MBIA INC Form 10-Q August 08, 2007 Table of Contents

# **UNITED STATES**

# SECURITIES AND EXCHANGE COMMISSION

| W   | ashington, D.C. 20549                                  |
|---|--|
|   | Form 10-Q  |
|   |  |
| X QUARTERLY REPORT PURSUANT T<br>ACT OF 1934<br>For the Quarter Ended June 30, 2007 | TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE      |
|   | or   |
| TRANSITION REPORT PURSUANT TACT OF 1934  For the transition period from to          | TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE      |
| Con   | mmission file number 1-9583                            |
|   | MBIA INC. e of registrant as specified in its charter) |
|   |  |
| Connecticut (State of Incorporation)  | 06-1185706<br>(I.R.S. Employer Identification No.)     |
| 113 King Street, Armonk, New York   | 10504  |

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

(Address of principal executive offices)

(Zip Code)

#### Edgar Filing: MBIA INC - Form 10-Q

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 x No "

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

Large accelerated filer x Accelerated filer " Non-accelerated filer "

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

As of July 30, 2007, 125,581,825 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 per share amounts)

| Investments:   |  | June 30, 2007 |            | December 31, 2006 |            |
|--|--|---------------|------------|-------------------|------------|
| Fixed-maturity securities held as available-for-sale, at fair value (amortized cost \$30,384,811 and \$27,377,315 (2007 includes hybrid financial instruments at fair value \$678,963) \$ 30,398,657 \$ \$27,755,667 investments held-to-maturity, at amortized cost (tair value \$5,345,917 and \$5,187,766) \$ 5,368,999 \$ 5,213,466 investment agreement portfolio pledged as collateral, at fair value (amortized cost \$551,253 and \$176,179) \$ \$41,266 \$ 175,834 \$ \$14,266 \$ 175,834 \$ \$ \$14,266 \$ 175,834 \$ \$ \$14,276 \$ 2,879,689 \$ 2,900,646 \$ \$ \$175,834 \$ \$ \$ \$14,266 \$ 175,834 \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$  | Assets   |               |            |                   |            |
| and \$27,327,315,(2007) includes hybrid financial instruments at fair value \$678,963)         \$ 30,398,657         \$ 27,755,667           investments held-to-maturity, at amortized cost (fair value \$5,345,917 and \$5,187,766)         \$ 5,368,999         \$ 5,213,464           hivestment agreement portfolio piedged as collaterad, at fair value (amortized cost \$551,253)         \$ 41,266         175,834           Short-term investments, at amortized cost (which approximates fair value)         \$ 2,879,689         \$ 2,960,646           Other investments         \$ 919,700         \$ 971,707           Total investments         \$ 40,108,311         \$ 37,077,318           Cash and cash equivalents         \$ 18,332         \$ 269,277           Accrued investment income         \$ 563,490         \$ 26,468           Deferred acquisition costs         \$ 459,942         \$ 449,556           Deferred acquisition costs         \$ 48,078         \$ 69,941           Propard reinsurance premiums         \$ 33,052         363,140           Rensurance recoverable on unpaid losses         \$ 48,078         \$ 69,941           Goodwill         7 9,406         7 9,406         7 9,406           Property and equipment, at cost (less accumulated depreciation of \$127,903 and \$124,919)         99,240         105,950           Receivable for investments sold         \$ 20,252,425         \$ 21,278 <td>Investments:</td> <td></td> <td></td> <td></td> <td></td>   | Investments:   |               |            |                   |            |
| Investments held-to-maturity, at amortized cost (fair value \$5,345,917 and \$5,187,766)   5,368,999   5,213,464   Investment agreement portfolio pledged as collateral, at fair value (amortized cost \$551,253   241,266   175,834   251,266   275,834   261,266   275,834   261,266   275,834   261,266   277,834   277,318   277,31  | Fixed-maturity securities held as available-for-sale, at fair value (amortized cost \$30,384,811 |               |            |                   |            |
| Investment agreement portfolio pledged as collateral, at fair value (amortized cost \$551,253 and \$17,679)  | and \$27,327,315)(2007 includes hybrid financial instruments at fair value \$678,963)            | \$            | 30,398,657 | \$                | 27,755,667 |
| and \$176,179)         \$41,266         175,834           Short-term investments, at amortized cost (which approximates fair value)         2,879,689         2,960,646           Other investments         40,108,311         37,077,318           Total investments         418,332         269,277           Accrued investment income         505,490         526,468           Deferred acquisition costs         459,942         449,556           Prepaid reinsurance premiums         337,052         363,140           Reinsurance recoverable on unpaid losses         48,078         46,941           Goodwill         79,406         79,406           Property and equipment, at cost (less accumulated depreciation of \$127,903 and \$124,919)         99,240         105,956           Receivable for investments sold         102,030         77,593           Deferred premium restrements         \$3,153,834         \$39,63,030           Total assets         \$3,153,834         \$39,63,030           Liabilities         \$3,096,434         \$3,129,620           Loss and loss adjustment expense reserves         \$3,096,434         \$3,129,620           Loss and loss adjustment expense reserves         \$20,080         537,037           Investment agreements         13,361,280         12,482,976  | Investments held-to-maturity, at amortized cost (fair value \$5,345,917 and \$5,187,766)         |               | 5,368,999  |                   | 5,213,464  |
