MBIA INC
Form 10-Q
November 09, 2010
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United States

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarter ended September 30, 2010

or

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission File Number 1-9583

MBIA INC.

(Exact name of registrant as specified in its charter)

Connecticut	**06-1185706**
(State of incorporation)	**(I.R.S. Employer Identification No.)**
113 King Street, Armonk, New York	**10504**
(Address of principal executive offices)	**(Zip Code)**

Registrant s telephone number, including area code: (914) 273-4545

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No ¨

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer þ Accelerated filer ¨ Non-accelerated filer ¨ Smaller reporting company ¨

Indicate by check mark whether the Registrant is shell company (as defined in Rule 12b-2 of the Act). Yes ¨ No þ

As of November 4, 2010, 199,857,780 shares of Common Stock, par value $1 per share, were outstanding.

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MBIA INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (Unaudited)

(In thousands except share and per share amounts)

	September 30, 2010	December 31, 2009
Assets		
Investments:		
Fixed-maturity securities held as available-for-sale, at fair value (amortized cost $9,593,126 and $10,366,737) (includes hybrid financial instruments at fair value $0 and $30,690)	$ 9,218,812	$ 9,330,413
Fixed-maturity securities at fair value	56,932	-
Investments pledged as collateral, at fair value (amortized cost $569,228 and $587,648)	589,791	557,245
Short-term investments held as available-for-sale, at fair value (amortized cost $2,657,009 and $2,696,724)	2,657,622	2,688,208
Other investments (includes investments at fair value of $280,895 and $252,608)	283,267	255,491
Total investments	12,806,424	12,831,357
Cash and cash equivalents	902,624	803,243
Accrued investment income	103,397	94,821
Premiums receivable	1,678,174	2,020,619
Deferred acquisition costs	429,408	469,550
Prepaid reinsurance premiums	100,788	357,773
Insurance loss recoverable	2,200,872	2,444,754
Reinsurance recoverable on paid and unpaid losses	18,689	61,996
Goodwill	31,371	31,371
Property and equipment, at cost (less accumulated depreciation of $134,626 and $139,076)	71,986	76,834
Receivable for investments sold	172,252	18,088
Derivative assets	23,041	865,708
Current income taxes	30,625	545,883
Deferred income taxes, net	944,438	716,615
Other assets	46,356	50,448
Assets of consolidated variable interest entities:		
Cash	513,655	-
Investments held-to-maturity, at amortized cost (fair value $3,820,762 and $2,800,400)	4,235,544	3,131,765
Fixed-maturity securities held as available-for-sale, at fair value (amortized cost $259,110 and $754,096)	259,368	516,369
Fixed-maturity securities at fair value	5,459,127	128,112
Loans receivable at fair value	1,942,676	481,622
Loan repurchase commitments	794,381	-
Derivative assets	441,527	-
Other assets	65,493	53,844
Total assets	$ 33,272,216	$ 25,700,772
Liabilities and Equity		
Liabilities:		
Unearned premium revenue	$ 4,329,827	$ 4,955,256
Loss and loss adjustment expense reserves	935,722	1,580,021
Reinsurance premiums payable	71,387	239,154

Investment agreements	2,280,004	2,725,958
Medium-term notes (includes financial instruments carried at fair value $110,076 and $109,768)	1,851,661	2,285,047
Securities sold under agreements to repurchase	470,715	501,871
Short-term debt	72,426	18,112
Long-term debt	1,851,983	2,223,536
Deferred fee revenue	10,209	11,061
Payable for investments purchased	158,603	15,780
Derivative liabilities	5,812,256	4,593,760
Other liabilities	296,119	304,066
Liabilities of consolidated variable interest entities:		
Variable interest entity notes (includes financial instruments carried at fair value $6,468,103 and $0)	10,403,123	3,179,712
Long-term debt	427,794	433,132
Derivative liabilities	1,763,680	9,104
Other liabilities	12,380	18,326
Total liabilities	30,747,889	23,093,896
Commitments and contingencies (See Note 14)		
Equity:		
Preferred stock, par value $1 per share; authorized shares 10,000,000; issued and outstanding none	-	-
Common stock, par value $1 per share; authorized shares 400,000,000; issued shares 274,729,769 and 274,826,872	274,730	274,827
Additional paid-in capital	3,061,479	3,057,733
Retained earnings	1,672,719	2,393,282
Accumulated other comprehensive loss, net of deferred tax of $152,630 and $451,112	(274,998)	(940,871)
Treasury stock, at cost 74,877,784 and 70,159,024 shares	(2,223,762)	(2,194,873)
Total shareholders equity of MBIA Inc.	2,510,168	2,590,098
Preferred stock of subsidiary	14,159	16,778
Total equity	2,524,327	2,606,876
Total liabilities and equity	$ 33,272,216	$ 25,700,772

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

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MBIA INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

(In thousands except share and per share amounts)

	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Revenues:				
Premiums earned:				
Scheduled premiums earned	$ 122,984	$ 144,414	$ 386,105	$ 492,515
Refunding premiums earned	13,548	36,834	63,569	95,350
Premiums earned (net of ceded premiums of $3,577, $21,540, $23,659 and $70,159)	136,532	181,248	449,674	587,865
Net investment income	112,559	136,629	341,911	444,829
Fees and reimbursements	15,249	14,291	148,333	55,317
Change in fair value of insured derivatives:				
Realized gains (losses) and other settlements on insured derivatives	552,241	(30,282)	453,963	33,536
Unrealized gains (losses) on insured derivatives	(1,043,839)	(810,189)	(1,717,338)	1,222,761
Net change in fair value of insured derivatives	(491,598)	(840,471)	(1,263,375)	1,256,297
Net gains (losses) on financial instruments at fair value and foreign exchange	11,843	(116,934)	(35,679)	127,118
Investment losses related to other-than-temporary impairments:				
Investment losses related to other-than-temporary impairments	(73)	(52,386)	(187,245)	(514,063)
Other-than-temporary impairments recognized in accumulated other comprehensive loss	(177)	20,814	144,141	179,197
Net investment losses related to other-than-temporary impairments	(250)	(31,572)	(43,104)	(334,866)
Net gains on extinguishment of debt	10,057	117,843	27,598	223,702
Other net realized gains (losses)	(1,047)	(14,976)	18,264	(23,399)
Revenues of consolidated variable interest entities:				
Net investment income	20,498	20,146	48,327	80,136
Net gains (losses) on financial instruments at fair value and foreign exchange	(19,299)	7,233	394,502	(2,227)
Investment losses related to other-than-temporary impairments:				
Investment losses related to other-than-temporary impairments	-	(146,708)	-	(272,438)
Other-than-temporary impairments recognized in accumulated other comprehensive loss	-	85,000	-	170,369
Net investment losses related to other-than-temporary impairments	-	(61,708)	-	(102,069)
Net gains on extinguishment of debt	14,155	8,853	17,685	29,395
Other net realized gains (losses)	-	(40,740)	(74,244)	(40,740)
Total revenues	(191,301)	(620,158)	29,892	2,301,358
Expenses:				
Losses and loss adjustment	(19,511)	238,760	122,348	203,174
Amortization of deferred acquisition costs	5,684	19,896	42,462	66,663
Operating	77,874	77,025	208,877	249,026
Interest	80,975	88,158	246,196	287,805

