MBIA INC
Form 10-K
March 01, 2011
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United States

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2010

or

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

Commission File Number 1-9583

MBIA INC.

(Exact name of registrant as specified in its charter)

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

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, par value $1 per share	**New York Stock Exchange**

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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

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

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

The aggregate market value of the voting stock held by non-affiliates of the Registrant as of June 30, 2010 was $713,330,636.

As of February 24, 2011, 199,749,985 shares of Common Stock, par value $1 per share, were outstanding.

Documents incorporated by reference. Portions of the Definitive Proxy Statement of the Registrant, which will be filed on or before March 31, 2011, are incorporated by reference into Part III.

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Note Regarding Forward-Looking Statements

Statements included in this Form 10-K which are not historical or current facts are forward-looking statements made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. The words believe, anticipate, project, plan, expect, intend, will likel or will continue, and similar expressions identify forward-looking statements. These statements are subject to certain risks and uncertainties that could cause actual results to differ materially from historical earnings and those presently anticipated or projected. We wish to caution readers not to place undue reliance on any such forward-looking statements, which speak only to their respective dates. We undertake no obligation to publicly correct or update any forward-looking statement if we later become aware that such result is not likely to be achieved.

Important factors that could cause our actual results and financial condition to differ materially from estimates contained in or underlying the Company s forward-looking statements include, among others, those discussed under Risk Factors in Part I, Item 1A and Management s Discussion and Analysis of Financial Condition and Results of Operations Forward-Looking and Cautionary Statements in Part II, Item 7. In addition, refer to Note 1: Businesses, Developments, Risks and Uncertainties in the Notes to Consolidated Financial Statements for a discussion of certain risks and uncertainties related to our financial statements.

Note Regarding Reliance on Statements in Our Contracts

In reviewing the agreements included as exhibits to this Annual Report on Form 10-K, please remember that they are included to provide you with information regarding their terms and are not intended to provide any other factual or disclosure information about MBIA Inc., its subsidiaries or the other parties to the agreements. The agreements contain representations and warranties by each of the parties to the applicable agreement. These representations and warranties have been made solely for the benefit of the other parties to the applicable agreement and:

- should not in all instances be treated as categorical statements of fact, but rather as a way of allocating the risk to one of the parties if those statements prove to be inaccurate;
- have been qualified by disclosures that were made to the other party in connection with the negotiation of the applicable agreement, which disclosures are not necessarily reflected in the agreement;
- may apply standards of materiality in a way that is different from what may be viewed as material to investors; and
- were made only as of the date of the applicable agreement or such other date or dates as may be specified in the agreement and are subject to more recent developments.

Accordingly, these representations and warranties may not describe the actual state of affairs as of the date they were made or at any other time.

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Part I

Item 1. Business

OVERVIEW OF OUR SERVICES

MBIA Inc. (MBIA, the Company, we or us) provides financial guarantee insurance, as well as related reinsurance, advisory and portfolio services, for the public and structured finance markets, and asset management advisory services, on a global basis. The Company was incorporated as a business corporation under the laws of the state of Connecticut in 1986.

Financial Guarantee Business

Our financial guarantee insurance generally provides investors with an unconditional and irrevocable guarantee of the payment of the principal, interest or other amounts owing on insured obligations when due or, in the event that we have the right at our discretion to accelerate insured obligations upon default or otherwise, upon our election to accelerate. Because our ratings are generally assigned to issuers obligations that we insure, the principal economic value of our financial guarantee insurance for capital markets issuers has been to lower the interest cost of an insured obligation relative to the interest cost on the same obligation issued on an uninsured basis. For investors, our insurance provides not only an additional level of credit protection but also the benefit of our portfolio monitoring and remediation skills throughout the life of the insurance policy. In addition, for complex financings and for obligations of issuers that are not well-known by investors, insured obligations have historically received greater market acceptance than uninsured obligations.

We conduct our financial guarantee business, as well as related reinsurance, advisory and portfolio services, through our wholly-owned subsidiaries National Public Finance Guarantee Corporation (National), our United States (U.S.) public finance only financial guarantee company, and MBIA Insurance Corporation (MBIA Corp.), which together with its subsidiaries, writes global structured finance and non-U.S. public finance financial guarantee insurance. MBIA Corp. is the successor to the business of the Municipal Bond Insurance Association (the Association), which began writing financial guarantees for municipal bonds in 1974. MBIA Corp. also owns MBIA UK Insurance Limited (MBIA UK), a financial guarantee insurance company that is regulated and supervised by the Financial Services Authority (FSA) in the United Kingdom and is authorized to carry out insurance business in the United Kingdom and in the European Economic Area on a cross border services basis. MBIA UK s principal line of business is the guarantee of both structured finance and public finance debt obligations in selected international markets. In addition, MBIA Corp. writes financial guarantee insurance in Mexico through MBIA México, S.A. de C.V. (MBIA Mexico). Generally, throughout the text, references to MBIA Corp. include the activities of its subsidiaries.

MBIA Insurance Corporation was the parent of Capital Markets Assurance Corporation (CMAC) until September 2010, when CMAC was merged into MBIA Insurance Corporation. CMAC was a financial guarantee insurer that had been acquired in February 1998 and whose net insured exposure was 100% reinsured by MBIA Insurance Corporation after that acquisition.

In addition, until February 2009, MBIA Corp. was the parent of National, also a financial guarantee insurance company that had been acquired by MBIA Corp. in 1989. In February 2009, we restructured our business to re-launch National as a U.S. public finance-only financial guarantee company (the Transformation) through several transactions, including the transfer of National (then known as MBIA Insurance Corp. of Illinois) from MBIA Corp. to a newly established holding company, National Public Finance Guarantee Holdings, Inc., that is 100% owned by MBIA Inc., and the reinsurance by National of the U.S. public finance businesses of MBIA Corp. and a third-party financial guarantor, Financial Guaranty Insurance Company (FGIC). Pending litigation challenging the establishment of National has constrained our new business writings in 2009 and 2010. The Transformation is described more fully under the Our Insurance Operations National Insured Portfolio section below and the Transformation-related litigation is described more fully under Legal Proceedings in Part I, Item 3. After giving effect to the Transformation, MBIA Corp. s remaining portfolio consists of global structured finance and non-U.S. public finance business.

Asset Management Advisory Services Business

We conduct our asset management advisory services business primarily through wholly-owned subsidiaries of Cutwater Holdings, LLC (together, Cutwater). Cutwater offers advisory services, including cash management,

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discretionary asset management and structured products on a fee-for-service basis. We offer these services to public, not-for-profit, corporate and financial services clients, including the Company and its subsidiaries. Cutwater also manages our asset/liability products and conduit programs, which are being wound down.

Other Advisory Services

We began operating other financial advisory services businesses in 2009. See Our Business Strategy New Business Activities below for a description of these businesses.

OUR BUSINESS STRATEGY

Our ratings downgrades and mounting concerns about monoline insurers impaired our ability to write new business in late 2007 and 2008, and pending litigation challenging the establishment of National has constrained our ability to write new insurance business since 2009. In addition, unprecedented levels of delinquency and loss in our structured finance business, primarily in our residential mortgage-backed securities (RMBS), commercial mortgage-backed securities (CMBS) and insured credit default swaps (CDS) portfolios, continue to place considerable stress on our economic results. These levels of delinquency and loss in our RMBS portfolio have resulted from misrepresentations made by sponsors of RMBS transactions that we insured who have placed ineligible mortgage loans into the transactions and failed to cure the breaches or repurchase or replace the ineligible collateral. If performance deteriorates further and uncertainty increases in these sectors, our future economic results may be adversely impacted.

The reference herein to ineligible mortgage loans refers to those mortgages that the Company believes failed to comply with the representations and warranties made by the sellers/servicers of the securitizations to which those mortgages were sold with respect to such mortgages, including failure to comply with the related underwriting criteria, based on the Company s assessment, which included information provided by third-party review firms, of such mortgages compliance with such representations and warranties. The Company s assessment of the ineligibility of individual mortgages could be challenged/disputed by the sellers/servicers of the securitizations in litigation and there is no assurance that the Company s determinations will prevail.

In response to these events, we are continuing efforts that we began in the fourth quarter of 2007 to strengthen our balance sheet and transform our business model.

Strategic Transformation

On February 25, 2008, we announced a strategic plan to restructure our business as soon as feasible, but within five years. A significant component of the plan was the creation of separate legal operating entities for our public finance, structured finance and international financial guarantee businesses as well as our asset management advisory business. The objectives behind this initiative are to provide greater resilience and financial flexibility under extreme market stress, to obtain the highest possible ratings for each business and to create more transparency to investors and policyholders. In February 2009 we completed the first key step in the strategic plan with the establishment of a U.S. public finance-only financial guarantee company through the Transformation.

The next step in the Transformation, which is unlikely to occur prior to resolution of certain of the Transformation-related litigation, will be to further position National to write new U.S. public finance financial guarantee insurance policies through the achievement of high stable ratings. It is our intent to capitalize National at a level consistent with the highest achievable credit ratings through internal capital growth at National and potentially by raising third-party capital. However, no assurance can be given that we will be able to achieve such higher ratings.

In particular, in January 2011, Standard & Poor s Financial Services LLC (S&P) proposed, and requested comment on, changes to its rating methodology for financial guarantee insurers. If implemented in their current form, the proposed changes would substantially increase the amount of capital required to achieve S&P s highest ratings and would incorporate additional qualitative considerations into the ratings process. As a result, our insurers could be downgraded in the near term, could be unable to achieve S&P s highest ratings in the future, could choose not to take the steps necessary to obtain the highest S&P ratings or could choose to stop carrying the S&P ratings. The absence of S&P s highest ratings, which have typically been required to write financial

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guarantee insurance, could adversely impact the premiums our insurers can charge and could diminish the acceptance of our financial guarantee insurance products. We have joined other market participants in providing comments to S&P stating our concerns with their revisions.

The Company is currently involved in several litigations with groups of plaintiffs challenging the Transformation both in a proceeding under Article 78 of New York s Civil Practice Law & Rules and in plenary suits. The Company believes that given the New York State Insurance Department s (NYSID) approval of the Transformation, the only appropriate legal challenge is a proceeding under Article 78 in which the plaintiffs would have to prove that the NYSID s approval of the Transformation was arbitrary and capricious. On January 11, 2011, the Appellate Division of the New York State Supreme Court reversed an earlier decision by a lower court and granted MBIA s motion to dismiss one of the plenary lawsuits. In its decision, the Appellate Division agreed with MBIA s position that the lawsuit was an improper collateral attack on the NYSID s approval of Transformation, and for this and other reasons, dismissed all of the causes of action stated in the plaintiffs complaint. This decision has been appealed by the plaintiffs to New York s highest court. The Company continues to challenge the validity of the other plenary lawsuits. Discovery and depositions in the Article 78 case began in 2010 and are nearly complete. Since the case was filed, seven of the original nineteen plaintiffs have dismissed their claims. Should the court conclude that a trial in the Article 78 case is necessary, the trial would likely occur in the second quarter of 2011 according to a recent scheduling order. That timeframe, however, could be subject to further delays. For a complete description of the litigation challenging the Transformation see Legal Proceedings Transformation Litigation in Part I, Item 3 of this Form 10-K.

In February 2010, the Company took another step in its strategic plan by restructuring its asset management advisory business and renaming its asset management advisory companies under the Cutwater name to reflect and communicate their organizational separation from the Company s insurance operations and the wind-down of the Company s asset/liability products and conduit businesses, which are described further below under Our Wind-Down Businesses . Cutwater plans to continue to increase third-party assets under management by taking advantage of strong demand for advisory services resulting from recent fixed-income market volatility and secular growth in fixed-income asset classes due to demographics and product innovation. Currently, the majority of assets under management are from third-party clients and this percentage has increased over time.

Capital Preservation, Liquidity Management and Deleveraging

We continued taking steps in 2010 to preserve capital, enhance liquidity and deleverage the Company, a process that began with our raising $2.7 billion in new debt and equity capital in 2007 and 2008 and converting our $400 million soft capital facility into cash in 2008.

First, we continued the process begun in 2008 of aggressively pursuing our rights against sellers/servicers whom we believe fraudulently induced us into writing insurance on their securitizations and breached their contractual obligations by placing ineligible collateral into the transactions and failing to cure such breaches or repurchase or replace the ineligible collateral upon demand. If we recover the expected damages for the losses resulting from ineligible loans in these transactions from these sellers/servicers, of which only a portion has been reflected in our loss reserves to date, and we receive other recoveries associated with defaulted RMBS transactions, we will substantially enhance MBIA Corp. s capital position. There can be no assurance, however, that we will recover these damages or expected recoveries in full or in a time frame necessary to meet liquidity requirements.

Since 2008, a large part of our recovery effort has involved filing lawsuits against five sellers/servicers to enforce our contractual rights. Given the scope of these litigations, we expect them to be ongoing for several years; however, we anticipate going to trial on the first such matter as early as the fall of 2011. In addition, we received several important rulings in these matters in 2010, including a decision permitting us to present evidence of contract, fraud, and damage claims in the one litigation through presentation of a statistically valid random sample of loans rather than on a loan-by-loan basis, which should greatly expedite the proceeding, and lay a foundation for a similar approach in our other cases. For a complete description of our litigation seeking to enforce our contractual rights with respect to securitizations we insure, see Legal Proceedings Recovery Litigation in Part I, Item 3 of this Form 10-K. In addition, during 2010 we observed increased emphasis on enforcing similar contractual provisions across a broad spectrum of mortgage securitizations by other market participants, including government sponsored entities, private investors and other financial guarantee insurers. Such activity included

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publicly announced negotiated settlements between sellers/services and government sponsored entities as well as repurchase demands and lawsuits submitted and filed by private investors and financial guarantee insurers.

Second, we have operated under an enhanced liquidity risk management framework, the primary objective of which is to monitor potential liquidity constraints in our asset and liability portfolios and guide the proactive matching of liquidity resources to needs. Our liquidity risk management framework monitors the Company s cash and liquid asset resources using stress-scenario testing in an effort to ensure that we maintain cash and liquid securities in an amount in excess of all stress scenario payment requirements. These measurements are performed on a legal entity and operating segment basis. When liquidity resources fall short of our target liquidity cushions at any level, we have generally increased our cash holdings position by selling or financing assets and/or drawing upon one or more of contingent sources of liquidity, which are discussed further in Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity in Part II, Item 7 of this Form 10-K. There can be no assurance that we will continue to draw on such resources.

Third, we have purchased and may, from time to time, directly or indirectly, seek to purchase instruments issued or guaranteed by us or seek to commute policies where such actions are intended to reduce future expected economic losses. The amount of exposure reduced, if any, and the nature of any such actions will depend on market conditions, pricing levels from time to time and other considerations. In some cases, these activities may result in a reduction of expected impairments or loss reserves, but in all cases they are intended to limit our debt service requirements, ultimate losses or future volatility in loss development on the related policies.

New Business Activities

In addition to implementing the capital preservation, liquidity management and deleveraging initiatives, we also began to expand the services offered by our businesses through reinsurance, the expansion of our asset management business and the launch of financial advisory subsidiaries.

While the industry-wide reduction in credit ratings has led to reduced demand for bond insurance across all financial markets, National generated premiums in 2009 and 2010 from reinsurance it provided on a large portfolio of U.S. public finance exposure originally insured by FGIC with total net par assumed of $181 billion as of the closing of the transaction (the FGIC Transaction). The FGIC Transaction, which is described further below under Our Insurance Operations National Insured Portfolio FGIC Transaction , was entered into in the third quarter of 2008.

In February 2010, we restructured and renamed our asset management subsidiaries under the Cutwater name and began aggressively pursuing new business as described above under Strategic Transformation.

In 2009 and 2010, the Company expanded the provision of financial advisory services to Latin American clients in the infrastructure sectors. LatAm Capital Advisors, Inc. (LatAm), an indirect wholly-owned subsidiary of the Company, provides advice in the valuation and structuring of capital markets transactions and is seeking to expand into third-party fund management utilizing its regional expertise in infrastructure asset management. LatAm focuses on services that benefit existing clients of the Company and is also seeking to forge new relationships in selected countries throughout Latin America and the Caribbean. Transactions completed in 2009 and 2010 include the financial re-leveraging of a major toll road, infrastructure asset valuations and acting as structuring agent and financial advisor to the State of Mexico in an innovative financing to fund the modernization of the State s real property registration systems and various other public infrastructure projects in the State.

In 2010, the Company received regulatory approval from the FSA in the United Kingdom to begin providing financial advisory services primarily to clients in the European Economic Area on a cross border services basis through MBIA International Advisory Limited (International Advisory), an indirect wholly-owned financial advisory subsidiary of the Company.

The Company plans to continue to evaluate opportunities to participate in the structured finance and international markets in the future as such opportunities arise and is evaluating opportunities to provide portfolio remediation services to third-party financial guarantors, particularly those that are distressed.

We continue to evaluate our business model and may pursue a different set of strategies in the future. There can be no assurance that the strategies that have been implemented or that will be pursued in the future in connection with this evaluation will result in high stable credit ratings for each of our insurance companies or for MBIA Inc., will enable us to write new financial guarantee business, will otherwise improve our financial condition, business condition or operations or will not result in a material adverse effect on the Company.

OUR INSURANCE OPERATIONS

Our U.S. public finance insurance business is conducted through National and our structured finance and international insurance operations are conducted through MBIA Corp. and its subsidiaries. Our ratings downgrades and mounting concerns about monoline insurers have impaired our ability to write new business in late 2007 and 2008. Pending litigation challenging the establishment of National has further constrained new business writing since 2009. However, we expect that once certain of the pending litigations are favorably resolved, we will be able to obtain the highest possible credit ratings, subject to potential changes in ratings criteria as described above, and achieve the market acceptance necessary to meet our stated objectives.

We are compensated for our insurance policies by insurance premiums paid upfront and/or on an installment basis. Historically, our financial guarantee insurance was offered in both the new issue and secondary markets on a global basis. Transactions in the new issue market were sold either through negotiated offerings or competitive bidding. In negotiated transactions, either the issuer or the underwriter purchases the insurance policy directly from an insurer. For municipal bond issues involving competitive bidding, the insurance is offered as an option to the underwriters bidding on the transaction. The successful bidder would then have the option to purchase the insurance, or at times the issuer could purchase the insurance. We also issue insurance policies to guarantee the payment of principal and interest on municipal obligations being traded in the secondary market upon the request of a broker or an existing holder of uninsured bonds. The premium is generally paid by the owner of the obligation. In addition, we have provided financial guarantees to debt service reserve funds. The primary risk in our insurance operations is that of adverse credit performance in the insured portfolio.

We seek to maintain a diversified insured portfolio and have designed each insured portfolio with the aim of managing and diversifying risk based on a variety of criteria including revenue source, issue size, type of asset, industry concentrations, type of bond and geographic area. The insurance policies issued or reinsured by the Company s licensed insurers generally provide an unconditional and irrevocable guarantee of the payment required to be made by, on or behalf of, the obligor to a designated paying agent for the holders of the insured obligations of an amount equal to the payment of the principal of, and interest or other amounts owing on, insured obligations when due or, in the event that the insurance company has the right, at its discretion, to accelerate insured obligations upon default or otherwise, upon the insurance company s election to accelerate.

In the event of a default in payment of principal, interest or other insured amounts by an issuer, the insurance company promises to make funds available in the insured amount generally on the next business day following notification for U.S. transactions and within longer timeframes for international transactions, depending on the terms of the insurance policies. Our insurance companies provide for this payment, in some cases through a third-party bank, upon receipt of proof of ownership of the obligations due, as well as upon receipt of instruments appointing the insurer as agent for the holders and evidencing the assignment of the rights of the holders with respect to the payments made by the insurer or other appropriate documentation. With respect to insurance policies issued by FGIC and reinsured by National under the FGIC Transaction described below, National has agreed to comply with the terms of the original FGIC policies.

Because we generally guarantee to the holder of the underlying obligation the timely payment of amounts due on such obligation in accordance with its original payment schedule, in the case of a default or other triggering event on an insured obligation, payments under the insurance policy cannot be accelerated against us, except in certain limited circumstances, unless we consent to the acceleration. In the event of a default, however, we may have the right, in our sole discretion, to accelerate the obligations and pay them in full. Otherwise, we are required to pay principal, interest or other amounts only as scheduled payments come due, even if the holders are permitted by the terms of the insured obligations to have the full amount of principal, accrued interest or other amounts due, declared due and payable immediately in the event of a default. Our payment obligations after a default vary by deal and by insurance type. There are three primary types of policy payment requirements: (i) timely interest and ultimate principal; (ii) ultimate principal only at final maturity; and (iii) payments upon settlement of individual collateral losses as they occur after any deductible or subordination has been exhausted. With respect to the

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insurance of CDS contracts, in certain events, including the insolvency or payment default of the insurer or the issuer of the CDS, the CDS contracts may be subject to termination by the counterparty, triggering a claim for the fair value of the contract.

National Insured Portfolio

Through its reinsurance of U.S. public finance financial guarantees from MBIA Corp. and FGIC, National s insurance portfolio consists of 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 generally are supported by taxes, assessments, user fees or tariffs related to the use of these projects, by lease payments or by other similar types of revenue streams.

FGIC Transaction

In the third quarter of 2008, MBIA Corp. assumed a significant portion of FGIC s U.S. public finance insurance portfolio, totaling net par of approximately $181 billion as of September 30, 2008, and received upfront unearned premiums, net of a ceding commission paid to FGIC, of approximately $717 million as of September 30, 2008 (the FGIC Transaction). MBIA Corp. subsequently entered into an administrative services agreement with FGIC allowing MBIA Corp. to administer and remediate credits in the portfolio. As part of the Transformation described below, MBIA Corp. assigned its rights, interests, and obligations under the reinsurance agreement (the FGIC Reinsurance Agreement), and subcontracted the administrative services agreement, to National in February 2009. As of the closing date, the reinsured portfolio consisted of investment grade credits, primarily in the general obligation, water and sewer, tax-backed and transportation sectors, and did not contain any CDS contracts, below investment grade credits or other credits that were inconsistent with our credit underwriting standards. The reinsurance was provided on a cut-through basis, which enables FGIC s policyholders to receive the benefit of National s reinsurance by allowing them to present claims directly to National, as MBIA Corp. s assignee. The FGIC Reinsurance Agreement is filed as an exhibit to this Form 10-K and any description of it in this Form 10-K is qualified in its entirety by the agreement.

Transformation

Under the Transformation, the Company executed several transactions to establish National as a U.S. public finance-only financial guarantee company. The stock of National was transferred by MBIA Corp. to the Company, then contributed by the Company to a newly established intermediate holding company, National Public Finance Guarantee Holdings, Inc., which is itself a wholly-owned subsidiary of the Company.

In addition, on February 17, 2009, MBIA Corp. ceded all of its U.S. public finance business to National by entering into a Quota Share Reinsurance Agreement with National, effective January 1, 2009 (the MBIA Corp. Reinsurance Agreement), and by assigning to National pursuant to a separate assignment agreement its rights, interests and obligations under the FGIC Reinsurance Agreement. The MBIA Corp. Reinsurance Agreement is filed as an exhibit to this Form 10-K and any description of it in this Form 10-K is qualified in its entirety by the agreement. The portfolio transferred to National by reinsurance or through the assignment of the FGIC Reinsurance Agreement consisted entirely of U.S. public finance business with total net par outstanding of approximately $553.7 billion as of January 1, 2009, the effective date of the reinsurance and assignment transactions between MBIA Corp. and National.

In connection with the reinsurance and assignment transactions, MBIA Corp. paid to National a premium to reinsure the policies covered by the MBIA Corp. Reinsurance Agreement and the assignment agreement, net of a ceding commission on the unearned premium reserve, and National was further capitalized through a dividend and return of capital paid by MBIA Corp. to MBIA Inc., which was contributed to National. MBIA Corp. and National received the required regulatory approvals from the New York and Illinois insurance departments prior to executing the Transformation. National was previously domiciled in Illinois and redomesticated to New York effective December 1, 2009. Litigation challenging the Transformation is still pending and is more fully described under Legal Proceedings Transformation Litigation in Part I, Item 3 of this Form 10-K.

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Item 1. Business (continued)

MBIA Corp. continues to insure its remaining book of structured finance and international business, as well as insurance policies outstanding relating to liabilities of the asset/liability products business issued by MBIA Inc. and its subsidiaries. The litigation challenging the Transformation constrained the ability of National and MBIA Corp. to write new business and to pay dividends to MBIA Inc., which affects the holding company s future liquidity. During the second quarter of 2010, National received approval from the NYSID to reset its unassigned surplus to zero as of January 1, 2010, which provided National with dividend capacity of $91 million as of December 31, 2010, although at the current time we do not intend for National to declare dividends, and in October 2010, the plaintiffs in the Transformation litigation initiated a court proceeding challenging the approval of the surplus reset. The impact of the Transformation on the Company s liquidity is described further in Note 17: Insurance Regulations and Dividends in the Notes to Consolidated Financial Statements of MBIA Inc. and Subsidiaries in Part II, Item 8.

In general, references herein to National-insured or issued policies include those insurance policies reinsured from MBIA Corp. or under the FGIC Transaction, unless indicated otherwise.

Portfolio Profile

As of December 31, 2010, National had 26,826 insurance policies outstanding diversified among 11,236 credits, which we define as any group of issues supported by the same revenue source.

As of December 31, 2010, the gross par amount outstanding on National s insured U.S. public finance obligations was $482.7 billion. Insurance in force, which includes all insured debt service, as of December 31, 2010 was $777.4 billion.

The table below sets forth information with respect to the original gross par amount insured per issue in the National portfolio as of December 31, 2010:

National U.S. Public Finance Original Gross Par Amount Per Issue

as of December 31, 2010

Original Gross Par Amount Written Per Issue	Number of Issues Outstanding	% of Total Number of Issues Outstanding	Gross Par Amount Outstanding (In billions)	% of Gross Par Amount Outstanding
Less than $10 million	18,509	69.0 %	$ 55.4	11.5 %
$10-25 million	4,122	15.4 %	66.0	13.7 %
$25-50 million	2,085	7.8 %	74.1	15.3 %
$50-100 million	1,189	4.4 %	84.2	17.5 %
$100-200 million	598	2.2 %	86.1	17.8 %
$200-300 million	181	0.7 %	46.2	9.6 %
$300-400 million	72	0.3 %	25.7	5.3 %
$400-500 million	35	0.1 %	16.9	3.5 %
Greater than $500 million	35	0.1 %	28.1	5.8 %
Total	26,826	100.0 %	$ 482.7	100.0 %

All of the policies were underwritten on the assumption that the insurance will remain in force until maturity of the insured obligations. National estimates that the average life of its domestic public finance insurance policies in force as of December 31, 2010 was 10.5 years. The average life was determined by applying a weighted average calculation, using the remaining years to contractual maturity and weighting them on the basis of the remaining debt service insured. No assumptions were made for any future refundings, early redemptions or terminations of insured issues. Average annual insured debt service on the portfolio as of December 31, 2010 was $43.0 billion.

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Item 1. Business (continued)

The table below shows the diversification by type of U.S. public finance insurance that was outstanding as of December 31, 2010:

National U.S. Public Finance Gross Par Amount Outstanding by Bond Type as of December 31, 2010

In millions	Gross Par Amount
Bond type	
Public finance: United States	
General fund obligation	$ 182,788
General fund obligation Lease	39,812
Municipal utilities	85,443
Taxed backed	60,428
Transportation	49,375
Health care	13,214
Higher education	25,709
Student loans public finance	2,167
Municipal housing	6,547
Military housing	8,151
Investor-owned utilities	7,037
Other	2,021
Total United States public finance	$ 482,692

National s underwriting guidelines limit the insurance in force for any one insured credit. In addition, National is subject to regulatory single-risk limits and its ratings are subject to rating agency single-risk limits with respect to any insured bond issue. See the Insurance Regulation section below for a description of these regulatory requirements. As of December 31, 2010, National s gross par amount outstanding for its ten largest insured U.S. public finance credits totaled $29.9 billion, representing 6.2% of National s total U.S. public finance gross par amount outstanding.

MBIA Corp. Insured Portfolio

MBIA Corp. has insured and reinsured structured finance and international financial obligations which are sold in the new issue and secondary markets, including:

- structured finance and asset-backed obligations, including obligations collateralized by diverse pools of corporate loans or secured by or payable from a specific pool of assets having an identified future cash flow, including pools of bonds or other debt obligations;

- payments due under credit and other derivatives, including termination payments that may become due upon the occurrence of certain events, as further described below;

- privately issued bonds used for the financing of public purpose projects or entities located outside of the U.S. and that include toll roads, bridges, airports, public transportation facilities, utilities, hospitals, military housing and other types of infrastructure projects serving a substantial public purpose; and obligations of sovereign and sub-sovereign issuers, which includes regions, departments or their equivalent in each jurisdiction as well as sovereign owned entities that are supported by a sovereign state, region or department.

As of December 31, 2010, MBIA Corp. had 1,171 policies outstanding in its insured portfolio. In addition, MBIA Corp. had 270 insurance policies outstanding relating to asset/liability products liabilities issued by MBIA Inc. and its subsidiaries, which are described further under the section Our Wind-Down Businesses below. MBIA Corp. s total policies are diversified among 776 credits, which we define as any group of issues supported by the same revenue source.

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Item 1. Business (continued)

In addition, certain of our insurance policies guarantee payments due under CDS and other derivatives, including termination payments that may become due upon the occurrence of certain events, such as the insolvency of or a payment default by the financial guarantor or the CDS issuer.

Structured Finance and Asset-Backed Obligations

Structured finance obligations insured by MBIA Corp. typically are securities repayable from expected cash flows generated by a specified pool of assets, such as residential and commercial mortgage loans, insurance policies, consumer loans, corporate loans and bonds, trade and export receivables, leases for equipment, aircraft and real property, private sector student loans, and infrastructure projects. Structured finance obligations are either secured by undivided interests or collateralized by the related assets. Additional policies have included payments due under CDS and other derivatives, including termination payments that may become due upon the occurrence of certain events, such as the insolvency of or a payment default by the financial guarantor or the CDS issuer.

Structured finance transactions are often structured such that the insured obligations are intended to benefit from some form of credit enhancement such as over-collateralization, subordination, excess cash flow or first loss protection, to protect against the associated credit risks. Structured finance obligations contain risks including asset risk, which relates to the amount and quality of asset coverage, structural risk, which relates to the extent to which the transaction structure protects the interests of the investors from the bankruptcy of the originator of the underlying assets or the issuer of the securities, and servicer risk, which relates to problems with the transaction servicer (the entity which is responsible for collecting the cash flow from the asset pool) that could affect the servicing of the underlying assets. Additionally, the inclusion of a large number of ineligible mortgage loans in MBIA Corp.-insured transactions has caused, and may continue to cause, material losses beyond any stress analyses undertaken at origination. Currently, the structured finance industry is generating very few credit enhancement opportunities for the Company, and it is uncertain how or when the Company may re-engage this market.

In 2008, the Company announced that it had ceased insuring new credit derivative contracts except in transactions related to the reduction of existing insured credit derivative exposure. In addition, the Company announced that it had suspended the writing of all new structured finance business for approximately six months. Since that temporary suspension, we adjusted target structured finance risk sectors and underwriting criteria in this business and are continuing to track developments in the structured finance industry.

International Obligations

Outside the U.S., financial guarantee insurance has been used by issuers of sovereign and sub-sovereign bonds, structured finance securities, utility debt and financing for public purpose projects, among others. We have insured both structured finance and public finance obligations in select international markets and the risk profile of our international exposure is similar to that in the U.S., although there are unique risk factors related to each country and region that are evaluated at origination and on an ongoing basis. These factors include legal, regulatory, economic and political variables, the sophistication of and trends in local capital markets and currency exchange risks. Ongoing privatization initiatives in some regions have shifted the financing of new projects from the government to the capital markets, where investors can benefit from the default protection provided by financial guarantee insurance. The development of structured finance securitizations has varied to date by region depending on the development stage of the local capital markets and the impact of financial regulatory requirements, accounting standards and legal systems.

Portfolio Profile

As of December 31, 2010, the gross par amount outstanding on MBIA Corp. s insured obligations, including insured obligations of MBIA UK and MBIA Mexico (excluding $3.8 billion of MBIA insured investment agreements and medium-term notes (MTNs) for our asset/liability products transactions) (the Structured Finance and International Portfolio) was $190.2 billion. Insurance in force for the above portfolio, which includes all insured debt service, as of December 31, 2010 was $247.6 billion.

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Item 1. Business (continued)

The table below sets forth information with respect to the original gross par amount insured per issue in MBIA Corp.   s Structured Finance and International Portfolio as of December 31, 2010:

MBIA Corp. Original Gross Par Amount for the Structured Finance and International

Portfolio Per Issue as of December 31, 2010[1]

Original Gross Par Amount Written Per Issue	Number of Issues Outstanding	% of Total Number of Issues Outstanding	Gross Par Amount Outstanding (In billions)	% of Gross Par Amount Outstanding
Less than $10 million	327	27.9 %	$ 1.0	0.5 %
$10-25 million	207	17.7 %	3.5	1.8 %
$25-50 million	153	13.1 %	5.6	3.0 %
$50-100 million	138	11.8 %	10.3	5.4 %
$100-200 million	98	8.4 %	14.4	7.6 %
$200-300 million	66	5.6 %	16.2	8.5 %
$300-400 million	44	3.7 %	15.3	8.0 %
$400-500 million	29	2.5 %	12.9	6.8 %
Greater than $500 million	109	9.3 %	111.0	58.4 %
Total	1,171	100.0 %	$ 190.2	100.0 %

(1) Excludes $3.8 billion relating to investment agreements and MTNs issued by affiliates of the Company through our asset/liabilities products segment and guaranteed by MBIA Corp.

MBIA Corp. underwrites its policies on the assumption that the insurance will remain in force until maturity of the insured obligations. MBIA Corp. estimates that the average life of its structured finance and international insurance policies in force as of December 31, 2010 was 9 years. The average life was determined by applying a calculation using the remaining years to contractual maturity for international obligations and estimated maturity for structured finance obligations and weighting them on the basis of the remaining debt service insured. No assumptions were made for any future refundings, early redemptions or terminations of insured issues. Average annual insured debt service on the portfolio as of December 31, 2010 was $20.5 billion.

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Item 1. Business (continued)

The table below shows the diversification by type of Structured Finance and International insurance that was outstanding as of December 31, 2010:

MBIA Corp. Gross Par Outstanding for the Structured Finance and International

Portfolio by Bond Type as of December 31, 2010

In millions	Gross Par Amount
Bond type	
Public finance: non-United States	
Sovereign and sub-sovereign	$ 11,992
International utilities	10,890
Transportation	10,752
Local governments [1]	389
Tax backed	80
Health care	39
Total public finance non-United States	$ 34,142
Structured finance: United States	
Collateralized debt obligations [2]	71,494
Mortgage-backed residential	16,568
Mortgage-backed commercial	412
Consumer asset-backed:	
Auto loans	2,140
Student loans structured finance	1,108
Manufactured housing	1,582
Other consumer asset-backed	333
Corporate asset-backed:	
Aircraft portfolio lease securitizations	2,621
Rental car fleets	300
Secured airline equip securitizations	2,551
Other operating assets	761
Structured insurance securitizations	5,632
Franchise assets	627
Intellectual property	3,299
Other corporate asset-backed	1,237
Total United States	$ 110,665
Structured finance: non-United States	
Collateralized debt obligations [2]	34,018
Mortgage-backed residential	1,119
Mortgage-backed commercial	3,723
Corporate asset-backed:	
Aircraft portfolio lease securitizations	1,404
Secured airline equip securitizations	299
Structured insurance securitizations	100
Franchise assets	610

Future flow		1,081
Other corporate asset-backed		3,025
Total non-United States		45,379
Total global structured finance		156,044
Total	$	190,186

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

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

Item 1. Business (continued)

MBIA Corp. s underwriting guidelines limit the insurance in force for any one insured credit. In addition, MBIA Corp. is subject to regulatory single-risk limits and its ratings are subject to rating agency single-risk limits with respect to any insured bond issue. See the Insurance Regulation section below for a description of these regulatory requirements. As of December 31, 2010, MBIA Corp. s gross par amount outstanding for its ten largest non-U.S. public finance credits insured totaled $14.0 billion, representing 7.4% of MBIA Corp. s total structured finance and international gross par amount outstanding, and the gross par outstanding for its ten largest structured finance credits (without aggregating issues of common issuers), was $23.3 billion, representing 12.2% of the total.

Risk Management

MBIA s risk management is comprised of different units that oversee credit, market and operational risks at transaction origination and in ongoing portfolio monitoring and surveillance. Our Special Situations Group monitors certain transactions that require special expertise or that are subject to intensive remediation. MBIA Corp. and National each has a credit risk committee to review underwriting decisions and processes. On an enterprise-wide basis, executive committees provide risk oversight with the Risk Oversight Committee focused on firm-wide risk review, policies and decisions related to credit, market, operational, legal, financial and business risks, the Loss Reserve Committee reviewing reserve activity and the Executive Credit and Market Risk/Investment Committees reviewing specific transactions and portfolios. Prior to the Transformation, the risk management function was performed enterprise wide by a Risk Management Division, which managed origination and ongoing insured portfolio concentrations and exposure limits, and the Insured Portfolio Management Division, which managed monitoring and remediation.

The Board of Directors and its Committees oversee different risks faced by the Company and its subsidiaries. The Board regularly evaluates and discusses risks associated with strategic initiatives, and the CEO s risk management performance is one of the criteria used by the Board in evaluating the CEO. On an annual basis, the Board also evaluates and approves the Company s risk tolerance guidelines. The purpose of the risk tolerance policy is to delineate the types of risk considered tolerable and justifiable within the Company, and this policy provides the basis upon which risk criteria and procedures are developed and applied consistently across the Company. The Board s Audit Committee and its Finance and Risk Committee also play an important role in overseeing different types of risks.

The Audit Committee oversees risks associated with financial and other reporting, auditing, legal and regulatory compliance, and risks that may otherwise result from the Company s operations. The Audit Committee oversees these risks by monitoring (i) the integrity of the financial statements of the Company and of other material financial disclosures made by the Company, (ii) the qualifications and independence of the Company s independent auditor, (iii) the performance of the Company s internal audit function and independent auditor, (iv) the Company s compliance policies and procedures and its compliance with legal and regulatory requirements and (v) the performance of the Company s operational risk management function.

The Finance and Risk Committee oversees the Company s credit risk governance framework, market risk, liquidity risk and other material financial risks. The Finance and Risk Committee oversees these risks by monitoring the Company s (i) proprietary investment portfolios, (ii) capital and liquidity risks and risk management, (iii) enterprise market risks and risk management, (iv) credit risk and risk management in the Company s operations and (v) compliance with regulatory financial requirements and risk limits and with management s capital and risk policies, requirements and limits as approved by the Finance and Risk Committee and the Board of Directors from time to time.

At each regular meeting of the Board, the Chairs of each of these committees reports to the full Board regarding the meetings and activities of the committee.

Item 1. Business (continued)

Insurance Origination, Monitoring and Remediation

We monitor and remediate our existing insured portfolios on an ongoing basis. Although our monitoring and remediation activities vary somewhat by sector and bond type, in all cases we focus on assessing event risk and possible losses under stress.

U.S. Public Finance: For U.S. public finance, our underwriting at origination and ongoing monitoring focuses on economic and political trends, issuer or project debt and financial management, construction and start up risk, adequacy of historical and anticipated cash flows under stress, satisfactory legal structure and bond security provisions, viable tax and economic bases, including consideration of tax limitations and unemployment trends, adequacy of stressed loss coverage and project feasibility, including satisfactory reports from consulting engineers, traffic advisors and others, if applicable. Depending on the transaction, specialized cash flow analyses may be conducted to understand loss sensitivity. In addition, specialized credit analysts consider the potential event risk of natural disasters or headline events on both single transactions and across a sector, as well as regulatory issues. U.S. public finance transactions are monitored periodically by reviewing trustee, issuer and project financial and operating reports as well as reports provided by technical advisors and counsel. Projects may be periodically visited by National personnel.

International Public Finance: International public finance transactions are underwritten, monitored and remediated in a manner consistent with U.S. public finance transactions. In addition, specialized credit analysts consider country risk, including economic and political factors, the type and quality of local regulatory oversight, the strength of the legal framework in each country and the stability of the local institutional framework. Analysts also monitor local accounting and legal requirements, local financial market developments, the impact of exchange rates and local demand dynamics. Furthermore, counterparty exposures are reviewed periodically and when a counterparty is downgraded. MBIA personnel also may periodically visit projects to meet with management.

Structured Finance Transactions: For structured transactions, we focus on the historical and projected cash flows generated by the assets, credit and operational strength of the originator, servicer, manager and/or operator of the assets, and the nature of the transaction s structure (including the degree of protection from bankruptcy of the originator or servicer). We use both probability modeling and cash flow sensitivity analysis (both at the transaction and asset specific levels) to test asset performance assumptions and performance covenants, triggers and remedies. Structured finance transactions are monitored periodically by reviewing periodic trustee, servicer and portfolio manager statements, compliance reviews with transaction documents and ongoing analyses of cash flows. Specialized credit analysts monitor servicer performance, including potentially through site visits, forensic audits, management meetings and financial statement reviews. In addition to servicer performance monitoring, these credit analysts also track counterparty exposures to individual financial institutions and corporate entities across all of MBIA s insured portfolios. The credit portfolio manager and analysts may use various quantitative tools and qualitative analyses to test for credit quality, correlation, liquidity and capital sensitivity within the insured portfolio. Such portfolio analyses are used in understanding risk concentrations and in periodic reporting to the Risk Oversight Committee and the Finance and Risk Committee of the Company s Board of Directors.

Key to our ongoing monitoring is early detection of deterioration in either transaction credit quality or macroeconomic or market factors that could adversely impact an insured credit. If a problem is detected, analysts generally evaluate possible remedial actions and, in the event of significant stress, we may involve a dedicated workout unit, the Special Situations Group, to assess and monitor the credit and, if necessary, develop and implement a remediation strategy. The nature of any remedial action is based on the type of insured issue and the nature and scope of the event giving rise to the remediation. In most cases, as part of any such remedial activity, we work with the issuer, trustee, legal counsel, servicer, other creditors, underwriters or other related parties to reduce chances of default and the potential severity of loss upon a default. In addition, we may seek to improve our security position and obtain concessions from the issuer of the insured bonds, and, from time to time, the issuer of our insured bond may, with our consent, restructure the insured obligation by extending the term, increasing or decreasing the par amount or decreasing the related interest rate, sometimes with our insuring the restructured obligation.

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Item 1. Business (continued)

We use an internal credit rating system to monitor credits, with frequency of review based on risk type, internal rating, performance and credit quality. Credits with performance issues are designated as Caution List-Low, Caution List-Medium or Caution List-High based on the nature and extent of our concerns, but these categories do not require establishment of any case basis reserves. In the event we determine that a claim for payment is possible with respect to an insured issue using probability-weighted expected cash flows based on available information, including market data, we place the issue on the Classified List and establish a case basis reserve for that insured issue.

