

There are no other material lawsuits pending or, to the knowledge of MBIA Corp., threatened, to which MBIA Corp. or any of its subsidiaries is a party.

18. Subsequent Events

Refer to "Note 17: Commitments and Contingencies" for information about legal proceedings that commenced after December 31, 2009.

On March 1, 2010, MBIA Corp. sold to National its interest in real estate it held for purposes of conducting its business and leasing to certain affiliates. The sale price of \$65 million, which represented MBIA Corp.'s carrying value of the real estate, was based on the fair value of the real estate at the time of sale as determined, in part, through assessments made by independent third parties. Concurrent to the sale, MBIA Corp. entered into a lease arrangement with National in order to retain occupancy of space necessary to conduct its business. The sale by MBIA Corp. and the purchase by National, as well as the lease arrangement, were approved by the NYSID.

19. Reconciliation to Previously Reported Amounts

The accompanying financial statements reflect an adjustment to amounts previously reported in the Company's Annual Statement as of and for the year ended December 31, 2009. This schedule reconciles the audited financial statements to the Annual Statement filed with the NYSID related to adjustments to special surplus related to SSAP 10R and intercompany balances. The impact to these adjustments is presented in the following table:

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| In thousands | As Reported in the Annual Statement | As Reported in the Accompanying Financial Statements |
|---|---|--|
| Statement of Admitted Assets, Liabilities and Capital and Surplus: | | |
| Deferred tax asset | \$ 242,900 | \$ 83,300 |
| Other assets | 32,500 | 27,412 |
| Total admitted assets | 5,031,794 | 4,867,106 |
| Other liabilities | 119,716 | 122,983 |
| Total liabilities | 2,978,751 | 2,982,018 |
| Special surplus | 159,600 | - |
| Unassigned surplus | (127,340) | (135,695) |
| Total capital and surplus | 2,053,043 | 1,885,088 |
| Total liabilities capital and surplus | 5,031,794 | 4,867,106 |

