



**National Public Finance
Guarantee Corporation**
Statutory-Basis Financial Statements
December 31, 2009 and 2008

National Public Finance Guarantee Corporation
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December 31, 2009 and 2008

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Report of Independent Auditors

To the Board of Directors and Shareholder of
National Public Finance Guarantee Corporation:

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

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

As described in Note 2 to the financial statements, the Company prepared these financial statements using accounting practices prescribed or permitted by the Insurance Department of the State of New York, which practices differ from accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between the statutory basis of accounting and accounting principles generally accepted in the United States of America are material; they are described in Note 7.

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

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

As discussed in Note 1 to the financial statements, in 2009, after receiving regulatory approvals, the Company received capital from its parent and entered into a quota share reinsurance agreement with an affiliate. Further, as discussed in Note 1 to the financial statements, in 2009, the Company did not write any material new business.

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

PricewaterhouseCoopers LLP

May 28, 2010

NATIONAL PUBLIC FINANCE GUARANTEE CORPORATION
STATUTORY-BASIS STATEMENTS OF ADMITTED ASSETS, LIABILITIES and CAPITAL and SURPLUS

(Dollars in thousands except share and per share amounts)

	December 31, 2009	December 31, 2008
Admitted Assets		
Investments:		
Fixed maturity securities, at amortized cost (fair value \$5,150,065 and \$126,369, respectively)	\$ 5,055,585	\$ 119,127
Securities purchased under agreements to resell	1,675,000	-
Short-term investments, at amortized cost which approximates fair value	121,627	60,684
Receivables for securities	529	2
Total Investments	6,852,741	179,813
Cash and cash equivalents	27,629	6,386
Total cash and investments	6,880,370	186,199
Accrued investment income	64,855	1,156
Current tax receivable	3,297	-
Deferred tax asset	26,948	-
Other assets	130	56
Total admitted assets	\$ 6,975,600	\$ 187,411
Liabilities, Capital and Surplus		
Liabilities:		
Deferred premium revenue	3,125,504	-
Loss and loss adjustment expense reserves	136,024	-
Contingency reserve	1,403,926	-
Securities sold under agreements to repurchase	1,675,000	-
Current income taxes	-	1,162
Deferred income taxes, net	-	517
Payable for investments purchased	25,453	-
Other liabilities	18,493	594
Total liabilities	6,384,400	2,273
Capital and Surplus:		
Common stock, par value \$30 per share; authorized, issued and outstanding - 500,000 shares	15,000	5,000
Additional paid-in capital	2,199,345	123,831
Unassigned surplus (deficit)	(1,623,145)	56,307
Total capital and surplus	591,200	185,138
Total liabilities, capital and surplus	\$ 6,975,600	\$ 187,411

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

NATIONAL PUBLIC FINANCE GUARANTEE CORPORATION
STATUTORY-BASIS STATEMENTS OF INCOME

(Dollars in thousands)

	Years ended December 31	
	2009	2008
Revenues:		
Gross premiums written	\$ 3,509,495	\$ 6
Ceded premiums	1,420	(6)
Net premiums written	3,510,915	-
Increase in unearned premiums	(3,125,504)	-
Premiums earned	385,411	-
Expenses:		
Losses incurred	5,666	-
Loss adjustment expenses incurred	89,435	-
Other underwriting expenses incurred	828,360	565
Gain on reinsurance commutations	(14,462)	-
Total underwriting expenses	908,999	565
Net underwriting loss	(523,588)	(565)
Investment income:		
Net investment income	205,453	7,406
Net realized capital gains, (less tax of \$5,575 and \$391)	10,353	727
Net investment gain	215,806	8,133
Other (expense) income, net	(8)	(1)
(Loss) income before income taxes (after capital gains tax)	(307,790)	7,567
Income tax (benefit) provision	(8,672)	930
Net (loss) income	\$ (299,118)	\$ 6,637

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

NATIONAL PUBLIC FINANCE GUARANTEE CORPORATION
STATUTORY-BASIS STATEMENTS OF CHANGES IN CAPITAL AND SURPLUS

For the years ended December 31, 2009 and 2008

(Dollars in thousands except share amounts)

	<u>Common Stock</u>		<u>Additional Paid-in Capital</u>	<u>Unassigned Surplus (Deficit)</u>	<u>Total Capital and Surplus</u>
	<u>Shares</u>	<u>Amount</u>			
Balance, January 1, 2008	500,000	5,000	123,831	49,361	178,192
Net income	-	-	-	6,637	6,637
Change in deferred income taxes	-	-	-	300	300
Change in non admitted assets	-	-	-	9	9
Balance, December 31, 2008	<u>500,000</u>	<u>\$ 5,000</u>	<u>\$ 123,831</u>	<u>\$ 56,307</u>	<u>\$ 185,138</u>
Net loss	-	-	-	(299,118)	(299,118)
Change in deferred income taxes	-	-	-	622,081	622,081
Change in non admitted assets	-	-	-	(598,367)	(598,367)
Change in contingency reserve	-	-	-	(1,403,926)	(1,403,926)
Capital contribution from National Holdings	-	-	2,085,230	-	2,085,230
Change in unrealized capital losses	-	-	-	(122)	(122)
Other paid-in capital	-	-	284	-	284
Increase in par value of common stock	-	10,000	(10,000)	-	-
Balance, December 31, 2009	<u>500,000</u>	<u>\$ 15,000</u>	<u>\$ 2,199,345</u>	<u>\$ (1,623,145)</u>	<u>\$ 591,200</u>

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

NATIONAL PUBLIC FINANCE GUARANTEE CORPORATION
STATUTORY-BASIS STATEMENTS OF CASH FLOWS

(Dollars in thousands)

	Years ended December 31	
	2009	2008
Cash from operations		
Premiums collected, net of reinsurance	\$ 3,510,915	\$ -
Net investment income	167,677	8,322
Miscellaneous expenses	(9)	(1)
Total	<u>3,678,583</u>	<u>8,321</u>
Loss payments (receipt of salvage and subrogation)	(155,375)	-
Commissions and loss adjustment expenses paid	922,676	589
Federal and foreign income taxes paid	1,362	1,788
Total	<u>768,663</u>	<u>2,377</u>
Net cash provided by operating activities	<u>2,909,920</u>	<u>5,944</u>
Cash from investments		
Proceeds from investments sold, matured or repaid:		
Fixed-maturity securities	<u>1,750,274</u>	<u>106,202</u>
Total investment proceeds	<u>1,750,274</u>	<u>106,202</u>
Cost of investments acquired:		
Fixed-maturity securities	6,696,849	52,847
Increase in payable for investments purchased, net	<u>24,926</u>	<u>-</u>
Total investments acquired	<u>6,671,923</u>	<u>52,847</u>
Net cash (used) provided by investment activities	<u>(4,921,649)</u>	<u>53,355</u>
Cash from financing and miscellaneous sources		
Capital contribution from parent	2,085,230	-
Securities under agreement to repurchase	1,676,286	-
Other cash applied (used)	7,398	(361)
Net cash provided (used) by financing and miscellaneous sources	<u>3,768,914</u>	<u>(361)</u>
Net change in cash, cash equivalents and short-term investments	1,757,186	58,938
Cash, cash equivalents and short-term investments - beginning of year	<u>67,070</u>	<u>8,132</u>
Cash, cash equivalents and short-term investments - end of year	<u>\$ 1,824,256</u>	<u>\$ 67,070</u>

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

NATIONAL PUBLIC FINANCE GUARANTEE CORPORATION
NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS
As of and for the years ended December 31, 2009 and 2008

1. Business and Organization

National Public Finance Guarantee Corporation (“National” or “the Company”) is a wholly owned subsidiary of MBIA Inc. through an intermediary holding company, National Public Finance Guarantee Holdings, Inc. (“National Holdings”). Prior to February 17, 2009, National, previously named MBIA Insurance Corporation of Illinois (“MBIA Illinois”), was a wholly owned subsidiary of MBIA Insurance Corporation. In February 2009, after receiving the required regulatory approvals, MBIA Insurance Corporation transferred the stock of MBIA Illinois to National Holdings. Additionally, National was further capitalized with approximately \$2.1 billion from funds distributed by MBIA Insurance Corporation to MBIA Inc. as a dividend and return of capital, which MBIA Inc. contributed to National through National Holdings. Additionally, National increased par value of its common stock from \$10 per share to \$30 per share. As of December 31, 2009, National was rated A with a developing outlook by Standard & Poor’s Corporation (“S&P”) and Baa1 with a developing outlook by Moody’s Investors Service, Inc. (“Moody’s”).

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

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

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

During the year ended December 31, 2009, National did not write any material new business. The lack of insurance writings in 2009 reflects the insurance financial strength credit ratings assigned to National in 2009. National firmly believes that with the resolution of pending litigation it will be able to obtain the highest possible credit ratings and the market acceptance necessary to meet its stated objectives. The timing of any such upgrade is uncertain and will depend on a variety of quantitative and qualitative factors used by the rating agencies in their evaluation of National, including the resolution of pending litigation. Refer to “Note 14: Contingencies and Commitments” for further discussion of pending litigation.