| Short-term investments, at amortized cost (which approximates fair value)         2,879,689         2,900,646           Other investments         919,700         971,707           Total investments         40,108,311         37,077,318           Cash and cash equivalents         418,332         269,277           Accrued investment income         56,5490         526,468           Deferred acquisition costs         459,942         449,556           Prepaid reinsurance premiums         337,052         363,140           Reinsurance recoverable on unpaid losses         48,078         46,941           Goodwill         79,406         79,406           Property and equipment, at cost (less accumulated depreciation of \$127,903 and \$124,919)         99,240         105,950           Receivable for investments sold         102,030         77,593           Other assets         225,425         246,103           Total assets         43,153,834         39,763,030           Liabilities         225,425         246,103           Total assets         5,009,643         3,129,620           Liabilities         250,080         537,037           Investment agreements         50,096,434         3,129,620           Loss and loss adjustment expense reserves         520,080 </td <td>Investment agreement portfolio pledged as collateral, at fair value (amortized cost \$551,253</td> <td></td> <td></td> <td></td> <td></td>   | Investment agreement portfolio pledged as collateral, at fair value (amortized cost \$551,253    |               |            |                   |            |
| Other investments         919,700         971,707           Total investments         40,108,311         37,077,318           Cash and cash equivalents         418,332         269,277           Accrued investment income         565,490         526,468           Deferred acquisition costs         459,942         449,556           Prepaid reinsurance premiums         337,052         363,140           Reinsurance recoverable on unpaid losses         48,078         46,941           Goodwill         79,406         79,406           Property and equipment, at cost (less accumulated depreciation of \$127,903 and \$124,919)         99,240         105,950           Receivable for investments sold         102,030         77,932           Derivative assets         225,425         246,103           Total assets         43,153,834         39,763,030           Total assets         \$3,096,434         \$3,129,620           Liabilities           Liabilities           Liabilities           Liabilities           Liabilities           Liabilities           Liabilities           Liabilities           Liabilities   | and \$176,179)   |               | 541,266    |                   | 175,834    |
| Total investments         40,108,311         37,077,318           Cash and cash equivalents         418,332         269,277           Accrued investment income         565,490         526,468           Deferred acquisition costs         459,942         449,556           Prepaid reinsurance premiums         337,052         363,140           Reinsurance recoverable on unpaid losses         48,078         46,941           Goodwill         79,406         79,406           Property and equipment, at cost (less accumulated depreciation of \$127,903 and \$124,919)         99,240         105,950           Receivable for investments sold         102,030         77,593           Derivative assets         710,528         521,278           Other assets         225,425         246,103           Total assets         \$3,153,834         \$9,763,030           Liabilities and Shareholders         Equity         Equity           Liabilities and Shareholders         Equity         50,000         53,703,030           Liabilities         \$3,153,834         \$9,763,030         53,703,030           Liabilities         \$3,06,434         \$3,129,620         53,703,030           Liabilities         \$3,06,434         \$3,129,620         53,703,030   | Short-term investments, at amortized cost (which approximates fair value)                        |               | 2,879,689  |                   | 2,960,646  |
