Standard AVB Financial Corp.
Form DEF 14A
April 15, 2019
TABLE OF CONTENTS
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
SCHEDULE 14A
Proxy Statement Pursuant to Section 14(a) of the Securities
Exchange Act of 1934 (Amendment No.)
Filed by the Registrant
Filed by a Party other than the Registrant
Check the appropriate box:

Preliminary Proxy Statement

Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to §240.14a-12

Standard AVB Financial Corp.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)
Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1)
Title of each class of securities to which transaction applies:

N/A

(2)
Aggregate number of securities to which transaction applies:

N/A

(3)

Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

N/A

(4)
Proposed maximum aggregate value of transaction:

N/A

(5)
Total fee paid:

N/A

Fee paid previously with preliminary materials.

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1)
Amount Previously Paid:

N/A

(2)
Form, Schedule or Registration Statement No.:

N/A

(3)
Filing Party:

N/A

(4)
Date Filed:

N/A

TABLE OF CONTENTS

STANDARD AVB FINANCIAL CORP.
2640 Monroeville Boulevard
Monroeville, Pennsylvania 15146

April 15, 2019

Dear Fellow Stockholder:

You are cordially invited to attend the Annual Meeting of Stockholders of Standard AVB Financial Corp. (the "Company" or "Standard AVB"). Our Annual Meeting will be held at the Courtyard by Marriott Monroeville, 3962 William Penn Highway, Monroeville, PA 15146, on May 21, 2019 at 9:00 a.m. local time.

The enclosed Notice of Annual Meeting of Stockholders and Proxy Statement describe the formal business to be transacted at the Annual Meeting, which includes a report on the operations of the Company. Directors and officers of the Company will be present to answer any questions that you and other stockholders may have. Also enclosed for your review is our Annual Report on Form 10-K, which contains detailed information concerning the activities and operating performance of the Company.

The business to be conducted at the Annual Meeting consists of the election of five directors; the ratification of the appointment of S.R. Snodgrass, P.C. as our independent registered public accountants for the fiscal year ending December 31, 2019; the consideration of an advisory, non-binding resolution with respect to the executive compensation described in the Proxy Statement; and the consideration of an advisory vote on the frequency of future "say-on-pay" votes with respect to our Named Executive Officers. The Board of Directors has determined that the matters to be considered at the Annual Meeting are in the best interest of the Company and its stockholders, and the Board of Directors unanimously recommends a vote "FOR" the election of the director nominees, "FOR" the ratification of S.R. Snodgrass, P.C. as our independent registered public accountant for the fiscal year ending December 31, 2019, "FOR" the advisory resolution with respect to the executive compensation as described in the Proxy Statement, and in favor of the "ONE YEAR" option with respect to the frequency of future "say-on-pay" votes with respect to our Named Executive Officers.

Please indicate your vote by using the enclosed proxy card or by voting by telephone or internet, even if you currently plan to attend the Annual Meeting. This will not prevent you from voting in person, but will ensure that your vote is counted. Your vote is important.

Sincerely,

Timothy K. Zimmerman
Chief Executive Officer

TABLE OF CONTENTS

STANDARD AVB FINANCIAL CORP.
2640 Monroeville Boulevard
Monroeville, Pennsylvania 15146
(412) 856-0363

NOTICE OF
ANNUAL MEETING OF STOCKHOLDERS
To Be Held On May 21, 2019

Notice is hereby given that the Annual Meeting of the Stockholders of Standard AVB Financial Corp. will be held at the Courtyard by Marriott Monroeville, 3962 William Penn Highway, Monroeville, PA 15146, on May 21, 2019 at 9:00 a.m. local time.

A proxy statement and proxy card for the Annual Meeting are enclosed. The Annual Meeting is for the purpose of considering and acting upon:

1. the election of five directors;

2. the ratification of the appointment of S.R. Snodgrass, P.C. as independent registered public accountants for the fiscal year ending December 31, 2019;

3. an advisory, non-binding resolution with respect to the executive compensation described in the Proxy Statement;

4. an advisory vote with respect to the frequency of future advisory votes on the compensation of our Named Executive Officers; and such other business as may properly come before the Annual Meeting, and any adjournments or postponement thereof.

The Board of Directors is not aware of any other such business. Any action may be taken on the foregoing proposals at the Annual Meeting, including all adjournments thereof. Stockholders of record at the close of business on March 29, 2019 are the stockholders entitled to vote at the Annual Meeting. A list of stockholders entitled to vote will be open and available for inspection at the Courtyard by Marriott Monroeville, 3962 William Penn Highway, Monroeville, PA 15146 during the entire Annual Meeting.

By Order of the Board of Directors
Standard AVB Financial Corp.

Monroeville, Pennsylvania	Timothy K. Zimmerman
April 15, 2019	Chief Executive Officer

It is important that your shares be represented and voted at the Annual Meeting. Stockholders whose shares are held in registered form have a choice of voting by proxy card, telephone or the Internet, as described on your proxy card. Stockholders whose shares are held in the name of a broker, bank or other holder of record must vote in the manner directed by such holder. Check your proxy card or the information forwarded by your broker, bank or other holder of record to see which options are available to you. Any stockholder of record present at the Annual Meeting may withdraw his or her proxy and vote personally on any matter properly brought before the Annual Meeting. If you are a stockholder whose shares are not registered in your own name, you will need appropriate documentation from the stockholder of record to vote in person at the Annual Meeting.

Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting of Stockholders to be Held on May 21, 2019: This Proxy Statement, proxy card and Standard AVB Financial Corp.'s 2018 Annual Report to

Stockholders are each available at www.edocumentview.com/STND.

TABLE OF CONTENTS

TABLE OF CONTENTS

TABLE OF CONTENTS

STANDARD AVB FINANCIAL CORP.
PROXY STATEMENT FOR THE
2019 ANNUAL MEETING OF STOCKHOLDERS
To Be Held on May 21, 2019

GENERAL INFORMATION

This Proxy Statement and accompanying Proxy Card and the 2018 Annual Report to Stockholders are being furnished to the stockholders of Standard AVB Financial Corp. (sometimes referred to as “Standard AVB” or the “Company”) in connection with the solicitation of proxies by the Board of Directors of Standard AVB, for use at the 2019 Annual Meeting of Stockholders. The Annual Meeting will be held on May 21, 2019, at 9:00 a.m., local time, at the Courtyard by Marriott Monroeville, 3962 William Penn Highway, Monroeville, PA 15146. The term “Annual Meeting,” as used in this Proxy Statement, includes any adjournment or postponement of such meeting.

This Proxy Statement is dated April 15, 2019 and is first being mailed to stockholders on or about April 15, 2019.

The 2019 Annual Meeting of Stockholders

Date, Time and Place

The Annual Meeting of Stockholders will be held on May 21, 2019, at 9:00 a.m., local time, at the Courtyard by Marriott Monroeville, 3962 William Penn Highway Monroeville, Pennsylvania 15146.

Record Date

March 29, 2019.

Shares Entitled to Vote

4,822,646 shares of Standard AVB common stock were outstanding on the Record Date and are entitled to vote at the Annual Meeting.

Purpose of the Annual Meeting

To consider and vote on the election of five directors; the ratification of the appointment of S.R. Snodgrass, P.C. as the Company’s independent registered public accountants for the fiscal year ending December 31, 2019; the consideration of an advisory, non-binding resolution with respect to the executive compensation described in the Proxy Statement; and the consideration of an advisory vote with respect to the frequency of future “say-on-pay” advisory votes on the compensation of our Named Executive Officers.

Vote Required

Directors are elected by a plurality of votes cast, without regard to either broker non-votes or proxies as to which authority to vote for the nominees being proposed is withheld. The ratification of the appointment of S.R. Snodgrass, P.C. as independent registered public accountants is determined by a majority of the votes cast, without regard to broker non-votes or proxies marked “ABSTAIN.” As to the advisory, non-binding resolution with respect to our executive compensation as described in this Proxy Statement, a stockholder may: (i) vote “FOR” the resolution; (ii) vote “AGAINST” the resolution; or (iii) “ABSTAIN” from voting on the resolution. The affirmative vote of a majority of the votes cast at the Annual Meeting, without regard to either broker non-votes or shares as to which the “ABSTAIN” box has been selected on the proxy card, is required for the approval of this non-binding resolution. As to the advisory vote on the frequency of future “say-on-pay” advisory votes on the executive compensation of our Named Executive Officers, stockholders

TABLE OF CONTENTS

may choose one of four choices: every year, every two years, every three years, or to abstain from voting. Although this advisory vote regarding the frequency of "say-on-pay" votes is non-binding on the Board of Directors, the Board of Directors will review the voting results and take them into consideration when deciding how often to conduct "say-on-pay" advisory votes.

Your Board of Directors Recommends a Vote in Favor of The Proposals

The Board of Directors has determined that the matters to be considered at the Annual Meeting are in the best interest of the Company and its stockholders, and the Board of Directors unanimously recommends a vote "FOR" the election of the director nominees as well as Proposals 2 and 3, and in favor of the "ONE YEAR" option with respect to Proposal 4.

Who Can Vote

The Board of Directors has fixed March 29, 2019 the record date for determining the stockholders entitled to receive notice of and to vote at the Annual Meeting. Accordingly, only holders of record of shares of Standard AVB common stock, par value $0.01 per share, at the close of business on such date will be entitled to vote at the Annual Meeting. On March 29, 2019, 4,822,646 shares of Standard AVB common stock were outstanding and held by approximately 570 holders of record. The presence, in person or by properly executed proxy, of the holders of a majority of the outstanding shares of Standard AVB common stock is necessary to constitute a quorum at the Annual Meeting.

How Many Votes You Have

Each holder of shares of Standard AVB common stock outstanding on March 29, 2019 will be entitled to one vote for each share held of record. However, Standard AVB's Articles of Incorporation provide that stockholders of record who beneficially own in excess of 10% of the then-outstanding shares of common stock of Standard AVB are not entitled to any vote with respect to the shares held in excess of that 10% limit. A person or entity is deemed to beneficially own shares that are owned by an affiliate, as well as by any person acting in concert with such person or entity.

Matters to Be Considered

The purpose of the Annual Meeting is to vote on the election of five directors; to ratify the appointment of S.R. Snodgrass, P.C. as our independent registered public accountants for the fiscal year ending December 31, 2019; to consider an advisory, non-binding resolution with respect to the executive compensation described in the Proxy Statement; and to consider an advisory vote with respect to the frequency of future advisory votes on our executive compensation.

You may be asked to vote upon other matters that may properly be submitted to a vote at the Annual Meeting. You also may be asked to vote on a proposal to adjourn or postpone the Annual Meeting. Standard AVB could use any adjournment or postponement for the purpose, among others, of allowing additional time to solicit proxies.

How to Vote

You may vote your shares by completing and signing the enclosed Proxy Card and returning it in the enclosed postage-paid envelope or by attending the Annual Meeting. Alternatively, you may choose to vote your shares using the internet or telephone voting options explained on your Proxy Card. You should complete and return the Proxy Card accompanying this document, or vote using the internet or telephone voting options, in order to ensure that your vote is counted at the Annual Meeting, or at any adjournment or postponement of the Annual Meeting, regardless of whether you plan to attend. Where no instructions are indicated, validly executed proxies will be voted "FOR" the election of the five director nominees named on

TABLE OF CONTENTS

the Proxy Statement, "FOR" Proposals 2 and 3 as set forth in the Proxy Statement, and in favor of the "ONE YEAR" option with respect to Proposal 4 as set forth in the Proxy Statement.

If you are a stockholder whose shares are not registered in your own name, you will need appropriate documentation from the stockholder of record to attend the Annual Meeting. Examples of such documentation include a broker's statement or letter or other documentation that will confirm your ownership of shares of Standard AVB common stock. If you want to vote your shares of Standard AVB common stock that are held in street name in person at the Annual Meeting, you will need a written proxy in your name from the broker, bank or other nominee who holds your shares.

The Board of Directors is currently unaware of any other matters that may be presented for consideration at the Annual Meeting. If other matters properly come before the Annual Meeting, or at any adjournment or postponement of the Annual Meeting, shares represented by properly submitted proxies will be voted, or not voted, by the persons named as proxies on the Proxy Card in their best judgment.

Quorum and Vote Required

The presence, in person or by properly executed proxy, of the holders of a majority of the outstanding shares of Standard AVB common stock is necessary to constitute a quorum at the Annual Meeting. Abstentions and broker non-votes will be counted solely for the purpose of determining whether a quorum is present. A proxy submitted by a broker that is not voted is sometimes referred to as a broker non-vote.

Directors are elected by a plurality of votes cast, without regard to either broker non-votes or proxies as to which authority to vote for the nominees being proposed is "Withheld." The ratification of the appointment of S.R. Snodgrass, P.C. as independent registered public accountants is determined by a majority of the votes cast, without regard to broker non-votes or proxies marked "ABSTAIN." As to the advisory, non-binding resolution with respect to our executive compensation as described in this Proxy Statement, a stockholder may: (i) vote "FOR" the resolution; (ii) vote "AGAINST" the resolution; or (iii) "ABSTAIN" from voting on the resolution. The advisory resolution with respect to our executive compensation as described in the Proxy Statement and the advisory vote on the frequency of future "say-on-pay" votes are determined by the affirmative vote of a majority of the votes cast at the Annual Meeting, without regard to either broker non-votes or abstentions. As to the advisory vote on the frequency of future "say-on-pay" advisory votes on our executive compensation, stockholders may choose one of four choices: "ONE YEAR," "TWO YEARS," "THREE YEARS," or "ABSTAIN." While voting on Proposals 3 and 4 are required by law, these votes will neither be binding on Standard AVB or the Board of Directors, nor will they create or imply any change in the fiduciary duties of, or impose any additional fiduciary duty on Standard AVB or the Board of Directors.

Revocability of Proxies

You may revoke your proxy at any time before the vote is taken at the Annual Meeting. You may revoke your proxy by:

- submitting written notice of revocation to the Corporate Secretary of Standard AVB prior to the voting of such proxy;
- submitting a properly executed proxy bearing a later date;
- using the internet or telephone voting options explained on the Proxy Card; or
- voting in person at the Annual Meeting; however, simply attending the Annual Meeting without voting will not revoke an earlier proxy.

Written notices of revocation and other communications regarding the revocation of your proxy should be addressed to:

Standard AVB Financial Corp.
2640 Monroeville Boulevard

Monroeville, Pennsylvania 15146
Attention: Kim J. Davis, Corporate Secretary
3

TABLE OF CONTENTS

If your shares are held in street name, your broker votes your shares and you should follow your broker's instructions regarding the revocation of proxies.

Solicitation of Proxies

Standard AVB will bear the entire cost of soliciting proxies from you. In addition to the solicitation of proxies by mail, Standard AVB will request that banks, brokers and other holders of record send proxies and proxy material to the beneficial owners of Standard AVB common stock and secure their voting instructions. Standard AVB will reimburse such holders of record for their reasonable expenses in taking those actions. If necessary, Standard AVB may also use several of its regular employees, who will not be separately compensated, to solicit proxies from stockholders, personally or by telephone, facsimile or letter.

Recommendation of the Board of Directors

The Board of Directors has determined that the matters to be considered at the Annual Meeting are in the best interest of the Company and its stockholders, and the Board of Directors unanimously recommends a vote "FOR" the election of the director nominees, "FOR" Proposals 2 and 3, and in favor of the "ONE YEAR" option with respect to Proposal 4.

Security Ownership of Certain Beneficial Owners and Management

Persons and groups who beneficially own in excess of five percent of the Company's common stock are required to file certain reports with the Securities and Exchange Commission regarding such beneficial ownership. The following table sets forth, as of March 29, 2019, certain information as to the shares of the Company's common stock owned by persons who beneficially own more than five percent of the Company's outstanding shares of common stock. We know of no persons, except as listed below, who beneficially owned more than five percent of the outstanding shares of the Company's common stock as of March 29, 2019. For purposes of the following table and the table included under the heading "Management," in accordance with Rule 13d-3 under the Securities Exchange Act of 1934, as amended, a person is deemed to be the beneficial owner of any shares of common stock (i) over which he or she has, or shares, directly or indirectly, voting or investment power or (ii) as to which he or she has the right to acquire beneficial ownership at any time within 60 days after March 29, 2019.

Name and Address of Beneficial Owner	Number of Shares Owned and Nature of Beneficial Ownership	Percent of Shares of Common Stock Outstanding(1)
Standard Bank, PaSB Employee Stock Ownership Plan 2640 Monroeville Blvd. Monroeville, Pennsylvania 15146	254,610(2)	5.28%
Banc Fund VII L.P. Banc Fund VIII L.P. Banc Fund IX L.P. 20 North Wacker Drive Chicago, Illinois 60606	261,976(3)	5.43%

(1)
Based on 4,822,646 shares of Standard AVB common stock outstanding as of March 29, 2019.

(2)
Based on information contained in a Schedule 13G filed with the U.S. Securities and Exchange Commission on February 14, 2019.

(3)
Based on information contained in a Schedule 13G/Amendment No. 1 filed with the U.S. Securities and Exchange Commission on February 12, 2019.

4

TABLE OF CONTENTS

The following table sets forth information about the shares of Standard AVB common stock owned by each nominee for election as director, each incumbent director, each named executive officer identified in the summary compensation table included elsewhere in this Proxy Statement, and all nominees, incumbent directors and executive officers as a group, as of March 29, 2019.

Name(1)	Positions Held in Standard AVB Financial Corp.	Age(2)	Director Since(3)	Current Term to Expire	Shares of Common Stock Beneficially Owned as of the Record Date(4)	Percent of Class(5)
NOMINEES						
Terence L. Graft	Chairman of the Board	69	1991	2019	50,093(6)	1.04%
John M. Lally	Director	63	2009	2019	32,515(7)	*
David C. Mathews	Director	64	2006	2019	60,167(8)	1.25%
Ronald J. Mock	Director	62	2009	2019	16,848(9)	*
Dale A. Walker	Director	69	1999	2019	34,322(10)	*
DIRECTORS CONTINUING IN OFFICE						
Jennifer H. Lunden	Director	45	2018	2020	5,435(11)	*
William T. Ferri	Director	74	2007	2020	44,882(12)	*
Paul A. Iurlano	Director	64	2004	2020	27,187(13)	*
Gregory J. Saxon	Vice Chairman of the Board	54	2002	2020	33,834(14)	*
Andrew W. Hasley	President and Director	55	2006	2021	53,256(15)	1.10%
Thomas J. Rennie	Director	69	2008	2021	29,143(16)	*
R. Craig Thomasmeyer	Director	54	2004	2021	33,069(17)	*
Timothy K. Zimmerman	Chief Executive Officer and Director	68	1993	2021	128,378(18)	2.66%
EXECUTIVE OFFICERS WHO ARE NOT DIRECTORS						
Susan A. Parente	Executive Vice President — Chief Financial Officer				26,679(19)	*
John P. Kline	Executive Vice President — Chief Lending Officer				250(20)	*
Susan M. DeLuca	Senior Vice President — Chief Risk Officer				9,093(21)	*
Christian M. Chelli	Senior Vice President — Chief Credit Officer				5,834(22)	*
Shelia D. Crystaloski	Senior Vice President — Chief Technology Officer				27,598(23)	*
All directors and executive officers as a group (18 persons)					618,583	12.83%

*
Less than 1%.

(1)
The mailing address for each person listed is 2640 Monroeville Boulevard, Monroeville, Pennsylvania 15146.

(2)
As of March 29, 2019.

(3)
Reflects initial election to the Board of Directors of Standard Financial Corp. or Allegheny Valley Bancorp, Inc., as applicable. On April 7, 2017, Allegheny Valley Bancorp, Inc. merged into Standard Financial Corp., with the resulting entity renamed Standard AVB Financial Corp.

(4)
In accordance with Rule 13d-3 under the Securities Exchange Act of 1934, a person is deemed to be the beneficial owner for purposes of this table, of any shares of common stock if he has shared voting or investment power with respect to such security, or has a right to acquire beneficial ownership at any time within 60 days from the date as of which beneficial ownership is being determined. As used herein, “voting power” is the power to vote or direct the voting of shares and “investment power” is the

TABLE OF CONTENTS

power to dispose or direct the disposition of shares, and includes all shares held directly as well as by spouses and minor children, in trust and other indirect ownership, over which shares the named individuals effectively exercise sole or shared voting or investment power.

(5)
Based on 4,822,646 shares outstanding as of March 29, 2019.

(6)
Includes 9,795 exercisable stock options.

(7)
Includes 7,532 exercisable stock options.

(8)
Includes 19,200 exercisable stock options.

(9)
Includes 4,166 exercisable stock options.

(10)
Includes 16,695 exercisable stock options.

(11)
Includes no exercisable stock options.

(12)
Includes 13,000 exercisable stock options.

(13)
Includes 4,166 exercisable stock options.

(14)
Includes 4,166 exercisable stock options.

(15)
Includes 10,280 exercisable stock options.

(16)
Includes 16,195 exercisable stock options.

(17)
Includes 7,532 exercisable stock options.

(18)
Includes 70,500 exercisable stock options.

(19)
Includes 15,400 exercisable stock options.

(20)
Includes no exercisable stock options.

(21)
Includes no exercisable stock options.

(22)
Includes no exercisable stock options.

(23)
Includes 8,600 exercisable stock options.

Section 16(a) Beneficial Ownership Reporting Compliance

The common stock is registered with the Securities and Exchange Commission pursuant to Section 12(b) of the Securities Exchange Act of 1934. The officers and directors of the Company and beneficial owners of greater than 10% of the common stock are required to file reports on Forms 3, 4 and 5 with the Securities and Exchange Commission disclosing beneficial ownership and changes in beneficial ownership of the common stock. Securities and Exchange Commission rules require disclosure in the Company’s Proxy Statement or Annual Report on Form 10-K of the failure of an officer, director or 10% beneficial owner of the common stock to file a Form 3, 4, or 5 on a timely basis. Based on the Company’s review of ownership reports, all such reports were filed on a timely basis during the fiscal year ended December 31, 2018.

TABLE OF CONTENTS

PROPOSAL I — ELECTION OF DIRECTORS

The Board of Directors currently consists of thirteen (13) members and is divided into three classes, with one class of directors elected each year.

Five (5) directors will be elected at the Annual Meeting and will serve until their successors have been elected and qualified. The Nominating and Corporate Governance Committee has nominated Terence L. Graft, John M. Lally, David C. Mathews, Ronald J. Mock and Dale A. Walker to serve as directors for a three-year term.

The biographies of each of the nominees and continuing board members below contain information regarding the person's business experience and the experiences, qualifications, attributes or skills that caused the Nominating and Corporate Governance Committee and the Board of Directors to determine that the person should serve as a director. The principal occupation during the past five years of each of our directors is set forth below. All directors have held their present positions for at least five years unless otherwise stated. Each existing director is also a director of Standard Bank, PaSB.

All of the nominees and directors continuing in office are or were long-time residents of the communities served by Standard AVB and many of such individuals have operated, or currently operate, businesses located in such communities. As a result, each nominee and director continuing in office has significant knowledge of the businesses that operate in Standard AVB's market area, an understanding of the general real estate market, values and trends in such communities and an understanding of the overall demographics of such communities. As the holding company for a community banking institution, Standard AVB believes that the local knowledge and experience of its directors assists Standard AVB in assessing the credit and banking needs of its customers, developing products and services to better serve its customers and assessing the risks inherent in its lending operations, and provides Standard AVB with greater business development opportunities.

It is intended that the proxies solicited on behalf of the Board (other than proxies in which the vote is withheld as to the nominees) will be voted at the Annual Meeting "FOR" the election of the nominees. If the nominees are unable to serve, the shares represented by all such proxies will be voted for the election of such substitute as the Board may recommend. At this time, the Board knows of no reason why the nominees would be unable to serve if elected. Except as indicated herein, there are no arrangements or understandings between the nominees and any other person pursuant to which such nominees were selected.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" EACH OF THE NOMINEES LISTED IN THIS PROXY STATEMENT.

Directors and Executive Officers

Following is the business experience for the past five years of each of the Company's directors and executive officers.

Nominees for Director for a Term of Three Years

Terence L. Graft has been a director of Standard AVB and Standard Bank since 1991 and has served as Chairman of the Board of Directors since 2008. Mr. Graft is the owner of Kepple-Graft Funeral Home located in Greensburg, Pennsylvania and Graft-Jacquillard Funeral Home located in Scottdale, Pennsylvania. He is a member of the National and Pennsylvania Funeral Directors Associations, as well as the Funeral Directors Associations of Armstrong, Westmoreland and Indiana, Pennsylvania. Mr. Graft's experience as a local business owner and his knowledge of the local business community and his business management skills make him a valuable contributor to the Board of Directors.

John M. Lally, CPA, MBA, CVA, has been a director of Standard AVB and Standard Bank since 2017. He previously served as a director of Allegheny Valley Bancorp and Allegheny Valley Bank from 2009 to 2017. Mr. Lally is the managing partner of Lally & Co., LLC, a Pittsburgh-based certified public accounting and business advisory firm. Mr. Lally has been an owner/partner in the CPA practice since its founding in 1983. Mr. Lally is a 1977 graduate of Saint Vincent College in Latrobe, Pennsylvania, and obtained his MBA from The George Washington University in Washington, D.C., in 1978. He successfully passed the Uniform CPA Exam in 1981, the Certified Financial Planner examinations in 1986, and the Certified Valuation Analyst examination in 2001. Mr. Lally brings valued practical and technical experience as well as strong business community relationships to our board and the committees on which he serves.

David C. Mathews has been a director of Standard AVB and Standard Bank since 2006. Mr. Mathews served as the Business Development Coordinator of Standard Bank from January 2006 until his retirement in February 2019. Prior to joining Standard Bank, Mr. Mathews served as the President and Chief Executive Officer of Hoblitzell National Bank ("HNB") from 1998 until HNB was acquired by Standard Bank in January 2006. Mr. Mathews has 34 years of experience in banking. Mr. Mathews is a board member of the Western Maryland Health System Hospital and the Western Maryland Health System Foundation, and is also a past member of the Frostburg State Business Advisory Board of Directors and The Greater Cumberland Committee. He is a former board member of the YMCA of Cumberland. Mr. Mathews contributes his extensive experience with commercial lending and business development and general management expertise to the Board of Directors.

Ronald J. Mock, CPA has been a director of Standard AVB and Standard Bank since 2017. Mr. Mock previously served as a director of Allegheny Valley Bancorp and Allegheny Valley Bank from 2009 to 2017. Mr. Mock is the President of Mock Bosco & Associates, P.C., a regional public accounting firm, and CEO of Independent Controller Services, Inc. Throughout his 30-year career, Mr. Mock has provided audit and tax services to a variety of private, publicly held, and foreign-owned companies in the manufacturing, professional services, real estate, and construction industries. Before owning his own firm, he was employed by Deloitte & Touche in Pittsburgh, an international accounting and consulting firm, where he was a Manager in the Audit Department. Mr. Mock is a member of the American and Pennsylvania Institutes of Certified Public Accountants. He formerly served as Chairman of the SMC Business Council, a regional business trade association, and is a former member of the Association's Audit Committee. Mr. Mock's professional experience, inquisitive nature, strong ties to the communities served by the Bank, and integrity all provide valuable resources to the board.

Dale A. Walker has been a director of Standard AVB and Standard Bank since 1999. Mr. Walker is a certified public accountant and is the owner of Dale A. Walker, CPA, an accounting firm in Mount Pleasant, Pennsylvania. He is a member of the American and Pennsylvania Institutes of Certified Public Accountants, a director and Treasurer of Penn Laurel Holdings, a real estate investment company, Director of the Mount Pleasant Free Public Library, past Chairman of the Board of Excela Health, a not-for-profit health care system in western Pennsylvania, Treasurer of Mount Pleasant Business District Authority and Mount Pleasant Parking Authority, Elder at Reunion Presbyterian Church and a past president and member of the Mount Pleasant Rotary. Mr. Walker contributes his accounting experience and knowledge of the local business community to the Board of Directors.

Terms to Expire Fiscal Year 2020

Jennifer H. Lunden has been a director of Standard AVB and Standard Bank since 2018. Mrs. Lunden is an attorney with Hergenroeder, Rega, Ewing & Kennedy, LLC, a residential and commercial real estate law firm based in Pittsburgh, Pennsylvania. Mrs. Lunden's legal experience in banking and lending matters provide additional depth to the Standard AVB and Standard Bank Boards of Directors. Mrs. Lunden is a Member of the Allegheny County Bar Association, National Association of Development Companies and Western Pennsylvania Association of Guaranteed SBA Lenders. Mrs. Lunden is also a Pennsylvania Title Agent and Solicitor of Murrysville Economic and Community Development Association. Mrs. Lunden's legal experience coupled with a wide range of business experience, leadership qualities, and ongoing interaction with the local Pittsburgh and Murrysville communities make her a valuable contributor to the Board of Directors.

William T. Ferri has been a director of Standard AVB and Standard Bank since 2007. Mr. Ferri is a pharmacist and the owner of Ferri Pharmacy located in Murrysville, Pennsylvania. He is also the Chief Executive Officer of Ferri Enterprises, a property development and management company, and the President of Ferri Supermarkets, Inc. He is Director-Secretary of Value Drug Company, a pharmacy wholesale co-op distributor in Altoona, PA, and is also a member of the Pennsylvania Pharmacists

TABLE OF CONTENTS

Association, the National Association of Retail Pharmacists, the Murrysville Community Economic Development Corporation, the Westmoreland Chamber of Commerce and the Murrysville Business Association. Mr. Ferri contributes his experience owning a local business and his knowledge of the local business community to the Board of Directors

Paul A. Iurlano has been a director of Standard AVB and Standard Bank since 2017. Mr. Iurlano was previously a director of Allegheny Valley Bancorp and Allegheny Valley Bank from 2004 to 2017. Mr. Iurlano is Chief Facilities Officer of the Roman Catholic Diocese of Pittsburgh and Legal Counsel for the Diocesan Office for Facilities Management. In his current position, Mr. Iurlano is involved in all aspects of the acquisition, development and disposal of real estate as well as owner oversight of major construction, renovation and demolition projects. Prior to the Catholic Diocese, Mr. Iurlano had extensive experience in general construction and construction management of projects principally involving all types of parking structures, mid-rise and high-rise apartment buildings, retail buildings and commercial build outs. Since 1995, Mr. Iurlano has served as a construction arbitrator on over 150 cases administrated by the American Arbitration Association. Disputes have ranged from $10,000 to $3 million and involved contract interpretation, change orders, performance deficiencies, delay and lost opportunity. Mr. Iurlano is also a Trustee of the Pittsburgh Catholic Newspaper Publishing Corp., Director of Parish Catholic Cemeteries Association, Inc., Director of Central Catholic High School, Inc., Director of North Catholic High School, Inc., Director of the St. Joseph High School, Inc., and Director and past President of the Fox Chapel Authority. In addition to his law degree, Mr. Iurlano has degrees in engineering and public administration. Mr. Iurlano's significant involvement in construction, property management, contract dispute resolution and other outside board involvement make him a valuable Board member.