Credit Risk Models

We use credit risk models to test qualitative judgments, to design appropriate structures and to understand sensitivity within transactions and across broader portfolio exposure concentrations. Models are updated to reflect changes in both portfolio and transaction data and also in expectations of stressed future outcomes. For portfolio monitoring we use internal and third-party models based on individual deal attributes and customized structures and these models are also used to determine case basis loss reserves and, where applicable, to mark-to-market any insured obligations as may be required for financial reporting. When using third-party models, we generally perform the same review and analyses of the collateral, deal structure, performance triggers and cash flow waterfalls as when using our internal models. See Risk Factors Insured Portfolio Loss Related Risk Factors Financial modeling contains uncertainty over ultimate outcomes which makes it difficult to estimate liquidity, potential paid claims, loss reserves and mark-to-market in Part I, Item 1A.

Market Risk Assessment

We measure and assess market risk on a consolidated basis and in the asset management business. Key market risks are changes in interest rates, credit spreads and foreign exchange. We use various models and methodologies to test economic exposure under market stress scenarios, including parallel and non-parallel shifts in the yield curve, changes in credit spreads, stressed liquidity scenarios and stressed counterparty exposures. The analyses are used in testing investment portfolio guidelines. The Executive Market/Investment Committee and the Finance and Risk Committee of the Company s Board of Directors receive periodic reports on market risk.

Operational Risk Assessment

The Operational Risk function assesses potential economic loss or reputational impact arising from processes, systems, or staff actions and seeks to identify vulnerabilities to operational disruptions caused by external events. Operational risk is generally managed using a self-assessment process across our business units, with controls associated with the execution of key processes monitored through Internal Audit reviews. The Operational Risk group reports periodically to management s Risk Oversight Committee and the Audit Committee of the Company s Board of Directors. The Audit Committee reviews the Company s operational risk profile, risk event activity and ongoing risk mitigation efforts.

Losses and Reserves

Loss and loss adjustment expense (LAE) reserves are established by Loss Reserve Committees in each of our major operating insurance companies (National, MBIA Corp. and MBIA UK) and reviewed by our executive Loss Reserve Committee, which consists of members of senior management. The Company s loss and LAE reserves as of December 31, 2010 represent case basis reserves and accruals for LAE incurred. Case basis reserves represent the Company s estimate of expected losses to be paid under an insurance contract, net of potential recoveries and discounted using a current risk-free interest rate, on an insured obligation that has defaulted or is expected to default when this amount exceeds unearned premium revenue on the related insurance contract.

For a further discussion of the methodology used by the Company for determining when a case basis reserve is established, see Management s Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Estimates Loss and Loss Adjustment Expense Reserves in Part II, Item 7. Management believes that our reserves are adequate to cover the ultimate net cost of claims. However, because the reserves are based on management s judgment and estimates, there can be no assurance that the ultimate liability will not exceed such estimates or that the timing of claims payments and the realization of recoveries will not create liquidity issues for the insurance companies.

Item 1. Business (continued)

Reinsurance

State insurance laws and regulations, as well as the rating agencies who rate our insurance companies impose minimum capital requirements on financial guarantee companies, limiting the aggregate amount of insurance and the maximum size of any single risk exposure which may be written. Historically, we have decreased the insured exposure in our portfolio and increased our capacity to write new business by reinsuring certain of our gross liabilities with third parties on an aggregate and single risk basis through treaty and facultative reinsurance. In the future, we do not intend to utilize reinsurance to a material degree for these purposes. We may, from time to time, look to reduce risks embedded in our insured portfolio on an individual and portfolio-wide basis by entering into derivative transactions or other types of hedging arrangements.

Since 2008 we have commuted most of the Company s previously outstanding reinsurance. We currently have reinsurance agreements in place with seven reinsurers and have commuted reinsurance in place with 18 reinsurers since 2008, in some cases in exercise of the Company s right to reassume business ceded to reinsurers under certain circumstances, including rating downgrades of its reinsurers. Under its commutation agreements, the Company is generally paid an amount based on estimates of present and future exposures and taking into account the time value of money; this amount generally includes the unearned premium reserves and loss reserves established for the insurance policies associated with the commuted reinsurance. In exchange for payment of the agreed amount, the reinsurer s exposure to the ceded policies is commuted.

With respect to reinsurance remaining outstanding, our insurance companies, as primary insurers, are required to honor their obligations to their policyholders whether or not our reinsurers and other reimbursement parties perform their agreement obligations to us. We monitor the financial position and financial strength rating of all of our reinsurers on a regular basis. Over the past several years, some of the Company s remaining reinsurers have been downgraded and all are now subject to more frequent rating agency review. A ratings downgrade reduces the overall benefit of the reinsurance to MBIA. When a reinsurer is downgraded by one or more of the rating agencies, less capital credit is given to our insurance company under rating agency capital adequacy assessment models. Additionally, any significant rating downgrade or financial deterioration of one or more of our reinsurers could require the establishment of reserves against any receivables due from the reinsurer. To offset the counterparty risk, we require certain unauthorized reinsurers to maintain bank letters of credit or establish trust accounts to cover liabilities ceded to such reinsurers under reinsurance contracts. As of December 31, 2010, the amount of funds held for the benefit of MBIA totaled $7 million. The Company remains liable on a primary basis for all reinsured risk, and although MBIA believes that its reinsurers remain capable of meeting their obligations, there can be no assurance of such in the future.

Channel Re Reinsurance Agreements

In February 2004, the Company, together with Renaissance Re Holdings, Ltd., Koch Financial Re, Ltd. and Partner Reinsurance Company Ltd., formed Channel Reinsurance Ltd (Channel Re), a Bermuda-based financial guarantee reinsurance company then rated Triple-A by S&P and Moody s Investors Service, Inc. (Moody s). Channel Re s ratings were later withdrawn at its request following a series of downgrades. The Company invested $64 million for a 17.4% ownership interest in Channel Re. In February 2004, MBIA Corp. and Channel Re entered into arrangements whereby Channel Re agreed to provide committed reinsurance capacity to MBIA Corp. Under treaty and facultative reinsurance arrangements, MBIA Corp. agreed to cede to Channel Re and Channel Re agreed to assume from MBIA Corp. varying percentages of designated insurance policies issued by MBIA Corp. The amount of any policy subject to the committed reinsurance arrangements was based on the type of risk insured and on other factors. The reinsurance arrangements provided Channel Re with certain preferential terms, including those related to ceding commissions. In June 2009 Channel Re was put into run off by its Board of Directors and a run off plan was reviewed by the Bermuda Monetary Authority and approved by the Channel Re Board in September 2009.

During the third quarter of 2010, MBIA Insurance Corporation acquired all of the common stock of Channel Re and its parent ChannelRe Holdings, Ltd. not previously owned by MBIA Insurance Corporation for $40 million in cash. Subsequent to the acquisition, MBIA Insurance Corporation and MBIA UK commuted all reinsurance arrangements with Channel Re. On September 10, 2010 Channel Re and ChannelRe Holdings, Ltd. were liquidated and the remaining assets were distributed to MBIA Insurance Corporation. The transaction, including the commutations and liquidation, resulted in an increase in MBIA Corp. s statutory capital of $132 million, and its

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Item 1. Business (continued)

liquidity position of $595 million. MBIA Corp. did recognize a net loss of $61 million under accounting principles generally accepted in the United States of America (GAAP) in the third quarter of 2010 as a result of the transaction, primarily generated from settling a reinsurance receivable related to reinsured CDS at an amount less than its carrying value. In connection with the commutation, MBIA Insurance Corporation, National and MBIA UK reassumed exposure of $21.6 billion, $7.8 billion and $2.1 billion, respectively, of insured exposure.

Intercompany Reinsurance Arrangements

Under the Transformation, MBIA Corp. and National entered into the MBIA Corp. Reinsurance Agreement as well as an assignment agreement under which MBIA Corp. assigned its rights and obligations under the FGIC Reinsurance Agreement. In addition, National entered into second-to-pay policies covering the policies covered by each of these agreements. Each of these transactions and the terms of those documents are further described under the Our Insurance Operations National Insured Portfolio section above.

MBIA Corp. has entered into a reinsurance agreement with MBIA UK providing for MBIA Corp. s reimbursement of the losses incurred by MBIA UK in excess of a specified threshold and a net worth maintenance agreement in which MBIA Corp. agrees to maintain the net worth of MBIA UK, to remain its sole shareholder and not to pledge its shares. Under the reinsurance agreement, MBIA Corp. has agreed to reimburse MBIA UK on an excess-of-loss basis for losses incurred in each calendar year for net retained insurance liability, subject to certain contract limitations. Under the net worth maintenance agreement, MBIA Corp. agrees to maintain a minimum capital and surplus position at MBIA UK at the greater of a specified amount or the amount required by United Kingdom regulations, subject to certain New York State regulatory requirements as well as certain contract restrictions. MBIA Corp. has also entered into a reinsurance agreement and net worth maintenance agreement with MBIA Mexico pursuant to which MBIA Corp. reinsures 100% of the business underwritten by MBIA Mexico and agrees to maintain the amount of capital in MBIA Mexico required by applicable law or regulation.

Insurance Regulation

National and MBIA Corp. are incorporated and subject to primary insurance regulation and supervision by the State of New York. MBIA UK and MBIA Mexico are organized and subject to primary regulation and supervision in the United Kingdom and Mexico, respectively. The Company s insurance subsidiaries are also licensed to issue financial guarantee policies in multiple jurisdictions as needed to conduct their business activities and are subject to insurance regulations in those jurisdictions.

The extent of state insurance regulation and supervision varies by jurisdiction, but New York, the United Kingdom, Mexico and most other jurisdictions have laws and regulations prescribing minimum standards of solvency, including minimum capital requirements, and business conduct which must be maintained by insurance companies. These laws prescribe permitted classes and concentrations of investments. In addition, some state laws and regulations require the approval or filing of policy forms and rates. MBIA Corp. and National each are required to file detailed annual financial statements with the NYSID and similar supervisory agencies in each of the other jurisdictions in which it is licensed. The operations and accounts of the insurance companies are subject to examination by these regulatory agencies at regular intervals. In addition to being subject to the insurance laws in the jurisdictions in which we operate, as a condition to obtaining required insurance regulatory approvals to enter into certain transactions, including the secured loan between MBIA Inc. and MBIA Corp. and the asset swap between MBIA Inc. and National each described under Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity Asset/Liability Products Liquidity in Part II, Item 7 of this Form 10-K, MBIA Inc. and its insurance subsidiaries have and may in the future agree to provide notice to the NYSID or other applicable regulators prior entering into transactions or taking other corporate actions (such as paying dividends when applicable statutory tests are satisfied) that would not otherwise require regulatory approval.

New York Insurance Regulation

Our domestic insurance companies are licensed to provide financial guarantee insurance under Article 69 of the New York Insurance Law. Article 69 defines financial guarantee insurance to include any guarantee under which loss is payable upon proof of occurrence of financial loss to an insured as a result of certain events. These events include the failure of any obligor on or any issuer of any debt instrument or other monetary obligation to pay principal, interest, premium, dividend or purchase price of or on such instrument or obligation when due. Under

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Item 1. Business (continued)

Article 69, our domestic insurance companies are permitted to transact financial guarantee insurance, surety insurance and credit insurance and such other kinds of business to the extent necessarily or properly incidental to the kinds of insurance which they are authorized to transact. In addition, they are empowered to assume or reinsure the kinds of insurance described above.

In light of the substantial losses incurred by financial guarantee companies, the NYSID issued in Circular Letter No. 19 (2008) on September 22, 2008, new Best Practices guidelines (the Guidelines) for financial guarantors, which it plans to formalize as regulation or legislation. In general, the Guidelines impose restrictions on the issuance of financial guarantee insurance policies and increase required capitalization levels. Included among the recommendations are: (1) restrictions on the issuance of policies insuring asset-backed securities (ABS) that consist of other pools of ABS, as well as on policies insuring, and the underlying terms of, insured CDS, a market in which the Company no longer participates; (2) limits on a guarantor s exposure to not only the issuer of debt, but also the initial lender and servicer of each category of obligation, as well as increased reporting obligations regarding exposures to particular categories of debt or exposures over a calendar year period; (3) a requirement that all, rather than a subset, of insured bonds be at least 95% investment grade, based on aggregate net liability; (4) increases in the required amount of paid-in capital to at least $15,000,000, the required amount of paid-in surplus to at least $165,000,000 and the amount of minimum surplus to policyholders to a figure in excess of $150,000,000, as well as changes to capital and contingency reserve requirements in connection with certain ABS.

Furthermore, in June 2009 a new bill was introduced at the request of New York s governor to amend the New York Insurance Law to enhance the regulation of financial guarantee insurers. The proposed bill would, among other things, (i) eliminate the capacity of financial guarantee insurers to guarantee CDS, (ii) increase minimum capital requirements, (iii) impose tighter underwriting standards that include liquidity adequacy and controls and remediation rights standards, (iv) specify a discount rate applicable to loss reserves, (v) revise single risk limits and impose sector limits and (vi) require reporting of certain decreases in policyholder surplus. A new version of the bill was proposed in April 2010 and again in January 2011 which would, among other things, effectively prohibit issuance of CDS other than for hedging purposes and regulate CDS as financial guarantee insurance. An additional new version of the bill was introduced in June 2010 which would, among other things, permit financial guarantee insurers to use the net value of a qualified trust as an asset with respect to capital and reserve requirements.

Dividend Limitations

The laws of New York regulate the payment of dividends by National and MBIA Corp. and provide that a New York domestic stock property/casualty insurance company may not declare or distribute dividends except out of statutory earned surplus. New York law provides that 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. MBIA Corp. is currently unable to pay dividends, including dividends on its preferred stock, due to an earned surplus deficit. During the second quarter of 2010, National received approval from the NYSID to reset its unassigned surplus to zero as of January 1, 2010. The reset provides National with dividend capacity of $91 million as of December 31, 2010. However, at the current time we do not intend for National to declare dividends. In October 2010, the plaintiffs in the Transformation litigation initiated a court proceeding challenging the approval of the surplus reset. See Note 17: Insurance Regulations and Dividends in the Notes to Consolidated Financial Statements of MBIA Inc. and Subsidiaries in Part II, Item 8.

The foregoing dividend limitations are determined in accordance with Statutory Accounting Practices (SAP), which generally produce statutory earnings in amounts less than earnings computed in accordance with GAAP. Similarly, policyholders surplus, computed on a SAP basis, will normally be less than net worth computed on a GAAP basis. See Note 15: Statutory Accounting Practices in the Notes to Consolidated Financial Statements of MBIA Corp. and Subsidiaries and Note 12: Statutory Accounting Practices in the Notes to Financial Statements of National filed as Exhibits to this Form 10-K for additional information.

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Item 1. Business (continued)

Contingency Reserves

As financial guarantee insurers, our domestic insurance companies are required by the laws and regulations of New York, California, Connecticut, Florida, Illinois, Iowa, Maryland, New Jersey and Wisconsin to maintain, as applicable, contingency reserves on their municipal bond, ABS or other financial guarantee liabilities. Under New Jersey, Illinois and Wisconsin regulations, contributions by an insurance company to its contingency reserves are required to equal 50% of earned premiums on its municipal bond business. Under New York law, an insurance company is required to contribute to contingency reserves 50% of premiums as they are earned on policies written prior to July 1, 1989 (net of reinsurance), and, with respect to policies written on and after July 1, 1989, such an insurer must make contributions over a period of 15 or 20 years (based on issue type), or until the contingency reserve for such insured issues equals the greater of 50% of premiums written for the relevant category of insurance or a percentage of the principal guaranteed, varying from 0.6% to 2.5%, depending upon the type of obligation guaranteed (net of collateral, reinsurance, refunding, refinancings and certain insured securities). California, Connecticut, Florida, Iowa and Maryland laws impose a generally similar requirement, and in California the insurance commissioner can require an insurer to maintain additional reserves if the commissioner determines that the insurer s reserves are inadequate. The contribution to and maintenance of the contingency reserve limit the amount of earned surplus that might otherwise be available for the payment of dividends. In each of these states, our domestic insurance companies may apply for release of portions of their contingency reserves in certain circumstances.

Risk Limits

Insurance laws and regulations also limit both the aggregate and individual securities risks that our domestic insurance companies may insure on a net basis based on the type of obligations insured. The individual limits are generally on the amount of insured par and/or annual debt service for a given insured issue, entity or revenues source and stated as a percentage of the insurer s policyholders surplus and contingency reserves. The aggregate risk limits limit the aggregate amount of insured par to a stated multiple of the insurer s policyholders surplus and contingency reserves based on the types of obligations insured. The aggregate risk limits can range from 300:1 for certain municipal obligations to 50:1 for certain non-municipal obligations.

As a result of the Transformation and the reinsurance of the MBIA Corp. and FGIC portfolios by National, National exceeded as of the closing date certain single and aggregate risk limits under the New York laws and regulations, and MBIA Corp. exceeded as of the closing date certain single risk limits under New York laws and regulations. These insurers obtained waivers from the NYSID of those limits. In connection with the waivers, they submitted a plan to the applicable insurance departments to achieve compliance with the applicable regulatory limits. Under the plans, they agreed not to write new financial guarantee insurance for certain issuers, and in MBIA Corp. s case, in certain categories of business, until they were in compliance with their single risk limits and agreed to take commercially reasonable steps, including considering reinsurance, the addition of capital and other risk mitigation strategies, in order to comply with the regulatory single and aggregate risk limits. As a condition to granting the waiver, the NYSID required that, in addition to complying with these plans, upon written notice from the NYSID, MBIA Corp. and National, as applicable, would cease writing new financial guarantee insurance if it were not in compliance with the risk limitation requirements by December 31, 2009. To date, we have not received such a notice from the NYSID. Neither National nor MBIA Corp. have come into compliance with the single or aggregate risk limits. In 2010 MBIA Corp. reported a *de minimus* number of additional overages to the NYSID due to changes in its statutory capital.

Holding Company Regulation

MBIA Corp. and National also are subject to regulation under the insurance holding company statutes of New York. The requirements of holding company statutes vary from jurisdiction to jurisdiction but generally require insurance companies that are part of an insurance holding company system to register and file certain reports describing, among other information, their capital structure, ownership and financial condition. The holding company statutes also generally require prior approval of changes in control, of certain dividends and other inter-corporate transfers of assets, and of certain transactions between insurance companies, their parents and affiliates. The holding company statutes impose standards on certain transactions with related companies, which include, among other requirements, that all transactions be fair and reasonable and those transactions not in the ordinary course of business exceeding specified limits receive prior regulatory approval.

Item 1. Business (continued)

Change of Control

Prior approval by the NYSID is required for any entity seeking to acquire, directly or indirectly, control of National or MBIA Corp. In many states, including New York, control is presumed to exist if 10% or more of the voting securities of the insurer are owned or controlled, directly or indirectly, by an entity, although the insurance regulator may find that control in fact does or does not exist when an entity owns or controls either a lesser or greater amount of securities. The United Kingdom FSA also has a requirement for prior approval of any controlling person. MBIA Corp. would require the prior approval of MBIA Mexico s regulator in order to transfer the shares it currently holds in MBIA Mexico. To the Company s knowledge, each MBIA Inc. shareholder which owns 10% or more of MBIA Inc. s outstanding common stock as of December 31, 2010 has received appropriate approvals or determinations of non-control in connection with its investment.

Insurance Guarantee Funds

National and MBIA Corp. are exempt from assessments by the insurance guarantee funds in the majority of the states in which they do business. Guarantee fund laws in most states require insurers transacting business in the state to participate in guarantee associations, which pay claims of policyholders and third-party claimants against impaired or insolvent insurance companies doing business in the state. In most states, insurers licensed to write only municipal bond insurance, financial guarantee insurance and other forms of surety insurance are exempt from assessment by these funds and their policyholders are prohibited from making claims on these funds.

OUR ADVISORY SERVICES

In our asset management advisory services business our registered investment advisors provide fixed-income asset management services for third parties and the investment portfolios of the Company and its affiliates (including the wind-down businesses) on a fee-for-service basis.

The Company has operated its advisory services segment since 1991 and had $40.7 billion in institutional assets under management as of December 31, 2010, including $15.4 billion from the Company and its subsidiaries. The segment has generally produced strong investment performance for its clients and has focused on providing high quality client support. The Company believes there is strong demand for its services given its track record, recent fixed-income market volatility and growth in fixed-income asset classes due to demographic changes and product innovation. In order to develop and grow our third-party advisory business, we have renamed our advisory services companies under the Cutwater name and re-branded them to reflect and communicate their organizational separation from the Company s insurance operations and the wind-down businesses. In particular, the asset management advisory business now operates under a wholly-owned Cutwater branded holding company of MBIA Inc. that no longer owns the wind-down businesses.

Our advisory services are offered in two major product lines, traditional and structured. Within the traditional product line, Cutwater offers cash management, customized asset management, discretionary asset management and fund accounting services to governments, insurance companies (including the Company s insurance subsidiaries) corporations, pension funds, unions, endowments, foundations and investment companies in both pooled and separate account formats. These services are offered through registered investment advisers, and Cutwater receives asset management and administrative fees as compensation. Within the structured product line, Cutwater manages asset/liability programs and conduits (including the wind-down businesses), CDOs and other funding vehicles for banks, insurance companies, program trustees and investment companies, and it earns base and performance fees for its services.

Cutwater s advisory services are offered through three principal operating subsidiaries: Cutwater Asset Management Corp. (Cutwater-AMC), a Securities and Exchange Commission (SEC)-registered investment adviser and Financial Industry Regulatory Authority (FINRA) member firm, Cutwater Investor Services Corp. (Cutwater-ISC), an SEC-registered investment adviser, and Cutwater Asset Management UK Limited (Cutwater-UK), an FSA registered asset manager based in the United Kingdom.

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Item 1. Business (continued)

Advisory Services Regulation

Cutwater is subject to various federal and state securities and investment regulations. As an SEC-registered investment adviser and a FINRA member firm, Cutwater-AMC is subject to the requirements of the Investment Advisers Act of 1940, a Federal statute which regulates registered investment advisers, and to FINRA rules and regulations. As an adviser to registered investment companies, Cutwater-AMC and Cutwater-ISC are also responsible for compliance with applicable provisions of the Investment Company Act of 1940. As sponsor/administrator of pooled investment programs, Cutwater-ISC and its subsidiary Cutwater Colorado Investor Services Corporation, each of which is an SEC-registered investment adviser, are subject to the requirements of the Investment Advisers Act of 1940, as well as certain state laws governing the operation of and permitted investments in local government investment pools. The activities of Cutwater-UK are subject to supervision by the FSA.

OUR WIND-DOWN BUSINESSES

Since the ratings downgrades of MBIA Corp. that began in 2008, we have not issued debt in connection with either the asset/liability products or conduits businesses, and we believe the outstanding liability balances and corresponding asset balances will continue to decline over time as liabilities mature, terminate, or are repurchased by the Company.

Asset/Liability Products

The asset/liability products business historically raised funds for investment through several sources: (1) customized investment agreements issued by the Company and one of its subsidiaries for bond proceeds and other funds; and (2) issuance of MTNs with varying maturities issued by our subsidiary MBIA Global Funding, LLC (GFL). Each of these products is guaranteed by MBIA Corp. In addition, GFL would lend the proceeds of its GFL MTN issuances to MBIA Inc. (GFL Loans). Under agreements among MBIA Inc., MBIA Corp. and/or GFL, the Company invested the proceeds of the investment agreements and GFL Loans in eligible investments, which consisted of investment grade securities with a minimum average double-A credit quality rating at purchase and which are pledged to MBIA Corp. as security for its guarantees on investment agreements and GFL MTNs. MBIA Inc. primarily purchased domestic securities and lent a portion of the proceeds from investment agreements and GFL MTNs to its subsidiary Euro Asset Acquisition Limited, which primarily purchased foreign assets as permitted under the Company s investment guidelines. While MBIA Corp. enjoyed Triple-A insurer financial strength ratings, the Company generally earned a positive spread between the yields on assets and liabilities in this business, but since the third quarter of 2008, ratings downgrades of MBIA Corp. have resulted in the termination and collateralization of certain investment agreements, and the lower yield earned on greater holdings of cash and cash equivalents coupled with the increased cost of funding liabilities has resulted in a negative spread and we are therefore in the process of winding down this business.

There are two primary risks in this business. First, to the extent we experience further asset impairments, asset or liability cash flow variability or reductions in the market value or rating eligibility of assets pledged as collateral, we may have insufficient resources to meet any increase in collateral margin requirements on guaranteed investment contracts or intercompany and third party liquidity or swap arrangements. In such events, we may be forced to sell additional assets at potentially substantial losses to meet such obligations. Second, as a result of a deficit in this business of cash, investments and other liquid assets at amortized cost to debt issued to third parties and affiliates at amortized cost, which deficit is expected to increase as a result of the negative spread in the portfolio, we may have insufficient assets to make all payments due on the investment agreement and GFL MTN obligations as they come due. In order to address this deficit, the Company is pursuing strategies such as investing in assets that produce higher yields and seeking to purchase liabilities at a discount, and may be required to pursue additional strategies such as raising capital to resolve the deficit. While the asset/liability products segment may receive further liquidity support from our corporate segment, there can be no assurance that such support would be adequate to meet all payment obligations.

The Company has managed the asset/liability products segment within a number of risk and liquidity parameters monitored by the Risk Oversight Committee and maintains cash and liquidity resources that it believes will be sufficient in the near term to make all payments due on the investment agreement and GFL MTN obligations and

Item 1. Business (continued)

to meet other financial requirements such as posting collateral and paying operating expenses. While we believe the strategies described above should be sufficient to enable the Company to meet longer term obligations, there can be no assurance that we will be successful, as described under Risk Factors Liquidity and Market Related Risk Factors in Part I, Item 1A. In addition, MBIA Inc., National, MBIA Corp. and Meridian Funding, LLC (Meridian), a subsidiary of MBIA Inc. within our conduit segment described further below, have provided funding arrangements to the asset/liability products segment which are available to use for cash and/or collateral posting needs. In particular, as a result of the illiquidity of fixed-income markets during 2008, we implemented intercompany agreements to provide additional liquidity from MBIA Inc., National, MBIA Corp. and Meridian to the asset/liability products business, which has reduced the liquidity resources available to MBIA Inc., National, MBIA Corp. and Meridian for other purposes. In the event that the value of the assets in the asset/liability products business is insufficient to repay the investment agreement and GFL MTN obligations or other financial requirements when due, the Company, or MBIA Corp. as guarantor of the investment agreements and GFL MTNs, may be called upon to satisfy the obligations.

Conduits

The conduits were used by banks and other financial institutions to raise funds for their customers in the capital markets. The conduits provided funding for multiple customers through special purpose vehicles that issue commercial paper and MTNs. The proceeds from these issuances were used to either make loans to customers that are secured by certain assets or to purchase assets from customers. All MTN liabilities issued, and all assets originally purchased, by the conduits were insured by MBIA Corp. and subject to MBIA Corp. s standard underwriting process. The conduits received an administrative fee as compensation for these services. No new MTNs have been issued by the conduits since 2007 and there have been no outstanding issues of commercial paper since 2008. The conduit segment provides liquidity support through a repurchase agreement between the asset/liability products segment (through MBIA Inc.) and the conduit segment (through Meridian), under which $50 million was outstanding as of December 31, 2010; this amount may be increased in the future.

The conduits present immaterial liquidity risk to the Company because of liquidity agreements independently entered into by one of the two conduits with third-party providers and because the assets of the second conduit are structured to mature by or before the maturity date of the liabilities. All of the liquidity agreements have been drawn.

INVESTMENTS AND INVESTMENT POLICY

Investment objectives, policies and guidelines related to the Company s insurance operations and the wind-down businesses are generally subject to review and approval by the Finance and Risk Committee of the Board of Directors and the Executive Market/Investment Committee of the Company. Cutwater manages the proprietary investment portfolios of the Company and its subsidiaries in accordance with the guidelines adopted for each such portfolio. Investment objectives, policies and guidelines related to investment activity on behalf of our insurance companies are also subject to review and approval by the respective Investment Committee of their Boards of Directors.

To continue to optimize capital resources and provide for claims-paying capabilities, the investment objectives and policies of our insurance operations are tailored to reflect their various strategies and operating conditions. The investment objectives of MBIA Corp. and its subsidiaries are primarily to maintain adequate liquidity to meet claims-paying and other corporate needs and secondarily to maximize after-tax yield within defined investment risk limits. The investment objectives of National set preservation of capital as the primary objective, subject to an appropriate degree of liquidity, and optimization of after-tax income and total return as secondary objectives. The investment portfolio of each insurance subsidiary is managed by Cutwater under separate investment services agreements.

The investment objectives and policies of the wind-down businesses reflect the characteristics of those programs. The primary investment objective is to provide sufficient liquidity to meet maturing liabilities (including intercompany liquidity agreements) and collateral posting obligations, while maximizing the net residual value of assets to liabilities in each program.

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Item 1. Business (continued)

COMPETITION

Our insurance companies compete with other monoline insurance companies, as well as other forms of credit enhancement, in writing financial guarantee business.

Our ability to attract and compete for financial guarantee business is largely dependent on the financial strength ratings assigned to our insurance companies by the major rating agencies. Since 2008, every significant monoline financial guarantee insurer has been downgraded by one or more of the major rating agencies. In 2009 the only two financial guarantee insurers that were underwriting significant new business merged, further reducing competition in the market. As a result, currently there is only one financial guarantee company that is underwriting significant new business. Given the capital position of the other licensed financial guarantee companies, we do not expect them to underwrite any new business in the near term. In the future, recapitalized existing bond insurers and/or newly formed entities may begin underwriting new business. In addition, changes to Article 69 of the New York Insurance Law, which regulates New York domiciled financial guarantee companies, could lower the barriers to entry for competitors. Finally, the inability of financial guarantee insurers to maintain or achieve high ratings, including due to the rating methodology changes proposed by S&P described above, could diminish acceptance of the product and enhance the appeal of other forms of credit enhancement.

Commercial banks also provide letters of credit as a means of credit enhancement for municipal securities. In 2010 the use of letters of credit as an alternative to financial guarantee insurance within the U.S. municipal market decreased substantially from its peak in 2009; however, letters of credit have remained a significant presence in the market. Furthermore, during 2010 uninsured issuances increased significantly as a percentage of all new U.S. municipal securities issuances, in part due to the increase in issuance of Build America Bonds, which reduce demand for bond insurance by providing a federal subsidy to reduce interest rates on covered obligations issued by states and local governments. The Build America Bonds authorization expired on December 31, 2010.

The actions by the major rating agencies with respect to the Company s and our insurance companies ratings have adversely affected our ability to attract new financial guarantee business. Furthermore, we are unlikely to achieve our desired credit ratings until we resolve the Transformation litigation. As a result, we have written virtually no new business since our ratings downgrades in 2008. The structured finance industry is generating very few new business opportunities, and it continues to be uncertain as to how or when the Company may re-engage this market.

Financial guarantee insurance also competes with other forms of credit enhancement, including senior-subordinated structures, credit derivatives, letters of credit and alternative guarantees (for example, mortgage guarantees where pools of mortgage loans secure debt service payments) provided by banks and other financial institutions, some of which are governmental agencies. Other highly rated institutions, including pension funds and government sponsored entities, also offer third-party credit enhancement on asset-backed and municipal obligations. Financial guarantee insurance and other forms of credit enhancement also compete in nearly all instances with the issuer s alternative of foregoing credit enhancement and paying a higher interest rate. If the interest savings from insurance or another form of credit enhancement are not greater than the cost of such credit enhancement, the issuer will generally choose to issue bonds without third-party enhancement. All of these alternative forms of credit enhancement or alternative executions could also affect our ability to reenter the financial guarantee business.

Certain characteristics of the financial guarantee insurance business act as barriers-to-entry to potential new competitors. For example, there are minimum capital requirements imposed on a financial guarantee insurance company by the rating agencies to obtain and maintain high financial strength ratings and these capital requirements may deter other companies from entering this market. However, there can be no assurance that these capital requirements will deter potential competitors from entering this market or that the market may not increasingly accept guarantees provided by lower rated insurers who have less stringent capital requirements. In addition, under New York law, multi-line insurers are prohibited from writing financial guarantee insurance in New York State. See the Our Insurance Operations Insurance Regulation section above. However, there can be no assurance that major multi-line insurers or other financial institutions will not participate in financial guarantee insurance in the future, either directly or through monoline subsidiaries.

Our Cutwater advisory services business competes for business with a number of banks, insurance companies and independent companies which provide investment advisory services, as well as with companies who manage

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Item 1. Business (continued)

their investments in-house. Competition varies by product and typically can range from very large asset management firms to very small operations. Cutwater s ability to compete for new advisory services business and to retain existing accounts is largely dependent on its investment performance for a specific client or in general (typically versus established benchmark indices), the consistency of its performance through market cycles, fee levels charged and the level of client service provided. Cutwater markets itself through its own field sales force as well as through various intermediaries such as broker dealers, investment consultants and financial advisors.

The Company also competes in the financial advisory market in Latin America through LatAm and elsewhere outside of the U.S. through International Advisory. LatAm s and International Advisory s ability to compete will depend on their ability to leverage their expertise in credit structuring and the surveillance, management and valuation of infrastructure assets to attract new financial advisory services clients in the markets in which they compete. Competition in these markets includes local and international investment banks and other diversified financial services providers.

RATING AGENCIES

Rating agencies perform periodic reviews of our insurance companies and other companies providing financial guarantee insurance. In rating financial guarantee companies, rating agencies focus on qualitative and quantitative characteristics in five key areas. Those are: (1) franchise value and business strategy; (2) insurance portfolio characteristics; (3) capital adequacy; (4) profitability; and (5) financial flexibility. Each agency has its own ratings criteria for financial guarantors and employs proprietary models to assess our risk adjusted leverage, risk concentrations and financial performance relative to the agency s standards. The agencies also assess our corporate governance and factor this into their rating assessment. Currently, S&P and Moody s rate the Company and its insurance companies. As described above, S&P has proposed for comment significant changes to its qualitative and quantitative rating criteria for financial guarantee insurers, and it remains uncertain whether and how the proposed changes may be implemented.

Until June 2008, MBIA Corp. held Triple-A financial strength ratings from S&P, which the Association received in 1974; from Moody s, which the Association received in 1984; from Fitch, Inc., which MBIA Corp. received in 1995; and from Rating and Investment Information, Inc. (RII), which MBIA Corp. received in 1998. The deterioration of certain segments of the credit markets beginning in the second half of 2007 and mounting concerns about monoline insurers precipitated a series of ratings downgrades by each of the major ratings agencies that began in June 2008, which were followed by further ratings actions reflecting the impact of the Transformation, among other developments. Furthermore, the pending litigation challenging the establishment of National has constrained our ability to take steps necessary to achieve the highest possible ratings for National and our other insurers. Fitch, Inc. withdrew its insurer financial strength ratings for MBIA Corp. and its insurance affiliates as well as all other related ratings in June 2008. At the Company s request, RII canceled its ratings on MBIA Corp. and CMAC in June 2008. Our current ratings constrain our ability to write new business. National s, MBIA Corp. s and MBIA Inc. s current financial strength ratings from S&P and Moody s are summarized below:

Agency	**Rating/Outlook**		
	National	MBIA Insurance Corporation	MBIA Inc.
S&P	BBB/Developing outlook	B / Negative outlook	B-/ Negative outlook
Moody s	Baa1 /Developing outlook	B3 / Negative outlook	Ba3 / Negative outlook

CAPITAL FACILITIES

The Company does not currently maintain a capital facility other than the Triple-A One credit facility described under Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity Credit Facilities in Part II, Item 7. For a discussion of the Company s capital resources see Management s Discussion and Analysis of Financial Condition and Results of Operations Capital Resources in Part II, Item 7.

Item 1. Business (continued)

FINANCIAL INFORMATION

For information on the Company s financial information by segment and premiums earned by geographic location, see Note 15: Business Segments in the Notes to Consolidated Financial Statements of MBIA Inc. and Subsidiaries in Part II, Item 8.

EMPLOYEES

As of February 24, 2011, the Company had 392 employees, including 167 in Optinuity, 35 in National, 61 in MBIA Corp. and its subsidiaries, 124 in Cutwater and 5 in LatAm. None of the Company s domestic employees is covered by a collective bargaining agreement. Certain of the Company s employees outside the U.S. are governed by national collective bargaining or similar agreements. The Company considers its employee relations to be satisfactory.

AVAILABLE INFORMATION

The Company maintains a website at www.mbia.com. The Company is not including the information on its website as a part of, nor is it incorporating such information by reference into, this Form 10-K. The Company makes available through its website under the SEC Filings tab, free of charge, all of its SEC filings, including its annual reports on Form 10-K, its quarterly filings on Form 10-Q and any current reports on Form 8-K, as soon as is reasonably practicable after these materials have been filed with the SEC. All such filings were timely posted to the website in 2010.

As a courtesy, the Company posts on its website under the section Legal Proceedings, selected information and documents in reference to selected legal proceedings in which the Company is the plaintiff or the defendant. The Company will not necessarily post all documents for each proceeding and undertakes no obligation to revise or update them to reflect changes in events or expectations. The complete official court docket can be publicly accessed by contacting the clerk s office of the respective court where each litigation matter is pending.

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Item 1. Business (continued)

EXECUTIVE OFFICERS OF THE REGISTRANT

The executive officers of the Company and their present ages and positions with the Company as of March 1, 2011 are set forth below:

Name	Age	Position and Term of Office
Joseph W. Brown	62	Chief Executive Officer and Director (officer since February, 2008)
C. Edward Chaplin	54	President, Chief Financial Officer and Chief Administrative Officer (officer since June, 2006)
William C. Fallon	51	President and Chief Operating Officer (officer since July, 2005)
Clifford D. Corso	49	Executive Vice President and Chief Investment Officer (officer since September, 2004)
Mitchell I. Sonkin	58	Executive Vice President and Chief Portfolio Officer (officer since April, 2004)
Ram D. Wertheim	56	Executive Vice President, Chief Legal Officer and Secretary (officer since January, 2000)

Joseph W. Brown (age 62) is Chief Executive Officer and director of the Company. Mr. Brown assumed the roles of Chairman, CEO and director in February 2008 after having retired as Executive Chairman of MBIA in May 2007. In May, 2009 the Company s Board of Directors accepted Mr. Brown s recommendation to split the roles of Chairman and CEO and elected Daniel P. Kearney as Non-Executive Chairman, with Mr. Brown continuing in the roles of CEO and director. Mr. Brown also serves as Chairman of MBIA Insurance Corporation. Until May 2004, Mr. Brown had served as Chairman and CEO of MBIA and MBIA Corp. Mr. Brown originally joined the Company as Chairman and CEO in January 1999 after having been a director since 1986.

Prior to joining MBIA in 1999, Mr. Brown was Chairman and CEO of Talegen Holdings, Inc., an insurance holding company. Before his election as Chairman and CEO of Talegen, Mr. Brown was President and CEO of Fireman s Fund Insurance Company. Mr. Brown joined Fireman s Fund in 1974. He held numerous executive positions including Chief Financial Officer at the time of its IPO in 1985 from American Express and President and Chief Operating Officer at the time of its sale to Allianz AG in 1990.

Mr. Brown served on the board of Oxford Health Plans from 2000 to 2004 and on the Board of Fireman Fund Holdings prior to the sale of its insurance subsidiary to Allianz. He served on the SAFECO board from 2001 to September 2008 and was elected Non-executive Chairman in January 2006.

On November 6, 2008, the Board of Directors of MBIA Inc. appointed the other executive officers of the Company to the office set forth opposite his name above, effective as of November 6, 2008.

Prior to being named President, Chief Financial Officer and Chief Administrative Officer, C. Edward Chaplin (age 54) was Vice President and Chief Financial Officer of the Company. Mr. Chaplin also serves as Chief Financial Officer of MBIA Insurance Corporation and President, Chief Financial Officer and Chief Administrative Officer of Optinuity. Prior to becoming an officer of the Company in June 2006, Mr. Chaplin had served as a director of the Company from December 2002 to May 2006 and as Senior Vice President and Treasurer of Prudential Financial Inc. since November 2000, responsible for Prudential s capital and liquidity management, corporate finance, and banking and cash management. Mr. Chaplin had been with Prudential since 1983.

Prior to being named President and Chief Operating Officer, William C. Fallon (age 51) was Vice President of the Company and head of the Global Structured Finance Division. Mr. Fallon also serves as Chief Executive Officer of National and President and Chief Operating Officer of MBIA Insurance Corporation. From July 2005 to March 1, 2007, Mr. Fallon was Vice President of the Company and head of Corporate and Strategic Planning. Prior to joining the Company in 2005, Mr. Fallon was a partner at McKinsey & Company and co-leader of that firm s Corporate Finance and Strategy Practice.

Prior to being named Executive Vice President and Chief Investment Officer, Clifford D. Corso (age 49) was Vice President of the Company, the Company s Chief Investment Officer and the president of Cutwater AMC. Mr. Corso is the Chief Executive Officer and Chief Investment Officer of Cutwater AMC. He joined the Company in 1994 and has served as Chief Investment Officer since 2000.

Item 1. Business (continued)

Prior to being named Executive Vice President and Chief Portfolio Officer, Mitchell I. Sonkin (age 58) was Vice President of the Company and head of the IPM Division. Mr. Sonkin also serves as Chief Portfolio Officer of MBIA Insurance Corporation and Optinuity. Prior to joining the Company in April 2004, Mr. Sonkin was senior partner and co-chair of the Financial Restructuring Group of the international law firm of King & Spalding.

Prior to being named Executive Vice President, Chief Legal Officer and Secretary, Ram D. Wertheim (age 56) was Vice President, General Counsel and Secretary of the Company. Mr. Wertheim also serves as General Counsel of MBIA Insurance Corporation and Optinuity. From February of 1998 until January 2000, he served in various capacities in the Global Structured Finance Division. Mr. Wertheim was, until February of 1998, the General Counsel of CMAC Holdings Inc.

Item 1A. Risk Factors

References in the risk factors to the Company are to MBIA Inc., together with its domestic and international subsidiaries. References to we, our and us are to MBIA Inc. or the Company, as the context requires.

Insured Portfolio Loss Related Risk Factors

There can be no assurance that we will be successful, or that we will not be delayed, in realizing our estimated loan put-back recoveries of $2.5 billion; the estimated loan put-back recoveries net of reinsurance and income taxes are $1.6 billion, which is in excess of 50% of the consolidated total shareholders equity of MBIA Inc., excluding preferred stock of subsidiaries

Based on our forensic reviews and the analysis of RMBS transactions insured by MBIA Corp., we believe that multiple sellers/servicers and counterparties that originated or sponsored such transactions misrepresented the nature and/or quality of the underlying mortgage loans in those transactions, which materially contributed to the losses we have incurred to date on those transactions and which represent a substantial portion of the total losses we have incurred since the fourth quarter of 2007. We refer to those mortgage loans that the Company believes failed to comply with the representations and warranties made by the seller/servicer as ineligible mortgage loans. We believe that, on a contractual basis, the sellers/servicers in MBIA Corp.-insured mortgage transactions are obligated to cure, replace or repurchase all the ineligible mortgage loans for which we have recorded potential recoveries. As such, we take into account these expected recoveries from those sellers/servicers arising from our contractual right of put-back of ineligible assets in our assessment and calculation of loss reserve. As of December 31, 2010, we have recognized estimated loan put-back recoveries of $2.5 billion related to our insured transactions. The estimated loan-put-back recoveries net of reinsurance and income taxes are $1.6 billion, which is in excess of 50% of the consolidated total shareholders equity of MBIA Inc., excluding preferred stock of subsidiaries. A substantial majority of our put-back claims have been disputed by the loan sellers/servicers and are currently subject to litigation. The recovery amount is based upon five probability based scenarios that include full recovery of our incurred losses and reduced recoveries due to litigation delays and risks and/or potential financial distress of the sellers/servicers. Probabilities are assigned across these scenarios, with most of the probability weight on partial recovery scenarios. In addition, while our estimates of put-back recoveries include scenarios that contemplate a delay or failure in enforcing our contractual rights and the inability of responsible parties to satisfy their put-back obligations, and while we believe that we will prevail in enforcing our contractual rights, there is uncertainty with respect to the ultimate outcome.