| Cash and cash equivalents         418.332         269.277           Accrued investment income         565,490         526,468           Deferred acquisition costs         459,422         449,556           Prepaid reinsurance premiums         337,052         363,140           Reinsurance recoverable on unpaid losses         48,078         46,941           Goodwill         79,406         79,406           Property and equipment, at cost (less accumulated depreciation of \$127,903 and \$124,919)         99,240         105,959           Receivable for investments sold         102,030         77,593           Derivative assets         225,425         246,103           Total assets         \$3,153,834         \$39,763,030           Clabilities and Shareholders Equity           Liabilities and Shareholders Equity <td< td=""><td>Other investments</td><td></td><td>919,700</td><td></td><td>971,707</td></td<>   | Other investments  |               | 919,700    |                   | 971,707    |
| Accrued investment income         565,490         526,468           Deferred acquisition costs         459,942         449,556           Prepaid reinsurance premiums         337,052         363,140           Reinsurance recoverable on unpaid losses         48,078         46,941           Goodwill         79,406         79,406           Property and equipment, at cost (less accumulated depreciation of \$127,903 and \$124,919)         99,240         105,950           Receivable for investments sold         102,030         77,593           Derivative assets         710,528         521,278           Other assets         225,425         246,103           Total assets         43,153,834         39,763,030           Total assets         43,153,834         39,763,030           Total assets         520,083         53,70,37           Total assets         520,080         537,037           Total assets         \$3,096,434         \$3,129,620           Liabilities and Shareholders Equity           Liabilities and Shareholders Equity           Liabilities and Shareholders Equity           Liabilities and Shareholders Equity           Liabilities and Shareholders Equity <td>Total investments</td> <td></td> <td>40,108,311</td> <td></td> <td>37,077,318</td>   | Total investments  |               | 40,108,311 |                   | 37,077,318 |
| Accrued investment income         565,490         526,468           Deferred acquisition costs         459,942         449,556           Prepaid reinsurance premiums         337,052         363,140           Reinsurance recoverable on unpaid losses         48,078         46,941           Goodwill         79,406         79,406           Property and equipment, at cost (less accumulated depreciation of \$127,903 and \$124,919)         99,240         105,950           Receivable for investments sold         102,030         77,593           Derivative assets         710,528         521,278           Other assets         225,425         246,103           Total assets         43,153,834         39,763,030           Total assets         43,153,834         39,763,030           Total assets         520,083         53,70,37           Total assets         520,080         537,037           Total assets         \$3,096,434         \$3,129,620           Liabilities and Shareholders Equity           Liabilities and Shareholders Equity           Liabilities and Shareholders Equity           Liabilities and Shareholders Equity           Liabilities and Shareholders Equity <td>Cash and cash equivalents</td> <td></td> <td>418.332</td> <td></td> <td>269.277</td>   | Cash and cash equivalents  |               | 418.332    |                   | 269.277    |
| Deferred acquisition costs         459,942         449,556           Prepaid reinsurance premiums         337,052         363,140           Reinsurance recoverable on unpaid losses         48,078         46,941           Goodwill         79,406         79,406           Property and equipment, at cost (less accumulated depreciation of \$127,903 and \$124,919)         99,240         105,950           Receivable for investments sold         102,030         77,593           Derivative assets         225,425         246,103           Total assets         43,153,834         39,763,030           Total assets         520,800         357,037           Total assets         520,800         357,037           Total assets         520,800         357,037           Total assets         520,800         357,037           Liabilities           Deferred premium revenue         3,096,434         \$ 3,129,620<   | •  |               |            |                   | ,          |
| Prepaid reinsurance premiums         337,052         363,140           Reinsurance recoverable on unpaid losses         48,078         46,941           Goodwill         79,406         79,406           Property and equipment, at cost (less accumulated depreciation of \$127,903 and \$124,919)         99,240         105,950           Receivable for investments sold         102,030         77,593           Derivative assets         710,528         521,278           Other assets         225,425         246,103           ***********************************   |  |               |            |                   | ,          |