Liquidity

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

NATIONAL PUBLIC FINANCE GUARANTEE CORPORATION
NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS
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National's financial guarantee contracts generally cannot be accelerated without the insurers' approval/consent/direction, thereby mitigating liquidity risk. However, defaults, credit impairments and adverse capital markets conditions can create payment requirements as National has made irrevocable pledges to pay principal and interest, or other amounts owing on insured obligations, as they mature. Additionally, National requires cash for the payment of operating expenses. Finally, National also provides liquid assets to MBIA Inc.'s asset/liability products segment through matched repurchase and reverse repurchase agreements to support its business operations and liquidity position.

2. Summary of Significant Accounting Policies

Basis of Presentation

The statutory financial statements of National are presented on the basis of accounting practices prescribed or permitted by the National Association of Insurance Commissioners ("NAIC") *Accounting Practices and Procedures Manual*. National was previously domiciled in Illinois until redomestication to New York effective December 1, 2009. In September of 2009, the New York State Insurance Department ("NYSID") became accredited under the NAIC's Financial Regulations Standards and Accreditation Program. Therefore, as per Regulation Number 172 of the New York State Insurance Law, NYSID has adopted the NAIC's *Accounting Practices and Procedures Manual* in its entirety subject to any conflicts with state regulations, or where the state statutes or regulations are silent.

National does not have any accounting practices which are permitted, rather than prescribed, by the NYSID.

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

- upfront premiums are earned on a SAP basis proportionate to the scheduled periodic maturity of principal and payment of interest ("debt service") to the original total principal and interest insured. Additionally, under SAP, installment premiums are earned on a straight-line basis over each installment period generally one year or less. Under GAAP, National recognizes and measures premium revenue over the period of the contract in proportion to the amount of insurance protection provided. Upfront and installment premium revenue is measured by applying a constant rate to the insured principal amount outstanding in a given period to recognize a proportionate share of the premium received or expected to be received on a financial guarantee insurance contract. Additionally, under GAAP, installment premiums receivable are recorded at the present value of the premiums due or expected to be collected over the period of the insurance contract using a discount rate which reflects the risk-free rate at the inception of the contract;
- under SAP, acquisition costs are charged to operations as incurred rather than GAAP's requirement to defer and amortize the costs as the related premiums are earned;
- a contingency reserve is computed on the basis of statutory requirements and is not permitted under GAAP;
- loss reserves are reported net of insurance loss recoverables and are discounted using a rate equal to the yield-to-maturity of National's fixed-income portfolio, excluding investments in money market funds and including intercompany loans under repurchase agreements. Under GAAP, loss reserves are discounted using a risk-free rate as of the measurement date and are reported net of the unearned premium revenue and gross of insurance recoverables which are reported as an asset;
- salvage and subrogation generally are recorded as a reduction to loss and LAE reserves for GAAP and statutory reporting. In certain instances under GAAP, the Company records salvage and subrogation, including insurance loss recoverables, as an asset. This would occur, for example, when the Company becomes entitled to the underlying collateral of an insured credit under salvage and subrogation rights as a result of a claim payment and the recovery of such salvage is reasonable and estimable;

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- assets and liabilities relating to reinsurance are reported on a net basis. Therefore, incurred losses and LAE are reported net of reinsurance recoverables and deferred premiums are reported net of prepaid reinsurance premium. Under GAAP, these reinsurance balances are required to be shown on a gross basis as an asset.
- certain assets, which consist primarily of deferred tax assets and prepaid expenses described as “non-admitted,” are charged directly to unassigned surplus under SAP. There were non-admitted assets of \$598 million and zero at December 31, 2009 and 2008, respectively. Under GAAP, these amounts are typically reflected as assets.
- changes in net deferred income taxes are recognized as a separate component of gains and losses in surplus. Under GAAP, changes in National’s net deferred income tax balances are either recognized as a component of net income or other comprehensive income depending on how the underlying pre-tax impact is reflected;
- the IRS permits financial guarantee insurance companies a tax deduction for increases to the statutory contingency reserve specifically relating to the issuance of U.S. state and local obligations, as defined under section 103 of the Internal Revenue Code of 1986, as amended. Such deduction is allowable provided that the financial guarantee insurance company purchase a special series Tax and Loss bonds (“T&L bonds”) issued by the U.S. Treasury equal to the tax benefit derived. When purchased, National records the T&L bonds as admitted assets and they are credited to surplus;
- investments in bonds are generally carried at amortized cost under SAP. Accordingly, unrealized changes in fair value are not reflected in the statutory-based statements of income and changes in capital and surplus or the statutory statements of admitted assets, liabilities and capital and surplus. Bonds not qualified to be carried at amortized cost are carried at fair value as required by the NAIC with the differences between these values recorded directly to unassigned surplus net of adjustment for deferred federal income taxes, rather than recording the difference in unrealized gains and losses through shareholders’ equity;
- under SAP, upon the transformation of National, investments were transferred from MBIA Corp. to National at fair market value, under GAAP these investments were transferred at book value; and
- the statements of cash flows reconcile to cash and cash equivalents under GAAP rather than cash, cash equivalents and short-term investments. In addition, under SAP, cash flows from operations are reported consistent with the Statement of Income.

See “Note 7: Reconciliation of Statutory Accounting to GAAP-Basis Accounting” for the reconciliation of statutory-based capital and surplus to GAAP-based shareholder’s equity.

Cash and Cash Equivalents

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

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Investments

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

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

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

Loan-backed bonds and structured securities with NAIC designation of 3 through 6 are reported at the lower of amortized cost or fair value as determined by the SVO. In the event the SVO has not determined the fair value of a security, fair value amounts are determined by using independent market sources, when available, and appropriate valuation methodologies when market quotes are not available. In cases where specific market quotes are unavailable, interpreting market data and estimating market values require considerable judgment by management. Accordingly, the estimates presented are not necessarily indicative of the amount MBIA Corp. could realize in the market.

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

The NAIC adopted Statement of Statutory Accounting Principles ("SSAP") 43R "Loan-backed and Structured Securities," effective September 30, 2009. SSAP 43R establishes principles for investments in loan-backed and structured securities and increased disclosures regarding other-than-temporarily impaired securities. See "Note 3: Investments" and "Note: 4 Investment Income and Gains and Losses" for further information.

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

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

National's investment portfolio containing all of its securities is reviewed no less than quarterly in order to identify those securities in which fair value is less than amortized cost in order to assess whether such a decline in value is

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other-than-temporary. An investment is considered for a potential other-than-temporary impairment if it meets any of the following criteria:

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

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

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

These assessments require management to exercise judgment as to whether an investment is impaired based on market conditions and trends and the availability of relevant data. National did not recognize any other-than-temporary impairments in 2009 or 2008.

Premium Revenue Recognition

In December 2009, the NAIC adopted an amendment to SSAP 60 "Financial Guaranty Insurance." As a result of the amendment, National is required to provide additional disclosures regarding premiums and loss reserves. See "Note 15: Premium Revenue" and "Note 9: Change in Losses and Loss Adjustment Expenses Incurred" for more information.

National's premiums written consist of upfront premiums and installment premiums received and accrued for policies issued in current and prior years. Upfront premiums are earned proportionately to the scheduled periodic maturity of debt service to the original total principal and interest insured. Installment premiums are earned on a straight-line basis over each installment period, generally one year or less. Unearned premiums represent the portion of premiums written in prior years that is applicable to the unexpired risk of insured obligations. When an insured obligation is retired early, is called by the issuer, or is in substance paid in advance through a refunding accomplished by placing U.S. Government securities in escrow, the remaining unearned premium is earned at that time, since there is no longer risk to National. The amounts earned from refundings were \$169 million and zero in 2009 and 2008, respectively. As the outstanding principal of an installment-based policy is paid down by the issuer of a National-insured obligation, less premium is collected and recognized by National. Additionally, National may receive premiums upon the early termination of installment-based policies, which are earned when received.

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

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

Fees and Expense Reimbursements

The Company collects advisory fees in connection with certain transactions. These fees are included as a reduction to Other Underwriting Expenses Incurred within the Statements of Income and represent \$1 million and zero for the years ended December 31, 2009 and 2008, respectively.

Loss and Loss Adjustment Expense Reserves

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

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

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

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

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

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

Contingency Reserve

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

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

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

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

Securities purchased under agreements to resell and securities sold under agreements to repurchase are accounted for as collateralized transactions and are recorded at book value. It is National's policy to take possession of securities borrowed or purchased under agreements to resell. Repurchase agreements with third parties are primarily entered into for cash management purposes, to invest or obtain cash on a short-term basis, and are only transacted with high-quality dealer firms. National's investment guidelines require that these repurchase agreements to be fully collateralized, with collateral valued at market value and additional collateral delivered if there is a shortfall. Cash collateral received is invested in short-term investments and the offsetting collateral liability is included in aggregate write-ins for liabilities. There were no third party repurchase agreement transactions outstanding as of December 31, 2009.