Gregory J. Saxon has been a director of Standard AVB and Standard Bank since 2017. Mr. Saxon previously served as a director of Allegheny Valley Bancorp from 2002 through 2017 and Allegheny Valley Bank from 2001 to 2017. He also served as Chairman of Allegheny Valley Bancorp and Allegheny Valley Bank from 2006 to 2017. Mr. Saxon is President of Conco Services, Corp., a privately held manufacturing and energy services company. Previous to his current employment, Mr. Saxon served as Vice President of Manufacturing at Conco, while filling a second position as President of Global Heat Exchanger Services Co., a manufacturing and petrochemical services company affiliated with Conco Services, Corp. He has also functioned as the manufacturing manager and plant manager at Conco and has been a member of the Board of Directors for all Conco companies since 1990. Mr. Saxon graduated from Robert Morris College with a Bachelor of Science degree in Marketing and has been a member of the Society of Manufacturing Engineers as well as the National Tooling and Machining Association since 1987. He has also participated in additional Executive Educational Programs at Wharton, University of Pennsylvania, for additional education at both the Executive and Directorship levels. Mr. Saxon's wide range of business experience, leadership qualities, and ongoing interaction with the local Pittsburgh business community make him a valuable contributor to the Board of Directors.

Terms to Expire Fiscal Year 2021

Andrew W. Hasley, CPA, MBA, is President and a director of Standard AVB and Standard Bank since 2017. He was formerly the President, Chief Executive Officer and a director of Allegheny Valley Bancorp and Allegheny Valley Bank from 2006 through 2017. Prior to his work with Allegheny Valley, Mr. Hasley was President of NorthSide Bank and its holding company, NSD Bancorp, Inc. He has also served as President of Pennsylvania Capital Bank. Mr. Hasley's banking experience dates back to December 1985. He audited financial institutions while employed at Ernst and Whitney, and earned the Federal Thrift Regulator designation while employed by the Office of Thrift Supervision. Through his years of experience in this industry, Mr. Hasley has gained significant knowledge in all areas of executive bank management. He has been elected as Chairman of the Board of Directors of the Pennsylvania Association of Community Bankers and has taught continuing professional education for Pennsylvania State University on various banking-related subjects. Mr. Hasley has been active in local charities and his church, serving as President of the Board of Trustees of the Mt. Lebanon Evangelical Presbyterian Church, and is a board member of the Pittsburgh Zoo and PPG Aquarium, serving on the Zoo's strategic planning and finance committees. Mr. Hasley is a 1985 graduate of Duquesne University in Pittsburgh, Pennsylvania, and obtained his MBA from Duquesne University in 1991. He currently is a member of the Federal Reserve

TABLE OF CONTENTS

Bank of Cleveland Community Depository Institutions Advisory Council. Mr. Hasley’s vast experience leading financial institutions throughout his career and extensive technical background and management experience make him a valuable member of the Board of Directors.

Thomas J. Rennie has been a director of Standard AVB and Standard Bank since 2008. Mr. Rennie is a certified public accountant and the owner of a public accounting firm offering tax, accounting and consulting services with offices in Ligonier and Greensburg, Pennsylvania. He is a member and past President of the Ligonier Chamber of Commerce, past President of the Southwest Chapter of the Pennsylvania Institute of Certified Public Accountants and a past President of Ligonier Rotary Club and presently serves on the finance council of St. Benedict Church in Greensburg. Mr. Rennie contributes his accounting and business management and analytical experience and knowledge of the local business community to the Board of Directors.

R. Craig Thomasmeyer has been a director of Standard AVB and Standard Bank since 2017. Previously, Mr. Thomasmeyer served as a director of Allegheny Valley Bancorp and Allegheny Valley Bank from 2004 through 2017. Mr. Thomasmeyer is the Executive Vice President of Miller Information Systems (“MIS”), a Pittsburgh-based telecommunications contractor and services provider. Prior to joining MIS in 1992, Mr. Thomasmeyer worked at Davenport, Marvin, Joyce & Co., CPAs located in North Carolina. He also serves on the Audit Committee of Butler Health Systems. As a certified public accountant, he served their base of local clients in the audit and special accounting needs fields. With his experience, Mr. Thomasmeyer provides the Board of Directors with valuable expertise in dealing with accounting principles and financial reporting rules and regulations, evaluating financial results, and generally overseeing the financial reporting process of corporations. Mr. Thomasmeyer’s experience and knowledge make him a skilled advisor and a valuable contributor to our Board of Directors.

Timothy K. Zimmerman is Chief Executive Officer and a director of Standard AVB and Standard Bank since 2017. He was formerly the President, Chief Executive Officer of Standard Financial Corp. and Standard Bank from 1992 and a director of Standard Financial Corp. and Standard Bank since 1993. Prior to joining Standard Bank, Mr. Zimmerman served at Landmark Savings Association, Pittsburgh (and predecessors) from 1977 to 1992, including service as Senior Vice President and Chief Financial Officer from 1985 to 1992. Mr. Zimmerman is a Certified Public Accountant and worked for KPMG Peat Marwick from 1973 to 1977. Mr. Zimmerman is very active in not for profit organizations, serving on boards and committees of the Pittsburgh Civic Light Opera and others in the Greater Pittsburgh Area. He is a former member of the Board of Directors of the Pennsylvania Association of Community Bankers. Currently he is serving as Immediate Past Chairman of the Independent Community Bankers of America (“ICBA”) and as a member of ICBA’s Board of Directors and Executive Committee. During his affiliation with ICBA, he has served in many leadership roles including as Chairman of ICBA Securities, Vice Chairman of the Bank Education Committee, Vice Chairman of the Policy Development Committee and Chairman of the ICBA’s Federal Home Loan Bank Task Force. In addition, he has served as Chairman and Vice Chairman of the Consumer Financial Protection Bureau’s Community Bank Advisory Council and is currently a member of the National Association of Home Builders Mortgage Roundtable. He worked on ICBA’s task force for the Financial Accounting Standards Board of Directors’ (“FASB”) Current Expected Credit Loss Model (“CECL”) and was appointed by FASB to the Transition Resource Group for CECL. Mr. Zimmerman contributes his extensive experience in financial accounting, financial institutions and management experience to the Board of Directors.

Executive Officers of Standard AVB Who Are Not Also Directors

The principal occupation during the past five years of each of our executive officers, is set forth below. All executive officers have held their present positions for at least five years unless otherwise stated.

John P. Kline, age 53, is Executive Vice President and Chief Lending Officer of Standard AVB and Standard Bank. Mr. Kline joined Standard AVB and Standard Bank in September 2018. Mr. Kline has 31 years of experience in the financial services industry concentrating in the areas of commercial credit analysis, commercial credit administration, commercial loan administration, commercial real estate lending and commercial and industrial lending. Mr. Kline currently serves as a Board Member of United Way of Southwestern PA, Westmoreland County Chamber of Commerce, Westmoreland Frick Hospital

TABLE OF CONTENTS

Foundation, Economic Growth Connection, Penn Regional Investments and Westmoreland County Industrial Development Authority. In addition, he serves as Board Chair of St. Anne Home and the Salvation Army of Greensburg and Board Treasurer of West Penn Power Sustainable Energy Fund.

Susan A. Parente, CPA, age 56, is Executive Vice President and Chief Financial Officer of Standard AVB and Standard Bank. Ms. Parente joined Standard Financial in 1998 as Controller and in 2000 was appointed Assistant Treasurer. In 2008, she earned the officer designation of Vice President and assumed direction of the newly combined Finance and Operations Department. In 2014, she earned the officer designation of Senior Vice President and in October 2016 was appointed Chief Financial Officer. Ms. Parente has 31 years of banking and accounting experience. Prior to joining Standard Bank, Ms. Parente worked as Manager of Profit Planning and as a Senior Accountant with Equitable Resources, Pittsburgh, from 1990 to 1998. Prior banking experience includes service as an Internal Auditor and Senior Accountant with Landmark Savings Association, Pittsburgh, from 1985 to 1990. Ms. Parente is a certified public accountant and member of the American and Pennsylvania Institutes of Certified Public Accountants.

Christian M. Chelli, age 50, is Senior Vice President and Chief Credit Officer of Standard AVB and Standard Bank. Mr. Chelli was hired by Allegheny Valley Bancorp in 2008 as Vice President, Commercial Lending Officer, and in 2010 served as Senior Vice President, Senior Commercial Lending Officer. In 2013, Mr. Chelli served as Allegheny Valley Bancorp’s Senior Vice President, Chief Credit Officer. Mr. Chelli has over 25 years of experience in the financial services industry concentrating in the areas of commercial credit and policy administration, commercial and industrial lending, commercial real estate lending, financial statement and cash flow analysis and overall business risk assessment. Mr. Chelli currently serves as a Board Member of the Financial Industries Network.

Susan M. DeLuca, age 62, is Senior Vice President and Chief Risk Officer of Standard AVB and Standard Bank. In her forty-year career with Allegheny Valley Bank, she held numerous management positions including a member of the senior management team for twenty-two years. In addition, she served as Corporate Secretary for Allegheny Valley Bancorp and Allegheny Valley Bank for twenty-six years and as a Director of Allegheny Valley Bancorp for nineteen years. Mrs. DeLuca served as a past Board member of the Pittsburgh Chapter of the American Institute of Banking. Mrs. DeLuca oversees general bank compliance and overall risk management initiatives.

Sheila D. Crystaloski, CISM, age 56, is Senior Vice President and Chief Technology Officer of Standard AVB and Standard Bank. Ms. Crystaloski previously served as Director of Technology for Standard Financial and Standard Bank since 1998. In 2000 she earned the officer designation of Assistant Vice President. In 2006 she earned the officer designation of Vice President. Ms. Crystaloski has over 33 years in the technology field and over 25 years in banking technology. Prior to joining Standard Bank, Ms. Crystaloski worked as Senior Systems Analyst and Assistant Vice President for Commercial National Bank, Latrobe from 1991 to 1998. Prior experience includes Computer Operator and Network Specialist for Latrobe Area Hospital from 1984 to 1991. Ms. Crystaloski is a Certified Information Security Manager, a member of ISACA and InfraGard as well as a 15 year Rotarian.

Corporate Governance and Code of Ethics and Business Conduct

Standard AVB is committed to maintaining sound corporate governance principles and the highest standards of ethical conduct and is in compliance with applicable corporate governance laws and regulations.

The Board has adopted a code of ethics for the principal executive officer, principal financial officer, principal accounting officer and all persons performing similar functions. The code of ethics is designed to deter wrongdoing and to promote honest and ethical conduct, the avoidance of conflicts of interest, full and accurate disclosure and compliance with all applicable laws, rules and regulations. The code of ethics is available on the Company’s website at www.standardbankpa.com.

TABLE OF CONTENTS

Director Independence

The Board has determined that, except directors Timothy K. Zimmerman, Andrew W. Hasley and David C. Mathews each member of the Board is an "independent director" within the meaning of the NASDAQ corporate governance listing standards and the Company's corporate governance policies. Messrs. Zimmerman and Hasley are not independent because they are employees of Standard AVB and Standard Bank. Mr. Mathews retired from full time employment with Standard Bank on February 27, 2019. Mr. Mathews is not independent because of his prior employment with Standard Bank. He remains on the Board of Directors. There were no transactions that the Board of Directors needed to review that are not required to be reported under "— Transactions with Certain Related Persons" that would bear in the determination of the independence of the directors.

Board Leadership Structure and Risk Oversight

The Board of Directors is chaired by Terence L. Graft and is vice-chaired by Gregory J. Saxon, each of whom is a non-executive director. This structure ensures a greater role for the independent directors in the oversight of Standard AVB and Standard Bank, and active participation of the independent directors in setting agendas and establishing priorities and procedures for the work of the Board of Directors.

The Board of Directors is actively involved in oversight of risks that could affect Standard AVB. This oversight is conducted primarily through committees of the Board of Directors, but the full Board of Directors has retained responsibility for general oversight of risks. The Board of Directors satisfies this responsibility through full reports by each committee chair regarding such committee's considerations and actions, as well as through regular reports directly from officers responsible for oversight of particular risks within Standard AVB. Risks relating to the direct operations of Standard Bank are further overseen by the Board of Directors of Standard Bank, which consists of the same individuals who serve on the Board of Directors of Standard AVB. The Board of Directors of Standard Bank also has additional committees that conduct risk oversight and they typically meet jointly with the committees of Standard AVB. All committees are responsible for the establishment of policies that guide management and staff in the day-to-day operation of Standard AVB and Standard Bank, such as lending, risk management, asset/ liability management, investment management and others.

Board Meetings and Committees

The Board of Directors of Standard AVB met 12 times during the fiscal year ended December 31, 2018. No director attended fewer than 75% of the aggregate of the total number of Board meetings and committee meetings on which he or she served (during the period in which he or she served) that were held during the fiscal year ended December 31, 2018. Executive sessions of the independent directors are conducted on a regular basis. Although not required, attendance of Board members at the Annual Meeting of Stockholders is encouraged. All of the directors attended the 2018 Annual Meeting of Stockholders.

The Company has three standing Board committees: Compensation and Personnel; Nominating and Corporate Governance; and Audit.

Compensation and Personnel Committee

The Compensation and Personnel Committee ("Compensation Committee") is composed of independent (as defined in the Standard AVB Nominating and Corporate Governance Committee Charter), non-employee directors who are not eligible to participate in management compensation programs. The current members of the Compensation Committee consist of Directors Graft, who serves as Chairman, Ferri, Saxon, Thomasmeyer and Walker. The Compensation Committee has a written charter, which is available on our website at www.standardbankpa.com. The Compensation Committee met 4 times during the fiscal year ended December 31, 2018.

None of these individuals was an officer or employee of Standard AVB or Standard Bank during the fiscal year ended December 31, 2018, or is a former officer of Standard AVB or Standard Bank. Each member of the Compensation Committee is independent in accordance with the listing standards of the NASDAQ Stock Market.

TABLE OF CONTENTS

Pursuant to the Compensation Committee's Charter, the Compensation Committee approves the compensation objectives for Standard AVB and Standard Bank and establishes the compensation for the Chief Executive Officer and other senior executives. The Chief Executive Officer provides recommendations to the Compensation Committee on matters of compensation philosophy, plan design and the general guidelines for employee compensation. These recommendations are then considered by the Compensation Committee. However, Mr. Zimmerman does not vote on and is not present for any discussion of his own compensation.

The Compensation Committee, in performing its duties and responsibilities with respect to director and executive officer compensation, relies on market compensation, survey information and the assistance of the Human Resources Department. In addition, during the fiscal year ended December 31, 2018, the Compensation Committee retained Pearl Meyer & Partners, LLC ("Pearl Meyer") to provide market survey salary data and recommendations with respect to compensation for the Board of Directors. Pearl Meyer had also been retained to perform a comprehensive review of compensation for the Board of Directors and senior executive management compensation and benefit plans during 2017. This information for senior executive management was refreshed during 2018 using independent compensation and benefit survey information.

Analysis of Compensation Risk. In setting compensation, the Compensation Committee also considers the risks to the Company's stockholders that may be inherent in the compensation program and to the achievement of our goals. Based on its review, the Compensation Committee believes our compensation programs represent an appropriate balance of short-term and long-term compensation and do not encourage executive officers or other employees to take unnecessary or excessive risks that are reasonably likely to have a material adverse effect on the Company. The Compensation Committee review also considered our internal controls, policies and risk-mitigating components in our incentive arrangements currently in place.

We considered the following elements, among others, of our executive compensation plans and policies when evaluating whether such plans and policies encourage our executives to take unreasonable risks:

- we set performance goals that we believe are reasonable but challenging in light of past performance and market conditions; and

- we have a balanced portfolio between long-term and short-term compensation, variable and fixed pay, and cash, equity and deferred compensation with a compensation portfolio weighted similar to our peers.

Nominating and Corporate Governance Committee

The Nominating and Corporate Governance Committee consists of at least six directors who are "independent" as defined in the Nominating and Corporate Governance Committee Charter. The current members of the Nominating and Corporate Governance Committee consist of Director Graft, who serves as Chairman, Rennie, Ferri, Thomasmeyer, Iurlano and Saxon. The Nominating and Corporate Governance Committee has a written charter, which is available on our website at www.standardbankpa.com. The Nominating and Corporate Governance Committee of Standard AVB met 2 times during the fiscal year ended December 31, 2018.

Pursuant to the Nominating and Corporate Governance Committee charter, the Nominating and Corporate Governance Committee assists the Board of Directors in identifying qualified individuals to serve as members of the Board of Directors, in determining the composition of the Board of Directors and its committees, in monitoring a process to assess Board of Directors effectiveness and in developing and implementing our corporate governance guidelines. The Nominating and Corporate Governance Committee also considers and recommends the nominees for director to stand for election at our annual meeting of stockholders.

If the candidate is deemed eligible for election to the Board of Directors, the Committee will consider the following criteria in selecting nominees, as described in more detail in the Committee's Charter: the candidate's personal and professional integrity, exceptional ability and judgment, effectiveness in serving the long-term interests of our stockholders and our desire to have directors of diverse backgrounds and perspectives.

TABLE OF CONTENTS

The Nominating and Corporate Governance Committee will also consider an individual's independence, experience relevant to Standard AVB's needs, leadership qualities, diversity and stock ownership.

In addition to meeting these qualifications, a person is not qualified to serve as a director if he or she: (1) has ever been convicted of a criminal offense involving dishonesty or breach of trust and the penalty for such offense could be imprisonment for more than one year, (2) is a person against whom a banking agency has issued a cease and desist order, agreement or written statement subject to public disclosure under 12 U.S.C. §1818(u), or (3) is currently charged in any information, indictment or other complaint with the commission or participation in a crime. In addition, no person may serve on the Board of Directors and at the same time be a director or officer of another co-operative bank, credit union, savings bank, savings and loan association, bank, trust company or holding company thereof (in each case whether chartered under state, federal or other law) that engages in business activities in the same market area as Standard AVB or any of its subsidiaries or in any county contiguous to such market area. At least two-thirds of the members of the Board of Directors must be residents of Pennsylvania or reside within a 100-mile radius of an office of Standard Bank. No person 75 years or older shall be eligible for election, re-election, appointment or reappointment to the Board of Directors, unless such person was a director of Standard Bank on June 1, 1998. Finally, Standard AVB restricts candidates who are affiliated with or representative of controlling stockholders that own more than 10% of Standard AVB common stock that would themselves be ineligible to serve on the Board of Directors.

The Nominating and Corporate Governance Committee has adopted as part of its Charter a commitment to develop and recommend to the Board of Directors criteria for the selection of individuals to be considered for election or re-election to the Board and committees thereof. Standard AVB understands the importance and value of gender and ethnic diversity on a board of directors. The Nominating and Corporate Governance Committee recognizes that diversity in professional and life experiences may include consideration of gender, race, or ethnicity in identifying individuals who possess the qualifications that the Nominating and Corporate Governance Committee believes are important to be represented on the Board of Directors and has committed to include those factors in its selection of individuals to serve on the Board of Directors.

Procedures for the Nomination of Directors by Stockholders

In addition to submitting candidates to the Board for consideration, a stockholder may nominate candidates for election as directors in accordance with Article I, Section 6 of the Company's bylaws. Such stockholder's notice shall set forth the following:

- all information relating to such person that would indicate such person's qualification to serve on the Board of Directors of the Company;
- an affidavit that such person would not be disqualified under the provisions of Article II, Section 12 of the Company bylaws;
- such information relating to such person that is required to be disclosed in connection with the solicitation of proxies for election of directors under Regulation 14A of the Securities Exchange Act of 1934, as amended (the "Exchange Act");
- a written consent of the proposed nominee to be named as a nominee and to serve as director if elected;
- the name and address of the stockholder giving the notice, as they appear on the Company's books and of the beneficial owner, if any, on whose behalf the nomination is made;
-

the class or series and number of shares of capital stock of the Company which are owned beneficially or of record by such stockholder and such beneficial owner;

- a description of all arrangements or understandings between such stockholder and each proposed nominee and any other person or persons (including their names) pursuant to which the nomination(s) are to be made by such stockholder;

- a representation that such stockholder intends to appear in person or by proxy at the meeting to nominate the persons named in its notice; and

TABLE OF CONTENTS

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any other information relating to such stockholder that would be required to be disclosed in a proxy statement in connection with the solicitation of proxies for election of directors pursuant to Regulation 14A under the Exchange Act.

Stockholder Communications with the Board

A stockholder of the Company who wants to communicate with the Board or with any individual director can write to the Chair of the Nominating and Corporate Governance Committee at Standard AVB Financial Corp., 2640 Monroeville Boulevard, Monroeville, Pennsylvania 15146. The letter should indicate that the author is a stockholder and if shares are not held of record, should include appropriate evidence of stock ownership. Depending on the subject matter, the Chair will:

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forward the communication to the director(s) to whom it is addressed;

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handle the inquiry directly, for example, where it is a request for information about the Company or it is a stock-related matter; or

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not forward the communication if it is primarily commercial in nature, relates to an improper or irrelevant topic, or is unduly hostile, threatening, illegal or otherwise inappropriate.

At each Board meeting, the Chair of the Nominating and Corporate Governance Committee shall present a summary of all communications received since the last meeting and make those communications available to the directors upon request.

Audit Committee

The Audit Committee consists of Directors Walker, who serves as Chairman, Ferri, Graft, Lally, Mock, Rennie and Saxon. Each member of the Audit Committee is "independent" as defined in the Standard AVB Nominating and Corporate Governance Committee Charter. The Board of Directors has determined that Dale A. Walker qualifies as an "audit committee financial expert" as that term is used in the rules and regulations of the Securities and Exchange Commission. Information with respect to the experience of Audit Committee Chairman Walker is included in "— Directors." Our Audit Committee has a written charter, which is available on our website at www.standardbankpa.com. The Audit Committee of Standard AVB met 9 times during the fiscal year ended December 31, 2018.

The Audit Committee appoints, compensates, retains and oversees the work performed by the independent registered public accountants for the purpose of preparing or issuing an audit report or related work. The Audit Committee also assists the Board of Directors in overseeing the integrity of the financial statements; overseeing compliance with legal and regulatory requirements; overseeing the independent registered public accountant's qualifications and independence; overseeing the performance of the independent registered public accountant and of the internal audit function; and overseeing the system of disclosure controls and system of internal controls regarding finance, accounting, and legal compliance.

Audit Committee Report

Management has the primary responsibility for the Company's internal controls and financial reporting process. The independent registered public accountants are responsible for performing an independent audit of the Company's consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board and issuing an opinion thereon. The Audit Committee's responsibility is to monitor and oversee these processes.

As part of its ongoing activities, the Audit Committee has:

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reviewed and discussed with management and the independent registered public accountants the Company's audited consolidated financial statements for the fiscal year ended December 31, 2018;

- met with the Company’s CEO, CFO, internal auditors and the independent registered public accountants, both together and in separate executive sessions, to discuss the scope and the results of the audits and the overall quality of the Company’s financial reporting and internal controls;

TABLE OF CONTENTS

- discussed with the independent registered public accountants the matters required to be discussed by the Statement on Auditing Standards No. 1301, Communications with Audit Committees, as amended;

- received the written disclosures and the letter from the independent registered public accountants required by applicable requirements of the Public Company Accounting Oversight Board regarding the independent registered public accountants' communications with the Audit Committee concerning independence, and discussed with the independent registered public accountants its independence from the Company; and

- pre-approved all audit, audit related and other services to be provided by the independent registered public accountants.

Based on the review and discussions referred to above, the Audit Committee recommended to the Board that the audited consolidated financial statements included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2018 be filed with the Securities and Exchange Commission.

The Audit Committee

Dale A. Walker (Chairman)

William T. Ferri	Terence L. Graft	John M. Lally
Ronald J. Mock	Thomas J. Rennie	Gregory J. Saxon

Transactions with Certain Related Persons

Loans and Extensions of Credit. The Sarbanes-Oxley Act of 2002 generally prohibits us from making loans to our executive officers and directors, but it contains a specific exemption from such prohibition for loans made by Standard Bank to our executive officers and directors in compliance with federal banking regulations. Federal regulations require that all loans or extensions of credit to executive officers and directors of insured institutions must be made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons and must not involve more than the normal risk of repayment or present other unfavorable features. Standard Bank is therefore prohibited from making any loans or extensions of credit to executive officers and directors at different rates or terms than those offered to the general public, except for loans made to executive officers under a benefit program maintained by Standard Bank that is generally available to all other employees and that does not give preference to any executive officer over any other employee.

In addition, loans made to a director or executive officer must be approved in advance by a majority of the disinterested members of the Board of Directors. The aggregate amount of our total potential loan exposure to our officers and directors and their related entities was $3,176,500 at December 31, 2018. As of December 31, 2018, these loans were performing according to their original terms.

Set forth below is certain information as to loans made by Standard Bank to certain of its directors and executive officers, or their affiliates, pursuant to the loan program disclosed above, whose aggregate indebtedness to Standard Bank exceeded $120,000 at any time since January 1, 2018. Unless otherwise indicated all of the loans are secured loans and all loans designated as residential loans are secured by the borrower's principal place of residence.

Name of Individual	Loan Type	Date Originated	Original Loan Amount ($)	Highest Balance Since January 1, 2018 ($)	Balance on December 31, 2018 ($)	Interest Rate
Gregory Saxon (Saxon Associates)	Commercial Mortgage	9/06/2007	320,000	172,312	157,409	7.00%

Gregory Saxon (Saxon Associates)	Commercial Mortgage	8/23/2016	309,120	294,618	283,276	3.50%
Gregory Saxon (Saxon Associates)	Commercial Mortgage	6/15/2007	160,000	45,062	35,717	3.85%
Gregory Saxon	Residential Mortgage	8/15/2005	240,000	183,385	—	5.25%

16

TABLE OF CONTENTS

Name of Individual	Loan Type	Date Originated	Original Loan Amount ($)	Highest Balance Since January 1, 2018 ($)	Balance on December 31, 2018 ($)	Interest Rate
Gregory Saxon	Flexline	1/13/2005	2,500	—	—	13.25%
John Lally (31 Bogard LLC)	Commercial Mortgage	11/30/2015	440,000	410,083	—	4.35%
John Lally	ODP	5/06/2003	5,000	—	—	13.25%
Ronald Mock (900 Washington Ave)	Commercial Mortgage	3/14/2016	399,200	377,265	363,861	4.63%
Ronald Mock	Home Equity LOC	6/30/2016	100,000	75,223	73,723	6.50%
Ronald Mock	Home Equity	6/30/2016	69,026	50,312	36,701	2.39%
William Ferri (Franklin Plaza, Inc.)	Commercial Mortgage	6/23/2010	600,000	170,417	107,715	5.38%

Pursuant to the Company's Policy and Procedures for Approval of Related Person Transactions, the Audit Committee periodically reviews, no less frequently than twice a year, a summary of the Company's transactions in excess of $25,000 with directors and executive officers of the Company and with firms that employ directors, as well as any other related person transactions, for the purpose of recommending to the disinterested members of the Board of Directors that the transactions are fair, reasonable and within Company policy and should be ratified and approved. For the 2018 fiscal year, the Company was not engaged in any transactions with related persons of a type or in such amount that was required to be disclosed pursuant to applicable Securities and Exchange Commission rules and regulations, except as described above.

Also, in accordance with banking regulations, the Board of Directors reviews all loans made to a director or executive officer in an amount that, when aggregated with the amount of all other loans to such person and their related interests, exceeds $500,000 and such loan must be approved in advance by a majority of the disinterested members of the Board of Directors. Additionally, pursuant to the Company's Code of Ethics and Business Conduct, all executive officers and directors of the Company must disclose any existing or emerging conflicts of interest to the Company's Chief Executive Officer. Such potential conflicts of interest include, but are not limited to, the following: (i) the Company conducting business with or competing against an organization in which a family member of an executive officer or director has an ownership or employment interest and (ii) the ownership of more than 1% of the outstanding securities or 5% of total assets of any business entity that does business with or is in competition with the Company.

Procedures Governing Related Persons Transactions

The Company maintains a Policy and Procedures Governing Related Person Transactions, which is a written set of procedures for the review and approval of transactions involving related persons. Under these procedures, related persons consist of directors, director nominees, executive officers, persons or entities known to us to be the beneficial owner of more than 5% of any outstanding class of the voting securities of the Company or immediate family members or certain affiliated entities of any of the foregoing persons.

Transactions covered by the procedures consist of any financial transaction, arrangement or relationship or series of similar transactions, arrangements or relationships, in which:

- the aggregate amount involved will or may be expected to exceed $25,000 in any calendar year;
- the Company is, will, or may be expected to be a participant; and

- any related person has or will have a direct or indirect material interest.

The procedures exclude certain transactions, including:

- any compensation paid to an executive officer of the Company if the Compensation Committee of the Board approved (or recommended that the Board approve) such compensation;

- any compensation paid to a director of the Company if the Board or an authorized committee of the Board of Directors approved such compensation; and

TABLE OF CONTENTS

- any transaction with a related person involving consumer and investor financial products and services proved in the ordinary course of the Company's business and on substantially the same terms as those prevailing at the time for comparable services provided to persons unrelated to the Company, or to the Company's employees on a broad basis (and, in the case of loans, in compliance with the Sarbanes-Oxley Act of 2002).

Related person transactions will be reviewed by the Audit Committee. In connection with its review, the Audit Committee will consider all relevant factors, including:

- whether the terms of the proposed transaction are at least as favorable to the Company as those that might be achieved with an unaffiliated third party;
- the size of the transaction and the amount of consideration payable to the related person;
- the nature of the interest of the related person;
- whether the transaction may involve a conflict of interest as defined in the Company's Code of Ethics and Business Conduct; and
- whether the transaction involves the provision of goods and services to the Company that are available and from unaffiliated third parties.

For each periodic review of related persons transactions, the Audit Committee will determine if the transactions were fair, reasonable, and within Company policy and will recommend to the disinterested members of the Board of Directors that they should be ratified and approved or make such other recommendation to the Board of Directors as the Audit Committee deems appropriate. If any transaction recommended for ratification and approval by the Audit Committee is not ratified and approved by the Board of Directors, the Secretary of the Audit Committee will provide a report to the Audit Committee setting forth information about the Board's actions.

Stock Ownership Guidelines

The Board of Directors adopted stock ownership guidelines in 2017 for our senior executive officers and directors that require the following minimum investment in Standard AVB common stock. These guidelines became effective on January 1, 2018.

Chief Executive Officer:	A number of shares having a market value equal to 3x annual base salary
Other senior executive officers:	A number of shares having a market value equal to 1x annual base salary
Directors:	$100,000 of common stock

Stock holdings are expected to be achieved within five years of either the implementation of the ownership guidelines or the starting date of the individual, whichever is later. Progress and compliance in achieving the minimum ownership guidelines will be reviewed at the end of each fiscal year and reported to the Compensation Committee during the first quarter of the following fiscal year.