| Reinsurance recoverable on unpaid losses         48,078         46,941           Goodwill         79,406         79,406           Property and equipment, at cost (less accumulated depreciation of \$127,903 and \$124,919)         99,240         105,950           Receivable for investments sold         102,030         77,593           Derivative assets         710,528         521,278           Other assets         225,425         246,103           Total assets         43,153,834         39,763,030           Liabilities and Shareholders Equity           Eliabilities           Deferred premium revenue         \$3,096,434         \$3,129,620           Loss and loss adjustment expense reserves         520,080         537,037           Investment agreements         13,361,280         12,482,976           Commercial paper         714,591         745,996           Medium-term notes (2007 includes hybrid financial instruments at fair value \$364,196)         13,799,029         10,951,378           Variable interest entity floating rate notes         524,101         169,432           Stort-term debt         13,381,603         1,451,928           Sccurities sold under agreements to repurchase         13,381,603         1,451,928           Current income taxes<   | 1  |               |            |                   | ,          |
| Goodwill         79,406         79,406           Property and equipment, at cost (less accumulated depreciation of \$127,903 and \$124,919)         99,240         105,950           Receivable for investments sold         102,030         77,593           Derivative assets         710,528         521,278           Other assets         225,425         246,103           Total assets         43,153,834         39,763,030           Liabilities and Shareholders Equity           Liabilities and Shareholders Equity </td <td></td> <td></td> <td></td> <td></td> <td></td>   |  |               |            |                   |            |
| Property and equipment, at cost (less accumulated depreciation of \$127,903 and \$124,919) 99,240 105,950 Receivable for investments sold 102,030 77,593 521,278 521,278 521,278 521,478 | *  |               |            |                   | ,          |
| Receivable for investments sold         102,030         77,593           Derivative assets         710,528         521,278           Other assets         225,425         246,103           Total assets         \$43,153,834         \$39,763,030           Liabilities and Shareholders Equity           Liabilities:           Deferred premium revenue         \$3,096,434         \$3,129,620           Loss and loss adjustment expense reserves         520,080         537,037           Investment agreements         13,361,280         12,482,976           Commercial paper         714,591         745,996           Medium-term notes (2007 includes hybrid financial instruments at fair value \$364,196)         13,799,029         10,951,378           Variable interest entity floating rate notes         524,101         169,432           Securities sold under agreements to repurchase         524,101         169,432           Short-term debt         1,214,134         1,215,289           Lorg-term debt         1,214,134         1,215,289           Deferred income taxes         43,629         6,970           Deferred fee revenue         14,991         14,862           Payable for investments purchased         231,187         319,644  |  |               | ,          |                   |            |
| Derivative assets         710,528         521,278           Other assets         225,425         246,103           Total assets         \$43,153,834         \$39,763,030           Liabilities and Shareholders Equity         Equity         Same of the premium revenue         \$3,096,434         \$3,129,620           Loss and loss adjustment expense reserves         520,080         537,037           Investment agreements         13,361,280         12,482,976           Commercial paper         714,591         745,996           Medium-term notes (2007 includes hybrid financial instruments at fair value \$364,196)         13,799,029         10,951,378           Variable interest entity floating rate notes         1,381,603         1,451,928           Securities sold under agreements to repurchase         524,101         169,432           Short-term debt         13,383         40,898           Long-term debt         12,14,134         1,215,289           Current income taxes         43,629         6,970           Deferred income taxes, net         398,451         476,189           Deferred fee revenue         14,991         14,862           Payable for investments purchased         231,187         319,640           Derivative liabilities         528,295         400,318   |  |               | , -        |                   | ,          |