National maintains an intercompany repurchase agreement with MBIA Inc., which was approved by the NYSID. Under this agreement National holds securities subject to agreements to resell (totaling \$1.7 billion as of December 31, 2009) and transfers securities subject to agreements to repurchase of equal amount. In the event that the value of the securities transferred by either party declines below the amount outstanding under the facility, a transfer of additional securities is required.

Income Taxes

For the year ended December 31, 2009 and the year ending December 31, 2010, the NAIC has temporarily replaced SSAP 10 "Income Taxes" with the enactment of SSAP 10R "Income Taxes-Revised," which changed the limitations placed on the admissibility of deferred tax assets. Under SSAP 10, the amount of deferred tax assets that an insurance company could admit was limited to the lesser of deferred tax assets expected to reverse in one year or 10% of adjusted statutory policyholders' surplus. In accordance with the revised SSAP 10R, the amount of deferred tax asset that an insurance company may admit is now limited to the lesser of deferred tax assets expected to reverse in three years or 15% of adjusted statutory policyholders' surplus. The incremental difference between

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the two pronouncements must be set aside in a special surplus account that is not part of unassigned surplus. SSAP 10R is effective for 2009 annual financial statements and 2010 interim and annual financial statements only. Unless there is further action by the NAIC, SSAP 10 will be reinstated as authoritative guidance for accounting and reporting of income taxes for statutory financial statements after 2010. The Company has not elected to admit additional DTAs pursuant to SSAP 10R, paragraph 10e.

National is included in the consolidated tax return of MBIA Inc., its ultimate parent. The method of allocation between the companies is subject to written agreement, approved by MBIA Inc.'s Board of Directors. Allocation is based upon separate return calculations as it would have reported its separate tax liability to the Internal Revenue Service with the exception of the tax benefit realized from net operating losses. Intercompany tax balances are settled annually following the filing of its federal income tax return by MBIA Inc.

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

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

Use of Estimates in the Preparation of the Financial Statements

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

3. Investments

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

The following tables set forth the amortized cost and fair value of the fixed-maturity securities included in the investment portfolio of National, as of December 31, 2009 and 2008. Fair value is based upon valuations adopted and approved by the Committee on Valuation of Securities of the National Association of Insurance Commissioners. If the fair value of a security is not available from the SVO, an independent third-party source is used.

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In thousands	As of December 31, 2009			
	Amortized	Gross	Gross	Fair
	Cost	Unrealized	Unrealized	Value
U.S. Governments	\$ 768,472	\$ 4,540	\$ (9,812)	\$ 763,200
States, Territories and Possessions	375,868	2,583	(3,476)	374,975
Political Subdivisions of States, Territories and Possessions	569,733	7,700	(7,991)	569,442
Special Revenue and Special Assessment Obligations	3,016,229	94,003	(10,536)	3,099,696
Industrial and Miscellaneous	297,383	15,161	(872)	311,672
Hybrid Securities	27,900	3,180	-	31,080
Total fixed-maturity investments	<u>\$5,055,585</u>	<u>\$ 127,167</u>	<u>\$ (32,687)</u>	<u>\$5,150,065</u>

In thousands	As of December 31, 2008			
	Amortized	Gross	Gross	Fair
	Cost	Unrealized	Unrealized	Value
U.S. Governments	\$ 54,305	\$ 9,350	\$ -	\$ 63,655
States, Territories and Possessions	18,931	87	(1,141)	17,877
Political Subdivisions of States, Territories and Possessions	18,393	81	(757)	17,717
Special Revenue and Special Assessment Obligations	26,924	538	(949)	26,513
Industrial and Miscellaneous	574	33	-	607
Total fixed-maturity investments	<u>\$ 119,127</u>	<u>\$ 10,089</u>	<u>\$ (2,847)</u>	<u>\$ 126,369</u>

Fixed-maturity investments carried at amortized cost of \$7.2 million and \$4.2 million as of December 31, 2009 and 2008, respectively, were on deposit with various regulatory authorities to comply with insurance laws. The fair value of those fixed maturities was \$7.5 million and \$4.5 million as of December 31, 2009 and 2008, respectively.

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

In thousands	Amortized Cost	Fair Value
Due in one year or less	\$ 172,161	\$ 173,183
Due after one year through five years	816,857	840,928
Due after five years through ten years	1,149,309	1,161,083
Due after ten years	1,430,645	1,470,809
Mortgaged-backed	1,486,613	1,504,062
Total fixed-maturity investments	<u>\$ 5,055,585</u>	<u>\$ 5,150,065</u>

The following table sets forth the gross unrealized losses of the National's bonds and stock investments as of December 31, 2009. The table has segregated investments that have been in a continuous unrealized loss position for less than 12 months from those that have been in a continuous unrealized loss position for twelve months or longer.

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<u>In thousands</u>	As of December 31, 2009					
	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Governments	\$ 393,864	\$ (9,812)	\$ -	\$ -	\$ 393,864	\$ (9,812)
States, Territories and Possessions	184,006	(2,919)	10,110	(557)	194,116	(3,476)
Political Subdivisions of States, Territories and Possessions	254,812	(7,991)	-	-	254,812	(7,991)
Special Revenue and Special Assessment Obligations	517,221	(10,448)	1,879	(88)	519,100	(10,536)
Industrial and Miscellaneous	22,025	(872)	-	-	22,025	(872)
Total fixed-maturity investments	<u>\$1,371,928</u>	<u>\$(32,042)</u>	<u>\$11,989</u>	<u>\$ (645)</u>	<u>\$1,383,917</u>	<u>\$(32,687)</u>

As of December 31, 2009, National's bond and equity investment portfolios had a gross unrealized loss of approximately \$32.7 million. There were two securities that were in an unrealized loss position for a continuous twelve-month period or longer. One of the two securities had unrealized losses in which the book value exceeded market value by more than 5%.

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

<u>In thousands</u>	As of December 31, 2009					
	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Single class mortgage-backed/asset-backed securities	\$ 274,654	\$ (2,414)	\$ -	\$ -	\$ 274,654	\$ (2,414)
Multi-class residential mortgage-backed securities	2,169	(91)	-	-	2,169	(91)
Total loan-backed securities	<u>\$ 276,823</u>	<u>\$ (2,505)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 276,823</u>	<u>\$ (2,505)</u>

The Company has evaluated whether the unrealized losses in its investment portfolios were other-than-temporary considering the circumstances that gave rise to the unrealized losses, along with National's ability and intent to hold these securities to maturity or until such time as to recover an amount equal to their amortized cost. See "Note 2: Summary of Significant Accounting Policies" for further information regarding the analysis performed in determining if a security is other-than-temporarily impaired. National did not recognize a transition adjustment as part of the adoption of SSAP 43R in 2009.

Based on its evaluation, during 2009, National did not recognize an other-than-temporary impairment on any securities. National determined that the unrealized losses on securities in its portfolio were temporary in nature because its impairment analysis, including projected future cash flows, indicated that the Company would be able to recover the amortized cost of impaired assets. The Company also concluded that it has both the ability and intent to hold these securities until their fair values recover to an amount at least equal to amortized cost or to maturity. See "Note 2: Summary of Significant Accounting Policies" for National accounting policy regarding other-than-temporary impairments.

4. Investment Income and Gains and Losses

All investment income due and accrued with amounts that are over 90 days past due with the exception of mortgage loans in default are non-admitted. As of December 31, 2009 and 2008 there were no non-admitted assets for investment income due and accrued. The components of net investment income for the years ended December 31, 2009 and 2008 are as follows:

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In thousands	Years ended December 31,	
	2009	2008
Fixed-maturity	\$ 184,046	\$ 7,289
Short-term investments	26,433	325
Gross investment income	\$ 210,479	\$ 7,614
Investment expenses	5,026	208
Net investment income	\$ 205,453	\$ 7,406

Net realized gains (losses) from fixed-maturity investment security sales are primarily generated as a result of the ongoing management of the Company's investments portfolios. In 2009, net realized gains from the sale of fixed-maturity investments were \$15.9 million compared with net realized gains of \$1.1 million in 2008. There were no other-than-temporary impairments in 2009 or 2008.

In thousands	Years ended December 31,	
	2009	2008
Fixed-maturity:		
Gains	\$ 21,714	\$ 2,806
Losses	(5,786)	(1,688)
Net	\$ 15,928	\$ 1,118

5. Fair Value of Financial Instruments

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

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

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

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Valuation Methodologies

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

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

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

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

Securities purchased under agreements to resell – The fair value of securities purchased under agreements to resell are determined based on the underlying securities received that back the repurchase agreements.

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

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

Securities sold under agreements to repurchase – The fair value of securities sold under agreements to repurchase are determined based on the underlying securities provided that back the repurchase.