SUMMARY INVESTMENT SCHEDULE

| Investment Categories | Gross Investment Holdings | | Admitted Assets as Reported in the Annual Statement | |
|---|---------------------------|-----------------|---|-----------------|
| | 1 Amount | 2 Percentage | 3 Amount | 4 Percentage |
| 1. Bonds: | | | | |
| 1.1 U.S. treasury securities | 5,269,458 | 0.118 | 5,269,458 | 0.118 |
| 1.2 U.S. government agency obligations (excluding mortgage-backed securities): | | | | |
| 1.21 Issued by U.S. government agencies | 622,290 | 0.014 | 622,290 | 0.014 |
| 1.22 Issued by U.S. government sponsored agencies | | | | |
| 1.3 Non-U.S. government (including Canada, excluding mortgaged-backed securities) | 55,965,152 | 1.258 | 55,965,152 | 1.258 |
| 1.4 Securities issued by states, territories, and possessions and political subdivisions in the U.S.: | | | | |
| 1.41 States, territories and possessions general obligations | | | | |
| 1.42 Political subdivisions of states, territories and possessions and political subdivisions general obligations | | | | |
| 1.43 Revenue and assessment obligations | 80,491 | 0.002 | 80,491 | 0.002 |
| 1.44 Industrial development and similar obligations | | | | |
| 1.5 Mortgage-backed securities (includes residential and commercial MBS): | | | | |
| 1.51 Pass-through securities: | | | | |
| 1.511 Issued or guaranteed by GNMA | 79,521 | 0.002 | 79,521 | 0.002 |
| 1.512 Issued or guaranteed by FNMA and FHLMC | 1,361,787 | 0.031 | 1,361,787 | 0.031 |
| 1.513 All other | | | | |
| 1.52 CMOs and REMICs: | | | | |
| 1.521 Issued or guaranteed by GNMA, FNMA, FHLMC or VA | | | | |
| 1.522 Issued by non-U.S. Government issuers and collateralized by mortgage-backed securities issued or guaranteed by agencies shown in Line 1.521 | | | | |
| 1.523 All other | 636,835,216 | 14.313 | 636,835,216 | 14.318 |
| 2. Other debt and other fixed income securities (excluding short term): | | | | |
| 2.1 Unaffiliated domestic securities (includes credit tenant loans and hybrid securities) | 21,512,569 | 0.483 | 21,512,569 | 0.484 |
| 2.2 Unaffiliated non-U.S. securities (including Canada) | 18,009,003 | 0.405 | 18,009,003 | 0.405 |
| 2.3 Affiliated securities | | | | |
| 3. Equity interests: | | | | |
| 3.1 Investments in mutual funds | 137,119,279 | 3.082 | 137,119,279 | 3.083 |
| 3.2 Preferred stocks: | | | | |
| 3.21 Affiliated | | | | |
| 3.22 Unaffiliated | | | | |
| 3.3 Publicly traded equity securities (excluding preferred stocks): | | | | |
| 3.31 Affiliated | | | | |
| 3.32 Unaffiliated | | | | |
| 3.4 Other equity securities: | | | | |
| 3.41 Affiliated | 616,399,574 | 13.853 | 616,399,574 | 13.859 |
| 3.42 Unaffiliated | | | | |
| 3.5 Other equity interests including tangible personal property under lease: | | | | |
| 3.51 Affiliated | | | | |
| 3.52 Unaffiliated | | | | |
| 4. Mortgage loans: | | | | |
| 4.1 Construction and land development | | | | |
| 4.2 Agricultural | | | | |
| 4.3 Single family residential properties | | | | |
| 4.4 Multifamily residential properties | | | | |
| 4.5 Commercial loans | | | | |
| 4.6 Mezzanine real estate loans | | | | |
| 5. Real estate investments: | | | | |
| 5.1 Property occupied by the company | 65,000,000 | 1.461 | | |
| 5.2 Property held for the production of income (including \$ 0 of property acquired in satisfaction of debt) | | | | |
| 5.3 Property held for sale (including \$ 0 property acquired in satisfaction of debt) | | | 65,000,000 | 1.461 |
| 6. Contract loans | | | | |
| 7. Receivables for securities | 2,953,936 | 0.066 | 1,234,707 | 0.028 |
| 8. Cash, cash equivalents and short-term investments | 1,180,377,480 | 26.528 | 1,180,377,480 | 26.539 |
| 9. Other invested assets | 1,707,885,647 | 38.384 | 1,707,885,647 | 38.399 |
| 10. Total invested assets | 4,449,471,403 | 100.000 | 4,447,752,174 | 100.000 |



SUPPLEMENTAL EXHIBIT FOR THE YEAR 2009 OF THE MBIA Insurance Corporation

SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES

For The Year Ended December 31, 2009

(To Be Filed by April 1)

Of The MBIA Insurance Corporation
 Address (City, State and Zip Code) Armonk, NY 10504-1610
 NAIC Group Code 00528 NAIC Company Code 12041 Employer's ID Number 43-0899449

The Investment Risks Interrogatories are to be filed by April 1. They are also to be included with the Audited Statutory Financial Statements.

Answer the following interrogatories by reporting the applicable U. S. dollar amounts and percentages of the reporting entity's total admitted assets held in that category of investments.

1. Reporting entity's total admitted assets as reported on Page 2 of this annual statement. \$ 5,031,793,666
2. Ten largest exposures to a single issuer/borrower/investment.