Expenses of consolidated variable interest entities:				
Operating	4,253	88	13,904	577
Interest	16,058	21,978	43,682	72,084
Total expenses	165,333	445,905	677,469	879,329
Income (loss) before income taxes	(356,634)	(1,066,063)	(647,577)	1,422,029
Provision (benefit) for income taxes	(143,236)	(341,530)	(249,259)	547,900
Net income (loss)	(213,398)	(724,533)	(398,318)	874,129
Preferred stock dividends of subsidiary	-	3,271	-	10,484
Net income (loss) available to common stockholders	$ (213,398)	$ (727,804)	$ (398,318)	$ 863,645
Net income (loss) per common share:				
Basic	$ (1.06)	$ (3.50)	$ (1.96)	$ 4.15
Diluted	$ (1.06)	$ (3.50)	$ (1.96)	$ 4.15
Weighted-average number of common shares outstanding:				
Basic	200,529,483	208,219,324	203,239,935	208,278,589
Diluted	200,529,483	208,219,324	203,239,935	208,278,589

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

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MBIA INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY (Unaudited)

For The Nine Months Ended September 30, 2010

(In thousands except share amounts)

	Common Stock					Treasury Stock			Preferred Stock of Subsidiary	
	Shares	Amount	Additional Paid-in Capital	Retained Earnings	Accumu-lated Other Compre-hensive Income (Loss)	Shares	Amount	Total Share-holders Equity of MBIA Inc.	Shares	Amount
Balance, December 31, 2009	274,826,872	$ 274,827	$ 3,057,733	$ 2,393,282	$ (940,871)	(70,159,024)	$ (2,194,873)	$ 2,590,098	1,677	$ 16,778
ASU 2009-17 transition adjustment:										
Consolidated variable interest entities, net of tax of $22,736				(319,083)	263,648			(55,435)		
Deconsolidated variable interest entities, net of tax of $1,756				(3,162)	85,341			82,179		
Total ASU 2009-17 transition adjustment	-	-	-	(322,245)	348,989	-	-	26,744	-	-
Comprehensive income (loss):										
Net loss	-	-	-	(398,318)	-	-	-	(398,318)	-	-
Other comprehensive income (loss):										
Change in unrealized appreciation of investments net of tax of $198,669	-	-	-	-	471,021	-	-	471,021	-	-
Portion of other-than-temporary impairment losses recognized in other comprehensive loss, net of tax of $8,022	-	-	-	-	(13,554)	-	-	(13,554)	-	-
Change in fair value of derivative instruments net of tax of $2,091	-	-	-	-	3,883	-	-	3,883	-	-
Change in foreign currency translation net of tax of $273	-	-	-	-	(144,466)	-	-	(144,466)	-	-

Other comprehensive income								316,884		
Total comprehensive loss								(81,434)		
Treasury shares acquired under share repurchase program	-	-	-	-	-	(4,736,300)	(30,521)	(30,521)	-	-
Share-based compensation net of tax of $3,137	(97,103)	(97)	3,746	-	-	17,540	1,632	5,281	-	-
Preferred shares of subsidiary acquired	-	-	-	-	-	-		-	(251)	(2,619)
Balance, September 30, 2010	274,729,769	$ 274,730	$ 3,061,479	$ 1,672,719	$ (274,998)	(74,877,784)	$ (2,223,762)	$ 2,510,168	1,426	$ 14,159

	2010
Disclosure of reclassification amount:	
Change in unrealized gains and losses and other-than-temporary impairments on investments arising during the period, net of taxes	$ 267,502
Reclassification adjustment, net of taxes	189,965
Change in net unrealized gains and losses and other-than-temporary impairment losses, net of taxes	$ 457,467

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

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MBIA INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

(In thousands)

	Nine Months Ended September 30,	
	2010	**2009**
Cash flows from operating activities:		
Net income (loss)	$ (398,318)	$ 874,129
Adjustments to reconcile net income (loss) to net cash used by operating activities:		
Amortization of bond discounts (premiums), net	(27,691)	(55,036)
(Increase) decrease in accrued investment income	(9,490)	89,797
Decrease in premiums receivable	180,238	317,423
Decrease in deferred acquisition costs	45,217	91,574
Decrease in unearned premium revenue	(466,560)	(736,393)
Decrease in prepaid reinsurance premiums	71,762	170,793
Decrease in reinsurance premiums payable	(39,065)	(197,851)
Decrease in loss and loss adjustment expense reserves	(272,948)	(60,791)
(Increase) decrease in reinsurance recoverable on paid and unpaid losses	(14,779)	124,671
Increase in insurance loss recoverable	(438,696)	(1,750,297)
(Decrease) increase in payable to reinsurers on recoveries	(71,851)	100,592
Depreciation	5,738	7,059
Decrease in accrued interest payable	(15,805)	(55,577)
Decrease in accounts receivable	3,360	29,111
Increase (decrease) in accrued expenses	5,695	(148,572)
(Decrease) increase in deferred fee revenue	(852)	43,011
Amortization of medium-term notes (premiums) discounts, net	5,233	(11,583)
Investment losses on other than temporarily impaired investments	43,104	436,935
Realized gains and other settlements on insured derivatives	(606,898)	-
Unrealized (gains) losses on insured derivatives	1,717,338	(1,222,761)
Net gains on financial instruments at fair value and foreign exchange	(358,823)	(124,891)
Other net realized (gains) losses	55,980	64,139
Decrease in current income taxes	512,121	162,978
Deferred income tax provision (benefit)	(323,702)	601,662
Gains on extinguishment of debt	(45,283)	(253,097)
Share-based compensation	1,443	4,822
Other operating	21,108	29,911
Total adjustments to net income (loss)	(24,106)	(2,342,371)
Net cash used by operating activities	(422,424)	(1,468,242)
Cash flows from investing activities:		
Purchase of fixed-maturity securities	(7,933,360)	(7,782,580)
Increase in payable for investments purchased	141,571	303,706
Sale and redemption of fixed-maturity securities	9,718,249	9,874,826
Increase in receivable for investments sold	(179,516)	(125,841)
Decrease in loans receivable	777,793	-
Purchase of held-to-maturity investments	(71,390)	(236,817)
Redemptions of held-to-maturity investments	632,017	665,215

Sale (purchase) of short-term investments, net	(8,249)	1,888,549
Sale of other investments, net	8,909	72,655
Purchase of controlling interest in an affiliate, net of cash received	(26,693)	-
Consolidation and deconsolidation of variable interest entities	531,149	-
Capital expenditures	(3,036)	(5,025)
Disposals of capital assets	1,256	8
Net cash provided by investing activities	3,588,700	4,654,696
Cash flows from financing activities:		
Proceeds from issuance of investment agreements	74,640	308,983
Payments for drawdowns of investment agreements	(479,838)	(2,066,377)
Issuance of medium-term notes	18,137	185,904
Principal paydown of medium-term notes	(415,786)	(2,209,391)
Principal paydown of variable interest entity notes	(1,529,908)	(121,717)
Securities sold under agreements to repurchase, net	(31,046)	(285,642)
Dividends paid	(1,005)	(9,477)
Net proceeds from issuance of debt	-	333,078
Repayments for retirement of debt	(315,477)	-
Proceeds from derivative settlements	19,573	41,457
Purchase of treasury stock	(30,521)	(4,196)
Purchase/redemption of subsidiary preferred stock	(28,629)	(10,820)
Restricted stock awards settlements	2,720	1,561
Collateral from reverse repurchase agreement counterparties	-	25,000
Collateral from (to) swap counterparty	163,900	(9,147)
Net cash used by financing activities	(2,553,240)	(3,820,784)
Net increase (decrease) in cash and cash equivalents	613,036	(634,330)
Cash and cash equivalents - beginning of period	803,243	2,279,783
Cash and cash equivalents - end of period	$ 1,416,279	$ 1,645,453
Supplemental cash flow disclosures:		
Income taxes refunded	$ (421,830)	$ (209,975)
Interest paid:		
Investment agreements	$ 67,308	$ 104,633
Medium-term notes	46,604	75,849
Variable interest entity notes	267,334	54,939
Securities sold under agreements to repurchase	1,222	6,186
Liquidity loans	3,437	3,904
Corporate debt	45,155	49,528
Surplus notes	133,372	133,372
Non cash items:		
Share-based compensation	$ 1,443	$ 4,822
Dividends declared but not paid	-	1,005