| Other assets         225,425         246,103           Total assets         \$43,153,834         \$39,763,030           Liabilities and Shareholders Equity           Liabilities:           Deferred premium revenue         \$3,096,434         \$3,129,620           Loss and loss adjustment expense reserves         520,080         537,037           Investment agreements         13,361,280         12,482,976           Commercial paper         714,591         745,996           Medium-term notes (2007 includes hybrid financial instruments at fair value \$364,196)         13,799,029         10,951,378           Variable interest entity floating rate notes         1,381,603         1,451,928           Securities sold under agreements to repurchase         524,101         169,432           Short-term debt         13,383         40,898           Long-term debt         1,214,134         1,215,289           Current income taxes         43,629         6,970           Deferred income taxes, net         398,451         476,189           Deferred fee revenue         14,991         14,862           Payable for investments purchased         231,187         319,640           Derivative liabilities         528,812         616,243  |  |               |            |                   |            |
| Total assets         \$ 43,153,834         \$ 39,763,030           Liabilities and Shareholders Equity           Liabilities:           Deferred premium revenue         \$ 3,096,434         \$ 3,129,620           Loss and loss adjustment expense reserves         \$ 520,080         \$ 537,037           Investment agreements         \$ 13,361,280         \$ 12,482,976           Commercial paper         714,591         745,996           Medium-term notes (2007 includes hybrid financial instruments at fair value \$364,196)         \$ 13,799,029         \$ 10,951,378           Variable interest entity floating rate notes         \$ 1,381,603         \$ 1,451,928           Securities sold under agreements to repurchase         \$ 524,101         \$ 169,432           Short-term debt         \$ 13,383         \$ 40,898           Long-term debt         \$ 1,214,134         \$ 1,215,289           Current income taxes         \$ 43,629         \$ 6,970           Deferred income taxes, net         \$ 398,451         \$ 476,189           Deferred fee revenue         \$ 14,991         \$ 14,862           Payable for investments purchased         \$ 231,187         \$ 319,640           Derivative liabilities         \$ 528,295         \$ 400,318           Other liabilities   | Other assets   |               | ,          |                   |            |
| Liabilities and Shareholders Equity           Liabilities:         3,096,434         \$ 3,129,620           Loss and loss adjustment expense reserves         520,080         537,037           Investment agreements         13,361,280         12,482,976           Commercial paper         714,591         745,996           Medium-term notes (2007 includes hybrid financial instruments at fair value \$364,196)         13,799,029         10,951,378           Variable interest entity floating rate notes         1,381,603         1,451,928           Securities sold under agreements to repurchase         524,101         169,432           Short-term debt         13,383         40,898           Long-term debt         1,214,134         1,215,289           Current income taxes         43,629         6,970           Deferred income taxes, net         398,451         476,189           Deferred fee revenue         14,991         14,862           Payable for investments purchased         231,187         319,640           Derivative liabilities         528,295         400,318           Other liabilities         528,812         616,243  |  |               | ,          |                   | ,          |
| Liabilities:       Deferred premium revenue       \$ 3,096,434       \$ 3,129,620         Loss and loss adjustment expense reserves       520,080       537,037         Investment agreements       13,361,280       12,482,976         Commercial paper       714,591       745,996         Medium-term notes (2007 includes hybrid financial instruments at fair value \$364,196)       13,799,029       10,951,378         Variable interest entity floating rate notes       1,381,603       1,451,928         Securities sold under agreements to repurchase       524,101       169,432         Short-term debt       13,383       40,898         Long-term debt       1,214,134       1,215,289         Current income taxes       43,629       6,970         Deferred income taxes, net       398,451       476,189         Deferred fee revenue       14,991       14,862         Payable for investments purchased       231,187       319,640         Derivative liabilities       528,295       400,318         Other liabilities       528,812       616,243  | Total assets   | \$            | 43,153,834 | \$                | 39,763,030 |
| Liabilities:       Deferred premium revenue       \$ 3,096,434       \$ 3,129,620         Loss and loss adjustment expense reserves       520,080       537,037         Investment agreements       13,361,280       12,482,976         Commercial paper       714,591       745,996         Medium-term notes (2007 includes hybrid financial instruments at fair value \$364,196)       13,799,029       10,951,378         Variable interest entity floating rate notes       1,381,603       1,451,928         Securities sold under agreements to repurchase       524,101       169,432         Short-term debt       13,383       40,898         Long-term debt       1,214,134       1,215,289         Current income taxes       43,629       6,970         Deferred income taxes, net       398,451       476,189         Deferred fee revenue       14,991       14,862         Payable for investments purchased       231,187       319,640         Derivative liabilities       528,295       400,318         Other liabilities       528,812       616,243  |  |               |            |                   |            |