| | <u>1</u> Issuer | <u>2</u> Description of Exposure | <u>3</u> Amount | <u>4</u> Percentage of Total Admitted Assets |
|------|---------------------------------|-------------------------------------|--------------------|---|
| 2.01 | MBIA UK (Holdings) Ltd | Other Equity - Affiliated | \$ 475,610,995 | 9.5 % |
| 2.02 | MBIA Core Funds | Other Equity - Mutual Funds | \$ 128,992,187 | 2.6 % |
| 2.03 | Capital Markets Assurance Corp. | Other Equity - Affiliated | \$ 128,032,257 | 2.5 % |
| 2.04 | Morgan Stanley | Industrial and Misc, Short term | \$ 102,004,560 | 2.0 % |
| 2.05 | JP Morgan | Industrial and Misc, Short term | \$ 100,898,227 | 2.0 % |
| 2.06 | Blackrock Liquidity | Short Term | \$ 79,400,000 | 1.6 % |
| 2.07 | Residential Funding Mortgage | Industrial and Miscellaneous | \$ 64,065,426 | 1.3 % |
| 2.08 | US Airways | Industrial and Miscellaneous | \$ 56,300,678 | 1.1 % |
| 2.09 | Spanish Government Bonos | Other Government | \$ 55,571,289 | 1.1 % |
| 2.10 | New World Funding | Other Equity - Unaffiliated | \$ 54,000,000 | 1.1 % |

3. Amounts and percentages of the reporting entity's total admitted assets held in bonds and preferred stocks by NAIC rating.

| | Bonds | | Preferred Stocks | |
|------|-------------------------|----------|------------------|----------|
| | <u>1</u> | <u>2</u> | <u>3</u> | <u>4</u> |
| 3.01 | NAIC-1 \$ 1,309,731,884 | 26.0 % | 3.07 P/RP-1 \$ | % |
| 3.02 | NAIC-2 \$ 1,052,925 | 0.0 % | 3.08 P/RP-2 \$ | % |
| 3.03 | NAIC-3 \$ 66,078,785 | 1.3 % | 3.09 P/RP-3 \$ | % |
| 3.04 | NAIC-4 \$ 6,750,000 | 0.1 % | 3.10 P/RP-4 \$ | % |
| 3.05 | NAIC-5 \$ | % | 3.11 P/RP-5 \$ | % |
| 3.06 | NAIC-6 \$ | % | 3.12 P/RP-6 \$ | % |

4. Assets held in foreign investments:

- 4.01 Are assets held in foreign investments less than 2.5% of the reporting entity's total admitted assets? Yes [] No [X]
 If response to 4.01 above is yes, responses are not required for interrogatories 5 – 10
- 4.02 Total admitted assets held in foreign investments \$ 637,092,655 12.7 %
- 4.03 Foreign-currency-denominated investments \$ 500,991,406 10.0 %
- 4.04 Insurance liabilities denominated in that same foreign currency \$ %

SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES (cont.)

5. Aggregate foreign investment exposure categorized by NAIC sovereign rating:

| | <u>1</u> | <u>2</u> | |
|--------------------------------------|----------------|----------|--------|
| 5.01 Countries rated NAIC-1 | \$ 624,336,333 | | 12.4 % |
| 5.02 Countries rated NAIC-2 | \$ 12,756,322 | | 0.3 % |
| 5.03 Countries rated NAIC-3 or below | \$ | | % |

6. Largest foreign investment exposures by country, categorized by the country's NAIC sovereign rating:

| | <u>1</u> | <u>2</u> | |
|----------------------------------|----------------|----------|-------|
| Countries rated NAIC-1: | | | |
| 6.01 Country 1: United Kingdom | \$ 475,998,909 | | 9.5 % |
| 6.02 Country 2: Cayman Island | \$ 65,499,821 | | 1.3 % |
| Countries rated NAIC-2: | | | |
| 6.03 Country 1: Mexico | \$ 12,756,322 | | 0.3 % |
| 6.04 Country 2: | \$ | | % |
| Countries rated NAIC-3 or below: | | | |
| 6.05 Country 1: | \$ | | % |
| 6.06 Country 2: | \$ | | % |

| | <u>1</u> | <u>2</u> | |
|---|----------------|----------|--------|
| 7. Aggregate unhedged foreign currency exposure | \$ 637,092,655 | | 12.7 % |