Although government sponsored market participants and some financial guarantee insurers have been successful in putting back ineligible mortgage loans to sellers/servicers, and other financial guarantee insurers situated similarly to MBIA have recorded similar expected recoveries for RMBS transaction losses, recoveries of the scope and magnitude that we have recorded have not yet been realized by another financial guarantee insurer.

If we fail to ultimately realize the expected recoveries, our current loss reserve estimates may not be adequate to cover potential claims. Furthermore, estimated recoveries may differ from realized recoveries due to the uncertainty of litigation, the cost of litigation, error in determining breach rates, counterparty credit risk, the potential for delay and other sources of uncertainty. In addition, our sellers/servicers litigation may take up to several years to resolve, during which time we will be required to pay losses on the subject transactions.

Item 1A. Risk Factors (continued)

Material misrepresentations made by sponsors of transactions that we insured and continued poor performance of RMBS and CDOs in our structured finance insured portfolio due to adverse developments in the residential mortgage sector may materially and adversely affect our financial condition, results of operations and future business

We are exposed to risk of poor performance of assets included in our insured transactions, particularly residential mortgage loans, arising from material misrepresentations made by transaction sponsors and the refusal of the sellers/servicers to perform under the related contracts. In addition, we are exposed to credit risks in our portfolio that have arisen from the deterioration and continued poor performance of certain segments of the credit markets, particularly the residential mortgage sector, which has led to the deterioration in the quality of assets and the collection of cash flows from such assets within structured securities that we have guaranteed. Based on our forensic reviews and analysis of RMBS we insured, we believe that multiple sellers/servicers and counterparties that originated or sponsored transactions that we insured misrepresented the nature and/or quality of the residential mortgage loans that back those transactions, which materially contributed to the losses we have incurred to date on those transactions and which represent a substantial portion of the total losses we have incurred since the fourth quarter of 2007. Losses in these transactions and in other transactions due to misrepresentations could continue. In sizing loss reserves relating to these transactions, we take into account expected recoveries from those sellers/servicers arising from our contractual rights of put-back of ineligible loans. As of December 31, 2010 we recorded estimated recoveries of $2.5 billion related to insured transactions. The recovery amount is based upon five probability based scenarios that include full recovery of our incurred losses and reduced recoveries due to litigation delays and risks and/or potential financial distress of the sellers/servicers. Probabilities are assigned across these scenarios, with most of the probability weight on partial recovery scenarios. While we believe that the originators are contractually obligated to cure, purchase or replace the ineligible loans, if we fail to realize these expected recoveries our loss reserve estimates may not be adequate to cover potential claims.

In addition, beginning in the second half of 2007, deterioration of the global credit markets coupled with the re-pricing of credit risk created extremely difficult market conditions and volatility in the credit markets. The concerns on the part of market participants were initially focused on the subprime segment of the U.S. mortgage-backed securities market and expanded to include a broad range of mortgage and asset-backed and other fixed-income securities, including those rated investment grade, the U.S. and international credit and interbank money markets generally, and a wide range of financial institutions and markets, asset classes and sectors. The deterioration in the credit markets was accompanied by a severe economic recession precipitated, in part, by the collapse of U.S. residential home prices, and the U.S. economy continues to show sluggish growth in the employment, housing and financial sectors. While many segments of the global credit markets and the economy have since recovered, the performance of certain credits we insure, in particular RMBS and CDOs of ABS, and the U.S. housing sector generally, have deteriorated significantly since 2007 and those credits continue to perform poorly. Furthermore, the slow recovery suggests the possibility of a double dip in housing prices, which could extend the poor performance of our insured transactions, in particular our insured RMBS transactions due to the continued strain caused by the inclusion of ineligible mortgage loans in our insured transactions.

Although we have sought to underwrite direct RMBS, CDOs of ABS and other structured finance transactions with levels of subordination and other credit enhancements designed to protect us from loss in the event of poor performance of the underlying assets collateralizing the securities, we recorded losses and LAE in our structured finance portfolio of $159 million, after the elimination of a $79 million expense as a result of consolidating variable interest entities (VIEs), in 2010 due in part to projected inadequacies of such credit enhancements in securities we have guaranteed. Furthermore, since the third quarter of 2007 we have recorded losses and LAE of $2.7 billion, after the elimination of $60 million of losses and LAE incurred on behalf of consolidated VIEs, (including a $3 million benefit in 2010 after the elimination of a $60 million benefit as a result of consolidating VIEs) related to insured RMBS exposures. We believe that a substantial portion of the direct RMBS losses paid by the Company were the result of misrepresentations concerning the quality of the collateral backing those transactions, which we believe is the main cause of the high level of losses in those transactions and the primary reason why the original level of subordination and other credit enhancement has not been sufficient. In addition, there were statutory impairments of $2.6 billion (including $50 million of impairments in 2010) related to exposure in ABS insured credit derivatives.

No assurance can be given that any remaining credit enhancements will prove to be adequate to protect us from incurring additional material losses in view of the current significantly higher rates of delinquency, foreclosure and losses being observed among residential mortgage loans and home equity lines of credit (HELOCs). While

Item 1A. Risk Factors (continued)

continued poor performance in some of the structured finance securities we insure is generally expected, the additional impact of misrepresentations made to us in transactions we insure and the impact of any future continued deterioration of the credit markets is unknown, as is the impact, if any, on potential claim payments and ultimate losses of the securities within our portfolio.

Deteriorating performance of commercial mortgage-backed securities and CRE loans in our structured finance insured portfolio due to adverse developments in the CRE segment of the credit markets may materially and adversely affect our financial condition, results of operations and future business

MBIA Corp. has insured a substantial amount of CDS contracts that are backed by structured commercial mortgage-backed security (CMBS) pools and CRE loan CDOs. As a result of poor performance in the CRE sector, recently we have seen deteriorating trends in delinquencies in mortgage loans underlying CMBS and CRE CDOs, and we recorded our first impairments related to CMBS exposure in 2010. As of December 31, 2010 we have recorded impairments of $1.1 billion related to CMBS exposure. While MBIA Corp. s structured CMBS pool insured position was rated AAA at origination by at least one of Moody s Investors Service, Inc. (Moody s), Standard & Poor s Financial Services LLC (S&P) and/or Fitch, 47% of the collateral was originally rated BBB and lower. As of December 31, 2010, 69% of CMBS collateral underlying pools insured by MBIA Corp. were rated below investment grade. In 2006 and 2007, we insured 21 static CMBS pools with $17.6 billion of gross par outstanding as of December 31, 2010 in which substantially all of the underlying collateral comprised CMBS tranches originally rated BBB and lower. Within our CRE CDO portfolio, we had five transactions within 2006 or 2007 vintages totaling $2.4 billion of gross par outstanding as of December 31, 2010 in which substantially all of the collateral originally comprised BBB or BBB- rated tranches of CMBS. Although loan liquidations and property sales are just beginning to take place within the underlying MBIA Corp.-insured CMBS transactions, delinquencies have increased markedly in the CRE market over the last two years given the economic downturn and the shortage of financing. While average debt coverage ratios on our portfolio are higher as of December 31, 2010 compared with December 31, 2009, debt coverage ratios on some loans have deteriorated in this sector. In addition, since CMBS foreclosures and liquidations have only recently begun to take place in this economic cycle, ultimate loss rates are highly uncertain. To the extent that these trends worsen and result in substantial defaults and losses on the underlying mortgage loans, we could incur substantial additional losses on our CMBS and CRE portfolio.

Furthermore, MBIA Corp. s guarantees of structured CMBS pools generally are in the form of CDS referencing the CMBS bonds in static pooled transactions, and the same CMBS bonds may be referenced in multiple pools. Accordingly, a collateral failure on a small number of CMBS bonds may require MBIA to make payments on several insured CDS transactions. In the event MBIA failed to make these payments, MBIA s CDS contract obligations could be accelerated, which could materially and adversely affect our financial condition and results of operations.

There can be no assurance that we will be successful, or that we will not be delayed, in enforcing the agreements governing the various structured finance transactions we insure, and the failure to enforce such contractual provisions could have a material adverse effect on our liquidity and financial condition

While we have sought to underwrite direct RMBS, CMBS and CDOs of ABS with levels of subordination and other credit enhancements designed to protect us from loss in the event of poor performance of the underlying assets collateralizing the securities in the insured portfolio, there can be no assurance that we will be successful, or that we will not be delayed, in enforcing the subordination provisions, credit enhancements or other contractual provisions of the RMBS, CMBS and CDOs of ABS that we insure in the event of litigation or the bankruptcy of other transaction parties. In addition, although we are confident in our interpretation of the subordination provisions of the CDO transactions we have insured, our insured CDO transactions have not previously been subject to judicial consideration and it is uncertain how the subject documents in those transactions will be interpreted by the courts in the event of an action for enforcement. Moreover, although the RMBS obligations we insure typically include contractual provisions obligating the sellers/services to cure, repurchase or replace ineligible loans that were included in the transaction, in multiple transactions the sellers/servicers have breached this obligation, and, as described above, there can be no assurance that we will be successful, or that we will not be delayed, in realizing estimated put-back recoveries related to these insured transactions. Furthermore, we are required to pay losses on these securities irrespective of any proceeding we initiate to enforce our contractual rights. Accordingly, the failure to timely enforce subordination provisions, credit enhancements, repurchase or replacement obligations and other contractual provisions could have a material adverse effect on our liquidity and financial condition.

Item 1A. Risk Factors (continued)

Loss reserve estimates and credit impairments are subject to additional uncertainties and loss reserves may not be adequate to cover potential claims

The financial guarantees issued by our insurance companies insure the financial performance of the obligations guaranteed over an extended period of time, in some cases over 30 years, under policies that we have, in most circumstances, no right to cancel. As a result of the lack of statistical paid loss data due to the historically low level of paid claims in our financial guarantee business, we do not use traditional actuarial approaches to determine our loss reserves. The establishment of the appropriate level of loss reserves is an inherently uncertain process involving numerous estimates and subjective judgments by management, and therefore, there can be no assurance that actual paid claims in our insured portfolio will not exceed its loss reserves. Small changes in the assumptions underlying these estimates could significantly impact loss expectations. Additionally, we use both internal models as well as models generated by third-party consultants and customized by us to project future paid claims on our insured portfolio and establish loss reserves. There can be no assurance that the future loss projections based on these models are accurate.

Losses on RMBS related to the large number of ineligible mortgage loans included in RMBS securitizations that we insured as well as unprecedented volatility in the credit markets that began in the fourth quarter of 2007 has caused us to increase our loss projections substantially several times especially for RMBS transactions, where expected losses are far worse than originally expected and in many cases far worse than the worst historical losses. As a result, historical loss data may have limited value in predicting future RMBS losses. Moreover, in sizing loss reserves with respect to our insured transactions, we take into account expected recoveries from originators of the transactions arising from our contractual rights of put-back of ineligible loans, and these estimated recoveries may differ from realized recoveries due to the outcome of litigation, the cost of litigation, error in determining breach rates, counterparty credit risk, the potential for delay and other sources of uncertainty. In addition, we recorded our first credit impairments related to CMBS exposure in 2010, which reflect our current estimate of ultimate losses. However, if the deterioration of the CRE market worsens, we could incur substantial losses on our CMBS and CRE portfolio in excess of these estimates. We recorded losses and LAE of $2.7 billion related to insured RMBS exposures, after the elimination of a $60 million benefit as a result from consolidating VIEs, since the third quarter of 2007 (including a $3 million benefit in 2010 after the elimination of a $60 million benefit as a result from consolidating VIEs). Our financial guarantee ABS CDO portfolio has also seen considerable stress and credit deterioration in the market. To date, we have recorded losses and LAE of $270 million, after the elimination of a $71 million expense as a result from consolidating VIEs (including $118 million in 2010 after the elimination of a $71 million expense as a result from consolidating VIEs), on the ABS CDOs that have case basis reserves as of December 31, 2010. During 2010, losses and LAE of $159 million, after the elimination of a $79 million expense as a result from consolidating VIEs, was recorded for the entire structured finance portfolio.

Since our insured credit derivatives have similar terms, conditions, risks, and economic profiles to our financial guarantee insurance policies, we evaluate them for impairment periodically in the same way that we estimate loss and LAE for our financial guarantee policies. Since the third quarter of 2007 we have recorded impairments of $3.7 billion (including $1.2 billion of impairments in 2010) related to insured credit derivatives across our structured finance insured portfolio. Future deterioration in the performance of RMBS, CMBS, CDOs of ABS or other obligations we insure or reinsure could lead to the establishment of additional loss reserves or impairments and further losses or reductions in income. There can be no assurance that the estimates of probable and estimable losses are accurate. Actual paid claims could exceed our estimate and could significantly exceed our loss reserves. If our loss reserves are not adequate to cover actual paid claims, our results of operations and financial condition could be materially adversely affected.

Recent difficult economic conditions may materially adversely affect our business and results of operations and they may not improve in the near future, or may worsen

Our results of operations are materially affected by general economic conditions, both in the U.S. and elsewhere around the world. Beginning in the second half of 2007 and continuing in 2008, global financial, equity and other markets experienced significant stress, which reached unprecedented levels in the fourth quarter of 2008. While the U.S. economy has grown over the past six quarters and many segments of the global capital markets have since recovered, continued concerns over the availability and cost of credit for certain borrowers, the U.S. mortgage market and a declining or flat real estate market in the U.S. have contributed to diminished expectations for the global economy and certain markets going forward. These factors, combined with low business and

Item 1A. Risk Factors (continued)

consumer confidence and high unemployment, precipitated a recession and slow recovery in 2008-2010 which continues to challenge the U.S. and other overall economies and suggested a prolonged depression of the real estate market and the possibility of a double dip in both house prices and the broader economy.

Losses resulting from recent poor economic conditions and the related weak performance of RMBS (in particular due to the inclusion of ineligible loans in RMBS we insured), as well as CMBS, have adversely impacted, and continue to impact our results and financial condition. In addition, recessions, increases in corporate, municipal, sovereign, sub-sovereign or consumer default rates and other general economic conditions may adversely impact the Company s prospects for future business, as well as the performance of our insured portfolios and the Company s investment portfolio. In particular, the deterioration of certain sectors of the credit markets has caused a significant decline in the number of structured finance securities that have been issued since the fourth quarter of 2007. There can be no assurance that the market for structured finance securities will recover or that we will achieve the credit ratings necessary to insure new structured finance issuances, which may adversely affect our business prospects. In addition, U.S. public finance obligations supported by specified revenue streams, such as revenue bonds issued by toll road authorities, municipal utilities or airport authorities, may be adversely affected by revenue declines resulting from economic recession, reduced demand, changing demographics or other factors.

Insured credit derivatives may be riskier than our traditional financial guarantee products

The structured finance and international segment s financial guarantee contracts and CDS contracts generally cannot be accelerated, thereby mitigating liquidity risk. However, with respect to the insurance of CDS contracts, in certain events, including the insolvency or payment default of the insurer or the issuer of the CDS, the CDS contracts may be subject to termination by the counterparty, triggering a claim for the fair value of the contract. In addition, credit derivative transactions are governed by International Swaps and Derivatives Association (ISDA) documentation and operate differently from financial guarantee insurance policies. For example, the Company s control rights with respect to a reference obligation under a credit derivative may be more limited than when it issues a financial guarantee insurance policy on a direct primary basis. In addition, a credit derivative may be terminated for a breach of the ISDA documentation or other specific events, unlike financial guarantee insurance policies. If a credit derivative is terminated, the Company could be required to make a mark-to-market payment as determined under the ISDA documentation.

Servicer risk could adversely impact performance of Structured Finance transactions

Structured finance obligations contain certain risks including servicer risk, which relates to problems with the transaction servicer (the entity which is responsible for collecting the cash flow from the asset pool) that could affect the servicing and performance of the underlying assets. Structural risks primarily involve bankruptcy risks, such as whether the servicer of the assets may be required to delay the remittance of any cash collections held by it or received by it after the time it becomes subject to bankruptcy or insolvency proceedings. Structured finance transactions are usually structured to reduce the risk to the investors from the bankruptcy or insolvency of the servicer. The ability of the servicer to properly service and collect on the underlying assets can contribute to the performance of a transaction. The ability of the servicer to maintain contact with borrowers is especially important in transactions that included improperly originated or ineligible loans. Certain of the lawsuits we have filed allege that the servicer has failed to perform its duties as contractually required. While we assess future servicer performance through our servicer due diligence and underwriting guidelines, our formal credit review and approval process and our post-closing servicing review and monitoring, there is no assurance that the servicer will properly affect its duties.

Some of the state and local governments and finance authorities that issue public finance obligations we insure are experiencing unprecedented budget shortfalls that could result in increased credit losses or impairments on those obligations

We have historically experienced low levels of defaults in our U.S. public finance insured portfolio, including during the financial crisis that began in mid-2007. However, recently many state and local governments that issue some of the obligations we insure have reported unprecedented budget shortfalls that will require them to significantly raise taxes and/or cut spending in order to satisfy their obligations. While there has been some support provided by the U.S. federal government designed to provide aid to state and local governments, certain

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Item 1A. Risk Factors (continued)

state and local governments remain under extreme financial stress. If the issuers of the obligations in our public finance portfolio are unable to raise taxes, cut spending, or receive federal assistance, we may experience losses or impairments on those obligations, which could materially and adversely affect our business, financial condition and results of operations.

Financial modeling contains uncertainty over ultimate outcomes which makes it difficult to estimate liquidity, potential paid claims, loss reserves and mark-to-market

The Company uses third-party and internal financial models to estimate liquidity, potential paid claims, loss reserves and mark-to-market. We use internal financial models to conduct liquidity stress-scenario testing to ensure that we maintain cash and liquid securities in an amount in excess of all stress scenario payment requirements. These measurements are performed on a legal entity and operating segment basis. We also rely on financial models, generated internally and supplemented by models generated by third parties, to estimate factors relating to the highly complex securities we insure, including future credit performance of the underlying assets, and to evaluate structures, rights and our potential obligations over time. We also use internal models for ongoing portfolio monitoring and to estimate case basis loss reserves and, where applicable, to mark our obligations under our contracts to market and may supplement such models with third-party models or use third-party experts to consult with our internal modeling specialists. Both internal and external models are subject to model risk and there can be no assurance that these models are accurate or comprehensive in estimating our liquidity, potential future paid claims and related loss reserves or that they are similar to methodologies employed by our competitors, counterparties or other market participants. Estimates of our future paid claims, in particular, may materially impact our liquidity position. In addition, changes to our paid claims, loss reserve or mark-to-market models have been made recently and may be warranted in the future. These changes could materially impact our financial results.

Our risk management policies and procedures may not detect or prevent future losses

We assess our risk management policies and procedures on a periodic basis. As a result of such assessment, we may take steps to change our internal risk assessment capabilities and procedures, our portfolio management policies, systems and processes and our policies and procedures for monitoring and assessing the performance of our insured portfolio in changing market conditions. There can be no assurance, however, that these steps will be adequate to avoid future losses.

Geopolitical conditions may adversely affect our business prospects and insured portfolio

General global unrest, fraud, terrorism, catastrophic events, natural disasters, pandemics or similar events could further disrupt the economy in the U.S. and the other countries where we have insured exposure or operate our businesses and could have a direct material adverse impact on certain industries and on general economic activity. Furthermore, in certain jurisdictions outside the U.S. we face higher risks of governmental intervention through nationalization or expropriation of assets, an inability to enforce our rights in court or otherwise and corruption, which may cause us to incur losses on the assets we insure or reputational harm. The Company has exposure in certain sectors that could suffer increased delinquencies and defaults as a direct result of these types of events. Moreover, we are exposed to correlation risk as a result of the possibility that multiple credits will experience losses as a result of any such event or series of events, in particular exposures that are backed by revenues from business and personal travel, such as domestic enhanced equipment trust certificate aircraft securitizations and bonds backed by hotel taxes and car rental fleet securitizations. To the extent that certain corporate sectors may be vulnerable to credit deterioration and increased defaults in the event of future global unrest, CDOs backed by pools of corporate debt issuances in those stressed sectors could also be adversely impacted.

The Company s insurance operations underwrite exposures to the Company s reasonable expectation of future performance as well as at various stress levels estimating defaults and other conditions at levels higher than are reasonably expected to occur. There can be no assurance, however, that the Company will not incur material losses if the economic stress and increased defaults in certain sectors caused by global unrest, fraud, terrorism, catastrophic events, natural disasters, pandemics or similar events in the future is or will be more severe than the Company currently foresees and had assumed in underwriting its exposures and estimating loss reserves.

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Item 1A. Risk Factors (continued)

Liquidity and Market Related Risk Factors

Adverse developments in the credit markets may materially and adversely affect our ability to meet liquidity needs

As a financial services company, we are particularly sensitive to liquidity risk, which is the probability that an enterprise will not have sufficient resources to meet contractual payment obligations when due. Management of liquidity risk is of critical importance to financial services companies, and most failures of financial institutions have occurred in large part due to their inability to maintain sufficient liquidity resources under adverse circumstances. Generally, lack of sufficient resources results from an enterprise s inability to sell assets at values necessary to satisfy payment obligations, the inability to access new capital through the issuance of equity or debt and/or an unexpected acceleration of payments required to settle liabilities.

We encounter liquidity risk in our insurance operations, wind-down asset/liability products and conduits business and corporate operations. The effects of the credit crisis which began in the subprime segment of the mortgage-backed securities market and spread to a wide range of financial institutions and markets, asset losses and sectors, has caused the Company to experience material increased liquidity risk pressures in all of its operations and businesses. In particular, since the fourth quarter of 2007, MBIA Corp. has paid $5.5 billion of gross claims, including $461 million of claims made on behalf of consolidated VIEs, on policies insuring second-lien and alternative A-paper (Alt-A) RMBS securitizations, which we believe were driven primarily by a substantial number of ineligible mortgage loans being placed in the securitizations in breach of the representations and warranties of the sellers/servicers. Furthermore, while we recorded our first impairments related to CMBS exposure in 2010, if current trends worsen and result in substantial defaults and losses on the underlying loans, we could incur substantial additional losses on our insured CMBS and CRE portfolio in the future. In MBIA Corp. s outstanding insured portfolio, these types of insured exposures have exhibited the highest degree of payment volatility and continue to pose material liquidity risk to MBIA Corp.

The elevated loss payments and resulting ratings downgrades for our insurance companies that began in June 2008 caused a drop in cash from new direct insurance writings. The downgrades have resulted in the termination and collateralization of certain investment agreements and, together with the rising cost and declining availability of funding and illiquidity of many asset classes, caused the Company to begin winding down its asset/liability products and conduit businesses in 2008 as a result of the rebalancing of the portfolio. There are two primary risks in the business. First, to the extent we experience further asset impairments, asset or liability cash flow variability or reductions in the market value or rating eligibility of assets pledged as collateral, we may have insufficient resources to meet any increase in collateral margin requirements on guaranteed investment contracts or intercompany and third party liquidity or swap arrangements. In such events, we may be forced to sell additional assets at potentially substantial losses to meet such obligations. Second, as a result of a deficit in this business of cash, investments and other liquid assets at amortized cost to debt issued to third parties and affiliates at amortized cost, which deficit is expected to increase as a result of the negative spread in the portfolio, we may have insufficient assets to make all payments due on the investment agreement and GFL MTN obligations as they come due. In order to address this deficit, the Company is pursuing strategies such as investing in assets that produce higher yields and seeking to purchase liabilities at a discount, and may be required to pursue additional strategies such as raising capital to resolve the deficit. While the asset/liability products segment may receive further liquidity support from our corporate segment, there can be no assurance that such support would be adequate to meet all payment obligations. In the event that the value of the assets in the asset/liability products business is insufficient to repay the investment agreement and GFL MTN obligations or other financial requirements when due, the Company, or MBIA Corp. as guarantor of the investment agreements and GFL MTNs, may be called upon to satisfy the obligations.

In addition, the impact of the elevated loss payments and resulting ratings downgrades on the Company s operating businesses combined with the effect of the Transformation of our insurance business has for the time being eliminated MBIA Corp. s ability to pay dividends to the holding company, if needed, to enable the holding company to meet its debt service and other operating expense needs, and the plaintiffs in the litigation challenging the establishment of National have initiated a court proceeding challenging the NYSID s approval of National s surplus reset which facilitated its ability to pay dividends. Furthermore, it is unclear whether the Company or its subsidiaries will be able to access the capital markets, particularly before the Transformation litigation is resolved. See Legal Proceedings in Part I, Item 3. Finally, if certain of our corporate debt obligations

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Item 1A. Risk Factors (continued)

were to become accelerated, which could occur due to MBIA Corp. entering rehabilitation proceedings, among other events, MBIA Inc. might have insufficient assets to repay the accelerated obligations.

If losses on the Company s RMBS, CDO and CMBS transactions rise, market and economic conditions worsen, and the Company is not successful or is delayed in realizing expected loss recoveries, the Company could face additional liquidity pressure in all of its operations and businesses. Further stress could increase liquidity demands on the Company or decrease its liquidity supply through additional defaulted insured exposures or devaluations and/or impairments of its invested assets. These pressures could arise from exposures beyond residential mortgage related stress, which to date has been the main cause of stress, in particular from the CMBS sector, which has begun to deteriorate. For further discussion on the Company s liquidity risk, see Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity in Part II, Item 7.

An inability to access capital could adversely affect our business, operating results and financial condition and ultimately adversely affect liquidity

The Company s access to external sources of financing, as well as the cost of such financing, is dependent on various factors, including (i) the long term debt ratings of the Company, (ii) the insurance financial strength ratings and long-term business prospects of our insurance companies, (iii) the perceptions of the financial strength of our insurance companies and MBIA Inc., and (iv) the outcome of the Transformation litigation. Our debt ratings are influenced by numerous factors, either in absolute terms or relative to our peer group, such as financial leverage, balance sheet strength, capital structure and earnings trends. If we cannot obtain adequate capital on favorable terms or at all, our business, future growth, operating results and financial condition could be adversely affected.

Beginning in the second half of 2008, the volatility and disruption in the global credit markets exerted downward pressure on availability of liquidity and credit capacity for certain issuers, including MBIA, with credit spreads widening considerably.

As a result of the illiquidity of fixed-income markets during 2008, we implemented intercompany agreements to provide additional liquidity from MBIA Inc., MBIA Corp., National and Meridian to the asset/liability products business, and this has reduced the liquidity resources available to MBIA Inc., MBIA Corp., National and Meridian for other purposes. Furthermore, the Company drew its contingent capital facility and no longer maintains credit facilities with third-party providers. There can be no assurance that replacement facilities will be available in the future, in particular prior to the resolution of the Transformation litigation. The inability to obtain adequate replacement capital on favorable terms or at all could have an adverse impact on the Company s business and financial condition.

To the extent that we are unable to access capital, our insurance companies may not have sufficient liquidity to meet their obligations, will have less capacity to write business and may not be able to pay dividends to us without experiencing adverse rating agency action. Accordingly, our inability to maintain access to capital on favorable terms could have an adverse impact on our ability to pay losses and debt obligations, to pay dividends on our capital stock, to pay principal and interest on our indebtedness, to pay our operating expenses and to make capital investments in our subsidiaries. See Our holding company structure and certain regulatory and other constraints could affect our ability to pay dividends and make other payments in this section.

Our holding company structure and certain regulatory and other constraints could affect our ability to pay dividends and make other payments

We are a holding company and rely to a significant degree on the operations of our principal operating subsidiaries, National, MBIA Corp. and Cutwater, and certain other smaller subsidiaries. As such, we are largely dependent on dividends or advances in the form of intercompany loans from our insurance companies to pay dividends, to the extent payable, on our capital stock, to pay principal and interest on our indebtedness and to make capital investments in our subsidiaries, among other items. Our insurance companies are subject to various statutory and regulatory restrictions, applicable to insurance companies generally, that limit the amount of cash dividends, loans and advances that those subsidiaries may pay to us. Regulations relating to capital requirements affecting some of our other subsidiaries may also restrict their ability to pay dividends and other distributions and make loans to us.

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Item 1A. Risk Factors (continued)

Under New York law, National and MBIA Corp. may generally pay stockholder dividends only out of statutory earned surplus and subject to additional limits, as described in Business Insurance Regulation in Part I, Item 1 and Note 17: Insurance Regulations and Dividends in the Notes to Consolidated Financial Statements of MBIA Inc. and Subsidiaries in Part II, Item 8. MBIA Corp. is currently unable to pay dividends because of its reported negative surplus, and while National had dividend capacity of $91 million as of December 31, 2010, at the current time we do not intend for National to declare dividends and in October 2010, the plaintiffs in the litigation challenging the establishment of National initiated a court proceeding challenging the NYSID s approval of National s surplus reset which facilitated its ability to pay dividends. Dividends payments by MBIA UK and MBIA Mexico to MBIA Insurance Corporation are also limited by the laws of their respective jurisdictions.

Additionally, under New York law, the Superintendent may apply for an order directing the rehabilitation or liquidation of a domestic insurance company under certain circumstances, including upon the insolvency of the company, if the company has willfully violated its charter or New York law or if the company is found, after examination, to be in such condition that further transaction of business would be hazardous to its policyholders, creditors or the public. The Superintendent may also suspend an insurer s license, restrict its license authority, or limit the amount of premiums written in New York if, after a hearing, the Superintendent determines that the insurer s surplus to policyholders is not adequate in relation to its outstanding liabilities or financial needs. If the Superintendent were to take any such action with respect to National or MBIA Corp., it would likely result in the reduction or elimination of the payment of dividends to us.

The inability of our insurance companies to pay dividends in an amount sufficient to enable us to meet our cash requirements at the holding company level could affect our ability to repay our debt and have a material adverse effect on our operations.

Changes in interest rates and foreign currency exchange rates could adversely affect our financial condition and future business

Increases in prevailing interest rate levels can adversely affect the value of MBIA s investment portfolio and, therefore, our financial condition. In the event that investments must be sold in order to make payments on insured exposures or other liabilities, such investments would likely be sold at discounted prices. Lower interest rates can also result in lower net interest income since a substantial portion of assets are now held in cash and cash equivalents given the increased focus on liquidity. Additionally, in the insurance operations, increasing interest rates could lead to increased credit stress on transactions in our insured portfolio, while a decline in interest rates could result in larger loss reserves on a present value basis.

While we are not currently writing any new financial guarantee insurance, we expect to do so in the future. Prevailing interest rate levels can affect demand for financial guarantee insurance. Lower interest rates are typically accompanied by narrower spreads between insured and uninsured obligations. The purchase of insurance during periods of relatively narrower interest rate spreads will generally provide lower cost savings to the issuer than during periods of relatively wider spreads. These lower cost savings could be accompanied by a corresponding decrease in demand for financial guarantee insurance. Increased interest rates may decrease attractiveness for issuers to enter into capital markets transactions, resulting in a corresponding decreasing demand for financial guarantee insurance in the future.

In addition, the Company is exposed to foreign currency exchange rate fluctuation risk in respect of assets and liabilities denominated in currencies other than U.S. dollars. In addition to insured liabilities denominated in foreign currencies, some of the remaining liabilities of our asset/liability management business are denominated in currencies other than U.S. dollars and the assets of our asset/liability management business are generally denominated in U.S. dollars. Accordingly, the weakening of the U.S. dollar versus foreign currencies could substantially increase our potential obligations and statutory capital exposure. Conversely, the Company regularly makes investments denominated in a foreign currency, in particular as part of a remediation strategy or as an economic hedge against potential future loss payments, and the weakening of the foreign currency versus the U.S. dollar will diminish the value of such non-U.S. dollar denominated asset. Exchange rates have fluctuated significantly in recent periods and may continue to do so in the future, which could adversely impact the Company s financial position, results of operations and cash flows.

Item 1A. Risk Factors (continued)

Revenues and liquidity would be adversely impacted due to a decline in realization of installment premiums

Due to the installment nature of a significant percentage of its premium income, MBIA Corp. has an embedded future revenue stream. The amount of installment premiums actually realized by MBIA Corp. could be reduced in the future due to factors such as not insuring new transactions, early termination of insurance contracts, accelerated prepayments of underlying obligations, commutation of existing financial guarantee insurance policies or non-payment. Such a reduction would result in lower revenues and reduced liquidity.

We are required to report credit derivatives at fair value, which subjects our results of operations to volatility and losses and could lead to negative shareholders equity for the Company or MBIA Corp. on a GAAP basis

Any event causing credit spreads on an underlying security referenced in a credit derivative we insure, or on a credit derivative referencing an MBIA Inc. security (an MBIA credit derivative), to either widen or tighten will affect the fair value of the credit derivative and may increase the volatility of our earnings.

As changes in fair value can be caused by factors unrelated to the performance of our business and structured finance credit portfolio, including general market conditions and perceptions of credit risk, as well as market use of credit derivatives for hedging purposes unrelated to the specific referenced credits in addition to events that affect particular credit derivative exposure, the application of fair value accounting may cause our earnings to be more volatile than would be suggested by the underlying performance of our business operations and structured finance credit portfolio. Furthermore, volatility in our asset values, loss reserves, impairments or fair value of insured credit derivatives could cause our shareholders equity, and/or that of MBIA Corp., to be negative on a GAAP basis in a future period, which may adversely impact investors perceptions of the value of the Company.

The global re-pricing of credit risk beginning in the fourth quarter of 2007 caused unprecedented volatility and markdowns in the valuation of these credit derivatives. In addition, due to the complexity of fair value accounting and the application of the accounting guidance for derivative instruments and the accounting guidance for fair value measurement, future amendments or interpretations of derivative and fair value accounting may cause us to modify our accounting methodology in a manner which may have an adverse impact on our financial results. See Management s Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Estimates in Part II, Item 7 for additional information on the valuation of derivatives.

Current accounting standards mandate that we measure the fair value of our insurance policies of CDS. Market prices are generally available for traded securities and market standard CDS but are less available or accurate for highly customized CDS. Most of the derivative contracts the Company insures are the latter as they are non-traded structured credit derivative transactions. Moreover, at the present time, we do not have access to the fair value estimates of the insurance beneficiaries and there can be no assurance that those counterparties (or any other market participants) estimates would be the same as our fair values.

Since the fourth quarter of 2007, we have observed a widening of market spreads and credit ratings downgrades of collateral underlying certain CDO tranches we insure. The mark-to-market for the insured credit derivative portfolio has fluctuated significantly over the last twelve quarters, resulting in volatility in MBIA s earnings, moving from losses of $3.6 billion in the first quarter of 2008, to gains of $3.3 billion and $105 million in the second and third quarters of 2008, respectively, followed by a loss of $1.7 billion in the fourth quarter of 2008. In the first and second quarters of 2009, there were gains of $1.6 billion and $424 million, respectively, followed by a loss of $810 million in the third quarter and a gain of $428 million in the fourth quarter. In the first quarter of 2010, there was a loss of $2.2 billion, followed by a gain of $1.5 billion in the second quarter, followed by a third quarter loss of $1.0 billion, and a fourth quarter gain of $1.1 billion. The volatility was primarily a result of changes in credit spreads, collateral erosion, rating migration, model and input enhancements and fluctuations in MBIA s spreads and recovery rates.

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Item 1A. Risk Factors (continued)

Strategic Plan Related Risk Factors

Transformation-related litigation has had an adverse effect on our business prospects, and an unfavorable resolution of the litigation could have a material adverse effect on our business prospects, and results of operations and financial condition in the future

We are a defendant in several actions in which the plaintiffs seek to unwind Transformation or otherwise declare National responsible for the insured obligations of MBIA Corp. Our success in defending Transformation is an integral part of our strategic plan. In particular, we hope to achieve a high rating for National as quickly as possible in order to take advantage of immediate opportunities in the public finance market. Transformation-related litigation has created uncertainty around the legal separation of the liabilities of National and MBIA Corp., which has in turn hindered our ability to raise capital and achieve the desired ratings and adversely impacted the prospect of writing new business. The Company is vigorously defending Transformation in the subject litigations and expects ultimately to prevail on the merits. However, the Company cannot provide assurance that it will prevail in this litigation and the failure by the Company ultimately to prevail in this litigation could have a material adverse effect on its ability to implement its strategy and on its business, results of operations or financial condition.

An inability to achieve high stable insurer financial strength ratings for National or any of our other insurance companies from the major rating agencies or to generate investor demand for their financial guarantees may adversely affect our results of operations and business prospects

National s and our other insurance companies ability to write new business and to compete with other financial guarantors is currently largely dependent on the financial strength ratings assigned to them by the major rating agencies and the financial enhancement rating also assigned by S&P, as well as the financial strength of our insurance companies and investors perceptions of their financial strength. As a result of downgrades of our insurance companies financial strength ratings and poor investor perception of their financial strength, we are currently not originating new financial guarantee business. Many requirements imposed by the rating agencies in order for our insurance companies to achieve and maintain high insurer financial strength ratings are outside of our control, and such requirements may necessitate that we raise additional capital or take other remedial actions in a relatively short timeframe in order to achieve or maintain the ratings necessary to attract new business and compete with other financial guarantee insurers and could make the conduct of the business uneconomical. Our inability to raise capital on favorable terms could therefore materially adversely affect the business prospects of our insurance companies. Furthermore, no assurance can be given that we will successfully comply with rating agency requirements, that these requirements or the related models and methodologies will not change or that, even if we comply with these requirements, one or more rating agency will not lower or withdraw its financial strength ratings with respect to any of our insurance companies. In January 2011, S&P proposed, and requested comment on, changes to its rating methodology for financial guarantee insurers. If implemented in their current form, the proposed changes would substantially increase the amount of capital required to achieve S&P s highest ratings and would incorporate additional qualitative considerations into the ratings process. As a result, our insurers could be downgraded in the near term, could be unable to achieve S&P s highest ratings in the future, could choose not to take the steps necessary to obtain the highest S&P ratings or could choose to stop carrying the S&P ratings. The absence of S&P s highest ratings, which have typically been required to write financial guarantee insurance, could adversely impact the premiums our insurers can charge and could diminish the acceptance of our financial guarantee insurance products.

In addition, no assurance can be given that poor investor perception of our financial strength will not persist regardless of our ratings or ability to raise capital. Finally, our inability to come into compliance with the rating agency and regulatory single and aggregate risk limits that National and MBIA Corp. exceeded as a result of Transformation may also prevent us from writing future new business in the categories of risks that were exceeded, in the case of the regulatory limits, or result in a downgrade, in the case of rating agency limits, and may adversely affect our business prospects, and our failure to come into compliance with these guidelines and rules increases the risk of experiencing a large single loss or series of losses. We are unlikely to comply with the rating agencies requirements or to generate investor demand for our financial guarantees until we have resolved the Transformation litigation.

Item 1A. Risk Factors (continued)

Downgrades of the ratings of securities that we insure may materially adversely affect our business, results of operations and financial condition

Individual credits in our insured portfolio (including potential new credits) are assessed a rating agency capital charge based on a variety of factors, including the nature of the credits risk types, underlying ratings, tenor and expected and actual performance. In the event of an actual or perceived deterioration in creditworthiness, a reduction in the underlying rating or a change in the rating agency capital methodology, we may be required to hold more capital in reserve against credits in the insured portfolio, regardless of whether losses actually occur, or against potential new business. Significant reductions in underlying ratings of credits in an insured portfolio can produce significant increases in assessed capital charges. There can be no assurance that each of our insurance company s capital position will be adequate to meet any increased rating agency reserve requirements or that each insurance company will be able to secure additional capital necessary to support increased reserve requirements, especially at a time of actual or perceived deterioration in creditworthiness of new or existing credits. Unless we were able to increase available capital, an increase in capital charges could reduce the amount of capital available to support our ratings and could have an adverse effect on our ability to write new business.

Since 2008, Moody s and S&P announced the downgrade of, or other negative ratings actions with respect to, certain transactions that we insure, as well as a large number of structured finance transactions that serve as collateral in structured finance transactions that we insure. There can be no assurance that additional securities in our insured portfolio will not be reviewed and downgraded in the future. Moreover, we do not know if, and when, the rating agencies might review additional securities in our insured portfolio or review again securities that have already been reviewed and/or downgraded. Downgrades of credits that we insure will result in higher capital charges to that insurance company under the relevant rating agency model or models, which could adversely affect our results of operations and financial condition going forward.

Competition may have an adverse effect on our businesses

The businesses in which we expect our insurance companies to participate may be highly competitive. They may face competition from other financial guarantee insurance companies and other forms of credit enhancement, including senior-subordinated structures, credit derivatives, letters of credit and guarantees (for example, mortgage guarantees where pools of mortgage loans secure debt service payments) provided by banks and other financial institutions. In addition, alternative financing structures may be developed that do not employ third-party credit enhancement. Furthermore, while one financial guarantee insurance company has written the vast majority of U.S. public finance new business since 2009, additional industry participants may emerge. Recent changes proposed to Article 69 of the New York Insurance Law, which regulates New York domiciled financial guarantee companies, could lower the barriers to entry for competitors by permitting use of net value of a qualified trust as an asset to satisfy reserving requirements. Increased competition, either in terms of price, alternative structures, or the emergence of new providers of credit enhancement, could have an adverse effect on our insurance companies business prospects. The uncertainty created by market conditions and the related unpredictable actions of the regulators in the U.S. and foreign markets we serve may create unforeseen competitive advantages for our competitors due to, among other things, explicit or implied support from the government.

Cutwater faces intense competition from banks, insurance companies and independent companies who provide investment advisory services, as well as with companies who manage their investments in-house. Competition varies by product and typically can range from very large asset management firms to very small operations. Cutwater s ability to compete for new advisory services business and to retain existing accounts is largely dependent on its investment performance for a specific client or in general (typically versus established benchmark indices), the consistency of performance through market cycles, fee levels charged and the level of client service provided. A decline in our competitive position as to one or more of these factors could adversely affect our profitability and assets under management. Furthermore, many of Cutwater s competitors are large and well established and some have greater market share and breadth of distribution and offer a broader range of products, services or features. In order to compete for business, Cutwater may be required to expend a significant portion of its earnings on attracting new business, which would diminish the amount of dividends it can pay to MBIA Inc. Such competition could have an adverse impact on its ability to attract and retain business, which could have an adverse effect on our financial position and results of operations.