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

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 1: Business and Organization

MBIA Inc., together with its consolidated subsidiaries, (collectively, MBIA or the Company) operates the largest financial guarantee insurance business in the industry and is a provider of asset management advisory services. These activities are principally managed through three business segments: United States (U.S.) public finance insurance, structured finance and international insurance, and advisory services. The Company s U.S. public finance insurance business is operated through National Public Finance Guarantee Corporation (National), its structured finance and international insurance business is primarily operated through MBIA Insurance Corporation and its subsidiaries (MBIA Corp.), and its advisory services business is primarily operated through Cutwater Holdings, LLC and its subsidiaries (Cutwater). MBIA also manages certain business activities through its corporate, asset/liability products, and conduit segments. The corporate segment includes revenues and expenses that arise from general corporate activities. Funding programs managed through the asset/liability products and conduit segments are in wind-down.

MBIA s insurance and certain investment management services programs have historically relied upon triple-A credit ratings. The loss of those ratings in the second quarter of 2008 resulted in a dramatic reduction in the Company s business activities. Since the loss of its triple-A credit ratings, MBIA has not written a meaningful amount of insurance business and does not expect to write significant new financial guarantee business prior to an upgrade of its credit ratings. The Company expects that once pending litigation challenging the establishment of National is resolved, it will be able to obtain the highest possible credit ratings and the market acceptance necessary to meet its objectives. The Company s ability to achieve these ratings is subject to rating agency criteria in effect at that time, including qualitative and quantitative factors, and the timing of any such upgrade is uncertain. There is no assurance that the Company will prevail in the pending litigation or be able to achieve such ratings. Failure by the Company to favorably resolve this litigation could have a material adverse effect on its business, results of operations or financial condition.

During the third quarter of 2010, Capital Markets Assurance Corporation (CMAC) was merged into MBIA Insurance Corporation. CMAC was a financial guarantee insurer and wholly-owned subsidiary of MBIA Insurance Corporation that was acquired in February 1998 and consolidated within MBIA Corp. s financial statements. CMAC did not write any new insurance business following the 1998 acquisition and CMAC s net insured exposure was 100% reinsured by MBIA Insurance Corporation after that acquisition. The merger enabled MBIA Corp. to improve its overall operational efficiency by discontinuing the operation of CMAC as a separately licensed insurer while continuing to support CMAC s policies with the same aggregate reserves previously available to support them.

During the third quarter of 2010, MBIA Insurance Corporation executed a series of transactions including acquiring all of the common stock of Channel Reinsurance Ltd. (Channel Re) and its parent ChannelRe Holdings, Ltd. not previously owned by MBIA Insurance Corporation for $40 million in cash, commuting all reinsurance arrangements with MBIA Insurance Corporation and MBIA UK Insurance Limited and liquidating Channel Re and ChannelRe Holdings, Ltd. and distributing any remaining assets to MBIA Insurance Corporation. MBIA Corp. recognized a net loss of $61 million in the third quarter of 2010 as a result of these transactions. The net loss was primarily generated from settling a reinsurance receivable related to reinsured credit default swaps at an amount less than its carrying value. Channel Re was a financial guarantee reinsurance company formed in 2004 to provide committed reinsurance capacity to MBIA Corp.

U.S. Public Finance Insurance

MBIA s U.S. public finance insurance business is conducted through National. The financial guarantees issued by National 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 National has the right at its discretion to accelerate insured obligations upon default or otherwise, upon National s acceleration. National s guarantees insure municipal bonds, including tax-exempt and taxable indebtedness of U.S. political subdivisions, as well as utility districts, airports, health care institutions, higher educational facilities, student loan issuers, housing authorities and other similar agencies and obligations issued by private entities that finance projects that serve a substantial public purpose. Municipal bonds and privately issued bonds used for the financing of public purpose projects are generally supported by taxes, assessments, fees or tariffs related to the use of these projects, lease payments or other similar types of revenue streams. In 2009, National began publishing periodic comprehensive studies on select public finance sectors, including sectors in which it has exposure.

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 1: Business and Organization (continued)

Structured Finance and International Insurance

MBIA s structured finance and international insurance business is principally conducted through MBIA Corp. 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 acceleration. Certain investment agreement contracts written by MBIA Inc. are insured by MBIA Corp. If MBIA Inc. were to have insufficient assets to pay amounts due, MBIA Corp. would make such payments under its insurance policies. MBIA Corp. also insured debt obligations of other affiliates, including MBIA Global Funding, LLC (GFL) and Meridian Funding Company LLC (Meridian), and provides reinsurance to its insurance subsidiaries. MBIA Corp. has also written insurance policies guaranteeing the obligations of a wholly-owned 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 by MBIA Corp. or LaCrosse. MBIA Corp. s guarantees 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 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.

In certain cases, the Company may be required to consolidate entities established as part of securitizations when MBIA insures the assets or liabilities of those entities and in connection with remediations or renegotiations of insurance policies. These entities typically meet the definition of a variable interest entity (VIE) under accounting principles for the consolidation of VIEs. The Company does not believe there is any difference in the risks and profitability of financial guarantees provided to VIEs compared with other financial guarantees written by MBIA. Refer to Note 3: Recent Accounting Pronouncements for information about new accounting guidance that affected the consolidation of VIEs.

Advisory Services

MBIA s asset management advisory business is primarily conducted through Cutwater. Cutwater offers advisory services, including cash management, discretionary asset management and structured products on a fee-for-service basis. MBIA offers these services to public, not-for-profit, corporate and financial services clients, including the Company and its subsidiaries. In February 2010, the Company announced a re-branding of the asset management advisory business under Cutwater as part of a strategic focus on third-party asset management.

Corporate

General corporate activities are conducted through the Company s corporate segment. In the first quarter of 2010, MBIA established a service company, Optinuity Alliance Resource Corporation (Optinuity), which provides general support services to the corporate segment and other operating businesses. Employees of the service company were principally transferred from MBIA Insurance Corporation and provide various support services including management, legal, accounting, treasury, information technology, among others, on a fee-for-service basis. The service company s revenues and expenses are included in the results of the corporate segment.

Businesses in Wind-down

The Company also operates an asset/liability products business in which it issued debt and investment agreements, which are insured by MBIA Corp., to investors. The proceeds of the debt and investment agreements were used initially to purchase assets that largely matched the duration

of those liabilities. MBIA also operates a conduit business in which the Company has funded transactions by issuing debt, which is insured by MBIA Corp. The ratings downgrades of MBIA Corp. have resulted in the termination and collateralization of certain investment agreements and, together with the rising cost and declining availability of funding and illiquidity of many asset classes, caused the Company to begin winding down its asset/liability products and conduit businesses in 2008 as a result of the rebalancing of the portfolio. Currently the Wind-down portfolio has a deficit of book value assets to liabilities; but is expected to have positive cash flows for the next several years. Since the downgrades of MBIA Corp., MBIA has not issued debt in connection with either business and the Company believes the outstanding liability balances and corresponding asset balances will continue to decline over time as liabilities mature, terminate or are repurchased by the Company. While the asset/liability products and conduit businesses represent separate business segments, they may be referred to collectively as Wind-down Operations.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 1: Business and Organization (continued)

Liquidity

As a financial services company, MBIA is materially affected by conditions in global financial markets. Current conditions and events in these markets have created substantial liquidity risk for the Company.