Covered individuals may satisfy the ownership guidelines with common stock in the following categories:

- Shares owned directly;
- Shares owned indirectly (e.g., by a spouse or a trust) if the covered individual has a pecuniary interest in such shares;

- Time vested restricted stock and/or restricted stock units granted under the Company’s equity compensation arrangements; and

- Unexercised stock options that are vested and in-the-money, valued using a “net settlement” methodology.

TABLE OF CONTENTS

COMPENSATION MATTERS

Compensation Committee

The Compensation Committee determines the salaries and other forms of compensation to be paid each year to the Chief Executive Officer, President, and those executive officers who report directly to the Chief Executive Officer and President. The Compensation Committee currently consists of Messrs. Graft (Chair), Ferri, Saxon, Thomasmeyer and Walker. None of these individuals was an officer or employee of Standard AVB or Standard Bank during the fiscal year ended December 31, 2018, or is a former officer of Standard AVB or Standard Bank.

Executive Summary

In 2018, the Company completed a detailed business plan with the goal of providing guidance for producing high quality customer service, loan growth, deposit acquisition and efficient operations. The business plan focused on making operational enhancements to support productivity, analyzing facilities and business lines to maximize efficiency and implementing new technologies to enhance customer service and support decision making. Building shareholder value through consistent earnings remains the Company's primary focus.

Company Performance. Following are the Company's key performance metrics for the fiscal year ended December 31, 2018:

- Net Income $8,801,000
- Return on Average Assets 0.90%
- Return on Average Equity 6.55%
- Efficiency Ratio 62.82%
- Non-Performing Assets to Total Assets 0.33%

2018 Compensation Decisions. Considering numerous factors including the Company's performance, performance of individual executives, the external market and a variety of internal factors the following compensation actions were taken during the fiscal year ended December 31, 2018:

- Monitored progress on the 2018 Executive Officer Incentive Compensation Plan on a quarterly basis
- Reviewed and evaluated the annual results on the 2018 Executive Officer Incentive Compensation Plan
- Reviewed and approved the compensation package for the new Chief Lending Officer
- Reviewed and approved the annual base compensation changes for Senior Executive Officers
- Reviewed and determined the annual base compensation for the Chief Executive Officer
- Reviewed and determined the annual retainer and other compensation for the Board of Directors
- Reviewed and approved the 2019 Executive Officer Incentive Compensation Plan Goals and Targets

Governance Practices & Policies

The Company's pay practices are determined in conjunction with an emphasis on good governance and market sensitive compensation practices.

TABLE OF CONTENTS

We do	We do not
Place significant emphasis on variable compensation, which includes cash and equity awards that are entirely dependent on the achievement of financial goals	Offer compensation-related tax gross-ups including Section 280G gross-ups
Use performance-related long-term compensation	Have any excessive perquisites
Have stock ownership guidelines for executives and directors	Re-price stock options
Have an executive compensation clawback policy to ensure accountability	Have single-trigger equity vesting
Have an independent compensation consultant advising the Compensation Committee	
Include the use of equity compensation	
Conduct periodic compensation risk reviews to ensure our programs do not motivate employees to take unnecessary risk	
Have double trigger equity vesting	

Executive Compensation Objectives and Philosophy

The primary objectives of the Company's executive compensation program are the following:

- Provide market competitive compensation
- Link pay and Company performance and align executive interests with stockholder value creation
- Reward executives for performance
- Align compensation with the external market in order to enable the Company to attract, motivate and retain key executive talent
- Balance risk and reward in order to mitigate unnecessary risk to the Company by avoiding certain compensation practices that may incentivize risk

- Be consistent from both an internal (company) and external (market) perspective

To achieve these objectives, the Company has structured the senior executive officers compensation program in the following manner:

- Salary levels and merit increases that reflect position responsibilities, competitive market rates, strategic importance of the position and individual performance.

- Annual cash incentive (i.e., bonus) payments that are based on the Company's annual financial performance, as approved by the Compensation Committee, and achievement of certain strategic non-financial performance objectives. The Compensation Committee has the discretion to take into consideration extraordinary items that affect income, gain, expense or loss and other factors it may deem relevant.

- Long-term equity-based incentives that reward outstanding performance with incentives that focus the management team on creating stockholder value over the long term. By granting equity awards to the senior executive officers, the Company provides the senior executive officers with a continuing stake in the Company's long-term success.

- Benefit programs that provide all employees, including the senior executive officers, with access to health and welfare benefits. All employees are also eligible to participate in retirement plans sponsored by the Company. The benefit programs are designed to be competitive with peers. To support these objectives, the total compensation (sum of base salary, annual incentive, long-term incentives) and benefits package for the senior executive officers are generally positioned around

TABLE OF CONTENTS

median competitive levels for commensurate performance, taking into account their relative responsibilities. Actual total compensation in any given year may be above or below the target level and market median, based on individual and corporate performance.

Compensation Decision Process

The Compensation Committee determines the salaries and other forms of compensation to be paid each year to the Chief Executive Officer and those executive officers who report directly to the Chief Executive Officer. The Compensation Committee currently consists of Messrs. Graft (Chair), Ferri, Saxon, Thomasmeyer and Walker. None of these individuals was an officer or employee of Standard AVB or Standard Bank during the fiscal year ended December 31, 2018, or is a former officer or employee of Standard AVB or Standard Bank.

The Compensation Committee is responsible for establishing and overseeing the executive compensation program, annually reviewing and approving the compensation of the CEO and reviewing and approving the recommendations regarding the compensation of the other senior executive officers. The Compensation Committee makes reference to market data to determine changes in compensation of the senior executive officers, and it weighs a variety of different factors in its deliberations.

The CEO does not play any role in the Compensation Committee's determination of his own pay. When appropriate, the Compensation Committee meets in executive session absent the CEO. The Compensation Committee does, however, solicit input from the CEO concerning the performance and compensation of the other senior executive officers. The CEO bases his respective recommendations on an assessment of each individual's performance, external market pay practices, retention risk and the Company's overall pay philosophy. All senior executive officer compensation decisions are ultimately approved by the Compensation Committee.

Role of Compensation Consultant

The Compensation Committee has the authority to retain and terminate a compensation consultant and to approve the consultant's fees and all other terms of the engagement. The Compensation Committee has engaged the services of an independent compensation consultant, Pearl Meyer & Partners LLC ("Pearl Meyer"), to assist it in evaluating executive compensation programs and in making determinations regarding board of directors' and senior executive officers' compensation. In 2017, Peal Meyer performed a competitive assessment of the Company's executive compensation programs. The annual executive compensation assessment included, but was not limited to, an assessment of Company's compensation program compared to its peers, recommendations for total direct compensation opportunities (base salary, cash incentives and long-term incentives), an assessment of the Company's financial performance relative to its peers, and a review of the alignment of pay and performance. The assessment provides the Compensation Committee with a broad array of information from which to evaluate the effectiveness of its compensation programs and serve as a foundation for its compensation decisions. While the Compensation Committee considers input from its independent compensation consultant, its final decisions are based upon many factors and considerations.

The independent compensation consultant reports directly to the Compensation Committee. In addition to advising the Compensation Committee on compensation matters pertaining to the NEOs, the consultant provided limited consulting advice concerning other key employees of the Company. This work was done with the prior knowledge and approval of the Compensation Committee and was not in conflict with the services provided to the Committee.

The Compensation Committee has analyzed whether the work of Pearl Meyer as a compensation consultant has raised any conflict of interest, taking into consideration the following factors, among others: (i) the provision of other services to the Company by Pearl Meyer; (ii) the amount of fees from the Company paid to Pearl Meyer as a percentage of Pearl Meyer's total revenue; (iii) Pearl Meyer's policies and procedures that are designed to prevent conflicts of interest; (iv) any business or personal relationship of Pearl Meyer or the individual compensation advisors employed by Pearl Meyer with an executive officer of the Company; (v) any business or personal relationship of the individual compensation advisors with any member of the Compensation Committee; and (vi) any stock of the Company owned by Pearl Meyer or the

TABLE OF CONTENTS
individual compensation advisors employed by Pearl Meyer. The Compensation Committee has determined, based on its analysis of the above factors, among others, that the work of Pearl Meyer and the individual compensation advisors employed by Pearl Meyer as compensation consultants to the Company has not created any conflict of interest.
Assessing Competitive Practice (Peer Groups)
In order to ensure that the Company is providing a competitive executive compensation program that will attract and retain key executive talent, the Company conducts a market-based compensation analysis annually. The Company conducts this market analysis with the assistance of the independent compensation consultant.
Elements of the Compensation Package and 2018 Pay Outcomes
The total compensation package primarily consists of base salaries, annual incentives and long-term incentives. The Company also provides competitive benefits available to all employees in addition to limited retirement benefits.
Base Salaries. Senior executive officer base salary levels are evaluated by the Compensation Committee on an annual basis. In general, salary ranges are developed considering the results of the independent review of the competitiveness of the total compensation program for the position, as well as overall importance of each position within the organization. The Compensation Committee then takes into consideration the senior executive officer's performance and contribution to the long-term goals of the Company, leadership, operational effectiveness and experience in the industry, overall competitiveness with market levels, as well as recent operating results, performance targets and other relevant factors.
Fiscal Year 2018 Base Salaries

Name	2018 Salary ($)	2017 Salary ($)	Percent Change
Timothy K. Zimmerman	350,000	312,500	12.0%
Andrew W. Hasley	290,000	280,535	3.3%
Susan A. Parente	192,000	165,000	16.4%

Fiscal Year 2019 Base Salaries
Base salaries for Messrs. Zimmerman, Hasley and Ms. Parente (collectively, the "NEOs") were increased for 2019 as follows: $360,000 for Mr. Zimmerman, $299,000 for Mr. Hasley and $198,000 for Ms. Parente.
Annual Incentives. The Compensation Committee established bonus targets for each NEO as a percentage of base salary. For 2018, actual bonuses were paid out as follows:

Name	Target Bonus %	Actual Bonus as % of Base Salary	Actual Bonus Paid in Cash ($)	Actual Bonus Paid in Stock Award ($)(1)
Timothy K. Zimmerman	50%	56.8%	118,125	—
Andrew W. Hasley	40%	42.5%	77,162	—
Susan A. Parente	40%	40.0%	48,077	28,800

(1)
For Messrs. Zimmerman and Hasley, the remaining portion of the bonus was contributed to their accounts under the supplemental executive retirement agreements, which are described herein.

The Company implemented an Executive Incentive Plan (the "EIP") for the fiscal year ending December 31, 2018. The Compensation Committee engaged Pearl Meyer to assist in the development of the EIP. The purpose of offering cash incentives is to provide structured annual cash award opportunities to key management personnel for their contributions to the achievement of the Company's strategic objectives.
22

TABLE OF CONTENTS

The 2018 EIP provided our NEOs the opportunity to earn a performance-based annual cash bonus. Actual bonus payouts depended on the achievement of pre-established performance objectives and ranged from 0% to 150% of target award amounts, depending on the financial measure. Target annual award opportunities for the NEOs are approved by the Compensation Committee and are intended to be competitive in the market in which the Company competes for talent and reflects the level of responsibility of the role.

Other Compensation. While the majority of each NEO’s compensation packages are comprised of base salary, annual incentives and long-term incentives as discussed above, the Company does provide very limited benefits, which are discussed following our tabular disclosures on the pages that follow.

Summary Compensation Table

The following table sets forth, for the fiscal years ended December 31, 2018 and 2017, certain information as to the total compensation paid to the Company’s Chief Executive Officer, President, and Executive Vice President and Chief Financial Officer.

Name and principal position	Year	Salary ($)	Bonus ($)(1)	Stock Awards ($)(2)	Option Awards ($)	Non-Equity Incentive Plan Compensation ($)(3)
Timothy K. Zimmerman Chief Executive Officer	2018	350,000	—	—	—	118,125
	2017	312,500	97,813	22,207	—	—

In addition, in the Company s loss reserve models for
could affect the excess spread generated by current loa
generally used to project future draws on the line. For
generally used to start the projection for trends in volu
mortgage refinancing and voluntary principal prepaym
of 2013. Projected cash flows are also based on an assu
between Prime and London Interbank Offered Rate (
other structural aspects of the transactions, including n
consistent with such policy s terms and conditions. In
periods, simulating a slower improvement in the transa
rate to a net present value reflecting MBIA s general
estimates of how transactions will perform over time.

The Company monitors portfolio performance on a mo
(including voluntary and involuntary). However, loan
deviation in actual performance from projected perfor
remains at peak levels, the Company s includes an ad
second-lien RMBS case basis reserves, before conside

Second-lien RMBS Recoveries

As of June 30, 2013, the Company recorded estimated
mortgage loans, consisting of $18 million included in
heading Assets of consolidated variable interest entit
estimated recoveries after income taxes calculated at th
the consolidated total shareholders equity of MBIA,
remaining estimated recoveries relate to the Company
GMAC and ResCap.

On May 14, 2012, ResCap and its wholly-owned subsi
Bankruptcy Code. MBIA asserted claims based on the
between the Company, RFC and GMAC.

Table of Contents

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unauc

Note 5: Loss and Loss Adjustment Expense Reserv

As of May 23, 2013, Ally, ResCap, RFC, GMAC and
supplemental term sheet agreeing to, among other thin
which are subject to change) to be paid to MBIA as pa
anticipated recoveries are consistent with the put-back
ResCap s Chapter 11 cases, subject to anticipated ban
approving the Plan. MBIA anticipates an initial distrib
course of events in the bankruptcy court plan confirma

The Company continues to refine the indicative scenar
process. The Company has made additional adjustmen
described in the executed term sheet, supplemental ter

In addition, the Company believes that it will prevail i
strength of these claims, the Company believes it is en
remains with respect to the ultimate outcome of the lit
Credit Suisse recovery scenarios are based on the amo
Suisse over the inclusion of ineligible mortgage loans

Expected cash inflows from recoveries are discounted
from 1.5% to 2.5%, depending upon the transaction s

The Company s recoveries have been, and remain bas
insurance agreement), or subrogation rights embedded
recoveries from other remediation efforts, reduce the C
MBIA s right to recovery is no longer considered an c
by the Company is limited to paid claims plus the pres
recoveries may exceed the remaining amount of the cl

The Company consistently reviews the approach and a
Company with its put-back rights against Credit Suisse
rate. Following Judge Jed Rakoff s decision on Febru
11-cv-02375, U.S. District Court, Southern District of
interest in addition to claims paid, the Company has re
reimbursed for contractual interest owed on paid claim
interest owed contemplating litigation risk and repaym
the context of its put-back litigation, the Company is e
put-back recoveries using the contractual interest rate,

To date, MBIA has either settled or agreed to settle the
settlement amounts have been consistent with the put-
Developments and Risks and Uncertainties included
against Credit Suisse can be found in the Recovery L

The Company s assessment of the remaining unsettled

1. the settlement of the majority of the Com
of 2013;

Table of Contents

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unauc

Note 5: Loss and Loss Adjustment Expense Reserv

2. Assured Guaranty s favorable court rulin transactions plus interest, fees and expen claims; and

3. the court rulings in MBIA s put-back liti

The Company continues to consider all relevant facts a inflows, probability of potential recoveries (including expected to be revised and supplemented to the extent While the Company believes it will be successful in re those recorded by the Company given the inherent unc estimation process for accounting purposes which are relevant benchmarks.

All of the Company s policies insuring second-lien R insurance contracts. In accordance with GAAP, the Co

First-lien RMBS Reserves

The Company s first-lien RMBS case basis reserves a were determined using the Roll Rate Methodology. Th respectively. Roll Rates for current, 30-59 day delinqu basis. The Current Roll to Loss rates stay at the May 3

The Company estimates future losses by probability-w rates to loss of 90+ day delinquent loans. In the base s scenario, the Company assumes a 90% roll rate for all deal-specific roll rate used in the base scenario and the delinquencies as of May 31, 2013 in order to estimate

In calculating ultimate cumulative losses for first-lien short sale. The time to liquidation for a defaulted loan start the projection for trends in loss severities at loan inventory, anticipated future increases in home prices,

ABS CDOs (Financial Guarantees and Insured Deriva

MBIA s insured ABS CDOs are transactions that incl limited to RMBS related collateral, ABS CDOs, corpo insurance policies or credit derivatives with the majori exposure within the ABS CDO portfolio has been subs the insured par exposure of the ABS CDO financial gu amount as of December 31, 2007.

The Company s ABS CDOs originally benefited from
transaction must be fully eroded and second, the subor
subject to a claim. The Company s payment obligatio

Table of Contents

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unauc

Note 5: Loss and Loss Adjustment Expense Reserv

The primary factor in estimating reserves on insured A
ABS CDO credit derivatives is the losses associated w
portfolio employs a methodology which is similar to o
probability-weighted scenarios in order to estimate its

As of June 30, 2013, the Company established loss and
elimination of $210 million as a result of consolidating
recorded in earnings related to ABS CDO financial gu
event of further deteriorating performance of the collat
increase substantially.

Credit Impairments Related to Structured CMBS Pool

Most of the structured CMBS pools, CRE CDOs and C
the Company s consolidated financial statements. Sin
financial guarantee insurance policies, the Company e
The following discussion provides information about t
methodology, determined as the present value of the p
payments and collections.

The Company has developed multiple scenarios to con
substantial judgments about the future performance of

The first approach considers the range of
pools, CRE CDOs and CRE loan pool po
achieved over the past several years with
price estimates, based on this experience.
quality and payment profile of the underl

The second approach considers current d
to project losses under two scenarios. Lo
scenarios also assume that Cap Rates and
loan with a balance greater than $75 mill
delinquency, was reviewed individually s
this large loan subset were then incorpora
be a material change in the asset s financ
of granularity in its individual loan asses
delinquency, recent appraisals indicating
with respect to loans that are current. Thi

The last approach is based on a proprieta
1992 and 2011. The time period covered
years represent an appropriate time perio
and the CRE market.

Based on a review of the data, the Company found pro
characteristics less influential. As a result, the Compar
property type. For each of these cohorts, the Company
timing of defaults. In addition, the model incorporated

NOI and Cap Rates were a
or extensions under the mo
market could experience r

Any valuation estimates o
analysis for loans with bal
approach no adjustments v

Table of Contents

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unauc

Note 5: Loss and Loss Adjustment Expense Reserv

The loss severities projected by these scenarios vary w
pools that are foreclosed and liquidated and the loss se
underlying referenced CMBS transactions are fully ero
MBIA. Since foreclosures and liquidations have only b
uncertain. Whether CMBS collateral is included in a st
the same. However, adjustments may be needed for str
severity scenarios being weighted more heavily than h
and modifications, and that property values and NOIs
macroeconomic stress were to increase or the U.S. goe
and the Company may incur substantial additional loss
to occur, so the range of possible outcomes is wider th
Company incorporated an additional approach based o
approach was eliminated as a result of more emphasis

In the CRE CDO portfolio, transaction-specific structu
downgrades even when the bond is still performing. A
CDOs. Moreover, many of the CRE CDO positions are
allocated to more junior classes within the CDO have

For the six months ended June 30, 2013, the Company
insurance policies. For the six months ended June 30,
estimated to be $399 million as a result of additional d
commutation possibilities. The cumulative credit impa
through June 30, 2013. The pace of increases in the de
were liquidated with minimal losses of 1% to 2%, othe
to losses in the CMBS market, and in many cases, hav
CMBS pools. In certain insured transactions, these los
features intended to mitigate losses to the Company. H
broad-based declines in property performance, this lev
paid claims on a CMBS pool transaction that experien

Table of Contents

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unauc

Note 5: Loss and Loss Adjustment Expense Reserv

Loss and LAE Activity

Financial Guarantee Insurance Losses (Non-Derivativ

The Company s financial guarantee insurance losses a

Losses and LAE

In millions
Losses and LAE related to actual and expected payme
Recoveries of actual and expected payments
Gross losses incurred
Reinsurance
Losses and LAE

(1) - Includes ABS CDOs, CMBS, U.S. public financ

The second-lien RMBS recoveries of actual and expec
ineligible mortgage loans included in insured exposure
partially offset by a $97 million reduction in excess sp
million of losses related to U.S. public finance transac
actual and expected payments comprise net increases o

The following table provides information about the fin
2013:

$ in millions
Number of policies
Number of issues(1)
Remaining weighted average contract period (in years
Gross insured contractual payments outstanding:(2)
Principal

Interest
Total
Gross claim liability
Less:
Gross potential recoveries
Discount, net
Net claim liability (recoverable)
Unearned premium revenue

(1) - An issue represents the aggregate of financial guarar

(2) - Represents contractual principal and interest payments

Table of Contents

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unauc

Note 5: Loss and Loss Adjustment Expense Reserv

The following table provides information about the fin
December 31, 2012:

$ in millions	
Number of policies	
Number of issues[(1)]	
Remaining weighted average contract period (in years	
Gross insured contractual payments outstanding:[(2)]	
Principal	
Interest	
Total	
Gross claim liability	
Less:	
Gross potential recoveries	
Discount, net	
Net claim liability (recoverable)	
Unearned premium revenue	

(1) - An issue represents the aggregate of financial guarar

(2) - Represents contractual principal and interest payments
The gross claim liability as of June 30, 2013 and Dece
future claim payments, which principally relate to insu
recoveries represent the Company s estimate of undis
payments, and principally relate to insured second-lien
liabilities and potential recoveries related to VIEs cons

The following table presents the components of the Co
balance sheets as of June 30, 2013 and December 31, 2
claim loss recoverable included in the following table
preceding tables.

In millions
Loss reserves (claim liabilit
LAE reserves
Loss and LAE reserves
Insurance claim loss recove
LAE insurance loss recover
Insurance loss recoverable
Reinsurance recoverable on
Reinsurance recoverable on
Reinsurance recoverable on
Reinsurance recoverable on

Table of Contents

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unauc

Note 5: Loss and Loss Adjustment Expense Reserv

As of June 30, 2013, loss and LAE reserves include $1
$397 million. As of December 31, 2012, loss and LAE
future payments of $332 million. As of June 30, 2013,
transactions resulting from expected excess spread ger
principally related to estimated recoveries of payments
mortgage loan securitizations that are subject to a cont
future recoveries on second-lien RMBS transactions re

To date, as a result of the Bank of America and Flagsta
bankruptcy proceeding discussed above, the Company
end of 2013, which are primarily included in Loan re
Company s consolidated balance sheets.

For the six months ended June 30, 2013 the Company
insured second-lien RMBS transactions. The Company
the six months ended June 30, 2013, the decrease in in
previously established recoveries related to the settlem

The following table presents the amounts of the Comp
non-consolidated VIEs and consolidated VIEs, include

Second-lien RMBS Exposure

$ in billions
Non-consolidated VIEs
Consolidated VIEs

The following table presents changes in the Company
attributable to the accretion of the claim liability disco
changes in assumptions and changes in LAE reserves a
of June 30, 2013, the weighted average risk-free rate u
within a one-year period and are not discounted.

In millions Gross Loss and LAE Reserves as of December 31,	Loss Payments for Cases with Reserves	Accretion of Claim Liability Discount	Change Cha Dis R

2012			
$ 853	$ (152)	$ 6	$

The decrease in the Company s gross loss and LAE re
insured first-lien and second-lien RMBS issues and ch

Table of Contents

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unauc

Note 5: Loss and Loss Adjustment Expense Reserv

Current period changes in the Company s estimate of
LAE reserve liability, or both. The following table pre
within the Company s claim liability for the six montl
recoverable, changes in discount rates, changes in the
recorded in Losses and loss adjustment expenses in

In millions
Insurance loss recoverable
Recoveries on unpaid losses
Total

The Company s insurance loss recoverable decreased
related to the settlement with Bank of America on the
subject to contractual obligations by sellers/servicers t
assumptions on certain general obligation exposures a

The following table presents the Company s total esti
securitizations as of June 30, 2013. The total estimated
recoverable and $1.1 billion recorded as Loan repu
consolidated balance sheets.

In millions

Total Estimated Recoveries from Ineligible Mortgage Loans as of December 31, 2012	**Accretion of Future Collections**	**Cl D**
$ 3,583	$ 15	$

The decrease in the Company s total estimated recove
established recoveries related to the settlement with Ba
securitizations.

Remediation actions may involve, among other things
consents, transfer of servicing, consideration of restruc
and similar actions. The types of remedial actions purs
remediation. As part of any such remedial actions, MB
From time to time, the issuer of an MBIA-insured obli
decreasing the par amount or decreasing the related int

Costs associated with remediating insured obligations
recorded as LAE. LAE is primarily recorded as part of
Company s consolidated statements of operations. Th

In millions
Loss adjustment expense incurred, gross

Table of Contents

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unauc

Note 6: Fair Value of Financial Instruments

Fair Value Measurement

Fair value is a market-based measure considered from
Company s own assumptions are set to reflect those v
value measurements of financial instruments held or is
obtained from a variety of third-party sources, includir
uses alternate valuation methods, including either deal
generally requires considerable judgment in the applic
different fair values.

The accounting guidance for fair value measurement e
minimizes the use of unobservable inputs by requiring
believes that market participants would use in pricing
beliefs about the assumptions market participants wou
down into three levels based on the observability and r

Level 1 Valuations based on quoted pric
quoted prices that are readily and regular

Level 2 Valuations based on quoted pric
Level 2 assets include debt securities wit
using observable inputs and derivative co
be derived principally from or corroborat

Level 3 Valuations based on inputs that
measurement. Level 3 assets and liabiliti
methodologies, or similar techniques wh
significant management judgment or esti

The availability of observable inputs can vary from pr
type of product, whether the product is new and not ye
used to measure fair value may fall into different level
the fair value measurement in its entirety falls, based o

1. Financial Assets (excluding derivative assets)

Financial assets, excluding derivative assets, held by t
are priced by independent third parties, including prici
instrument, which represents a non-binding indication
reasonable assurance that the prices used in its valuati
developed expectation of fair value, whether higher or
significant assumptions such as prepayment speeds, de
assumptions, and working with the price provider to re
price provider does not update their price, and the Con

third-party provider, such as a broker, or use an interna
for which internal prices were used were not significar
All challenges to third-party prices are reviewed by sta

Table of Contents

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unauc

Note 6: Fair Value of Financial Instruments (contin

In addition to challenging pricing assumptions, the Co
the effectiveness of the controls over data provided to
applied by the pricing services, and that appropriate us
values of its investments. In the event that any controls
actions to ensure that internal user controls are in place

2. Financial Liabilities (excluding derivative liabilities

Financial liabilities, excluding derivative liabilities, iss
wind-down operations, debt issued for general corpora
value adjusted for premiums or discounts. Financial lia
based on the estimated value of the underlying collater
for similar products. These valuations include adjustm

3. Derivative Liabilities

The Company s derivative liabilities are primarily ins
insured the most senior liabilities of such transactions,
triple-A ratings from credit rating agencies. The types
corporate, asset-backed, residential mortgage-backed,

The Company s insured credit derivative contracts are
generally no observable market for these derivatives, t
simulating what a similar company would charge to as
expected loss of the exposure. The Company reviews i
light of current market activity and conditions. This re
observable for similar transactions, those spreads are a
transactions, if any, would be considered, as well as ne

The Company may from time to time make changes in
of fair value under current circumstances.

4. Internal Review Process

All significant financial assets and liabilities, including
with the Company s policies and risk procedures in th
things, key assumptions used for internally developed
adjustments from third-party inputs or prices to interna
values of the financial instruments from prior periods.
methods and assumptions used for the determination o
senior finance team members with the relevant experie
document their agreement with the fair values develop

Valuation Techniques

Valuation techniques for financial instruments measur

Table of Contents

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unauc

Note 6: Fair Value of Financial Instruments (contir

Fixed-Maturity Securities (including short-term invest
Investments Held-to-Maturity, and Other Investments

Fixed-maturity securities (including short-term investr
investments include investments in U.S. Treasury and
(including CMBS and CDOs), state and municipal bor

These investments are generally valued based on recer
is generally determined using quoted prices of similar
type of investment. Observable inputs include contract
cross-currency basis index spreads, and credit spreads
include cash flow projections and the value of any cre

The fair value of the held-to-maturity (HTM) inves
over the expected term of the investment discounted u

Investments based on quoted market prices of identica
generally consist of U.S. Treasury and foreign governn
investments which are valued based on other than quo
the fair value hierarchy. Investments that contain signi

Cash and Cash Equivalents, Receivable for Investmen
Investment Income

The carrying amounts of cash and cash equivalents, re
purchased and accrued investment income approximat

Loans Receivable at Fair Value

Loans receivable at fair value are comprised of loans h
business loans. Fair values of residential mortgage loa
of the financial guarantees provided by MBIA Corp. o
on quoted prices of similar collateralized MBS. Loans

Loan Repurchase Commitments

Loan repurchase commitments are obligations owed b
as defined in the transaction documents. Loan repurcha
sellers/servicers for breaches of representations and wa
guidelines and for the sellers/servicers to cure, replace
amounts owed by the sellers/servicers to MBIA as rein
comparable market transaction information are observ
hierarchy. Fair values of loan repurchase commitments

breach rates representing the rate at whic

recovery rates representing the estimates
expected to be collected;

expectations about possible variations in

time value of money, represented by the

Table of Contents

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unauc

Note 6: Fair Value of Financial Instruments (contir

Investment Agreements

The fair values of investment agreements are determin
currently being offered for similar agreements with co
substantially mitigate the nonperformance risk of the C
agreements are categorized as Level 3 of the fair value

Medium-Term Notes

The fair values of certain MTNs are based on quoted n
Company applies a matrix pricing grid based on the qu
Nonperformance risk is included in the quoted market

The Company has elected to record these MTNs at fai
instrument and fair valued separately, therefore, these
not carried at fair value, do not contain embedded deri

As these MTNs are illiquid and the prices reflect signi

Variable Interest Entity Notes

The fair values of VIE notes are determined based on r
are not observable, fair values are based on quoted pri
unique to the securities, including any credit enhancen
techniques of the underlying collateral using observab
securities. Unobservable inputs include the value of an
lowest level input that is significant to the fair value m

Long-term Debt

Long-term debt consists of notes, debentures and surpl
for the identical or similar securities. Long-term debt i

Derivatives Asset/Liability Products

The asset/liability products business has entered into d
values of over-the-counter derivatives are determined
nonperformance risk of the counterparties. Observable
categorized in Level 2 or Level 3 of the fair value hier

The Company has policies and procedures in place reg
collateral posting requirements, collateral monitoring a
basis through master netting arrangements covering de
Company to contractually net amounts due from a cou
executes swaps under master netting agreements, whic

or termination in the event either the Company or the c
losses related to credit exposure and thus serve to miti

Table of Contents

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unauc

Note 6: Fair Value of Financial Instruments (contin

In certain cases, the Company also manages credit risk
when the current market value of derivative contracts
highly rated securities or cash to secure the derivative.
nonperformance risk impacting the fair values of the d

Derivatives Insurance

The derivative contracts insured by the Company cann
values of insured credit derivatives using valuation mo
estimation approach being applied as and when the inf
the best estimate of how another market participant wo

Approximately 99% of the balance sheet fair value of
Model. Approximately 1% of the balance sheet fair va
Model and the dual-default model. The valuation of in
the fair value hierarchy as their fair value is derived us

A. Description of the BET Model

1. Valuation Model Overview

The BET Model estimates what a bond insurer would
underlying collateral and the remaining structural prot

Inputs to the process of determining fair value for stru
tranches of the capital structure, and calculation of the

Estimates of aggregated collateral losses

credit spreads of underlying coll
benchmarked; for collateral pool
instead of using an overall pool

diversity score of the collateral p

recovery rate for all defaulted co

Allocation of losses to separate tranches

The inception-to-date unrealized gain or
expected loss) and the current price of the
Additional structural assumptions of the BET Model a

Default probabilities are determined by t

Frequencies of defaults are modeled eve

Collateral assets are generally considered

Collateral asset correlation is modeled us
historical averages and updated based on

Table of Contents

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unauc

Note 6: Fair Value of Financial Instruments (contir

2. BET Model Inputs

a. Credit spreads

The average spread of collateral is a key input as the C
collateral. Spreads are obtained from market data sour
Company s transactions) as well as collateral-specific
sources are not available, the Company benchmarks sp
reasonableness and applicability to the Company s de
about expected life, when pricing information is availa

The Company uses the spread hierarchy listed below i
available and cash security spreads as the next alternat

Spread Hierarchy:

Collateral-specific credit spreads when o

Sector-specific spread tables by asset cla

Corporate spreads, including Bloomberg

Benchmark from most relevant market so
There were some transactions where the Company inc
combination with a calculated spread based on an assu
spread source even though the majority of the average
11% of the transactions valued using the BET Model.
spread source were used for 41% of the transactions. T
(WARF). No collateral-specific spreads are based o
WARF-sourced and/or ratings-sourced credit spreads

Over time, the data inputs change as new sources beco
appropriate. It is always the Company s objective to u
observable spread inputs due to the discontinuation of
spreads.

b. Diversity Scores

Diversity scores are a means of estimating the diversif
the same loss distribution as the actual portfolio of cor
within the collateral of the structures, diversity score d

c. Recovery Rate

The recovery rate represents the percentage of par exp
rating agency recovery assumptions which may be adj
agencies and the actual collateral in MBIA-insured tra
manager and on empirical market data.

d. Nonperformance Risk

The Company s valuation methodology for insured cr
value by discounting the market value loss estimated t
spreads assigned to each deal are based on the weighte
not be lower than the Company s recovery derivative

Table of Contents

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unauc

Note 6: Fair Value of Financial Instruments (contir

Overall Model Results

As of June 30, 2013 and December 31, 2012, the Com
the fair values of insured credit derivatives, based on t
changes in fair value is nonperformance risk. In aggreg
and $4.4 billion lower than the net liability that would
December 31, 2012, respectively. Nonperformance ris
analysis of the Company s economic condition, that tl

Warrants

Stock warrants issued by the Company are recorded at
stock volatilities and dividend data. As all significant i

Accrued Interest Expense

The fair value of the accrued interest expense on the su
perception of the credit risk related to the repayment o
surplus notes. The deferred interest payment will be du

The carrying amounts of accrued interest expense on a

Financial Guarantees

Gross Financial Guarantees The fair value of gross fi
(i) assumptions of expected losses on financial guarant
policies where loss reserves have been established, net
(iv) operating expenses, and (v) discount rates. The M
and recovery rate of a similar municipal insurance con
recovery rate.