8. Aggregate unhedged foreign currency exposure categorized by NAIC sovereign rating:

| | <u>1</u> | <u>2</u> | |
|--|----------------|----------|--------|
| 8.01 Countries rated NAIC - 1 | \$ 624,336,333 | | 12.4 % |
| 8.02 Countries rated NAIC - 2 | \$ 12,756,322 | | 0.3 % |
| 8.03 Countries rated NAIC - 3 or below | \$ | | % |

9. Largest unhedged foreign currency exposures by country, categorized by the country's NAIC sovereign rating:

| | <u>1</u> | <u>2</u> | |
|------------------------------------|----------------|----------|-------|
| Countries rated NAIC - 1: | | | |
| 9.01 Country 1: United Kingdom | \$ 475,998,909 | | 9.5 % |
| 9.02 Country 2: Cayman Island | \$ 65,499,821 | | 1.3 % |
| Countries rated NAIC - 2: | | | |
| 9.03 Country 1: Mexico | \$ 12,756,322 | | 0.3 % |
| 9.04 Country 2: | \$ | | % |
| Countries rated NAIC - 3 or below: | | | |
| 9.05 Country 1: | \$ | | % |
| 9.06 Country 2: | \$ | | % |

10. Ten largest non-sovereign (i.e. non-governmental) foreign issues:

| | <u>1</u> Issuer | <u>2</u> NAIC Rating | <u>3</u> | <u>4</u> | |
|--|--------------------|-------------------------|----------------|----------|-------|
| 10.01 MBIA UK (Holdings) | 1 | | \$ 475,610,995 | | 9.5 % |
| 10.02 New World Funding | 6 | | \$ 54,000,000 | | 1.1 % |
| 10.03 Citigroup Inc Australian Den Notes | 1FE | | \$ 17,888,781 | | 0.4 % |
| 10.04 MBIA Mexico | 1 | | \$ 12,756,322 | | 0.3 % |
| 10.05 Nissan Auto Lease Trust Series | 1FE | | \$ 11,499,821 | | 0.2 % |
| 10.06 BOREAL FR Money Market Fund | 1 | | \$ 8,127,092 | | 0.2 % |
| 10.07 Genesis Funding Ltd Series 2006-1A | 1FE | | \$ 736,354 | | 0.0 % |
| 10.08 Granite Master Issuer PLC | 1FE | | \$ 387,914 | | 0.0 % |
| 10.09 SCL Terminal Aereo Santiago | 3FE | | \$ 28,331 | | 0.0 % |
| 10.10 Tatca Chillian Bond Series C | 3FE | | \$ 17,570 | | 0.0 % |

SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES (cont.)

11. Amounts and percentages of the reporting entity's total admitted assets held in Canadian investments and unhedged Canadian currency exposure:
 11.01 Are assets held in Canadian investments less than 2.5% of the reporting entity's total admitted assets? Yes No
 If response to 11.01 is yes, detail is not required for the remainder of Interrogatory 11.
12. Report aggregate amounts and percentages of the reporting entity's total admitted assets held in investments with contractual sales restrictions.
 12.01 Are assets held in investments with contractual sales restrictions less than 2.5% of the reporting entity's total admitted assets? Yes No
 If response to 12.01 is yes, responses are not required for the remainder of Interrogatory 12.
13. Amounts and percentages of admitted assets held in the ten largest equity interests:
 13.01 Are assets held in equity interest less than 2.5% of the reporting entity's total admitted assets? Yes No
 If response to 13.01 above is yes, responses are not required for the remainder of Interrogatory 13.

| | <u>1</u> Issuer | <u>2</u> | <u>3</u> |
|--|--------------------|-------------|----------|
| 13.02 MBIA UK Holdings Ltd..... | \$ | 475,610,995 | 9.5 % |
| 13.03 Capital Markets Assurance Corporation..... | \$ | 128,032,257 | 2.5 % |
| 13.04 MBIA Core Bond Fund..... | \$ | 64,933,777 | 1.3 % |
| 13.05 MBIA High Yield Fund..... | \$ | 33,575,038 | 0.7 % |
| 13.06 MBIA Core Plus Fund..... | \$ | 30,483,372 | 0.6 % |
| 13.07 MBIA Mexico SA de CV..... | \$ | 12,756,322 | 0.3 % |
| 13.08 Boreal French Money Market Fund..... | \$ | 8,127,092 | 0.2 % |
| 13.09 Channel Re Common Shares..... | \$ | | % |
| 13.10 Channel Re Class B Shares..... | \$ | | % |
| 13.11 | \$ | | % |

SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES (cont.)