The Company has instituted a liquidity risk management framework, the primary objective of which is to monitor potential liquidity constraints in the Company s asset and liability portfolios and guide the proactive matching of liquidity resources to needs. MBIA s liquidity risk management framework monitors the Company s cash and liquid asset resources using stress-scenario testing. Members of MBIA s senior management meet regularly to review liquidity metrics, discuss contingency plans and establish target liquidity cushions on an enterprise-wide basis.

As part of MBIA s liquidity risk management framework, the Company also evaluates and manages liquidity on both a legal entity basis and a segment basis. Legal entity liquidity is an important consideration as there are legal, regulatory and other limitations on the Company s ability to utilize the liquidity resources within the overall enterprise. MBIA also seeks to manage segment liquidity, particularly between its corporate and asset/liability products segments as they relate to MBIA Inc. Unexpected loss payments arising from ineligible mortgages in securitizations that the Company has insured, dislocation in the global financial markets, the overall economic downturn in the U.S., and the loss of MBIA Corp. s triple-A insurance financial strength ratings in 2008 have significantly increased the liquidity needs and decreased the financial flexibility in the Company s segments and legal entities. MBIA continued to satisfy all of its payment obligations and the Company believes that it has adequate resources to meet its ongoing liquidity needs in both the short-term and the long-term. However, if loss payments on the Company s insured transactions were to rise significantly, including due to ineligible mortgages in securitizations that it has insured, or market or adverse economic conditions persist for an extended period of time or worsen, or the Company is unable to sell assets at values necessary to satisfy payment obligations, is unable to access new capital through the issuance of equity or debt, and/or experiences an unexpected acceleration of payments required to settle liabilities, the Company could face additional liquidity pressure in all of its operations and businesses through increased liquidity demands on the Company or a decrease in its liquidity supply. These pressures could arise from exposures beyond residential mortgage related stress, which to date has been the main cause of stress.

U.S. Public Finance Insurance Liquidity

Liquidity risk arises in the Company s U.S. public finance insurance segment when claims on insured exposures result in payment obligations, when operating cash inflows fall due to depressed new business writings, lower investment income, unanticipated expenses, or when invested assets experience credit defaults or significant declines in fair value.

The insurance policies issued or reinsured by the Company s licensed insurers generally provide an unconditional and irrevocable guarantee of the payment required to be made by, on or behalf of the obligor to a designated paying agent for the holders of the insured obligations of an amount equal to the payment of the principal of, and interest or other amounts owing on, insured obligations when due or, in the event that the insurance company has the right, at its discretion, to accelerate insured obligations upon default or otherwise, upon the insurance company s election to accelerate. Because the U.S. public finance insurance segment s financial guarantee contracts generally cannot be accelerated by a party other than the insurer, liquidity risk is mitigated in this segment.

In the event of a default in payment of principal, interest or other insured amounts by an issuer, however, National generally promises to make funds available in the insured amount generally on the next business day following notification. National provides for this payment, in some cases through a third-party bank, upon receipt of proof of ownership of the obligations due, as well as upon receipt of instruments appointing the insurer as agent for the holders and evidencing the assignment of the rights of the holders with respect to the payments made by the insurer.

Defaults, credit impairments and adverse capital markets conditions such as those currently being experienced can create payment requirements as a result of irrevocable pledges to pay principal and interest, or other amounts owed on insured obligations, when due. Additionally, the Company s U.S. public finance insurance segment requires cash for the payment of operating expenses. Finally, National also provides liquid assets to the Company s asset/liability products segment through matched repurchase and reverse repurchase agreements to support its business operations and liquidity position.

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 1: Business and Organization (continued)

Structured Finance and International Insurance Liquidity

Liquidity risk arises in the Company s structured finance and international insurance segment 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.

As a result of the transaction executed with Channel Re and its previous shareholders in the third quarter of 2010, MBIA acquired a substantial portion of the assets previously held by Channel Re. These assets consist primarily of U.S. Treasury and high quality corporate bonds which can readily be sold to raise liquidity at MBIA Corp. The transaction also resulted in an increase in MBIA Corp. s statutory capital position.

Since the fourth quarter of 2007, MBIA Corp. has made $6.6 billion of cash payments, before reinsurance and collections and including payments made to consolidated VIEs, associated with insured second-lien residential mortgage-backed securities (RMBS), as well as policy termination and claim payments relating to CDS contracts referencing collateralized debt obligation (CDO)-squared and multi-sector CDOs. These cash payments also include loss payments of $374 million made in the first nine months of 2010 on behalf of MBIA Corp. s consolidated VIEs. 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 the Company s structured finance and international insurance segment. As a result of the current economic stress, MBIA Corp. could incur additional payment obligations within and beyond these mortgage-related and CDO exposures, which may be substantial, increasing the stress on MBIA Corp. s liquidity.

Of the $6.6 billion, MBIA Corp. has paid $5.2 billion of claims on policies insuring second-lien RMBS securitizations. The Company believes these payments were driven primarily by a substantial number 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 even in a severe economic downturn. The Company 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 s liquidity position.

There are three primary types of policy payment requirements in MBIA s structured finance and international financial guarantee contracts: (i) timely interest and ultimate principal; (ii) ultimate principal only at final maturity; and (iii) payments upon settlement of individual collateral losses as they occur after parties subordinated to MBIA in a transaction have absorbed their share of losses. The structured finance and international segment s financial guarantee contracts and CDS contracts generally cannot be accelerated, thereby mitigating liquidity risk. However, with respect to the insurance of CDS contracts, in certain events, including the insolvency or payment default of the insurer or the issuer of the CDS, the CDS contract is subject to termination by the counterparty and it can make a claim for the full amount due on termination. Further, in the event of a default in payment of principal, interest or other insured amounts by an issuer, MBIA s insurers generally promise to make funds available in the insured amount generally on the next business day following notification for U.S. transactions and within longer timeframes for international transactions, depending on the terms of the insurance policy. MBIA insurance companies provide for this payment, in some cases through a third-party bank, upon receipt of proof of ownership of the obligations due, as well as upon receipt of instruments appointing the insurer as agent for the holders and evidencing the assignment of the rights of the holders with respect to the payments made by the insurer. In the event a claim is made on a basis not authorized by the transaction agreements, the insurers may be required to honor the payment requirement before they can investigate and dispute whether the claim was authorized.

Additionally, the Company s structured finance and international insurance segment requires cash for the payment of operating expenses, as well as principal and interest related to its surplus notes and preferred stock issuance. MBIA Corp. also provides guarantees to the holders of the Company s asset/liability products debt obligations. If the Company s asset/liability products segment or MBIA Inc. were unable to service the principal and interest payments on the asset/liability debt obligations, the holders of the insured liabilities would make a claim under the MBIA

Corp. insurance policies. MBIA Corp. has lent $2.0 billion to the asset/liability products segment on a secured basis for the purpose of minimizing the risk that such claim would be made. During the first nine months of 2010, a total of $500 million was repaid and the amount outstanding was $1.1 billion as of September 30, 2010.