The carrying value of the Company s gross financial g
recoverable as reported on MBIA s consolidated bala

Ceded Financial Guarantees The fair value of ceded f
gross financial guarantees. The carrying value of cede
losses as reported within Other assets on the Compa

Table of Contents

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unauc

Note 6: Fair Value of Financial Instruments (contir

Significant Unobservable Inputs

The following tables provide quantitative information
value on a recurring basis as of June 30, 2013 and Dec
such as broker prices and other third-party pricing serv

In millions	Fair Value as of June 30, 2013
Assets of consolidated VIEs:	
Loans receivable at fair value	$ 1,790
Loan repurchase commitments	1,115
Liabilities of consolidated VIEs:	
Variable interest entity notes	824
Credit derivative liabilities, net:	
CMBS	1,024
Multi-sector CDO	15
Other	609

In millions	Fair Value as of December 31, 2012
Assets of consolidated VIEs:	
Loans receivable at fair value	$ 1,881
Loan repurchase commitments	1,086
Liabilities of consolidated VIEs:	
Variable interest entity notes	1,932
Credit derivative liabilities, net:	
CMBS	1,590

Multi-sector CDO	525
Other	806

Sensitivity of Significant Unobservable Inputs

The significant unobservable input used in the fair valu
financial guarantee. The fair value of loans receivable
value of a financial guarantee is estimated by the Com
the Company under the insurance policy increase, ther
of the loans receivable in relation to the obligations of

Table of Contents

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unauc

Note 6: Fair Value of Financial Instruments (contir

The significant unobservable inputs used in the fair va
and the breach rates. Recovery rates reflect the estimat
sellers/servicers. The estimated recoveries of the loan
represent the rate at which the mortgages fail to compl
recovery rates and the breach rates would result in sign
the legal environment and the ability of the counterpar
measurement. Any significant challenges by the count
adversely impact the fair value measurement. Recover
impact on the other input.

The significant unobservable input used in the fair valu
fair value of VIE notes is calculated by adding the valu
by the Company as the present value of expected cash
the VIE increases, the credit support adds value to the

The significant unobservable inputs used in the fair va
CMBS spreads, recovery rates, nonperformance risk a
recovery rate represents the percentage of notional exp
is an assumption of the Company s own ability to pay
average life is based on the Company s estimate of wh
weighted average life can result in an increase or decre
losses. Any significant increase or decrease in recovery
derivative liabilities, respectively. CMBS spreads, reco
input will not necessarily have any impact on the other

The significant unobservable input used in the fair valu
Model, is nonperformance risk. The nonperformance r
resources to pay the obligations as they come due. Any
in the fair value of the derivative liabilities, respectivel

The significant unobservable inputs used in the fair va
recovery rates, nonperformance risk and weighted ave
defaults, indicating the severity of a potential loss. The
have the necessary resources to pay the obligations as
underlying collateral will be repaid. A significant incre
depending on the discount rate and the timing of signif
would result in a decrease or increase in the fair value
determined independently. Changes in one input will n

Table of Contents

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unauc

Note 6: Fair Value of Financial Instruments (contin

Fair Value Measurements

The following tables present the fair value of the Com
basis as of June 30, 2013 and December 31, 2012:

In millions
Assets:
Fixed-maturity investments:
U.S. Treasury and government agency
State and municipal bonds
Foreign governments
Corporate obligations
Mortgage-backed securities:
Residential mortgage-backed agency
Residential mortgage-backed non-agency
Commercial mortgage-backed
Asset-backed securities:
Collateralized debt obligations
Other asset-backed
Total fixed-maturity investments
Money market securities
Perpetual debt and equity securities
Cash and cash equivalents
Derivative assets:
Non-insured derivative assets:
Interest rate derivatives
Total derivative assets

Table of Contents

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unauc

Note 6: Fair Value of Financial Instruments (contir

In millions
Assets of consolidated VIEs:
Corporate obligations
Mortgage-backed securities:
Residential mortgage-backed non-agency
Commercial mortgage-backed
Asset-backed securities:
Collateralized debt obligations
Other asset-backed
Money market securities
Cash
Loans receivable
Loan repurchase commitments
Interest rate derivatives
Total assets
Liabilities:
Medium-term notes
Derivative liabilities:
Insured derivatives:
Credit derivatives
Non-insured derivatives:
Interest rate derivatives
Currency derivatives
Other liabilities:
Warrants
Liabilities of consolidated VIEs:
Variable interest entity notes
Derivative liabilities:
Interest rate derivatives
Currency derivatives
Total liabilities

(1) - Unobservable inputs are either not developed by the Co

Table of Contents

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unauc

Note 6: Fair Value of Financial Instruments (contin

In millions
Assets:
Fixed-maturity investments:
U.S. Treasury and government agency
State and municipal bonds
Foreign governments
Corporate obligations
Mortgage-backed securities:
Residential mortgage-backed agency
Residential mortgage-backed non-agency
Commercial mortgage-backed
Asset-backed securities:
Collateralized debt obligations
Other asset-backed
Total fixed-maturity investments
Money market securities
Perpetual debt and equity securities
Cash and cash equivalents
Derivative assets:
Non-insured derivative assets:
Interest rate derivatives
Total derivative assets

Table of Contents

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unauc

Note 6: Fair Value of Financial Instruments (contin

In millions
Assets of consolidated VIEs:
State and municipal bonds
Corporate obligations
Mortgage-backed securities:
Residential mortgage-backed non-agency
Commercial mortgage-backed
Asset-backed securities:
Collateralized debt obligations
Other asset-backed
Money market securities
Cash
Loans receivable
Loan repurchase commitments
Total assets
Liabilities:
Medium-term notes
Derivative liabilities:
Insured derivatives:
Credit derivatives
Non-insured derivatives:
Interest rate derivatives
Currency derivatives
Other liabilities:
Warrants
Liabilities of consolidated VIEs:
Variable interest entity notes
Derivative liabilities:
Interest rate derivatives
Currency derivatives
Total liabilities

(1) - Unobservable inputs are either not developed by the Co

Level 3 assets at fair value, as of June 30, 2013 and De
value, as of June 30, 2013 and December 31, 2012 rep

Table of Contents

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unauc

Note 6: Fair Value of Financial Instruments (contir

The following tables present the fair values and carryi
the Company s consolidated balance sheets as of June

In millions
Assets:
Other investments
Accrued investment income(1)
Receivable for investments sold(1)
Net cash collateral pledged(1)
Assets of consolidated VIEs:
Investments held-to-maturity
Total assets
Liabilities:
Investment agreements
Medium-term notes
Long-term debt
Payable for investments purchased(2)
Accrued interest expense(2)
Liabilities of consolidated VIEs:
Variable interest entity notes
Total liabilities
Financial Guarantees:
Gross
Ceded

(1) - Reported within Other assets on MBIA s consolidat

(2) - Reported within Other liabilities on MBIA s consol

Table of Contents

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unauc

Note 6: Fair Value of Financial Instruments (contir

In millions
Assets:
Other investments
Accrued investment income[1]
Receivable for investments sold[1]
Net cash collateral pledged[1]
Assets of consolidated VIEs:
Investments held-to-maturity
Total assets
Liabilities:
Investment agreements
Medium-term notes
Long-term debt
Payable for investments purchased[2]
Accrued interest expense[2]
Liabilities of consolidated VIEs:
Variable interest entity notes
Total liabilities
Financial Guarantees:
Gross
Ceded

(1) - Reported within Other assets on MBIA s consolidat

(2) - Reported within Other liabilities on MBIA s consol

Table of Contents

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unauc

Note 6: Fair Value of Financial Instruments (contin

The following tables present information about change
for the three months ended June 30, 2013 and 2012:

Changes in Level 3 Assets and Liabilit

In millions	Balance, Beginning of Period	Realized Gains / (Losses)	Unrea Gai (Los Inclu in Earn
Assets:			
Foreign governments	$ 8	$ -	$
Corporate obligations	57	-	
Residential mortgage-backed agency	-	-	
Residential mortgage-backed non-agency	1	-	
Commercial mortgage-backed	13	-	
Collateralized debt obligations	37	(1)	
Other asset-backed	67	-	
State and municipal bonds	23	-	
Perpetual debt and equity securities	10	-	
Assets of consolidated VIEs:			
Corporate obligations	79	(4)	
Residential mortgage-backed non-agency	6	-	
Commercial mortgage-backed	28	-	
Collateralized debt obligations	117	-	
Other asset-backed	47	-	
Loans receivable	1,819	-	
Loan repurchase commitments	1,176	-	
Total assets	$ 3,488	$ (5)	$

In millions	Balance, Beginning of Period	Realized (Gains) / Losses	Unreal (Gain Loss Includ in Earnin
Liabilities:			
Medium-term notes	$ 181	$ -	$
Credit derivatives, net	2,994	1,532	(1,3
Interest rate derivatives, net	(1)	-	
Currency derivatives, net	1	-	
Liabilities of consolidated VIEs:			
VIE notes	1,901	-	
Currency derivatives, net	23	-	
Total liabilities	$ 5,099	$ 1,532	$ (1,3

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

Table of Contents

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unauc

Note 6: Fair Value of Financial Instruments (contir

Changes in Level 3 Assets and Liabilit

In millions	Balance, Beginning of Period	Realized Gains / (Losses)	Unrealized Gains / (Losses) Included in Earnings
Assets:			
Foreign governments	$ 12	$ -	$ -
Corporate obligations	185	-	2
Residential mortgage-backed agency	9	-	-
Residential mortgage-backed non-agency	14	-	-
Commercial mortgage-backed	25	-	-
Collateralized debt obligations	35	(1)	-
Other asset-backed	115	(2)	-
State and municipal bonds	27	-	-
Perpetual debt and equity securities	10	-	-
Assets of consolidated VIEs:			
Corporate obligations	75	-	(6)
Residential mortgage-backed non-agency	25	-	1
Commercial mortgage-backed	15	-	1
Collateralized debt obligations	218	-	(2)

Other asset-backed		71		-		3
Loans receivable		2,025		-		(49)
Loan repurchase commitments		1,076		-		(44)
Total assets	$	3,937	$	(3)	$	(94)

In millions	Balance, Beginning of Period	Realized (Gains) / Losses	Unrealized (Gains) / Losses Included in Earnings
Liabilities:			
Medium-term notes	$ 174	$ -	$ (16)
Credit derivatives, net	4,487	443	(1,202)
Interest rate derivatives, net	(4)	-	-
Liabilities of consolidated VIEs:			
VIE notes	2,864	-	62
Credit derivatives, net	82	-	-
Currency derivatives, net	19	-	2
Total liabilities	$ 7,622	$ 443	$ (1,154)

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

Table of Contents

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unauc

Note 6: Fair Value of Financial Instruments (contin

Transfers into and out of Level 3 were $73 million anc
$19 million and $73 million, respectively, for the three
CDOs, and other ABS, where inputs, which are signifi
comprised the majority of the transferred instruments c
These inputs included spreads, prepayment speeds, def
inputs. There were no transfers into or out of Level 1.

Transfers into and out of Level 3 were $72 million anc
$15 million and $72 million, respectively, for the three
corporate obligations where inputs, which are significa
majority of the transferred instruments out of Level 3 v
included spreads, prepayment speeds, default speeds, c
were no transfers into or out of Level 1.

All Level 1, 2 and 3 designations are made at the end c

The following tables present information about change
for the six months ended June 30, 2013 and 2012:

Changes in Level 3 Assets and Liabil

In millions	Balance, Beginning of Year	Realized Gains / (Losses)	Unrealized Gains / (Losses) Included in Earnings
Assets:			
Foreign governments	$ 3	$ -	$ -
Corporate obligations	76	2	5
Residential mortgage-backed agency	-	-	-

Residential mortgage-backed non-agency	4	-	-
Commercial mortgage-backed	28	-	-
Collateralized debt obligations	31	(2)	-
Other asset-backed	26	-	-
State and municipal bonds	103	2	-
Perpetual debt and equity securities	14	-	-
Assets of consolidated VIEs:			
Corporate obligations	78	(4)	(8)
Residential mortgage-backed non-agency	6	-	6
Commercial mortgage-backed	7	-	1
Collateralized debt obligations	125	-	(9)
Other asset-backed	64	-	-
Loans receivable	1,881	-	221
Loan repurchase commitments	1,086	-	139
Total assets	$ 3,532	$ (2)	$ 355

Table of Contents

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unauc

Note 6: Fair Value of Financial Instruments (contir

In millions	Balance, Beginning of Year	Realized (Gains) / Losses	Unrealized (Gains) / Losses Included in Earnings
Liabilities:			
Medium-term notes	$ 165	$ -	$ 25
Credit derivatives, net	2,921	1,521	(1,277)
Interest rate derivatives, net	(1)	-	2
Currency derivatives, net	1	-	-
Liabilities of consolidated VIEs:			
VIE notes	1,932	-	146
Currency derivatives, net	21	-	(5)
Total liabilities	$ 5,039	$ 1,521	$ (1,109)

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

Changes in Level 3 Assets and Liabil

In millions	Balance, Beginning of Year	Realized Gains / (Losses)	Unrealized Gains / (Losses) Included in Earnings
Assets:			
Foreign governments	$ 11	$ -	$ -
Corporate obligations	207	(15)	5
Residential mortgage-backed agency	8	-	-
Residential mortgage-backed non-agency	17	-	-
Commercial mortgage-backed	24	-	-
Collateralized debt obligations	60	(4)	-
Other asset-backed	317	(61)	-
State and municipal bonds	28	-	-
Perpetual debt and equity securities	11	-	-
Assets of consolidated VIEs:			
Corporate obligations	69	-	(5)
Residential mortgage-backed non-agency	21	-	6
Commercial mortgage-backed	22	-	2
Collateralized debt obligations	203	-	-
Other asset-backed	67	-	5
Loans receivable	2,046	-	(10)
Loan repurchase commitments	1,077	-	(45)
Total assets	$ 4,188	$ (80)	$ (42)

Table of Contents

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unauc

Note 6: Fair Value of Financial Instruments (contin

In millions	Balance, Beginning of Year	Realized (Gains) / Losses	Unreal (Gain Loss Incluc in Earnin
Liabilities:			
Medium-term notes	$ 165	$ -	$ (
Credit derivatives, net	4,790	463	(1,5
Interest rate derivatives, net	(3)	-	
Liabilities of consolidated VIEs:			
VIE notes	2,889	-	2
Credit derivatives, net	80	-	
Currency derivatives, net	17	-	
Total liabilities	$ 7,938	$ 463	$ (1,2

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

Transfers into and out of Level 3 were $159 million ar million and $159 million, respectively, for the six mor bonds, CDOs and CMBS where inputs, which are sign comprised the majority of the transferred instruments c These inputs included spreads, prepayment speeds, def inputs. There were no transfers into or out of Level 1.

Transfers into and out of Level 3 were $103 million ar million and $103 million, respectively, for the six mor obligations, CDOs and other ABS where inputs, which the majority of the transferred instruments out of Leve included spreads, prepayment speeds, default speeds, c were no transfers into or out of Level 1.

All Level 1, 2 and 3 designations are made at the end c

Table of Contents

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unauc

Note 6: Fair Value of Financial Instruments (contin

Gains and losses (realized and unrealized) included in
on the Company s consolidated statements of operatio

In millions	
Revenues:	
Unrealized gains (losses) on insured derivatives	
Realized gains (losses) and other settlements on insure	
Net gains (losses) on financial instruments at fair valu exchange	
Net investment losses related to other-than-temporary	
Revenues of consolidated VIEs:	
Net gains (losses) on financial instruments at fair valu exchange	
Total	

Table of Contents

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unauc

Note 6: Fair Value of Financial Instruments (contin

Gains and losses (realized and unrealized) included in
on the Company s consolidated statements of operatio

In millions	
Revenues:	
Net investment income	
Unrealized gains (losses) on insured derivatives	
Realized gains (losses) and other settlements on insure	
Net gains (losses) on financial instruments at fair valu exchange	
Net investment losses related to other-than-temporary	
Revenues of consolidated VIEs:	
Net gains (losses) on financial instruments at fair valu exchange	
Total	

Fair Value Option

The Company elected to record at fair value certain fir
guidance for consolidation of VIEs, among others.

The following table presents the changes in fair value
2013 and 2012 for all financial instruments for which t

In millions
Fixed-maturity securities held at fair value
Loans receivable at fair value:
Residential mortgage loans
Other loans
Loan repurchase commitments
Long-term debt

Substantially all gains and losses included in earnings
preceding table are attributable to credit risk. This is p
depressed pricing of the financial instruments.

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unauc

Note 6: Fair Value of Financial Instruments (contir

The following table reflects the difference between the
and December 31, 2012 for loans and VIE notes for w

In millions
Loans receivable at fair value:
Residential mortgage loans
Residential mortgage loans (90 days or more past due)
Other loans
Other loans (90 days or more past due)
Total loans receivable at fair value
Variable interest entity notes

Note 7: Investments

Investments, excluding those elected under the fair val
as AFS are primarily comprised of money market func

The following tables present the amortized cost, fair va
and HTM investments in the Company s consolidated

In millions
AFS Investments
Fixed-maturity investments:
U.S. Treasury and government agency
State and municipal bonds
Foreign governments
Corporate obligations
Mortgage-backed securities:
Residential mortgage-backed agency
Residential mortgage-backed non-agency
Commercial mortgage-backed
Asset-backed securities:
Collateralized debt obligations
Other asset-backed

Total fixed-maturity investments
Money market securities
Perpetual debt and equity securities
Assets of consolidated VIEs:
Money market securities
Total AFS investments
HTM Investments
Assets of consolidated VIEs:
Corporate obligations
Total HTM investments

(1) - Represents unrealized gains or losses on other than tem
subsequent changes in fair value of such impaired secu

Table of Contents

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unauc

Note 7: Investments (continued)

In millions
AFS Investments
Fixed-maturity investments:
U.S. Treasury and government agency
State and municipal bonds
Foreign governments
Corporate obligations
Mortgage-backed securities:
Residential mortgage-backed agency
Residential mortgage-backed non-agency
Commercial mortgage-backed
Asset-backed securities:
Collateralized debt obligations
Other asset-backed
Total fixed-maturity investments
Money market securities
Perpetual debt and equity securities
Assets of consolidated VIEs:
State and municipal bonds
Corporate obligations
Mortgage-backed securities:
Residential mortgage-backed non-agency
Asset-backed securities:
Collateralized debt obligations
Other asset-backed
Money market securities
Total AFS investments
HTM Investments
Assets of consolidated VIEs:
Corporate obligations
Total HTM investments

(1) - Represents unrealized gains or losses on other than tem
subsequent changes in fair value of such impaired secur

Table of Contents

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unauc

Note 7: Investments (continued)

The following table presents the distribution by contra
Contractual maturity may differ from expected maturit

In millions
Due in one year or less
Due after one year through five years
Due after five years through ten years
Due after ten years
Mortgage-backed and asset-backed
Total fixed-maturity investments

Deposited and Pledged Securities

The fair value of securities on deposit with various reg
These deposits are required to comply with state insura

The Company enters into securities borrowing and len
only transacted with high-quality dealer firms. It is the
credit risk from counterparties that might be unable to
additional collateral to be deposited with the Company

Substantially all of the obligations under investment ag
investment agreement activities may not be repledged
securities pledged as collateral for these investment ag
2013 consisted principally of RMBS, U.S. Treasury ar
Additionally, the Company pledged cash and money n
June 30, 2013 and December 31, 2012, respectively.

Table of Contents

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unauc

Note 7: Investments (continued)

Impaired Investments

The following tables present the gross unrealized losse

In millions	
AFS Investments	
Fixed-maturity investments:	
U.S. Treasury and government agency	
State and municipal bonds	
Foreign governments	
Corporate obligations	
Mortgage-backed securities:	
Residential mortgage-backed agency	
Residential mortgage-backed non-agency	
Commercial mortgage-backed	
Asset-backed securities:	
Collateralized debt obligations	
Other asset-backed	
Total fixed-maturity investments	
Perpetual debt and equity securities	
Total AFS investments	
HTM Investments	
Assets of consolidated VIEs:	
Corporate obligations	
Total HTM investments	

Table of Contents

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unauc

Note 7: Investments (continued)

In millions
AFS Investments
Fixed-maturity investments:
U.S. Treasury and government agency
State and municipal bonds
Foreign governments
Corporate obligations
Mortgage-backed securities:
Residential mortgage-backed agency
Residential mortgage-backed non-agency
Commercial mortgage-backed
Asset-backed securities:
Collateralized debt obligations
Other asset-backed
Total fixed-maturity investments
Perpetual debt and equity securities
Assets of consolidated VIEs:
Corporate obligations
Mortgage-backed securities:
Residential mortgage-backed non-agency
Asset-backed securities:
Collateralized debt obligations
Total AFS investments
HTM Investments
Assets of consolidated VIEs:
Corporate obligations
Total HTM investments

Gross unrealized losses on AFS securities increased as rising interest rates. Gross unrealized losses on HTM s appreciation driven by a decline in credit spreads.

With the weighting applied on the fair value of each se loss position as of June 30, 2013 and December 31, 20 securities, respectively, that were in an unrealized loss respectively, were below book value by more than 5%

The following table presents the distribution of securit
below book value by more than 5%:

Percentage of Fair Value Below Book Value
> 5% to 15%
> 15% to 25%
> 25% to 50%
> 50%
Total

Table of Contents

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unauc

Note 7: Investments (continued)

The following table presents the fair values and gross
consolidated AFS investment portfolio as of June 30, 2
of June 30, 2013 or an alternate ratings source, such as
guarantee insurers, the credit rating reflects the higher

In millions	**Aaa**		**Aa**	
Asset Type	**Fair Value**	**Unrealized Loss**	**Fair Value**	**Unrealize Loss**
ABS	$ 14	$ -	$ 62	$ (5)
MBS	589	(21)	6	-
Corporate obligations	47	(1)	164	(7)
Total	$ 650	$ (22)	$ 232	$ (12)

The total ABS, MBS and corporate obligations reporte
table presents information on ABS, MBS and corporat

Asset Type
ABS
MBS
Corporate obligations

Refer to the table in the Determination of Credit Loss
information on the insured securities included in the ta

The Company concluded that it does not have the inten
these securities before recovery of their cost basis. In r
potential sources and uses of cash in its businesses, an
any risk management or other plans as of June 30, 201
the expected recovery of such securities fair values h

Other-Than-Temporary Impairments

Evaluating AFS Securities for OTTI

The Company has an ongoing review process for all se
qualitative and quantitative considerations. In assessin
limited to (i) the magnitude and duration of declines in
asset-backed sector, transaction-specific changes in cre
each investment structure; and (iii) any guarantees asso
Corp. and National.

In calculating credit-related losses, the Company utiliz
cash, including credit enhancement, that support the pa
provided by financial guarantors, including MBIA Cor
timing of cash flows received or expected to be receive
purposes of assessing an OTTI loss on an impaired sec

Table of Contents

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unauc

Note 7: Investments (continued)

Each quarter, an internal committee, comprising staff t
approves the valuation of investments. Among other re
including the use of models and assumptions, is reason

Determination of Credit Loss on ABS, MBS and Corpo

Investments with unrealized losses that met the above

ABS investments are evaluated for OTTI using histori
projections of collateral performance based on busines
identify any specific performance concerns, and stress
default is projected for a security, estimated future cas
investments, the Company utilizes the same tools as fo
the present value of cash flows is less than the Compan

RMBS investments are evaluated for OTTI using seve
and severity vectors. The model utilizes macro inputs,
cash flow model, which considers deal waterfall dynan
security are then discounted at the interest rate used to
flows is less than the Company s amortized cost for th

Corporate obligation investments are evaluated for OT
quantitative and qualitative factors impacting the value
current market spread, any collateral supporting the se
Additionally, these factors include an assessment of va
coverage, leverage, liquidity, management and a third-
for similar securities of other issuers in the same secto
Company determines that, after considering these facto
estimated recovery value for the security is less than it

Table of Contents

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unauc

Note 7: Investments (continued)

For the six months ended June 30, 2012, the credit los
following table presents a summary of the significant i
impairment is included in AOCI:

Asset-backed Securities
Expected size of losses[1]:
Range[2]
Weighted average[3]
Current subordination levels[4]:
Range[2]
Weighted average[3]
Prepayment speed (annual constant prepayment rate)[5
Range[2]
Weighted average[3]

(1) - Represents future expected credit losses on impaired as

(2) - Represents the range of inputs/assumptions based upon

(3) - Calculated by weighting the relevant input/assumption

(4) - Represents current level of credit protection (subordinat

(5) - Values represent high and low points of lifetime vectors

Determination of Credit Loss Guaranteed by the Comp

The Company does not record OTTI related to credit c
including MBIA, are guaranteed payment of principal
are evaluated for impairment as part of its insurance su
its loss reserving policy. Refer to Note 2: Significant
on Form 10-K for the year ended December 31, 2012 f
Reserves for information about loss reserves.

In considering cash expected to be provided from othe
payments under a variety of scenarios that test the gua
cash flows provided by the insured security, are used t

Table of Contents

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unauc

Note 7: Investments (continued)

The following table provides information about securi
guarantor, along with the amount of insurance loss res

In millions
Asset-backed:
MBIA[1]
Other
Total asset-backed
Mortgage-backed:
MBIA[1]
Other
Total mortgage-backed
Corporate obligations:
Other
Total corporate obligations
Other:
MBIA[1]
Other
Total other
Total

(1) - Includes investments insured by MBIA Corp. and Natio

(2) - Insurance loss reserve estimates are based on the propor

Credit Loss Rollforward

The portion of certain OTTI losses on fixed-maturity s
recognized in earnings represents the difference betwe
to impairment. Any remaining difference between the
impairments recognized in earnings on fixed-maturity
AOCI, and the corresponding changes in such amount

In millions
Credit Losses Recognized in Earnings Related to
Other-Than-Temporary Impairments
Beginning balance
Additions for credit loss impairments recognized in th
Reductions for credit loss impairments previously reco
Reductions for credit loss impairments previously reco period(1)
Reductions for increases in cash flows expected to be c
Ending balance

(1) - Represents circumstances where the Company determi security before recovery of the security s amortized co

Table of Contents

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unauc

Note 7: Investments (continued)

Sales of Available-For-Sale Investments

Gross realized gains and losses are recorded in Net g
of operations. The proceeds and gross realized gains ar

In millions
Proceeds from sales
Gross realized gains
Gross realized losses

Note 8: Derivative Instruments

Overview

MBIA has entered into derivative instruments through
and forecasted transactions. The Company accounts fo
which requires that all such instruments be recorded o
determining the fair value of derivative instruments.

U.S. Public Finance Insurance

The Company s derivative exposure within its U.S. pu
insured U.S. public finance debt issues. These derivati
investments containing embedded derivatives. All deri
recorded on the Company s consolidated statements o
(losses) on financial instruments at fair value and forei

Structured Finance and International Insurance

The Company entered into derivative instruments that
guarantee scope exception and, therefore, must be reco
asset-backed, residential mortgage-backed, commercia
absent a negotiated settlement with the counterparty.

Changes in the fair value of derivatives, excluding insu
at fair value and foreign exchange. Changes in the fa
insured derivatives. The net change in the fair value o
settlements on insured derivatives and (ii) unrealized g
(i) premiums received and receivable on sold CDS con
paid on reinsurance commutations, (iv) losses paid and
(v) losses recovered and recoverable on purchased CD
contracts. The Unrealized gains (losses) on insured d

In certain instances, the Company s structured financ
accordance with the accounting guidance for derivativ
instruments is determined by the location of the relate

Variable Interest Entities

VIEs consolidated by the Company have entered into
the risks associated with fluctuations in interest rates o

Table of Contents

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unauc

Note 8: Derivative Instruments (continued)

Asset/Liability Products

The Company s asset/liability products business has e
contracts. Interest rate swaps are entered into to hedge
are entered into to hedge the variability in cash flows r
replicate investments in cash assets consistent with the

In certain instances, the Company s asset/liability pro
accounting guidance for derivative instruments and he
the location of the related security.