In addition, in 2009 the Company formed LatAm and International Advisory in order to provide financial advisory services to Latin American and European clients, respectively, and during 2010 the Company sought to grow

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Item 1A. Risk Factors (continued)

these businesses. LatAm and International Advisory are also subject to intense competition, and expansion of these businesses may require expenditures of capital, and management s and employees time and there can be no assurance that these businesses will ultimately be successful.

Future demand for financial guarantee insurance depends on market and other factors that we do not control

The demand for financial guarantee insurance depends upon many factors, some of which are beyond the control of the Company. Our ability to attract and compete for financial guarantee business is largely dependent on the financial strength ratings assigned to our insurance companies by the major rating agencies. In addition, the perceived financial strength of all financial guarantee insurers also affects demand for financial guarantee insurance. Since 2008 all financial guarantee insurers insurer financial strength ratings have been downgraded, placed on review for a possible downgrade or had their outlooks changed to negative, and the industry-wide downgrades may have eroded investors confidence in the benefits of bond insurance. We do not expect the demand for financial guarantee insurance to regain its former levels in the near term, if ever.

We believe that issuers and investors will distinguish among financial guarantors on the basis of various factors, including rating agency assessment, capitalization, size, insured portfolio concentration and financial performance. These distinctions may result in differentials in trading levels for securities insured by particular financial guarantors which, in turn, may provide a competitive advantage to those financial guarantors with better trading characteristics. In addition, various investors may, due to regulatory or internal guidelines, lack additional capacity to purchase securities insured by certain financial guarantors, which may provide a competitive advantage to guarantors with fewer insured obligations outstanding. Differentials in trading values or investor capacity constraints that do not favor us would have an adverse effect on our ability to attract new business at appropriate pricing levels, and we have experienced a cessation in new financial guarantee business which is attributable to rating agency actions and their impact on investor perception.

Additionally, in the face of the disruption in the credit markets and the ratings actions of Fitch, Moody s and S&P concerning financial guarantee insurers generally and us in particular, the price of our common stock has experienced a significant decline and there has been a widening of spreads on our CDS. This widening of spreads on our CDS could impact the perception of our financial condition by our insured bondholders and counterparties and could affect their willingness to purchase our insured bonds and to enter into transactions with us.

Regulatory change could adversely affect our businesses, and regulations limit investors ability to effect a takeover or business combination that shareholders might consider in their best interests

The financial guarantee insurance industry has historically been and will continue to be subject to the direct and indirect effects of governmental regulation, including insurance laws, securities laws, tax laws, legal precedents and accounting rules affecting asset-backed and municipal obligations, as well as changes in those laws. These laws limit investors ability to effect a takeover or business combination, and the failure to comply with applicable laws and regulations could expose our insurance companies, their directors or shareholders to fines, the loss of their insurance licenses, and the inability to engage in certain business activity, as the case may be.

Any person seeking to acquire a controlling interest in us would face various regulatory obstacles which may delay, deter or prevent a takeover attempt that stockholders of MBIA Inc. might consider in their best interests. In particular, both New York State insurance law and United Kingdom s law prohibit an entity from acquiring control of a regulated insurer without the prior approval of the NYSID or the FSA, as applicable. Generally, an entity is presumed to have control of an insurance company if it owns, directly or indirectly, 10% or more of the voting stock of that insurance company or its parent company, or otherwise exerts voting or management control over the insurer or parent company. Accordingly, an investor wishing to effect a takeover or business combination could be significantly delayed or prohibited from doing so by the regulatory approval requirements.

In addition, future legislative, regulatory or judicial changes could adversely affect our insurance companies ability to pursue business, materially impacting our financial results. The NYSID has issued best practices regarding the laws and regulations that are applicable to our insurance companies and to other monoline financial guarantee insurance companies and has indicated that it expects to propose legislative and regulatory changes to codify

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Item 1A. Risk Factors (continued)

these best practices. Furthermore in 2009 and 2010 new bills were introduced into the New York legislature to amend the New York Insurance Law to enhance the regulation of financial guarantee insurers which would impose limits on the manner and amount of business written by the Company. See Business Our Insurance Operations Insurance Regulation New York Insurance Regulation In Part I, Item 1. On the U.S. federal level, members of the U.S. Congress and federal regulatory bodies have suggested federal oversight and regulation of insurance, including bond insurance. Internationally, insurance regulators in the European Union are reviewing and plan to revise the capital adequacy requirements applicable to insurers in the European Union, including MBIA UK, and are contemplating a directive that would increase regulation of derivative instruments that could impact MBIA UK s insured derivatives.

While it is not possible to predict if new laws, regulations or interpretations will be enacted or the impact they would have, any changes to such laws and regulations or the NYSID s interpretation thereof could subject MBIA to further restrictions on the type of business that it is authorized to insure, especially in the structured finance area. Any such restrictions could have a material effect on the amount of premiums that MBIA earns in the future. Additionally, any changes to such laws and regulations could subject our insurance companies to increase reserving and capital requirements or more stringent regulation generally, which could materially adversely affect our financial condition, results of operations and future business. Finally, changes to accounting standards and regulations may require modifications to our accounting methodology, both prospectively and for prior periods; and such changes could have an adverse impact on our reported financial results and/or make it more difficult for investors to understand the economics of our business; and may thus influence the types or volume of business that we may choose to pursue.

Our insured credit derivatives could be subject to collateral posting and/or capital requirements as a result of Federal financial regulatory reforms, resulting in potentially significant adverse financial implications for MBIA Corp.

In July 2010, the Dodd-Frank Reform and Consumer Protection Act was signed into law for the purpose of enacting broad financial industry regulation reform, including by enhancing regulation of over-the-counter derivatives through, among other things, imposing margin and capital requirements on certain market participants. Although MBIA Corp. is not required contractually to post collateral on its insured credit derivatives, the Act, if applied on a retroactive basis to MBIA Corp., could result in significant regulatory collateral and/or capital requirements on MBIA Corp. in connection with its outstanding insured credit derivatives. As a result, the Act could, depending on the ultimate interpretation and implementation of these provisions by regulators, have significant adverse financial implications for MBIA Corp. MBIA, along with other financial institutions, has provided comments to the Commodity Futures Trading Commission and the SEC stating our concerns and objections to these provisions.

General Risk Factors

Private litigation claims could materially adversely affect our business, results of operations and financial condition

As further set forth in Legal Proceedings in Part I, Item 3, the Company is named as a defendant in a number of litigations. In addition to the Transformation litigation, these include several private securities class actions and shareholder derivative lawsuits where the Company is named along with certain of its current and former officers. The Company is also the defendant in a number of cases brought by municipalities stemming from insured transactions, and in the ordinary course of business, the Company and its subsidiaries are routinely defendants in or parties to pending and threatened legal actions and proceedings brought on behalf of various classes of claimants, including counterparties in various transactions.

Although the Company intends to vigorously defend against the aforementioned actions and against other potential actions, an adverse ultimate outcome in these actions could result in a loss and have a material adverse effect on our reputation, business, results of operations or financial condition.

Item 1A. Risk Factors (continued)

Adverse results from our wind-down businesses activities due to declining asset values, credit impairments and poor performance of assets could adversely affect our financial position and results of operation

Our wind-down businesses are important to our overall financial results. Events that negatively affect the performance of the wind-down businesses could have a negative effect on the overall performance of the Company, separate and distinct from the performance of the Company s financial guarantee business. Since 2008, adverse results related to the wind-down businesses primarily included realized losses from credit impairments and negative spread between earnings on assets and the interest cost of liabilities. Currently, the wind-down portfolio has a deficit of cash, investments and other liquid assets at amortized cost to debt issued to third parties and affiliates at amortized cost. The wind-down businesses results may also be adversely impacted by further declining asset values that would result in realized losses if those assets are required to be sold in order to satisfy the wind-down businesses liabilities.

Ownership Change under Section 382 of the Internal Revenue Code can have adverse tax consequences

In connection with transactions in our shares from time to time, we may in the future experience an ownership change within the meaning of Section 382 of the Internal Revenue Code. In general terms, an ownership change may result from transactions increasing the aggregate ownership of certain stockholders in our stock by more than 50 percentage points over a testing period (generally three years). If an ownership change were to occur, our ability to use certain tax attributes, including certain losses, credits, deductions or tax basis, may be limited. Calculating whether a Section 382 ownership change has occurred is subject to uncertainties, including the complexity and ambiguity of Section 382 and limitations on a publicly traded company s knowledge as to the ownership of, and transactions in, its securities. The Company performs detailed calculations during each quarter to determine if an ownership change has occurred and, based on the Company s current methodology of calculation, a Section 382 ownership change has not taken place. However, if, in the future, a Section 382 ownership change is triggered under the current method of determining an ownership change and, as a result, the Company is subjected to greater limitation or a reduction of tax benefits, the Company may retroactively use an available alternative method of determining an ownership change to cause a Section 382 ownership change in the quarter ended June 30, 2010. The Company may reassess the methodology to be used for the ownership change computation at least through September 15, 2011, the due date of its 2010 Federal Income Tax Return. We cannot give any assurance that we will not undergo an ownership change at a time when these limitations would have a significant impact on the Company s tax benefits.

Any impairment in the Company s future taxable income can materially affect the recoverability of our deferred tax assets

The basis for evaluating the recoverability of a deferred tax asset is the existence of future taxable income of appropriate character. To the extent that the Company s ability to recognize future taxable income from its existing insurance portfolio through scheduled premium earnings and net investment income becomes impaired, the recoverability of certain deferred tax assets may be materially affected by a corresponding increase to its valuation allowance.

A different view of the Internal Revenue Service from our current tax treatment of realized losses relating to insured CDS contracts can adversely affect our financial position

As part of the Company s financial guarantee business, we have insured credit derivatives contracts that were entered into by LaCrosse Financial Products, LLC (LaCrosse) with various financial institutions. We treat these insured derivative contracts as insurance contracts for statutory accounting purposes, which is the basis for computing U.S. federal taxable income. As such, the realized losses in connection with an insured event are considered loss reserve activities for tax purposes. Because the federal income tax treatment of CDS contracts is an unsettled area of tax law, in the event that the Internal Revenue Service has a different view with respect to the tax treatment, our results of operations and financial condition could be materially adversely affected.

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Item 1A. Risk Factors (continued)

The Company is dependent on key executives and the loss of any of these executives, or its inability to retain other key personnel, could adversely affect its business

The Company s success substantially depends upon its ability to attract and retain qualified employees and upon the ability of its senior management and other key employees to implement its business strategy. The Company believes there are only a limited number of available qualified executives in the business lines in which the Company competes. Although the Company is not aware of any planned departures, the Company relies substantially upon the services of Joseph W. Brown, Chief Executive Officer, and other executives. There is no assurance that the Company will be able to retain the services of key executives. The loss of the services of any of these individuals or other key members of the Company s management team could adversely affect the implementation of its business strategy.

Item 1B. Unresolved Staff Comments

The Company from time to time receives written comments from the staff of the SEC regarding its periodic or current reports under the Securities Exchange Act of 1934, as amended. There are no comments that remain unresolved that the Company received not less than 180 days before the end of the year to which this report relates that the Company believes are material.

Item 2. Properties

A wholly-owned subsidiary of National owns the 280,729 square foot office building on approximately 38 acres of property in Armonk, New York, in which the Company, National, MBIA Corp., Cutwater, Optinuity and LatAm have their headquarters. The Company also has offices with approximately 22,776 square feet of rental space in New York, New York; San Francisco, California; Paris, France; Madrid, Spain; London, England; and Mexico City, Mexico. Cutwater Asset Management has 7,607 square feet of office space in Denver, Colorado, 3,100 square feet in Orlando, Florida and 2,640 square feet in London, England. The Company generally believes that these facilities are adequate and suitable for its current needs.

Item 3. Legal Proceedings

In the normal course of operating its businesses, MBIA Inc. (MBIA or the Company) may be involved in various legal proceedings. As a courtesy, the Company posts on its website under the section Legal Proceedings, selected information and documents in reference to selected legal proceedings in which the Company is the plaintiff or the defendant. The Company will not necessarily post all documents for each proceeding and undertakes no obligation to revise or update them to reflect changes in events or expectations. The complete official court docket can be publicly accessed by contacting the clerk s office of the respective court where each litigation is pending.

Corporate Litigation

The Company was named as a defendant, along with certain of its current and former officers, in private securities actions that were consolidated in the U.S. District Court for the Southern District of New York as In re MBIA Inc. Securities Litigation; (Case No. 05 CV 03514(LLS); S.D.N.Y.) (filed October 3, 2005). The plaintiffs asserted claims under Section 10(b) of the Securities Exchange Act of 1934 (the Exchange Act), Rule 10b-5 promulgated thereunder, and Section 20(a) of the Exchange Act. The lead plaintiffs purport to be acting as representatives for a class consisting of purchasers of the Company s stock during the period from August 5, 2003 to March 30, 2005 (the Class Period). The lawsuit asserts, among other things, violations of the federal securities laws arising out of the Company s allegedly false and misleading statements about its financial condition and the nature of the arrangements entered into by MBIA Corp. in connection with a health care transaction loss. The plaintiffs allege that, as a result of these misleading statements or omissions, the Company s stock traded at artificially inflated prices throughout the Class Period.

The defendants, including the Company, filed motions to dismiss this lawsuit on various grounds. On February 13, 2007, the Court granted those motions, and dismissed the lawsuit in its entirety, on the grounds that plaintiffs claims are barred by the applicable statute of limitations. The Court did not reach the other grounds for dismissal argued by the Company and the other defendants. On November 12, 2008, the U.S. Court of Appeals for the Second Circuit affirmed the district court s dismissal on statute of limitations grounds, but remanded the case to

Item 3. Legal Proceedings (continued)

allow the plaintiffs to file an amended complaint. The Second Consolidated Amended Class Action Complaint was filed on February 18, 2009. On September 24, 2009, the Court dismissed plaintiffs complaint with prejudice. On November 2, 2009, the plaintiffs filed a Notice of Appeal with the U.S. Court of Appeals for the Second Circuit. On June 22 and 24, 2010, individual defendants Juliette Tehrani and David Elliot, respectively, were voluntarily dismissed from the litigation. On February 28, 2011, the U.S. Court of Appeals for the Second Circuit vacated the district court s grant of the Company s motion to dismiss and remanded the case back to the district court for reconsideration of the statute of limitations analysis in light of the intervening U.S. Supreme Court decision in Merck & Co. v. Reynolds as well as to consider additional arguments in favor of dismissal propounded by the Company.

On October 17, 2008, a consolidated amended class action complaint in a separate shareholder class action lawsuit against the Company and certain of its officers, In re MBIA Inc. Securities Litigation, No. 08-CV-264, (KMK) (the Consolidated Class Action) was filed in the U.S. District Court for the Southern District of New York, alleging violations of the federal securities laws. Lead plaintiff, the Teachers Retirement System of Oklahoma, seeks to represent a class of shareholders who purchased MBIA stock between July 2, 2007 and January 9, 2008. The amended complaint alleges that defendants MBIA Inc., Gary C. Dunton and C. Edward Chaplin violated Sections 10(b) and 20(a) of the Securities Exchange Act of 1934. Among other things, the complaint alleges that defendants issued false and misleading statements with respect to the Company s exposure to CDOs containing RMBS, specifically its exposure to so-called CDO-squared securities, which allegedly caused the Company s stock to trade at inflated prices. On April 30, 2010, plaintiffs filed their Second Consolidated Amended Class Action Complaint. The motion to dismiss the Second Consolidated Amended Class Action Complaint filed on behalf of Messrs. Chaplin and Dunton was fully briefed as of October 29, 2010.

On February 13, 2008, a shareholder derivative lawsuit against certain of the Company s present and former officers and directors, and against the Company, as nominal defendant, entitled Trustees of the Police and Fire Retirement System of the City of Detroit v. Clapp et al., No. 08-CV-1515, (the Detroit Complaint), was filed in the U.S. District Court for the Southern District of New York. The gravamen of the Detroit Complaint is similar to the aforementioned Consolidated Class Action, except that the legal claims are against the directors for breach of fiduciary duty and related claims. The Detroit Complaint purports to relate to a so-called Relevant Time Period from February 9, 2006, through the time of filing of the complaint. On December 14, 2010, Judge Karas dismissed the complaint without prejudice. On December 23, 2010, a new demand making similar claims was made on the Company s Board of Directors.

On August 11, 2008, a shareholder derivative lawsuit entitled Crescente v. Brown et al., No. 08-17595 was filed in the Supreme Court of the State of New York, County of Westchester against certain of the Company s present and former officers and directors, and against the Company, as nominal defendant. The gravamen of this complaint is similar to the Detroit Complaint except that the time period assertedly covered is from January, 2007, through the time of filing of this complaint. The derivative plaintiff has agreed to stay the action pending further developments in the federal derivative litigation.

On July 23, 2008, the City of Los Angeles filed a complaint in the Superior Court of the State of California, County of Los Angeles, against a number of financial guarantee insurers, including MBIA. At the same time and subsequently, additional complaints against the Company and nearly all of the same co-defendants were filed 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, the Sacramento Municipal Utility District, the City of Sacramento, the City of Riverside, the Los Angeles World Airports, the City of Richmond, Redwood City, the East Bay Municipal Utility District, the Sacramento Suburban Water District, the City of San Jose, the County of Tulare, the Regents of the University of California , Contra Costa County, the Redevelopment Agency of the City of Riverside, and the Public Financing Authority of the City of Riverside, The Olympic Club, the Jewish Community Center of San Francisco and the Redevelopment Agency of San Jose. These cases are, or are expected to become, part of a coordination proceeding in Superior Court, San Francisco County, before Judge Richard A. Kramer, referred to as the Ambac Bond Insurance Cases, which name as defendants MBIA, AMBAC Assurance Corp., Syncora Guarantee, Inc. f/k/a XL Capital Assurance Inc., Financial Security Assurance, Inc., Assured Guaranty Corp., Financial Guaranty Insurance Company, and CIFG Assurance North America, Inc., Fitch Inc., Fitch Ratings, Ltd., Fitch Group, Inc., Moody s Corporation, Moody s Investors Service, Inc., The McGraw-Hill Companies, Inc., and S&P.

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Item 3. Legal Proceedings (continued)

The claims as they now stand allege participation by all defendants 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 not-for-profit issuers and thus created market demand for bond insurance. Plaintiffs also allege that the individual bond insurers participated 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 guarantees), and each failed adequately to disclose the impact of those transactions on their financial condition. In addition to the statutory antitrust claim, plaintiffs assert common law theories in breach of contract, breach of the covenant of good faith and fair dealing, fraud, negligent misrepresentation, negligence, and unjust enrichment. The non-municipal plaintiffs also allege a California unfair competition cause of action. Defendants demurrers were filed on September 17, 2010 and plaintiffs opposition to demurrers were filed on October 22, 2010. On November 30, 2010, prior to the hearing on the demurrers, the credit rating agency defendants removed the seven actions in which they were named to the U.S. District Court for the Northern District of California. On December 8, 2010, defendant Ambac Assurance Corp. removed the remaining actions. On January 31, 2011, the district court granted plaintiffs motion to remand the cases back to San Francisco Superior Court.

On July 23, 2008, the City of Los Angeles filed a separate complaint in the Superior Court, County of Los Angeles, naming as defendants the Company and other financial institutions, and alleging fraud and violations of California s antitrust laws through bid-rigging in the sale of guaranteed investment contracts and what plaintiff calls municipal derivatives to municipal bond issuers. The case was 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. Complaints making the same allegations against the Company and nearly all of the same co-defendants were then or subsequently filed by the County of San Diego, the City of Stockton, the County of San Mateo, the County of Contra Costa, Los Angeles World Airports, the Redevelopment Agency of the City of Stockton, the Public Financing Authority of the City of Stockton, the County of Tulare, the Sacramento Suburban Water District, Sacramento Municipal Utility District , the City of Riverside, the Redevelopment Agency of the City of Riverside, the Public Financing Authority of the City of Riverside, Redwood City, the East Bay Municipal Utility District, the Redevelopment Agency of the City and County of San Francisco, the City of Richmond, the City of San Jose, the San Jose Redevelopment Agency, the State of West Virginia, Los Angeles Unified School District and three not-for-profit retirement community operators, Active Retirement Community, Inc. d/b/a Jefferson s Ferry, Kendal on Hudson, Inc. and Paconic Landing at Southhold Inc. These cases have all been added to the multidistrict litigation. Plaintiffs in all of the cases assert federal and either California or New York state antitrust claims. In February, 2010, the Company moved to dismiss the then-existing complaints and, on April 28, 2010, Judge Victor Marrero denied the motion. The Company s motion for reconsideration was denied on May 3, 2010. The Company has answered some of the complaints, denying the material allegations, and is preparing to answer the others. MBIA is also preparing to answer amended versions of some of the complaints.

On March 12, 2010, the City of Phoenix, Arizona filed a complaint in the U.S. District Court for the District of Arizona against MBIA Corp., Ambac Assurance Corp. 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 filed its answer on 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, certain MBIA employees (collectively for this paragraph, MBIA), as well as various financial institutions and law firms. Tri-City subsequently filed three amended complaints. The Third Amendment Complaint, filed on January 26, 2011, purports to state 10 causes of against MBIA for, among other things, fraud, negligent misrepresentation, breach of contract, breach of the implied covenant of good faith and fair dealing and violation of the California False Claims Act arising from Tri-City Healthcare District s investment in auction rate securities. On October 22, 2010, MBIA filed its demurrer to the Second Amended Complaint. At the January 6, 2011 demurrer hearing, the Court dismissed portions of the complaint with leave to amend. On February 17, 2011, MBIA filed its demurrer to the Third Amended Complaint.

The Company has received subpoenas or informal inquiries from a variety of regulators, regarding a variety of subjects. The Company has cooperated fully with each of these regulators and has or is in the process of satisfying all such requests. The Company may receive additional inquiries from these or other regulators and expects to provide additional information to such regulators regarding their inquiries in the future.

Item 3. Legal Proceedings (continued)

Recovery Litigation

On September 30, 2008, MBIA Corp. commenced an action in New York State Supreme Court, New York County, against Countrywide Home Loans, Inc., Countrywide Securities Corp. and Countrywide Financial Corp. (collectively, Countrywide). The complaint alleged that Countrywide fraudulently induced MBIA to provide financial guarantee insurance on securitizations of HELOCs and closed end second-liens by misrepresenting the true risk profile of the underlying collateral and Countrywide s adherence to its strict underwriting standards and guidelines. The complaint also alleged that Countrywide breached its representations and warranties and its contractual obligations, including its obligation to cure or repurchase ineligible loans as well as its obligation to service the loans in accordance with industry standards. In an order dated July 8, 2009, the New York State Supreme Court denied Countrywide s motion to dismiss in part, allowing the fraud cause of action to proceed against all three Countrywide defendants and the contract causes of action to proceed against Countrywide Home Loans, Inc. All parties have filed notices of appeal and defendants filed their answer to the complaint on August 3, 2009. On August 24, 2009, MBIA Corp. filed an amended complaint, adding Bank of America and Countrywide Home Loans Servicing LP as defendants and identifying an additional five securitizations. On April 29, 2010, the court denied defendants motion to dismiss Bank of America and allowed MBIA Corp. s claims for successor and vicarious liability to proceed against Bank of America, as well as upholding MBIA Corp. s fraud claim. On May 28, 2010, defendants filed their notice of appeal with respect to the denial of the dismissal of MBIA Corp. s claims for fraud and breach of the implied covenant of good faith and fair dealing. On June 11, 2010, MBIA Corp. filed its cross notice of appeal with respect to the dismissal of its claims of negligent misrepresentation and the limitation of its claim for breach of implied covenant of good faith and fair dealing. Briefing on the appeals was complete as of October 25, 2010, and argument will be heard in the March 2011 Term of the New York Supreme Court, Appellate Division, First Department. On December 22, 2010, the court granted MBIA Corp. s motion in limine allowing it to offer evidence relating to statistically valid random samples of loans from each of the Countrywide securitizations in support of its contract and fraud cases of action for purposes of determining liability and damages.

On July 10, 2009, MBIA Corp. commenced an action in Los Angeles Superior Court against Bank of America Corporation, Countrywide Financial Corporation, Countrywide Home Loans, Inc., Countrywide Securities Corporation, Angelo Mozilo, David Sambol, Eric Sieracki, Ranjit Kripalani, Jennifer Sandefur, Stanford Kurland, Greenwich Capital Markets, Inc., HSBC Securities (USA) Inc., UBS Securities, LLC, and various Countrywide-affiliated Trusts. The complaint alleges that Countrywide made numerous misrepresentations and omissions of material fact in connection with its sale of certain RMBS, including that the underlying collateral consisting of mortgage loans had been originated in strict compliance with its underwriting standards and guidelines. MBIA commenced this action as subrogee of the purchasers of the RMBS, who incurred severe losses that have been passed on to MBIA as the insurer of the income streams on these securities. On June 21, 2010, MBIA Corp. filed its second amended complaint. The court has allowed limited discovery to proceed while otherwise staying the case pending further developments in the New York Countrywide action described in the prior paragraph.

On October 15, 2008, MBIA Corp. commenced an action in the U.S. District Court for the Southern District of New York against Residential Funding Company, LLC (RFC). On December 5, 2008, a notice of voluntary dismissal without prejudice was filed in the Southern District of New York and the complaint was re-filed in the Supreme Court of the State of New York, New York County. The complaint alleges that RFC fraudulently induced MBIA Corp. to provide financial guarantee policies with respect to five RFC closed-end home equity second-lien and HELOC securitizations, and that RFC breached its contractual representations and warranties, as well as its obligation to repurchase ineligible loans, among other claims. On December 23, 2009, the court denied in part RFC s motion to dismiss MBIA s complaint with respect to MBIA s fraud claims. On March 19, 2010, MBIA Corp. filed its amended complaint. On May 14, 2010, RFC filed a motion to dismiss only the renewed negligent misrepresentation claim, which was granted on November 8, 2010. On December 7, 2010, RFC filed its answer to the remaining claims in MBIA Corp. s amended complaint.

On April 1, 2010, MBIA Corp. commenced an action in New York State Supreme Court, New York County, against GMAC Mortgage, LLC (GMAC). The complaint alleges fraud and negligent misrepresentation on the part of GMAC in connection with the procurement of financial guarantee insurance on three RMBS transactions, breach of GMAC s representations and warranties and its contractual obligation to cure or repurchase ineligible loans and breach of the implied duty of good faith and fair dealing. On December 7, 2010, Justice Fried denied in

Item 3. Legal Proceedings (continued)

part GMAC s motion to dismiss allowing MBIA Corp. to proceed on its fraud and breach of contract claims. On January 5, 2011, GMAC filed its answer to the remaining causes of action in the complaint.

On December 14, 2009, MBIA Corp. commenced an action in New York State Supreme Court, New York County, against Credit Suisse Securities (USA) LLC, DLJ Mortgage Capital, Inc., and Select Portfolio Servicing Inc (Credit Suisse). The complaint seeks damages for fraud and breach of contractual obligations in connection with the procurement of financial guarantee insurance on the Home Equity Mortgage Trust Series 2007-2 securitization. The complaint alleges, among other claims, that Credit Suisse falsely represented (i) the attributes of the securitized loans; (ii) that the loans complied with the governing underwriting guidelines; and (iii) that Credit Suisse had conducted extensive due diligence on the securitized loans to ensure compliance with the underwriting guidelines. The complaint further alleges that the defendants breached their contractual obligations to cure or repurchase loans found to be in breach of the representations and warranties applicable thereto and denied MBIA the requisite access to all records and documents regarding the securitized loans. On August 9, 2010, the court denied Credit Suisse s motion to dismiss in part. On January 27, 2011, the court issued a ruling allowing MBIA Corp. a jury trial on its fraudulent inducement cause of action.

On December 6, 2010, MBIA. Corp. commenced an action in New York State Supreme Court, Westchester County, against Morgan Stanley, Morgan Stanley Capital Holdings LLC and Saxon Mortgage Services Inc. (collectively, Morgan Stanley). The complaint alleges fraud and breach of contract on the part of Morgan Stanley in connection with MBIA Corp. s issuance of financial guarantee insurance on the MSM 2007-9SL Alt-A second-lien RMBS transaction, as well as breach of Saxon Mortgage Inc. s servicing obligations. On February 9, 2011, the Westchester County Commercial Division judge who was assigned the case recused himself because of a conflict. On February 16, 2011, the parties filed a joint stipulation with the court to transfer venue to the New York County Commercial Division.

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

On April 30, 2009, MBIA Corp. and LaCrosse commenced an action in the New York State Supreme Court, New York County, against Merrill Lynch, Pierce, Fenner and Smith, Inc. and Merrill Lynch International. The complaint (amended on May 15, 2009) seeks damages in an as yet indeterminate amount believed to be in excess of several hundred million dollars arising from alleged misrepresentations and breaches of contract in connection with eleven CDS contracts pursuant to which MBIA wrote protection in favor of Merrill Lynch and other parties on a total of $5.7 billion in CDOs arranged and marketed by Merrill Lynch. The complaint also seeks rescission of the CDS contracts. On April 9, 2010, Justice Bernard Fried denied in part and granted in part Merrill Lynch s motion to dismiss. On April 13, 2010, MBIA Corp. filed a notice of appeal with respect to the dismissal of its claims for fraud, negligent misrepresentation and breach of the implied covenant of good faith and fair dealing. Merrill Lynch filed its cross notice of appeal regarding the breach of contract claim that survived the motion to dismiss. On February 1, 2011, the New York Supreme Court, Appellate Division, First Department affirmed the lower court s dismissal and reversed the lower court s ruling relating to MBIA Corp. s breach of contract claim. MBIA Corp. intends to appeal the Appellate Division s ruling to the New York court of Appeals, and has filed papers with the lower court seeking permission to file an amended complaint.

On January 21, 2010, MBIA Corp. and LaCrosse commenced an action in New York State Supreme Court, Westchester County, against Royal Bank of Canada and RBC Capital Markets Corporation (RBC) relating to three CDS transactions and related insurance policies referencing Logan CDO I, Ltd., Logan CDO II, Ltd. and Logan CDO III, Ltd. (the Logan CDOs). The complaint alleged RBC fraudulently or negligently induced MBIA to insure the Logan CDOs, claims for breach of contract and promissory estoppel, and challenges RBC s failure to issue credit event and related notifications in accordance with contractual obligations for the Logan CDOs. A settlement of this matter was reached between the parties and on January 4, 2011, a stipulation of voluntary discontinuance with prejudice was filed. The settlement also included commutation of certain CDS contracts between RBC and LaCrosse.

On October 14, 2008, June 17, 2009 and August 25, 2009, MBIA Corp. submitted proofs of claim to the Federal Deposit Insurance Corporation (FDIC) with respect to the resolution of IndyMac Bank, F.S.B. for both pre- and

Item 3. Legal Proceedings (continued)

post-receivership amounts owed to MBIA Corp. as a result of IndyMac s contractual breaches and fraud in connection with financial guarantee insurance issued by MBIA Corp. on securitizations of HELOCs. The proofs of claim were subsequently denied by the FDIC. MBIA Corp. has appealed the FDIC s denial of its proofs of claim via a complaint, filed on May 29, 2009, against IndyMac Bank, F.S.B. and the FDIC, as receiver, in the U.S. District Court for the District of Columbia and alleges that IndyMac fraudulently induced MBIA Corp. to provide financial guarantee insurance on securitizations of HELOCs by breaching contractual representations and warranties as well as negligently and fraudulently misrepresenting the nature of the loans in the securitization pools and IndyMac s adherence to its strict underwriting standards and guidelines. On February 8, 2010, MBIA Corp. filed its amended complaint against the FDIC both in its corporate capacity and as conservator/receiver of IndyMac Federal Bank, F.S.B. for breach of its contractual obligations as servicer and seller for the IndyMac transactions at issue and for unlawful disposition of IndyMac Federal Bank, F.S.B. s assets in connection with the FDIC s resolution of IndyMac Bank, F.S.B. On May 21, 2010, the FDIC filed separate motions to dismiss both in its capacity as a corporate entity and as receiver/conservator. MBIA Corp. filed its opposition to the FDIC s motions to dismiss on July 1, 2010. The FDIC s replies were filed on July 30, 2010.

On September 22, 2009, MBIA Corp. commenced an action in Los Angeles Superior Court against IndyMac ABS, Inc., Home Equity Mortgage Loan Asset-Backed Trust, Series 2006-H4, Home Equity Mortgage Loans Asset-Backed Trust, Series INDS 2007-I, Home Equity Mortgage Loan Asset-Backed Trust, Series INDS 2007-2, Credit Suisse Securities (USA), L.L.C., UBS Securities, LLC, JPMorgan Chase & Co., Michael Perry, Scott Keys, Jill Jacobson, and Kevin Callan. The Complaint alleges that IndyMac Bank made numerous misrepresentations and omissions of material fact in connection with its sale of certain RMBS, including that the underlying collateral consisting of mortgage loans had been originated in strict compliance with its underwriting standards and guidelines. MBIA Corp. commenced this action as subrogee of the purchasers of the RMBS, who incurred severe losses that have been passed on to MBIA Corp. as the insurer of the income streams on these securities. On October 19, 2009, MBIA Corp. dismissed IndyMac ABS, Inc. from the action without prejudice. On October 23, 2009, defendants removed the case to the U.S. District Court for the Central District of California. On November 30, 2009, the IndyMac trusts were consensually dismissed from the litigation. On December 23, 2009, federal District Court Judge S. James Otero of the Central District of California granted MBIA Corp. s motion to remand the case to Los Angeles Superior Court. On March 25, 2010, the case was reassigned to Judge Carl West. On June 4, 2010, defendants filed their Answers and Motion for Judgment on the Pleadings. MBIA Corp. s opposition was filed on June 23, 2010. On August 3, 2010, the court denied defendants Motion for Judgment on the Pleadings in its entirety.

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

Transformation Litigation

On March 11, 2009, a complaint was filed in the U.S. District Court of the Southern District of New York against the Company 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 U.S. municipal/governmental bond securities. The complaint alleges that certain of the terms of the transactions entered into by the Company and its subsidiaries, which were approved by the NYSID, 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

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Item 3. Legal Proceedings (continued)

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 s motion to dismiss. On January 20, 2011 in light of the Appellate Division of the New York State Supreme Court s order dismissing the ABN AMRO Bank N.V. et al. v. MBIA Inc. et al. discussed below, Judge Sullivan stayed this action pending plaintiffs appeal to the New York State Court of Appeals.

On April 6, 2009, a complaint was filed in the Court of Chancery for the State of Delaware entitled Third Avenue Trust and Third Avenue Variable Series Trust v. MBIA Insurance Corp. and MBIA Insurance Corp. of Illinois, CA 4486-UCL. Plaintiffs allege that they are holders of approximately $400 million of surplus notes issued by MBIA Corp. (for purposes of this section, the Notes) in January 2008. The complaint alleges (Count I) that certain of the Transactions breached the terms of the Notes and the Fiscal Agency Agreement dated January 16, 2008 pursuant to which the Notes were issued. The complaint also alleges that certain transfers under the Transactions were fraudulent in that they allegedly left MBIA Corp. with unreasonably small capital (Count II), insolvent (Count III), and were made with an actual intent to defraud (Count IV). The complaint seeks a judgment (a) ordering the defendants to unwind the Transactions (b) declaring that the Transactions constituted a fraudulent conveyance, and (c) damages in an unspecified amount. On October 28, 2009, Vice Chancellor Strine entered an order dismissing the case without prejudice. On December 21, 2009, plaintiffs re-commenced the action in New York State Supreme Court. On February 10, 2011, the New York County Commercial Division announced that Hon. O. Peter Sherwood has been assigned to the case to replace Justice Yates, who has resigned.

On May 13, 2009, a complaint was filed in the New York State Supreme Court against the Company 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 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 the Company and its subsidiaries, which were approved by the NYSID, 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, the court denied defendants motion to dismiss. On January 11, 2011, the Appellate Division of the New York State Supreme Court reversed the lower court s ruling and dismissed the complaint. On January 20, 2011, plaintiffs filed a Notice of Appeal to the New York State Court of Appeals. Argument has been scheduled for May 31, 2011. On February 10, 2011, the New York County Commercial Division announced that Hon. O. Peter Sherwood has been assigned to the case to replace Justice Yates, who has resigned. Seven of the original nineteen plaintiffs have dismissed their claims, several of which dismissals were related to the commutation of certain of their MBIA insured exposures.

On June 15, 2009, the same group of domestic and international financial institutions who filed the above described plenary action in New York State Supreme Court filed a proceeding pursuant to Article 78 of New York s Civil Practice Law & Rules in New York State Supreme Court, entitled ABN AMRO Bank N.V. et al. v. Eric Dinallo, in his capacity as Superintendent of the NYSID, the NYSID, MBIA Inc. et al. In its motions to dismiss the three above-referenced plenary actions, the Company 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 NYSID. The petition seeks a judgment (a) declaring void and to annul the approval letter of the Superintendent of the NYSID, (b) to recover dividends paid in connection with the Transactions, and (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 and the NYSID 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. As described above, seven of the original nineteen plaintiffs have dismissed their claims. Submission of all papers relating to the original petition are scheduled to be completed by May 30, 2011. On February 10, 2011, the New York County Commercial Division announced that Hon. O. Peter Sherwood has been assigned to the case to replace Justice Yates, who has resigned.

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Item 3. Legal Proceedings (continued)

On October 22, 2010, a similar group of domestic and international financial institutions who filed the above described Article 78 proceeding and related plenary action in New York State Supreme Court filed an additional proceeding pursuant to Article 78 of New York s Civil Practice Law & Rules in New York State Supreme Court, entitled Barclays Bank PLC et. al. v. James Wrynn, in his capacity as Superintendent of the NYSID, the NYSID, MBIA Inc. et al. This petition challenges the NYSID s June 22, 2010 approval of National s restatement of earned surplus. On February 10, 2011, the New York County Commercial Division announced that Hon. O. Peter Sherwood has been assigned to the case to replace Justice Yates, who has resigned. The proceeding is currently stayed.

The Company is defending against the aforementioned actions in which it is a defendant and expects ultimately to prevail on the merits. There is no assurance, however, that the Company will prevail in these actions. Adverse rulings in these actions could have a material adverse effect on the Company s ability to implement its strategy and on its business, results of operations, cash flows and financial condition.

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

Item 4. (Removed and Reserved)

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Part II

Item 5. Market for the Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

The Company s common stock is listed on the New York Stock Exchange under the symbol MBI. As of February 24, 2011 there were 862 shareholders of record of the Company s common stock. The information concerning dividends on the Company s common stock is under Item 1. Business Insurance Regulation in this annual report.

The high and low closing stock prices with respect to the Company s common stock for the last two years are presented below:

	2010 Stock Price		2009 Stock Price	
Quarter Ended	**High**	**Low**	**High**	**Low**
March 31	$ 6.40	$ 4.20	$ 5.61	$ 2.29
June 30	10.55	5.61	7.21	4.22
September 30	11.19	5.51	8.24	3.65
December 31	13.00	9.52	6.94	3.25

On January 9, 2008, the Company announced that its Board of Directors authorized a revised shareholder dividend policy, pursuant to the Company s capital strengthening plan, which was expected to reduce quarterly shareholder dividends from $0.34 per share to $0.13 per share. On February 25, 2008, the Company announced that its Board of Directors authorized the elimination of quarterly shareholder dividends to further strengthen the Company s resources and to increase its operating flexibility.

On January 30, 2008, the Company issued 16.1 million shares of MBIA common stock to Warburg Pincus at $31 per share per an investment agreement, subsequently amended on February 6, 2008, with Warburg Pincus. In addition, under the agreement with Warburg Pincus, the Company granted Warburg Pincus warrants to purchase 8.7 million shares of MBIA common stock at an exercise price of $40 per share and B warrants, which, upon obtaining certain approvals, will become exercisable to purchase 7.4 million shares of common stock at a price of $40 per share.

On February 13, 2008, the Company completed a public offering of 94.65 million shares of MBIA common stock at $12.15 per share. Warburg Pincus informed the Company that it purchased $300 million in common stock as part of the offering. The Company did not use the $750 million Warburg Pincus backstop. In addition, Warburg Pincus did not exercise its right to purchase up to $300 million in preferred stock. Pursuant to the amended agreement with Warburg Pincus, Warburg Pincus was granted 4 million of B2 warrants at a price of $16.20 per share. In addition, under anti-dilution provisions in the agreement with Warburg Pincus, the terms of the warrants issued to Warburg Pincus on January 30, 2008 were amended, which resulted in (a) the 8.7 million of warrants exercisable at $40 per share were revised to 11.5 million warrants exercisable at $30.25 per share and (b) the 7.4 million of B warrants exercisable at $40 per share were revised to 9.8 million B warrants exercisable at $30.25 per share. See Note 21: Common and Preferred Stock in the Notes to Consolidated Financial Statements of MBIA Inc. and Subsidiaries in Part II, Item 8 for additional information on the agreement with Warburg Pincus and the common stock offering.

On February 1, 2007, the Company s Board of Directors authorized the repurchase of common stock up to $1 billion under a new share repurchase program, which superseded the previously authorized program. However, due to the Company s decision in the third quarter of 2007 to suspend share repurchases under the program in light of concerns and uncertainties regarding the housing markets, the structured finance sector and the U.S. economy, no shares were repurchased during the first six months of 2008.

In August 2008, the Company s Board of Directors approved the resumption of the share repurchase program. Repurchases of common stock may be made from time to time in the open market or in private transactions as permitted by securities laws and other legal requirements. We believe that share repurchases can be an appropriate deployment of capital in excess of amounts needed to support our liquidity and maintain the claims-paying ratings of MBIA Corp. and National as well as other business needs. As of December 31, 2010, the Company repurchased 50 million shares under the program at an average price of $18.49 per share and $73 million remained available under the $1 billion share buyback program.

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Item 5. Market for the Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities (continued)

The table below presents repurchases made by the Company in each month during the fourth quarter of 2010. See Note 19: Long-term Incentive Plans in the Notes to Consolidated Financial Statements of MBIA Inc. and Subsidiaries in Part II, Item 8 for a further discussion on long-term incentive plans.

Month	Total Number of Shares Purchased (1)	Average Price Paid Per Share	Total Amount Purchased as Part of Publicly Announced Plan	Maximum Amount That May Be Purchased Under the Plan (in thousands)
October				$ 73,057
November				73,057
December	1,871	8.43		73,057

(1) 1,871 shares were repurchased by the Company for settling awards under the Company s long-term incentive plans.

As of December 31, 2010, 274,719,578 shares of Common Stock of the Company, par value $1 per share, were issued and 199,745,600 shares were outstanding.

Stock Performance Graph The following graph compares the cumulative total shareholder return (rounded to the nearest whole dollar) of our common stock, the S&P 500 Stock Index (S&P 500 Index) and the S&P 500 Diversified Financials Index (S&P Financials Index) for the last five fiscal years. The graph assumes a $100 investment at the closing price on December 31, 2005 and reinvestment of dividends on the respective dividend payment dates without commissions. This graph does not forecast future performance of our common stock.