In thousands	As of December 31, 2009		As of December 31, 2008	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Assets:				
Bonds	\$ 5,055,585	\$ 5,150,065	\$ 119,127	\$ 126,369
Securities purchased under agreements to resell	1,675,000	1,849,577	-	-
Short-term investments	121,627	121,627	60,684	60,684
Cash and cash equivalents	27,629	27,629	6,386	6,386
Accrued investment income	64,855	64,855	1,156	1,156
Liabilities:				
Deferred premium revenue	\$ 3,125,504	\$ 3,395,713	\$ -	\$ -
Loss and LAE reserves	136,024	136,024	-	-
Securities sold under agreements to repurchase	1,675,000	1,849,577	-	-
Payable for investments purchased	25,453	25,453	-	-

Fair Value Measurements

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

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<u>In thousands</u>	<u>Fair Value Measurements at Reporting Date Using</u>			<u>Balance as of December 31, 2009</u>
	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>	
Assets:				
Investments:				
Fixed-maturity investments:				
Industrial and miscellaneous	\$ -	\$ 1,414	\$ -	\$ 1,414
Total assets	\$ -	\$ 1,414	\$ -	\$ 1,414
Liabilities:				
Total liabilities	\$ -	\$ -	\$ -	\$ -

There were no assets or liabilities measured at fair value as of December 31, 2008.

Level 3 Analysis

There were no Level 3 assets in National's portfolio as of December 31, 2009 and December 31, 2008.

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6. Income Taxes

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

In thousands	2009			2008		
	Ordinary	Capital	Total	Ordinary	Capital	Total
Gross deferred tax assets	\$ 621,617	\$ -	\$ 621,617	\$ -	\$ -	\$ -
Statutory valuation allowance	-	-	-	-	-	-
Adjusted gross deferred tax assets	621,617	-	621,617	-	-	-
Gross deferred tax liabilities	(53)	-	(53)	(517)	-	(517)
Net deferred tax asset (liability) before admissibility test	621,564	-	621,564	(517)	-	(517)
Admitted pursuant to paragraph 10.a.	1,118	391	1,509	-	-	-
Admitted pursuant to paragraph 10.b.	25,438	-	25,438	-	-	-
Admitted pursuant to paragraph 10.c.	54	-	54	-	-	-
Total admitted under paragraph 10.a., 10.b. and 10.c	26,610	391	27,001	-	-	-
Admitted pursuant to paragraph 10.e.i.	-	-	-	n/a	n/a	n/a
Admitted pursuant to paragraph 10.e.ii.	-	-	-	n/a	n/a	n/a
Admitted pursuant to paragraph 10.e.iii.	-	-	-	n/a	n/a	n/a
Total admitted under paragraph 10.e.i., 10.e.ii and 10.e.iii	-	-	-	n/a	n/a	n/a
Admitted deferred tax asset	26,610	391	27,001	-	-	-
Deferred tax liability	(53)	-	(53)	(517)	-	(517)
Net admitted deferred tax asset (liability)	26,557	391	26,948	(517)	-	(517)
Non-admitted deferred tax asset	595,007	(391)	594,616	-	-	-
Increase in non-admitted deferred tax asset	\$ 595,007	\$ (391)	\$ 594,616	\$ -	\$ -	\$ -

n/a - not applicable

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

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

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

In thousands	12/31/09	12/31/08
Current income tax expense	\$ (9,019)	\$ 771
Prior year over (under) accrual of tax reserves	347	159
Realized capital gains tax	5,575	391
Federal income taxes incurred	\$ (3,097)	\$ 1,321

The tax effects of temporary difference that give rise to significant portions of deferred tax assets and deferred tax liabilities are as follows:

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In thousands

DTA's	12/31/09	12/31/08	Change	Character
Contingency reserve	\$ 491,374	\$ -	\$ 491,374	Ordinary
Compensation	369	-	369	Ordinary
Unearned premium reserve	110,365	-	110,365	Ordinary
Unrealized losses	-	-	-	Capital
NOL carryforward	19,365	-	19,365	Ordinary
Other	91	-	91	Ordinary
Gross DTA's	<u>\$ 621,564</u>	<u>\$ -</u>	<u>\$ 621,564</u>	

In thousands

DTL's	12/31/09	12/31/08	Change	Character
Compensation	\$ -	\$ -	\$ -	Ordinary
Unrealized gains	-	-	-	Capital
Accrual of market discount	-	(517)	517	Ordinary
Other	0	-	0	Ordinary
Gross DTL's	<u>\$ -</u>	<u>\$ (517)</u>	<u>\$ 517</u>	

In thousands

	12/31/09	12/31/08	Change
Total deferred tax assets	\$ 621,564	\$ -	\$ 621,564
Total deferred tax liabilities	-	(517)	517
Net deferred tax asset (liability)	<u>621,564</u>	<u>(517)</u>	<u>622,081</u>
Tax effect of unrealized gains (losses)			-
Change in net deferred income tax			<u>\$ 622,081</u>

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In 2009, the Company established a deferred tax asset related to contingency reserves. Deferred taxes on contingency reserves must be established to the extent corresponding tax and loss bonds are not purchased.

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

<u>In thousands</u>	<u>Amount</u>	<u>Tax Effect</u>	<u>Effective Tax Rate</u>
Income before taxes	\$ (302,216)	\$ (105,775)	35%
Tax exempt interest and dividend	(85,321)	(29,862)	10%
Meals and entertainment	28	9	0%
Nondeductible transaction costs	5,211	1,824	-1%
Other	<u>0</u>	<u>0</u>	<u>0%</u>
Taxable income	(382,298)	(133,804)	44%
Contingency reserve		(491,374)	163%
Other items		<u>0</u>	<u>0%</u>
Taxable income		<u>(625,178)</u>	<u>207%</u>
Federal income tax incurred (benefit)		(3,097)	1%
Change in net deferred income tax		<u>(622,081)</u>	<u>206%</u>
Total statutory income tax		<u>\$ (625,178)</u>	<u>207%</u>

At December 31, 2009 National had net operating loss carry forwards expiring though the year 2029 of \$55 million. At December 31, 2009, National did not have any loss carryforwards expiring through the year 2014 or any alternative minimum tax carryforwards.

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

<u>In thousands</u>	<u>Ordinary</u>	<u>Capital</u>	<u>Total</u>
<u>Year</u>			
2007	\$ -	\$ -	\$ -
2008	1,118	391	1,509
2009	-	-	-
Total	<u>\$ 1,118</u>	<u>\$ 391</u>	<u>\$ 1,509</u>

National does not have any deposits admitted under Section 6603 of the Internal Revenue Service Code.

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

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

7. Reconciliation of Statutory Accounting to GAAP-Basis Accounting

In thousands	As of December 31,	
	2009	2008
Statutory capital and surplus	\$ 591,200	\$ 185,138
Premium revenue recognition	189,155	-
Deferral of acquisition costs	661,790	-
Investments including unrealized gains (losses)	94,597	7,331
Contingency reserves	1,403,926	-
Loss reserves	(5,806)	-
Deferred income taxes, net	(788,788)	3,714
Derivative assets and liabilities	(8,667)	-
Goodwill	31,371	-
Non admitted assets and other items	596,737	570
GAAP-basis shareholder's equity	<u>\$ 2,765,515</u>	<u>\$ 196,753</u>

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The following is a reconciliation of statutory net income to net income presented on a GAAP-basis for the Company.

In thousands	Years ended December 31,	
	2009	2008
Statutory net (loss) income	\$ (299,118)	\$ 6,637
Premium revenue recognition	177,308	-
Amortization of acquisition costs	(116,130)	-
Change in fair value of insured derivatives	786	-
Investments income including realized gains (losses)	18,958	-
Ceding commission expense	772,102	-
Loss incurred	1,199	-
Deferred income taxes	(167,911)	144
Other	(1,029)	-
GAAP-basis net income	<u>\$ 386,165</u>	<u>\$ 6,781</u>

8. Capital and Surplus and Dividend Restrictions

Effective December 1, 2009, National was redomesticated to the State of New York and is subject to insurance regulations and supervision of the State of New York (its state of incorporation) and all U.S. and non-U.S. jurisdictions in which it is licensed to conduct insurance business. The extent of insurance regulation and supervision varies by jurisdiction, but New York and most other jurisdictions have laws and regulations prescribing minimum standards of solvency and business conduct, which must be maintained by insurance companies. Among other things, these laws prescribe permitted classes and concentrations of investments and limit both the aggregate and individual securities risks that National may insure on a net basis based on the type of obligations insured. In addition, some insurance laws and regulations require the approval or filing of policy forms and rates. National is required to file detailed annual financial statements with the NYSID and similar supervisory agencies in other jurisdictions in which it is licensed. The operations and accounts of National are subject to examination by regulatory agencies at regular intervals.

As of December 31, 2009 National had 500,000 common shares authorized, issued and outstanding, with a par value of \$30 per share. As a result of its restructuring, National increased par value of its common stock from \$10 per share as of December 31, 2008 to \$30 per share. For further details refer to “Note: 12 Information Concerning Parent, Subsidiaries, Affiliates and Other Related Parties.”

National had no preferred stock outstanding as of December 31, 2009.

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

In accordance with New York State insurance laws restrictions on the amount of dividends that can be paid in any 12- month period, National is currently unable to pay dividends because it has negative earned surplus. As a result, National did not declare or pay any dividends during 2009.

National has no restrictions on unassigned surplus as of December 31, 2009.

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National owns no common stock in affiliates or for special purposes as of December 31, 2009.

National has no material portion of unassigned funds (surplus) represented or reduced by cumulative unrealized gains and losses.