Changes in the fair value of the Company s asset/liab
Net gains (losses) on financial instruments at fair val

Credit Derivatives Sold

The following tables present information about credit
December 31, 2012. Credit ratings represent the lower

$ in millions

Credit Derivatives Sold
Insured credit default swaps
Insured swaps
All others
Total notional
Total fair value

$ in millions

Credit Derivatives Sold

Insured credit default swaps
Insured swaps
All others
Total notional
Total fair value

Internal credit ratings assigned by MBIA on the underl
reports from issuers and trustees, as well as publicly av
collateral valuations are considered. The maximum po
additional debt service costs, such as interest or other a
make under these guarantees as of June 30, 2013 is $2
which MBIA economically hedges a portion of the cre
maximum potential amount of future payments (undisc

Table of Contents

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unauc

Note 8: Derivative Instruments (continued)

MBIA may hold recourse provisions with third parties
provide that in the event MBIA pays a claim under a g
the guarantee on either a proportional or non-proportio
subrogation rights whereby if MBIA makes a claim pa

Counterparty Credit Risk

The Company manages counterparty credit risk on an
asset/liability products segment. There are no master n
segments. The master netting agreements in the asset/l
amounts due to such counterparty when certain trigger
mutual credit downgrade provisions that generally pro
downgraded below a specified credit rating.

Under these arrangements, the Company may receive
Company or its exposure to counterparties, respectivel
counterparty defaults. As of June 30, 2013, the Compa
counterparties of $223 million. Of this amount, $151 r
netted against accrued interest on derivative liabilities
December 31, 2012, the Company did not hold cash co
this amount, $203 million is netted within Derivative
derivative liabilities and an additional $66 million is ir
2012, the Company did not post securities to derivativ

As of June 30, 2013 and December 31, 2012, the fair v
governs collateral posting requirements between MBI
which was below the CSA minimum credit ratings lev
A2 by Moody s and A by S&P.

Financial Statement Presentation

The fair value of amounts recognized for eligible deriv
collateral that may have been received or posted by th
amounts related to derivative instruments. Insured CD
presented net of any master netting agreements.

As of June 30, 2013, the total fair value of the Compa
reported within Other assets and Other assets pr
Embedded derivatives of $8 million were reported wit

As of June 30, 2013, the total fair value of the Compa
$151 million was $1.7 billion, which was reported wit
entities on the Company s consolidated balance she
balance sheets.

Counterparty netting of derivative assets and liabilities

Table of Contents

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unauc

Note 8: Derivative Instruments (continued)

The following table presents the total fair value of the
and posting of cash collateral, as of June 30, 2013:

In millions

Derivative Instruments
Not designated as hedging instruments:
Insured credit default swaps
Insured swaps
Non-insured credit default swaps
Interest rate swaps
Interest rate swaps-VIE
Interest rate swaps-embedded
Currency swaps
Currency swaps-VIE
All other
All other-VIE
All other-embedded
Total non-designated derivatives

(1) - In accordance with the accounting guidance for derivati
determined by the location of the related host contract.

As of December 31, 2012, the total fair value of the C
reported within Other assets and Other assets pre
Embedded derivatives of $8 million were reported wit

As of December 31, 2012, the total fair value of the C
Company of $203 million, was $3.1 billion which was
variable interest entities on the Company s consolid
investments on the Company s consolidated balance

Counterparty netting of derivative assets and liabilities

Table of Contents

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unauc

Note 8: Derivative Instruments (continued)

The following table presents the total fair value of the
and posting of cash collateral, as of December 31, 201

In millions

Derivative Instruments
Not designated as hedging instruments:
Insured credit default swaps
Insured swaps
Non-insured credit default swaps
Interest rate swaps
Interest rate swaps-VIE
Interest rate swaps-embedded
Currency swaps
Currency swaps-VIE
All other
All other-VIE
All other-embedded
Total non-designated derivatives

(1) - In accordance with the accounting guidance for derivati
determined by the location of the related host contract.

The following table presents the effect of derivative in

In millions

Derivatives Not Designated as Hedging Instruments	**Lo**
Insured credit default swaps	Unrealized gains (l
Insured credit default swaps	Realized gains (los
Interest rate swaps	Net gains (losses) c
Currency swaps-VIE	Net gains (losses) c
All other	Unrealized gains (l
Total	

The following tables present the effect of derivative in

In millions

Derivatives in Fair Value Hedging Relationships	
Interest rate swaps	
Interest rate swaps	
Total	

Table of Contents

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unauc

Note 8: Derivative Instruments (continued)

In millions

Derivatives Not Designated as Hedging Instruments	
Insured credit default swaps	Unrealized g
Insured credit default swaps	Realized gai
Interest rate swaps	Net gains (lo
Interest rate swaps-VIE	Net gains (lo
Currency swaps	Net gains (lo
Currency swaps-VIE	Net gains (lo
All other	Unrealized g
All other-VIE	Net gains (lo
Total	

The following table presents the effect of derivative in

In millions

Derivatives Not Designated as Hedging Instruments	
Insured credit default swaps	Unrealized g
Insured credit default swaps	Realized gai
Interest rate swaps	Net gains (lo
Interest rate swaps-VIE	Net gains (lo
Currency swaps	Net gains (lo
Currency swaps-VIE	Net gains (lo
All other	Unrealized g
Total	

The following tables present the effect of derivative in

In millions

Derivatives in Fair Value Hedging Relationships

Interest rate swaps	Net gains (losses) on finan
Interest rate swaps	Interest income (expense)
Total	

Table of Contents

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unauc

Note 8: Derivative Instruments (continued)

In millions

Derivatives Not Designated as Hedging Instruments	
Insured credit default swaps	Unrealize
Insured credit default swaps	Realized
Insured swaps	Unrealize
Non-insured credit default swaps	Net gains
Non-insured credit default swaps-VIE	Net gains
Interest rate swaps	Net gains
Interest rate swaps-VIE	Net gains
Currency swaps-VIE	Net gains
All other	Unrealize
All other	Net gains
All other-VIE	Net gains
Total	

Note 9: Debt

The Company has disclosed its debt in Note 10: Deb
the year ended December 31, 2012. The following deb

Long-Term Debt

In connection with the BofA Settlement Agreement, M
the settlement. These notes were subsequently transfer

Interest and principal payments on the 14% Fixed to F
MBIA Insurance Corporation s request for approval o
MBIA Insurance Corporation provided notice to the F
on the first business day on or after which MBIA Insur
of June 30, 2013, the Company had accrued interest re
consolidated balance sheets.

Medium-Term Note Obligations

During the six months ended June 30, 2013, the Comp
of 100% of par value. The Company also repurchased
Company s asset/liability segment at a weighted avera

Other Borrowing Arrangements

Blue Ridge Secured Loan

In connection with the BofA Settlement Agreement in
pursuant to which Blue Ridge agreed to make revolvin
the material terms of the Loan Agreement, as amended
of the document described below.

Use of Proceeds

The proceeds of the Blue Ridge Secured Loan can be u
million, the proceeds must be used for the purpose of r

Table of Contents

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 9: Debt (continued)

Conditions to Borrowings

Blue Ridge s obligation to make loans is subject to us
or would occur as a result of that borrowing and (ii) th
all material respects.

Security

The Loans are secured by a pledge of collateral consis
mortgage loans included in its insured RMBS transact
from expected excess spread generated by performing
voting capital stock of MBIA Corp. s equity interest i
Collateral). Under the Blue Ridge Secured Loan, the
As of June 30, 2013, the value of the collateral was ap

Interest Rate and Fees

Borrowings under the Blue Ridge Secured Loan have
applicable margin (LIBOR Loans), or (ii) the highe
(c) the adjusted LIBOR plus 1.00%, plus an applicable
6.50%, respectively. With respect to any available but
commitment fee on such undrawn amounts of 2.00% p

Scheduled Repayment

The maturity date of the Blue Ridge Secured Loan is t

Mandatory Prepayments

Loans are required to be prepaid (and Blue Ridge s co
and (ii) on and after the first anniversary of the closing
anniversary of the closing date to the second anniversa
maturity date, 100% of such proceeds. In addition, loa
certain disposals of assets to the extent exceeding $1 n
reduction) to the extent the proceeds of any borrowing
loans within the required 30-day period.

Representations and Warranties

The Blue Ridge Secured Loan contains certain custom
each borrowing under the Blue Ridge Secured Loan ag
enforceability of the loan documents, receipt of any ne

Covenants

The Blue Ridge Secured Loan contains certain affirma
other matters, delivery of financial statements, notice o
books and records, compliance with all material laws,
$750 million of statutory capital (defined as policyhold

Table of Contents

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 9: Debt (continued)

In addition, MBIA Insurance Corporation may not, wi
insurance obligations and settlements of litigation to th
$260 million in the aggregate, (y) after giving effect th
outstanding would exceed $200 million or (z) after giv
reduced MBIA Insurance Corporation s statutory capi

In addition, MBIA Insurance Corporation may not pre
make any payment of principal, interest or fees or any
the Blue Ridge Secured Loan agreement and except fo

Change of Control

MBIA Insurance Corporation may be required to prepa
control.

Events of Default

The Blue Ridge Secured Loan agreement contains cert
including failure to pay principal, interest or fees on th
indebtedness, insolvency and bankruptcy matters, and

Note 10: Income Taxes

The Company s income taxes and the related effectiv

In millions
Income (loss) before income taxes
Provision (benefit) for income taxes
Effective tax rate

For the six months ended June 30, 2013, the Company
the decrease in the valuation allowance against its defe

For the six months ended June 30, 2012, the Company
result of the decrease in the valuation allowance, the re
investments.

For interim reporting purposes, the Company has calcu
mark-to-market income, fair value adjustments, capita
accounted for these items at the federal applicable tax

Deferred Tax Asset, Net of Valuation Allowance

The Company establishes a valuation allowance agair
realized. All evidence, both positive and negative, nee
asset ultimately depends, in part, on the existence of su
carryforward period available under the tax law.

Table of Contents

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unauc

Note 10: Income Taxes (continued)

As of June 30, 2013, the Company reported a net defe
As of June 30, 2013, the Company had a valuation allo
considered capital losses, have a five-year carryforwar
reflects a decrease of $53 million from the December
June 30, 2013 was primarily due to the generation of c

The Company has concluded that it is more likely than
evidence (both positive and negative):

Due to the long-tail nature of the financia
stream of scheduled premium earnings w
suspension in writing new structured fina
related to the reduction of existing deriva

The Company performed taxable income
tax asset that will generate future ordinar
at National, combined with investment in
income projections used to assess the rec
discount of loss reserves already recogni
assume additional losses, with the except
reserves on a present value basis based o

While the lack of strong credit ratings as
insurance business, these ratings did not
sufficient to absorb losses in the event th

With respect to installment policies, the C
downgrades. With regard to upfront polic
that policy will be accelerated into earnin

After reviewing all of the evidence available, both pos
assets, net of the valuation allowance, as of June 30, 2
available. The Company s recent financial results hav
volatility or losses beyond those projected may cause t
as of June 30, 2013 may not be realizable. The Compa

Accounting for Uncertainty in Income Taxes

The Company s policy is to record and disclose any c

In millions
Unrecognized tax benefit as of December 31, 2012
The gross amount of the increase/(decrease) in the UT
During a prior year
During the current year
The amounts of decreases in the UTB related to settler
The reduction in the UTB as a result of the applicable
Unrecognized tax benefit as of June 30, 2013

MBIA s major tax jurisdictions include the U.S. and t

Table of Contents

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unauc

Note 10: Income Taxes (continued)

The U.K. tax authorities are currently auditing tax yea
are ongoing.

In June of 2013, the New York State Department of T
the 2008 tax year. The Company will be meeting with

As of December 31, 2012, the Company s consolidate
December 31, 2012, the Company also had a capital lo

Note 11: Business Segments

MBIA manages its activities through three principal b
services. The Company s U.S. public finance insuran
through MBIA Corp., and its advisory services busine
business activities, the results of which are reported in
expenses that arise from general corporate activities. V
referred to collectively as wind-down operations as

As defined by segment reporting, an operating segme
expenses, (ii) whose operating results are regularly rev
about the allocation of resources to the segment and, (
the Company s reportable operating segments.

U.S. Public Finance Insurance

The Company s U.S. public finance insurance segme
and irrevocable guarantees of the payment of principal
are generally not subject to acceleration, except that N
issues financial guarantees for municipal bonds, incluc
health care institutions, higher educational facilities, st
finance projects that serve a substantial public purpose
supported by taxes, assessments, fees or tariffs related
any meaningful amount of business since its formation

Structured Finance and International Insurance

The Company s structured finance and international i
generally provide unconditional and irrevocable guara
non-U.S. public finance insured obligations when due,
otherwise, upon MBIA Corp. s acceleration. Certain g
have insufficient assets to pay amounts due upon matu
following affiliates:

MBIA Inc.;

GFL;

Meridian Funding Company, LLC;

LaCrosse Financial Products, LLC, a wh
CDS, including termination payments th
the CDS issuer.

Table of Contents

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unauc

Note 11: Business Segments (continued)

MBIA Corp. s guarantees insure structured finance ar
primarily located outside of the U.S. and that include t
serving a substantial public purpose, and obligations o
from expected cash flows generated by a specified poo
and bonds, trade and export receivables, and leases for
except for transactions related to the reduction of exist

Advisory Services

The advisory services segment primarily consists of th
(Cutwater-AMC), and Trifinium. Cutwater-ISC and
structured products on a fee-for-service basis. Cutwate
and its subsidiaries, as well as portfolio accounting and
investment advisers. Cutwater-AMC is also a Financia
services to the Company s foreign insurance affiliate
the U.K.

Corporate

The Company s corporate segment is principally conc
the corporate segment and other operating businesses.
activities, such as fees, net investment income, net gai
company provide various support services including m
others, on a fee-for-service basis. The service company

Wind-down Operations

The Company s wind-down operations consist of the
activities of MBIA Inc., MBIA Investment Manageme
guaranteed by MBIA Corp., for bond proceeds and oth
fund requirements. It also provided customized produc
through the issuance of MTNs with varying maturities
(GFL Loans). MBIA Inc. invested the proceeds of i
rated investment grade at the time of purchase and ma
purchases domestic securities, which are pledged to M

The Company s conduit segment administers one con

The ratings downgrades of MBIA Corp. have resulted
agreements, as well as winding down of existing asset

Table of Contents

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unauc

Note 11: Business Segments (continued)

Segments Results

The following tables provide the Company s segment

In millions
Revenues[1]
Net change in fair value of insured derivatives
Net gains (losses) on financial instruments at fair value and foreign exchange
Net gains (losses) on extinguishment of debt
Revenues of consolidated VIEs
Inter-segment revenues[2]
Total revenues
Losses and loss adjustment
Operating
Interest
Expenses of consolidated VIEs
Inter-segment expenses[2]
Total expenses
Income (loss) before income taxes
Identifiable assets

(1) - Represents the sum of third-party financial guarantee n other fees.

(2) - Represents intercompany premium income and expense intercompany receivables and payables.

(3) - Consists of intercompany reinsurance balances, repurch

Table of Contents

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unauc

Note 11: Business Segments (continued)

In millions
Revenues[1]
Net change in fair value of insured derivatives
Net gains (losses) on financial instruments at fair value and foreign exchange
Net investment losses related to other-than-temporary impairments
Other net realized gains (losses)
Revenues of consolidated VIEs
Inter-segment revenues[2]
Total revenues
Losses and loss adjustment
Operating
Interest
Expenses of consolidated VIEs
Inter-segment expenses[2]
Total expenses
Income (loss) before income taxes
Identifiable assets

(1) - Represents the sum of third-party financial guarantee n
other fees.

(2) - Represents intercompany premium income and expense
intercompany receivables and payables.

(3) - Consists of intercompany reinsurance balances, repurch

[Table of Contents](#)

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unauc

Note 11: Business Segments (continued)

The following tables provide the Company s segment

In millions
Revenues(1)
Net change in fair value of insured derivatives
Net gains (losses) on financial instruments at fair value and foreign exchange
Net gains (losses) on extinguishment of debt
Revenues of consolidated VIEs
Inter-segment revenues(2)
Total revenues
Losses and loss adjustment
Operating
Interest
Expenses of consolidated VIEs
Inter-segment expenses(2)
Total expenses
Income (loss) before income taxes
Identifiable assets

(1) - Represents the sum of third-party financial guarantee n
other fees.

(2) - Represents intercompany premium income and expense
receivables and payables and intercompany loans.

(3) - Consists of intercompany reinsurance balances, repurch

Table of Contents

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unauc

Note 11: Business Segments (continued)

In millions
Revenues[1]
Net change in fair value of insured derivatives
Net gains (losses) on financial instruments at fair value and foreign exchange
Net investment losses related to other-than-temporary impairments
Other net realized gains (losses)
Revenues of consolidated VIEs
Inter-segment revenues[2]
Total revenues
Losses and loss adjustment
Operating
Interest
Expenses of consolidated VIEs
Inter-segment expenses[2]
Total expenses
Income (loss) before income taxes
Identifiable assets

(1) - Represents the sum of third-party financial guarantee nc
other fees.

(2) - Represents intercompany premium income and expense
intercompany receivables and payables.

(3) - Consists of intercompany reinsurance balances, repurch

Premiums on financial guarantees and insured derivati
table summarizes premiums earned on financial guarar
and 2012:

In millions
Total premiums earned:
United States
United Kingdom
Europe (excluding United Kingdom)
Internationally diversified
Central and South America
Asia
Other
Total

Table of Contents

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unauc

Note 11: Business Segments (continued)

The following tables provide the results of the segmen

In millions
Revenues[1]
Net gains (losses) on financial instruments at fair valu
Revenues of consolidated VIEs
Inter-segment revenues[2]
Total revenues
Operating
Interest
Expenses of consolidated VIEs
Inter-segment expenses[2]
Total expenses
Income (loss) before income taxes
Identifiable assets

(1) - Represents the sum of third-party interest income, inves

(2) - Represents intercompany asset management fees and ex

In millions
Revenues[1]
Net gains (losses) on financial instruments at fair valu
Net investment losses related to other-than-temporary
Revenues of consolidated VIEs
Inter-segment revenues[2]

Total revenues
Operating
Interest
Expenses of consolidated VIEs
Inter-segment expenses(2)
Total expenses
Income (loss) before income taxes
Identifiable assets

(1) - Represents the sum of third-party interest income, inves

(2) - Represents intercompany asset management fees and ex

Table of Contents

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unauc

Note 11: Business Segments (continued)

The following tables provide the results of the segmen

In millions
Revenues[1]
Net gains (losses) on financial instruments at fair valu
Net gains (losses) on extinguishment of debt
Revenues of consolidated VIEs
Inter-segment revenues[2]
Total revenues
Operating
Interest
Expenses of consolidated VIEs
Inter-segment expenses[2]
Total expenses
Income (loss) before income taxes
Identifiable assets

(1) - Represents the sum of third-party interest income, inves

(2) - Represents intercompany asset management fees and ex

In millions
Revenues[1]
Net gains (losses) on financial instruments at fair valu
Net investment losses related to other-than-temporary
Revenues of consolidated VIEs
Inter-segment revenues[2]

Total revenues
Operating
Interest
Expenses of consolidated VIEs
Inter-segment expenses[2]
Total expenses
Income (loss) before income taxes
Identifiable assets

(1) - Represents the sum of third-party interest income, inves

(2) - Represents intercompany asset management fees and ex

Table of Contents

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unauc

Note 12: Earnings Per Share

Basic earnings per share excludes dilution and is comp
outstanding during the period. Diluted earnings per sha
could potentially result in the issuance of common stoc
stock options and warrants outstanding that were not in
June 30, 2013 and 2012, there were 27,563,460 and 28
per share calculation because they were antidilutive.

The following table presents the computation of basic

$ in millions except share and per share amounts
Net income (loss)
Basic weighted average shares[1]
Effect of common stock equivalents:
Stock options and warrants
Diluted weighted average shares
Net income (loss) per common share:
Basic
Diluted

(1) - Includes 4,490,348 and 5,597,797 of unvested restricted
2012, respectively. Includes 5,303,456 and 5,400,564 o
June 30, 2013 and 2012, respectively.

Note 13: Accumulated Other Comprehensive Incom

The following table presents the changes in the compo

In millions
Balance, January 1, 2013
Other comprehensive income before reclassifications
Amounts reclassified from AOCI

Net current period other comprehensive income (loss)
Balance, June 30, 2013

Table of Contents

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unauc

Note 13: Accumulated Other Comprehensive Incon

The following table presents the details of the reclassi

In millions	
Details about AOCI Components	
Unrealized gains (losses) on AFS securities:	
Realized gain on sale of securities	
Amortization on securities	
Total reclassifications for the period	

Note 14: Commitments and Contingencies

The following commitments and contingencies provid
Financial Statements included in the Company s Ann
complete descriptions provided in the aforementioned

Recovery Litigation

MBIA Insurance Corp. v. Countrywide Home Loans, I

In May of 2013, the parties reached an agreement to re
included herein for a description of the comprehensive

MBIA Insurance Corp. v. Bank of America Corp.; Cou
BC417572 (Ca. Super. Ct., County of Los Angeles)

In May of 2013, the parties reached an agreement to re
included herein for a description of the comprehensive

MBIA Insurance Corp. v. Federal Deposit Insurance C
Action No. 09-01011 (ABJ) (D.D.C.)

On March 8, 2013, the United States Court of Appeals

MBIA Insurance Corp. v. Credit Suisse Securities (US

On March 8, 2013, the defendants filed their answer to
June 30, 2014.

MBIA Insurance Corp. v. J.P. Morgan Securities LLC

On November 7, 2012, J.P. Morgan Securities LLC wi

MBIA Insurance Corp. v. Ally Financial Inc. (f/k/a GM

This case is currently stayed.

Table of Contents

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unauc

Note 14: Commitments and Contingencies (continu

MBIA Insurance Corp. v. Flagstar ABS, LLC, et al.; 1

The parties filed a Stipulation of Discontinuance and C
dismissed the lawsuit against Flagstar Bank in exchan

Transformation Litigation

ABN AMRO Bank N.V. et al. v. Eric Dinallo et al.; Ind

On March 4, 2013, the court issued a decision dismiss
Appellate Division, First Department. In May of 2013
claims. Refer to Note 1: Business Developments and

ABN AMRO Bank N.V. et al. v. MBIA Inc. et al.; Inde

In May of 2013, following the Bank of America and S
Developments and Risks and Uncertainties included

Barclays Bank PLC., et al. v. Wrynn et al.; Index No.

In May of 2013, following the Bank of America and S
Developments and Risks and Uncertainties included

CQS ABS Master Fund Ltd., CQS Select ABS Master
(S.D.N.Y.)

On June 24, 2013, the court granted MBIA s motion t

Broadbill Partners LP, et al. v. MBIA Inc., et al.; Inde

On June 6, 2013, the plaintiffs voluntarily dismissed th

Corporate Litigation

Bank of America v. MBIA Inc. and The Bank of New Y

In May of 2013, the parties reached an agreement to re
Uncertainties included herein for a description of the

MBIA Inc. v. Bank of America Corp. and Blue Ridge I

In May of 2013, the parties reached an agreement to re
Uncertainties included herein for a description of the

Mary Crescente v. Joseph Brown, et al.; Index No. 17

On March 25, 2013, a Stipulation of Discontinuance w

Ambac Bond Insurance Coverage Cases, Coordinated

On March 22, 2013, the court granted the Bond Insure
California s Cartwright Act.

City of Phoenix v. AMBAC et al., Case No. 2:10-cv-00

On June 4, 2013, the parties reached an agreement to r

Table of Contents

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unauc

Note 14: Commitments and Contingencies (continu

The Company is defending against the aforementionec
however, that the Company will prevail in these actior
its strategy and on its business, results of operations, c
amount, if any, of damages. Accordingly, the Compan

There are no other material lawsuits pending or, to the

Note 15: Subsequent Events

Refer to Note 14: Commitments and Contingencies

Table of Contents

Item 2. Management s Discussion and Analysis of

FORWARD-LOOKING AND CAUTIONARY ST

This quarterly report of MBIA Inc. (MBIA , the C
made pursuant to the safe harbor provisions of the Pri
intend , will likely result , looking forward , or
and uncertainties that could cause actual results to diff
place undue reliance on any such forward-looking stat
forward-looking statement if the Company later becon

The following are some of the factors that could affect
underlying the Company s forward-looking statement

the possibility that the Company will exp
and in particular, due to the performance
securities (CMBS) pools and commerc
securities (RMBS) transactions, and in

uncertainty regarding whether the Compa
sellers/servicers of RMBS transactions a

failure to implement our risk reduction a
approvals;

the possibility that loss reserve estimates

our ability to access capital and our expo
our asset/liability products segment;

our ability to fully implement our strateg
(together with its subsidiaries, National
as a result of limited available liquidity;

the possibility of deterioration in the eco
European sovereign credit performance,

the possibility that severe fiscal stress wi

some municipalities are experiencing sev
the United States Bankruptcy Code. The
bonds;

- changes in the Company s credit ratings

- competitive conditions for bond insuranc
changes in the demand for financial guar

- the effects of governmental regulation, ir

- uncertainties that have not been identifiec

The above factors provide a summary of and are quali
addition, refer to Note 1: Business Developments and
uncertainties related to our financial statements.

Table of Contents

Item 2. Management s Discussion and Analysis of

EXECUTIVE OVERVIEW

MBIA operates one of the largest financial guarantee i
activities are managed through three business segment
public finance insurance business is primarily operated
MBIA Insurance Corporation and its subsidiaries (M
Holdings, LLC and its subsidiaries (Cutwater). Our
We also manage certain business activities through ou
expenses that arise from general corporate activities. F

Recent Developments

Bank of America Settlement Agreement

In May of 2013, MBIA Inc., together with its subsidia
BofA Settlement Agreement) with Bank of Americ
Developments and Risks and Uncertainties in the No
BofA Settlement Agreement, the repayment of the ren
and recent credit ratings upgrades, certain barriers to r
such re-entry into the U.S. public finance market.

Societe Generale Settlement

In May of 2013, the Company entered into an agreeme
ABS CDOs, structured CMBS pools and CRE CDOs.
Statements for a description of the settlement.

Residential Capital LLC Agreement

In May of 2013, the Company, the Consenting Claima
plan agreement to support ResCap s Chapter 11 plan.
Funding Company, LLC, GMAC Mortgage LLC and
Plan Support Agreement (the Plan). The Plan is nov
assurance that the Plan will be confirmed. Refer to N
description of the agreement.

Transformation Litigation

Subsequent to the BofA Settlement Agreement and the
international financial institutions, relating to the estab
Consolidated Financial Statements for a description of

Operating Cost Reductions

In order to better position the Company for future busi
staffing and head office occupancy costs. As a result, c
Severance and other costs related to staff reductions w

Table of Contents

Item 2. Management s Discussion and Analysis of

EXECUTIVE OVERVIEW (continued)

National

The Company intends to seek additional rating upgrad
strength of National when compared with other simila
gain market acceptance and become a competitive fin
tax-backed and other revenue bond sectors. The Comp
Company believes meet our underwriting criteria thus
continued issuance of new municipal debt will present
maintains underwriting criteria for most municipal ris
plan does not limit it to a particular sector or sectors.

As of June 30, 2013, National was rated A with a stab
Investors Service, Inc. (Moody s). We expect to ac
assurance that we will be able to achieve such ratings.
business and the premiums we can charge.

While there are currently two bond insurers actively e
indicating an interest in entering the bond insurance m
existing market participants may have on our ability to

Our U.S. public finance insured portfolio in National,
June 30, 2013 as a portion of the obligations that we i
stress. In addition, several of these local governments,
have entered into Chapter 9 bankruptcy proceedings u
states and municipalities could lead to an increase in d
transactions.

MBIA Corp.

MBIA Corp. s strategy for managing its CMBS pool
capital and liquidity to meet all of its expected obligat
business and financial results have been significantly i
Developments and Risks and Uncertainties in the No
amounts reported in the Company s financial stateme

Our expected liquidity and capital foreca
secured revolving credit agreement with
and expected recoveries from the ResCa
the amount and timing of potential claim
collections of excess spread and the rema
deteriorate and result in loss reserves and
Corp. experiences higher than expected c
MBIA Corp. may ultimately have insuffi
Services (NYSDFS) to put MBIA Ins

For the six months ended June 30, 2013,
insured CMBS exposure. This additional
insured CMBS portfolio every quarter si
possible that we will experience severe l

Table of Contents

Item 2. Management s Discussion and Analysis of

EXECUTIVE OVERVIEW (continued)

During the six months ended June 30, 20
pools, investment grade CDOs, ABS CD
first-lien alternative A-paper RMBS. In c
payments to the counterparties, the amou
transactions. The Company enters into co
disclosures regarding any such transactio
established for the respective transactions
availability of the Blue Ridge Secured Lo
regulatory approval by the NYSDFS and
able to fund further commutations by bor

Economic and Financial Market Trends

We believe the first half of 2013 continued to show m
in gasoline prices and higher payroll taxes, consumer c
slight uptick in the unemployment rate in the second q
help to increase personal incomes. The strong consum
have led to a rise in interest rates. Information concern
Risk . Europe remains in a recession with continued h
some time before Europe returns to financial stability.
sustained job growth and resolution of fiscal policies i
backdrop since these are some of the key economic co
and losses on our insured credit derivatives, significan

Financial Highlights

Our financial results, prepared in accordance with acc
since the fourth quarter of 2007 primarily as a result o
volatility caused by these unrealized gains and losses c
reported financial results will remain volatile and unce
the perception of MBIA s credit risk. Our economic p
conditions in the U.S. and abroad and deviations in co

For the three months ended June 30, 2013, we recorde
$581 million, or $2.98 per diluted share for the same p

For the six months ended June 30, 2013, we recorded
million or $3.03 per diluted share, for the same period

We also use adjusted pre-tax income (loss), a non-GA
fundamental measure of periodic financial performanc
pre-tax income (loss) to remove the effects of consolid
we believe will reverse over time, as well as to add in
ongoing insurance loss monitoring. Adjusted pre-tax in
our definition of adjusted pre-tax income (loss) may d
of adjusted pre-tax income (loss) to GAAP pre-tax inc

For the three months ended June 30, 2013, consolidate
period of 2012.

For the six months ended June 30, 2013, consolidated
period of 2012.

Table of Contents

Item 2. Management s Discussion and Analysis of

EXECUTIVE OVERVIEW (continued)

Our consolidated shareholders equity was $3.0 billio
of unrealized losses on available-for-sale securities tha
consolidated book value per share as of June 30, 2013

In addition to book value per share, we also analyze ad
of the Company and the change in ABV an important
the Company believes will reverse from GAAP book v
well as to add in the impact of certain items which the
adjustments to those items that it deems to be importan
ABV assumes no new business activity. We have pres
management regularly uses to measure financial perfo
our definition of ABV may differ from that used by ot
reconciliation of GAAP book value per share to ABV

As of June 30, 2013, ABV per share was $29.42, dow

A detailed discussion of our financial results is present
Capital section for a discussion of National s and M

CRITICAL ACCOUNTING ESTIMATES

We prepare our financial statements in accordance wit
development, selection, and disclosure of critical acco
estimates, since these estimates require significant jud
results could be materially different if other methodolo

For a discussion of the Company s critical accounting
Financial Condition and Results of Operations inclu
Note 5: Loss and Loss Adjustment Expense Reserve
loss reserving process.