	2005	2006	2007	2008	2009	2010
MBIA Inc. Common Stock	100.00	123.87	32.49	7.10	6.94	20.91
S&P 500 Index	100.00	115.79	122.16	76.96	97.33	111.99
S&P 500 Financials Index	100.00	119.23	97.14	43.45	50.94	57.14

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Item 6. Selected Financial Data

Dollars in millions except per share amounts	2010	2009	2008	2007	2006
Summary Statement of Operations Data:					
Premiums earned	594	746	850	708	744
Net investment income	457	567	1,381	1,881	1,534
Net change in fair value of insured derivatives	(769)	1,484	(2,220)	(3,611)	76
Net gains (losses) on financial instruments at fair value and foreign exchange	88	225	(517)	382	17
Net investment losses related to other-than-temporary impairments	(64)	(361)	(959)	(20)	
Revenues of consolidated variable interest entities	364	(19)	157	309	268
Total revenues from continuing operations	894	2,954	(857)	(272)	2,705
Losses and LAE incurred	232	864	1,318	900	81
Operating expenses	290	316	304	219	218
Interest expense	325	374	1,017	1,291	939
Expenses of consolidated variable interest entities	83	102	157	315	269
Total expenses from continuing operations	989	1,737	2,871	2,793	1,572
Income (loss) from continuing operations before income taxes	(95)	1,217	(3,727)	(3,066)	1,133
Income (loss) from continuing operations, net of tax	53	634	(2,673)	(1,922)	813
Net income (loss) available to common stockholders	53	623	(2,673)	(1,922)	819
Basic EPS:					
Income (loss) from continuing operations	0.26	2.99	(12.11)	(14.93)	6.03
Net income (loss)	0.26	2.99	(12.11)	(14.93)	6.08
Diluted EPS:					
Income (loss) from continuing operations	0.26	2.99	(12.11)	(14.93)	5.95
Net income (loss)	0.26	2.99	(12.11)	(14.93)	5.99
Summary Balance Sheet Data:					
Fixed-maturity investments	9,598	9,888	11,438	30,816	27,932
Short-term investments	2,070	2,688	4,693	4,916	2,723
Other investments	259	255	220	731	972
Derivative assets	4	866	911	1,225	178
Total assets of consolidated variable interest entities	14,137	4,312	4,800	5,726	5,667
Total assets	32,279	25,701	29,030	46,718	39,345
Unearned premium revenue	4,145	4,955	3,424	3,108	3,100
Loss and LAE reserves	1,129	1,580	1,558	1,346	537
Investment agreements	2,005	2,726	4,667	16,108	12,483
Medium-term notes	1,740	2,285	4,198	9,387	7,585
Long-term debt	1,851	2,224	2,051	1,225	1,215
Derivative liabilities	4,617	4,594	6,471	4,607	106
Total liabilities of consolidated variable interest entities	13,055	3,640	4,785	5,700	5,640
Total equity	2,846	2,607	1,022	3,656	7,204
Book value per share	14.18	12.66	4.78	29.16	53.43
Dividends declared per common share				1.36	1.24
Insurance Statistical Data:					
Debt service outstanding	1,025,031	1,166,193	1,274,531	1,140,545	1,054,093
Gross par amount outstanding	672,878	767,232	841,480	762,446	694,922

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Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations

FORWARD-LOOKING AND CAUTIONARY STATEMENTS

This annual report of MBIA Inc. (MBIA , the Company , we , us or our) includes statements that are not historical or current facts and are forward-looking statements made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. The words believe, anticipate, project, plan, expect, estimate, intend, will likely result, looking forward or will continue, and similar expr forward-looking statements. These statements are subject to certain risks and uncertainties that could cause actual results to differ materially from historical earnings and those presently anticipated or projected. MBIA cautions readers not to place undue reliance on any such forward-looking statements, which speak only to their respective dates. We undertake no obligation to publicly correct or update any forward-looking statement if the Company later becomes aware that such result is not likely to be achieved.

The following are some of the factors that could affect financial performance or could cause actual results to differ materially from estimates contained in or underlying the Company s forward-looking statements:

- uncertainty regarding whether the Company will realize, or will be delayed in realizing, insurance loss recoveries expected in disputes with sellers/servicers of residential mortgage-backed securities (RMBS) transactions at the levels recorded in its financial statements;

- the possibility that the Company will experience severe losses or liquidity needs due to increased deterioration in its insurance portfolios and in particular, due to the performance of RMBS and collateralized debt obligations (CDOs) including multi-sector and commercial mortgage-backed securities (CMBS) pools and commercial real estate (CRE) CDOs;

- the possibility that loss reserve estimates are not adequate to cover potential claims;

- our ability to fully implement our strategic plan, including our ability to achieve high stable ratings for National Public Finance Guarantee Corporation (National) or any of our other insurance companies;

- the resolution of litigation claims against the Company;

- the possibility of deterioration in the economic environment and financial markets in the United States (U.S.) or abroad, and adverse developments in real estate market performance, credit spreads, interest rates and foreign currency levels;

- the possibility that unprecedented budget shortfalls will result in credit losses or impairments on obligations of state and local governments that we insure;

- our ability to access capital and our exposure to significant fluctuations in liquidity and asset values within the global credit markets;

- changes in the Company s credit ratings;

- competitive conditions for bond insurance, including potential entry into the public finance market of insurers of municipal bonds, and changes in the demand for financial guarantee insurance;

- the effects of governmental regulation, including insurance laws, securities laws, tax laws, legal precedents and accounting rules;

- uncertainties that have not been identified at this time.

The above factors provide a summary of and are qualified in their entirety by the risk factors discussed under Risk Factors in Part I, Item 1A of this annual report on Form 10-K. In addition, refer to Note 1: Businesses, Developments, Risks and Uncertainties in the Notes to Consolidated Financial Statements for a discussion of certain risks and uncertainties related to our financial statements.

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Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations

EXECUTIVE OVERVIEW

MBIA operates the largest financial guarantee insurance business in the industry and is a provider of asset management advisory services. These activities are managed through three business segments: U.S. public finance insurance, structured finance and international insurance, and advisory services. Our U.S. public finance insurance business is operated through National, our structured finance and international insurance business is primarily operated through MBIA Insurance Corporation and its subsidiaries (MBIA Corp.), and our advisory services business is primarily operated through Cutwater Holdings, LLC and its subsidiaries (Cutwater). We also manage certain business activities through our corporate, asset/liability products, and conduit segments. Our corporate segment includes revenues and expenses that arise from general corporate activities. Funding programs managed through our asset/liability products and conduit segments are in wind-down.

During the third quarter of 2010, MBIA Insurance Corporation and MBIA UK Insurance Limited (MBIA UK) commuted all of their reinsurance with Channel Reinsurance Ltd. (Channel Re) and MBIA Insurance Corporation liquidated Channel Re and its parent company, ChannelRe Holdings Ltd., which MBIA Insurance Corporation acquired on July 19, 2010. In connection with the commutation, MBIA Insurance Corporation, National and MBIA UK reassumed insured exposure of $21.6 billion, $7.8 billion and $2.1 billion, respectively. The transaction, including the commutation and liquidation, resulted in an increase in MBIA Corp. s statutory capital of $132 million and an increase in its liquidity position of $595 million.

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

Economic and Financial Market Trends and MBIA s Business Outlook

We believe 2010 continued to suggest restrained economic recovery and sluggish growth within the employment, housing and financial sectors. MBIA s business outlook should be viewed against this backdrop since these are some of the key economic conditions which, together with the ineligibility of loans supporting our insured RMBS transactions, significantly impact our financial results. Since the fourth quarter of 2007, losses in our structured finance insurance business, particularly in the RMBS and CMBS sectors, have placed considerable stress on our financial results and our capacity to generate new business. RMBS losses were primarily driven by high levels of mortgage loans that did not meet eligibility criteria and improperly serviced loans included in MBIA Corp.-insured RMBS transactions.

We continued to review mortgage loans in our insured transactions during 2010 to identify ineligible loans that we believe the sellers/servicers have contractual obligations to cure, repurchase or replace, and we have recorded recoveries in connection with these contractual put-back rights based on our assessment of a distribution of possible outcomes (factoring in all known uncertainties). The estimated amount, likelihood and timing of potential recoveries are expected to be revised and supplemented based on facts and circumstances as they emerge, including developments in pending litigation proceedings in which we are seeking to enforce these put-back rights, analysis of the capacity of sellers/servicers or other responsible parties to pay our claims and other factors that could influence the amount, likelihood and timing of the recoveries. A more detailed discussion of potential recoveries is presented within Note 6: Loss and Loss Adjustment Expense Reserves in the Notes to Consolidated Financial Statements.

The reference herein to ineligible mortgage loans refers to those mortgages that the Company believes failed to comply with the representations and warranties made by the sellers/servicers of the securitizations to which those mortgages were sold with respect to such mortgages, including failure to comply with the related underwriting criteria, based on the Company s assessment, which included information provided by third-party review firms, of such mortgages compliance with such representations and warranties. The Company s assessment of the ineligibility of individual mortgages could be challenged/disputed by the sellers/servicers of the securitizations in litigation and there is no assurance that the Company s determinations will prevail.

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Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations

EXECUTIVE OVERVIEW (continued)

We recorded impairments related to insured CMBS exposure in 2010. Although loan liquidations and property sales are just beginning to take place within the underlying MBIA Corp.-insured CMBS transactions, delinquencies have increased markedly in the commercial real estate market over the last two years given the economic downturn and the shortage of financing. While debt service coverages on our portfolio are higher as of December 31, 2010 compared with December 31, 2009, debt coverage ratios on some loans have deteriorated in this sector. In addition, since CMBS foreclosures and liquidations have only recently begun to take place in this economic cycle, ultimate loss rates remain uncertain. However, we have also seen a deceleration in the pace of increases in the delinquency rate increases over the past several months. In addition, we have seen numerous loan modifications and extensions granted by the special servicers for these securities. The special servicers are responsible for managing loans that have defaulted and for conducting the remediation and foreclosure process with the objective of maximizing proceeds for all bondholders by avoiding or minimizing loan level losses.

During the fourth quarter of 2010, MBIA Corp. reached agreements with five counterparties for commutations of transactions including multi-sector CDOs, CDO-squared transactions, structured CMBS pools, CRE CDOs and high-yield corporate CDOs. The agreements eliminated $15.7 billion in gross insured exposure. In the first quarter of 2011, MBIA Corp. reached an agreement for the commutation of $3.3 billion of additional gross insured exposure, comprising structured CMBS pools and an investment grade corporate CDO. The total amount the Company paid to commute the transactions in the fourth quarter of 2010 and the first quarter of 2011 was within its aggregate statutory loss reserve for those transactions. Since the fourth quarter of 2008, the Company has commuted $28.0 billion of its multi-sector CDO, multi-sector CDO-squared, CRE CDO, CMBS pool and corporate CDO gross insured exposure for payments that were within its aggregate statutory loss reserves for those transactions. In consideration for the commutation of insured transactions, including the transactions described above, the Company has made and may in the future make payments to the counterparties the amounts of which, if any, may be less than or greater than any statutory loss reserves established for the respective transactions.

Our financial results have been extremely volatile since the fourth quarter of 2007 as a result of unrealized gains and losses on our insured credit derivatives, which we do not believe reflect the underlying economics of our business. We fully expect that both economic performance and reported financial results may remain volatile and uncertain during 2011 as a result of actual and perceived future performance of our insured credit derivatives.

Our ability to overcome these economic stresses will depend, in part, on the strength of our balance sheet. Our financial guarantee insurance business model has been significantly impacted by adverse credit rating actions by Standard & Poor s Financial Services LLC (S&P) and Moody s Investors Service, Inc. (Moody s). Additionally, the pending litigation challenging the establishment of National has constrained our ability to generate new financial guarantee insurance business. We do not expect to write significant new financial guarantee business prior to an upgrade of our insurance financial strength ratings. We expect that once the pending litigation is resolved, we will be able to obtain the highest possible credit ratings and the market acceptance necessary to meet our objectives. Our ability to achieve these ratings is subject to rating agency criteria in effect at that time, including qualitative and quantitative factors, and the timing of any such upgrade is uncertain. There is no assurance that we will prevail in the pending litigation or be able to achieve such ratings. Failure by the Company to favorably resolve this litigation could have a material adverse effect on its future business, results of operations, financial condition or cash flows.

In January 2011, S&P proposed, and requested comment on, changes to its rating methodology for financial guarantee insurers. If implemented in their current form, the proposed changes would substantially increase the amount of capital required to achieve S&P s highest ratings and would incorporate additional qualitative considerations into the ratings process. As a result, our insurance subsidiaries could be downgraded in the near term, could be unable to achieve S&P s highest ratings in the future, could choose not to take the steps necessary to obtain the highest S&P ratings, or could choose to stop carrying the S&P ratings. The absence of S&P s highest ratings could adversely impact our ability to write new insurance business and the premiums we can charge, and could diminish the acceptance of our financial guarantee insurance products. We have joined other market participants in providing comments to S&P stating our concerns with their revisions.

Refer to Note 24: Commitments and Contingencies in the Notes to Consolidated Financial Statements for a detailed discussion on the lawsuits filed against the Company.

Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations

EXECUTIVE OVERVIEW (continued)

Financial Highlights

For the year ended December 31, 2010, we recorded consolidated net income of $53 million or $0.26 per share compared with consolidated net income of $623 million or $2.99 per share for the year ended December 31, 2009, after adjusting for preferred stock dividends of MBIA Insurance Corporation, and a consolidated net loss of $2.7 billion or $12.11 per share for the year ended December 31, 2008.

We also use adjusted pre-tax income, a non-GAAP measure, to supplement our analysis of pre-tax income. We consider adjusted pre-tax income a measure of fundamental periodic financial performance, which we believe is useful for an understanding of our results. Adjusted pre-tax income adjusts GAAP pre-tax income to remove the effects of consolidating insured variable interest entities (VIEs) and gains and losses related to fair valuing insured credit derivatives, which we believe will reverse over time, as well as to add in changes in the present value of insurance claims we expect to pay on insured credit derivatives based on our ongoing insurance loss monitoring. Adjusted pre-tax income is not a substitute for and should not be viewed in isolation from GAAP pre-tax income, and our definition of adjusted pre-tax income may differ from that used by other companies. Refer to the following Results of Operations section for a reconciliation of adjusted pre-tax income to GAAP pre-tax income.

For the year ended December 31, 2010, consolidated adjusted pre-tax income was a loss of $377 million compared with losses of $877 million and $2.9 billion for the years ended December 31, 2009 and 2008, respectively. The decreases in adjusted pre-tax loss from 2008 through 2010 resulted from a reduction in insurance losses and losses related to other-than-temporarily impaired securities.

During 2010, our business segments continued to maintain adequate liquidity to meet their payment obligations. Within our insurance segments, National and MBIA Corp. had $355 million and $907 million, respectively, of cash and short-term investments as of December 31, 2010. MBIA Corp. s total liquidity position, including highly liquid securities, was $1.3 billion as of December 31, 2010. Our corporate segment and our wind-down operations had $358 million and $781 million, respectively, of cash and short-term investments as of December 31, 2010.

Our consolidated book value (total shareholders equity) was $2.8 billion as of December 31, 2010, increasing from $2.6 billion as of December 31, 2009. Our consolidated book value per share as of December 31, 2010 was $14.18, increasing from $12.66 as of December 31, 2009.

In addition to book value per share, we also analyze adjusted book value (ABV) per share, a non-GAAP measure. We consider ABV a measure of fundamental value of the Company and the change in ABV an important measure of financial performance. ABV adjusts GAAP book value to remove the impact of certain items which the Company believes will reverse over time, as well as to add in the impact of certain items which the Company believes will be realized in GAAP book value in future periods. The Company has limited such adjustments to those items that it deems to be important to fundamental value and performance and which the likelihood and amount can be reasonably estimated. ABV assumes no new business activity. We have presented ABV to allow investors and analysts to evaluate the Company using the same measure that MBIA s management regularly uses to measure financial performance and value. ABV is not a substitute for and should not be viewed in isolation from GAAP book value, and our definition of ABV may differ from that used by other companies. Refer to the following Results of Operations section for a further discussion of ABV, including the change we made to this measure in the fourth quarter of 2010, and a reconciliation of consolidated book value per share to ABV per share.

As of December 31, 2010, ABV per share was $36.81, down 5% from $38.94 as of December 31, 2009. The decrease in ABV per share was primarily driven by an increase in impairments on insured credit derivatives.

A detailed discussion of our financial results is presented within the Results of Operations section included herein. Refer to the Capital Resources Insurance Statutory Capital section included herein for a discussion of National s and MBIA Corp. s capital position under statutory accounting principles.

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Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations

CRITICAL ACCOUNTING ESTIMATES

We prepare our financial statements in accordance with GAAP, which requires the use of estimates and assumptions. The following accounting estimates are viewed by management to be critical because they require significant judgment on the part of management. Management has discussed and reviewed the development, selection, and disclosure of critical accounting estimates with the Company s Audit Committee. Financial results could be materially different if other methodologies were used or if management modified its assumptions.

Loss and Loss Adjustment Expense Reserves

Loss and loss adjustment expense (LAE) reserves are established by loss reserve committees in each of our operating insurance companies (National, MBIA Insurance Corporation and MBIA UK) and reviewed by our executive Loss Reserve Committee, which consists of members of senior management. Loss and LAE reserves include case basis reserves and accruals for LAE incurred with respect to non-derivative financial guarantees. Case basis reserves represent our estimate of expected losses to be paid under insurance contracts, net of potential recoveries, on insured obligations that have defaulted or are expected to default. These reserves require the use of judgment and estimates with respect to the occurrence, timing and amount of paid losses and recoveries on insured obligations. Given that the reserves are based on such estimates and assumptions, there can be no assurance that the actual ultimate losses will not exceed such estimates resulting in the Company recognizing additional loss and LAE in earnings.

We take into account a number of variables in establishing specific case basis reserves for individual policies that depend primarily on the nature of the underlying insured obligation. These variables include the nature and creditworthiness of the issuers of the insured obligations, expected recovery rates on unsecured obligations, the projected cash flow or market value of any assets pledged as collateral on secured obligations, and the expected rates of recovery, cash flow or market values on such obligations or assets. Factors that may affect the actual ultimate realized losses for any policy include economic conditions and trends, levels of interest rates, rates of inflation, borrower behavior, the default rate and salvage values of specific collateral, and our ability to enforce contractual rights through litigation and otherwise. Our remediation strategy for an insured obligation that has defaulted or is expected to default may also have an impact on our loss reserves.

In establishing case basis loss reserves, we calculate the present value of probability-weighted estimated loss payments, net of estimated recoveries, using a discount rate equal to the risk-free rate applicable to the currency and the weighted average remaining life of the insurance contract. Yields on U.S. Treasury offerings are used to discount loss reserves denominated in U.S. dollars, which represent the majority of our loss reserves. Similarly, yields on foreign government offerings are used to discount loss reserves denominated in currencies other than the U.S. dollar.

As of December 31, 2010 and over the last several years, the majority of our case basis reserves and insurance loss recoveries were related to insured RMBS transactions. Refer to Note 6: Loss and Loss Adjustment Expense Reserves in the Notes to Consolidated Financial Statements for a comprehensive discussion of our RMBS loss reserves and recoveries, including critical accounting estimates used in the determination of these amounts.

Valuation of Financial Instruments

We have categorized our financial instruments measured at fair value into the three-level hierarchy according to accounting guidance for fair value measurements and disclosures based on the significance of pricing inputs to the measurement in its entirety. Fair value measurements of financial instruments that use quoted prices in active markets for identical assets or liabilities are generally categorized as Level 1, and fair value measurements of financial instruments where significant inputs are not observable are generally categorized as Level 3. We categorize our financial instruments conservatively using the lowest level category at which we can generate reliable fair values. The determination of reliability requires management to exercise judgment. The degree of judgment used to determine the fair values of financial instruments generally correlates to the degree to which pricing is not observable.

The fair market values of financial instruments held or issued by the Company are determined through the use of observable market data when available. Market data is obtained from a variety of third-party sources, including dealer quotes. If dealer quotes are not available for an instrument that is infrequently traded, we use alternate

Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations

CRITICAL ACCOUNTING ESTIMATES (continued)

valuation methods, including either dealer quotes for similar contracts or modeling using market data inputs. The use of alternate valuation methods generally requires considerable judgment in the application of estimates and assumptions and changes to these variables may produce materially different values.

The fair value pricing of assets and liabilities is a function of many components which include interest rate risk, market risk, liquidity risk and credit risk. For financial instruments that are internally valued by the Company, as well as those for which the Company uses broker quotes or pricing services, credit risk is typically incorporated by using appropriate credit spreads or discount rates as inputs. Refer to Note 7: Fair Value of Financial Instruments in the Notes to Consolidated Financial Statements for further information about the Company s financial assets and liabilities that are accounted for at fair value, including valuation techniques and disclosures required by GAAP.

1. Financial Assets

The Company s financial assets are primarily debt and equity investments. The majority of these assets are accounted for in accordance with the accounting principles for certain investments in debt and equity securities. This guidance requires all debt instruments and certain equity instruments to be classified in the Company s consolidated balance sheet according to their purpose and, depending on that classification, to be carried at either amortized cost or fair value. Most valuations of the Company s financial assets use observable market-based inputs, including dealer quotes when available. However, since mid-2007, illiquidity in the credit markets has significantly reduced the availability of observable market data. Other financial assets that require fair value reporting or disclosures within the Company s financial statements are valued based on the estimated value of the underlying collateral or the Company s estimate of discounted cash flows.

Assets with fair values derived from broker quotes or pricing services can be classified within Level 1, 2 or 3 of the fair value hierarchy, depending on the observability of inputs. Typically we receive one broker quote or pricing service value for each instrument, which represents a non-binding indication of value. We review the assumptions, inputs and methodologies used by pricing services to obtain: (i) reasonable assurance that the prices used in our valuations reflect fair value and (ii) a basis for classification within the three levels of the fair value hierarchy. For example, broker quoted prices are classified as Level 3 if we determine that the inputs used are not market-based and observable. Pricing service data is received monthly and quarterly, and we use a variety of methods to analyze the reasonableness of these third-party valuations, including comparisons to similar quality and maturity assets, internal modeling of implied credit spreads by sector and quality, comparison to published spread estimates, and assessment relative to comparable dealer offerings or any actual transactions from a recent time period. When we believe a third-party quotation differs significantly from our internal value, whether higher or lower, we review our data or assumptions with the provider. The price provider may subsequently provide an updated price. We do not make any internal adjustments to prices provided by a broker or pricing service.

While we review third-party prices for reasonableness, we are not the source for any of the inputs or assumptions used in developing those prices. Additionally, we do not have access to the specific models used by the third-party price providers. As a result, we cannot provide the potential impact of reasonably likely changes in inputs and assumptions used in these models. Consequently, we are unable to determine if such reasonably likely changes in inputs and assumptions would have a material impact on our financial condition or results of operations.

2. Financial Liabilities

The Company s financial instruments categorized as liabilities primarily consist of insured derivatives within our insurance operations, derivatives used in our wind-down operations, investment agreements and medium-term notes (MTNs) within our wind-down operations, and debt issued for general corporate purposes. Investment agreements, MTNs, and corporate debt are typically recorded at face value adjusted for premiums or discounts. The fair values of these financial instruments are generally not reported within the Company s financial statements but are disclosed in the accompanying notes. However, financial liabilities which qualify as part of fair value hedging arrangements under the provisions of derivative and hedging are reported in the Company s consolidated balance sheet at values that reflect changes in the risks being hedged, which offset changes in the

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CRITICAL ACCOUNTING ESTIMATES (continued)

values of the hedging instruments. MBIA uses cash flow modeling techniques to estimate the value of its liabilities that qualify as hedged obligations, incorporating current market data. Financial liabilities that the Company has elected to fair value or that require fair value reporting or disclosures within the Company s Notes to Consolidated Financial Statements are valued based on either estimated value of the underlying collateral, the Company s or a third-party s estimate of discounted cash flows, or quoted market values for similar transactions. Refer to the following *3. Derivatives* section for information about these financial liabilities.

3. Derivatives

MBIA has entered into derivative transactions both within its financial guarantee insurance business and in hedging risks associated with its assets and liabilities. Credit default swap (CDS) contracts are also used in our wind-down operations to replicate investments in cash assets consistent with the risk tolerance and criteria for this business. We account for derivative transactions in accordance with the accounting principles for derivatives and hedging activities, which require that all such transactions be recorded on the Company s consolidated balance sheet at fair value. The fair value of derivative instruments is determined as the amount that would be received to sell the derivative when in an asset position (when the Company would be owed money under the derivative in a termination) or transfer the derivative when in a liability position (when the Company would owe money under the derivative in a termination). Changes in the fair value of derivatives, exclusive of insured derivatives, are recorded each period in current earnings within Net gains (losses) on financial instruments at fair value and foreign exchange or in shareholders equity within Accumulated other comprehensive income (loss) depending on whether the derivative is designated as a hedge, and if so designated, the type of hedge.

The majority of MBIA s derivatives are insured credit derivatives that reference structured pools of cash securities and CDSs. We generally insured the most senior liabilities of such transactions, and at the inception of transactions our exposure generally had more subordination than needed to achieve triple-A ratings from credit rating agencies. The collateral backing our insured derivatives was cash securities and CDSs referencing primarily corporate, asset-backed, residential mortgage-backed, commercial mortgage-backed, commercial real estate (CRE) loan, and CDO securities.

Most of the derivative contracts we insure are non-traded structured credit derivative transactions. Since insured derivatives are highly customized and there is generally no observable market for these derivatives, we estimate their fair values in a hypothetical market based on internal and third-party models simulating what a company similar to us would charge to assume our position in the transaction at the measurement date. This pricing would be based on expected loss of the exposure. We review our valuation model results on a quarterly basis to assess the appropriateness of the assumptions and results in light of current market activity and conditions. This review is performed by internal staff with relevant expertise. If live market spreads or securities prices are observable for similar transactions, those spreads are an integral part of the analysis. For example, new insured transactions that resemble existing (previously insured) transactions would be considered, as would negotiated settlements of existing transactions.

We may from time to time make changes in our valuation techniques if the change results in a measurement that we believe is equally or more representative of fair value under current circumstances.

Refer to Note 7: Fair Value of Financial Instruments in the Notes to Consolidated Financial Statements for a comprehensive discussion of our valuation process for insured derivatives, including critical accounting estimates.

Fair Value Hierarchy Level 3

Accounting principles for fair value measurement and disclosures establish a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. Instruments that trade infrequently and, therefore, have little or no price transparency are classified within Level 3 of the fair value hierarchy. Also included in Level 3 are financial instruments that have significant unobservable inputs deemed significant to the instrument s overall fair value.

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CRITICAL ACCOUNTING ESTIMATES (continued)

The following table presents the fair values of assets and liabilities recorded on our consolidated balance sheet that are classified as Level 3 within the fair value hierarchy as of December 31, 2010 and 2009.

In millions	As of December 31, 2010	2009
Investments		
U.S. Treasury and government agency(1)	$	$ 6
Foreign governments(1)	11	12
Corporate obligations(2)	155	281
Mortgage-backed securities:		
Residential mortgage-backed agency(1)	41	48
Residential mortgage-backed non-agency(1)	48	64
Commercial mortgage-backed(1)	17	20
Asset-backed securities:		
Collateralized debt obligations(2)	191	245
Other asset-backed(2)	374	401
State and municipal bonds:		
Tax-exempt bonds(1)	50	50
Other fixed-maturity investments(2)		19
Perpetual preferred securities(1)	91	77
Derivative assets:		
Credit derivatives(2)		751
Interest rate derivatives(2)	5	17
Currency derivatives(2)		3
Assets of consolidated VIEs:		
Corporate obligations(1)	80	
Mortgage-backed securities:		
Residential mortgage-backed non-agency(1)	40	166
Commercial mortgage-backed(1)	23	3
Asset-backed securities:		
Collateralized debt obligations(2)	245	42
Other asset-backed(2)	83	193
Loans receivable(1)	2,183	
Loan repurchase commitments(1)	835	
Derivative assets:		
Credit derivatives(2)	687	
Total Level 3 assets at fair value	$ 5,159	$ 2,398
Medium-term notes(2)	$ 116	$ 110
Derivative liabilities:		
Credit derivatives(2)	4,350	4,550
Interest rate derivatives(2)		11
Liabilities of consolidated VIEs:		
VIE notes(1)	4,673	
Credit derivatives(1)	1,455	
Currency derivatives(2)	14	

Total Level 3 liabilities at fair value	$ 10,608	$ 4,671

(1) Valued using quoted prices for which the inputs are unobservable.
(2) Valued using quoted prices for which the inputs are unobservable or valuation models with significant unobservable inputs.

Level 3 assets represented approximately 24% and 17% of total assets measured at fair value on a recurring basis as of December 31, 2010 and 2009, respectively. Level 3 liabilities represented approximately 78% and 99% of total liabilities measured at fair value on a recurring basis as of December 31, 2010 and 2009, respectively. Refer to Note 7: Fair Value of Financial Instruments in the Notes to Consolidated Financial Statements for additional information about assets and liabilities classified as Level 3.

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Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations

CRITICAL ACCOUNTING ESTIMATES (continued)

Deferred Income Taxes

Deferred income taxes are recorded with respect to the temporary differences between the tax bases of assets and liabilities and the reported amounts in the Company s financial statements that will result in deductible or taxable amounts in future years when the reported amounts of assets and liabilities are recovered or settled. Our temporary differences relate principally to unrealized appreciation or depreciation of investments and derivatives, invested asset impairments, premium revenue recognition, deferred acquisition costs, and deferred compensation.

Valuation allowances are established to reduce deferred tax assets to an amount that more likely than not will be realized. Changes in the amount of a valuation allowance are reflected within our provision for income taxes in our statement of operations. Determining whether to establish a valuation allowance and, if so, the amount of the valuation allowance requires management to exercise judgment and make assumptions regarding whether such tax benefits will be realized in future periods. All evidence, both positive and negative, needs to be identified and considered in making this determination. Future realization of the existing deferred tax asset ultimately depends on management s estimate of the future profitability and existence of sufficient taxable income of appropriate character (for example, ordinary income versus capital gains) within the carry-forward period available under the tax law. In the event that the Company s estimate of taxable income is less than that required to utilize the full amount of any deferred tax asset, a valuation allowance is established. As of December 31, 2010 and 2009, the Company s valuation allowance included in its deferred tax asset was $376 million and $490 million, respectively, and primarily related to realized losses on sales of investments being carried forward as capital losses and impairments of certain assets characterized as capital losses.

Refer to Note 14: Income Taxes in the Notes to Consolidated Financial Statements for additional information about the Company s deferred income taxes.

RECENT ACCOUNTING PRONOUNCEMENTS

Refer to Note 3: Recent Accounting Pronouncements in the Notes to Consolidated Financial Statements for a discussion on accounting guidance recently adopted by the Company, as well as recent accounting developments relating to guidance not yet adopted by the Company.

RESULTS OF OPERATIONS

Summary of Consolidated Results

The following table presents a summary of our consolidated financial results for the years ended December 31, 2010, 2009 and 2008:

In millions except for per share amounts	2010	2009	2008
Total revenues (losses)	$ 894	$ 2,954	$ (856)
Total expenses	989	1,737	2,871
Pre-tax income (loss)	$ (95)	$ 1,217	$ (3,727)
Provision (benefit) for income taxes	(148)	583	(1,054)
Net income (loss)	$ 53	$ 634	$ (2,673)
Net income (loss) available to common shareholders	$ 53	$ 623	$ (2,673)
Net income (loss) per share	$ 0.26	$ 2.99	$ (12.11)

For the year ended December 31, 2010, we recorded consolidated net income of $53 million or $0.26 per share compared with consolidated net income of $623 million or $2.99 per share, for the same period of 2009, after adjusting for preferred stock dividends of MBIA Insurance Corporation. Weighted average shares outstanding totaled 203 million for the year ended December 31, 2010, down 2% from the same period of 2009 as a result of repurchases of common stock by the Company. Consolidated revenues for the year ended December 31, 2010 were $894 million compared with $3.0 billion for the same period of 2009. The decrease in our consolidated

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RESULTS OF OPERATIONS (continued)

revenues was principally due to a $769 million net loss on insured derivatives in 2010 compared with a $1.5 billion net gain in 2009. The net loss and net gain in 2010 and 2009, respectively, principally resulted from changes in the market perception of MBIA Corp. s credit risk. The net loss in 2010 principally reflected a tightening of the Company s credit spreads and an improvement in the Company s recovery rate while the net gain in 2009 principally reflected a widening of the Company s credit spreads and a reduction in the Company s recovery rate. Consolidated expenses for the year ended December 31, 2010 were $989 million compared with $1.7 billion for the same period of 2009. The decrease in our consolidated expenses principally reflects a reduction in loss and LAE incurred on our financial guarantee RMBS exposure, a decrease in interest expense resulting from a reduction in outstanding debt within our asset/liability products program, and overall lower operating and policy acquisition expenses.

Included in our consolidated net income for the year ended December 31, 2010 was $281 million of income before income taxes related to consolidated VIEs compared with a loss of $120 million for 2009. For the year ended December 31, 2010, revenues and expenses of consolidated VIEs, after the elimination of intercompany revenues and expenses, were $364 million and $83 million, respectively. For the year ended December 31, 2009, revenues and expenses of consolidated VIEs, after the elimination of intercompany revenues and expenses, were a loss $19 million and $101 million, respectively. The increase in revenues is largely attributable to gains on financial instruments recorded at fair value, as well as a reduction in other-than-temporary impairments of VIE assets.

For the year ended December 31, 2009, our consolidated net income of $623 million or $2.99 per share, after adjusting for preferred stock dividends of MBIA Insurance Corporation, increased compared with a net loss of $2.7 billion or $12.11 per share for 2008. Weighted average shares outstanding totaled 208 million for the year ended December 31, 2009, down 6% from 2008 as a result of repurchases of common stock by the Company. Consolidated revenues for the year ended December 31, 2009 were $3.0 billion compared with a loss of $856 million for 2008. The increase in our consolidated revenues principally reflects net gains on insured derivatives, an increase in insurance fees, and lower realized losses from the sale of securities and other-than-temporary impairments, partially offset by a reduction in net investment income. Consolidated expenses for the year ended December 31, 2009 were $1.7 billion compared with $2.9 billion for 2008. The decrease in our consolidated expenses was primarily due to a decline in interest expense as a result of a reduction in outstanding debt within our wind-down operations and a reduction in losses and LAE incurred on our RMBS exposure.

Included in our consolidated net income for the year ended December 31, 2009 was $120 million of loss before income taxes related to consolidated VIEs compared with a loss of $223 thousand for the same period of 2008. For the year ended December 31, 2009, revenues and expenses of consolidated VIEs, after the elimination of intercompany revenues and expenses, were a loss of $19 million and $101 million, respectively. The loss of $19 million resulted from other-than-temporary impairments on VIE assets.

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Adjusted Pre-Tax Income

The following table presents our consolidated adjusted pre-tax income (a non-GAAP measure) and provides a reconciliation of adjusted pre-tax income to GAAP pre-tax income for the years ended December 31, 2010, 2009 and 2008:

	Years Ended December 31,		
In millions	**2010**	**2009**	**2008**
Total revenues	$ 1,811	$ 1,566	$ 1,446
Total expenses	2,188	2,443	4,391
Adjusted pre-tax income (loss)	(377)	(877)	(2,945)
Additions to adjusted pre-tax income (loss):			
Impact of consolidating certain VIEs	243	(44)	33
Mark-to-market gain (loss) on insured credit derivatives	(679)	1,650	(1,823)
Subtractions from adjusted pre-tax income (loss):			
Impairments on insured credit derivatives	(718)	(488)	(1,008)
Pre-tax income (loss)	$ (95)	$ 1,217	$ (3,727)

For the year ended December 31, 2010, consolidated adjusted pre-tax income was a loss of $377 million compared with a loss of $877 million for the same period of 2009. Total revenues for the year ended December 31, 2010 were $1.8 billion compared with $1.6 billion for the same period of 2009. The increase in total revenues was principally due to lower realized losses on other-than-temporary impairments and higher premiums on insured derivative transactions due to the reinsurance commutation with Channel Re, partially offset by reductions in gains on extinguishment of debt and unrealized gains on financial instruments at fair value and foreign exchange. Total expenses for the year ended December 31, 2010 were $2.2 billion compared with $2.4 billion for the same period of 2009. The decrease in total expenses principally reflects a reduction in total insurance losses, a decrease in interest expense resulting from a reduction in outstanding debt within our asset/liability products program, and overall lower operating and policy acquisition expenses.

For the year ended December 31, 2009 consolidated adjusted pre-tax income was a loss of $877 million compared with a loss of $2.9 billion for the same period of 2008. Total revenues for the year ended December 31, 2009 were $1.6 billion compared with $1.4 billion for the same period of 2008. The increase in total revenues was principally due to gains on financial instruments at fair value and foreign exchange and lower realized losses on other-than-temporary impairments, partially offset by reductions in net investment income and gains on extinguishment of debt. Total expenses for the year ended December 31, 2009 were $2.4 billion compared with $4.4 billion for 2008. The decrease in total expenses is principally due to lower insurance losses and a decline in interest expense as a result of a reduction in outstanding debt within our wind-down operations.

Adjusted Book Value

In the fourth quarter of 2010, after completing a review of the components of ABV, we decided to remove the wind-down operations future spread adjustment and the loss provision adjustment. The wind-down operations future spread adjustment adjusted book value to reflect the net present value of asset and liability cash flows within our wind-down operations assuming that the cash flow profile of the business would remain constant to maturity. We believe this adjustment is no longer meaningful in our analysis of the performance and value of the Company as we intend to actively manage the run-off of our wind-down operations. While current wind-down operations generate periodic losses, we expect to manage the portfolio to reduce those losses. The loss provision adjustment to book value represented a formulaic estimate of potential future losses based on our practice prior to 2009 of recording a general loss reserve for unidentified claims based on 12% of net earned premium. While current U.S. GAAP no longer permits such a reserve, we maintained this concept in the calculation of ABV to account for a potential level of unknown loss development in future periods. We believe this adjustment is no longer meaningful in light of current GAAP for financial guarantee insurance contracts, which requires probability-weighted loss reserves based on all possible outcomes across our entire financial guarantee insurance portfolio and our practice of calculating and including in ABV credit impairments on insured credit derivatives.

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As of December 31, 2010, ABV per share (a non-GAAP measure) was $36.81, down 5% from $38.94 as of December 31, 2009. The decrease in ABV per share was primarily driven by an increase in impairments on insured credit derivatives. The following table provides a reconciliation of consolidated book value per share to consolidated ABV per share:

In thousands, except per share data	As of December 31, 2010	2009
Total shareholders equity of MBIA, Inc.	$ 2,832,139	$ 2,590,098
Basic common shares outstanding	199,746	204,668
Book value per share	$ 14.18	$ 12.66
Additions to book value per share (after-tax):		
Net unearned premium revenue(1)(2)	13.61	14.59
Deferred acquisition costs	(1.35)	(1.49)
Present value of insured derivative installment revenue(3)	1.71	1.92
Cumulative impairments on insured credit derivatives(3)	(8.69)	(5.89)
Subtractions from book value per share (after-tax):		
Impact of consolidating certain VIEs(4)	(0.50)	
Cumulative unrealized loss on insured credit derivatives	(14.58)	(12.09)
Net unrealized losses included in other comprehensive income	(2.27)	(5.06)
Total adjustments per share	22.63	26.28
Adjusted book value per share	$ 36.81	$ 38.94

(1) Consists of financial guarantee premiums and fees.

(2) The discount rate on financial guarantee installment premiums was the risk-free rate as defined by the accounting principles for financial guarantee insurance contracts.

(3) The discount rate on insured derivative installment revenue and impairments was 5.0%.

(4) Represents the impact on book value per share of consolidated VIEs that are not considered a business enterprise of the Company.

Our Net unearned premium revenue adjustment to book value per share consists of unearned premium revenue net of prepaid reinsurance premiums recorded on our consolidated balance sheet as required by accounting principles for financial guarantee insurance contracts. Unearned premium revenue includes amounts not yet collected and, therefore, recorded in premiums receivable on our consolidated balance sheet. Our Net unearned premium revenue adjustment to book value per share also includes the unamortized portion of installment premiums collected on insured derivative contracts and the unamortized portion of insurance-related deferred fee revenue. Our Present value of insured derivative installment revenue adjustment to book value per share consists of the present value of premiums not yet collected from insured derivative contracts, which are not recorded on our balance sheet in accordance with accounting principles for financial guarantee insurance contracts but which are contractually due to the Company.

U.S. Public Finance Insurance (Comparison of Years Ended December 31, 2010 and 2009)

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

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The following table presents our U.S. public finance insurance segment results for the years ended December 31, 2010 and 2009:

In millions	2010	2009	Percent Change 2010 vs. 2009
Net premiums earned	$ 446	$ 563	-21%
Net investment income	230	217	6%
Fees and reimbursements	22	15	40%
Change in fair value of insured derivatives:			
Realized gains (losses) and other settlements on insured derivatives	0	1	n/m
Unrealized gains (losses) on insured derivatives	0	0	n/m
Net change in fair value of insured derivatives	0	1	n/m
Net gains (losses) on financial instruments at fair value and foreign exchange	55	23	135%
Other net realized gains (losses)	0		n/m
Total revenues	753	819	-8%
Losses and loss adjustment	73	94	-23%
Amortization of deferred acquisition costs	86	116	-26%
Operating	64	58	9%
Total expenses	223	268	-17%
Pre-tax income (loss)	$ 530	$ 551	-4%

n/m Percentage change not meaningful.

For the years ended December 31, 2010 and 2009, we did not write a meaningful amount of U.S. public finance insurance. The lack of insurance writings in the U.S. public finance segment reflects the insurance financial strength credit ratings assigned to National, and the impact of litigation over the formation of National in 2009. We do not expect to write a material amount of new business prior to an upgrade of our insurance financial strength ratings and market acceptance that such ratings will be stable in the future. 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, including the resolution of pending litigation. We believe that we will resume writing business in the U.S. public finance market before actively re-engaging in the structured finance and international markets.

CREDIT QUALITY Financial guarantee insurance companies use a variety of approaches to assess the underlying credit risk profile of their insured portfolios. MBIA uses both an internally developed credit rating system as well as third-party rating sources in the analysis of credit quality measures of its insured portfolio. In evaluating credit risk, we obtain, when available, the underlying rating of the insured obligation before the benefit of its insurance policy from nationally recognized rating agencies, Moody s and S&P. Other companies within the financial guarantee industry may report credit quality information based upon internal ratings that would not be comparable to our presentation.

The following table presents the credit quality distribution of MBIA s U.S. public finance outstanding gross par insured as of December 31, 2010 and 2009. All ratings are as of the period presented and represent S&P ratings. If transactions are not rated by S&P, a Moody s equivalent rating is used. If transactions are not rated by either S&P or Moody s, an MBIA equivalent rating is used.