14. Amounts and percentages of the reporting entity's total admitted assets held in nonaffiliated, privately placed equities:
- 14.01 Are assets held in nonaffiliated, privately placed equities less than 2.5% of the reporting entity's total admitted assets? Yes [X] No []
If response to 14.01 above is yes, responses are not required for the remainder of Interrogatory 14.
15. Amounts and percentages of the reporting entity's total admitted assets held in general partnership interests:
- 15.01 Are assets held in general partnership interests less than 2.5% of the reporting entity's total admitted assets? Yes [X] No []
If response to 15.01 is yes, responses are not required for the remainder of Interrogatory 15.
16. Amounts and percentages of the reporting entity's total admitted assets held in mortgage loans:
- 16.01 Are mortgage loans reported in Schedule B less than 2.5% of the reporting entity's total admitted assets? Yes [X] No []
If response to 16.01 above is yes, responses are not required for the remainder of Interrogatory 16 and Interrogatory 17.

SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES (cont.)

16. Amount and percentage of the reporting entity's total admitted assets held in the following categories of mortgage loans:

| | Loans | |
|--|----------|---|
| 16.12 Construction Loans | \$ | % |
| 16.13 Mortgage loans over 90 days past due | \$ | % |
| 16.14 Mortgage loans in the process of foreclosure | \$ | % |
| 16.15 Mortgage loans foreclosed | \$ | % |
| 16.16 Restructured mortgage loans | \$ | % |

17. Aggregate mortgage loans having the following loan-to-value ratios as determined from the most current appraisal as of the annual statement date:

| Loan-to-Value | Residential | | Commercial | | Agricultural | |
|---------------------------|-------------|----------|------------|----------|--------------|----------|
| | <u>1</u> | <u>2</u> | <u>3</u> | <u>4</u> | <u>5</u> | <u>6</u> |
| 17.01 above 95% \$ | % | \$ | % | \$ | % | % |
| 17.02 91% to 95% \$ | % | \$ | % | \$ | % | % |
| 17.03 81% to 90% \$ | % | \$ | % | \$ | % | % |
| 17.04 71% to 80% \$ | % | \$ | % | \$ | % | % |
| 17.05 below 70% \$ | % | \$ | % | \$ | % | % |

18. Amounts and percentages of the reporting entity's total admitted assets held in each of the five largest investments in real estate:

18.01 Are assets held in real estate reported less than 2.5% of the reporting entity's total admitted assets? Yes No
 If response to 18.01 above is yes, responses are not required for the remainder of Interrogatory 18.

Largest five investments in any one parcel or group of contiguous parcels of real estate.

| | <u>Description</u> | <u>1</u> | <u>2</u> | <u>3</u> | |
|-------------|--------------------|----------|----------|----------|---|
| 18.02 | | \$ | | \$ | % |
| 18.03 | | \$ | | \$ | % |
| 18.04 | | \$ | | \$ | % |
| 18.05 | | \$ | | \$ | % |
| 18.06 | | \$ | | \$ | % |

19. Report aggregate amounts and percentages of the reporting entity's total admitted assets held in investments held in mezzanine real estate loans:

19.01 Are assets held in investments held in mezzanine real estate loans less than 2.5% of the reporting entity's total admitted assets? Yes No
 If response to 19.01 above is yes, responses are not required for the remainder of Interrogatory 19.

| | <u>1</u> | <u>2</u> | <u>3</u> | |
|---|----------|----------|----------|---|
| 19.02 Aggregate statement value of investments held in mezzanine real estate loans: | \$ | \$ | \$ | % |
| Largest three investments held in mezzanine real estate loans: | | | | |
| 19.03 | \$ | | | % |
| 19.04 | \$ | | | % |
| 19.05 | \$ | | | % |

SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES (cont.)