RECENT ACCOUNTING PRONOUNCEMENTS

Refer to Note 3: Recent Accounting Pronouncement
the Company.

Table of Contents

Item 2. Management s Discussion and Analysis of

RESULTS OF OPERATIONS

Summary of Consolidated Results

The following table presents a summary of our consoli

In millions except for per share amounts
Total revenues
Total expenses
Pre-tax income (loss)
Provision (benefit) for income taxes
Net income (loss)
Net income (loss) per common share:
Basic
Diluted

For the three months ended June 30, 2013, we recorde income of $581 million, or $2.98 per diluted common and 195 million for the three months ended June 30, 2 $182 million of net losses on insured derivatives comp were principally the result of favorable changes in the value. The net gains on insured derivatives in 2012 we a widening of its own credit spreads, a reduction in th expenses for the three months ended June 30, 2013 in increase in net insurance loss and LAE in 2013 when c recoveries of actual and expected payments related to

For the six months ended June 30, 2013, we recorded income of $591 million, or $3.03 per diluted common and 195 million for the six months ended June 30, 201 million of net losses on insured derivatives compared principally the result of favorable changes in the mark and a decline in the weighted average life on transacti below fair value, the effects of MBIA s nonperforma Company s recovery rate, and favorable movements i June 30, 2013 included a benefit of $6 million of net i net insurance loss and LAE in 2013 when compared t second-lien RMBS transactions. In addition, consolid approximately $87 million related to settlement, consu Generale and Flagstar Bank.

Included in our consolidated net income for the three the elimination of intercompany revenues and expense consolidated net income for the six months ended Jun of intercompany revenues and expenses, compared wi

our financial results will vary over time as VIEs are co
change.

Table of Contents

Item 2. Management s Discussion and Analysis of

RESULTS OF OPERATIONS (continued)

European Sovereign Debt Exposure

Uncertainties regarding the European sovereign debt c
of sovereign-related and sub-sovereign bonds, structur
insure any direct European sovereign debt. However, v
indirect European sovereign insured debt exposure tot
such as regions, departments, and sovereign-owned en
outstanding, $785 million, $601 million, and $249 mil
Kingdom. We closely monitor our existing insured Eu
type and quality of local regulatory oversight, the stre
monitor local accounting, regulatory and legal require
Company has an immaterial amount of direct and indi
issuers could have an adverse effect on our insured de

Adjusted Pre-Tax Income

The following table presents our consolidated adjusted
GAAP pre-tax income (loss) for the three and six mon

In millions
Adjusted pre-tax income (loss)
Additions to adjusted pre-tax income (loss):
Impact of consolidating certain VIEs
Mark-to-market gains (losses) on insured credit deriva
Subtractions from adjusted pre-tax income (loss):
Impairments on insured credit derivatives
Pre-tax income (loss)

For the three months ended June 30, 2013, our consoli
of decreases in premiums earned and revenues from co
increase was partially offset by decreases in impairme

For the six months ended June 30, 2013, our consolida
insurance losses and LAE, net gains from the sale of in
impairments on credit derivatives. These changes were
adjusted pre-tax loss for the six months ended June 30
and legal expenses associated with the resolution of lit

Table of Contents

Item 2. Management s Discussion and Analysis of

RESULTS OF OPERATIONS (continued)

Adjusted Book Value

As of June 30, 2013, ABV per share (a non-GAAP me
driven by insurance losses and credit impairments, a d
and an increase in operating expenses.

The following table provides a reconciliation of conso

In millions except share and per share amounts
Total shareholders equity of MBIA Inc.
Common shares outstanding
Book value per share
Adjustments for items included in book value per shar
Cumulative net loss from consolidating certain VIEs(1
Cumulative unrealized loss on insured credit derivativ
Net unrealized (gains) losses included in other compre
Adjustments for items not included in book value per s
Net unearned premium revenue(2)(3)
Present value of insured derivative installment revenu
Cumulative impairments on insured credit derivatives(
Deferred acquisition costs
Total adjustments per share
Adjusted book value per share

(1) - Represents the impact on book value per share of conso

(2) - Consists of financial guarantee premiums and fees.

(3) - The discount rate on financial guarantee installment pre

(4) - The discount rate on insured derivative installment reve

Our Net unearned premium revenue adjustment to
financial guarantee insurance contracts, the unamortiz
insurance-related deferred fee revenue. Our Present
premiums not yet collected from insured derivative co

guarantee insurance contracts but which are contractua

U.S. Public Finance Insurance

Our U.S. public finance insurance business is primaril
irrevocable guarantees of the payment of the principal
exercised, at its discretion, the right to accelerate insur
and taxable indebtedness of U.S. political subdivisions
housing authorities and other similar agencies and obli
and privately issued bonds used for the financing of pu
these projects, lease payments or other similar types of

Table of Contents

Item 2. Management s Discussion and Analysis of

RESULTS OF OPERATIONS (continued)

The following table presents our U.S. public finance i

In millions
Net premiums earned
Net investment income
Fees and reimbursements
Net gains (losses) on financial instruments at fair valu exchange
Total revenues
Losses and loss adjustment
Amortization of deferred acquisition costs
Operating
Total expenses
Pre-tax income

n/m - Percent change not meaningful.

For the three and six months ended June 30, 2013 and
our U.S. public finance segment reflects the insurance
the formation of National in 2009. Subsequent to the
eighteen domestic and international financial institutio
the National Secured Loan was repaid in full and S&P
credit watch positive outlook. On May 10, 2013, S&P
rating to Baa1 from Baa2 with a positive outlook. The
used by the rating agencies in their evaluation. We do
ratings, but certain barriers to re-enter the bond insura
U.S. public finance market.

NET PREMIUMS EARNED Net premiums earned on
include scheduled premium earnings and premium ear
were $102 million compared with $130 million for the
million and a decrease of $4 million in scheduled pren
million compared with $236 million for the same perio
decrease in scheduled premiums earned of $7 million.
portfolio with no material new insurance writings. Ad
reduced the amount of premiums that would have bee

Table of Contents

Item 2. Management s Discussion and Analysis of

RESULTS OF OPERATIONS (continued)

NET INVESTMENT INCOME The decrease in net in
was primarily due to a higher balance in lower yielding
in the notional value of our simultaneous repurchase a
on the National Secured Loan for the three months end
months ended June 30, 2013 the interest income totale
Agreement, MBIA Corp. repaid the remaining outstan
included herein for additional information about the N

Investment asset balances at amortized cost as of June

In millions
Fixed-income securities:
Tax-exempt
Taxable
Short-term
Total fixed-income
Secured loan to an affiliate
Other
Total

(1) - Estimated yield-to-maturity.

NET GAINS (LOSSES) ON FINANCIAL INSTRUM
instruments at fair value and foreign exchange for the
realized gains from the sales of securities from the ong
financial instruments. The increase in net gains (losses
with the same period of 2012 was principally due to ar
finance insurance investment portfolio.

LOSS AND LOSS ADJUSTMENT EXPENSES Natio
obligations. The level and frequency of monitoring of
Loss and Loss Adjustment Expense Reserves in the N
additional information related to its loss reserves.

The following table presents information about our U.

In millions
Loss and LAE related to actual and expected payments
Recoveries of actual and expected payments
Gross losses incurred
Reinsurance
Losses and loss adjustment expenses

n/m - Percent change not meaningful.

Table of Contents

Item 2. Management s Discussion and Analysis of

RESULTS OF OPERATIONS (continued)

For the three and six months ended June 30, 2013 and
under extreme financial and budgetary stress and seve
proceedings established to assist municipalities in ma
payment of their obligations and losses or impairment
closely, however the overall extent and duration of the

The following tables present information about our U.
2012:

In millions
Gross loss and LAE reserves
Expected recoveries on unpaid losses
Loss and LAE reserves
Insurance loss recoverable
Insurance loss recoverable-ceded[1]
Reinsurance recoverable on paid and unpaid losses

(1) - Reported within Other liabilities on our consolidated

Included in our U.S. public finance loss and LAE rese
paid a claim and also for which a payment default has
comprised the following:

$ in millions
Gross of reinsurance:
Issues with defaults
Issues without defaults
Total gross of reinsurance

(1) - An issue represents the aggregate of financial guara
On July 9, 2013, the Company and the Pennsylvania H
Allegheny Health, Education and Research Foundatio

to be redeemed during the third quarter of 2013, at wh
eliminated.

POLICY ACQUISITION COSTS AND OPERATINC
and 2012 are presented in the following table:

In millions
Gross expenses
Amortization of deferred acquisition costs
Operating
Total insurance operating expenses

Gross expenses represent total insurance expenses befo
2013 compared with the same period of 2012 primarily
expenses decreased for the six months ended June 30,
partially offset by an increase in consulting fees.

Table of Contents

Item 2. Management s Discussion and Analysis of

RESULTS OF OPERATIONS (continued)

Operating expenses increased for the three months end
2013 compared with the same period of 2012 as a resu
2012.

INSURED PORTFOLIO EXPOSURE Financial guara
insured portfolios. MBIA uses both an internally devel
insured portfolio. In evaluating credit risk, we obtain,
nationally recognized rating agencies, Moody s and S
internal ratings that would not be comparable to our pr

The following table presents the credit quality distribu
All ratings are as of the period presented and represent
rated by either S&P or Moody s, an internal equivaler

In millions **Rating**
AAA
AA
A
BBB
Below investment grade
Total

The credit quality distribution of our U.S. public finan
public finance insurance gross par outstanding rated A
below investment grade, before giving effect to Nation

Structured Finance and International Insurance

Our structured finance and international insurance bus
provide unconditional and irrevocable guarantees of th
event MBIA Corp. has the right, at its discretion, to ac
investment contracts written by MBIA Inc. or its subsi
amounts due upon maturity or termination, MBIA Cor
affiliates, including MBIA Global Funding, LLC (GF
MBIA Corp. has also written insurance policies guarar
LLC, including termination payments that may becom
issuer.

MBIA Corp. s guarantees insure structured finance ar
primarily located outside of the U.S. which include tol
serving a substantial public purpose, and obligations o
from expected cash flows generated by a specified poo

loans and bonds, trade and export receivables, and leas

In certain cases, we may be required to consolidate ent
liabilities of those entities and in connection with reme
principles for the consolidation of VIEs. We do not be
with other financial guarantees written by us.

Table of Contents

Item 2. Management s Discussion and Analysis of

RESULTS OF OPERATIONS (continued)

The following table presents our structured finance an

In millions	
Net premiums earned	
Net investment income	
Fees and reimbursements	
Change in fair value of insured derivatives:	
Realized gains (losses) and other settlements on insure	
Unrealized gains (losses) on insured derivatives	
Net change in fair value of insured derivatives	
Net gains (losses) on financial instruments at fair valu	
Net investment losses related to other-than-temporary	
Other net realized gains (losses)	
Revenues of consolidated VIEs:	
Net investment income	
Net gains (losses) on financial instruments at fair valu	
Other net realized gains (losses)	
Total revenues	
Losses and loss adjustment	
Amortization of deferred acquisition costs	
Operating	
Interest	
Expenses of consolidated VIEs:	
Operating	
Interest	
Total expenses	
Pre-tax income (loss)	

n/m - Percent change not meaningful.

For the three and six months ended June 30, 2013 and
2013, MBIA Corp. s total insured gross par outstandi
from $331.2 billion. The lack of insurance writings in
assigned to MBIA Corp. by the major ratings agencies
financial strength ratings of MBIA Corp. and market a
Corporation s rating to B with a stable outlook from C

with a positive outlook from Caa2 with a review for do
qualitative factors used by the rating agencies in their e
changes in the fair value of our insured credit derivativ

ADJUSTED PRE-TAX INCOME (LOSS) In addition
insurance segment using adjusted pre-tax income (loss
understanding of the results of operations of our struct
income (loss) determined in accordance with GAAP, a

Table of Contents

Item 2. Management s Discussion and Analysis of

RESULTS OF OPERATIONS (continued)

The following table presents the adjusted pre-tax incor
income (loss) to GAAP pre-tax income (loss) for the th

In millions
Adjusted pre-tax income (loss)
Additions to adjusted pre-tax income (loss):
Impact of consolidating certain VIEs
Mark-to-market gain (loss) on insured credit derivative
Subtractions from adjusted pre-tax income (loss):
Impairments on insured credit derivatives
Pre-tax income (loss)

n/m - Percent change not meaningful.

Adjusted pre-tax loss for the three months ended June
guarantee insurance losses and LAE, impairments on i
of 2013.

Adjusted pre-tax loss for the six months ended June 3
insurance losses, increase in gains on sales of investme
other-than-temporary impairments.

NET PREMIUMS EARNED Our structured finance a
guarantee contracts and insured derivative contracts, a
Company consolidating VIEs. The following table pro
2012:

In millions
Net premiums earned:
Financial guarantee contracts
Insured derivative contracts(1)
VIEs (eliminated in consolidation)
Total net premiums earned

(1) - Premiums related to insured derivatives are included in
Net premiums earned on non-derivative financial guar
Net premiums earned represent gross premiums earne
refunded issues.

In millions
Net premiums earned:
U.S.
Non-U.S.
Total net premiums earned

Structured finance and international net premiums earn
the maturity and early settlement of insured transactio

Table of Contents

Item 2. Management s Discussion and Analysis of

RESULTS OF OPERATIONS (continued)

NET INVESTMENT INCOME The decrease in net in
was primarily due to declining average asset balances

Investment asset balances at amortized cost as of June

In millions
Fixed-income securities:
Taxable
Short-term
Total fixed-income
Other
Total

(1) - Estimated yield-to-maturity.

FEES AND REIMBURSEMENTS The decrease in fe
2012 was primarily due to a decrease in waiver and co

NET CHANGE IN FAIR VALUE OF INSURED DE
components of the net change in fair value of insured

In millions
Net premiums and fees earned on insured derivatives
Realized gains (losses) on insured derivatives
Realized gains (losses) and other settlements on insure
Unrealized gains (losses) on insured derivatives
Net change in fair value of insured derivatives

n/m - Percent change not meaningful.

The Company no longer insures new credit derivative
Premiums earned related to insured credit derivatives
and six months ended June 30, 2013 and 2012, realize
transactions.

For the three months ended June 30, 2013, unrealized
commutations partially offset by the effects of MBIA
insured derivatives were principally associated with th
derivative liabilities.

For the six months ended June 30, 2013, unrealized ga
and the changes in weighted average lives on transacti
ended June 30, 2012, unrealized gains on insured deri
MBIA s nonperformance risk on its derivative liabilit

Table of Contents

Item 2. Management s Discussion and Analysis of

RESULTS OF OPERATIONS (continued)

As of June 30, 2013, MBIA Corp. s five year CDS co
2012. Our mark-to-market on insured credit derivative
-0.06% upfront plus 5% per annum to 13.50% upfront
5% per annum to 37.38% upfront plus 5% per annum.

As of June 30, 2013, we had $26.9 billion of gross par
and December 31, 2012, respectively. The decrease in
three months ended June 30, 2013, 28 insured issues,
contractually settled prior to maturity. During the six
matured, contractually settled or were agreed to be co

Since our insured credit derivatives have similar terms
impairment periodically in the same way that we estim
actual payments plus the present values of our estimat
future claim payments were discounted using a rate of
additional credit impairments on insured derivatives (e
Beginning with the fourth quarter of 2007 through Jun
CDO issues, inclusive of 70 insured issues for which
expect to realize additional net losses of $283 million.
impairments on insured derivatives.

Our estimate of credit impairments, a non-GAAP mea
its disclosure of credit impairments on insured derivati
value of an insured derivative contract will be influen
payments. In the absence of credit impairments or the
derivatives should reverse before or at the maturity of
recorded fair values. Those settlements can result in re
to post collateral to counterparties of these contracts.
ended June 30, 2013 for information on legislative ch

NET GAINS (LOSSES) ON FINANCIAL INSTRUM
instruments at fair value and foreign exchange for the
net realized gains from the sales of securities and a de

NET INVESTMENT LOSSES RELATED TO OTHE
for the three and six months ended June 30, 2012 were
security before an expected recovery of fair value to it
investments.

REVENUES OF CONSOLIDATED VIEs For the thre
$22 million for the same period of 2012. The increase
of 2012 was primarily related to an increase in net gai
months ended June 30, 2013, total revenues of consol
revenues of consolidated VIEs for the six months end
a result of an increase of second-lien RMBS put-back

Table of Contents

Item 2. Management s Discussion and Analysis of

RESULTS OF OPERATIONS (continued)

LOSS AND LOSS ADJUSTMENT EXPENSES MBI
responsible for monitoring structured finance and inter
size, rating and performance of the insured issue. If we
Caution List-Low, Caution List-Medium, Caut
insured issues designated as Classified credits.

The Company faces significant risks and uncertainties
insured exposure (due to the unpredictable performanc
(HELOC) or closed-end second mortgages (CES
developments and higher than expected payments on t
Company s liquidity and statutory capital position.

The impact of insured exposures on the Company s li
required to make with respect to these exposures. In th
contracts, irrespective of the legal form of the guarante

All amounts presented in the following aggregate losse
derivative impairments. The amounts reported for insu
contain a comparable measurement basis for these con
probability-weighted cash flows. Losses and recoverab
impact whether or not we will be required to make pay
following tables, the total provided in each table repres

Table of Contents

Item 2. Management s Discussion and Analysis of

RESULTS OF OPERATIONS (continued)

The following tables present the aggregate loss and LA
change in the discounted values of net payments expec

Aggregate Losses and LAE Roll Forward

In millions
Gross loss and LAE reserves as of December 31, 2012
Gross insurance loss recoverable as of December 31, 2
Total reserves (recoverable) as of December 31, 2012
Ceded reserves
Net reserves as of December 31, 2012
Total aggregate losses and LAE incurred
(Payments) collections and other
Net reserves as of June 30, 2013
Ceded reserves
Total reserves (recoverable) as of June 30, 2013
Gross loss and LAE reserves as of June 30, 2013
Gross insurance loss recoverable as of June 30, 2013
Total reserves (recoverable) as of June 30, 2013

(1) - Included in Losses and loss adjustment, Loss and l

(2) - Represents loss expense, reserves and insurance loss re

(3) - Represents statutory losses and LAE and recoveries for recorded in Net change in fair value of insured deriva Liabilities on the Company s consolidated balance sh

(4) - Represents Losses and loss adjustment, Loss and lo
to third-party reinsurers under insurance contracts. As o
and LAE reinsurance.

(5) - Represents totals after ceding to third-party reinsurers u

Aggregate Losses and LAE (change in discounted v

In millions
Change in actual and expected payments
Change in actual and expected salvage
Total aggregate losses and LAE

(1) - Includes HELOC loans and CES.

(2) - Primarily represents a toll road transaction and high-yiel

In millions
Change in actual and expected payments
Change in actual and expected salvage
Total aggregate losses and LAE

(1) - Includes HELOC loans and CES.

Table of Contents

Item 2. Management s Discussion and Analysis of

RESULTS OF OPERATIONS (continued)

Aggregate Losses and LAE (change in discounted v

In millions
Change in actual and expected payments
Change in actual and expected salvage
Total aggregate losses and LAE

(1) - Includes HELOC loans and CES.

(2) - Primarily represents a toll road transaction and high-yiel

In millions
Change in actual and expected payments
Change in actual and expected salvage
Total aggregate losses and LAE

(1) - Includes HELOC loans and CES.

The decrease in total aggregate losses and LAE for the
expected future payments on CMBS, first-lien RMBS
three months ended June 30, 2013 compared with the s
the resolution of the Company s claims as agreed to in
increase in the amount of recoveries subject to contrac
recorded an increase in excess spread (the difference b
the RMBS securitizations. Partially offsetting these de
related to high yield corporate CDOs.

The decrease in total aggregate losses and LAE for the
resulting from ineligible mortgage loans included in in
or replace such mortgage loans.

In addition to the information presented above, the fol
insurance type:

Aggregate Losses and LAE by Insurance Type (cha

In millions
Financial guarantee insurance(3)
Financial guarantee insurance related to consolidated V consolidation)(4)
Insured credit derivatives (statutory basis)(5)
Total aggregate losses and LAE

(1) - Includes HELOC loans and CES.

(2) - Primarily represents a toll road transaction and high-yie

(3) - Included in Losses and loss adjustment as reported o

(4) - Represents losses eliminated upon the consolidation of

(5) - Represents statutory losses and LAE for insurance cont
Net change in fair value of insured derivatives on th

Table of Contents

Item 2. Management s Discussion and Analysis of

RESULTS OF OPERATIONS (continued)

In millions
Financial guarantee insurance(2)
Financial guarantee insurance related to consolidated consolidation)(3)
Insured credit derivatives (statutory basis)(4)
Total aggregate losses and LAE

(1) - Includes HELOC loans and CES.

(2) - Included in Losses and loss adjustment as reported o

(3) - Represents losses eliminated upon the consolidation of

(4) - Represents statutory losses and LAE for insurance cont
Net change in fair value of insured derivatives on th

Aggregate Losses and LAE by Insurance Type (cha

In millions
Financial guarantee insurance(3)
Financial guarantee insurance related to consolidated consolidation)(4)
Insured credit derivatives (statutory basis)(5)
Total aggregate losses and LAE

(1) - Includes HELOC loans and CES.

(2) - Primarily represents a toll road transaction and high-yie

(3) - Included in Losses and loss adjustment as reported o

(4) - Represents losses eliminated upon the consolidation of

(5) - Represents statutory losses and LAE for insurance cont
Net change in fair value of insured derivatives on th

In millions
Financial guarantee insurance(2)
Financial guarantee insurance related to consolidated V consolidation)(3)
Insured credit derivatives (statutory basis)(4)
Total aggregate losses and LAE

(1) - Includes HELOC loans and CES.

(2) - Included in Losses and loss adjustment as reported o

(3) - Represents losses eliminated upon the consolidation of

(4) - Represents statutory losses and LAE for insurance cont
Net change in fair value of insured derivatives on th

Summary of Financial Guarantee Insurance Losses

The following information relates to financial guarant
Expense Reserves in the Notes to Consolidated Finan
related to its loss reserves.

Table of Contents

Item 2. Management s Discussion and Analysis of

RESULTS OF OPERATIONS (continued)

The following table presents information about our los

In millions
Loss and LAE related to actual and expected payment
Recoveries of actual and expected payments
Gross losses incurred
Reinsurance
Losses and loss adjustment expenses

n/m - Percent change not meaningful.

Losses and LAE incurred in our structured finance and
$122 million were gross losses related to actual and ex
million. The $102 million of actual and expected paym
related to insured second-lien RMBS transactions. Par
CMBS transactions. The $21 million decrease in recov
increase in recoveries related to a toll road transaction.

Losses and LAE incurred in our structured finance and
$65 million were gross losses related to actual and exp
transactions and CMBS transactions, and $4 million re
expected payments of $21 million, including $18 milli
RMBS transactions included $60 million of recoveries
obligations by sellers/servicers to repurchase or replac

Losses and LAE incurred in our structured finance and
in the $76 million benefit were increases in recoveries
transactions, partially offset by $43 million of other ac
of recoveries resulting from ineligible mortgage loans
replace such mortgage loans, partially offset by a $97
result of a reversal of recoveries related to high yield c
were partially offset by gross losses related to actual ar
transactions.

Losses and LAE incurred in our structured finance and
$148 million were gross losses related to actual and ex
transactions and $77 million of other loss activity, prin
and expected payments of $63 million, including $67

RMBS transactions included $110 million of recoverie
obligations by sellers/servicers to repurchase or replac

For the three and six months ended June 30, 2013, loss
of the consolidation of VIEs. The $100 million elimina
expected future payments of $29 million. The $95 mil
gross losses related to actual and expected future paym

Table of Contents

Item 2. Management s Discussion and Analysis of

RESULTS OF OPERATIONS (continued)

For the three and six months ended June 30, 2012, loss
result of the consolidation of VIEs. The $81 million el
losses related to actual and expected future payments o
future payments of $61 million and gross losses relate

The following table presents information about our ins
recoverable represents expected potential recoveries o
measurement date. Our insurance loss recoverable incl
transactions and other amounts due to MBIA under the

In millions
Gross loss and LAE reserves
Expected recoveries on unpaid losses
Loss and LAE reserves
Insurance loss recoverable
Insurance loss recoverable ceded[(1)]
Reinsurance recoverable on paid and unpaid losses

(1) - Reported within Other liabilities on our consolidated
Included in the Company s loss and LAE reserves are
paid a claim and also for which a payment default has
2013 and December 31, 2012 for four issues that had r
incurred in prior periods. As of June 30, 2013 and Dec

$ in millions
Gross of reinsurance:
Issues with defaults
Issues without defaults
Total gross of reinsurance

(1) - An issue represents the aggregate of financial guaran

MBIA reports expected potential recoveries of certain
reinsurers within Other liabilities on the Company
structured finance and international insurance segment
resulted from the collections of previously established
of June 30, 2013 and December 31, 2012, our insuranc
respectively, primarily from excess spread within insu
million as of June 30, 2013 and December 31, 2012, re

Table of Contents

Item 2. Management s Discussion and Analysis of

RESULTS OF OPERATIONS (continued)

Residential Mortgage Exposure

MBIA Corp. insures mortgage-backed securities (MI
HELOC loans and CES). For the three months ended J
The $33 million consolidated losses and LAE was due
actual and expected payments of $1 million. For the si
transactions. The $120 million benefit was due to gros
to actual and expected payments of $99 million.

MBIA Corp. also insures MBS backed by first-lien sul
continued deterioration in the subprime mortgage marl
originated during 2005, 2006 and 2007. As of June 30,
outstanding from direct exposure to subprime mortgag
mortgage loans that originated during 2005, 2006, and
subordination below MBIA Corp. s insured portion o
million of gross par outstanding in two insured direct s
Classified or Caution Lists.

The following table presents the gross par outstanding
gross par outstanding related to transactions that the C

In millions
2005 2007
2004 and prior
Total gross par

(1) - Includes international exposure of $722 million.

(2) - Includes international exposure of $9 million.

During the six months ended June 30, 2013, we collec
transactions, or $2.6 billion after eliminating $123 mil
we paid a cumulative total of $3.8 billion, net of reinsu
RMBS transactions that are currently consolidated as V
exposure of $110 million before eliminating $39 millio
value of the difference between cash payments we exp
the securitizations. As payments are made, a portion o
The payments that we make virtually all go to reduce t

Table of Contents

Item 2. Management s Discussion and Analysis of

RESULTS OF OPERATIONS (continued)

The following table provides information about insure
2013. The consolidated VIEs total payments are not re

Second-Lien RMBS Transactions with Claim Paym

$ in millions
Non-Consolidated VIEs:
HELOC
CES
Total
Total net of reinsurance
Consolidated VIEs:
HELOC
CES
Total
Total net of reinsurance

The preceding table excludes gross and net claim and
outstanding exposure.

Non-Consolidated VIEs

The gross par outstanding on insured second-lien RMI
June 30, 2013, we expect to pay an additional $195 mi
value basis) in reimbursement of past and future expec
$682 million is included in Insurance loss recoverabl
$18 million (on a present value basis) with respect to a
is included in Insurance loss recoverable .

Consolidated VIEs

The gross par outstanding on insured second-lien RMI
total payments before reinsurance, includes $874 milli
million (on a present value basis) on these transactions

expected claims through excess spread in these transac
to amounts contemplated in the ResCap term sheet anc
ineligible mortgage loans, which is reported in Loan
sheets.

Refer to Note 5: Loss and Loss Adjustment Expense
estimate recoveries on our RMBS exposure.

Other

We may seek to purchase, from time to time, directly c
reduced, if any, and the nature of any such actions wil
activities may result in a reduction of expected loss res
development on the related policies. Our ability to pur
liquidity.

Table of Contents

Item 2. Management s Discussion and Analysis of

RESULTS OF OPERATIONS (continued)

POLICY ACQUISITION COSTS AND OPERATING
ended June 30, 2013 and 2012 are presented in the foll

In millions	
Gross expenses	
Amortization of deferred acquisition costs	
Operating	
Total insurance operating expenses	

Gross expenses represent total insurance expenses befo
2013 compared with the same period of 2012 due to in
acquisition costs for the three months ended June 30, 2
in prior periods as polices were terminated. Gross expe
decreases in legal and litigation related costs and comp

Operating expenses increased for the three months end
expenses decreased for the six months ended June 30,
material amount of policy acquisition costs during 201
premium taxes on installment policies written in prior

INTEREST EXPENSE Interest expense incurred by o
surplus notes and the National Secured Loan. Interest
2012 primarily due to a decrease in the interest rate on

INSURED PORTFOLIO EXPOSURE The credit qual
public finance insured portfolio. As of June 30, 2013 a
portfolio, was rated below investment grade, before gi
ratings provided by S&P and Moody s for this subset

Structured Finance and International Insurance Sel

The following is a summary of selected significant exp
Company has large exposures to many of these sectors
described below, considerable incurred losses and futu

Collateralized Debt Obligations and Related Instrume

As part of our structured finance and international insu
mezzanine tranches of CDOs, as well as protection on
discussion, including reported amounts and percentage

Table of Contents

Item 2. Management s Discussion and Analysis of

RESULTS OF OPERATIONS (continued)

As of June 30, 2013, MBIA Corp. s $31.3 billion CD
MBIA Corp. s $51.8 billion CDO portfolio represente
CDO and related instruments portfolio by collateral ty

In billions
Collateral Type
Multi-sector CDOs
Investment grade CDOs and structured c
High yield corporate CDOs
Commercial real estate pools and CRE C
Total

Multi-Sector CDOs

Multi-sector CDOs are transactions that include a vari
comprised of 13 transactions insured in the primary m
underlying collateral in MBIA Corp. s insured multi-
collateralized loan obligations, ABS (e.g., securitizatio
multi-sector CDO transactions primarily rely on under

Generally, we are subject to a claim on a multi-sector
underlying collateral supporting the transaction no lon
insures current interest and ultimate principal. Origina
subordinations range from 0% to 82%.

The significant erosion of subordination in our multi-s
discussed above, the erosion of subordination in these
impairment estimates for 22 classified multi-sector CD
in the secondary market), representing 59% of all MB
remaining transactions, 14% are on our Caution List
deterioration of the collateral referenced or held in our

Total gross par exposure in our multi-sector CDO port
CDO gross par exposure has decreased by approximat
any payment from MBIA Corp. of $5.4 billion. The re
our gross par exposure to multi-sector CDOs of $1.6 b

Investment Grade Corporate CDOs

Our 12 investment grade corporate CDO exposures in
pools include limited exposure to other asset classes, i
policies guarantee coverage of losses on collateral asse

investment grade corporate CDOs of $16.3 billion repr
insured investment grade corporate CDOs have experi
securities, but we currently do not expect losses on MI
outstanding as a result of credit enhancement. Original
subordination levels are between 11% and 28%.