In millions	Gross Par Outstanding as of December 31, 2010		Gross Par Outstanding as of December 31, 2009	
Rating	**Amount**	**%**	**Amount**	**%**
AAA	$ 27,292	5.7%	$ 21,716	4.1%
AA	225,827	46.8%	246,590	46.2%
A	181,713	37.6%	212,034	39.8%
BBB	45,113	9.3%	49,686	9.3%
Below investment grade	2,747	0.6%	3,166	0.6%
Total	$ 482,692	100.0%	$ 533,192	100.0%

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Total U.S. public finance gross par outstanding rated A or above, before giving effect to MBIA s guarantee, was 90% as of December 31, 2010 and 2009. As of December 31, 2010 and 2009, gross par outstanding rated below investment grade was less than 1%.

NET PREMIUMS EARNED Net premiums earned on non-derivative financial guarantees represent gross premiums earned net of premiums ceded to reinsurers, and include scheduled premium earnings and premium earnings from refunded issues. For the year ended December 31, 2010, U.S. public finance net premiums earned were $446 million compared with $563 million for the same period 2009. The decrease was due to a decline in scheduled premiums earned of $74 million and a decline in premiums earned from refunding activity of $43 million. Scheduled premium earnings declined due to the maturity of insured issues within our U.S. public finance portfolio with no material new insurance writings. Additionally, refunding activity over the past several years has accelerated premium earnings in prior periods and reduced the amount of premiums that would have been earned in the current period. During 2010, premiums from refunded issues declined as a result of lower premium rates on these transactions compared with higher premium rates on issues refunded during 2009.

NET INVESTMENT INCOME For the year ended December 31, 2010 our U.S. public finance insurance investment portfolio generated $230 million of net investment income compared with $217 million for the same period of 2009. The increase in net investment income for 2010 reflects the timing of our insurance business transformation in mid February 2009 compared with a full year of net investment income in 2010.

National maintains simultaneous repurchase and reverse repurchase agreements with our asset/liability products segment, which provides yield enhancement to our U.S. public finance insurance investment portfolio as a result of increased net interest earnings from these collective agreements. The average interest rates on the asset swap were 0.35% and 1.70% for the years ended December 31, 2010 and 2009, respectively. As of December 31, 2010 and 2009 the notional amounts utilized under these agreements were $1.8 billion and $1.7 billion, respectively.

Investment asset balances at amortized cost as of December 31, 2010 and 2009 are presented in the following table:

In millions	December 31, 2010 Investments at Amortized Cost	December 31, 2010 Pre-tax yield(1)	December 31, 2009 Investments at Amortized Cost	December 31, 2009 Pre-tax yield(1)
Fixed-income securities:				
Tax-exempt	$ 2,748	4.35%	$ 2,624	4.40%
Taxable	2,395	3.74%	2,348	4.96%
Short-term	343	2.51%	285	2.89%
Total fixed-income	$ 5,486	3.97%	$ 5,257	4.57%
Other	3			
Total	$ 5,489		$ 5,257	

(1) Estimated yield-to-maturity.

FEES AND REIMBURSEMENTS For the year ended December 31, 2010, fees and reimbursements increased to $22 million from $15 million for the same period of 2009. The increase was primarily due to rental income earned from our affiliates related to their occupancy of the Armonk facility and an increase in waiver and consent fees related to the ongoing maintenance of our insured portfolio. Due to the transaction-specific nature inherent in fees and reimbursements, these revenues can vary significantly period to period.

NET GAINS AND LOSSES ON FINANCIAL INSTRUMENTS AT FAIR VALUE AND FOREIGN EXCHANGE Net gains and losses on financial instruments at fair value and foreign exchange primarily consist of net gains and losses from the sales of investments. Net gains from sales of investments were $55 million and $23 million for the years ended December 31, 2010 and 2009, respectively. During 2010, investments were sold to generate capital gains, which allowed the Company to utilize a portion of its tax capital loss carryforward. The proceeds of these sales were reinvested in similar types of securities, although having lower yields.

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LOSSES AND LOSS ADJUSTMENT EXPENSES National s portfolio surveillance group is responsible for monitoring our U.S. public finance segment s insured issues. The level and frequency of monitoring of any insured issue depends on the type, size, rating and performance of the insured issue.

Refer to Note 2: Significant Accounting Policies and Note 6: Loss and Loss Adjustment Expense Reserves in the Notes to Consolidated Financial Statements for a description of the Company s loss reserving policy and additional information related to its loss reserves.

The following tables present information about our U.S. public finance insurance reserves and recoverables as of December 31, 2010 and 2009, as well as our related loss and LAE provision for the years ended December 31, 2010 and 2009:

	December 31,		Percent Change
In millions	2010	2009	2010 vs. 2009
Gross losses and LAE reserves	$ 623	$ 184	n/m
Expected recoveries on unpaid losses	400	2	n/m
Loss and LAE reserves	$ 223	$ 182	23%
Insurance loss recoverable	$ 73	$ 32	125%
Insurance loss recoverable ceded[(1)]	$ 2	$ 1	67%
Reinsurance recoverable on paid and unpaid losses	$ 9	$ 10	-3%

(1) Reported within Other liabilities on our consolidated balance sheets.

n/m Percentage change not meaningful.

	Years Ended December 31,		Percent Change
In millions	2010	2009	2010 vs. 2009
Loss and LAE related to payments	$ 555	$ 138	n/m
Recoveries of actual and expected payments	(481)	(40)	n/m
Gross losses incurred	74	98	-24%
Reinsurance	(1)	(4)	-65%
Losses and loss adjustment expenses	$ 73	$ 94	-23%

n/m Percentage change not meaningful.

For the year ended December 31, 2010, losses and LAE incurred of $73 million primarily related to three housing transactions, two student loan transactions, a not-for-profit transaction and a health care transaction. For the year ended December 31, 2009, losses and LAE incurred of $94 million primarily related to a housing transaction and a student loan transaction.

Included in our U.S. public finance case basis reserves are both loss reserves for insured obligations for which a payment default has occurred and National has already paid a claim, and for which a payment default has not yet occurred but a claim is expected in the future. As of December 31, 2010, case basis reserves consisted of the following:

$ in millions	Number of Issues[1]	Loss Reserve	Par Outstanding
Gross of reinsurance:			
Issues with defaults	11	$ 202	$ 870
Issues without defaults	4	21	261
Total gross of reinsurance	15	$ 223	$ 1,131

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

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POLICY ACQUISITION COSTS AND OPERATING EXPENSES U.S. public finance insurance segment expenses for the years ended December 31, 2010 and 2009 are presented in the following table:

In millions	Years Ended December 31, 2010	2009	Percent Change 2010 vs. 2009
Gross expenses	$ 64	$ 58	9%
Amortization of deferred acquisition costs	86	116	-26%
Operating	64	58	9%
Total insurance operating expenses	$ 150	$ 174	-14%

Gross expenses represent total insurance expenses before the deferral of any policy acquisition costs. Gross expenses increased for the year ended December 31, 2010 compared with the same period of 2009 primarily due to higher legal costs associated with litigation and building-related expenses associated with the Armonk facility, which was acquired by National in the first quarter of 2010. Partially offsetting these increases was a decrease in compensation costs due to a reduction in headcount.

The amortization of deferred acquisition costs decreased for the year ended December 31, 2010 compared with the same period of 2009, consistent with the amortization of the related unearned premium revenue. Operating expenses increased for the year ended December 31, 2010 compared with the same period of 2009 as a result of the increases in gross expenses. We did not defer a material amount of policy acquisition costs during 2010 or 2009.

ADJUSTED PRE-TAX INCOME In addition to the above, we also analyze the operating performance of our U.S. public finance insurance segment using adjusted pre-tax income. We believe adjusted pre-tax income, as used by management, is useful for an understanding of the results of operations of our U.S. public finance insurance segment. Adjusted pre-tax income is not a substitute for pre-tax income determined in accordance with U.S. GAAP, and our definition of adjusted pre-tax income may differ from that used by other companies.

The following table presents the adjusted pre-tax income of our U.S. public finance insurance segment, and a reconciliation of adjusted pre-tax income to GAAP pre-tax income for the years ended December 31, 2010 and 2009:

In millions	Years Ended December 31, 2010	2009	Percent Change 2010 vs. 2009
Adjusted total revenues	$ 752	$ 819	-8%
Adjusted total expenses	222	268	-17%
Adjusted pre-tax income (loss)	530	551	-4%
Additions to adjusted pre-tax income (loss):			
Mark-to-market gain (loss) on insured credit derivatives	0	0	0%
Pre-tax income (loss)	$ 530	$ 551	-4%

For the years ended December 31, 2010 and 2009, there were no material differences between adjusted pre-tax income and GAAP pre-tax income.

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Structured Finance and International Insurance (Comparison of Years Ended December 31, 2010 and 2009)

Our structured finance and international insurance business is principally conducted through MBIA Corp. The financial guarantees issued by MBIA Corp. generally provide unconditional and irrevocable guarantees of the payment of the principal of, and interest or other amounts owing on, insured obligations when due or, in the event MBIA Corp. has the right at its discretion to accelerate insured obligations upon default or otherwise, upon MBIA Corp. s acceleration. Certain investment agreement contracts written by MBIA Inc. or its subsidiaries are insured by MBIA Corp. If MBIA Inc. or such subsidiaries were to have insufficient assets to pay amounts due, MBIA Corp. would make such payments under its insurance policies. MBIA Corp. also insured debt obligations of other affiliates, including MBIA Global Funding, LLC (GFL) and Meridian Funding Company, LLC (Meridian), and provides reinsurance to its insurance subsidiaries. MBIA Corp. has also written insurance policies guaranteeing the obligations of an affiliate, LaCrosse Financial Products, LLC under CDS, including termination payments that may become due upon certain events including the insolvency or payment default of the financial guarantor or the CDS issuer.

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

In certain cases, we may be required to consolidate entities established as part of securitizations when we insure the assets or liabilities of those entities and in connection with remediations or renegotiations of insurance policies. These entities typically meet the definition of a VIE under accounting principles for the consolidation of VIEs. We do not believe there is any difference in the risks and profitability of financial guarantees provided to VIEs compared with other financial guarantees written by us. Refer to Note 3: Recent Accounting Pronouncements in the Notes to Consolidated Financial Statements for information on accounting guidance that affected the consolidation of VIEs.

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The following tables present our structured finance and international insurance segment results for the years ended December 31, 2010 and 2009:

In millions	Years Ended December 31, 2010	2009	Percent Change 2010 vs. 2009
Net premiums earned	$ 251	$ 333	-24%
Net investment income	125	221	-44%
Fees and reimbursements	204	234	-13%
Change in fair value of insured derivatives:			
Realized gains (losses) and other settlements on insured derivatives	(163)	(167)	-2%
Unrealized gains (losses) on insured derivatives	(607)	1,650	-137%
Net change in fair value of insured derivatives	(770)	1,483	n/m
Net gains (losses) on financial instruments at fair value and foreign exchange	135	60	127%
Net investment losses related to other-than-temporary impairments	(5)	(9)	-43%
Net gains (losses) on extinguishment of debt		14	n/m
Other net realized gains (losses)	29	(65)	-144%
Revenues of consolidated VIEs:			
Net investment income	53	66	-21%
Net gains (losses) on financial instruments at fair value and foreign exchange	270	10	n/m
Net investment losses related to other-than-temporary impairments		(93)	n/m
Other net realized gains (losses)	(76)	(41)	87%
Total revenues	216	2,213	-90%
Losses and loss adjustment	159	770	-79%
Amortization of deferred acquisition costs	150	217	-31%
Operating	133	178	-25%
Interest	136	137	-1%
Expenses of consolidated VIEs:			
Operating	27	1	n/m
Interest	42	86	-52%
Total expenses	647	1,389	-53%
Pre-tax income (loss)	$ (431)	$ 824	n/m

n/m Percentage change not meaningful.

For the years ended December 31, 2010 and, 2009, we did not write a meaningful amount of structured finance and international insurance. Activity was largely limited to our structuring and reinsurance of a financing transaction for the State of Mexico, which closed in the third quarter of 2010. The lack of insurance writings in our structured finance and international insurance segment reflects the impact of the downgrades of MBIA Corp. s insurance financial strength ratings by the major rating agencies, which occurred in 2008 and 2009. The Company does not expect to write a material amount of new business prior to an upgrade of the insurance financial strength ratings of MBIA Corp. and market acceptance that such ratings will be stable in the future. 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, including the resolution of pending litigation.

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CREDIT QUALITY The credit quality of our structured finance and international insured portfolio is assessed in the same manner as our U.S. public finance insured portfolio. The following table presents the credit quality distribution of our structured finance and international gross par outstanding as of December 31, 2010 and 2009. All ratings are as of the period presented and represent S&P ratings. If transactions are not rated by S&P, a Moody s equivalent rating is used. If transactions are not rated by either S&P or Moody s, an MBIA equivalent rating is used.

In millions	Gross Par Outstanding as of December 31, 2010		Gross Par Outstanding as of December 31, 2009	
Rating	Amount	%	Amount	%
AAA	$ 62,897	33.0%	$ 101,580	43.4%
AA	19,299	10.1%	15,832	6.8%
A	32,620	17.2%	46,324	19.8%
BBB	40,799	21.5%	36,293	15.5%
Below investment grade	34,571	18.2%	34,011	14.5%
Total(1)	$ 190,186	100.0%	$ 234,040	100.0%

(1) Includes gross par outstanding of $18.1 billion and $1.7 billion related to our consolidated VIEs as of December 31, 2010 and 2009, respectively.

As of December 31, 2010, total structured finance and international gross par outstanding rated A or above, before giving effect to MBIA s guarantee, was 60% compared with 70% as of December 31, 2009. Additionally, as of December 31, 2010 and 2009, 18% and 15%, respectively, of gross par outstanding was rated below investment grade. Adverse changes in the ratings of our structured finance and international insured gross par outstanding were principally a result of ratings downgrades on CDO and commercial mortgage securitizations.

NET PREMIUMS EARNED Net premiums earned on non-derivative financial guarantees for the years ended December 31, 2010 and 2009 are presented in the following table. Net premiums earned represent gross premiums earned net of premiums ceded to reinsurers, and include scheduled premium earnings and premium earnings from refunded issues.

In millions	2010	2009	Percent Change 2010 vs. 2009
Net premiums earned:			
U.S.	$ 129	$ 166	-22%
Non-U.S.	122	167	-27%
Total net premiums earned	$ 251	$ 333	-24%

For the year ended December 31, 2010 structured finance and international net premiums earned were $251 million compared with $333 million for the same period in 2009. The decrease was due to the maturity and termination of insured transactions with no new material insurance writings. Additionally, 2009 benefited from $45 million of premiums earned related to the termination of MBIA s remaining Eurotunnel exposure.

NET INVESTMENT INCOME For the year ended December 31, 2010, our structured finance and international insurance investment portfolio generated $125 million of net investment income compared with $221 million for the same period of 2009. The decrease in net investment income of $96 million for the year ended December 31, 2010 was primarily due to declining average asset balances in 2010 as a result of claim payments and lower yields on new investment purchases. Additionally, the consolidation of VIEs during the first quarter of 2010 resulted in the elimination of $22 million of net investment income for the year ended December 31, 2010.

MBIA Corp., as lender, maintained a secured lending agreement with our asset/liability products segment, which totaled $2.0 billion at inception. Interest income on this arrangement, totaling approximately $30 million and $60 million for the years ended December 31, 2010 and 2009, respectively, is included in our structured finance and international insurance net investment income. As of December 31, 2010, the amount outstanding from our asset/liability products segment under this agreement was $975 million, and reflects the repayment of $625 million during 2010.

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Investment asset balances at amortized cost as of December 31, 2010 and 2009 are presented in the following table:

In millions	December 31, 2010 Investments at Amortized Cost	December 31, 2010 Pre-tax yield[(1)]	December 31, 2009 Investments at Amortized Cost	December 31, 2009 Pre-tax yield[(1)]
Fixed-income securities:				
Tax-exempt	$ 50	3.84%	$ 55	4.27%
Taxable	1,480	5.81%	1,177	9.78%
Short-term	673	1.45%	966	0.95%
Total fixed-income	$ 2,203	4.43%	$ 2,198	5.76%
Secured loan from affiliate	975		1,600	
Other	10		10	
Total	$ 3,188		$ 3,808	

(1) Estimated yield-to-maturity.

FEES AND REIMBURSEMENTS For the year ended December 31, 2010, fees and reimbursements were $204 million compared with $234 million for the same period of 2009. The decrease was primarily due to a reduction in ceding commission revenue associated with the cession of public finance policies to National. Due to the transaction-specific nature inherent in fees and reimbursements, these revenues can vary significantly period to period.

NET CHANGE IN FAIR VALUE OF INSURED DERIVATIVES The following table presents the net premiums earned related to derivatives and the components of the net change in fair value of insured derivatives for the years ended December 31, 2010 and 2009:

In millions	Years Ended December 31, 2010	Years Ended December 31, 2009	Percent Change 2010 vs. 2009
Net premiums and fees earned on insured derivatives	$ 119	$ 123	-3%
Realized gains (losses) on insured derivatives	(282)	(290)	-3%
Realized gains (losses) and other settlements on insured derivatives	(163)	(167)	-2%
Unrealized gains (losses) on insured derivatives	(607)	1,650	-137%
Net change in fair value of insured derivatives	$ (770)	$ 1,483	n/m

n/m Percentage change not meaningful.

The Company no longer insures new credit derivative contracts except in transactions related to the restructuring or reduction of existing derivative exposure. As a result, premiums earned related to insured credit derivatives will decrease over time as exposure to such transactions declines. Realized losses on insured derivatives for the year ended December 31, 2010 primarily resulted from $890 million of settlement and claim payments made on multi-sector CDO and CMBS transactions, partially offset by $607 million of payments received from Channel Re in connection with the commutation of ceded derivative exposure. Realized losses on insured derivatives for the year ended December 31, 2009 resulted from the settlement of three CDO transactions and claim payments related to a multi-sector CDO transaction.

For the year ended December 31, 2010, unrealized losses on insured derivatives were principally the result of the effects of MBIA s nonperformance risk on its derivative liability, which resulted from a tightening of its own credit

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spreads and an improvement in the Company s recovery rate, the reversal of unrealized gains in connection with the commutation of derivative exposure from Channel Re, and subordination erosion. This was partially offset by the reversal of unrealized losses primarily from the settlements on multi-sector CDO and CMBS transactions and improved collateral pricing. For the year ended December 31, 2009, unrealized gains on insured derivatives were primarily related to changes in MBIA s CDS and recovery swaps pricing, narrower collateral spreads, and transaction terminations, partially offset by losses from enhancements to our valuation models and inputs, subordination erosion, lower estimated recovery rates on collateral, and collateral rating migration. The main enhancements to our valuation models and inputs during 2009 were the development of a direct pricing model for multi-sector CDOs, assumptions about ABS collateral defaults, the calculation of nonperformance risk for CDOs, and the refinement of a spread model for CMBS transactions. Enhancements to our valuation models and inputs are discussed further in Note 7: Fair Value of Financial Instruments in the Notes to Consolidated Financial Statements.

As of December 31, 2010, MBIA s Corp. s five year CDS cost was 56.25% upfront plus 5% per annum compared with 64.25% upfront plus 5% per annum as of December 31, 2009. Our mark-to-market on insured credit derivatives uses the most appropriate of the one to ten year CDS cost for each transaction, and those costs ranged from 15.75% upfront plus 5% per annum to 57.50% upfront plus 5% per annum for the year ended December 31, 2010.

As of December 31, 2010, we had $99.5 billion of gross par outstanding on insured credit derivatives compared with $126.7 billion as of December 31, 2009. The decrease in gross par outstanding was primarily due to contractual terminations and maturities. During the year ended December 31, 2010, 46 insured credit derivative transactions, representing $21.2 billion in gross par outstanding, have either matured or were contractually settled prior to maturity.

Since our insured credit derivatives have similar terms, conditions, risks, and economic profiles to our financial guarantee insurance policies, we evaluate them for impairment periodically in the same way that we estimate loss and LAE for our financial guarantee policies. Credit impairments on insured derivatives represent the present values of our estimates of expected future claim payments for such transactions using a discount rate of 5.93%, the same rate used to calculate our statutory loss reserves as of December 31, 2010. We estimate that additional credit impairments on insured derivatives for the year ended December 31, 2010 were $1.2 billion across 35 CDO insured issues. Beginning with the fourth quarter of 2007 through December 31, 2010, total credit impairments on insured derivatives were estimated at $3.7 billion across 38 CDO insured issues, inclusive of 33 CDO insured issues for which we made settlement and claim payments of $1.3 billion, net of reinsurance and collections. Accordingly, we expect to realize additional net losses of $2.4 billion.

Our estimate of credit impairments, a non-GAAP measure, may differ from the fair values recorded in our financial statements. Although the Company s income statement includes the fair values, the Company regards the changes in credit impairment estimates as critical information for investors since the credit impairment estimates reflect the present values of amounts it expects to pay in claims net of recoveries with respect to insured credit derivatives. The fair value of an insured derivative contract will be influenced by a variety of market and transaction-specific factors that may be unrelated to potential future claim payments. In the absence of credit impairments or the termination of derivatives at losses, the cumulative unrealized losses recorded from fair valuing insured derivatives should reverse before or at the maturity of the contracts. Contracts also may be settled prior to maturity at amounts that may be more or less than their recorded fair values. Those settlements can result in realized gains or losses, and will result in the reversal of unrealized gains or losses. The Company is not required to post collateral to counterparties of these contracts.

Refer to Note 24: Commitments and Contingencies in the Notes to Consolidated Financial Statements for information about legal actions commenced by MBIA with respect to certain CDS contracts, and Risk Factors in Part I, Item 1A of this Form 10-K for information on legislative changes that could require collateral posting by MBIA Corp. notwithstanding the contract terms. The outcome of such legal actions may affect the amount of realized losses ultimately incurred by the Company, although the damages potentially awarded to the Company upon prevailing in the litigation are not directly considered in determining the impairment of the insured credit

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derivative contracts. Costs associated with mitigating credit impairments on insured derivatives are expensed as incurred and included within Operating expenses in our consolidated statements of operations. Such costs totaled $13 million and $22 million for the years ended December 31, 2010 and 2009, respectively.

REVENUES OF CONSOLIDATED VIEs For the year ended December 31, 2010, total revenues of consolidated VIEs were $247 million compared with a loss of $58 million for the same period of 2009. Fluctuations in revenues of consolidated VIEs were principally driven by gains and losses on financial instruments recorded at fair value and foreign exchange, as well as other-than-temporary impairments of VIE assets. For the year ended December 31, 2010, net gains on financial instruments at fair value and foreign exchange were $270 million compared with $10 million for the same period of 2009. The net gains in 2010 resulted from the extrapolation of RMBS put-back recoveries within our consolidated VIEs, most of which were consolidated in the first quarter of 2010. Losses related to other-than-temporary impairments were $93 million in 2009 with no comparable impairments in the same period of 2010.

LOSSES AND LOSS ADJUSTMENT EXPENSES MBIA s insured portfolio management group within its structured finance and international insurance business is responsible for monitoring structured finance and international insured issues. The level and frequency of monitoring of any insured issue depends on the type, size, rating and performance of the insured issue. If we identify concerns with respect to the performance of an insured issue we may designate such insured issue as Caution List-Low, Caution List-Medium, Caution List-High, or Classified dependin on the likelihood of a loss.

The following table provides a summary of our loss activity for the year ended December 31, 2010 on all insurance policies (financial guarantee and insured credit derivatives) using discounted probability-weighted cash flows, without regard to how such losses are measured and recognized in our financial statements prepared in accordance with GAAP. For financial guarantee policies, loss activity represents amounts measured in accordance with GAAP before the consolidation of VIEs. For insured credit derivatives, loss activity represents amounts measured in accordance with statutory accounting principles, also referred to herein as credit impairments on insured credit derivatives. The Company believes this aggregated information is important for an understanding of changes in the discounted values of loss payments we expect to make on all insurance contracts, net of recoveries.

In millions	RMBS	ABS	CMBS	Other	Total
Change in expected payments	$ 989	$ 255	$ 1,132	$ 182	$ 2,558
Change in expected salvage	(1,052)	(5)	0	(70)	(1,127)
Gain on foreign exchange				(121)	(121)
Total economic losses	$ (63)	$ 250	$ 1,132	$ (9)	$ 1,310

The following amounts included within this Losses and Loss Adjustment Expenses section exclude realized and unrealized gains and losses and estimated credit impairments on insured credit derivatives. Refer to the Net Change in Fair Value of Insured Derivatives section included herein for additional information about payments we have made or expect to make under insured credit derivative transactions.

The Company s insurance loss recoverable represents expected potential recoveries of paid claims based on probability-weighted net cash inflows discounted at applicable risk-free rates as of the measurement date. Our insurance loss recoverable includes recoveries related to put-backs of ineligible mortgages within RMBS transactions and other amounts due to MBIA under subrogation rights.

Refer to Note 2: Significant Accounting Policies and Note 6: Loss and Loss Adjustment Expense Reserves in the Notes to Consolidated Financial Statements for a description of the Company s loss reserving policy and additional information related to its loss reserves.

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The following tables present information about our insurance reserves and recoverables as of December 31, 2010 and 2009, as well as our loss and LAE provision for the years ended December 31, 2010 and 2009:

In millions	December 31, 2010	December 31, 2009	Percent Change 2010 vs. 2009
Gross losses and LAE reserves	$ 1,402	$ 2,227	-37%
Expected recoveries on unpaid losses	496	829	-40%
Loss and LAE reserves	$ 906	$ 1,398	-35%
Insurance loss recoverable	$ 2,459	$ 2,413	2%
Insurance loss recoverable ceded[(1)]	$ 1	$ 45	-97%
Reinsurance recoverable on paid and unpaid losses	$ 6	$ 52	-88%

(1) Reported within Other liabilities on our consolidated balance sheets.

In millions	Years Ended December 31, 2010	Years Ended December 31, 2009	Percent Change 2010 vs. 2009
Loss and LAE related to payments	$ 883	$ 3,143	-72%
Recoveries of actual and expected payments	(712)	(2,327)	-69%
Gross losses incurred	171	816	-79%
Reinsurance	(12)	(46)	-75%
Losses and loss adjustment expenses	$ 159	$ 770	-79%

Losses and LAE incurred in our structured finance and international insurance segment totaled $159 million in 2010. Included in the $159 million was $883 million of gross losses related to actual and expected future payments, of which $659 million related to insured RMBS transactions. Offsetting these losses were increases in recoveries of actual and expected payments of $712 million, of which $656 million related to insured RMBS transactions, and reinsurance of $12 million. The $656 million of RMBS recoveries of actual and expected payments consisted of $609 million in actual and expected recoveries resulting from ineligible mortgage loans included in insured second-lien residential mortgage and alternative A-paper (Alt-A) securitization exposures that are subject to contractual obligations by sellers/servicers to repurchase or replace such mortgage loans and $47 million related to excess interest cash flows within the securitizations.

Losses and LAE incurred in our structured finance and international insurance segment totaled $770 million in 2009. Included in the $770 million were gross losses related to actual and expected future payments of $3.1 billion, of which $2.9 billion related to insured RMBS transactions. Offsetting these losses were recoveries of actual and expected payments of $2.3 billion, primarily related to our RMBS transactions, and reinsurance of $46 million. The $2.3 billion of RMBS recoveries of actual and expected payments was comprised of $1.6 billion related to estimates of potential recoveries resulting from ineligible mortgage loans included in insured second-lien residential mortgage and Alt-A securitization exposures that are subject to contractual obligations by sellers/servicers to repurchase or replace such mortgage loans and $684 million related to excess interest cash flows within the securitizations.

For the year ended December 31, 2010, losses and LAE incurred included the elimination of $79 million of losses as a result of consolidating VIEs. The $79 million elimination included gross losses related to actual and expected future payments of $1.1 billion, offset by recoveries of actual and expected payments of $1.0 billion.

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Included in the Company s case basis reserves are both loss reserves for insured obligations for which a payment default has occurred and MBIA Corp. has already paid a claim and also for which a payment default has not yet occurred but a claim is expected in the future. As of December 31, 2010, case basis reserves consisted of the following:

$ in millions	Number of Issues(1)	Loss Reserve	Par Outstanding
Gross of reinsurance:			
Issues with defaults	70	$ 727	$ 7,924
Issues without defaults	25	179	2,135
Total	95	$ 906	$ 10,059

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

MBIA reports expected potential recoveries of paid claims within Insurance loss recoverable and the corresponding estimated recovery amounts due to reinsurers within Other liabilities in the Company s consolidated balance sheets. As of December 31, 2010 and 2009, our insurance loss recoverables were $2.5 billion and $2.4 billion, respectively. The increase in our insurance loss recoverable principally resulted from an increase in expected potential recoveries resulting from the aforementioned obligations of the sellers/servicers of RMBS transactions to repurchase ineligible loans, partially offset by a reclassification of $356 million in recoveries from Insurance loss recoverable to Loan repurchase commitments and the elimination of excess spread of $238 million, both resulting from the adoption of the amended accounting guidance for the consolidation of VIEs. As of December 31, 2010 and 2009, our insurance loss recoverable also included recoveries of approximately $674 million and $906 million, respectively, from expected excess interest in RMBS securitizations. Insurance loss recoverables due to reinsurers totaled $1 million and $45 million as of December 31, 2010 and 2009, respectively. Insurance loss recoverables are only paid to reinsurers upon receipt of such amounts by MBIA.

Residential Mortgage Exposure

MBIA Corp. insures mortgage-backed securities (MBS) backed by residential mortgage loans, including second-lien residential mortgage securitizations (revolving home equity line of credit (HELOC) loans and closed-end second mortgages (CES)) and Alt-A transactions. For the year ended December 31, 2010, we recorded a net benefit of $3 million related to RMBS transactions, after the elimination of a $60 million benefit as a result of consolidating VIEs. The $3 million benefit related to RMBS transactions is due to recoveries of actual and expected payments of $656 million and reinsurance of $6 million, mostly offset by increases in gross losses related to actual and expected future payments of $659 million. The $656 million in recoveries of actual and expected RMBS payments primarily consisted of $609 million in actual and expected recoveries resulting from ineligible mortgages included in insured second-lien residential mortgage and Alt-A securitization exposures that are subject to contractual obligations by sellers/servicers to repurchase or replace such mortgages and $47 million related to excess interest cash flows within the securitizations.

MBIA Corp. also insures MBS backed by subprime mortgage loans directly through RMBS securitizations. MBIA Corp. also has indirect exposure to subprime mortgages that are included in CDOs in which MBIA Corp. guaranteed the senior most tranche of such transactions. There has been considerable stress and continued deterioration in the subprime mortgage market since 2008 reflected by increased delinquencies and losses, particularly related to subprime mortgage loans originated during 2005, 2006 and 2007. As of December 31, 2010, the Company had $3.0 billion of net par outstanding from direct exposure to subprime mortgages and $1.6 billion of indirect exposure to subprime mortgages in the form of collateral within CDOs compared with $3.7 billion and $4.9 billion, respectively, as of December 31, 2009. As of December 31, 2010, $1.4 billion of the $1.6 of indirect exposure was related to CDOs executed in derivative form. As of December 31, 2009, $4.4 billion of the $4.9 billion of indirect exposure was related to CDOs executed in derivative form. While subprime transactions directly guaranteed by MBIA Corp.

include collateral consisting of mortgages originated during 2005, 2006, and 2007, given the amount of subordination below MBIA Corp. s insured portion of such transactions available to

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absorb any losses from collateral defaults, we currently do not expect material ultimate losses on these transactions. As of December 31, 2010, the Company had $309 million of net par outstanding in four insured direct subprime mortgage transactions with 2005, 2006, or 2007 subprime mortgage collateral appearing on the Company s Classified List or Caution Lists. As of December 31, 2010, we expect losses of $94 million (on a present value basis) on fourteen secondary market multi-sector CDOs with net par outstanding of $440 million that include subprime mortgage exposure and that were reported on our Classified List. Additionally, there were ten secondary market multi-sector CDOs with net par outstanding of $216 million that included subprime mortgage exposure and that were reported on our Caution Lists.

The following table presents the net par outstanding of MBIA Corp. s total direct RMBS insured exposure, including those issues that have been placed in a surveillance category, as of December 31, 2010 by S&P credit rating category. Amounts include the net par outstanding related to transactions that the Company consolidates under accounting guidance for VIEs.

	Net Par Outstanding					
In millions	**Prime First Lien**	**Alt-A First Lien**	**Subprime First Lien**	**HELOC**	**CES**	**Total**
AAA	$ 213	$ 1,622	$ 2,194	$	$ 14	$ 4,043
AA	18	18	68			104
A	6	475	180	65	34	760
BBB		551	130	312	90	1,083
Below investment grade	2	1,375	877	4,474	4,912	11,640
Total net par	$ 239	$ 4,041	$ 3,449	$ 4,851	$ 5,050	$ 17,630

The following table presents the net par outstanding by vintage year of MBIA Corp. s total second-lien residential mortgage loan securitizations insured exposure as of December 31, 2010. Amounts include the net par outstanding related to transactions that the Company consolidates under accounting guidance for VIEs.

	Net Par Outstanding			
In millions	**HELOC**	**% of Total HELOC**	**CES**	**% of Total CES**
2008	$	0%	$	0%
2007	656	13%	3,297	65%
2006	1,701	35%	1,615	32%
2005	1,388	29%		0%
2004	920	19%	90	2%
2003 and prior	186	4%	48	1%
Total net par	$ 4,851	100%	$ 5,050	100%

During the year ended December 31, 2010, we paid approximately $1.0 billion, net of reinsurance and collections, on insured RMBS transactions after eliminating $418 million of net payments made to consolidated VIEs. As of December 31, 2010, we paid a cumulative total of $3.4 billion, net of reinsurance and collections and excluding $1.8 billion of net payments made to consolidated VIEs, on these transactions and had case basis reserves of $708 million. The case basis reserves represent the present value of the difference between cash payments we expect to make on the insured transactions and the cash receipts we expect from the performing mortgages in the securitizations. As payments are made, a portion of those expected future receipts is recorded within "Insurance loss recoverable" in our consolidated balance sheet. The payments that we make largely go to reduce the principal balances of the securitizations.

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The following table provides information about RMBS transactions included in MBIA Corp. s insured portfolio for which it has made claim payments, net of reinsurance and collections, as of December 31, 2010 and for which it does not consolidate under accounting guidance for VIEs.

$ in millions	Number of Issues	Original Par Insured	Net Par Outstanding	Net Claims and LAE Paid Since Inception
HELOC	12	$ 14,031	$ 2,838	$ 1,756
CES	10	8,112	3,197	1,699
Alt-A	5	1,092	665	(26)
Total	27	$ 23,235	$ 6,700	$ 3,429

As of December 31, 2010, the net par outstanding on insured RMBS transactions included in the preceding table was $6.7 billion compared with $12.0 billion as of December 31, 2009. As of December 31, 2010 we expect to pay an additional $1.2 billion (on a present value basis) on these transactions. We expect to receive a total of $1.1 billion (on a present value basis) in reimbursement of past and future expected claims through excess spread in these transactions. Of this amount, $674 million is included in Insurance loss recoverable and $438 million is included in Loss and loss adjustment expense reserves. In addition, we expect to receive $1.7 billion (on a present value basis) in respect of the sellers /servicers obligation to repurchase ineligible loans and that amount is included in Insurance loss recoverable .

The following table provides information about RMBS transactions included in MBIA Corp. s insured portfolio for which it has made claim payments, net of reinsurance and collections, as of December 31, 2010 and for which it consolidates under accounting guidance for VIEs. As such, these payments are not reflected as insurance losses in our financial statements subsequent to consolidation.

$ in millions	Number of Issues	Original Par Insured	Net Par Outstanding	Net Claims and LAE Paid Since Inception
HELOC	6	$ 3,657	$ 1,357	$ 500
CES	6	4,844	1,775	1,257
Total	12	$ 8,501	$ 3,132	$ 1,757

As of December 31, 2010, the net par outstanding on the insured RMBS transactions included in the preceding table was $3.1 billion. As of December 31, 2010 we expect to pay an additional $238 million (on a present value basis) on these transactions. We expect to receive a total of $292 million (on a present value basis) in reimbursement of past and future expected claims through excess spread in these transactions. In addition, we expect to receive $835 million (on a present value basis) in respect to the sellers /servicers obligation to repurchase ineligible loans and that amount is included in Loan repurchase commitments .

Since the second half of 2007, we have observed an increase in delinquencies in our insured RMBS transactions, which peaked in January 2009, and a greater than expected level of losses being realized. The largest single contributor to our losses appears to be the failure of most of the individual mortgage loans in many of our insured transactions to comply with the underwriting guidelines represented to us at origination. These breaches, combined with inadequate servicer performance and relatively few successful loan modifications, led to loss and LAE expense related to our residential mortgage exposures. The majority of expected recoveries from RMBS transactions recorded since 2009 arose from a forensic review of defaulted mortgage loans in 32 insured issues containing first and second-lien mortgage loan securitizations. The representations and warranties in each insured RMBS securitization contractually obligate the seller to cure the contractual breach, replace the loans or repurchase the ineligible loans at a price equal to their outstanding principal balance plus accrued interest or to replace them with eligible mortgage loans. While the Company believes that these mortgage loans are subject to repurchase or replacement obligations by the sellers/servicers, successful challenges of such determinations by the sellers/servicers could result in the Company recovering less than the amount of its estimated recoveries. We continued to review mortgage loans in our insured transactions during 2010 to identify ineligible loans which the

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sellers/servicers have contractual obligations to cure, repurchase or replace. In addition, recoveries and damages from legal actions that MBIA Corp. has filed against certain of the sellers/servicers could result in recoveries that are substantially higher than the amount currently recognized as recoveries. Refer to Note 6: Loss and Loss Adjustment Expense Reserves in the Notes to Consolidated Financial Statements for additional information about assumptions used to estimate recoveries on our RMBS exposure.

Since September 2008, MBIA Corp. initiated litigation against multiple mortgage loan sellers/servicers alleging, among other things, that such sellers/servicers made material misrepresentations concerning the quality of loans made by these sellers/servicers, which were included in a number of MBIA Corp.-insured second-lien residential mortgage securitizations. In particular, complaints in these actions allege that a very high proportion of the defaulted loans in these securitizations were ineligible for inclusion and thus reflect breaches of the originators representations with respect to such loans. In addition, the complaints allege that the sellers/servicers have failed to honor their contractual obligations regarding loan repurchases and ongoing servicing practices. For more information on these and other lawsuits commenced by MBIA Corp., refer to Note 24: Commitments and Contingencies in the Notes to Consolidated Financial Statements.

The following table provides the total of all RMBS transactions included in MBIA Corp. s insured portfolio for which it has made claim payments and performed a forensic review of defaulted mortgage loans as of December 31, 2010. There were eight issues with net par outstanding of $593 million that were not included within our forensic review and, therefore, excluded from the following table. The securitizations included in the following table are not consolidated by the Company under accounting guidance for VIEs.

$ in millions	Number of Issues	Original Par Insured	Net Par Outstanding	Net Claims and LAE Paid Since Inception
HELOC	9	$ 12,533	$ 2,561	$ 1,565
CES	9	7,817	3,137	1,699
Alt-A	1	795	409	(26)
Total	19	$ 21,145	$ 6,107	$ 3,238

We have recorded put-back recoveries for amounts paid on all RMBS transactions included in the above table with the exception of two issues with original par insured of $695 million, net par outstanding of $146 million, and net claims paid since inception of $405 million. There is one issue excluded from the above table for which a forensic review has been performed, but the issue has not been placed on our Classified List and we have not made a claim payment.

The following table provides the total of RMBS transactions included in MBIA Corp. s insured portfolio for which it has made claim payments and performed a forensic review of defaulted mortgage loans as of December 31, 2010. The securitizations included in the following table are consolidated by the Company under accounting guidance for VIEs and, as such, these payments are not reflected in our insurance losses within our financial statements subsequent to consolidation.

$ in millions	Number of Issues	Original Par Insured	Net Par Outstanding	Net Claims and LAE Paid Since Inception
HELOC	6	$ 3,657	$ 1,357	$ 500
CES	6	4,844	1,775	1,257
Total	12	$ 8,501	$ 3,132	$ 1,757

We have recorded put-back recoveries for amounts paid on all RMBS transactions included in the above table with the exception of one issue with original par insured of $384 million, net par outstanding of $150 million, and net claims paid since inception of $19 million.

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Other

Prior to 2010, we took remediation action on an international infrastructure financing transaction and purchased a significant amount of the outstanding debt of the issuer at a discount to par. As a consequence, we consolidated the issuer as a VIE. During the third quarter of 2010, receivers appointed by us purchased the infrastructure asset following receipt of regulatory approval. Proceeds from the transaction were used to pay down the securities of the issuer. The remaining financial instruments of the issuer, after the pay down, are not significant and, therefore, the entity was deconsolidated during the third quarter of 2010.

We may seek to purchase, from time to time, directly or indirectly, obligations guaranteed by MBIA or seek to commute policies where such actions are intended to reduce future expected economic losses. The amount of insurance exposure reduced, if any, and the nature of any such actions will depend on market conditions, pricing levels from time to time, and other considerations. In some cases, these activities may result in a reduction of expected loss reserves, but in all cases they are intended to limit our ultimate losses and reduce the future volatility in loss development on the related policies.

POLICY ACQUISITION COSTS AND OPERATING EXPENSES Structured finance and international insurance segment expenses for the years ended December 31, 2010 and 2009 are presented in the following table:

In millions	Years Ended December 31, 2010	2009	Percent Change 2010 vs. 2009
Gross expenses	$ 140	$ 190	-26%
Amortization of deferred acquisition costs	150	217	-31%
Operating	133	178	-25%
Total insurance operating expenses	$ 283	$ 395	-28%

Gross expenses represent total insurance expenses before the deferral of any policy acquisition costs. Gross expenses decreased for the year ended December 31, 2010 compared with the same period of 2009 due to reductions in compensation and other administrative expenses resulting from the transfer of employees to Optinuity Alliance Resources Corp. (Optinuity), the service company that we established in the first quarter of 2010.

The decrease in the amortization of deferred acquisition costs for the year ended December 31, 2010 compared with the same period of 2009 was consistent with the decrease in the amortization of the related unearned premium revenue. Operating expenses decreased for the year ended December 31, 2010 compared with the same period of 2009 as a result of the decrease in gross expenses. We did not defer a material amount of policy acquisition costs during 2010 or 2009. Policy acquisition costs in these periods were related to premium taxes and assessments on installment policies written in prior periods.

INTEREST EXPENSE Interest expense incurred by our structured finance and international insurance segment primarily consists of interest related to MBIA Corp. s surplus notes. For the years ended December 31, 2010 and 2009, interest expense related to MBIA Corp. s surplus notes was $134 million.

EXPENSES OF CONSOLIDATED VIEs For the year ended December 31, 2010, total expenses of consolidated VIEs were $69 million compared with $87 million for the same period of 2009. The decrease in expenses was primarily due to a reduction in interest expense resulting from our election in 2010 to use the fair value option to account for debt issued by certain consolidated VIEs. Interest expense of these VIEs is included in the change in the fair value of the related debt. Partially offsetting the decrease in interest expense was an increase in operating expenses for such items as trustee fees, banking fees and legal expenses resulting from the consolidation of additional VIEs.