20. Amounts and percentages of the reporting entity's total admitted assets subject to the following types of agreements:

| | At Year-end | | 1st Qtr <u>3</u> | At End of Each Quarter | | |
|--|-------------|----------|---------------------|----------------------------|----------------------------|----|
| | <u>1</u> | <u>2</u> | | <u>2nd Qtr</u> <u>4</u> | <u>3rd Qtr</u> <u>5</u> | |
| 20.01 Securities lending agreements (do not include assets held as collateral for such transactions) | | | % \$ | \$ | \$ | \$ |
| 20.02 Repurchase agreements | \$ | | % \$ | \$ | \$ | \$ |
| 20.03 Reverse repurchase agreements | \$ | | % \$ | \$ | \$ | \$ |
| 20.04 Dollar repurchase agreements | \$ | | % \$ | \$ | \$ | \$ |
| 20.05 Dollar reverse repurchase agreements | \$ | | % \$ | \$ | \$ | \$ |

21. Amounts and percentages of the reporting entity's total admitted assets for warrants not attached to other financial instruments, options, caps, and floors:

| | Owned | | 3 | Written | | 4 | % |
|-------------------------|----------|----------|------|----------|----------|---|---|
| | <u>1</u> | <u>2</u> | | <u>3</u> | <u>4</u> | | |
| 21.01 Hedging | \$ | | % \$ | \$ | | | % |
| 21.02 Income generation | \$ | | % \$ | \$ | | | % |
| 21.03 Other | \$ | | % \$ | \$ | | | % |

22. Amounts and percentages of the reporting entity's total admitted assets of potential exposure for collars, swaps, and forwards:

| | At Year-end | | 1st Qtr <u>3</u> | At End of Each Quarter | | |
|-------------------------|---------------|----------|---------------------|----------------------------|----------------------------|----|
| | <u>1</u> | <u>2</u> | | <u>2nd Qtr</u> <u>4</u> | <u>3rd Qtr</u> <u>5</u> | |
| 22.01 Hedging | \$ 17,094,922 | 0.2 | % \$ | \$ | \$ | \$ |
| 22.02 Income generation | \$ | | % \$ | \$ | \$ | \$ |
| 22.03 Replications | \$ | | % \$ | \$ | \$ | \$ |
| 22.04 Other | \$ | | % \$ | \$ | \$ | \$ |

23. Amounts and percentages of the reporting entity's total admitted assets of potential exposure for futures contracts:

| | At Year-end | | 1st Qtr <u>3</u> | At End of Each Quarter | | |
|-------------------------|-------------|----------|---------------------|----------------------------|----------------------------|----|
| | <u>1</u> | <u>2</u> | | <u>2nd Qtr</u> <u>4</u> | <u>3rd Qtr</u> <u>5</u> | |
| 23.01 Hedging | \$ | | % \$ | \$ | \$ | \$ |
| 23.02 Income generation | \$ | | % \$ | \$ | \$ | \$ |
| 23.03 Replications | \$ | | % \$ | \$ | \$ | \$ |
| 23.04 Other | \$ | | % \$ | \$ | \$ | \$ |

MBIA INSURANCE CORPORATION
SUPPLEMENTAL SCHEDULE OF REINSURANCE DISCLOSURES
As of and for the year ended December 31, 2009

1. MBIA Insurance Corporation (MBIA Corp.) has not reinsured any risk with any other entity under a quota share reinsurance contract that includes a provision, such as a deductible, a loss ratio corridor, a loss cap, an aggregate limit, or any similar provision, that would limit the reinsurer's losses below the stated quota share percentage.