Table of Contents

Item 2. Management s Discussion and Analysis of

RESULTS OF OPERATIONS (continued)

Our gross par of insured investment grade corporate C
35% of the overall CDO) of references to specific tran
investment grade corporate CDOs include, among dire
diverse pool of corporate assets or obligors with a spec
rated double-A and sized to approximately 3% of the c
control rights to a senior investor. The inner reference
assets. These transactions had original subordination o

High Yield Corporate CDOs

Our high yield corporate CDO portfolio, totaling $4.8
Our gross par exposure to high yield corporate CDOs
2013. Original subordination for our high yield corpor
subordination levels result from defaults in underlying
decline further over time as a result of additional colla
However, there can be no assurance that the Company

Commercial Real Estate Pools and CRE CDOs

As of June 30, 2013, we had $8.6 billion of gross par e
addition, MBIA Corp. insures approximately $2.6 billi
following Structured CMBS Pools and CRE CDO
related to CRE exposure. Refer to Note 5: Loss and L
impairments on our CRE pools and CDO exposure, in

Structured CMBS Pools

As of June 30, 2013, our gross par exposure to structu
Since the end of 2007 through June 30, 2013, our struc
commutations and early settlements. Our structured C
CRE CDOs structured with first loss deductibles such
deductible sizing was a function of the underlying coll
transactions cover losses on collateral assets once the
insured position.

The collateral in the pools are generally CMBS bonds
form of a CDS referencing the static pooled transactio
level in the transaction. Each pool comprising CMBS
CMBS bonds may be referenced in multiple pools. Th
has not been changed since the origination of the polic
transaction varies according to the ratings of the under
would typically include a 30-35% deductible to MBIA
typically have required a 5-10% deductible.

Original deductibles for our structured CMBS pools ra
93.2%. Deductibles are eroded as bonds experience rea
2013, we paid claims on a CMBS pool transaction whi
additional claims on this transaction.

Table of Contents

Item 2. Management s Discussion and Analysis of

RESULTS OF OPERATIONS (continued)

As of June 30, 2013, we have significantly reduced ou
2013, we had exposure to four static CMBS pools, hav
substantially all of the underlying collateral comprised
billion of gross par outstanding as of June 30, 2013, th
Although deductible erosion at the policy level has bee
not continue to improve, it is possible that we will exp
The remaining insured CMBS portfolio primarily cons
During the first six months of 2013, a material claim w
Although we believe MBIA Corp. will have adequate

Delinquencies increased markedly in the CRE market
of June 30, 2013, 30-day and over delinquencies decre
CMBS portfolio to 11.1%. The higher delinquency rat
Additionally, the market includes newer vintage transa
stabilization in the delinquency rate over the past seve
special servicers for these CMBS loans and increased
remediation and foreclosure process with the objective

Actual losses will be a function of the proportion of lo
the deductibles in the Company s insured transactions
foreclosures and liquidations could result in substantia
or liquidity needs due to increased deterioration in our
there is a new recession, increased delinquencies, high
believe the likelihood of a new recession is low, we do

CRE CDOs

As of June 30, 2013, our gross par exposure to CRE C
CDOs are managed pools of CMBS, CRE whole loans
and CRE CDOs) that allow for reinvestment during a
diversion triggers, collateral quality tests, and manage
CDOs. As with our other insured CDOs, these transac
our guarantee. As of June 30, 2013, our CRE CDO ins
some RMBS collateral, but overall this comprises 1%
are due at the maturity date, which range from the yea

Table of Contents

Item 2. Management s Discussion and Analysis of

RESULTS OF OPERATIONS (continued)

U.S. Public Finance and Structured Finance and Int

Reinsurance enables the Company to cede exposure fo
risk and credit guidelines. When a reinsurer is downgr
the overall value of the reinsurance to MBIA is reduce
circumstances, including a reinsurer s rating downgra
June 30, 2013 for our U.S. public finance and structure

In millions
Reinsurers
Assured Guaranty Corp.
Assured Guaranty Re Ltd.
Overseas Private Investment Corporation
Export Development Canada
Others
Total

(1) - Amount comprises recoverables on unpaid losses.

MBIA requires certain unauthorized reinsurers to mai
reinsurance contracts. As of June 30, 2013, the total a
a primary basis for all reinsured risk, and although MB
the future.

As of June 30, 2013, the aggregate amount of insured
$3.4 billion as of December 31, 2012. Of the $3.2 billi
segment and $1.4 billion was ceded from our structure
reinsurer of MBIA Corp. is unable to pay claims ceded
payments. As of June 30, 2013, the total amount for w
obligations is $1.8 billion. For Financial Guaranty Ins
the right to receive third-party reinsurance totaling $4.

Advisory Services

Our asset management and advisory business is primar
management, discretionary asset management and stru
financial services clients, including MBIA Inc. and its
foreign insurance affiliate and to third-party clients and
provides loans to the United Kingdom social housing s
Trifinium commenced providing monitoring adviser se

Table of Contents

Item 2. Management s Discussion and Analysis of

RESULTS OF OPERATIONS (continued)

The following table summarizes the results and assets
2012. These results include revenues and expenses fro

In millions
Fees
Operating expenses
Pre-tax income (loss)
Ending assets under management:
Third-party
Insurance and corporate
Asset/liability products and conduits
Total ending assets under management

n/m - Percent change not meaningful.

For the three and six months ended June 30, 2013, the
decreases in fees due to declines in asset balances man
compared with the same period of 2012 was partially c

Average third-party assets under management for the s
principally due to declines in our pool products and Cl

Corporate

General corporate activities are conducted through our
service company, Optinuity Alliance Resources Corpo
Optinuity provides support services such as manageme
our corporate segment and other operating businesses

The following table summarizes the consolidated resul
revenues and expenses that arise from general corpora

In millions

Net investment income
Fees
Net gains (losses) on financial instruments at fair valu exchange
Other net realized gains (losses)
Revenues of consolidated VIEs:
Other net realized gains (losses)
Total revenues
Operating
Interest
Total expenses
Pre-tax income (loss)

n/m - Percent change not meaningful.

FEES Fees are generated from support services provid
June 30, 2013 decreased compared with the same peri
services. Such fees may vary significantly from period

Table of Contents

Item 2. Management s Discussion and Analysis of

RESULTS OF OPERATIONS (continued)

NET GAINS (LOSSES) ON FINANCIAL INSTRUM
instruments at fair value and foreign exchange for the
changes in the fair value of outstanding warrants issue
volatility, which are used in the valuation of the warra
purchase 9.94 million shares of MBIA common stock

OTHER NET REALIZED GAINS (LOSSES) Other n
received from our directors and officers insurance p
related to private securities litigation.

REVENUES OF CONSOLIDATED VIEs For the thre
the deconsolidation of VIEs.

OPERATING EXPENSES Operating expenses for the
related to the BofA Settlement Agreement.

Wind-down Operations

We operate an asset/liability products business in whic
municipal investors. The proceeds of the debt and inve
We also operate a conduit business in which we histor
resulted in the termination and collateralization of cert
funding and liquidity within many of the asset classes
conduit businesses in 2008. Since the downgrades of M
balances and corresponding asset balances will continu

Asset/Liability Products

The following table presents the results of our asset/lia
revenues and expenses from transactions with the Con

In millions
Net investment income
Net gains (losses) on financial instruments at fair valu exchange
Net investment losses related to other-than-temporary
Net gains (losses) on extinguishment of debt
Other net realized gains (losses)
Total revenues
Operating

Interest expense
Total expenses
Pre-tax income (loss)

n/m - Percent change not meaningful.

NET INVESTMENT INCOME The decrease in net in
was primarily due to lower average asset balances as i

Table of Contents

Item 2. Management s Discussion and Analysis of

RESULTS OF OPERATIONS (continued)

NET GAINS (LOSSES) ON FINANCIAL INSTRUM
financial instruments at fair value and foreign exchang
derivative gains in 2013 compared with losses in 2012
foreign exchange rates on medium-term notes (MTN
favorable change in net gains (losses) on financial inst
of 2012 was primarily the result of derivative gains in
losses on MTNs carried at fair value in 2013 compare

NET INVESTMENT LOSSES RELATED TO OTHE
assess whether a decline in value is related to a credit
Net investment losses related to other-than-temporary
as it was our intent to sell these securities before a rec
information about impaired investments.

NET GAINS (LOSSES) ON EXTINGUISHMENT O
due to gains from terminations of investment agreeme

INTEREST EXPENSE The decrease in interest expen
to the continued maturity and repurchases of liabilities

Conduits

The following table presents the results of our conduit
expenses from transactions with the Company s other

In millions
Revenues of consolidated VIEs:
Net investment income
Net gains (losses) on financial instruments at fair valu
Net gains (losses) on extinguishment of debt
Total revenues
Expenses of consolidated VIEs:
Operating
Interest
Total expenses
Pre-tax income (loss)

n/m - Percent change not meaningful.

Our conduit segment is operated through Meridian. Ce

For the three and six months ended June 30, 2013, tota
the repurchases of debt issued by Meridian. Total expe
segment for administrative and other services.

Table of Contents

Item 2. Management s Discussion and Analysis of

RESULTS OF OPERATIONS (continued)

Taxes

Provision for Income Taxes

The Company s income taxes and the related effectiv

In millions	
Pre-tax income (loss)	
Provision (benefit) for income taxes	
Effective tax rate	

For the six months ended June 30, 2013, our effective
reduction in our valuation allowance against our defer

For the six months ended June 30, 2012, our effective
decrease in the Company s valuation allowance, the re
investments.

As of December 31, 2012, the Company s consolidate
2032. As a result of commutation activity in the secon
June 30, 2013, the Company s NOL is approximately

Refer to Note 10: Income Taxes in the Notes to Co
allowance against deferred tax assets and its accountin

CAPITAL RESOURCES

The Company manages its capital resources to minimi
Corp. The Company s capital resources consist of tot
MBIA Insurance Corporation. Total capital resources
its capital resources to support the business activities o

In addition to managing the capital resources of MBIA
asset/liability products segments. This includes our co
leverage purposes in support of our asset/liability prod
corporate needs as well as the needs of the asset/liabili
corporate segment and asset/liability products segmen
cash and investments at amortized cost and a tax recei
Inc. will generate sufficient cash to satisfy its net debt
third-party capital, although there can be no assurance
Liquidity section for additional information about M

Securities Repurchases

Repurchases of debt and/or common stock may be ma
requirements. We may also choose to redeem debt obl
redemptions can be an appropriate deployment of capi
National as well as other business needs.

Debt securities

MBIA Inc. or its subsidiaries may repurchase or redee
June 30, 2013, the Company redeemed $336 million p
July of 2013, the Company redeemed an additional $1
also repurchased approximately $38 million par value
approximately 97% of par value.

Table of Contents

Item 2. Management s Discussion and Analysis of

CAPITAL RESOURCES (continued)

Insurance Statutory Capital

National and MBIA Insurance Corporation are incorpo
York. National and MBIA Insurance Corporation each
NYSDFS and similar supervisory agencies in each of t
York State and the National Association of Insurance
solvency, including minimum capital requirements, an
practices note to consolidated financial statements of
10-K for the year ended December 31, 2012 for an exp

National

Capital and Surplus

National reported total statutory capital of $3.4 billion
comprised $1.2 billion of contingency reserves and $2
income of $117 million for the six months ended June
the NYSDFS to reset National s unassigned surplus to
In October 2010, the plaintiffs in the litigation challen
Subsequent to the BofA Settlement Agreement and the
international financial institutions, related to the establ
Consolidated Financial Statements for a discussion of

In order to maintain its New York State financial guar
National is also required to maintain contingency reser
the following MBIA Insurance Corporation Capital
(NYIL). National s policyholders surplus will gro
contingency reserves. Conversely, incurred losses wou
with its single risk limits requirements but was in com

NYIL regulates the payment of dividends by financial
except out of statutory earned surplus. Under NYIL, th
dividend to be declared may not exceed the lesser of (a
net investment income for such 12-month period (the n
dividends declared or distributed during the two-year p
distribution based upon a finding that the insurer will n

National is subject to NYIL with respect to the paymen
National with dividend capacity. National did not decl
challenging the approval of the National surplus reset
agreement terminated in connection with the resolution
during 2011 for MBIA Insurance Corporation, the Con
to July 19, 2013. Finally, as a condition to the NYSDF
amount of the Asset Swap has been reduced to 5% or l
NYSDFS with three months prior notice, or such short
National has provided the NYSDFS with such notice,
notice period, or at such earlier time as the NYSDFS n

Table of Contents

Item 2. Management s Discussion and Analysis of

CAPITAL RESOURCES (continued)

National s statutory policyholders surplus was lowe
respects. Refer to Note 11: Statutory Accounting Pra
Report on Form 10-K for the year ended December 31

Claims-Paying Resources (Statutory Basis)

CPR is a key measure of the resources available to Na
calculated on a statutory basis. CPR has been a comm
be used by MBIA s management to evaluate changes
measure that MBIA s management uses to evaluate N
Our calculation of CPR may differ from the calculatio

National s CPR and components thereto, as of June 3

In millions
Policyholders surplus
Contingency reserves
Statutory capital
Unearned premium reserve
Present value of installment premiums(1)
Premium resources(2)
Net loss and LAE reserves(1)
Salvage reserves
Gross loss and LAE reserve
Total claims-paying resources

(1) - Calculated using a discount rate 4.54% a

(2) - Includes financial guarantee and insured

MBIA Insurance Corporation

Capital and Surplus

MBIA Insurance Corporation reported total statutory c
2013, statutory capital comprised $425 million of cont
Insurance Corporation had a statutory net loss of $245
Corporation s policyholders surplus as of June 30, 2

As of June 30, 2013, MBIA Insurance Corporation rec
statutory basis related to put-backs of ineligible mortg
Corporation s statutory capital as of June 30, 2013. T
Refer to Executive Overview MBIA Corp. include

In order to maintain its New York State financial guar
policyholders surplus. MBIA Insurance Corporation
income and the expected release of the contingency re
commutation or repurchase of insured transactions at p
collect on our ineligible mortgage loan put-back claim

Table of Contents

Item 2. Management s Discussion and Analysis of

CAPITAL RESOURCES (continued)

Under NYIL, MBIA Insurance Corporation is also req
adverse economic events. The amount of the reserve is
collateral, reinsurance, refunding, refinancings and cer
and contingency reserves, and 50% of its loss reserves
recognized based on excessive reserves and under cert
MBIA Insurance Corporation had a deficit of $322 mi
certain mortgage originators to honor contractual oblig
Corporation to sell liquid assets in order to make claim
Corp. collects additional put-back recoveries. MBIA In
$322 million of excess contingency reserves, which wa
contingency reserve requirement, see Part II, Item 1A
regulatory capital requirements they may become subj

As of June 30, 2013, MBIA Insurance Corporation wa
reported additional overages to the NYSDFS with resp

In connection with MBIA Insurance Corporation obtai
Insurance Corporation agreed that it would not pay an
Insurance Corporation has not had the statutory capaci
dividends in the near term.

MBIA Insurance Corporation s statutory policyholder
from GAAP in certain respects. Refer to Note 14: Sta
99.2 of MBIA Inc. s Annual Report on Form 10-K fo

Claims-Paying Resources (Statutory Basis)

CPR is a key measure of the resources available to MB
and reserves calculated on a statutory basis. CPR has b
continues to be used by MBIA s management to evalu
Insurance Corporation, using the same measure that M
policies. There is no directly comparable GAAP measu

Table of Contents

Item 2. Management s Discussion and Analysis of

CAPITAL RESOURCES (continued)

MBIA Insurance Corporation s CPR and components

In millions
Policyholders surplus
Contingency reserves
Statutory capital
Unearned premium reserve
Present value of installment premiums(1)
Premium resources(2)
Net loss and LAE reserves(1)
Salvage reserves(3)
Gross loss and LAE reserve
Total claims-paying resources

(1) - Calculated using a discount rate of 5.72%

(2) - Includes financial guarantee and insured

(3) - This amount primarily consists of expect

LIQUIDITY

As a financial services company, MBIA has been mate
markets, in addition to delays in obtaining recoveries r
liquidity resources.

We have utilized a liquidity risk management framewo
guide the matching of liquidity resources to needs. We
management meet regularly to review liquidity metrics
liquidity risk management framework, we evaluate and
available liquidity resources within the enterprise.

The majority of our liquidity management efforts focu

The liquidity resources of MBIA Inc., wh
MBIA Insurance Corporation; the necess
issued by the asset/liability products busi
expense needs. MBIA Inc. has a net debt
investments at amortized cost and a tax re
Inc. are subject to collateralization requir
third-party derivative contracts.

The liquidity resources of MBIA Corp., w
CMBS exposures, due to the deterioratio
and payments on insured exposures that i
these payments and delays in collecting r

We also monitor the liquidity resources of National, fo
to pay claims and satisfy its other obligations. Nationa
due to tax payments resulting from embedded earnings

Table of Contents

Item 2. Management s Discussion and Analysis of

LIQUIDITY (continued)

In order to efficiently manage liquidity across the enti
agreements that provide resources to subsidiaries that
between our primary insurance subsidiaries and betwe
subject to ongoing monitoring by the NYSDFS. MBIA

Key Lending Agreements

Blue Ridge Secured Loan

In connection with the BofA Settlement Agreement in
pursuant to which Blue Ridge agreed to make revolvin
utilized as of June 30, 2013. Refer to Note 9: Debt

National Secured Loan

In 2011, National provided a $1.1 billion National Sec
and commutations of its insurance policies. This loan
and National. During 2012, MBIA Insurance Corporat
the same terms as the original loan to fund additional
MBIA Insurance Corporation repaid this loan in full a

Asset Swap

National maintains the Asset Swap (simultaneous repu
securities borrowed. The Asset Swap provides MBIA
products business. As of June 30, 2013, the notional a
National and MBIA Inc. under these agreements was
0.39% for the six months ended June 30, 2013 and 201
New York. National has committed to the NYSDFS to

MBIA Insurance Corporation Secured Loan

MBIA Insurance Corporation, as lender, maintained a
of MBIA Inc. s asset/liability products business, whic
in May of 2012 and there were no further draws. The
June 30, 2012. Also in May 2012, the NYSDFS appro
maximum outstanding amount of $450 million. This lo

Conduit Repurchase Agreement

MBIA Inc. maintains a repurchase agreement with Me
collateral. The Conduit Repurchase Agreement had an
As of June 30, 2013, there was no balance outstanding

Table of Contents

Item 2. Management s Discussion and Analysis of

LIQUIDITY (continued)

MBIA Inc. Liquidity

MBIA Inc. s liquidity resources support our corporate
servicing outstanding corporate debt instruments, inve
under financing and hedging arrangements and investr
and paying operating expenses. The primary sources o
collateral posting requirements, scheduled principal an
agreements with these subsidiaries (once the payments
timing of any such dividends or payments under the ta
be accelerated by the holders of such instruments upon
the case of the corporate debt, investment agreements
debt, a bankruptcy of GFL, in the case of the GFL MT
investment agreements and GFL MTNs. MBIA Inc. s
liquidation of MBIA Inc. Refer to Note 11: Business
the event of any acceleration of all of our obligations,
have sufficient liquid resources to pay amounts due. W
of 2013. Refer to the Capital Resources Insurance S

During the six months ended June 30, 2013, pursuant t
Inc. In addition, National paid to MBIA Inc. estimated
account until the expiration of National s two-year N
after any reimbursement to National in respect of any
under the tax sharing agreement. During the first half
sharing agreement. The amount represents National s
agreement following the expiration of National s two-
2011 through the 2013 tax years.

MBIA Inc. is subject to material liquidity risks and un
sufficient to make all payments due on our obligations

Liquidity risk within MBIA Inc. is primarily a result o

Currently, the majority of the cash and se
and derivatives, which limit its ability to
intercompany financing arrangement liab
periods of market volatility. In addition,
decline, we would be required to pledge
event, we may sell additional assets, pote
other assets, in some cases with NYSDF
liquidity requirements.

Uncertainty of the timing and amount of
Resources-Insurance Statutory Capital s

Table of Contents

Item 2. Management s Discussion and Analysis of

LIQUIDITY (continued)

Because most of MBIA Inc. s assets are pledged agai
value of these assets and increase collateralization req
of the asset/liability products business assets as of Ju
the same amount; however, it is more likely that the ac
hypothetical increases and decreases in credit spreads
negative spreads, a floor was assumed for minimum sp

In millions
Estimated change in fair value

During the second quarter of 2013, MBIA Inc. maintai
requirements within the asset/liability products busine
The MBIA Insurance Corporation Secured Loan expir

We believe that asset sales undertaken to date have re
market conditions could cause MBIA Inc. to have insu
actions to mitigate this risk. These contingent actions
risk, which may occur at losses and increase MBIA In
from subsidiaries. These actions, if taken, are expecte
no assurance that these actions will be sufficient to fu
liquidity, we may have insufficient assets to make all
and the potential for MBIA Corp., as guarantor of the
come due. In addition, the Company expects that MBI
distributions from its operating subsidiaries and by rai
satisfy its net debt.

As of June 30, 2013, the liquidity position of MBIA In
million and comprised cash and liquid assets of $278
sharing agreement, and $49 million not pledged direct
of cash and liquid assets comprising $170 million avai
agreement, and $69 million not pledged directly as co
sufficient funds to cover expected obligations at least

MBIA Corp. Liquidity

Liquidity available in the structured finance and inter
payment of claims on insured exposures, payments m
any unanticipated expenses, or the impairment or a sig
NYIL requirements that we maintain specified, high q

We believe the current liquidity position of MBIA Co
strengthened as a result of the BofA Settlement Agree

the execution of the Blue Ridge Secured Loan entered
second-lien RMBS exposures, payments on its remain
transactions, which have resulted in a substantial reduc
payments to counterparties in consideration for the con
management s assessment of available liquidity or ab
MBIA Corp. may not have sufficient liquid assets to p

Table of Contents

Item 2. Management s Discussion and Analysis of

LIQUIDITY (continued)

Payment requirements for the structured finance and i
(ii) ultimate principal only at final maturity; and (iii) p
been exhausted, which payments are unscheduled and
recorded loss reserves. Insured transactions that requir
payment of the principal is due at maturity but any sal
with substantial principal amounts due at maturity tha
maturity date. MBIA Corp. is generally required to sat
through our monitoring process. While our financial g
CDS contracts may, in certain circumstances, includin
by the counterparty, triggering a claim for the fair valu
same methodology as we use to monitor credit quality
Expense Reserves in the Notes to Consolidated Fina

Our structured finance and international insurance seg
surplus notes. Pursuant to Section 1307 of the NYIL a
made only with the prior approval of the Superintende
may be made only out of MBIA Corp. s free and div
payment and no default or event of default would occu
interest payment to the present, MBIA Corp. s reques
the Fiscal Agency Agreement, MBIA Corp. is require
The deferred interest payments will become due on th
accrue on the deferred interest. There can be no assura
principal payments at maturity or any optional redemp

Since the fourth quarter of 2007 through June 30, 201
(including payments made to debt holders of consolida
primarily relating to CDS contracts. These cash payme
billion, MBIA Corp. has paid $6.9 billion of gross cla
securitizations, driven primarily by an extensive numb
warranties of the sellers/servicers. In addition, MBIA
excluding LAE) on insured credit derivatives. Also, si
before reinsurance.

MBIA Corp. is seeking to enforce its rights to have m
recorded a total of $1.1 billion of related expected rec
consolidated VIEs. To date, the Company has resolve
securitized by Credit Suisse Securities (USA) LLC, as
Statements. However, there can be no assurance that w
the scenarios we utilize to calculate these recoveries, w
America in May of 2013, which substantially reduced
to a plan to resolve its claims against ResCap and cert
which will further substantially reduce our remaining
may change in the course of events in the bankruptcy
approved in its current form, or that MBIA will receiv
Consolidated Financial Statements for a discussion of

Table of Contents

Item 2. Management s Discussion and Analysis of

LIQUIDITY (continued)

A portion of the commutation payments made since th
extinguished in May of 2013 in connection with the B
payments may be financed through draws on the Blue
accrued interest will be largely dependent on MBIA C
mortgage sellers/servicers cure, replace or repurchase

MBIA Corp. also insures third-party holders of our as
associated with these obligations, the holders thereof c
asset/liability products business, MBIA Corp. lent $2.
the NYSDFS approved the maturity extension of the M
million. This loan facility expired on May 3, 2013.

As of June 30, 2013, MBIA Corp. held cash and avail
connection with the BofA Settlement Agreement, MB
amount of $500 million in liquidity. The Blue Ridge S
available-for-sale investments of $1.3 billion, of which
including expected cash inflows, will adequately provi
Corp., including claims on insured exposures that in s
claims. In the event of unexpected liquidity requireme
surplus and reserves, and may seek to increase our cas
assurance that we will be able to draw on these additio

National Liquidity

Despite continued adverse macroeconomic conditions
that the liquidity position of our U.S. public finance in

Liquidity risk arises in our U.S. public finance insuran

The insurance policies issued or reinsure
unconditional and irrevocable guarantees
event that the insurance company has the
company s election to accelerate. In the
promises to make funds available in the i
substantial, particularly if the default occ
bullet-type principal maturities. The fact
a party other than the insurer helps to mi

National has entered into certain intercon
Swap through which National exchanges
adversely affect its liquidity. In addition,
business may adversely affect its liquidit
collateral amounts.

National held cash and short-term investments of $1.9
U.S. agency and corporate bonds. As of December 31,
and consisted predominantly of highly rated municipal

Table of Contents

Item 2. Management s Discussion and Analysis of

LIQUIDITY (continued)

Consolidated Cash Flows

Information about our consolidated cash flows by cate
consolidated cash flows for the six months ended June

In millions
Net cash provided (used) by:
Operating activities
Investing activities
Financing activities

n/m - Percent change not meaningful.

Operating activities

Net cash provided by operating activities increased for
in financial guarantee recoveries received and a decrea
contracts.

Investing activities

Net cash used by investing activities increased for the
the purchase of short-term investments and declines in

Financing activities

Net cash used by financing activities decreased for the
payments for the retirement of debt related to our cond
investment agreements.

Investments

The following discussion of investments, including ref
variable interest entities on our consolidated balance
obligations of MBIA.

Table of Contents

Item 2. Management s Discussion and Analysis of

LIQUIDITY (continued)

Our available-for-sale investments comprise high-qual
values of our consolidated available-for-sale investmen
consolidated cash and cash equivalents as of June 30, 2

In millions
Available-for-sale investments:
U.S. public finance insurance
Amortized cost
Unrealized net gain (loss)
Fair value
Structured finance and international insurance
Amortized cost
Unrealized net gain (loss)
Fair value
Corporate
Amortized cost
Unrealized net gain (loss)
Fair value
Advisory services
Amortized cost
Unrealized net gain (loss)
Fair value
Wind-down operations
Amortized cost
Unrealized net gain (loss)
Fair value
Total available-for-sale investments:
Amortized cost
Unrealized net gain (loss)
Total available-for-sale investments at fair value

Table of Contents

Item 2. Management s Discussion and Analysis of

LIQUIDITY (continued)

In millions
Investments carried at fair value:
U.S. public finance insurance
Amortized cost
Unrealized net gain (loss)
Fair value
Structured finance and international insurance
Amortized cost
Unrealized net gain (loss)
Fair value
Corporate
Amortized cost
Unrealized net gain (loss)
Fair value
Advisory services
Amortized cost
Unrealized net gain (loss)
Fair value
Wind-down operations
Amortized cost
Unrealized net gain (loss)
Fair value
Total investments carried at fair value:
Amortized cost
Unrealized net gain (loss)
Total investments carried at fair value
Other investments at amortized cost:
U.S. public finance insurance operations segment
Total other investments at amortized cost
Consolidated investments at carrying value

n/m - Percent change not meaningful.

The fair value of the Company s investments is based
directly or indirectly observable, as well as prices from
changes in interest rates and general market credit spre
including specific credit-related changes, supply and d
any unrealized gain or loss currently recorded in accur
As a result, the Company would realize a value substa
any difference between amortized cost and the sale pri

Table of Contents

Item 2. Management s Discussion and Analysis of

LIQUIDITY (continued)

Credit Quality

The credit quality distribution of the Company s fixed
2013 is presented in the following table. Alternate rati
small percentage of securities that are not rated by Mo

In millions	U.S. Public Finance Fair Value	U.S. Public Finance % of Fixed-Income Investments	
Available-for-sale:			
Aaa	$ 1,426	49%	$
Aa	905	31%	
A	434	15%	
Baa	115	4%	
Below investment grade	27	1%	
Not rated	6	0%	
Total	$ 2,913	100%	$
Short-term investments	1,555		
Investments held at fair value	188		
Other investments	15		
Consolidated investments at carrying value	$ 4,671		$

As of June 30, 2013, the weighted average credit quali
presented in the preceding table are as follows:

Weighted average credit quality ratings	

Insured Investments

MBIA s consolidated investment portfolio includes in
insured by MBIA Corp. and National (Company-Insu
consolidated investments, of which $405 million or 6%

As of June 30, 2013, based on the actual or estimated u
weighted average rating of the consolidated investmen
investment portfolio would be in the Baa range, and 3

Table of Contents

Item 2. Management s Discussion and Analysis of

LIQUIDITY (continued)

The distribution of the Company s Insured Investmen

	U.S. Public Finan	
		%
	Fair	Tot
In millions	Value	Investr
MBIA Corp.	$ -	
National	71	
Assured Guaranty Municipal Corp.	44	
Ambac Financial Group, Inc.	10	
FGIC	3	
Other	2	
Total	$ 130	

In purchasing Insured Investments, the Company indep
creditworthiness of the insurer. Insured Investments ar
Investments without giving effect to financial guarante
by Moody s. When an external underlying rating is no
downgrade of a financial guarantee insurer will likely
If MBIA determines that declines in the fair values of

The underlying ratings of the Company-Insured Invest
investments including the benefit of the MBIA guaran
S&P, have been used for a small percentage of securiti

In millions
Underlying Ratings Scale
National:
Aa
A
Baa
Total National
MBIA Corp.:
Aa
A

Baa	
Below investment grade	
Total MBIA Corp.	
Total MBIA Insured Investments	

Without giving effect to the MBIA guarantee of the Co
estimated underlying ratings, the weighted average rat
Company-Insured Investments was in the Baa range, a
consolidated investment portfolio.

Impaired Investments

As of June 30, 2013 and December 31, 2012, we held
fair value of $2.9 billion and $1.3 billion, respectively.