ADJUSTED PRE-TAX INCOME In addition to the above, we also analyze the operating performance of our structured finance and international insurance segment using adjusted pre-tax income. We believe adjusted pre-tax income, as used by management, is useful for an understanding of the results of operations of our

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structured finance and international insurance segment. Adjusted pre-tax income is not a substitute for pre-tax income determined in accordance with U.S. GAAP, and our definition of adjusted pre-tax income may differ from that used by other companies.

The following table presents the adjusted pre-tax income of our structured finance and international insurance segment, and a reconciliation of adjusted pre-tax income to GAAP pre-tax income for the years ended December 31, 2010 and 2009:

In millions	Years Ended December 31, 2010	2009	Percent Change 2010 vs. 2009
Adjusted total revenues	$ 1,150	$ 824	39%
Adjusted total expenses	1,842	2,095	-12%
Adjusted pre-tax income (loss)	(692)	(1,271)	-46%
Additions to adjusted pre-tax income (loss):			
Impact of consolidating certain VIEs	222	(44)	n/m
Mark-to-market gain (loss) on insured credit derivatives	(679)	1,651	n/m
Subtractions from adjusted pre-tax income (loss):			
Impairments on insured credit derivatives	(718)	(488)	47%
Pre-tax income (loss)	$ (431)	$ 824	n/m

n/m Percentage change not meaningful.

For the year ended December 31, 2010 adjusted pre-tax income was a loss of $692 million compared with a loss of $1.3 billion for the same period of 2009. Adjusted total revenues for the year ended December 31, 2010 were $1.2 billion compared with $824 million for the same period of 2009. The increase in adjusted total revenues was principally due to higher premiums on insured derivative transactions due to the commutation of reinsurance with Channel Re, and higher unrealized gains on financial instruments at fair value and foreign exchange. Adjusted total expenses for the year ended December 31, 2010 were $1.8 billion compared with $2.1 billion for the same period of 2009. The decrease in adjusted total expenses principally reflects a reduction in insurance losses and a decrease in policy acquisition and operating expenses.

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RESULTS OF OPERATIONS (continued)

Combined U.S. Public Finance Insurance and Structured Finance and International Insurance Operations (Comparison of Years Ended December 31, 2009 and 2008)

In the first quarter of 2009 we separated our insurance operations into two segments: U.S. public finance insurance and structured finance and international insurance. However, in order to provide a basis of comparison for the years ended December 31, 2009 and 2008, we have combined the results of our U.S. public finance insurance and structured finance and international insurance segments in the discussions that follow. Where practical, we have provided information about the year ended December 31, 2008 separately for our U.S. public finance insurance segment and our structured finance and international insurance segment. Additionally, the results presented in this section include revenues and expenses from transactions with our advisory services, corporate operations and wind-down operations.

	2009				2008	
In millions	**U.S. Public Finance**	**Structured Finance and International**	**Eliminations**	**Combined Insurance Operations**	**Insurance Operations**	**Percent Change 2009 vs. 2008**
Net premiums earned	$ 563	$ 333	$ (135)	$ 761	$ 880	-14%
Net investment income	217	221		438	528	-17%
Fees and reimbursements	15	234	(136)	113	9	n/m
Change in fair value of insured derivatives:						
Realized gains (losses) and other settlements on insured derivatives	1	(167)		(166)	(397)	-58%
Unrealized gains (losses) on insured derivatives	0	1,650		1,650	(1,822)	n/m
Net change in fair value of insured derivatives	1	1,483		1,484	(2,219)	n/m
Net gains (losses) on financial instruments at fair value and foreign exchange	23	60		83	185	-55%
Net investment losses related to other-than-temporary impairments		(9)		(9)	(9)	6%
Net gains on extinguishment of debt		14		14	39	-65%
Other net realized gains (losses)		(65)		(65)	(2)	n/m
Revenues of consolidated VIEs:						
Net investment income		66		66	56	18%
Net gains (losses) on financial instruments at fair value and foreign exchange		10		10		n/m
Net investment losses related to other-than-temporary impairments		(93)		(93)		n/m
Other net realized gains (losses)		(41)		(41)		n/m
Total revenues	819	2,213	(271)	2,761	(533)	n/m
Losses and loss adjustment	94	770		864	1,318	-34%
Amortization of deferred acquisition costs	116	217	(251)	82	75	9%
Operating	58	178	(20)	216	207	5%
Interest		137		137	135	2%
Expenses of consolidated VIEs:						
Operating		1		1	1	-30%
Interest		86		86	55	56%

Total expenses	268	1,389	(271)	1,386	1,791	-23%
Pre-tax income (loss)	$ 551	$ 824	$	$ 1,375	$ (2,324)	n/m

n/m Percentage change not meaningful.

In 2009, we did not write any material U.S. public finance insurance or any structured finance and international insurance. The lack of insurance writings in each segment reflects the impact of the downgrades of the insurance financial strength of MBIA by the major rating agencies that occurred in 2008 and 2009, and the impact of litigation over the formation of National in 2009.

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NET PREMIUMS EARNED Net premiums earned on non-derivative financial guarantees for the years ended December 31, 2009 and 2008 are presented in the following table. Net premiums earned represent gross premiums earned net of premiums ceded to reinsurers, and include scheduled premium earnings and premium earnings from refunded issues.

In millions	Years Ended December 31, 2009	2008	Percent Change 2009 vs. 2008
Net premiums earned:			
U.S. public finance	$ 563	$ 506	11%
Structured finance and international			
U.S.	166	188	-12%
Non-U.S.	167	186	-10%
Total structured finance and international	$ 333	$ 374	-11%

In 2009, U.S. public finance net premiums earned of $563 million increased $57 million or 11% compared with 2008. The increase was attributable to an increase in scheduled premiums earned of $137 million related to premium earnings on policies assumed from Financial Guaranty Insurance Company (FGIC) in 2008. This increase was partially offset by a decrease in refunding activity of $80 million compared with 2008. The decrease is consistent with the overall decline in refundings experienced in the municipal market during 2009.

In 2009, structured finance and international net premiums earned of $333 million decreased $41 million or 11% compared with 2008. The decrease was primarily due to a reduction in structured finance premium earnings related to applying amended premium revenue recognition accounting guidance for financial guarantee insurance contracts effective January 1, 2009, partially offset by the recognition of $45 million of premiums related to the termination of MBIA s remaining Eurotunnel exposure. Additionally, the maturity of policies in prior periods has adversely affected premiums earned in 2009.

INVESTMENT INCOME In 2009, our combined insurance pre-tax net investment income decreased 17% to $438 million from $528 million in 2008. The decrease in pre-tax net investment income reflects a decline in average invested assets as a result of loss payments made in 2009.

For the year ended December 31, 2009, our U.S. public finance insurance investment portfolio generated $217 million of pre-tax net investment income, excluding net realized gains and losses. Invested assets in this segment were principally funded by capital contributions to National and the assumption of U.S. public finance premiums from MBIA Corp., including those premiums assigned under the reinsurance agreement with FGIC on February 17, 2009. Additionally, National entered into simultaneous repurchase and reverse repurchase agreements with our asset/liability products segment, which provides yield enhancement to our U.S. public finance insurance investment portfolio as a result of increased net interest earnings from these collective agreements. As of December 31, 2009, the notional amount utilized under these agreements was $1.7 billion.

For the year ended December 31, 2009, our structured finance and international insurance investment portfolio generated $221 million of pre-tax net investment income, excluding net realized gains and losses. Invested assets in this segment declined due to dividends and returns of capital from MBIA Corp. to MBIA Inc. and the cession of MBIA Corp. s U.S. public finance business to National on February 17, 2009.

In 2008, MBIA Corp. entered into a $2.0 billion secured lending agreement with our asset/liability products segment. Interest income on this arrangement, totaling approximately $60 million in 2009, is included in our structured finance and international insurance net investment income. As of December 31, 2009, the amount outstanding from our asset/liability products segment under this agreement was $1.6 billion. During the fourth quarter of 2009, a total of $400 million of the secured loan was repaid.

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Investment asset balances at amortized cost as of December 31, 2009 and 2008 are presented in the following table:

In millions	December 31, 2009					December 31, 2008	
Investments at Amortized Cost	**U.S. Public Finance**	**Structured Finance and International**	**Eliminations**	**Combined Insurance Operations**	**Pre-tax yield(1)**	**Insurance Operations**	**Pre-tax yield(1)**
Fixed-income securities:							
Tax-exempt	$ 2,624	$ 55	$	$ 2,679	4.40%	$ 3,157	4.49%
Taxable	2,348	1,177		3,525	6.57%	3,454	5.69%
Short-term	285	966		1,251	1.39%	1,542	2.16%
Total fixed-income	$ 5,257	$ 2,198	$	$ 7,455	4.92%	$ 8,153	4.56%
Other		10		10		49	
Total	$ 5,257	$ 2,208	$	$ 7,465		$ 8,202	

(1) Estimated yield-to-maturity.

FEES AND REIMBURSEMENTS For the year ended December 31, 2009, combined insurance fees and reimbursements were $113 million compared with $9 million for the same period of 2008. The increase in fees and reimbursements was primarily due to the receipt of amounts in excess of those which were contractually due to MBIA upon the termination of certain reinsurance agreements, totaling $85 million, advisory fees of $7 million on a Latin American infrastructure transaction, and an increase in waiver and consent fees related to the ongoing management of our structured finance and international insurance business.

NET CHANGE IN FAIR VALUE OF INSURED DERIVATIVES As of December 31, 2009, we had $119.2 billion of net par outstanding on insured derivatives compared with $140.3 billion as of December 31, 2008. During the year ended December 31, 2009, 23 insured credit derivative transactions, representing $15.2 billion in net par outstanding, either matured or were contractually terminated prior to maturity. The following table presents the net premiums earned related to insured derivatives and the components of the net change in fair value of insured derivatives for the years ended December 31, 2009 and 2008:

	2009			2008	
In millions	**U.S. Public Finance**	**Structured Finance and International**	**Combined Insurance Operations**	**Insurance Operations**	**Percent Change 2009 vs. 2008**
Net premiums and fees earned on insured derivatives	$ 1	$ 123	$ 124	$ 137	-10%
Realized gains (losses) on insured derivatives		(290)	(290)	(534)	46%
Realized gains (losses) and other settlements on insured derivatives	1	(167)	(166)	(397)	58%
Unrealized gains (losses) on insured derivatives	(0)	1,650	1,650	(1,822)	n/m

Net change in fair value of insured derivatives	$ 1	$ 1,483	$ 1,484	$ (2,219)	n/m

n/m Percentage change not meaningful.

Realized losses on insured derivatives for the year ended December 31, 2009 resulted from the settlement of three CDO transactions and loss payments related to a multi-sector CDO transactions. Realized losses on insured derivatives for the year ended December 31, 2008 resulted from the settlement of all or a portion of four multi-sector CDO transactions. Settlements in 2009 were $159 million for $1.3 billion of par outstanding compared with settlements in 2008 of $558 million for $2.7 billion of par outstanding.

Unrealized gains on insured derivatives for the year ended December 31, 2009 were $1.7 billion compared with unrealized losses in 2008 of $1.8 billion. Unrealized gains in 2009 were primarily related to changes in MBIA s CDS and recovery swaps pricing, narrower collateral spreads, and transaction terminations, partially offset by losses resulting from enhancements to our valuation models and inputs, subordination erosion, lower estimated

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recovery rates on collateral and collateral rating migration. The main enhancements to our valuation models and inputs were the development of a direct pricing model for multi-sector CDOs, assumptions about ABS collateral defaults, the calculation of nonperformance risk for CDOs, and the refinement of a spread model for CMBS transactions. Enhancements to our valuation models and inputs are discussed further in the Critical Accounting Estimates section included herein. Unrealized losses for the year ended December 31, 2008 were primarily due to spread widening, and to a lesser extent, subordination erosion, collateral rating migration and lower recovery rates. This was significantly offset by the deterioration in MBIA s CDS spreads. For example, MBIA s five year CDS spread as of December 31, 2007 was 3.41% per annum. As of December 31, 2008, the cost of the CDS was 46.5% upfront plus 5% per annum; and as of December 31, 2009, MBIA Corp. s five year CDS cost was 64.25% upfront plus 5% per annum. Our mark-to-market on insured credit derivatives as of year end 2009 uses the most appropriate of the one to ten year CDS for each transaction, and those costs ranged from 17.5% upfront plus 5% per annum to 64.25% upfront plus 5% per annum.

Credit impairments on insured derivatives, a non-GAAP measure, represent the present values of our estimates of expected future claim payments for such transactions using a discount rate of 6.51%. We estimated that additional credit impairments on insured derivatives for the year ended December 31, 2009 were $777 million across 13 CDO transactions. Beginning with the fourth quarter of 2007 through December 31, 2009, total credit impairments on insured derivatives were estimated at $2.5 billion across 16 CDO transactions, inclusive of eight CDO transactions for which we made settlement and claim payments of $838 million, net of reinsurance and collections.

NET GAINS AND LOSSES ON FINANCIAL INSTRUMENTS AT FAIR VALUE AND FOREIGN EXCHANGE Combined insurance net gains and losses on financial instruments at fair value and foreign exchange represent net gains and losses from the sale of investments, including foreign exchange gains and losses, the translation of non-functional currency balances into U.S. dollars, and the fair valuing of financial instruments. For the year ended December 31, 2009, net gains on financial instruments at fair value and foreign exchange were $83 million compared with $185 million in 2008. Net gains for the year ended December 31, 2009 were primarily generated from sales of investment securities within both of our insurance segments portfolios, as well as net foreign exchange gains generated by our structured finance and international insurance segment. Net gains for the year ended December 31, 2008 were largely due to gains resulting from the change in value of a credit facility of $250 million, which was terminated in the fourth quarter of 2008. Gains on this facility were due to an increase in the differential between the Company s CDS spreads and the yield applicable to the facility.

REVENUES OF CONSOLIDATED VIEs For the year ended December 31, 2009, total revenues of consolidated VIEs were a loss of $58 million compared with income of $56 million for the same period of 2008. The decrease in revenues of consolidated VIEs was principally driven by other-than-temporary impairments of VIE assets, as well as other net realized losses, partially offset by net investment income. For the year ended December 31, 2009, losses related to other-than-temporary impairments were $93 million with no comparable impairments in the same period of 2008. Other net realized losses were $41 million for the year ended December 31, 2009 and related to impairment charges on an international infrastructure transaction with no comparable losses in the same period of 2008. Net investment income for the year ended December 31, 2009 was $66 million compared with $56 million for the same period of 2008. The increase in net investment income resulted from consolidating additional VIEs in 2009.

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LOSSES AND LOSS ADJUSTMENT EXPENSES The following table presents information about our loss and LAE provision for the years ended December 31, 2009 and 2008:

In millions	2009 U.S. Public Finance	2009 Structured Finance and International	2009 Combined Insurance Operations	2008 Insurance Operations	Percent Change 2009 vs. 2008
Loss and LAE related to payments	$ 138	$ 3,143	$ 3,281	$ 2,660	23%
Recoveries of actual and expected payments	(40)	(2,327)	(2,367)	(1,000)	-137%
Change in unallocated reserve				(203)	-100%
Gross losses incurred	98	816	914	1,457	-37%
Reinsurance	(4)	(46)	(50)	(139)	-64%
Losses and loss adjustment expenses	$ 94	$ 770	$ 864	$ 1,318	-34%

Losses and LAE incurred in our U.S. public finance insurance segment totaled $94 million in 2009 and primarily related to an affordable housing transaction and a student loan transaction.

Losses and LAE incurred in our structured finance and international insurance segment totaled $770 million in 2009. Included in the $770 million were gross losses related to actual and expected future payments of $3.1 billion, of which $2.9 billion related to insured RMBS transactions. Offsetting these losses were recoveries of actual and expected payments of $2.3 billion and reinsurance of $46 million. Included in the $2.3 billion of recoveries of actual and expected payments were $2.3 billion of recoveries related to our RMBS transactions. The $2.3 billion of RMBS insurance loss recoveries was comprised of approximately $1.6 billion related to estimates of potential recoveries resulting from ineligible mortgages included in insured second-lien residential mortgage and Alt-A securitization exposures that are subject to contractual obligations by sellers/servicers to repurchase or replace such mortgages, and approximately $684 million related to excess interest cash flows within the securitizations.

Our combined insurance losses and LAE incurred was $864 million for 2009 compared with $1.3 billion for 2008, of which all were largely attributable to our RMBS exposure. Losses on our RMBS exposure during 2009 continued to be primarily driven by high levels of loans that did not meet eligibility criteria for inclusion in MBIA-insured transactions, improperly serviced loans, and the impact of weakening economic conditions.

As of December 31, 2009 and 2008, our loss and LAE reserves totaled $1.6 billion and our insurance loss recoverables totaled $2.4 billion and $459 million, respectively. The increase in our insurance loss recoverable principally resulted from $1.4 billion in expected potential recoveries resulting from the aforementioned obligations of the sellers/servicers of RMBS transactions to repurchase ineligible loans. As of December 31, 2009 and 2008, our insurance loss recoverable also included recoveries of approximately $906 million and $331 million, respectively, based on expected excess interest in RMBS securitizations. As of December 31, 2009 and 2008, insurance loss recoverables due to reinsurers totaled $46 million and $13 million, respectively.

Residential Mortgage Exposure

We paid approximately $2.3 billion and $1.4 billion, net of reinsurance and collections, on insured RMBS transactions in the years ended December 31, 2009 and 2008, respectively. As of December 31, 2009, the net par outstanding on insured RMBS transactions for which we have paid net claims was $12.0 billion compared with $13.7 billion as of December 31, 2008. As of December 31, 2009, we expected to pay an additional $2.0 billion (on a present value basis) on these exposures. We expected to receive a total of $1.5 billion (on a present value basis) in reimbursement of past and future expected claims through excess spread in the securitizations. Of this amount, $906 million is included in our insurance loss recoverable and $592 million is included in our loss and LAE reserves. In addition, we expected to receive $1.6 billion (on a present value basis) as sellers/servicers honor their commitments to repurchase ineligible loans in the securitizations. Of this amount, $1.4 billion is included in our insurance loss recoverable and $223 million is included in our loss and LAE reserves.

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As of December 31, 2009, we had paid a cumulative total of $3.8 billion, net of reinsurance and collections, on RMBS transactions and have case basis reserves of $1.2 billion. The case basis reserves represent the present value of the difference between cash payments we expected to make on the insured transactions and the cash receipts we expected from the performing mortgages in the securitizations, reduced by potential recoveries from sellers/servicers.

The majority of expected recoveries from RMBS transactions recorded in 2009 arise from a forensic review of defaulted mortgage loans in 30 insured first and second-lien mortgage loan securitizations.

POLICY ACQUISITION COSTS AND OPERATING EXPENSES We did not defer any policy acquisition costs during 2009 other than premium taxes on installment policies written in prior years. The Company s insurance expenses for the years ended December 31, 2009 and 2008 are presented in the following table:

	2009				2008	
In millions	**U.S. Public Finance**	**Structured Finance and International**	**Eliminations**	**Combined Insurance Operations**	**Insurance Operations**	**Percent Change 2009 vs. 2008**
Gross expenses	$ 58	$ 190	$ (20)	$ 228	$ 197	16%
Amortization of deferred acquisition costs	$ 116	$ 217	$ (251)	$ 82	$ 75	9%
Operating	58	178	(20)	216	207	5%
Total insurance operating expenses	$ 174	$ 395	$ (271)	$ 298	$ 282	6%

Gross expenses in our U.S. public finance insurance segment for the year ended December 31, 2009 totaled $58 million and gross expenses in our structured finance and international insurance segment totaled $190 million. Combined gross expenses of $228 million increased 16% for the year ended December 31, 2009 from $197 million for the same period of 2008. The increase was primarily due to higher legal costs associated with litigation, loss prevention expenses related to insured credit derivatives, higher consulting costs related to changes in the legal entity structure of our subsidiaries, and the reversal of long-term incentive award accruals in 2008, partially offset by lower overall compensation as a result of a reduction in staffing, and a reduction in fees related to the termination of a credit facility. The amortization of deferred acquisition costs in our combined insurance operations increased 9% to $82 million from $75 million for 2008. The increase in the amortization of deferred acquisition costs was principally due to the effects of changes in amortization methods resulting from the adoption of the recently effective accounting principles for financial guarantee insurance contracts. Operating expenses in our U.S. public finance insurance segment for the year ended December 31, 2009 totaled $58 million and operating expenses in our structured finance and international insurance segment totaled $178 million. Combined operating expenses of $216 million increased 5% for the year ended December 31, 2009 from $207 million for 2008 due to the increases in gross expenses.

INTEREST EXPENSE Interest expense in our insurance business is incurred by our structured finance and international insurance segment and primarily consists of interest related to MBIA Corp. s surplus notes. For the year ended December 31, 2009, interest expense increased 2% to $137 million from $135 million in 2008.

EXPENSE OF CONSOLIDATED VIEs For the year ended December 31, 2009, total expenses of consolidated VIEs were $87 million compared with $56 million for the same period of 2008. The increase in expenses was primarily due to interest expense associated with additional VIEs consolidated in 2009.

Collateralized Debt Obligations and Related Instruments

As part of our structured finance and international insurance activities, MBIA Corp. typically provided guarantees on senior and mezzanine tranches of CDOs, as well as protection on structured pools of CMBS and corporate securities, and CDS referencing such securities. The following discussion, including reported amounts and percentages, includes insured CDO transactions consolidated by the Company as VIEs.

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MBIA Corp. s $105.6 billion CDO portfolio represented 55% of its total insured gross par outstanding of $190.2 billion as of December 31, 2010. The distribution of the Company s insured CDO and related instruments portfolio by collateral type is presented in the following table:

In billions Collateral Type	Gross Par as of December 31, 2010	
Multi-sector CDOs[1]	$	11.5
Investment grade CDOs and structured corporate credit pools		41.2
High yield corporate CDOs		9.6
Commercial real estate pools and CDOs		43.3
Total	$	105.6

(1) Includes one multi-sector CDO-Squared transaction with gross par of $0.2 billion as of December 31, 2010.

Multi-Sector CDOs

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

Our multi-sector CDOs, as well as certain other insured CDO transactions, benefit from two sources of credit enhancement in that we are subject to a claim to the extent (i) the subordination in the underlying securities collateralizing MBIA Corp. s insured tranche (Underlying Collateral Subordination) is fully eroded and (ii) the subordination below MBIA Corp. s insured tranche in the CDO transaction (Insured Tranche Subordination) is fully eroded. MBIA Corp. s payment obligations after a default vary by deal and by insurance type. There are currently two policy payment types: (i) where MBIA Corp. insures current interest and ultimate principal; and (ii) where MBIA Corp. insures payments upon settlement of individual collateral losses as they occur after the complete erosion of deal deductibles (referred to as Asset Coverage with a Deductible).

Total gross par exposure in our multi-sector CDO portfolio at the onset of the credit crisis was $35.9 billion as of December 31, 2007. Since 2007 through December 31, 2010, our multi-sector CDO gross par exposure has decreased by approximately $24.4 billion primarily from negotiated commutations of $16.9 billion in gross par and contractual terminations without any payment from MBIA Corp. of $5.4 billion in gross par. The remaining reduction was due to the amortization and maturity of transactions. As of December 31, 2010, our gross par exposure to multi-sector CDOs was $11.5 billion and represented 11% of MBIA Corp. s CDO exposure and approximately 6% of MBIA Corp. s total gross par insured.

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The following table presents the collateral as a percent of the performing pool balances for all MBIA Corp.-insured multi-sector CDO transactions:

$ in millions			Collateral as a % of Performing Pool Balance as of December 31, 2010					
Year Insured	# of CDOs	Gross Par Outstanding	Other Collateral	Subprime RMBS	Total	Current Insured Tranche Subordination Range Below MBIA	Original Insured Tranche Subordination Range Below MBIA	Net Derivative / Asset (Liability)
CDOs of High-Grade U.S. ABS								
2003	1(1)	$ 237	100%	0%	100%	22.5%	10.0%	$ (6)
2004	2	1,330	70%	30%	100%	0.0%	12.5-13.0%	(294)
2005	1	752	69%	31%	100%	0.0%	20.0%	(90)
2006	4	2,699	77%	23%	100%	0.0%	12.0-14.0%	(500)
2007	5	3,680	94%	6%	100%	0.0%	13.0-14.0%	(744)
Subtotal	13	8,698						(1,634)
CDOs of Mezzanine U.S. ABS								
2000	1	7	100%	0%	100%	69.2%	21.4%	
2002	6	574	95%	5%	100%	0.0-59.5%	13.8-28.1%	
2003	4	626	85%	15%	100%	0.0-80.8%	21.5-29.8%	
2004	3	359	80%	20%	100%	0.0%	25.0-30.5%	(16)
Subtotal	14	1,566						(16)
Total	27	10,264						(1,650)
		346	Multi-Sector CDO European Mezzanine and Other Collateral (1 CDO)					(19)
		890	Multi-Sector CDO insured in the Secondary Market prior to 2005 (37 CDOs)					
Grand Total		$ 11,500						$ (1,669)

(1) This transaction is multi-sector CDO squared

Our multi-sector CDOs are classified into CDOs of high-grade U.S. ABS, including one CDO-squared transaction, and CDOs of mezzanine U.S. ABS. As of December 31, 2010, gross par outstanding on MBIA Corp.-insured CDOs of high-grade U.S. ABS totaled $8.7 billion and the majority of the collateral consisted of non-subprime and subprime RMBS. Original Insured Tranche Subordination levels in these transactions ranged from 10% to 20% compared with current Insured Tranche Subordination levels of 0% to 22.5%. As of December 31, 2010, gross par outstanding on MBIA Corp.-insured CDOs of mezzanine U.S. ABS totaled $1.6 billion and the majority of the collateral consisted of non-subprime RMBS, CMBS and subprime RMBS. Original Insured Tranche Subordination levels in these transactions ranged from 13.8% to 30.5% compared with current Insured Tranche Subordination levels that range from 0% to 80.8%.

The significant erosion of Insured Tranche Subordination in our multi-sector CDO transactions principally resulted from the underperformance of RMBS and CDO collateral. As discussed above, the erosion of Insured Tranche Subordination in these transactions increases the likelihood that MBIA Corp. will pay claims. As of December 31, 2010, our credit impairment estimates for 28 classified multi-sector CDO transactions for which MBIA Corp. expects to incur actual net claims in the future (14 of which are insured in the secondary market), representing 43% of all MBIA Corp.-insured multi-sector CDO transactions (including both CDS and non-CDS contracts), aggregated to $1.5 billion. Of the remaining transactions, 19% is on our Caution List and 38% continue to perform at or close to our original expectations. In the event of further performance deterioration of the collateral referenced or held in our multi-sector CDO transactions, the amount of credit impairments could increase materially.

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As of December 31, 2010, the ratings distribution of our insured multi-sector CDO transactions is presented in the following table. These ratings are intended to reflect the past and expected future performance of the underlying collateral within each transaction.

Insured Exposure Rating(1)	Original	Current
AAA	99%	0%
AA	1%	1%
A	0%	1%
BBB	0%	3%
Below investment grade	0%	95%
Total	100%	100%

(1) All ratings are current. Ratings are derived using the most conservative rating among Moody s, S&P or internal ratings.

Investment Grade Corporate CDOs and Structured Corporate Credit Pools

Our investment grade corporate CDO exposure references pools of predominantly investment grade corporate credits. Additionally, some of these pools may include limited exposure to other asset classes, including structured finance securities (such as RMBS and CDOs). Most of our investment grade corporate CDO policies guarantee coverage of losses on collateral assets once Insured Tranche Subordination in the form of a deductible has been eroded, and are generally highly customized structures. As of December 31, 2010, the majority of insurance protection provided by MBIA Corp. on investment grade corporate CDO exposure attached at a super senior level. Our gross par exposure to investment grade corporate CDOs of $41.2 billion represents 39% of MBIA Corp. s CDO exposure and 22% of MBIA Corp. s total gross par insured. Several of the Company s insured investment grade corporate CDOs have experienced significant Insured Tranche Subordination erosion due to default of underlying referenced corporate obligors, as well as certain structured finance securities, but we currently do not expect losses on MBIA Corp. s insured tranches. We believe the tenor of any remaining Insured Tranche Subordination is sufficient and provides adequate protection. As of December 31, 2010, the collateral amount in the portfolio exceeds the gross par outstanding as a result of credit enhancement (such as over-collateralization and Insured Tranche Subordination).

Our gross par of insured investment grade corporate CDOs includes $16.5 billion that was typically structured to include buckets (typically 30%-35% of the overall CDO) of references to specific tranches of other investment grade corporate CDOs (monotranches). In such transactions, MBIA Corp. s insured investment grade corporate CDOs include, among direct corporate or structured credit reference risks, a monotranche or single layer of credit risk referencing a diverse pool of corporate assets or obligors with a specific attachment and a specific detachment point. The referenced monotranches in such CDOs are typically rated double-A and each referenced monotranche was typically sized to approximately 3% of the overall reference risk pool. The inner referenced monotranches are not typically subject to acceleration and do not give control rights to a senior investor. The inner referenced monotranches have experienced Insured Tranche Subordination erosion due to the default of their referenced corporate assets.

The following table presents the collateral as a percent of the performing pool balances for all MBIA Corp.-insured investment grade corporate CDOs and structured corporate credit pool transactions:

$ in millions		As of December 31, 2010
Year Insured	Total	

	# of CDOs	Gross Par Outstanding	Corporate Collateral	Other Collateral		Current Insured Tranche Subordination Range Below MBIA	Original Insured Tranche Subordination Range Below MBIA	Net Derivative / Asset (Liability)
2003 and prior	4	$ 1,177	100%	0%	100%	5.7-41.4%	11.0-22.0%	$ (0)
2004	4	5,881	86%	14%	100%	6.0-19.3%	10.0-15.0%	(406)
2005	8	10,451	94%	6%	100%	11.7-26%	12.5-27.5%	(182)
2006	4	6,971	92%	8%	100%	12.2-23.2%	16.0-25.0%	(183)
2007	14	16,625	97%	3%	100%	12.6-34.4%	15.0-35.0%	(169)
Subtotal	34	41,105						(940)
		89	Investment Grade Corporate CDOs insured in the Secondary Market prior to 2003 (8 CDOs)					-
Grand Total		$ 41,194						$ (940)

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High Yield Corporate CDOs

Our high yield corporate CDO portfolio, totaling $9.6 billion of gross par exposure, largely comprises middle-market/special-opportunity corporate loan transactions, broadly syndicated bank CLOs and older vintage corporate high yield bond CDOs. The CDOs in this category are diversified by both vintage and geography (with European and U.S. collateral). Our gross par exposure to high yield corporate CDOs represents 9% of the MBIA Corp. s CDO exposure and approximately 5% of MBIA Corp. s total gross par insured as of December 31, 2010. Our high yield corporate CDO portfolio does not contain any material subprime RMBS, non-subprime RMBS, or CDOs of ABS exposures.

There has been a marked decline in Insured Tranche Subordination levels as a result of defaults in underlying collateral, as well as sales of underlying collateral at discounted prices. Insured Tranche Subordination for CDOs insured in earlier years have experienced, on average, more deterioration than those insured in later years. Insured Tranche Subordination within CDOs may decline over time as a result of collateral deterioration. The risk of lower Insured Tranche Subordination levels is typically offset by the amortization of outstanding insured debt and a decrease in the time to maturity. There are currently no significant losses on MBIA Corp. s insured High Yield Corporate CDO tranches at this time. However, there can be no assurance that the Company will not incur significant losses as a result of deterioration in Insured Tranche Subordination.

The following table presents the collateral as a percent of the performing pool balances for all MBIA Corp.-insured high yield corporate CDO transactions:

$ in millions				**As of December 31, 2010**		
Year Insured	**# of CDOs**	**Gross Par Outstanding**	**Corporate Collateral**	**Current Insured Tranche Subordination Range Below MBIA**	**Original Insured Tranche Subordination Range Below MBIA**	**Net Derivative / Asset (Liability)[(1)]**
1999	1	$ 11	100%	0.0%	43.7%	$ -
2002	1	122	100%	16.6%	19.4%	-
2003	2	182	100%	11.5-96.4%	24.2-30.0%	-
2004	3	3,111	100%	23.7-47.5%	22.0-33.3%	-
2005	1	984	100%	22.5%	21.8%	-
2006	3	3,181	100%	9.6-45.3%	10.0-49.0%	-
2007	4	1,743	100%	9.9-29.4%	32.0-42.0%	0
Subtotal	15	9,334				$ 0
		225	High Yield Corporate CDO insured in the Secondary Market prior to 2004 (17 CDOs)			-
Grand Total		$ 9,559				$ 0

(1) Net derivative amounts are immaterial due to the positive performance of the credit derivative transactions.

Commercial Real Estate Pools and CDOs

As of December 31, 2010, we had $43.3 billion of gross par exposure to the commercial real estate sector through insured structured transactions primarily comprising CRE collateral. Our CRE portfolio can be largely sub-divided into two distinct categories: structured CMBS pools and CRE CDOs. In addition, MBIA Corp. insures approximately $4.1 billion in CRE loan pools, primarily comprising European assets, which are not included in the following discussion.

Refer to Note 6: Loss and Loss Adjustment Expense Reserves in the Notes to Consolidated Financial Statements for a discussion of credit impairments on our CRE pools and CDO exposure, including the methodology used to calculate these impairments.

Structured CMBS Pools

As of December 31, 2010, our gross par exposure to structured CMBS pools totaled $35.9 billion and represented approximately 19% of MBIA Corp. s total gross par insured. These transactions are pools of CMBS bonds, Real Estate Investment Trust (REIT) debt and other CRE CDOs structured with first loss deductibles such that MBIA

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Corp. s obligation attached at a minimum of a triple-A level. The deductible sizing was a function of the underlying collateral ratings and certain structural attributes. MBIA Corp. s guarantee for most structured CMBS pool transactions covers losses on collateral assets once the deductible has been eroded. These deductibles provide credit enhancement and subordination to MBIA s insured position.

The collateral in the pools are generally CMBS bonds or CDSs referencing CMBS bonds (collectively, CMBS bonds). MBIA Corp. s guarantee generally is in the form of a CDS referencing the static pooled transactions. MBIA Corp. would have a payment obligation if the volume of CMBS bond defaults exceeds the deductible level in the transaction. Each pool comprising CMBS bonds is backed by commercial mortgage loans. The same CMBS bonds may be referenced in multiple pools. The Company s structured CMBS pools are static, meaning that the collateral pool of securitizations cannot be and has not been changed since the origination of the policy. Most transactions comprise similarly rated underlying tranches. The deductible for each transaction varies according to the ratings of the underlying collateral. For example, a transaction comprising originally BBB rated underlying CMBS bonds would typically include a 30-35% deductible to MBIA Corp. s position whereas a transaction comprising all originally AAA rated underlying CMBS bonds would typically require a 5-10% deductible.

The following table presents the collateral as a percentage of the pool balances, as well as the current deductible, as of December 31, 2010 for all MBIA Corp.-insured structured CMBS pool transactions:

$ in millions			Collateral as a % of Performing Pool Balance						
Year Insured	**# of Pools**	**Gross Par Outstanding**	**CMBS**	**REIT Debt**	**Other**	**Total**	**Current Deductible**	**Original Deductible**	**Net Derivative /Asset (Liability)**
2003	1	$ 121	65%	31%	4%	100%	39.5%	26.0%	$
2005	1	2,300	100%	0%	0%	100%	8.0%	8.0%	
2006	9	6,464	87%	0%	13%	100%	10.0-69.3%	10.0-70.0%	(375)
2007	30	26,835	97%	0%	3%	100%	5.0-85.6%	5.0-82.3%	(1,140)
Subtotal	41	35,720							(1,515)
		161	Structured CMBS Pools insured in the Secondary Market prior to 2005 (7 pools)						
Grand Total		$ 35,881							$ (1,515)

As is evident in the above table, there has been virtually no erosion of the original deductibles to date given that CMBS loan liquidations are just beginning to take place for the more recent vintage collateral to which MBIA has exposure.

When considering all of the CMBS collateral underlying all of the static pools insured by MBIA, as of December 31, 2010, approximately 47% of the collateral was originally rated BBB and below, while 36% of the underlying collateral was originally rated AAA. The higher risk of BBB collateral was intended to be offset by the diversification in the collateral pool and the level of the deductible whereas pools backed by all AAA collateral benefited from diversification and required smaller deductibles. In all cases, regardless of the underlying collateral rating, MBIA Corp. s insured position was rated AAA at origination of the transaction by at least Moody s, S&P or Fitch. As of December 31, 2010, 69% of CMBS collateral underlying the pools insured by MBIA were rated below investment grade.

In 2006 and 2007, we insured 21 static CMBS pools with $17.6 billion of gross par outstanding as of December 31, 2010 in which substantially all of the underlying collateral comprised CMBS tranches originally rated BBB and lower. The remainder of the collateral in these 21 pools consisted of higher rated CMBS bonds, REIT debt and other securities. The BBB and below rated CMBS bonds underlying these 21 pools had original credit enhancement levels that ranged from 0.0% to 11.8% with an original weighted average credit enhancement level of 3.4%, compared to credit enhancement levels that range from 0.0% to 75.9% with a weighted average credit enhancement level of 3.1% as of December 31, 2010. MBIA Corp. s original policy level deductibles for these 21 insured pools ranged from 20.0% to 82.3% with an original weighted average deductible by gross par outstanding of 33.9%, compared to deductibles that range from 19.0% to 85.6% with a weighted average deductible by gross par outstanding of 32.9% as of December 31, 2010. All of MBIA Corp. s estimated credit impairments of $1.1 billion for our static CMBS pools relate to a subset of these 21 pools.

Even though a significant portion of our overall static CMBS pools portfolio was insured in 2007, 79.6% of the underlying CMBS collateral was issued prior to 2007. For our overall static CMBS pools portfolio, which had gross

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par outstanding of $35.9 billion as of December 31, 2010, 50.7% of the underlying CMBS bonds referenced were issued in 2006 and 20.4% were issued in 2007. Of these 2007 vintage CMBS bonds, over 50% were rated AAA at the time they were issued.

The following table presents the vintage and original rating composition of the CMBS collateral in our static CMBS pools.

	CMBS Collateral Vintage				
Original Rating	**2004 and Prior**	**2005**	**2006**	**2007**	**Total**
AAA	8.3%	2.1%	14.9%	10.6%	35.9%
AA	0.0%	0.1%	0.5%	1.6%	2.2%
A	0.0%	2.1%	10.2%	2.3%	14.5%
BBB	1.7%	9.3%	23.2%	4.8%	39.1%
Below Investment Grade or Not Rated	3.0%	2.3%	1.9%	1.1%	8.3%
Total	13.0%	15.9%	50.7%	20.4%	100.0%

Our structured CMBS pool portfolio comprises approximately 55,000 loans. The current weighted average debt service coverage ratio (DSCR) of underlying mortgages in the CMBS pools is 1.69 based on net operating income derived from the most recent property level financial statements (based on 84% of the properties having provided financial statements from 2009 or a more recent time period) compared to an average DSCR of 1.56 as of December 2009. Although the average DSCR increased, many properties experienced declining financial performance over the past year resulting in the percentage of properties with a DSCR less than 1.0 increasing from under 11% as of December 31, 2009 to nearly 15% as of December 31, 2010. The weighted average loan-to-value ratio was 76% as of December 31, 2010 compared to 71% as of December 31, 2009. The majority of the loans are long-term and fixed-rate in nature. Approximately 17% of the loans will mature within the next three years; however, the weighted average DSCR of these loans is significantly higher at 2.23 based on the latest available financial statements. Eight percent of the loans mature in the next 12 months and these loans have a weighted average DSCR of 2.96. Deal attachment points range from 5% to 86% and underlying bond collateral loss coverage generally ranges from 0% to 30% or higher, both of which are structural factors that were intended to minimize potential losses.

Delinquencies have increased markedly in the commercial real estate market over the last two years given the economic downturn and the shortage of financing. As of December 31, 2010, 30-day and over delinquencies continued to increase in the fixed-rate conduit CMBS market to 8.90% and in MBIA Corp. s insured static pooled CMBS portfolio to 9.17%. The higher delinquency rate in MBIA Corp. s portfolio was primarily due to a concentration in the 2006 and early 2007 vintages. However, we have seen a deceleration in the pace of increases in the delinquency rate over the past several months. In addition, we have seen numerous loan modifications and extensions where special servicers fulfill their roles to maximize proceeds for all bondholders by avoiding or minimizing loan level losses.

CRE CDOs

As of December 31, 2010, our gross par exposure to CRE CDOs totaled $7.4 billion and represented approximately 4% of MBIA Corp. s total gross par insured. CRE CDOs are managed pools of CMBS, CRE whole loans, B-Notes, mezzanine loans, REIT debt, and other securities (including, in some instances, buckets for RMBS and CRE CDOs) that allow for reinvestment during a defined time period. Most of these transactions benefit from typical CDO structural features such as cash diversion triggers, collateral quality tests, and manager replacement provisions. Typically, MBIA Corp. guarantees timely interest and ultimate principal of these CDOs. As with our other insured CDOs, these transactions were generally structured with credit protection originally rated triple-A, or a multiple of triple-A, below our guarantee. As of December 31, 2010, our CRE CDO insured portfolio did not contain any CDOs of ABS exposures. Several of the CRE CDO transactions do contain some RMBS collateral, but overall this comprises less than 5% of the CRE CDO portfolio.

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Within our CRE CDO portfolio, we had five transactions with 2006 or 2007 vintages totaling $2.4 billion of gross par outstanding as of December 31, 2010 in which substantially all of the collateral originally comprised BBB or BBB- rated tranches of CMBS. While these transactions were designed to include managed portfolios, trading has been minimal since inception. We have recorded impairments on of $35 million on three CRE CDO transactions.

The following table presents the collateral as a percentage of the performing pool balances as of December 31, 2010 for all MBIA Corp.-insured CRE CDO transactions:

$ in millions				Collateral as a % of Outstanding Pool Balance as of December 31, 2010						
Year Insured	# of CRE CDOs	Gross Par Outstanding	CMBS	Whole Loans	REIT Debt	Other	Total	Current Enhancement	Original Enhancement	Net Derivative / Asset (Liability)
2004	2	$ 72	60%	0%	20%	20%	100%	21.9-24.9%	22.0-22.4%	$
2005	2	351	73%	0%	15%	12%	100%	0.0-35.5%	22.7-36.0%	(60)
2006	11	3,375	40%	46%	5%	9%	100%	0.0-60.2%	24.0-60.0%	(109)
2007	10	3,581	63%	20%	5%	12%	100%	0.0-53.6%	22.0-60.0%	(171)
Total	25	$ 7,379								$ (340)

U.S. Public Finance and Structured Finance and International Reinsurance

Reinsurance enables the Company 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 MBIA under rating agency models and the overall value of the reinsurance to MBIA is reduced. The Company generally retains the right to reassume the business ceded to reinsurers under certain circumstances, including a reinsurer s rating downgrade below specified thresholds. In 2010, MBIA reassumed par outstanding of $35.0 billion from two reinsurers, Channel Re and Mitsui Sumitomo Insurance Company, Ltd. As of December 31, 2010, our use of reinsurance was immaterial to our insurance operations and we expect that it will continue to be immaterial in the future.