National has not undergone a reorganization or quasi-reorganization during 2009.

9. Loss and Loss Adjustment Expense Reserves

For the year ended December 31, 2009, National incurred \$95 million of loss and LAE principally related to an affordable housing transaction and a student loan transaction. Total net paid activity for the year ended December 31, 2009 of \$138 million was primarily related to a student loan transaction and the remediation of an affordable housing transaction. A summary of the components of the liability for loss and LAE reserves are shown in the following table:

In thousands	As of December 31,	
	2009	2008
Gross loss and LAE reserves, January 1	\$ 179,316	\$ -
Less: Reinsurance recoverable	-	-
Net loss and LAE reserves, January 1	179,316	-
Incurred losses and LAE related to:		
Current year	89,458	-
Prior years	5,643	-
Total incurred losses and LAE	95,101	-
Paid losses and LAE related to:		
Current year	116,880	-
Prior years	21,513	-
Total paid losses and LAE	138,393	-
Net loss and LAE reserves, December 31	136,024	-
Add: Reinsurance recoverable	-	-
Gross loss and LAE reserves, December 31	\$ 136,024	\$ -

National establishes new case basis reserves in accordance with the policy described in “Note 2: Summary of Significant Accounting Policies.”

National’s Portfolio Surveillance Division (“PSD”) monitors National’s outstanding insured obligations with the objective of minimizing losses. PSD meets this objective by identifying issuers that, because of deterioration in credit quality or changes in the economic, regulatory or political environment, are at a heightened risk of defaulting on debt service of obligations insured by National. In such cases, PSD works with the issuer, trustee, bond counsel, servicer, underwriter and other interested parties in an attempt to alleviate or remedy the problem and avoid defaults on debt service payments. PSD works closely with National’s Risk Management function and the applicable business unit to analyze insured obligation performance and credit risk parameters, both before and after an obligation is insured.

Once an obligation is insured, National typically requires the issuer, servicer (if applicable) and the trustee to furnish periodic financial and asset related information, including audited financial statements, to PSD for review. PSD also monitors publicly available information related to insured obligations. Potential problems uncovered through this review include poor financial results, low fund balances, covenant violations and trustee or servicer

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problems or other events that could have an adverse impact on the insured obligation. Any one of these problems may trigger an immediate surveillance review and an evaluation of possible remedial actions. PSD also monitors and evaluates the impact on issuers of general economic conditions, current and proposed legislation and regulations, as well as state and municipal finances and budget developments.

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

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

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

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

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

“Classified List” - Includes all insured obligations where National has paid a claim or where a claim payment is expected. Generally, PSD is actively remediating these credits where possible, including restructurings through legal proceedings, often with the assistance of specialist counsel and advisors.

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The following table provides information about the financial guarantees and related claim liability included in each of National's surveillance categories as of December 31, 2009:

<u>\$ in millions</u>	<u>Surveillance Categories</u>				
	<u>Caution List Low</u>	<u>Caution List Medium</u>	<u>Caution List High</u>	<u>Classified List</u>	<u>Total</u>
Number of policies	164	57	6	18	245
Number of issues ⁽¹⁾	11	13	4	10	38
Remaining weighted average contract period (in years)	14.92	12.14	5.81	2.35	11.80
Gross insured contractual payments outstanding:					
Principal	\$ 1,254	\$ 1,513	\$ 274	\$ 307	\$ 3,348
Interest	1,751	1,386	92	119	3,348
Total	<u>\$ 3,005</u>	<u>\$ 2,899</u>	<u>\$ 366</u>	<u>\$ 426</u>	<u>\$ 6,696</u>
Gross claim liability	\$ -	\$ -	\$ -	\$ 202	\$ 202
Less:					
Gross potential recoveries	-	-	-	28	28
Discount, net	-	-	-	10	10
Reinsurance	-	-	-	-	-
Net claim liability	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 164</u>	<u>\$ 164</u>
Net unearned premium reserve	\$ 26	\$ 27	\$ 6	\$ 3	\$ 62

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

The following table presents changes in National's loss and LAE reserve for the twelve months ended December 31, 2009. Changes in the loss and LAE reserve attributable to the accretion of the discount on the loss reserves, changes in discount rates, and changes in the timing and amounts of estimated payments and recoveries and changes in assumptions are recorded in "Losses and loss adjustment expenses" in National's statement of income. LAE reserves are expected to be settled within a one year period and are not discounted. As of December 31, 2009, the rate used to discount the claim liability was 5.09 %.

<u>In millions</u>							
<u>Loss and LAE Reserve as of December 31, 2008</u>	<u>Gross Loss Payments</u>	<u>Accretion of Claim Liability Discount</u>	<u>Changes in Discount Rate</u>	<u>Changes in Timing of Payments, Amount of Net Payments and Assumptions</u>	<u>Changes in LAE Reserves</u>	<u>Change in Reinsurance</u>	<u>Loss and LAE Reserve as of December 31, 2009</u>
\$ -	\$ (20)	\$ 9	\$ -	\$ 175	\$ (28)	\$ -	\$ 136

10. Net Insurance in Force

National's net insurance in force represents the aggregate amount of the insured principal of, and interest or other amounts owing on insured obligations, net of cessions to reinsurers. National's ultimate exposure to credit loss in the event of nonperformance by the issuer of the insured obligation is represented by the net insurance in force in the tables that follow.

The financial guarantees issued by National provide unconditional and irrevocable guarantees of the payment of the principal of, and interest or other amounts owing on, insured obligations when due. The obligations are generally not subject to acceleration, except that National may have the right, at its discretion, to accelerate insured obligations upon default or otherwise. The creditworthiness of each issuer of an insured obligation is evaluated

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

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

In 2008, insurance policies of National were either ceded to MBIA Insurance Corporation or third-party reinsurers and therefore, there was no net insurance in force as of December 31, 2008. As of December 31, 2009, net insurance in force had an expected maturity range of 1- 47 years. The distribution of net insurance in force by geographic location respectively, is presented in the following table:

In billions	As of December 31,	
	2009	
Geographic Location	Net Insurance in Force	% of Net Insurance in Force
California	\$ 149.4	18.2%
New York	76.3	9.3%
Florida	62.7	7.6%
Texas	51.3	6.2%
Illinois	48.2	5.9%
New Jersey	37.3	4.5%
Pennsylvania	28.7	3.5%
Washington	28.4	3.5%
Michigan	25.0	3.0%
Massachusetts	21.2	2.6%
Subtotal	528.5	64.3%
Nationally diversified	9.6	1.2%
Other states	283.6	34.5%
Total	\$ 821.7	100.0%

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

In billions	As of December 31,	
	2009	
Bond Type	Net Insurance in Force	% of Net Insurance in Force
General obligations	\$ 296.6	36.1%
General obligations - lease	62.8	7.6%
Municipal utilities	147.5	18.0%
Tax-backed	103.3	12.6%
Transportation	84.2	10.2%
Higher education	46.0	5.6%
Health care	26.1	3.2%
Military housing	21.3	2.6%
Investor-owned utilities ⁽¹⁾	14.4	1.8%
Municipal housing	11.9	1.4%
Student loans	3.7	0.4%
Other ⁽²⁾	3.9	0.5%
Total	\$ 821.7	100.0%

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

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

Under National's reinsurance agreement with MBIA Insurance Corporation, if a reinsurer of MBIA Insurance Corporation is unable to pay claims ceded by MBIA Insurance Corporation, National will assume liability for such ceded claim payments. As of December 31, 2009, the total amount for which National would be liable in the event that the reinsurers of MBIA Insurance Corporation are unable to meet their obligations is \$24.0 billion. For FGIC policies assigned to National from MBIA Insurance Corporation, National maintains the right to receive third-party reinsurance totaling \$19.8 billion.

11. Reinsurance

Ceded Exposure

Reinsurance enables National to cede exposure for purposes of syndicating risk and increasing its capacity to write new business while complying with its single risk and credit guidelines. When a reinsurer is downgraded by one or more of the rating agencies, less capital credit is given to National under rating agency models and the overall value of the reinsurance to National is reduced. National generally retains the right to reassume the business ceded to reinsurers under certain circumstances, including a reinsurer's rating downgrade below specified thresholds.

The aggregate amount of insurance in force ceded by National directly to reinsurers under reinsurance agreements was \$9 million and \$244 million as of December 31, 2009 and 2008, respectively.

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The following table presents the credit ratings and ratings status, outstanding par ceded, and the reinsurance recoverable as of December 31, 2009:

<u>In millions</u>	<u>Standard & Poor's Rating (Status)</u>	<u>Moody's Rating (Status)</u>	<u>Ceded Par Outstanding</u>	<u>LOC/Trust Accounts</u>	<u>Reinsurance Recoverable</u>
Assured Guaranty Corp	AAA (Negative Outlook)	Aa3 (Negative Outlook)	\$ 3	\$ -	\$ -
Total			\$ 3	\$ -	\$ -

Premium Summary

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

<u>In thousands</u>	<u>Years Ended December 31,</u>		<u>Years Ended December 31,</u>	
	<u>2009</u>		<u>2008</u>	
	<u>Written</u>	<u>Earned</u>	<u>Written</u>	<u>Earned</u>
Direct	\$ 35	\$ 850	\$ 6	\$ 317
Assumed	3,509,460	384,752	-	-
Gross	3,509,495	385,602	6	317
Ceded	1,420	(191)	(6)	(317)
Net	\$ 3,510,915	\$ 385,411	\$ -	\$ -

Ceding commissions received from (paid to) reinsurers, before deferrals and net of returned ceding commissions, were expense of \$772 million and income of zero in 2009 and 2008, respectively.