2. MBIA Corp. has not ceded any risk under any reinsurance contract (or under multiple contracts with the same reinsurer or its affiliates) for which during the period covered by this statement: (i) it recorded a positive or negative underwriting result greater than 5% of prior year-end surplus as regards policyholders or it reported calendar year written premium ceded or year-end loss and loss expense reserves ceded greater than 5% of prior year-end surplus as regards policyholders; (ii) it accounted for that contract as reinsurance and not as a deposit; (iii) the contract(s) contain one or more of the following features or other features that would have similar results:

- (a) a contract term longer than two years and the contract is noncancellable by the reporting entity during the contract term.
- (b) a limited or conditional cancellation provision under which cancellation triggers an obligation by the reporting entity, or an affiliate of the reporting entity, to enter into a new reinsurance contract with the reinsurer, or an affiliate of the reinsurer.
- (c) aggregate stop loss reinsurance coverage.
- (d) an unconditional or unilateral right by either party to commute the reinsurance contract except for such provisions which are only triggered by a decline in the credit status of the other party.
- (e) a provision permitting reporting of losses, or payment of losses, less frequently than on a quarterly basis, unless there is no activity during the period.
- (f) payment schedule, accumulating retentions from multiple years or any features inherently designed to delay timing of the reimbursement to the ceding entity.

3. During the period covered by this statement, MBIA Corp. has not ceded any risk under any reinsurance contract, other than Channel Reinsurance Ltd. (Channel Re), (or under multiple contracts with the same reinsurer or its affiliates), excluding cessions to approved pooling agreements or to captive insurance companies that are directly or indirectly controlling, controlled by, or under common control with (i) one or more unaffiliated policyholders of the reporting entity, or (ii) an association of which one or more unaffiliated policyholders of the reporting entity is a member where:

- (a) The written premium ceded to the reinsurer by the reporting entity or its affiliates represents fifty percent (50%) or more of the entire direct and assumed premium written by the reinsurer, other than Channel Re based on its most recently available financial statements; or
- (b) Twenty five percent (25%) or more of the written premium ceded to the reinsurer has been retroceded back to the reporting entity or its affiliates.

4. (a) The financial statement impact on MBIA Corp. related to the ceded reinsurance contracts to Channel Re is presented in the following table:

| In thousands | As Reported | Impact of Ceded Reinsurance Contract | Gross Financial Statement Impact without Reinsurance |
|---------------------------|-------------|--------------------------------------|--|
| Total Admitted Assets | \$4,867,106 | \$216,835 | \$5,083,941 |
| Total Liabilities | 2,982,018 | 818,710 | 3,800,728 |
| Total Capital and surplus | 1,885,088 | (601,875) | 1,283,213 |
| Net Income (2009) | (945,257) | (160,668) | (1,105,925) |

MBIA Corp. has primarily entered into surplus share treaties with Channel Re under which a variable percentage of risk over a minimum size is ceded, subject to a maximum percentage specified in the related treaty. Reinsurance ceded under the treaties is for the full term of the underlying policy. MBIA Corp. also entered into a facultative

MBIA INSURANCE CORPORATION
SUPPLEMENTAL SCHEDULE OF REINSURANCE DISCLOSURES
As of and for the year ended December 31, 2009

reinsurance arrangement with Channel Re. Under this agreement, portions of MBIA Corp. liabilities are ceded on an issue-by-issue basis.

(c) Management's Objectives:

Chanel Re is a new Bermuda-based financial guaranty reinsurance company established to provide reinsurance capacity to MBIA Corp. Channel Re began operations in February 2004. MBIA Corp. owns 17.4% of Channel Re.

5. MBIA Corp. has not ceded any risk under any reinsurance contract, (or multiple contracts with the same reinsurer or its affiliates) that:

(a) during the period covered by this statement, MBIA Corp. accounted for any contract as reinsurance (either prospective or retroactive) under statutory accounting principles ("SAP") and as a deposit under generally accepted accounting principles ("GAAP").

MBIA Corp. had ceded risk under a reinsurance contract (or multiple contracts with the same reinsurer or its affiliates) that:

(b) during the period covered by this statement, MBIA Corp. accounted for one contract as reinsurance under GAAP and as a deposit under SAP.