| Liabilities:       Deferred premium revenue       \$ 3,096,434       \$ 3,129,620         Loss and loss adjustment expense reserves       520,080       537,037         Investment agreements       13,361,280       12,482,976         Commercial paper       714,591       745,996         Medium-term notes (2007 includes hybrid financial instruments at fair value \$364,196)       13,799,029       10,951,378         Variable interest entity floating rate notes       1,381,603       1,451,928         Securities sold under agreements to repurchase       524,101       169,432         Short-term debt       13,383       40,898         Long-term debt       1,214,134       1,215,289         Current income taxes       43,629       6,970         Deferred income taxes, net       398,451       476,189         Deferred fee revenue       14,991       14,862         Payable for investments purchased       231,187       319,640         Derivative liabilities       528,295       400,318         Other liabilities       528,812       616,243  | T-1992 101 111 To 4  |               |            |                   |            |
| Deferred premium revenue         \$ 3,096,434         \$ 3,129,620           Loss and loss adjustment expense reserves         520,080         537,037           Investment agreements         13,361,280         12,482,976           Commercial paper         714,591         745,996           Medium-term notes (2007 includes hybrid financial instruments at fair value \$364,196)         13,799,029         10,951,378           Variable interest entity floating rate notes         1,381,603         1,451,928           Securities sold under agreements to repurchase         524,101         169,432           Short-term debt         13,383         40,898           Long-term debt         1,214,134         1,215,289           Current income taxes         43,629         6,970           Deferred income taxes, net         398,451         476,189           Deferred fee revenue         14,991         14,862           Payable for investments purchased         231,187         319,640           Derivative liabilities         528,295         400,318           Other liabilities         528,812         616,243   | • •  |               |            |                   |            |
| Loss and loss adjustment expense reserves       520,080       537,037         Investment agreements       13,361,280       12,482,976         Commercial paper       714,591       745,996         Medium-term notes (2007 includes hybrid financial instruments at fair value \$364,196)       13,799,029       10,951,378         Variable interest entity floating rate notes       1,381,603       1,451,928         Securities sold under agreements to repurchase       524,101       169,432         Short-term debt       13,383       40,898         Long-term debt       1,214,134       1,215,289         Current income taxes       43,629       6,970         Deferred income taxes, net       398,451       476,189         Deferred fee revenue       14,991       14,862         Payable for investments purchased       231,187       319,640         Derivative liabilities       528,295       400,318         Other liabilities       528,812       616,243  |  | Φ.            | 2.006.424  | Φ.                | 2.120.620  |
| Investment agreements       13,361,280       12,482,976         Commercial paper       714,591       745,996         Medium-term notes (2007 includes hybrid financial instruments at fair value \$364,196)       13,799,029       10,951,378         Variable interest entity floating rate notes       1,381,603       1,451,928         Securities sold under agreements to repurchase       524,101       169,432         Short-term debt       13,383       40,898         Long-term debt       1,214,134       1,215,289         Current income taxes       43,629       6,970         Deferred income taxes, net       398,451       476,189         Deferred fee revenue       14,991       14,862         Payable for investments purchased       231,187       319,640         Derivative liabilities       528,295       400,318         Other liabilities       528,812       616,243  | •  | \$            |            | \$                | , ,        |
| Commercial paper       714,591       745,996         Medium-term notes (2007 includes hybrid financial instruments at fair value \$364,196)       13,799,029       10,951,378         Variable interest entity floating rate notes       1,381,603       1,451,928         Securities sold under agreements to repurchase       524,101       169,432         Short-term debt       13,383       40,898         Long-term debt       1,214,134       1,215,289         Current income taxes       43,629       6,970         Deferred income taxes, net       398,451       476,189         Deferred fee revenue       14,991       14,862         Payable for investments purchased       231,187       319,640         Derivative liabilities       528,295       400,318         Other liabilities       528,812       616,243  | 3 1  |               |            |                   |            |