The maximum amount of return commission, which would have been due reinsurers if all reinsurance contracts were canceled with the return of the unearned premium reserve, would be income of \$772 million and expense of zero as of December 31, 2009 and 2008, respectively. The direct unearned premium reserve at December 31, 2009 and 2008 was \$0.9 million and \$1.7 million, respectively.

During 2009, National received a \$14.5million volatility premium payment from MBIA Corp. related to gains on third-party reinsurance commutations on U.S. public finance policies that were ceded to National.

12. Information Concerning Parent and Affiliates

National is a wholly owned subsidiary of MBIA Inc. through an intermediary holding company, National Holdings. Prior to February 17, 2009, National, previously named MBIA Insurance Corporation of Illinois (MBIA Illinois), was a wholly owned subsidiary of MBIA Corp. After receiving the required regulatory approvals, MBIA Corp. transferred the stock of MBIA Illinois to National Holdings which is wholly owned by MBIA Inc. Additionally, National was further capitalized with approximately \$2.1 billion from funds distributed by MBIA Corp. to MBIA Inc. as a dividend and return of capital, which MBIA Inc. contributed to National through National Holdings, Inc.

As part of the restructuring, MBIA Corp. entered into a quota share reinsurance agreement effective January 1, 2009 pursuant to which MBIA Corp. ceded all of its U.S. public finance exposure to National, including assigning its rights and obligations with respect to the U.S. public finance business that MBIA Corp. assumed from FGIC. The exposure transferred to National under the reinsurance and assignment agreements totaled \$554 billion of net par outstanding. The reinsurance and assignment enables covered policyholders and certain ceding reinsurers to make claims for payment directly against National in accordance with the terms of these agreements.

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In connection with the reinsurance and assignment agreements, MBIA Corp. paid to National approximately \$2.9 billion, which is equal to the statutory net unearned premium and loss and loss adjustment expense reserves, net of a ceding commission, as premium to reinsure the policies covered by these agreements. The ceding commission paid to MBIA Corp. equaled 22% of the net unearned premium reserve ceded.

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

During the first quarter of 2009, National entered into an agreement with MBIA Inc. whereby National held securities under agreements to resell of \$1.7 billion as of December 31, 2009. National also transferred securities under agreements to repurchase of \$1.7 billion as of December 31, 2009. These agreements reset on a quarterly basis. The interest income and expense related to these agreements were \$29 million and \$4 million, respectively, for the year ended December 31, 2009.

At December 31, 2009, National reported \$8.1 million as amounts due to affiliates. The terms of the settlement require that these amounts be settled within 90 days.

National has reinsured the entire U.S. Public Finance portfolio of MBIA Corp. The total par outstanding (net of reinsurance and pledged collateral) as of December 31, 2009 was approximately 67% of National's total outstanding net par value.

National is party to a management fee agreement between itself and an affiliate, MBIA Corp. whereby MBIA Corp. provides management and administrative services in connection with its insurance business. Effective January 1, 2010 this agreement was terminated and re-established with an affiliated entity Optinuity Alliance Resources a wholly owned subsidiary of MBIA Inc.

National's investment portfolio is managed by Cutwater Asset Management Corp ("Cutwater-AMC", formerly known as MBIA Capital Management Corp.), a wholly owned subsidiary of Cutwater Holdings, LLC, (formerly known as MBIA Asset Management, LLC). Cutwater-AMC provides bond management services for MBIA Inc. and its affiliates, as well as third-party institutional clients. Revenues for Cutwater-AMC are based on the average market value of National's investment portfolio in each period. For the year ended December 31, 2009 and 2008, Cutwater AMC charged fees of \$5 million and \$206 thousand, respectively, to National based on the performance of its investment portfolio.

As of December 31, 2009, all outstanding shares of National are owned by its parent company, National Holdings, an intermediate holding company domiciled in the state of Delaware. All outstanding common shares of National Holdings are owned by its parent company, MBIA Inc., a holding company domiciled in the State of Connecticut.

National did not declare or pay any dividends during 2009 or 2008.

National owns no shares directly or indirectly of an upstream intermediate entity or ultimate parent.

National has no investments in subsidiary, controlled or affiliated companies as of December 31, 2009.

National has no investments in a foreign subsidiary.

National does not have foreign insurance subsidiaries valued using CARVM.

National does not hold an investment in a downstream noninsurance holding company.

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13. Retirement Plans, Deferred Compensation, Postemployment Benefits and Compensated Absences and Other Postretirement Benefits Plans

National participates in its parent company's pension plan, which covers substantially all employees. The pension plan is a qualified non-contributory defined contribution plan to which National contributes 10% of each eligible employee's annual compensation. Annual compensation for determining such contributions consists of base salary, bonus and commissions, as applicable. Pension benefits vest over a five-year period with 20% vested after two years, 60% vested after three years, 80% vested after four years and 100% vested after five years. Pension expense related to the qualified pension plan for the year ended December 31, 2009 was \$635,059. National did not have any employees in 2008.

National's parent company has a qualified profit sharing/401(k) plan in which it participates. The plan is a voluntary contributory plan that allows eligible employees to defer compensation for federal income tax purposes under Section 401(k) of the Internal Revenue Code of 1986, as amended. Employees may contribute, through payroll deductions, up to 25% of eligible compensation. National matches employee contributions up to the first 5% of such compensation and are made in the form of cash, whereby participants may direct the match to an investment of their choice. The benefit of National's contributions vest over a five-year period with 20% vested after two years, 60% vested after three years, 80% vested after four years and 100% vested after five years. Generally, a participating employee is entitled to distributions from the plan upon termination of employment, retirement, death or disability. Participants who qualify for distribution may receive a single lump sum, transfer assets to another qualified plan or individual retirement account, or receive a series of specified installment payments. Profit sharing/401(k) expense related to the qualified profit-sharing/401(k) plan for the year ended December 31, 2009 was \$306,320.

In addition to the above two plans, National also participates in its parent company's non-qualified deferred compensation plan. Contributions to the above plans that exceed limitations established by federal regulations are then contributed to the non-qualified deferred compensation plan. The non-qualified pension expense for the year ended December 31, 2009 was \$214,145. The non-qualified profit-sharing/401(k) expense for the year ended December 31, 2009 was \$120,030.

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

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

Under the restricted stock component of the Omnibus Plan, certain employees are granted restricted shares of MBIA Inc.'s common stock. These awards have a restriction period lasting three, four or five years depending on the type of award, after which time the awards fully vest. During the vesting period these shares may not be sold. Restricted stock may be granted to all employees. The majority of restricted stock is granted to employees from the vice-president level up to and including the chief executive officer.

MBIA Inc. maintains voluntary retirement benefits, which provide certain benefits to all of National's eligible employees upon retirement. A description of these benefits is included in MBIA Inc.'s 2009 proxy statement. One of the components of the retirement program, for those employees that are retirement eligible is to continue to vest all outstanding stock options and restricted share awards linked to growth in modified book value beyond the retirement date in accordance with the original vesting terms and to immediately vest all outstanding time-based restricted share grants.

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National's proportionate share of compensation cost for its participation in its parent company's stock option program for the year ended December 31, 2009 was \$283,768. National's proportionate share of compensation cost related to the restricted stock program for the year ended December 31, 2009 was \$298,004. National has no obligations under these plans.

National does not have a post employment benefit plan nor does it have an obligation for compensation related to earned vacation.

14. Contingencies and Commitments

In the normal course of operating its business, National may be involved in various legal proceedings. Additionally, MBIA Inc. may be involved in various legal proceedings that directly or indirectly impact National.

MBIA Inc. has received subpoenas or informal inquiries from a variety of regulators, including the Securities and Exchange Commission ("SEC"), the Securities Division of the Secretary of the Commonwealth of Massachusetts, the Attorney General of the State of California, and other states' regulatory authorities, regarding a variety of subjects, including soft capital instruments, disclosures made by MBIA Inc. to underwriters and issuers of certain bonds, disclosures regarding MBIA Inc.'s structured finance exposure, trading and valuation of managed collateral, MBIA Inc.'s communications with rating agencies, and the methodologies used by rating agencies for determining the credit rating of municipal debt. MBIA Inc. is cooperating fully with each of these regulators and is in the process of satisfying all such requests. MBIA Inc. may receive additional inquiries from these or other regulators and expects to provide additional information to such regulators regarding their inquiries in the future.