Table of Contents

Item 2. Management s Discussion and Analysis of

LIQUIDITY (continued)

We analyze impaired investments within our investme
other-than-temporary impairments include but are not
impairment losses; (b) the duration and severity of the
5% impaired at the time of review with a fair value be
techniques. Our cash flow analysis considers all sourc
This includes the consideration of cash expected to be
claim. Refer to Note 7: Investments in the Notes to

Debt Obligations

Principal payments due under our debt obligations in t
thereafter are presented in the following table. The rep
under investment agreements are based on expected w
redeemed $150 million par value outstanding of MTN
applicable exchange rates as of June 30, 2013, and liab

In millions
Structured finance and international insurance segmen
Variable interest entity notes
Surplus notes
Corporate segment:
Long-term debt
Asset/liability products segment:
Investment agreements
Medium-term notes
Conduit segment:
Medium-term notes
Total

Table of Contents

Item 3. Quantitative and Qualitative Disclosures Al

In general, MBIA s market risk relates to changes in t
exchange rates and credit spreads. MBIA is exposed to
instruments, namely investment securities, investment
portfolio holdings are primarily U.S. dollar-denominat
obligations, corporate bonds and ABS. In periods of ri
affected should the Company have to liquidate these s

MBIA minimizes its exposure to interest rate risk, fore
the types of securities held and to stagger the maturitie
risk of loss due to interest rate and foreign currency vo

Interest Rate Sensitivity

Interest rate sensitivity can be estimated by projecting
pre-tax change in fair value of the Company s financi

In millions	
Estimated change in fair value	

Foreign Exchange Sensitivity

Foreign exchange rate sensitivity can be estimated by
presents the estimated pre-tax change in fair value of t

In millions	
Estimated change in fair value	

Credit Spread Sensitivity

Credit spread sensitivity can be estimated by projectin
pre-tax change in fair value of the Company s financi
that all credit spreads move by the same amount. It is
generally be expected to experience lower credit sprea
and portfolio composition in sectors that have been les
basis points. Because downward movements of these a
changes in fair value reflect partially offsetting effects

Table of Contents

Item 3. Quantitative and Qualitative Disclosures Al

In millions
Estimated change in fair value

Credit Derivatives Sensitivity

MBIA issued insurance policies insuring payments du
marked-to-market through earnings under the accounti
structured finance and international insurance operatio
obligations of cash securities and CDSs referencing lia
reference obligations included corporate, asset-backed
underwritten at or above a triple-A credit rating level.
Additionally, MBIA s wind-down operations entered

In the first six months of 2013, the Company has obse
performance of MBIA s business and credit portfolio,
hedging purposes unrelated to the specific referenced
accounting will cause the Company s earnings to be n
portfolio.

The following tables reflect sensitivities to changes in
recovery rates. Each table stands on its own and shoul
Consolidated Financial Statements for further informa
techniques and disclosures required by GAAP.

Sensitivity to changes in credit spreads can be estimat
estimated pre-tax change in fair value and the cumulat
as of June 30, 2013. In scenarios where credit spreads

In millions
Estimated pre-tax net gains (losses)
Estimated net fair value

Actual shifts in credit spread curves will vary based o
reference obligations will exhibit less credit spread mo
vary significantly for different asset classes. The basis
obligation credit spreads across all credit quality ratin
presentation depending on the credit rating and distrib
the existing portfolio.

The Company uses collateral prices as an input into th
pre-tax change in fair value and the cumulative estima
prices as of June 30, 2013.

In millions
Estimated pre-tax net gains (losses)
Estimated net fair value

Table of Contents

Item 3. Quantitative and Qualitative Disclosures Al

Sensitivity to changes in the collateral portfolio credit
the estimated pre-tax change in fair value and the cum
rating change in the credit quality as of June 30, 2013.

In millions

Estimated pre-tax net gains (losses)	
Estimated net fair value	

Recovery rates on defaulted collateral are an input into
can be estimated by projecting a hypothetical change i
estimated net fair value of the Company s insured cre

In millions

Estimated pre-tax net gains (losses)	
Estimated net fair value	

Accounting principles for fair value measurements req
changes in the Company s credit spreads can be estim
change in fair value and the cumulative estimated net f
7 percentage points, and an increase of 15 percentage p
on the tenor of each transaction. The below amounts in

In millions

Estimated pre-tax net gains (losses)	
Estimated net fair value	

With the inclusion of the MBIA recovery rate in the ca
sensitivity table presents the estimated pre-tax change
an approximate trading range of the MBIA recovery ra

In millions

Estimated pre-tax net gains (losses)
Estimated net fair value
MBIA Corp. s insurance of structured credit derivativ
credit derivatives, in the absence of credit impairments
maturity of the contracts. Additionally, in the event of
recorded in our consolidated financial statements. In F
transactions that are intended to reduce its overall expo

Table of Contents

Item 4. Controls and Procedures

As of the end of the period covered by this report, an e
(as such term is defined in Rules 13a-15(e) and 15(d)-
participation of the Company s senior management, in
management, including the Chief Executive Officer an
as of the end of the period covered by this report. In ac
is defined in Rules 13a-15(f) and 15d-15(f) under the S
affected, or are likely to materially affect, the Compan

Table of Contents

Item 1. Legal Proceedings

For a discussion of the Company s litigation and relat
MBIA Inc. and Subsidiaries in Part I, Item 1. In the no
courtesy, the Company posts on its website under the s
which the Company is the plaintiff or the defendant. T
or update them to reflect changes in events or expectat
respective court where each litigation is pending.

Item 1A. Risk Factors

References in the risk factors to the Company are to
Inc. or the Company, as the context requires. Our risk
Risk Factors , Capital, Liquidity and Market Relatec
significance within each category. These risk factors a
MBIA Inc. s Annual Report on Form 10-K for the yea

Insured Portfolio Loss Related Risk Factors

Deteriorating performance of CMBS and CRE loans
markets may materially and adversely affect our fina

MBIA Corp. has insured a substantial amount of credi
pools and commercial real estate (CRE) collateraliz
(LAE) of $4.0 billion (including $399 million of im
months ended June 30, 2013, MBIA Corp. incurred $3
policies. MBIA Corp. has experienced ratings erosion
CMBS collateral underlying the pools outstanding as o
approximately 69% of the total CMBS collateral under

Currently, we insure four static CMBS pools that were
CMBS tranches originally rated BBB and lower. Total
CMBS pools, totaling $3.0 billion of gross par outstan
was originally rated A. If the economy does not contin
underlying loans are unable to pay off at their expectec
transaction by a counterparty and we expect further cla
there can be no assurance that this will be the case.

Ultimate loss rates remain uncertain, and we have reco
deterioration has been more than expected during that
deterioration in our insured CMBS portfolio or our fai
underlying collateral comprised CMBS tranches origin
delinquencies, higher levels of liquidations of delinque
CMBS pools generally are in the form of CDS referen
pools. Accordingly, a collateral failure on a small num
event MBIA Corp. fails to make these payments, MBI
financial condition and results of operations.

Table of Contents

Item 1A. Risk Factors (continued)

Continued poor performance of ineligible loans in th
expected recoveries may materially and adversely aff

As of June 30, 2013, we recorded expected receipts of
and interest outflows on liabilities) in our second-lien
included in Insurance loss recoverable and $124 mi
amount of excess spread depends on future interest rat
entirety or in the expected timeframe.

In addition, we continue to be exposed to risk of losses
mortgage-backed securities (RMBS) transactions, i
transaction. Furthermore, Credit Suisse continues to br
believe that the inclusion of these ineligible mortgage
quarter of 2007, MBIA Corp. has paid $6.9 billion of
of consolidated variable interest entities (VIEs), on
the inclusion of ineligible loans could continue. In sizi
sellers/servicers arising from our contractual rights of
insured transactions. The recovery amount is based up
credit ratings. The impact of such factors on cash flow

Finally, although we sought to underwrite RMBS and
protect us from loss in the event of poor performance
collateral backing those transactions has rendered insu
given that any remaining credit enhancements will pro

There can be no assurance that we will be successful
or $736 million net of reinsurance and income taxes,
subsidiary and noncontrolling interest.

As of June 30, 2013, we have recognized remaining es
estimated loan put-back recoveries net of reinsurance
excluding preferred stock of subsidiary and noncontro
be adequate for MBIA Corp. to cover potential claims

To date, the Company has resolved substantially all of
in the home equity mortgage trust securitization. The
litigation and there is no assurance that the Company
Estimated recoveries may differ from realized recover
credit risk, the potential for delay and other sources of
to pay losses on the subject transaction.

We have also recorded substantial recoveries related to
LLC (GMAC) and Residential Funding Company,
GMAC each filed for bankruptcy protection under Cha
Consenting Claimants (which includes the Company),
settlement amount of $796 million (based upon an esti
part of a proposed plan to resolve claims against Ally
recoveries recorded by the Company. In June of 2013,
agreement is now subject to voting by creditors as wel
initial distribution of funds to the Company and other
plan confirmation process. Furthermore, there can be n
expected recoveries.

Table of Contents

Item 1A. Risk Factors (continued)

Continued poor performance of RMBS and ABS CD
and the broader economy may materially and advers

The Company is exposed to credit risks in our portfoli
markets, particularly our RMBS and CDOs of asset-ba
cash flows from such assets within structured securitie
coupled with the re-pricing of credit risk created extre
participants were initially focused on the subprime seg
mortgage and asset-backed and other fixed-income sec
generally, and a wide range of financial institutions an
economic recession precipitated, in part, by the collaps
housing and financial sectors. While many segments o
in particular RMBS and CDOs of ABS have deteriorat

In the first six months of 2013, we recorded $258 mill
in recoveries of ineligible mortgage loans and before t
of 2007, we have recorded losses and LAE of $1.9 bill
$189 million in the first six months of 2013 before the
exposures. We have made $6.9 billion of claims paym
consolidated VIEs. In addition, to date, we have recor
consolidating VIEs (including a $74 million benefit in
on the financial guarantee CDOs of ABS and could co
portions of our insured portfolio.

Our ability to implement our risk reduction and liqui
and obtain regulatory approvals.

In recent years key components of our strategy have in
reduce future expected economic losses and managing
implement this strategy, we put in place intercompany
liquidity where needed. The intercompany agreements
Services (NYSDFS) and are described further unde
Agreements in Part I, Item 2 of this Form 10-Q.

In addition, during the second quarter of 2013, MBIA
Ridge Investments, L.L.C., an affiliate of Bank of Am
any put-back recoveries. MBIA Corp. expects to rely o
other expenses. If MBIA Corp. s access to the Blue R
for any reason, including, without limitation, due to its
exposures or to meet its obligations generally. In addit
to refinance the facility, it may not be able to repay its

Our counterparties may also request as a condition to c
Kingdom Prudential Regulation Authority. There can b
approvals, we do not expect to be able to effect additio

Table of Contents

Item 1A. Risk Factors (continued)

Finally, if we do not obtain approvals to draw on inter
other liquidity needs, as described further under Adv
needs. Furthermore, in connection with obtaining req
have agreed, and may in the future agree, to comply w
other corporate actions (such as paying dividends whe

Loss reserve estimates and credit impairments are su

The financial guarantees issued by our insurance comp
cases over 30 years, under policies that we have, in mo
reserves. The establishment of the appropriate level of
management, and therefore, there can be no assurance
assumptions underlying these estimates could significa
third-party consultants and customized by us to projec
have similar terms, conditions, risks, and economic pr
way that we estimate loss and LAE for our financial g

Losses on second-lien RMBS caused by the large num
unprecedented volatility in the credit markets that beg
especially for second-lien RMBS transactions, where e
losses in this category. As a result, historical loss data
respect to our insured transactions, we take into accou
of ineligible loans, and these estimated recoveries may
breach rates, counterparty credit risk, the potential for
and CRE exposure in 2010, and have increased our cre
and CRE portfolio and the increased cost of commutin
deterioration of the CRE market worsens, we could in

Future deterioration in the performance of RMBS, CM
reserves or impairments and further losses or reductio
paid claims could exceed our estimate and could signi
operations and financial condition could be materially

Economic conditions in the United States and the Eu

Our results of operations are materially affected by ge
consistently grown since the fourth quarter of 2009 an
half of 2007, markets have continued to experience pe
European sovereign debt, our indirect European sover
sub-sovereign issuers, such as regions, departments, a
insured gross par outstanding, \$785 million, \$601 mill
the United Kingdom. A default by one or more sovere
on our insured and investment portfolios. Moreover, b
for certain borrowers, austerity measures imposed by c
expectations for certain parts of the global economy a

Table of Contents

Item 1A. Risk Factors (continued)

Losses resulting from poor economic conditions and th
we insured), ABS CDOs and CMBS, have adversely i
corporate, municipal, sovereign, sub-sovereign or con
future business, as well as the performance of our insu
specified revenue streams, such as revenue bonds issu
declines resulting from economic recession, reduced d

Termination payments on insured credit derivatives c

The structured finance and international segment s fin
However, with respect to the insurance of CDS contra
contracts, the CDS contracts may be subject to termina
transactions are governed by International Swaps and
policies. For example, the Company s control rights w
guarantee insurance policy on a direct primary basis. I
events, unlike financial guarantee insurance policies. I
determined under the ISDA documentation.

Servicer risk could adversely impact performance of

Structured finance obligations contain certain risks inc
collecting the cash flow from the asset pool) that coul
risks, such as whether the servicer of the assets may b
subject to bankruptcy or insolvency proceedings. Stru
insolvency of the servicer. The ability of the servicer t
addition, the lawsuit we have filed against Credit Suis

Some of the state and local governments and finance
could result in increased credit losses or impairments

We have historically experienced low levels of defaul
However, many state and local governments that issue
significantly raise taxes and/or cut spending in order t
to provide aid to state and local governments, certain s
finance portfolio are unable to raise taxes, cut spendin
materially and adversely affect our business, financial
severe financial stress and, as a consequence, more mu
outcome of a Chapter 9 proceeding is unpredictable a

Table of Contents

Item 1A. Risk Factors (continued)

Financial modeling contains uncertainty over ultima
mark-to-market.

The Company uses third-party and internal financial m
models to conduct liquidity stress-scenario testing to e
requirements. These measurements are performed on a
supplemented by models generated by third parties, to
underlying assets, and to evaluate structures, rights and
estimate case basis loss reserves and, where applicable
models or use third-party experts to consult with our in
assurance that these models are accurate or comprehen
methodologies employed by our competitors, counterp
liquidity position. In addition, changes to our paid clai
changes could materially impact our financial results.

Our risk management policies and procedures may n

We assess our risk management policies and procedure
capabilities and procedures, our portfolio management
of our insured portfolio in changing market conditions
losses can be substantial, particularly if a loss occurs o
principal maturities.

Geopolitical conditions may adversely affect our busi

General global unrest, fraud, terrorism, catastrophic ev
countries where we have insured exposure or operate o
activity. Furthermore, in certain jurisdictions outside th
inability to enforce our rights in court or otherwise and
exposure in certain sectors that could suffer increased
risk as a result of the possibility that multiple credits w
revenues from business and personal travel, such as ai
certain corporate sectors may be vulnerable to credit d
issuances in those stressed sectors could also be advers

The Company s insurance operations underwrite expo
defaults and other conditions at levels higher than are r
losses if the economic stress and increased defaults in
similar events in the future is or will be more severe th

Capital, Liquidity and Market Related Risk Factor

Continuing elevated loss payments and ongoing dela
may materially and adversely affect MBIA Corp. s a

As an insurance company MBIA Corp. is particularly
contractual payment obligations when due. Manageme
institutions have occurred in large part due to their inal
resources results from an enterprise s inability to sell
acceleration of payments required to settle liabilities.

Table of Contents

Item 1A. Risk Factors (continued)

The effects of the credit crisis which began in the subp
and markets, asset classes, sectors and countries, have
quarter of 2007, MBIA Corp. has paid $6.9 billion of c
of consolidated VIEs, on policies insuring second-lien
being placed in the securitizations in breach of the repr
impairments on insured derivatives were estimated at $
claim payments of $5.7 billion, net of reinsurance and
and result in substantial defaults and losses on the und
portions of MBIA Corp. s outstanding insured portfol

Management s expected liquidity and capital forecast
borrow under the Blue Ridge Secured Loan and use its
as the Company s second-lien RMBS and remaining i
liabilities, potential volatility in the collection of put-b
remaining insured portfolio, aside from these exposure
will have adequate resources to pay expected claims, i
substantial risk to the Company, it may ultimately hav
Corporation into a rehabilitation or liquidation procee
and have other adverse consequences.

Adverse developments in the credit markets may mate

MBIA Inc. is subject to material liquidity risks and un
sufficient to make all payments due on our obligations

Liquidity risk to MBIA Inc. is primarily a result of the

Currently, the majority of the cash and se
and derivatives, which limit its ability to
intercompany financing arrangement liab
periods of market volatility. In addition, i
decline, we would be required to pledge a
event, we may sell additional assets, pote
other assets, in some cases with NYSDF
liquidity requirements.

The timing and amount of cash inflows f
and certain regulatory and other constrai

Stressed credit market conditions could cause MBIA I
identified certain actions to mitigate this risk. These c
at all; (2) additional sales of invested assets exposed t
(3) termination and settlement of interest rate swap ag
either additional liquidity or reduced exposure to adve
this risk. In the event that we cannot implement the co
make all payments on our obligations as they come du
guarantor of the investment agreements and MBIA Gl
they come due.

Table of Contents

Item 1A. Risk Factors (continued)

An inability to access capital could adversely affect o

The Company s access to external sources of financin
of the Company, (ii) the insurance financial strength ra
strength of our insurance companies and MBIA Inc. an
insured RMBS securitizations. Our debt ratings are inf
balance sheet strength, capital structure and earnings tr
results and financial condition could be adversely affec
facilities will be available in the future on favorable te
ability to draw on our credit facility, collect expected p
on favorable terms or at all could have an adverse imp

To the extent that we are unable to access capital, our
business and may not be able to pay dividends to us w
favorable terms could have an adverse impact on our a
our indebtedness, to pay our operating expenses and to
other constraints could affect our ability to pay divider

Our holding company structure and certain regulator

We are a holding company and rely to a significant de
other smaller subsidiaries. As such, we are largely dep
dividends, to the extent payable, on our capital stock, t
other items. Our insurance companies are subject to va
cash dividends, loans and advances that those subsidia
may also restrict their ability to pay dividends and othe

Under New York law, National and MBIA Corp. may
described in Business Insurance Regulation in Part
MBIA Inc. and Subsidiaries in Part II, Item 8 of our A
Corporation obtaining approval from the NYSDFS to
MBIA Insurance Corporation agreed that it would not
MBIA Insurance Corporation has not had the statutory
any dividends in the near term. While National had div
Corporation contingency reserve release, the Company
2013. In addition, as a condition to the NYSDFS s ap
of the Asset Swap has been reduced to 5% or less of N
with three months prior notice, or such shorter period a
provided the NYSDFS with such notice, and intends to
at such earlier time as the NYSDFS may permit, althou

Dividend payments by MBIA UK and MBIA Mexico
jurisdictions. The inability of our insurance companies
level could affect our ability to repay our debt and hav

Table of Contents

Item 1A. Risk Factors (continued)

MBIA Inc. has long-term debt, MTNs, investment ag

As of June 30, 2013 and December 31, 2012, the comb
comprised long-term debt, MTNs, investment agreeme
subsidiaries, totaled $1.3 billion and $1.2 billion, respe
from distributions from its operating subsidiaries and b
to satisfy its net debt.

We have substantial indebtedness and may incur sub
financing in the future, react to changes in our busin

As of June 30, 2013, we had $1.5 billion of consolidat
investment agreement liabilities. Our substantial indeb

our ability to obtain additional financing
purposes and our ability to satisfy our ob

a large portion of MBIA Inc. s financial
available to us for other purposes;

it may be more difficult for us to satisfy o

we may be more vulnerable to general ad

our ability to refinance debt may be limit

our flexibility to adjust to changing mark
important to our growth strategy and effo

we are exposed to the risk of fluctuations
interest or denominated in foreign curren

If our insurance companies fail to meet regulatory ca

Our insurance companies are subject to various statuto
minimum surplus. Furthermore, our insurance compan
such requirements, and the NYSDFS may impose othe
requirements. While National currently satisfies its sta
required to support its contingency reserves. The defic
RMBS sellers/servicers to honor their contractual oblig
expected to grow due to additional commutation and c
reported the deficit to the NYSDFS. MBIA Corp. has r
was disapproved by the NYSDFS. Prior to September
approvals granted by the NYSDFS in accordance with

deficits of qualifying assets to meet its contingency res

Additionally, under New York law, the Superintenden
company under certain circumstances, including upon
company is found, after examination, to be in such con
Superintendent of the NYSDFS may also suspend an i
hearing, the Superintendent of the NYSDFS determine
needs. If the Superintendent of the NYSDFS were to ta
reduction or elimination of the payment of dividends t

Table of Contents

Item 1A. Risk Factors (continued)

Changes in interest rates and foreign currency excha

Increases in prevailing interest rate levels can adversel
investments must be sold in order to make payments o
investments would likely be sold at discounted prices.
held in cash and cash equivalents given the increased f
credit stress on transactions in our insured portfolio, w

While we are not currently writing a meaningful amou
affect demand for financial guarantee insurance. Lowe
purchase of insurance during periods of relatively narr
relatively wider spreads. These lower cost savings cou
rates may decrease attractiveness for issuers to enter in
insurance in the future.

In addition, the Company is exposed to foreign curren
dollars. In addition to insured liabilities denominated i
denominated in currencies other than U.S. dollars and
the weakening of the U.S. dollar versus foreign curren
Company regularly makes investments denominated in
future loss payments, and the weakening of the foreign
rates have fluctuated significantly in recent periods an
operations and cash flows.

Revenues and liquidity would be adversely impacted

Due to the installment nature of a significant percentag
premiums actually realized by MBIA Corp. could be r
contracts, accelerated prepayments of underlying oblig
result in lower revenues and reduced liquidity.

We are required to report credit derivatives at fair va
equity for the Company or MBIA Corp. on a GAAP b

Any event causing credit spreads on an underlying sec
either widen or tighten will affect the fair value of the

Since changes in fair value can be caused by factors un
conditions and perceptions of credit risk, as well as ma
events that affect particular credit derivative exposure,
the underlying performance of our business operations
fair value of insured credit derivatives could cause our
in the United States of America (GAAP) basis in a

The global re-pricing of credit risk that began in the fo
In addition, due to the complexity of fair value accoun
fair value measurement, future amendments or interpre
manner which may have an adverse impact on our fina
Operations Critical Accounting Estimates in Part II,
derivatives.

Table of Contents

Item 1A. Risk Factors (continued)

Current accounting standards mandate that we measur
market standard CDS but are less available or accurate
non-traded structured credit derivative transactions. M
there can be no assurance that those counterparties (c

The mark-to-market for the insured credit derivative p
the fourth quarter of 2007, MBIA s mark-to-market o
high quarterly gain of $3.3 billion in the second quarte
billion and frequent quarter over quarter shifts in earni
in MBIA s credit spreads and recovery rates, changes
enhancements.

Strategic Plan Related Risk Factors

An inability to achieve high stable insurer financial s
generate investor demand for their financial guarant

National s and our other insurance companies abilit
financial strength ratings assigned to them by the majo
LLC (S&P), as well as the financial strength of our
companies triple-A financial strength ratings and lim
currently not originating new financial guarantee busi
maintain high insurer financial strength ratings are out
remedial actions in a relatively short time frame in ord
guarantee insurers and could make the conduct of the
affect the business prospects of our insurance compani
that these requirements or the related models and meth
not lower or withdraw its financial strength ratings wit
(Moody s) highest ratings, which have typically be
could diminish the acceptance of our financial guarant

In addition, no assurance can be given that investor de
with the rating agency and regulatory single risk limits
categories of risks that were exceeded, in the case of th
agency limits, and may adversely affect our business p
experiencing a large single loss or series of losses.

Downgrades of the ratings of securities that we insur

Individual credits in our insured portfolio (including p
nature of the credits risk types, underlying ratings, te
a reduction in the underlying rating or a change in the
insured portfolio, regardless of whether losses actually
portfolio can produce significant increases in assessed
adequate to meet any increased rating agency reserve r
increased reserve requirements, especially at a time of
available capital, an increase in capital charges could r
write new business.

Table of Contents

Item 1A. Risk Factors (continued)

Since 2008, Moody s and S&P announced the downg
number of structured finance transactions that serve as
in our insured portfolio will not be reviewed and down
securities in our insured portfolio or review again secu
higher capital charges to that insurance company unde
financial condition going forward.

Competition may have an adverse effect on our busin

Our financial guarantee insurers face competition from
senior-subordinated structures, credit derivatives, lette
service payments) provided by banks and other financi
credit enhancement. Furthermore, while one financial
additional recently established bond insurer is actively
insurance market and continue to consider strategies fo
providers of credit enhancement, could have an advers
related unpredictable actions of the regulators in the U
among other things, explicit or implied support from th

Cutwater faces intense competition from banks, insura
companies who manage their investments in-house. C
operations. Cutwater s ability to compete for new adv
specific client or in general (typically versus establishe
of client service provided. A decline in our competitiv
management. Furthermore, many of Cutwater s comp
broader range of products, services or features. In orde
new business, which would diminish the amount of di
retain business, which could have an adverse effect on

In addition, Trifinium Advisors (UK) Limited (Trifin
sought to grow this business. Trifinium is subject to co
employees time and there can be no assurance that th

Future demand for financial guarantee insurance de

The demand for financial guarantee insurance depends
for financial guarantee business is largely dependent o
the perceived financial strength of all financial guarant
insurer financial strength ratings have been downgrade
downgrades may have eroded investors confidence in
former levels in the near term, if ever.

We believe that issuers and investors distinguish amon
insured portfolio concentration and financial performa
guarantors which, in turn, may provide a competitive a
due to regulatory or internal guidelines, lack additiona
advantage to guarantors with fewer insured obligations
adverse effect on our ability to attract new business at

Table of Contents

Item 1A. Risk Factors (continued)

Regulatory change could adversely affect our busine
might consider in their best interests.

The financial guarantee insurance industry has historic
insurance laws, securities laws, tax laws, legal precede
These laws limit investors ability to affect a takeover
applicable laws and regulations could expose our insur
engage in certain business activity, as the case may be

In addition, future legislative, regulatory or judicial ch
financial results. Since 2009, both the NYSDFS and th
limits on the manner and amount of business written b
requirements, including if we are deemed systemical
MBIA UK could also become subject to enhanced cap

While it is not possible to predict if new laws, regulati
or the NYSDFS s interpretation thereof could subject
finance area. Any such restrictions could have a mater
regulations could subject our insurance companies to i
adversely affect our financial condition, results of oper
to our accounting methodology, both prospectively an
make it more difficult for investors to understand the e
pursue.

Developments in the regulation of derivatives may cr

In July 2010, the Dodd-Frank Act was signed into law
over-the-counter derivatives markets. Among other ref
the Commodity Futures Trading Commission (CFTC
capital requirements. The CFTC and SEC have promu
include its legacy insured derivatives in tests used to d
major swap participant and on an ongoing basis is requ
of the Dodd-Frank Act. As further rules are enacted, w
including capital requirements.

Because the CFTC has not yet issued final rules establ
Company is not yet clear. However, to the extent that t
be able to meet those standards.

General Risk Factors

Any impairment in the Company s future taxable in

The basis for evaluating the recoverability of a deferre
ability to recognize future taxable income from its exis
the recoverability of certain deferred tax assets may be

A different view of the Internal Revenue Service fron
financial position.

As part of the Company s financial guarantee busines
various financial institutions. We treat these insured de
U.S. federal taxable income. As such, the realized loss

federal income tax treatment of CDS contracts is an un
tax treatment, our results of operations and financial co

Table of Contents

Item 1A. Risk Factors (continued)

Private litigation claims could materially adversely a

As further set forth in Note 14: Commitments and C
this Form 10-Q, the Company is named as a defendan
or parties to pending and threatened legal actions and
Although the Company intends to vigorously defend a
actions could result in a loss and have a material adve

Ownership Change under Section 382 of the Interna

In connection with transactions in our shares from tim
Internal Revenue Code. In general terms, an ownershi
by more than 50 percentage points over a testing perio
including certain losses, credits, deductions or tax basi
including the complexity and ambiguity of Section 38
securities. The Company performs detailed calculatio
methodology of calculation, a Section 382 ownership

Interruption in telecommunication, information tech
sensitive data residing on such systems, could harm

We depend heavily on our telecommunication, inform
businesses. These systems may fail to operate properl
face the risk of operational and technology failures by
provision of services or business operations. If these p
adverse effects on our business.

Despite our implementation of a variety of security m
unauthorized tampering or other security breaches, res
information relating to clients or transaction counterp

Interruption in telecommunication, information techn
data residing on such systems, whether due to actions
sanctions and other claims, lead to a loss of clients an

The Company is dependent on key executives and th
business.

The Company s success substantially depends upon i
employees to implement its business strategy. The Co
the Company competes. Although the Company is no
Chief Executive Officer, and other senior executives.
services of any of these individuals or other key mem

Item 2. Unregistered Sales of Equity Securities and

In connection with the Bank of America Settlement A
Financial Statements, on May 6, 2013, MBIA Inc. iss
shares of MBIA Inc. common stock at an exercise pri
Section 4(a)(2) under the 1933 Act as transactions by

Table of Contents

Item 2. Unregistered Sales of Equity Securiti

Pursuant to the anti-dilution provisions of warrants tha
Pincus) under the Investment Agreement by and betw
2008, (the Investment Agreement), as a result of th
share were revised to 21,914,446 warrants exercisable
revised to 4,004,945 warrants exercisable at $16.18 pe
connection with the offering by the Company of any e
Investment Agreement due to the issuance of the warr
shares of MBIA Inc. common stock at an exercise pric
common stock having a value of $7,262,518 based on
pursuant to the anti-dilution adjustments and the gross
as transactions by an issuer not involving any public o

The table below presents repurchases made by the Co

Month	Total Shares
April	
May	
June	

(1) - 13,036 shares were purchased in open m

(2) - On February 1, 2007, the Company s B
superseded the previously authorized pro

Item 5. Other Information

The information contained in Part II, Item 2, Unregis
issuance of a five-year warrant to Warburg Pincus to p
by reference.

Table of Contents

Item 6. Exhibits

4.1.	Warrant Agreement, dated as of May 6, 20 Company s Quarterly Report on Form 10
+4.2.	Warrant Agreement, dated as of August 5,
+10.1.	Loan Agreement, dated as of May 6, 2013 Exhibit 10.1 to the Company s Quarterly Loan Agreement, dated as of June 28, 201
10.2.	Security Agreement, dated as of May 6, 20 Exhibit 10.2 to the Company s Quarterly
+10.3.	Share Charge, dated as of May 9, 2013, be
+31.1.	Chief Executive Officer - Certification Pu
+31.2.	Chief Financial Officer - Certification Pur
*32.1.	Chief Executive Officer - Certification Pu
*32.2.	Chief Financial Officer - Certification Pur
+99.1.	Additional Exhibits - National Public Fina
+99.2.	Additional Exhibits - MBIA Insurance Co
+101.	Additional Exhibits - MBIA Inc. and Subs Company s Quarterly Report on Form 10

+ Filed Herewith

* Furnished Herewith

Table of Contents

Pursuant to the requirements of the Securities Exchang
duly authorized.

Date: August 7, 2013

Date: August 7, 2013