| Medium-term notes (2007 includes hybrid financial instruments at fair value \$364,196)       13,799,029       10,951,378         Variable interest entity floating rate notes       1,381,603       1,451,928         Securities sold under agreements to repurchase       524,101       169,432         Short-term debt       13,383       40,898         Long-term debt       1,214,134       1,215,289         Current income taxes       43,629       6,970         Deferred income taxes, net       398,451       476,189         Deferred fee revenue       14,991       14,862         Payable for investments purchased       231,187       319,640         Derivative liabilities       528,295       400,318         Other liabilities       528,812       616,243   |  |               |            |                   |            |
| Variable interest entity floating rate notes       1,381,603       1,451,928         Securities sold under agreements to repurchase       524,101       169,432         Short-term debt       13,383       40,898         Long-term debt       1,214,134       1,215,289         Current income taxes       43,629       6,970         Deferred income taxes, net       398,451       476,189         Deferred fee revenue       14,991       14,862         Payable for investments purchased       231,187       319,640         Derivative liabilities       528,295       400,318         Other liabilities       528,812       616,243  |  |               |            |                   | ,          |
| Securities sold under agreements to repurchase       524,101       169,432         Short-term debt       13,383       40,898         Long-term debt       1,214,134       1,215,289         Current income taxes       43,629       6,970         Deferred income taxes, net       398,451       476,189         Deferred fee revenue       14,991       14,862         Payable for investments purchased       231,187       319,640         Derivative liabilities       528,295       400,318         Other liabilities       528,812       616,243   |  |               |            |                   |            |
| Short-term debt       13,383       40,898         Long-term debt       1,214,134       1,215,289         Current income taxes       43,629       6,970         Deferred income taxes, net       398,451       476,189         Deferred fee revenue       14,991       14,862         Payable for investments purchased       231,187       319,640         Derivative liabilities       528,295       400,318         Other liabilities       528,812       616,243  |  |               |            |                   |            |
| Long-term debt       1,214,134       1,215,289         Current income taxes       43,629       6,970         Deferred income taxes, net       398,451       476,189         Deferred fee revenue       14,991       14,862         Payable for investments purchased       231,187       319,640         Derivative liabilities       528,295       400,318         Other liabilities       528,812       616,243  |  |               |            |                   |            |
| Current income taxes       43,629       6,970         Deferred income taxes, net       398,451       476,189         Deferred fee revenue       14,991       14,862         Payable for investments purchased       231,187       319,640         Derivative liabilities       528,295       400,318         Other liabilities       528,812       616,243   | Short-term debt  |               |            |                   | ,          |
| Deferred income taxes, net       398,451       476,189         Deferred fee revenue       14,991       14,862         Payable for investments purchased       231,187       319,640         Derivative liabilities       528,295       400,318         Other liabilities       528,812       616,243   | Long-term debt   |               | 1,214,134  |                   | 1,215,289  |
| Deferred fee revenue       14,991       14,862         Payable for investments purchased       231,187       319,640         Derivative liabilities       528,295       400,318         Other liabilities       528,812       616,243  | Current income taxes   |               | 43,629     |                   | 6,970      |
| Payable for investments purchased       231,187       319,640         Derivative liabilities       528,295       400,318         Other liabilities       528,812       616,243   | Deferred income taxes, net   |               | , -        |                   | ,          |
| Derivative liabilities         528,295         400,318           Other liabilities         528,812         616,243   | Deferred fee revenue   |               | 14,991     |                   | 14,862     |
| Other liabilities 528,812 616,243  | Payable for investments purchased  |               |            |                   | ,          |
|  | Derivative liabilities   |               | 528,295    |                   | 400,318    |
| Total liabilities 36,370,000 32,558,776  | Other liabilities  |               | 528,812    |                   | 616,243    |
|  | Total liabilities  |               | 36,370,000 |                   | 32,558,776 |