On July 23, 2008, the City of Los Angeles filed two complaints in the Superior Court of the State of California, County of Los Angeles, against MBIA Inc. and others. The first complaint, against MBIA Inc., AMBAC Financial Group, Inc., XL Capital Assurance Inc., ACA Financial Guaranty Corp., Financial Guaranty Insurance Company, and CIFG Assurance North America, Inc., alleged (i) participation in a conspiracy in violation of California's antitrust laws to maintain a dual credit rating scale that misstated the credit default risk of municipal bond issuers and created market demand for municipal bond insurance and (ii) participation in risky financial transactions in other lines of business that damaged each bond insurer's financial condition (thereby undermining the value of each of their guaranties), and a failure to adequately disclose the impact of those transactions on their financial condition. These latter allegations form the predicate for five separate causes of action against each of the Insurers: breach of contract, breach of the covenant of good faith and fair dealing, fraud, negligence and negligent misrepresentation. Complaints making the same allegations against MBIA Inc. and nearly all of the same co-defendants were filed in Superior Court, San Francisco County, by the City of Stockton, the City of Oakland, the City and County of San Francisco, the County of San Mateo, the County of Alameda, the City of Los Angeles Department of Water and Power, by the Sacramento Municipal Utility District, and the City of Sacramento between July 23, 2008 and January 6, 2009. These cases are now part of a coordinated proceeding referred to as Ambac Bond Insurance Cases. On April 8, 2009, The Olympic Club filed a complaint against MBIA Inc. in the Superior Court of the State of California, County of San Francisco, making similar allegations of participation in risky financial transactions in other lines of business that allegedly damaged MBIA Inc.'s financial condition, and of a failure to adequately disclose the impact of those transactions on MBIA Inc.'s financial condition. These allegations form the predicate for the same initial five common law causes of action as those in the Ambac Bond Insurance Cases, as well as a California unfair competition cause of action. The Olympic Club does not include an antitrust or unjust enrichment cause of action. The Olympic Club case is being coordinated with the Ambac Bond Insurance Cases in San Francisco Superior Court. On August 31, 2009, the aforementioned plaintiffs, excluding the City of Sacramento and the Olympic Club, filed amended complaints identifying specific variable rate bond transactions with respect to the existing contract, fraud and negligence claims, and adding claims for unjust enrichment with respect to insured bonds issued by the plaintiffs during an unspecified period of time. A similar complaint alleging the same causes of action was filed by the City of Riverside. On the same day, the County of Contra Costa and Los Angeles World Airports filed new complaints and the City of Sacramento filed an amended complaint alleging the antitrust violation and unjust enrichment causes of action only. On March 1, 2010 Judge

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Richard A. Kramer struck the various complaints in their entirety, determining that they had not been pled with requisite specificity. Plaintiffs were given leave to re-plead.

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

On March 12, 2010, the City of Phoenix, Arizona filed a complaint in the United States District Court for the District of Arizona against MBIA Inc., Ambac Financial Group, Inc. and Financial Guaranty Insurance Company relating to insurance premiums charged on municipal bonds issued by the City of Phoenix between 2004 and 2007. Plaintiff's complaint alleges pricing discrimination under Arizona insurance law and unjust enrichment. MBIA Inc.'s response is due May 28, 2010.

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

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

On April 6, 2009, a complaint was filed in the Court of Chancery for the State of Delaware entitled *Third Avenue Trust and Third Avenue Variable Series Trust v. MBIA Insurance Corp. and MBIA Insurance Corp. of Illinois*, CA 4486-UCL. Plaintiffs allege that they are holders of approximately \$400 million of surplus notes issued by

NATIONAL PUBLIC FINANCE GUARANTEE CORPORATION
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MBIA Corp. (for purposes of this section, the “Notes”) in January 2008. The complaint alleges (Count I) that certain of the Transactions breached the terms of the Notes and the Fiscal Agency Agreement dated January 16, 2008 pursuant to which the Notes were issued. The complaint also alleges that certain transfers under the Transactions were fraudulent in that they allegedly left MBIA Corp. with “unreasonably small capital” (Count II), “insolvent” (Count III), and were made with an “actual intent to defraud” (Count IV). The complaint seeks a judgment (a) ordering the defendants to unwind the Transactions (b) declaring that the Transactions constituted a fraudulent conveyance, and (c) damages in an unspecified amount. On October 28, 2009, Vice Chancellor Strine entered an order dismissing the case without prejudice. On December 21, 2009, plaintiffs re-commenced the action in New York State Supreme Court, and it has been assigned to Justice James A. Yates.

On May 13, 2009, a complaint was filed in the New York State Supreme Court against MBIA Inc. and its subsidiaries, MBIA Corp. and National, entitled ABN AMRO Bank N.V. et al. v. MBIA Inc. et al. The plaintiffs, a group of 19 domestic and international financial institutions, purport to be acting as holders of insurance policies issued by MBIA Corp. directly or indirectly guaranteeing the repayment of structured finance products. The complaint alleges that certain of the terms of the transactions entered into by MBIA Inc. and its subsidiaries, which were approved by the New York State Department of Insurance, constituted fraudulent conveyances and a breach of the implied covenant of good faith and fair dealing under New York law. The complaint seeks a judgment (a) ordering the defendants to unwind the Transactions, (b) declaring that the Transactions constituted a fraudulent conveyance, (c) declaring that MBIA Inc. and National are jointly and severally liable for the insurance policies issued by MBIA Corp., and (d) ordering damages in an unspecified amount. On February 17, 2010, Justice Yates denied defendants’ motion to dismiss. On February 25, 2010, MBIA Inc. filed its Notice of Appeal of the denial to the Appellate Division of the New York State Supreme Court. On April 1, 2010, MBIA Inc.’s motion to stay the case pending appeal was denied. On April 7 and April 22, 2010, respectively, the New York State Insurance Department and the Aurelius Plaintiffs each filed a motion for leave to file an amicus brief in MBIA Inc.’s appeal. On March 22, 2010, MBIA Inc. filed its opening brief with the Appellate Division. On April 21, 2010, plaintiffs filed their opposition brief. MBIA Inc. filed its reply brief on April 30, 2010. On May 6, 2010 the Appellate Division granted the New York State Insurance Department’s motion to file an amicus brief. Argument has been scheduled for June 2, 2010.

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

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

There are no other material lawsuits pending or, to the knowledge of National, threatened, to which National is a party.

National does not issue life insurance policies and therefore is not subject to guaranty fund assessments.

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National has not recognized any gain contingencies subsequent to the balance sheet date.

National does not have any claims related extra contractual obligation and bad faith losses stemming from lawsuits.

National has no other contingencies that would have a material effect on the financial statements.

15. Premium Revenue

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

Refer to “Note 2: Summary of Significant Accounting Policies” for a description of National’s accounting policy for insurance premiums.

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

<u>In thousands</u>		<u>Adjustments</u>				
Premiums		Premiums			Premiums	Reinsurance
Receivable as of	Premium	from New	Changes in		Receivable as of	Premiums
December 31,	Payments	Business	Expected Term of		December 31,	Payable as of
2008	Received	Written	Policies	Other	2009	December 31,
						2009
\$ -	\$ (24,713)	\$ 561,211	\$ (43,554)	\$ (906)	\$ 492,038	\$ -

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

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<u>In thousands</u>	Expected Collection of Premiums
<u>Three months ended:</u>	
March 31, 2010	\$ 2,895
June 30, 2010	5,589
September 30, 2010	5,236
December 31, 2010	7,730
 <u>Twelve months ended:</u>	
December 31, 2011	21,595
December 31, 2012	23,372
December 31, 2013	20,716
December 31, 2014	20,341
 <u>Five years ended:</u>	
December 31, 2019	96,316
December 31, 2024	81,842
December 31, 2029 and thereafter	206,406
Total	<u>\$ 492,038</u>

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

<u>In thousands</u>	Unearned Premium Revenue	Expected Future Premium Earnings		Estimated Earnings of Future Premium Collections	Total Expected Future Premium Earnings
		Upfront	Installments		
December 31, 2009	3,125,561				
<u>Three months ended:</u>					
March 31, 2010	3,078,907	41,513	5,141	857	47,511
June 30, 2010	3,028,444	46,874	3,589	2,240	52,703
September 30, 2010	2,968,427	57,612	2,405	3,518	63,535
December 31, 2010	2,921,877	45,771	779	4,998	51,548
<u>Twelve months ended:</u>					
December 31, 2011	2,737,392	182,671	1,814	21,508	205,993
December 31, 2012	2,553,997	181,514	1,881	21,239	204,634
December 31, 2013	2,379,583	173,167	1,247	20,907	195,321
December 31, 2014	2,210,053	168,262	1,268	20,521	190,051
<u>Five years ended:</u>					
December 31, 2019	1,448,319	756,531	5,203	97,700	859,434
December 31, 2024	880,742	564,099	3,478	84,043	651,620
December 31, 2029 and thereafter	-	867,529	13,213	214,507	1,095,249
Total		<u>\$ 3,085,543</u>	<u>\$ 40,018</u>	<u>\$ 492,038</u>	<u>\$ 3,617,599</u>

NATIONAL PUBLIC FINANCE GUARANTEE CORPORATION
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16. Subsequent Events

Refer to “Note 14: Commitments and Contingencies” for information about legal proceedings that developed after December 31, 2009.