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 1: Business and Organization (continued)

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

In addition to MBIA s residential mortgage stress scenario, it also monitors liquidity risk using a Monte Carlo estimation of potential stress-level claims for insured principal and interest payments due in the next twelve-month period. These probabilistically determined payments are then compared to the Company s invested assets. This theoretic liquidity model supplements the scenario-based liquidity model described above.

The Company manages liquidity of its structured finance and international segment with the goal of maintaining cash and liquid securities in an amount in excess of all projected stress scenario payment requirements. To the extent the Company s liquidity resources fall short of its target liquidity cushions under the stress-loss scenario testing, the Company 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. The Company s contingent liquidity sources involve the sale of assets that are generally illiquid as a result of the need for regulatory or third-party approvals prior to their sale and are therefore contingent on the receipt of such approvals, among other things. In aggregate, management believes the Company s contingent sources of liquidity accessible within one to three months totaled approximately $250 million as of September 30, 2010. There is no assurance that the Company will be able to sell or finance a sufficient amount of its investments to satisfy all of its cash needs, or it may realize a substantial loss on any such sale.

Corporate Liquidity

Liquidity needs in MBIA s corporate segment are generally predictable and comprise principal and interest payments on corporate debt and operating expenses. Liquidity risk is associated primarily with the dividend capacity of National and MBIA Corp., dividends from asset management subsidiaries, investment income and the Company s ability to issue equity and debt. Additionally, the corporate segment maintains excess cash and investments to ensure it is able to meet its ongoing cash requirements over a multi-year period in the event that cash becomes unavailable from one or more sources.

In addition to MBIA Inc. s corporate liquidity needs described above, it issued investment agreements reported within the Company s asset/liability products segment, all of which are currently collateralized by high-quality liquid investments. The Company s corporate debt, investment agreements, medium-term notes (MTNs), and derivatives may be accelerated by the holders of such instruments upon the occurrence of certain events, including a breach of covenant or representation, a bankruptcy of MBIA Inc. and the filing of an insolvency proceeding in respect of MBIA Corp. In the event of any such acceleration, the Company may not have sufficient liquid resources to pay amounts due with respect to its corporate debt and other obligations.

Asset/Liability Products Liquidity

The asset/liability products segment is subject to material liquidity risk. Cash needs in the asset/liability products segment are primarily for the payment of principal and interest on investment agreements and MTNs, and for posting collateral under repurchase agreements, derivatives and investment agreements, as well as for the payment of operating expenses. The primary sources of cash within the asset/liability products segment used to meet its liquidity needs include scheduled principal and interest on assets held in the segment s investment portfolio and dedicated capital. If needed, assets held within the segment can be sold or used in secured repurchase agreement borrowings to raise cash. However, the

Company s ability to sell assets or borrow against non-U.S. government securities in the fixed-income markets decreased dramatically and the cost of such transactions increased dramatically over the last two years due to the impact of the credit crisis on the willingness of investors to purchase or lend against even very high-quality assets. In addition, negative net interest spread between asset and liability positions resulted from the need to hold cash as collateral against terminable investment agreement contracts and reduced the cash flow historically provided by net investment income.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 1: Business and Organization (continued)

The asset/liability products segment, through MBIA Inc., maintained simultaneous repurchase and reverse repurchase agreements (Asset Swap) with National for up to $2.0 billion for the purpose of borrowing government securities to pledge under collateralized investment agreements and repurchase agreements. As of September 30, 2010, securities with a fair value of $1.8 billion were borrowed under the Asset Swap. As a result of increased liquidity needs within the asset/liability products segment, the asset/liability products segment, through MBIA Inc., maintained a secured lending agreement with MBIA Insurance Corporation under which MBIA Inc. has transferred securities in its portfolio in exchange for $2.0 billion in cash. As of September 30, 2010, the outstanding balance on this secured loan was $1.1 billion. Additionally, $600 million was transferred to the asset/liability products segment from the Company s corporate segment in the fourth quarter of 2008.

In order to monitor liquidity risk and maintain appropriate liquidity resources for near-term cash and collateral requirements within MBIA s asset/liability products segment, the Company seeks to calculate monthly forecasts of asset and liability maturities, as well as collateral posting requirements. Cash availability at the low point of the Company s twelve-month forecasted cash flows is measured against liquidity needs using stress-scenario testing of each of the potential liquidity needs described above. To the extent there is a shortfall in MBIA s liquidity coverage, the Company seeks to manage its cash position and liquidity resources with a goal of maintaining an adequate cushion to the stress scenario. These resources include the sale of unpledged assets, the use of free cash within the asset/liability products segment and at the corporate segment level, and potentially increased securities borrowings from National.

Insurance Statutory Capital

Statutory capital, defined under statutory accounting principles as policyholders surplus and contingency reserves, is a key measure of an insurance company s financial condition under insurance laws and regulations. Failure to maintain adequate levels of statutory surplus and total statutory capital could lead to intervention by the Company s insurance regulators in the its operations and constitute an event of default under certain of the Company s contracts, thereby materially and adversely affecting the Company s financial condition and results of operations.

MBIA Corp. and National had statutory capital as of September 30, 2010 of $3.1 billion and $2.3 billion, respectively. The Company believes that the following factors, which are subject to significant uncertainty, could materially impact the statutory capital of MBIA Corp.: i) recovery of losses on ineligible mortgages in RMBS-related insured transactions, which may be substantially higher or lower than the amount reflected in MBIA Corp. s statutory capital, ii) losses on insured transactions related to commercial mortgage-backed securities (CMBS), which may be substantially higher or lower than the amount reflected in MBIA Corp. s statutory capital and iii) the statutory accounting discount rate used to derive the present value of MBIA Corp. s loss reserves for long-dated insured exposures, which is set annually, may be higher or lower.

Note 2: Significant Accounting Policies

The Company has disclosed its significant accounting policies in Note 2: Significant Accounting Policies in the Notes to Consolidated Financial Statements included in the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2009. The following significant accounting policies provide an update to those included in the Company s Annual Report on Form 10-K.

Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X and, accordingly, do not include all of the information and disclosures required by accounting principles generally accepted in the United States of America (GAAP) for annual periods. These statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Annual Report on Form 10-K for the fiscal year ended December 31, 2009. The accompanying consolidated financial statements have not been audited by an independent registered public accounting firm in accordance with

the standards of the Public Company Accounting Oversight Board (United States), but in the opinion of management such financial statements include all adjustments, consisting only of normal recurring adjustments, necessary for the fair statement of the Company s consolidated financial position and results of operations.

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 2: Significant Accounting Policies (continued)

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting 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.

The results of operations for the three and nine months ended September 30, 2010 may not be indicative of the results that may be expected for the year ending December 31, 2010. The December 31, 2009 balance sheet was derived from audited financial statements, but does not include all disclosures required by GAAP for annual periods. Certain amounts have been reclassified in prior years financial statements to conform to the current presentation. This includes the reclassification of gains and losses from sales of investment securities to Net gains (losses) on financial instruments at fair value and foreign exchange from the previously reported line Net realized gains (losses) on the Company s consolidated statements of operations. Such reclassification of gains and losses from sales of investment securities had no impact on total revenues, expenses, assets, liabilities, or stockholders equity for all periods presented.

Consolidation

The consolidated financial statements include the accounts of MBIA Inc., its wholly-owned subsidiaries and all other entities in which the Company has a controlling financial interest. All material intercompany balances and transactions have been eliminated. The consolidation of a VIE is required if an entity has a variable interest (such as an equity or debt investment, a beneficial interest, a guarantee, a written put option or a similar obligation) and that variable interest or interests give it a controlling financial interest in the VIE. A controlling financial interest is present when an enterprise has both (a) the power to direct the activities of a VIE that most significantly impact the entity s economic performance, and (b) the obligation to absorb losses or the right to receive benefits of the VIE that could potentially be significant to the VIE.