Commitments and contingencies (See Note 8)

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| Shareholders 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 160,169,947 and 158,330,220   | 160,170          | 158,330          |
| Additional paid-in capital   | 1,627,913        | 1,533,102        |
| Retained earnings  | 6,719,357        | 6,399,333        |
| Accumulated other comprehensive income, net of deferred income tax of \$93,178     |                  |                  |
| and \$172,798  | 164,630          | 321,293          |
| Treasury stock, at cost (shares 33,625,513 and 23,494,806)                         | (1,888,236)      | (1,207,804)      |
|  |                  |                  |
| Total shareholders equity  | 6,783,834        | 7,204,254        |
| 1 V  | , ,              | , , ,            |
| Total liabilities and shareholders equity  | \$<br>43,153,834 | \$<br>39,763,030 |

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

## **Table of Contents**

#### MBIA INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF INCOME (Unaudited)

(In thousands except per share amounts)

|  | Three months ended June 30 2007 2006 |            | Six months ended June 30<br>2007 2006 |            |  |
|--|--------------------------------------|------------|---------------------------------------|------------|--|
| Insurance  |                                      |            |                                       |            |  |
| Revenues:  |                                      |            |                                       |            |  |
| Gross premiums written   | \$ 247,562                           | \$ 251,476 | \$ 465,188                            | \$ 424,348 |  |
| Ceded premiums   | (26,525)                             | (27,166)   | (47,894)                              | (51,071)   |  |
| Net premiums written   | 221,037                              | 224,310    | 417,294                               | 373,277    |  |
| Scheduled premiums earned  | 174,732                              | 169,130    | 345,433                               | 336,845    |  |
| Refunding premiums earned  | 45,935                               | 47,606     | 85,732                                | 85,790     |  |
| Premiums earned (net of ceded premiums of \$36,982, \$37,086, \$73,443 and \$74,064) | 220,667                              | 216,736    | 431,165                               | 422,635    |  |
| Net investment income  | 146,185                              | 144,636    | 292,291                               | 283,752    |  |
| Fees and reimbursements  | 4,634                                | 4,019      | 14,802                                | 12,193     |  |
| Net realized gains (losses)  | 31,052                               | 15,415     | 32,044                                | 8,371      |  |
| Net gains (losses) on financial instruments at fair value and foreign exchange       | (14,058)                             | 1,305      | (12,211)                              | 6,062      |  |
| Total insurance revenues   | 388,480                              | 382,111    | 758,091                               | 733,013    |  |
| Expenses:  |                                      |            |                                       |            |  |
| Losses and loss adjustment   | 20,968                               | 20,295     | 41,452                                | 40,421     |  |
| Amortization of deferred acquisition costs   | 17,433                               | 17,122     | 34,062                                | 33,388     |  |
| Operating  | 35,043                               | 35,684     | 67,612                                | 72,224     |  |
| Interest expense   | 20,711                               | 18,786     | 42,447                                | 31,704     |  |
| Total insurance expenses   | 94,155                               | 91,887     | 185,573                               | 177,737    |  |
| Insurance income   | 294,325                              | 290,224    | 572,518                               | 555,276    |  |
| Investment management services   |                                      |            |                                       |            |  |
| Revenues   | 390,330                              | 294,299    | 752,409                               | 552,505    |  |
| Net realized gains (losses)  | (6,097)                              | (295)      | 4,024                                 | 5,233      |  |
| Net gains (losses) on financial instruments at fair value and foreign exchange       | 6,412                                | 6,258      | (11,617)                              | 3,308      |  |
| Total investment management services revenues  | 390,645                              | 300,262    | 744,816                               | 561,046    |  |
| Interest expense   | 341,514                              | 249,921    | 656,009                               | 466,668    |  |
| Expenses   | 22,795                               | 18,461     | 45,458                                | 36,051     |  |
| Total investment management services expenses  | 364,309                              | 268,382    | 701,467                               | 502,719    |  |
| Investment management services income  | 26,336                               | 31,880     | 43,349                                | 58,327     |  |

## Corporate

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| Net investment income   | 7,739             | 3,508            | 13,729         | 7,072    |
|---|-------------------|------------------|----------------|----------|
| Insurance recoveries  | 3,000             |                  | 6,400          |          |
| Net realized gains (losses)   | (9,437)           | 841              | (8,495)        | 1,467    |
| Net gains (losses) on financial instruments at fair value and foreign |                   |                  |                |          |
| exchange  | (303)             | 138              | (166)          | 138      |
| Interest expense  | 20,182            | 20,170           | 40,361         | 40,301   |
| Corporate expenses  | 8,461             | 3,360            | 16,916         | 5,668    |
|   |                   |                  |                |          |
| Corporate loss  | (27,644)          | (19,043)         | (45,809)       | (37,292) |
|   |                   |                  |                |          |
| Income from continuing operations before income taxes                 | 293,017           | 303,061          | 570,058        | 576,311  |
|   |                   | ,                | ,              | ,        |
| Provision for income taxes  | 81,186            | 83,138           | 159,616        | 158,185  |
|   |                   |                  |                |          |
| Income from continuing operations                                     | 211,831           | 219,923          | 410,442        | 418,126  |
| Income (loss) from discontinued operations, net of tax                |                   | 1,439            |                | 2,230    |
| income (1088) from discontinued operations, liet of tax               |                   | 1,439            |                | 2,230    |
| N7 4 4  | <b>\$ 244 024</b> | <b># 221 272</b> | <b>440.440</b> | Φ.       |
| Net income  | \$ 211,831        | \$ 221,362       | \$ 410,442     | \$       |