On March 1, 2010, National purchased from MBIA Corp. an interest in real estate that it intends to hold for purposes of conducting its business and leasing to certain affiliates. The purchase price of \$65 million was based on the fair value of the real estate at the time of purchase as determined, in part, through assessments made by independent third parties. Concurrent to the purchase, National entered into lease arrangements with MBIA Corp. and certain other affiliates. The lease rates are based on market rates a third party would charge for similar arrangements as determined, in part, through assessments made by independent third parties. The purchase by National and sale by MBIA Corp., as well as the lease arrangements, were approved by the NYSID.

17. Reconciliation to Previously Reported Amounts

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

In thousands	As Reported in the Annual Statement	As Reported in the Accompanying Financial Statements
Statement of Admitted Assets, Liabilities and Capital and Surplus:		
Deferred tax asset	\$ 39,949	\$ 26,948
Total assets	6,988,601	6,975,600
Contingency reserve	1,355,960	1,403,926
Other liabilities	17,230	18,493
Total liabilities	6,335,171	6,384,400
Special surplus	13,001	-
Unassigned surplus	(1,573,916)	(1,623,145)
Total capital and surplus	\$ 653,430	\$ 591,200

SUMMARY INVESTMENT SCHEDULE

Investment Categories	Gross Investment Holdings		Admitted Assets as Reported in the Annual Statement	
	1 Amount	2 Percentage	3 Amount	4 Percentage
1. Bonds:				
1.1 U.S. treasury securities	206,362,716	2.999	206,362,716	2.999
1.2 U.S. government agency obligations (excluding mortgage-backed securities):				
1.21 Issued by U.S. government agencies	37,269,847	0.542	37,269,847	0.542
1.22 Issued by U.S. government sponsored agencies				
1.3 Non-U.S. government (including Canada, excluding mortgaged-backed securities)				
1.4 Securities issued by states, territories, and possessions and political subdivisions in the U.S.:				
1.41 States, territories and possessions general obligations	375,867,725	5.463	375,867,725	5.463
1.42 Political subdivisions of states, territories and possessions and political subdivisions general obligations	569,733,186	8.281	569,733,186	8.281
1.43 Revenue and assessment obligations	2,091,609,513	30.400	2,091,609,513	30.400
1.44 Industrial development and similar obligations	49,892,075	0.725	49,892,075	0.725
1.5 Mortgage-backed securities (includes residential and commercial MBS):				
1.51 Pass-through securities:				
1.511 Issued or guaranteed by GNMA	524,839,211	7.628	524,839,211	7.628
1.512 Issued or guaranteed by FNMA and FHLMC	843,004,652	12.252	843,004,652	12.252
1.513 All other				
1.52 CMOs and REMICs:				
1.521 Issued or guaranteed by GNMA, FNMA, FHLMC or VA	57,944,088	0.842	57,944,088	0.842
1.522 Issued by non-U.S. Government issuers and collateralized by mortgage-backed securities issued or guaranteed by agencies shown in Line 1.521	23,670,823	0.344	23,670,823	0.344
1.523 All other	11,599,586	0.169	11,599,586	0.169
2. Other debt and other fixed income securities (excluding short term):				
2.1 Unaffiliated domestic securities (includes credit tenant loans and hybrid securities)	251,228,275	3.651	251,228,275	3.651
2.2 Unaffiliated non-U.S. securities (including Canada)	12,563,483	0.183	12,563,483	0.183
2.3 Affiliated securities				
3. Equity interests:				
3.1 Investments in mutual funds				
3.2 Preferred stocks:				
3.21 Affiliated				
3.22 Unaffiliated				
3.3 Publicly traded equity securities (excluding preferred stocks):				
3.31 Affiliated				
3.32 Unaffiliated				
3.4 Other equity securities:				
3.41 Affiliated				
3.42 Unaffiliated				
3.5 Other equity interests including tangible personal property under lease:				
3.51 Affiliated				
3.52 Unaffiliated				
4. Mortgage loans:				
4.1 Construction and land development				
4.2 Agricultural				
4.3 Single family residential properties				
4.4 Multifamily residential properties				
4.5 Commercial loans				
4.6 Mezzanine real estate loans				
5. Real estate investments:				
5.1 Property occupied by the company				
5.2 Property held for the production of income (including \$ of property acquired in satisfaction of debt)				
5.3 Property held for sale (including \$ property acquired in satisfaction of debt)				
6. Contract loans				
7. Receivables for securities	529,472	0.008	529,472	0.008
8. Cash, cash equivalents and short-term investments	1,824,255,995	26.514	1,824,255,995	26.514
9. Other invested assets				
10. Total invested assets	6,880,370,647	100.000	6,880,370,647	100.000



SUPPLEMENTAL EXHIBIT FOR THE YEAR 2009 OF THE National Public Finance Guarantee Corporation

SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES

For The Year Ended December 31, 2009

(To Be Filed by April 1)

Of The National Public Finance Guarantee Corporation
 Address (City, State and Zip Code) Armonk, NY 10504-1610.....
 NAIC Group Code 00528 NAIC Company Code 23825 Employer's ID Number 37-6025608

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

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

1. Reporting entity's total admitted assets as reported on Page 2 of this annual statement. \$ 6,988,601,172
2. Ten largest exposures to a single issuer/borrower/investment.

	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>
	<u>Issuer</u>	<u>Description of Exposure</u>	<u>Amount</u>	<u>Percentage of Total Admitted Assets</u>
2.01	County of Miami-Dade	Special Revenue	\$ 102,977,732	1.5 %
2.02	New York City Muni Water Fin Auth	Special Revenue	\$ 99,816,802	1.4 %
2.03	Metro Washington DC Arpt	Speical Revenue	\$ 72,839,218	1.0 %
2.04	Salt River Project Agri	Special Revenue	\$ 68,176,083	1.0 %
2.05	General Electric Capital Corp	Industrial and Miscellaneous	\$ 65,155,587	0.9 %
2.06	Central Puget Sound Regional	Special Revenue	\$ 64,216,993	0.9 %
2.07	Texas State Trans	State, Territories & Possessions	\$ 63,558,473	0.9 %
2.08	Port Authority of NY&NJ	Special Revenue	\$ 58,773,880	0.8 %
2.09	New York State Dormitory Auth	Special Revenue	\$ 54,299,747	0.8 %
2.10	Triborough Bridge & Tunnel Auth	Special Revenue	\$ 44,777,097	0.6 %

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

	<u>Bonds</u>	<u>1</u>	<u>2</u>	<u>Preferred Stocks</u>	<u>3</u>	<u>4</u>
3.01	NAIC-1	\$ 6,699,758,519	95.9 %	3.07	P/RP-1	\$ %
3.02	NAIC-2	\$ 151,039,346	2.2 %	3.08	P/RP-2	\$ %
3.03	NAIC-3	\$ 1,414,288	0.0 %	3.09	P/RP-3	\$ %
3.04	NAIC-4	\$	%	3.10	P/RP-4	\$ %
3.05	NAIC-5	\$	%	3.11	P/RP-5	\$ %
3.06	NAIC-6	\$	%	3.12	P/RP-6	\$ %

4. Assets held in foreign investments:

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

SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES (cont.)

5. Aggregate foreign investment exposure categorized by NAIC sovereign rating:
6. Largest foreign investment exposures by country, categorized by the country's NAIC sovereign rating:
7. Aggregate unhedged foreign currency exposure \$ 1 2 %
8. Aggregate unhedged foreign currency exposure categorized by NAIC sovereign rating:
9. Largest unhedged foreign currency exposures by country, categorized by the country's NAIC sovereign rating:
10. Ten largest non-sovereign (i.e. non-governmental) foreign issues:

SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES (cont.)

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

SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES (cont.)

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

SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES (cont.)

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

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

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

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

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

18.01 Are assets held in real estate reported less than 2.5% of the reporting entity's total admitted assets? Yes [X] No []

If response to 18.01 above is yes, responses are not required for the remainder of Interrogatory 18.

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

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

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

19.01 Are assets held in investments held in mezzanine real estate loans less than 2.5% of the reporting entity's total admitted assets? Yes [X] No []

If response to 19.01 above is yes, responses are not required for the remainder of Interrogatory 19.

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

19.03	\$	%
19.04	\$	%
19.05	\$	%

SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES (cont.)

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

	<u>At Year-end</u>		1st Qtr <u>3</u>	<u>At End of Each Quarter</u>	
	<u>1</u>	<u>2</u>		<u>2nd Qtr</u> <u>4</u>	<u>3rd Qtr</u> <u>5</u>
20.01 Securities lending agreements (do not include assets held as collateral for such transactions)			% \$	\$	\$
20.02 Repurchase agreements	\$ 1,675,000,000	24.0	% \$ 1,661,352,850	\$ 1,936,716,115	\$ 1,675,000,000
20.03 Reverse repurchase agreements	\$		% \$	\$	\$
20.04 Dollar repurchase agreements	\$		% \$	\$	\$
20.05 Dollar reverse repurchase agreements	\$		% \$	\$	\$

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

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

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

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

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

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