The enterprise with a controlling financial interest, known as the primary beneficiary, consolidates the VIE. The Company consolidates all VIEs in which it is the primary beneficiary. Refer to Note 3: Recent Accounting Pronouncements for additional information regarding amendments to accounting for VIEs.

In December 2009, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2009-16, Transfers and Servicing (Topic 860) Accounting for Transfers of Financial Assets, to eliminate the concept of a qualified special purpose entity (QSPE). Refer to Note 3: Recent Accounting Pronouncements for additional information regarding amendments to accounting for QSPEs.

Fair Value Option

MBIA elected, under the fair value option within accounting guidance for financial assets and liabilities, to record certain financial assets and liabilities at fair value. Specifically, MBIA has elected to apply the fair value option to all financial assets and liabilities of certain VIEs on a VIE-by-VIE basis.

Fixed-maturity securities at fair value

Fixed-maturity securities at fair value include all fixed-maturity securities held by the Company for which the change in fair value is recorded in current earnings. These include securities designated as trading securities in accordance with Accounting Standards Codification (ASC) 320-10, Investments Debt and Equity Securities, as well as those fixed-maturity securities for which the fair value option was elected in accordance with ASC 825-10, Financial Instruments. Changes in fair value and realized gains and losses from the sale of these securities are reflected in earnings as part of Net gains (losses) on financial instruments at fair value and foreign exchange . Any interest income and amortization of premiums

associated with these securities are reflected in current earnings as part of net investment income. Refer to Note 6: Fair Value of Financial Instruments for additional disclosures related to securities for which the Company has elected the fair value option.

Note 3: Recent Accounting Pronouncements

Recently Adopted Accounting Standards

Scope Exception Related to Embedded Credit Derivatives (ASU 2010-11)

In March 2010, the FASB issued ASU 2010-11, Derivatives and Hedging (Topic 815) Scope Exception Related to Embedded Credit Derivatives, to clarify that embedded credit derivatives created by the subordination of one financial instrument to another qualifies for the scope exception and should not be subject to potential bifurcation and separate accounting. Other embedded credit derivative features are considered embedded derivatives and subject to potential bifurcation, provided that the contract is not a derivative in its entirety. The Company adopted this standard in the third quarter of 2010. The adoption of this standard did not have a material effect on the Company s consolidated balance sheets, results of operations, or cash flows.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 3: Recent Accounting Pronouncements (continued)

Improving Disclosures about Fair Value Measurements (ASU 2010-06)

In January 2010, the FASB issued ASU 2010-06, Fair Value Measurements and Disclosures (Topic 820) Improving Disclosures about Fair Value Measurements, to require additional disclosures about transfers into and out of Levels 1 and 2 and separate disclosures about purchases, sales, issuances, and settlements relating to Level 3 measurements. The standard also clarifies existing disclosures about the level of disaggregation, valuation techniques and inputs to fair value measurements. The Company adopted this standard as of the first quarter of 2010 except for the requirement to provide the Level 3 activity of purchases, sales issuances and settlements on a gross basis, which will be effective for the Company as of the first quarter of 2011. As this standard only affects disclosures related to fair value, the adoption of this standard did not affect the Company s consolidated balance sheets, results of operations, or cash flows. Refer to Note 6: Fair Value of Financial Instruments for these disclosures.

Consolidation of Variable Interest Entities (ASU 2009-17)

In December 2009, the FASB issued ASU 2009-17, Consolidations (Topic 810) Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities, to require the holder of a variable interest(s) in a VIE to determine whether it holds a controlling financial interest in a VIE. A holder of a variable interest (or combination of variable interests) that has a controlling financial interest in a VIE is considered the primary beneficiary and is required to consolidate the VIE. The accounting guidance deems controlling financial interest as both (a) the power to direct the activities of a VIE that most significantly impact the VIEs economic performance and (b) the obligation to absorb losses or the rights to receive benefits of the VIE that could potentially be significant to the VIE. This accounting guidance eliminates the more quantitative approach for determining the primary beneficiary of a VIE. The accounting guidance requires an ongoing reassessment of whether a holder of a variable interest is the primary beneficiary of a VIE. The Company adopted this standard in the first quarter of 2010. Refer to Note 4: Variable Interest Entities for additional information.

Upon the adoption of the accounting guidance, the Company recognized a cumulative transition adjustment of $319 million, net of tax, as a decrease to its beginning retained earnings balance as of January 1, 2010 as a result of consolidated VIEs. The cumulative transition adjustment represents the recognized changes in assets and liabilities resulting from the adoption, including the impact of the fair value option election for certain of the financial assets and liabilities, offset in part by the elimination of intercompany balances with the consolidated VIEs. The Company also recognized a cumulative transition adjustment of $3 million, net of tax, as a decrease to its beginning retained earnings balance as of January 1, 2010, related to the deconsolidation of VIEs as a result of the implementation of this accounting guidance. This adjustment was the result of the deconsolidation of the assets and liabilities of previously consolidated VIEs, offset in part by the recognition of financial interests in these deconsolidated VIEs which were previously eliminated in consolidation.

The adjustments to retained earnings were offset by a reduction of accumulated other comprehensive loss, net of deferred taxes of $349 million. This reduction was a result of reclassifying assets of VIEs, which the Company had consolidated prior to ASU 2009-17, for which the fair value election was made for the assets of these VIEs. Prior to the adoption of ASU 2009-17, the assets of these VIEs were carried as available-for-sale with unrealized gains and losses reflected in accumulated other comprehensive loss.

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 3: Recent Accounting Pronouncements (continued)

The following table summarizes the adjustments made to the Company s consolidated assets, liabilities and equity by transition method of consolidation as of January 1, 2010:

	Increase/(Decrease)			
In millions	Fair Value Option	Unpaid Principal Balance	Deconsolidated VIEs	Total
Assets:				
Total investments	$ (593)	$ (3,058)	$ (172)	$ (3,823)
Accrued investment income	(3)	(3)	-	(6)
Premiums receivable	(23)	(127)	-	(150)
Deferred acquisition costs	(7)	-	-	(7)
Insurance loss recoverable	(594)	-	-	(594)
Current income taxes	-	14	-	14
Deferred income taxes, net	10	(3)	2	9
Other assets	(484)	5	-	(479)
Assets of consolidated VIEs:				
Cash	320	-	-	320
Investments held-to-maturity	-	4,798	-	4,798
Fixed-maturity securities at fair value	5,507	-	-	5,507
Loans receivable at fair value	2,002	-	-	2,002
Loan repurchase commitments	436	-	-	436
Derivative assets	30	-	-	30
Other assets	37	16	-	53
Total assets	6,638	1,642	(170)	8,110
Liabilities:				
Unearned premium revenue	(46)	(92)	-	(138)
Loss and loss adjustment expense reserves	(364)	-	-	(364)
Medium-term notes	-	(1,429)	-	(1,429)
Long-term debt	-	(433)	-	(433)
Payable for investments purchased	(1)	-	-	(1)
Derivative liabilities	(33)	(9)	-	(42)
Other liabilities	(8)	(2)	-	(10)
Liabilities of consolidated VIEs:				
Variable interest entity notes	6,358	3,170	(252)	9,276
Long-term debt	-	433	-	433
Derivative liabilities	764	9	-	773
Other liabilities	-	18	-	18
Total liabilities	6,670	1,665	(252)	8,083

Equity:				
Retained earnings	(296)	(23)	(3)	(322)
Accumulated other comprehensive income (loss)	264	-	85	349
Total Equity	$ (32)	$ (23)	$ 82	$ 27

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 3: Recent Accounting Pronouncements (continued)

In connection with the adoption of the new accounting guidance, the Company has elected the fair value option for most, but not all of the VIEs consolidated. The Company elected the fair value option for all the assets and liabilities of VIEs which are collateralized by loans and those VIEs that are collateralized by ABS. Those assets and liabilities of VIEs which are related to life insurance policy securitizations and are collateralized by insurance company surplus notes are measured at the unpaid principal balance as of January 1, 2010. The financial assets of such VIEs are classified as held-to-maturity on the Company s consolidated balance sheets. Management believes that the fair value election for those financial assets of the VIEs which are collateralized by loans and those that are collateralized by ABS more closely represents the true economics of the performance of the underlying obligations of the Company s insurance interests in these VIEs, whereas the held-to-maturity designation for the assets related to life insurance securitization VIEs, which are currently performing as expected, is more representative of the economics of the performance of the underlying insurance obligations of the Company.

Two of the VIEs, which were consolidated as part of the Company s conduit segment prior to the adoption of this standard and continued to be consolidated under this accounting guidance, continued to hold investments classified as held-to-maturity, consistent with their designations previous to the adoption of this accounting guidance. Refer to Note 6: Fair Value of Financial Instruments for additional disclosures related to the fair value option election for the financial assets and liabilities of the consolidated VIEs.

Transfers of Financial Assets (ASU 2009-16)

In December 2009, the FASB issued ASU 2009-16, Transfers and Servicing (Topic 860) Accounting for Transfers of Financial Assets, to eliminate the concept of a QSPE. The accounting guidance also clarifies whether a transferor has surrendered control over transferred financial assets and meets the conditions to derecognize transferred financial assets or a portion of an entire financial asset that meets the definition of a participating interest. The accounting guidance requires enhanced disclosures about transfers of financial assets and a transferor s continuing involvement with transferred financial assets. The Company adopted this standard in the first quarter of 2010. The effects of adoption of this standard are included in the transition adjustment for the adoption of ASU 2009-17.

Recent Accounting Developments

Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts (ASU 2010-26)

In October 2010, the FASB issued ASU 2010-26, Financial Services Insurance (Topic 944) Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts. This amendment specifies which costs incurred in the acquisition of new and renewal insurance contracts should be capitalized. The new guidance is effective for the Company beginning January 1, 2012 with early adoption as of January 1, 2011 permitted. The Company is currently evaluating whether to early adopt the guidance, as well as the potential impact of adopting this guidance.

Note 4: Variable Interest Entities

Structured Finance and International Insurance

Through MBIA s structured finance and international insurance segment, the Company provides credit enhancement services to issuers of obligations that may involve issuer-sponsored special purpose entities (SPEs). An SPE may be considered a VIE to the extent the SPE s total equity at risk is not sufficient to permit the SPE to finance its activities without additional subordinated financial support or if its equity investors lack any one of the following characteristics (i) the power to direct activities of the SPE that most significantly impact the entity s economic performance, (ii) the obligation to absorb the expected losses of the entity or the right to receive the expected residual returns of the entity. A holder of a variable interest or interests in a VIE is required to assess whether it has a controlling financial interest, and thus is required to

consolidate the entity as primary beneficiary. An assessment of a controlling financial interest identifies the primary beneficiary as the variable interest holder that has both of the following characteristics (i) the power to direct the activities of the VIE that most significantly impact the entity s economic performance, and (ii) the obligation to absorb losses of the entity or the right to receive benefits from the entity that could potentially be significant to the VIE. The primary beneficiary is required to consolidate the VIE. An ongoing reassessment of controlling financial interest is required to be performed based on any substantive changes in facts and circumstances involving the VIE and its variable interests.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 4: Variable Interest Entities (continued)

The Company evaluates issuer-sponsored SPEs initially to determine if an entity is a VIE, and is required to reconsider its initial determination if certain events occur. For all entities determined to be VIEs, MBIA performs an ongoing reassessment to determine whether its guarantee to provide credit protection on obligations issued by VIEs provides the Company with a controlling financial interest. Based on its ongoing reassessment of controlling financial interest, the Company determines whether a VIE is required to be consolidated or deconsolidated.

The Company makes its determination based on a qualitative assessment of the purpose and design of a VIE, the terms and characteristics of variable interests of an entity, and the risks a VIE is designed to create and pass through to holders of variable interests. The Company generally provides credit protection on obligations issued by VIEs, and holds certain contractual rights according to the purpose and design of a VIE. The Company may have the ability to direct certain activities of a VIE depending on facts and circumstances, including the occurrence of certain contingent events, and these activities may be considered the activities of a VIE that most significantly impact the entity s economic performance. The Company generally considers its guarantee of principal and interest payments of insured obligations, given nonperformance by a VIE, to be an obligation to absorb losses of the entity that could potentially be significant to the VIE. At the time the Company determines it has the ability to direct the activities of a VIE that most significantly impact the economic performance of the entity based on facts and circumstances, MBIA is deemed to have a controlling financial interest in the VIE and is required to consolidate the entity as primary beneficiary. The Company performs an ongoing reassessment of controlling financial interest that may result in consolidation or deconsolidation of any VIE. Refer to Note 3: Recent Accounting Pronouncements for information on the FASB amendment to consolidation of VIEs.

Businesses in Wind-down

In its asset/liability products segment, the Company invests in obligations issued by issuer-sponsored SPEs which are included in fixed-maturity securities held as available-for-sale. The Company evaluates issuer-sponsored SPEs to determine if the entity is a VIE. For all entities determined to be VIEs, the Company evaluates whether its investment is determined to have both of the characteristics of a controlling financial interest in the VIE. The Company performs an ongoing reassessment of controlling financial interests in issuer-sponsored VIEs based on investments held. MBIA does not have a controlling financial interest in any issuer-sponsored VIEs and is not the primary beneficiary of any issuer-sponsored VIEs. The Company s exposure to the aforementioned VIEs is limited to its investments in these entities. The asset/liability products segment includes the consolidation of one VIE which includes highly rated collateral from a selected group of alternative A-paper (Alt-A) non-agency RMBS securities. Since no third-party note holders exist at this time, the Company is the primary beneficiary and has elected the fair value option for consolidation purposes.

In the conduit segment, the Company manages and administers two multi-seller conduit SPEs, Triple-A One Funding Corporation (Triple-A One) and Meridian (collectively, the Conduits). The Conduits invest primarily in debt securities and fund the investments through the issuance of VIE notes and long-term debt. The assets and liabilities of the Conduits are supported by credit enhancement provided through MBIA Corp. The Conduits are designed to provide issuers an efficient source of funding for issued obligations, and to provide an opportunity for MBIA Corp. to issue financial guarantee insurance policies. The Conduits are VIEs and are consolidated by the Company as primary beneficiary.

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 4: Variable Interest Entities (continued)

Nonconsolidated VIEs

The following tables present the total assets of nonconsolidated VIEs in which the Company holds a variable interest as of September 30, 2010 and December 31, 2009. The following tables present the Company s maximum exposure to loss for nonconsolidated VIEs as well as the value of the assets and liabilities the Company has recorded for its interest in these VIEs as of September 30, 2010 and December 31, 2009. The Company has aggregated nonconsolidated VIEs based on the underlying credit exposure of the insured obligation. The nature of the Company s variable interests in nonconsolidated VIEs is related to financial guarantees and insured CDSs, and any investments in obligations issued by nonconsolidated VIEs.

			September 30, 2010					
			Carrying Value of Assets			Carrying Value of Liabilities		
In millions	VIE Assets	Maximum Exposure to Loss	Investments (1)	Premiums Receivable (2)	Insurance Loss Recoverable (3)	Unearned Premium Revenue (4)	Loss and Loss Adjustment Expense Reserves (5)	Derivative Liabilities (6)
Insurance:								
Global structured finance:								
Collateralized debt obligations	$ 34,854	$ 26,011	$ 121	$ 95	$ -	$ 86	$ -	$ 436
Mortgage-backed residential	59,911	19,310	69	105	1,923	103	524	3
Mortgage-backed commercial	5,701	3,260	-	3	-	3	-	-
Consumer asset-backed	12,559	7,478	8	38	-	37	-	-
Corporate asset-backed	51,109	24,243	291	359	5	377	-	-
Total global structured finance	$ 164,134	$ 80,302	$ 489	$ 600	$ 1,928	$ 606	$ 524	$ 439
Global public finance	41,484	21,008	-	214	-	273	-	-
Total insurance	$ 205,618	$ 101,310	$ 489	$ 814	$ 1,928	$ 879	$ 524	$ 439

(1) - Reported within Total investments on MBIA Inc. s consolidated balance sheets.

(2) - Reported within Premiums receivable on MBIA Inc. s consolidated balance sheets.

(3) - Reported within Insurance loss recoverable on MBIA Inc. s consolidated balance sheets.

(4) - Reported within Unearned premium revenue on MBIA Inc. s consolidated balance sheets.

(5) - Reported within Loss and loss adjustment expense reserves on MBIA Inc. s consolidated balance sheets.

(6) - Reported within Derivative liabilities on MBIA Inc. s consolidated balance sheets.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 4: Variable Interest Entities (continued)

			December 31, 2009					
			Carrying Value of Assets			Carrying Value of Liabilities		
In millions	**VIE Assets**	**Maximum Exposure to Loss**	**Investments (1)**	**Premiums Receivable (2)**	**Insurance Loss Recoverable (3)**	**Unearned Premium Revenue (4)**	**Loss and Loss Adjustment Expense Reserves (5)**	**Derivative Liabilities (6)**
Insurance:								
Global structured finance:								
Collateralized debt obligations	$ 56,175	$ 48,399	$ 141	$ 100	$ -	$ 90	$ 148	$ 1,581
Mortgage-backed residential	74,520	26,518	190	137	2,258	137	1,141	3
Mortgage-backed commercial	6,244	3,403	-	3	-	3	-	1
Consumer asset-backed	16,186	9,568	15	47	-	44	20	-
Corporate asset-backed	55,012	30,760	275	538	5	543	-	3
Total global structured finance	$ 208,137	$ 118,648	$ 621	$ 825	$ 2,263	$ 817	$ 1,309	$ 1,588
Global public finance	41,387	19,263	-	190	-	264	-	-
Total insurance	$ 249,524	$ 137,911	$ 621	$ 1,015	$ 2,263	$ 1,081	$ 1,309	$ 1,588

(1) - Reported within Total investments on MBIA Inc. s consolidated balance sheets.

(2) - Reported within Premiums receivable on MBIA Inc. s consolidated balance sheets.

(3) - Reported within Insurance loss recoverable on MBIA Inc. s consolidated balance sheets.

(4) - Reported within Unearned premium revenue on MBIA Inc. s consolidated balance sheets.

(5) - Reported within Loss and loss adjustment expense reserves on MBIA Inc. s consolidated balance sheets.

(6) - Reported within Derivative liabilities on MBIA Inc. s consolidated balance sheets.

The maximum exposure to losses as a result of the Company s variable interest in the VIE is represented by net insurance in force. Net insurance in force is the maximum future payments of principal and interest, net of cessions to reinsurers, which may be required under commitments to make payments on insured obligations issued by nonconsolidated VIEs, assuming a full credit event occurs.

Consolidated VIEs

The carrying amounts of assets and liabilities of consolidated VIEs are $13.7 billion and $12.6 billion, respectively, as of September 30, 2010, and $4.3 billion and $3.6 billion, respectively, as of December 31, 2009. The carrying amounts of assets and liabilities are presented separately in Assets of consolidated variable interest entities and Liabilities of consolidated variable interest entities. Additional VIEs are consolidated or deconsolidated based on an ongoing reassessment of controlling financial interest, when events occur or circumstances arise, and whether the ability to exercise rights that constitute power to direct activities of any VIEs are present according to the design and characteristics of these

entities. During the nine months ended September 30, 2010, the Company recognized a $74 million pre-tax loss on initial consolidation of additional VIEs, and recognized no impact to earnings upon deconsolidation of VIEs during the period.

Holders of insured obligations of issuer-sponsored VIEs related to the Company s structured finance and international insurance segment do not have recourse to the general assets of MBIA. In the event of nonpayment of an insured obligation issued by a consolidated VIE, the Company is obligated to pay principal and interest, when due, on the respective insured obligation only. The Company s exposure to consolidated VIEs is limited to the credit protection provided on insured obligations and any additional variable interests held by MBIA. Creditors of the Conduits do not have recourse to the general assets of the Company apart from the financial guarantee policies provided by MBIA on insured obligations issued by the Conduits.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 5: Insurance Premiums

The Company recognizes and measures premiums related to financial guarantee (non-derivative) insurance and reinsurance contracts in accordance with the accounting principles for financial guarantee insurance contracts.

As of September 30, 2010, the Company reported premiums receivable of $1.7 billion primarily related to installment policies for which premiums will be collected over the estimated term of the contracts. Premiums receivable for an installment policy is initially measured at the present value of premiums expected to be collected over the expected period or contract period of the policy using a risk-free discount rate. Premiums receivable for policies that use the expected period of risk due to expected prepayments are adjusted in subsequent measurement periods when prepayment assumptions change using the risk-free discount rate as of the remeasurement date. The weighted average risk-free rate used to discount future installment premiums was 2.9% and the weighted average expected collection term of the premiums receivable was 9.19 years. For the three and nine months ended September 30, 2010, the accretion of the premiums receivable was $9 million and $37 million, respectively, and is reported in Scheduled premiums earned on the Company s consolidated statements of operations.

As of September 30, 2010, the Company reported reinsurance premiums payable of $71 million, which represents the portion of the Company s premiums receivable that is due to reinsurers. The reinsurance premiums payable is accreted and paid to reinsurers as premiums due to MBIA are accreted and collected.

The following table presents a roll forward of the Company s premiums receivable for the nine months ended September 30, 2010:

In millions	Adjustments							
Premiums Receivable as of December 31, 2009	Accounting Transition Adjustment[1]	Premium Payments Received	Premiums from New Business Written	Changes in Expected Term of Policies	Accretion of Premiums Receivable Discount	Other	Premiums Receivable as of September 30, 2010	Reinsurance Premiums Payable as of September 30, 2010
$ 2,021	$ (150)	$ (189)	$ 12	$ (25)	$ 37	$ (28)	$ 1,678	$ 71

(1) - Reflects the adoption of the accounting principles for the consolidation of variable interest entities.

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:

In millions	Expected Collection of Premiums
Three months ended:	
December 31, 2010	$ 66
Twelve months ended:	
December 31, 2011	221
December 31, 2012	195
December 31, 2013	163