The following table presents information about our reinsurance agreements as of December 31, 2010 for our U.S. public finance and structured finance and international insurance operations. Estimated credit impairments represent the reinsurers portion of amounts we expect to pay on insured derivative contracts.

In millions

Reinsurers	Standard & Poor s Rating (Status)	Moody s Rating (Status)	Ceded Par Outstanding	LOC / Trust Accounts	Reinsurance Recoverable (1)	Estimated Credit Impairments on Insured Derivatives
Assured Guaranty Corp.	AA+ (Stable Outlook)	Aa3 (Negative Outlook)	$ 4,448	$	$ 15	$
Assured Guaranty Re Ltd.	AA	A1	676	4		

	(Stable)	(Negative Outlook)				
Overseas Private Investment Corporation	AAA (Stable)	Aaa (Stable)	344			
Export Development Canada	AAA (Stable)	Aaa (Stable)	90	2		
Others	A+ or above	A1 or above	120	1		
Total			$ 5,678	$ 7	$ 15	$

(1) Total reinsurance recoverable of $15 million comprised recoverables on paid and unpaid losses of $1 million and $14 million, respectively.

MBIA requires certain unauthorized reinsurers to maintain bank letters of credit or establish trust accounts to cover liabilities ceded to such reinsurers under reinsurance contracts. As of December 31, 2010, the total amount available under these letters of credit and trust arrangements was $7 million. The Company remains liable on a primary basis for all reinsured risk, and although MBIA believes that its reinsurers remain capable of meeting their obligations, there can be no assurance of such in the future.

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As of December 31, 2010, the aggregate amount of insured par outstanding ceded by MBIA to reinsurers under reinsurance agreements was $5.7 billion compared with $43.6 billion as of December 31, 2009. Of the $5.7 billion of ceded par outstanding as of December 31, 2010, $3.8 billion was ceded from our U.S. public finance insurance segment and $1.9 billion was ceded from our structured finance and international insurance segment. Under National s reinsurance agreement with MBIA Corp., if a reinsurer of MBIA Corp. is unable to pay claims ceded by MBIA Corp., National will assume liability for such ceded claim payments. As of December 31, 2010, the total amount for which National would be liable in the event that the reinsurers of MBIA Corp. were unable to meet their obligations is $3.8 billion. For FGIC policies assigned to National from MBIA Insurance Corporation, National maintains the right to receive third-party reinsurance totaling $10.4 billion.

In the third quarter of 2010, MBIA Insurance Corporation acquired the remaining equity interest in Channel Re that it did not hold, commuted all reinsurance with Channel Re, and liquidated Channel Re. Channel Re was a financial guarantee reinsurer founded in 2004, which assumed business only from MBIA Insurance Corporation and MBIA UK. Upon the commutation of exposure ceded to Channel Re, MBIA Insurance Corporation, National and MBIA UK assumed $21.6 billion, $7.8 billion, and $2.1 billion, respectively, of insured par.

Advisory Services

Our asset management advisory business is conducted through Cutwater. Cutwater offers advisory services, including cash management, discretionary asset management and structured products on a fee-for-service basis. Cutwater offers these services to public, not-for-profit, corporate and financial services clients, including MBIA Inc. and its other subsidiaries.

The following table summarizes the results and assets under management of our advisory services segment for the years ended December 31, 2010, 2009 and 2008. These results include revenues and expenses from transactions with the Company s insurance, corporate, and wind-down operations.

	Years Ended December 31,			Percentage Change	
In millions	**2010**	**2009**	**2008**	**2010 vs. 2009**	**2009 vs. 2008**
Net investment income	$ 0	$ 0	$ 2	n/m	n/m
Fees	68	54	59	25%	-7%
Net gains (losses) on financial instruments at fair value and foreign exchange	2	0	0	n/m	n/m
Net investments losses related to other-than-temporary impairments			(5)	n/m	n/m
Other net realized gains (losses)	0			n/m	n/m
Total revenues	70	54	56	30%	-2%
Operating	71	49	42	46%	17%
Pre-tax income (loss)	$ (1)	$ 5	$ 14	-115%	-61%
Ending assets under management:					
Third-party	$ 25,321	$ 25,411	$ 20,317	0%	25%
Insurance and corporate	9,541	9,251	11,598	3%	-20%
Asset/liability products and conduits	5,868	7,426	11,708	-21%	-37%
Total ending assets under management	$ 40,730	$ 42,088	$ 43,623	-3%	-4%

n/m Percentage change not meaningful.

For the year ended December 31, 2010, the increase in fee revenue compared to the same period of 2009 primarily relates to a change in the fee structure for managing the assets of MBIA. Operating expenses for the year ended December 31, 2010 increased due to expenses associated with Cutwater s re-branding and reorganization, transfers of employees, and higher allocated expenses from other MBIA units. For the year ended December 31, 2009, the decrease in fee revenue primarily relates to a decrease in asset management fees earned on assets managed for our other segments (principally for our asset/liability products segment), which declined substantially.

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Average third-party assets under management for the years ended December 31, 2010, 2009 and 2008 were $26.0 billion, $23.7 billion and $21.9 billion, respectively. The increase in 2009 primarily resulted from increases in municipal pool balances and new separate account and CDO management assignments. As of December 31, 2010, third-party ending assets under management were $25.3 billion, a decrease of $0.1 billion from December 31, 2009 and an increase of $5.0 billion from December 31, 2008. As of December 31, 2010, ending assets under management related to the Company s other segments were $15.4 billion, decreasing from $16.7 billion as of December 31, 2009 and $23.3 billion as of December 31, 2008 primarily due to declines in assets of our asset/liability products segment.

The Company has issued commitments to three pooled investment programs managed or administered by Cutwater Investor Services Corp. (Cutwater-ISC), formerly known as MBIA Municipal Investor Service Corporation, and its subsidiary. These commitments, which are accounted for as derivatives and recorded on the Company s balance sheet at fair value, cover losses in such programs should the net asset values per share decline below specified per share values. As of December 31, 2010, the maximum amount of payments that the Company would be required to make under these commitments was $4.2 billion. These commitments would be terminated if Cutwater-ISC or its subsidiary was no longer manager or administrator or a program was no longer in compliance with its respective investment objectives and policies. Although the pools hold high-quality short-term investments, there is risk that the Company will be required to make payments or incur a loss under these guarantees in the event of material redemptions by shareholders of the pools and the need to liquidate investments held in the pools. The net unrealized losses on these derivatives were $1 thousand for the year ended December 31, 2010. The Company has purchased, and may in the future purchase, investments at its discretion from the pooled investment programs it manages, whether or not such programs have been guaranteed by the Company.

Corporate

General corporate activities are conducted through our corporate segment. Our corporate operations primarily consist of holding company activities. Revenues and expenses of our service company, Optinuity, created in the first quarter of 2010, are included in the results of our corporate segment. Optinuity provides support services such as management, legal, accounting, treasury and information technology, among others, to our corporate segment and other operating businesses on a fee basis.

The following table summarizes the consolidated results of our corporate segment for the years ended December 31, 2010, 2009 and 2008. These results include revenues and expenses that arise from general corporate activities and from providing support to the other segments.

	Years Ended December 31,			**Percentage Change**	
In millions	**2010**	**2009**	**2008**	**2010 vs. 2009**	**2009 vs. 2008**
Net investment income	$ 15	$ 23	$ 31	-33%	-26%
Fees	83			n/m	n/m
Net gains (losses) on financial instruments at fair value and foreign exchange	(28)	(3)		n/m	n/m
Net gains (losses) on extinguishment of debt	0	4	30	n/m	-88%
Other net realized gains (losses)				n/m	n/m
Total revenues	70	24	61	n/m	-61%
Operating	102	24	31	n/m	-22%
Interest	66	69	75	-5%	-8%
Total expenses	168	93	106	79%	-12%

Pre-tax income (loss)	$ (98)	$ (69)	$ (45)	40%	54%

n/m Percentage change not meaningful.

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Net investment income decreased for the year ended December 31, 2010 compared with the same periods of 2009 and 2008 primarily as a result of a decrease in yields on invested assets and a decrease in the average balances of invested assets. The average balances of invested assets declined due to continued payments of interest on corporate debt and operating expenses in the absence of dividends from subsidiaries.

During the fourth quarter of 2010, the corporate segment made a capital contribution to the asset/liability products segment in the amount of $600 million in settlement of the full outstanding principal balance of the advance made to the asset/liability products segment during the fourth quarter of 2008. As a result, the asset/liability products segment will not make any future payments of principal or interest to the corporate segment under the loan. Interest income on the loan, included in net investment income, approximated $14 million for the year ended December 31, 2010.

Fees of $83 million for the year ended December 31, 2010 are due to general support services provided to business units within the Company on a fee-for-service basis.

Net losses on financial instruments at fair value and foreign exchange for all periods presented are primarily related to changes in the fair value of outstanding warrants issued on MBIA Inc. common stock. These changes were attributable to fluctuations in MBIA Inc. s stock price and volatility, which are used in the valuation of the warrants.

During 2009 and 2008, we repurchased $47 million and $127 million, respectively, of par value outstanding of corporate debt at a discount to carrying value and recognized net gains of $4 million and $30 million, respectively.

Corporate operating expenses increased for the year ended December 31, 2010 compared with the same period of 2009 primarily due to general and administrative expenses related to Optinuity. For the year ended December 31, 2009, corporate operating expenses decreased compared with 2008 primarily due to a decrease in legal costs of $6 million partially offset by an increase in the amount of directors and officers liability insurance expense allocated to this segment.

Wind-down Operations

We operate an asset/liability products business in which we historically issued debt and investment agreements insured by MBIA Corp. to capital markets and municipal investors. The proceeds of the debt and investment agreements were used initially to purchase assets that largely matched the duration of those liabilities. We also operate a conduit business in which we have funded transactions by issuing debt insured by MBIA Corp. The rating downgrades of MBIA Corp. resulted in the termination and collateralization of certain investment agreements and, together with the rising cost and declining availability of funding and illiquidity of many asset classes, caused the Company to begin winding down its asset/liability products and conduit businesses in 2008. Since the downgrades of MBIA Corp., we have not issued debt in connection with either business and we believe the outstanding liability balances and corresponding asset balances will continue to decline over time as liabilities mature, terminate, or are repurchased by us.

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Asset/Liability Products

The following tables present the results of our asset/liability products segment for years ended December 31, 2010, 2009 and 2008. These results include revenues and expenses from transactions with the Company s insurance and corporate operations.

In millions	Years Ended December 31, 2010	2009	2008	Percentage Change 2010 vs. 2009	2009 vs. 2008
Net investment income	$ 105	$ 190	$ 824	-45%	-77%
Fees and reimbursements		1	4	n/m	-61%
Net gains (losses) on financial instruments at fair value and foreign exchange	(76)	146	(701)	n/m	-121%
Net investment losses related to other-than-temporary impairments	(59)	(352)	(945)	-83%	-63%
Net gains (losses) on extinguishment of debt	36	203	341	-82%	-40%
Other net realized gains (losses)	0	4		-89%	n/m
Revenues of consolidated VIEs:					
Net investment income	(8)	0		n/m	n/m
Net gains (losses) on financial instruments at fair value and foreign exchange	42			n/m	n/m
Net investment losses related to other-than-temporary impairments		(13)		n/m	n/m
Total revenues	40	179	(477)	-77%	-138%
Operating	13	32	51	-58%	-38%
Interest expense	175	274	837	-36%	-67%
Expenses of consolidated VIEs:					
Operating		0		n/m	n/m
Interest	0	0		n/m	n/m
Total expenses	188	306	888	-38%	-66%
Pre-tax income (loss)	$ (148)	$ (127)	$ (1,365)	17%	-91%

n/m Percentage change not meaningful.

For the year ended December 31, 2010, the results of our asset/liability products segment were adversely affected by foreign exchange losses due to the increased value of predominantly Euro-denominated liabilities. Additionally, for the year ended December 31, 2010, net investment income and interest expense reflected the continued maturing of assets and liabilities, the repurchase of liabilities by the Company, and the impact of lower interest rates compared with the same periods in 2009 and 2008. We have observed stabilization in the performance of the assets held by the segment which has resulted in a decline in the level of net investment losses related to other-than-temporary impairments compared with 2009 and 2008.

As of December 31, 2010, principal and accrued interest outstanding on investment agreement and MTN obligations and securities sold under agreements to repurchase totaled $4.2 billion compared with $5.5 billion as of December 31, 2009. The decrease in these liabilities resulted from scheduled amortizations and repurchases of MTNs. In addition to investment agreements, MTNs and third-party repurchase agreements, as of December 31, 2010, the segment had a secured loan payable outstanding to MBIA Corp. of $975 million.

Cash and investments supporting the segment s liabilities, including intercompany liabilities, had market values plus accrued interest of $4.2 billion and $5.3 billion as of December 31, 2010 and December 31, 2009, respectively. These assets comprised securities with an average credit quality rating of A1. Additionally, receivables for securities sold net of payables for securities purchased were $8 million and $37 million as of December 31, 2010 and December 31, 2009, respectively. Refer to the Liquidity section included herein for a discussion about the liquidity position of the asset/liability products program.

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RESULTS OF OPERATIONS (continued)

Through MBIA Inc., the asset/liability products segment also entered into matched repurchase and reverse repurchase agreements with National. These agreements, collectively, provide high-quality collateral to the asset/liability products segment for up to $2.0 billion, which is then pledged to investment agreement counterparties, and low-risk investment portfolio yield enhancement to the U.S. public finance insurance segment. As of December 31, 2010, the fair value of collateral received from National under these agreements totaled $1.8 billion.

As of December 31, 2010, our asset/liability products segment had a deficit of cash, investments and other liquid assets at amortized cost to debt issued to third-parties and affiliates at amortized cost of approximately $330 million. In order to address this deficit, the Company is pursuing strategies such as investing in assets that produce higher yields and seeking to purchase liabilities at a discount, and may be required to pursue additional strategies such as raising capital to resolve the deficit. While the asset/liability products segment may receive further liquidity support from our corporate segment, there can be no assurance that such support would be adequate to meet all payment obligations.

Conduit

The following table presents the results of our conduit segment for the years ended December 31, 2010, 2009 and 2008. These results include revenues and expenses from transactions with the Company s insurance and corporate operations.

	Years Ended December 31,			Percentage Change	
In millions	**2010**	**2009**	**2008**	**2010 vs. 2009**	**2009 vs. 2008**
Net investment income	$ 0	$ 1	$ 0	n/m	n/m
Fees and reimbursements		0	3	n/m	n/m
Revenues of consolidated VIEs:					
Net investment income	18	18	110	-9%	-82%
Net gains (losses) on financial instruments at fair value and foreign exchange	9	(13)	(13)	n/m	3%
Net gains (losses) on extinguishment of debt	25	44		-43%	n/m
Total revenues	52	50	100	3%	-49%
Operating	0	2	2	-99%	29%
Expenses of consolidated VIEs:					
Operating	3	4	8	-11%	-53%
Interest	18	15	100	18%	-85%
Total expenses	21	21	110	0%	-80%
Pre-tax income (loss)	$ 31	$ 29	$ (10)	5%	n/m

n/m Percentage change not meaningful.

Our conduit segment is principally operated through Meridian and Triple-A One Funding, LLC (Triple-A One). Certain of MBIA s consolidated subsidiaries have invested in our conduit debt obligations or have received compensation for services provided to our conduits. As such, we have eliminated intercompany transactions with our conduits from our consolidated balance sheet and statement of operations. After the elimination of such intercompany assets and liabilities, conduit investments (including cash) and conduit debt obligations were $1.5 billion as of

December 31, 2010. As of December 31, 2009, conduit investments and conduit obligations after eliminations were $1.8 billion. The effect of these eliminations on the Company s consolidated balance sheet was a reduction of fixed-maturity investments, representing investments in conduit MTNs by other MBIA subsidiaries, with a corresponding reduction of conduit MTN liabilities.

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RESULTS OF OPERATIONS (continued)

Taxes

Provision for Income Taxes

The Company s income taxes and the related effective tax rates for the years ended December 31, 2010, 2009 and 2008 are as follows:

	Years Ended December 31,								
In millions		**2010**			**2009**			**2008**	
Pre-tax income (loss)	$	(95)		$	1,217		$	(3,727)	
Provision (benefit) for income taxes	$	(148)	155.8%	$	583	47.9%	$	(1,054)	28.3%

For the year ended December 31, 2010, the Company s effective tax rate applied to our pre-tax loss was higher than the statutory tax rate of 35% as a result of a reversal of a portion of our valuation allowance and tax-exempt interest income from investments.

For the year ended December 31, 2009, the Company s effective tax rate applied to our pre-tax income was higher than the statutory tax rate of 35% primarily due to an increase in our valuation allowance.

For the year ended December 31, 2008, the effective tax rate applied to our pre-tax loss was lower than the statutory tax rate of 35% primarily due to the establishment of a valuation allowance of $351 million against our deferred tax asset, partially offset by tax-exempt interest income from investments.

Five-Year NOL Carryback

The *Worker, Homeownership, and Business Assistance Act of 2009* expanded the number of tax years to which a net operating loss (NOL) can be carried back from two to five. Corporations with NOLs in either 2008 or 2009 (but not both) can elect to carryback NOL s and claim refunds of taxes paid in the prior five years, the only limitation being that in the fifth preceding year of the carryback period, the recovery is being limited to 50% of taxable income for that carryback year. There is no such limitation to the first four preceding years of the carryback period. MBIA Inc. elected to carryback its 2009 NOL to the fifth preceding tax year and the tax years thereafter and expects to recover a total of approximately $432 million in taxes paid during the carryback period. The Company received an initial refund of $391 million in the second quarter of 2010 and the refund was allocated, in accordance with the Company s tax sharing agreement, in the following manner: $137 million to MBIA Inc., $251 million to MBIA Corp., and $3 million to National. Prior to year end, the Company filed a supplemental claim for refund with respect to additional 2009 carryback losses reported on its final and superseding 2009 tax return. The additional refund of approximately $41 million will be allocated amongst the members of the MBIA group at the time the refund is received.

Refer to Note 14: Income Taxes in the Notes to Consolidated Financial Statements for a further discussion of income taxes, including the Company s Section 382 position, the valuation allowance against deferred tax assets and its accounting for tax uncertainties.

CAPITAL RESOURCES

The Company manages its capital resources to minimize its cost of capital while maintaining appropriate claims-paying resources for National and MBIA Corp. The Company s capital resources consist of total shareholders equity, total debt issued by MBIA Inc. for general corporate purposes, and surplus notes issued by MBIA Insurance Corporation. Total capital resources were $4.7 billion and $4.6 billion as of December 31, 2010 and 2009, respectively. MBIA Inc. utilizes its capital resources to support the business activities of its subsidiaries. As of December 31, 2010, MBIA Inc. s investments in subsidiaries totaled $4.5 billion, and its asset/liability management business had negative shareholder s equity of $743 million.

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CAPITAL RESOURCES (continued)

Securities Repurchases

Repurchases of debt and/or common stock may be made from time to time in the open market or in private transactions as permitted by securities laws and other legal requirements. We believe that debt and/or share repurchases can be an appropriate deployment of capital in excess of amounts needed to support our liquidity while maintaining the claims-paying resources of MBIA Corp. and National as well as other business needs.

For the year ended December 31, 2010, we repurchased 4.7 million common shares of MBIA Inc. under our share repurchase program at a cost of $31 million and an average price of $6.44 per share. As of December 31, 2010, $73 million was available for future repurchases under the program.

For the year ended December 31, 2010, we repurchased $26 million of MBIA Inc. 9.375% corporate debt maturing in February 2011 at a cost of $25.78 million. We repurchased $122 million of GFL medium-term notes at a cost of $86 million. We repurchased $190 million of Meridian debt at a cost of $165 million.

During 2010, MBIA Inc. repurchased 251 shares of the outstanding preferred stock of MBIA Insurance Corporation at a weighted average purchase price of approximately $10,400 per share or 10.4% of the face value. As of December 31, 2010, on a consolidated basis, 1,426 shares of preferred stock of MBIA Insurance Corporation remained outstanding to unaffiliated investors with a carrying value of $14 million.

Insurance Statutory Capital

National and MBIA Corp. are incorporated and licensed in, and are subject to primary insurance regulation and supervision by, the State of New York. National and MBIA Corp. each are required to file detailed annual financial statements, as well as interim financial statements, with the New York State Insurance Department (NYSID) and similar supervisory agencies in each of the other jurisdictions in which it is licensed. These financial statements are prepared in accordance with New York State and the National Association of Insurance Commissioners statements of statutory accounting principles (U.S. STAT) and assist our regulators in evaluating minimum standards of solvency, including minimum capital requirements, and business conduct. U.S. STAT differs from U.S. GAAP in a number of ways. Refer to the statutory accounting practices note to the financial statements of National and MBIA Corp. within exhibits 99.2 and 99.3, respectively, of this annual report on Form 10-K for an explanation of the differences between U.S. STAT and U.S. GAAP.

National

Capital and Surplus

National reported total statutory capital of $2.4 billion as of December 31, 2010 compared with $2.0 billion as of December 31, 2009. As of December 31, 2010, statutory capital comprised $1.5 billion of contingency reserves and $0.9 billion of policyholders surplus. The increase in National s statutory capital is primarily due to statutory net income of $409 million in 2010. Consistent with our plan to transform our insurance business, the Company received approval from the NYSID to reset National s unassigned surplus to zero, which was effective January 1, 2010. As of December 31, 2010, National s unassigned surplus was $318 million. In October 2010, the plaintiffs in the litigation challenging the establishment of National initiated a court proceeding challenging the approval of the surplus reset. Refer to Legal Proceedings Transformation Litigation in Part I, Item 3 of this Form 10-K for a discussion of this action.

National s total statutory capital as of March 31, 2010 and December 31, 2009 was reported as $2.1 billion and $2.0 billion, respectively, in the Company s Quarterly Report on Form 10-Q for the quarter ended March 31, 2010, and remained relatively unchanged as a result of certain updates described in the Company s Current Report on Form 8-K filed on June 4, 2010.

In order to maintain its New York State financial guarantee insurance license, National is required to maintain a minimum of $65 million of policyholders surplus. National s policyholders surplus was $908 million as of December 31, 2010. National s policyholders surplus will grow over time from the recognition of unearned premiums and investment income and the expected release of the contingency reserves. Conversely, incurred losses would reduce policyholders surplus.

Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations

CAPITAL RESOURCES (continued)

National s statutory policyholders surplus was lower than its GAAP shareholder s equity by $2.2 billion as of December 31, 2010. Statutory accounting principles differ from GAAP in certain respects. For National, the significant differences include the following: contingency reserves are recorded on a statutory basis and not on a GAAP basis; upfront and installment premium revenue are earned under different schedules between U.S. STAT and GAAP; acquisition costs are charged as incurred under U.S. STAT rather than deferred and amortized under GAAP; changes in deferred income tax balances are recognized in surplus under U.S. STAT rather than recognized either in net income or other comprehensive income under GAAP; and non-admitted assets are charged directly against surplus under U.S. STAT but are reflected as assets under GAAP.

Claims-Paying Resources (Statutory Basis)

Claims-paying resources (CPR) is a key measure of the resources available to National to pay claims under its insurance policies. CPR consists of total financial resources and reserves calculated on a statutory basis. CPR has been a common measure used by financial guarantee insurance companies to report and compare resources, and continues to be used by MBIA s management to evaluate changes in such resources. We have provided CPR to allow investors and analysts to evaluate National using the same measure that MBIA s management uses to evaluate National s resources to pay claims under its insurance policies. There is no directly comparable GAAP measure.

National s CPR, and components thereto, as of December 31, 2010 and 2009 are presented in the following table:

	As of December 31,	
In millions	**2010**	**2009**
Policyholders surplus	$ 908	$ 591
Contingency reserves	1,473	1,404
Statutory capital	2,381	1,995
Unearned premium reserve	2,873	3,126
Present value of installment premiums(1)	282	270
Premium resources(2)	3,155	3,396
Loss and LAE reserves(1)	96	136
Total claims-paying resources	$ 5,632	$ 5,527

(1) Calculated using a discount rate of 4.19% and 5.09% as of December 31, 2010 and 2009, respectively.

(2) Includes financial guarantee and insured credit derivative related premiums.

National s total CPR as of December 31, 2010 was $5.6 billion compared with $5.5 billion as of December 31, 2009. The increase in CPR is primarily due to an increase in total earned and unearned premiums from the commutation of reinsurance with Channel Re and the impact of net investment income, partially offset by paid losses.

MBIA Corp.

Capital and Surplus

MBIA Corp. reported total statutory capital of $2.7 billion as of December 31, 2010 compared with $3.3 billion as of December 31, 2009. As of December 31, 2010, statutory capital comprised $1.7 billion of contingency reserves and $1.0 billion of policyholders surplus. The decrease in MBIA Corp. s statutory capital was primarily due to losses incurred, partially offset by premium revenue, gains from reinsurance commutations, and other revenues during 2010. MBIA Corp. s policyholders surplus as of December 31, 2010 includes a negative unassigned surplus of $947 million. MBIA Corp. s total statutory capital as of March 31, 2010 and December 31, 2009 was reported as $3.5 billion in the Company s Quarterly Report on Form 10-Q for the quarter ended March 31, 2010, but was revised to $3.3 billion for both periods as a result of certain updates described in the Company s Current Report on Form 8-K filed on June 4, 2010.

Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations

CAPITAL RESOURCES (continued)

As of December 31, 2010, MBIA Corp. recognized estimated recoveries of $1.6 billion, net of reinsurance and income tax, on a statutory basis related to put-backs of ineligible loans in our insured transactions. These expected insurance recoveries represented 59% of MBIA Corp. s statutory capital (defined as policyholders surplus plus contingency reserve) as of December 31, 2010. A substantial majority of our put-back claims have been disputed by the loan sellers/servicers and are currently subject to litigation. In addition, there is some risk that the sellers/servicers or other responsible parties might not be able to satisfy their put-back obligations. While we believe that we will prevail in enforcing our contractual rights, there is uncertainty with respect to the ultimate outcome. Such factors, among others, are considered by MBIA Corp. in estimating recoveries. There can be no assurance that we will be successful or that we will not be delayed in realizing these recoveries. If we are unsuccessful in litigation or if there is a substantial delay in realizing recoveries, there could be an adverse effect on the statutory capital position of MBIA Corp., as well as regulatory implications.

In order to maintain its New York State financial guarantee insurance license, MBIA Corp. is required to maintain a minimum of $65 million of policyholders surplus. MBIA Corp. s policyholders surplus was $1.0 billion as of December 31, 2010. MBIA Corp. s policyholders surplus will grow over time from the recognition of unearned premiums and investment income and the expected release of the contingency reserves. In addition, MBIA Corp. s policyholders surplus position could be enhanced by the settlement, commutation or repurchase of insured transactions at prices less than statutory loss reserves. Conversely, incurred losses or an inability to collect on our ineligible loan put-back claims would reduce policyholders surplus.

MBIA Corp. s statutory policyholders surplus is lower than its GAAP shareholder s equity by $136 million as of December 31, 2010. Statutory accounting principles differ from GAAP in certain respects. For MBIA Corp., the significant differences include the following: the fair values of insured credit derivatives recorded under GAAP are significantly higher than the loss reserves recorded for those same contingent liabilities in our statutory accounts; the shareholder s equity impact of our consolidated VIEs is more negative than the loss reserves we carry on our statutory books for those policies; surplus notes are recorded as a component of policyholders surplus under U.S. STAT rather than treated as long-term debt under GAAP; contingency reserves are recorded on a statutory basis and not on a GAAP basis; upfront and installment premium revenue are earned under different schedules for U.S. STAT and GAAP; acquisition costs are charged as incurred under U.S. STAT rather than deferred and amortized under GAAP; fixed-maturity investments are generally reported at amortized cost under U.S. STAT rather than at fair value under GAAP; the discount rate used in calculating loss reserves is equal to MBIA Corp. s book yield under U.S. STAT rather than applicable risk-free rates under GAAP; changes in deferred income tax balances are recognized in surplus under U.S. STAT rather than recognized either in net income or other comprehensive income under GAAP; and non-admitted assets are charged directly against surplus under U.S. STAT but are reflected as assets under GAAP.

Claims-Paying Resources (Statutory Basis)

CPR is a key measure of the resources available to MBIA Corp. to pay claims under its insurance policies. CPR consists of total financial resources and reserves calculated on a statutory basis. CPR has been a common measure used by financial guarantee insurance companies to report and compare resources, and continues to be used by MBIA s management to evaluate changes in such resources. We have provided CPR to allow investors and analysts to evaluate MBIA Corp. using the same measure that MBIA s management uses to evaluate MBIA Corp. s resources to pay claims under its insurance policies. There is no directly comparable GAAP measure.

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CAPITAL RESOURCES (continued)

MBIA Corp. s CPR, and components thereto, as of December 31, 2010 and 2009 are presented in the following table:

	As of December 31,	
In millions	**2010**	**2009**
Policyholders surplus	$ 1,075	$ 1,885
Contingency reserves	1,656	1,448
Statutory capital	2,731	3,333
Unearned premium reserve	703	726
Present value of installment premiums(1)	1,655	1,740
Premium resources(2)	2,358	2,466
Loss and LAE reserves(1)	155	561
Total claims-paying resources	$ 5,244	$ 6,360

(1) Calculated using a discount rate of 5.93% and 6.51% as of December 31, 2010 and 2009, respectively.

(2) Includes financial guarantee and insured credit derivative related premiums.

MBIA Corp. s total CPR as of December 31, 2010 was $5.2 billion compared with $6.4 billion as of December 31, 2009. The decrease in CPR is primarily due to loss payments associated with our RMBS securities, commutation payments, and a reduction in expected future premium collections. As of December 31, 2010, loss and LAE reserves are in a receivable position as expected recoveries on our insured RMBS transactions more than offset case basis reserves on the remainder of MBIA Corp. s insured portfolio.

LIQUIDITY

Liquidity risk is the risk that an enterprise will not have sufficient resources to meet contractual payment obligations when due. Management of liquidity risk is of critical importance to financial services companies, and failures of financial institutions often occur in large part due to their inability to maintain sufficient liquidity resources under adverse circumstances. Generally, failure to maintain an appropriate liquidity position results from an enterprise s inability to access the capital markets, a lack of adequate cash flow from operations or investing activities, inability to liquidate assets and/or an unexpected acceleration of payments to settle liabilities. We encounter significant liquidity risk in our insurance businesses, asset/liability products business and corporate operations.

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

As part of our liquidity risk management framework, we also seek to evaluate and manage liquidity on both a legal entity basis and a segment basis. Legal entity liquidity is an important consideration as there are legal, regulatory and other limitations on our ability to utilize the liquidity resources within the overall enterprise. We also seek to manage segment liquidity, particularly between our corporate and asset/liability products segments as they relate to MBIA. Unexpected loss payments arising from ineligible mortgage loans in securitizations that we have insured, dislocation in the global financial markets, the overall economic downturn in the U.S., and the loss of our triple-A insurance financial strength ratings in 2008 significantly increased the liquidity needs and decreased the financial flexibility in our segments and legal entities. We continued to satisfy all of our payment obligations and we believe that we have adequate resources to meet our ongoing liquidity needs in both the short-term and the long-term. However, the Company could face additional liquidity pressure in all of its operations and businesses through increased liquidity demands or a decrease in its liquidity supply if (i) loss payments on the Company s insured transactions were to rise significantly, including due to ineligible mortgage loans in securitizations that we have

Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations

LIQUIDITY (continued)

insured, (ii) market or adverse economic conditions persist for an extended period of time or worsen, (iii) the Company is unable to sell assets at values necessary to satisfy payment obligations or is unable to access new capital through the issuance of equity or debt, (iv) the Company experiences an unexpected acceleration of payments required to settle liabilities or (v) if the Company is unable to collect or is delayed in collecting on contract claim recoveries related to ineligible mortgages in securitizations. These pressures could arise from exposures beyond residential mortgage-related stress, which to date has been the main cause of stress.

A substantial majority of our put-back claims have been disputed by the loan sellers/servicers and are currently subject to litigation. In addition, there is some risk that the sellers/servicers or other responsible parties might not be able to satisfy any judgment we secure in a litigation. There can be no assurance that we will be successful or that we will not be delayed in realizing these recoveries.

U.S. Public Finance Insurance Liquidity

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

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

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

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

Since inception, National, the entity from which we conduct our U.S. public finance insurance business, has generated positive cash flow from operations, and its cash outflows have been relatively stable and predictable. National held cash and short-term investments of $355 million as of December 31, 2010, of which $290 million was highly liquid and consisted predominately of highly rated municipal, U.S. agency and corporate bonds. In addition, the remainder of National s investments, excluding those pledged to our asset/liability products business under the matched repurchase and reverse repurchase agreements, are also liquid and highly rated. The Company believes that the liquidity position of its U.S. public finance insurance segment is sufficient to meet cash requirements in the ordinary course of business.

Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations

LIQUIDITY (continued)

Structured Finance and International Insurance Liquidity

Liquidity risk arises in our structured finance and international insurance segment when claims on insured exposures result in payment obligations, when operating cash inflows fall due to depressed new business writings, when investment income decreases, when unanticipated expenses arise, or when invested assets experience credit defaults or significant declines in fair value.

As a result of the transaction executed with Channel Re and its previous shareholders in the third quarter of 2010, MBIA Corp. acquired a substantial portion of the assets previously held by Channel Re. These assets consist primarily of U.S. Treasury and high quality corporate bonds which can readily be sold to raise liquidity at MBIA Corp. The transaction also resulted in an increase in MBIA Corp. s statutory capital position. The Company also engaged in several transactions and the early prepayment of an intercompany loan to the asset/liability products segment to increase liquidity in MBIA Corp. As a result, after $1.8 billion of claim payments in 2010, MBIA Corp. ended the year with a greater amount of liquid assets than it held at year-end 2009.

Since the fourth quarter of 2007 through December 31, 2010, MBIA Corp. has made $7.6 billion of cash payments, before reinsurance and collections and including payments made to debt holders of consolidated VIEs, associated with RMBS securitizations and commutations and claim payments relating to CDS contracts referencing CDO-squared, multi-sector CDOs, CMBS pools and CRE CDOs. These cash payments include loss payments of $461 million made in 2010 on behalf of MBIA Corp. s consolidated VIEs. The total gross insured exposure associated with the commuted insured obligations was $24.7 billion and related to ABS CDOs, CRE CDOs, CMBS pools and high yield corporate CDOs. In MBIA Corp. s outstanding insured portfolio, these types of insured exposures have exhibited the highest degree of payment volatility and continue to pose material liquidity risk to MBIA Corp. As a result of the placement of ineligible loans in RMBS securitizations and current economic stress, MBIA Corp. could incur additional payment obligations beyond these mortgage-related exposures, which may be substantial, increasing the stress on its liquidity position.

Of the $7.6 billion, MBIA Corp. has paid $5.5 billion of claims on policies insuring second-lien RMBS securitizations. We believe these payments were driven primarily by an overwhelming number of ineligible mortgage loans being placed in the securitizations in breach of the representations and warranties of the sellers/servicers. As a result, payments have been far in excess of the level that might be expected in an economic downturn. As a result of the unprecedented and unexpected mortgage loan defaults driven by placement of ineligible loans in RMBS securitizations, MBIA could incur payment obligations beyond its current estimate. MBIA is seeking to enforce its rights to have mortgage sellers/servicers cure, replace or repurchase ineligible loans from securitizations and has recorded a total of $2.5 billion of related recoveries on its statutory balance sheet. These recoveries are being pursued through litigation discussed more fully in Note 24: Commitments and Contingencies in the Notes to Consolidated Financial Statements.

The Company believes the current liquidity position of MBIA Corp. is adequate to make expected future payments on its RMBS exposures, but the degree of loss within these transactions has been unprecedented, and continued elevated levels of payments would cause additional stress on MBIA s liquidity position.

There are three primary types of policy payment requirements in our structured finance and international financial guarantee contracts: (i) timely interest and ultimate principal; (ii) ultimate principal only at final maturity; and (iii) payments upon settlement of individual collateral losses as they occur after any deductible or subordination has been exhausted. As in our U.S. public finance business, our structured finance and international insurance segment s financial guarantee contracts and CDS contracts generally cannot be accelerated, thereby mitigating liquidity risk. However, with respect to the insurance of CDS contracts, in certain events, including the insolvency or payment default of the insurer or the issuer of the CDS, the CDS contract may be subject to termination by the counterparty, triggering a claim for the fair value of the contract. Further, in the event of a default in payment of principal, interest or other insured amounts by an insured issuer, our structured finance and international insurance companies generally promise to make funds available in the insured amount generally on the next business day following notification for U.S. transactions and within longer timeframes for international transactions, depending on the terms of the insurance policy. Our structured finance and international insurance

Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations

LIQUIDITY (continued)

companies provide for this payment, in some cases through a third-party bank, upon receipt of proof of ownership of the obligations due, as well as upon receipt of instruments appointing the insurer as agent for the holders and evidencing the assignment of the rights of the holders with respect to the payments made by the insurer or other appropriate documentation.

Additionally, our structured finance and international insurance segment requires cash for the payment of operating expenses, as well as principal and interest related to its surplus notes. MBIA Corp. also provides guarantees to the holders of our asset/liability products debt obligations. If our asset/liability products segment or MBIA Inc. were unable to service the principal and interest payments on its debt and investment agreements, the holders of the insured liabilities would make a claim under the MBIA Corp. insurance policies. MBIA Corp. has lent $2.0 billion to the asset/liability products segment on a secured basis for the purpose of minimizing the risk that such a claim would be made. The loan matures in the fourth quarter of 2011. During 2010, a total of $625 million was repaid and the amount outstanding was $975 million as of December 31, 2010.

In order to monitor liquidity risk and maintain appropriate liquidity resources for payments associated with our residential mortgage-related exposures, MBIA employs a stress scenario-based liquidity model using the same Roll Rate Methodology as described in Note 6: Loss and Loss Adjustment Expense Reserves in the Notes to Consolidated Financial Statements. Using this methodology, the Company estimates the level of payments that would be required to be made under stress-level default assumptions of the underlying collateral taking into account MBIA s obligation to cover such defaults under our insurance policies. These estimated payments, together with all other significant operating, financing and investing cash flows are forecasted on a monthly basis for a period covering (i) the next 24-months and (ii) then annually thereafter to the final maturity of the longest dated outstanding insured obligation. The stress-loss scenarios and cash flow forecasts are periodically updated to account for changes in risk factors and to reconcile differences between forecasted and actual payments.

In addition to our residential mortgage stress scenario, we also monitor liquidity risk using a Monte Carlo estimation of potential stress-level claims for insured principal and interest payments due in the next 12-month period. These probabilistically determined payments are then compared to the Company s invested assets. This theoretic liquidity model supplements the scenario-based liquidity model previously described.

The Company manages the liquidity of its structured finance and international insurance segment with the goal of maintaining cash and liquid securities in an amount in excess of all projected stress scenario payment requirements. To the extent our projected liquidity resources fall short of our target liquidity cushions under the stress-loss scenario testing in the future, the Company will seek to increase its cash holdings position by selling or financing assets in its investment portfolio or drawing upon one or more of its contingent sources of liquidity. The Company s contingent liquidity sources may include cash, investments, other assets owned by its various regulated and unregulated subsidiaries, and capital markets access. Access to this contingent liquidity by a particular legal entity generally involves the transfer and/or sale of such assets and the need for regulatory or third party approvals prior to their transfer and/or sale and are, therefore, contingent on the receipt of such approvals, among other things. There can be no assurance that such approvals will be received.

As of December 31, 2010, MBIA Corp. had unencumbered cash and available-for-sale investments of $2.4 billion, of which $1.2 billion comprised cash and highly liquid assets of MBIA Insurance Corporation (without regard to its investments in its subsidiaries). The $1.2 billion of cash and highly liquid assets include the benefit of cash and highly liquid assets received from the acquisition of Channel Re in the third quarter of 2010. Additionally, in aggregate, we believe the Company s remaining contingent sources of liquidity accessible within one to three months totaled approximately $228 million as of December 31, 2010. We believe that MBIA Corp. s liquidity resources will adequately provide for anticipated cash outflows.

Corporate Liquidity

Liquidity needs in our corporate segment are generally predictable and primarily relate to certain activities of MBIA Inc., such as principal and interest payments on corporate debt and operating expenses. In addition to MBIA Inc. s corporate liquidity needs, it issued investment agreements and MTNs reported within the Company s asset/liability products segment, all of which are currently collateralized by high-quality liquid investments. Refer to the Asset/Liability Products Liquidity section below for a detailed discussion of the liquidity risks associated with that business.

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Liquidity risk in our corporate segment is associated primarily with the dividend capacity of our insurance subsidiaries, National and MBIA Insurance Corporation, dividends from asset management subsidiaries, investment income and our ability to issue equity and debt. To mitigate this risk, the corporate segment maintains excess cash and investments to support its ongoing cash requirements over a multi-year period.

As of December 31, 2010, the corporate activities of MBIA Inc. had $335 million of cash and highly liquid assets available for general corporate liquidity purposes. Existing cash and expected cash flows to the corporate segment are anticipated to be sufficient to cover cash needs through 2014 even if no further dividends are received from insurance, asset management or advisory subsidiaries. In December 2010, MBIA Inc. submitted a refund claim for $41 million related to the carry back of its additional 2009 NOL. The refund was received in January 2011. In addition, the Company expects a $4.5 million refund from the State of New York as a result of filing its 2009 New York State franchise tax return. As of December 31, 2010, corporate debt of MBIA Inc. totaled $971 million, which primarily matures in 2022 through 2034, and the annual interest payments associated with this debt prior to 2022 are approximately $55 million.

The Company s corporate debt, investment agreements, MTNs, and derivatives may be accelerated by the holders of such instruments upon the occurrence of certain events, such as a breach of covenant or representation, a bankruptcy of MBIA Inc. or the filing of an insolvency proceeding in respect to MBIA Corp. MBIA Inc. s obligations under its loans from GFL may only be accelerated upon the occurrence of a bankruptcy or liquidation of MBIA Inc. Refer to Note 15: Business Segments in the Notes to Consolidated Financial Statements for a description of the GFL loans. In the event of any acceleration of the Company s obligations, including under its corporate debt, investment agreements, MTNs, or derivatives, the Company likely would not have sufficient liquid resources to pay amounts due with respect to its corporate debt and other obligations.

The Company has also issued commitments to three pooled investment programs managed or administered by Cutwater-ISC and its subsidiary. As of December 31, 2010, these commitments had a notional amount of $4.2 billion. Although the pooled investment programs hold high-quality short-term investments, there is risk that the Company will be required to make payments or incur a loss under these guarantees in the event of material redemptions by shareholders of the pools and the need to liquidate investments held in the pools. Refer to the Results of Operations Advisory Services section included herein for a description of the pooled investment programs.

National and MBIA Corp. Dividends

Under New York State insurance law, without prior approval of the Superintendent of the NYSID, financial guarantee insurance companies can pay dividends from earned surplus subject to retaining a minimum capital requirement. The payment of regular dividends in any 12-month period is limited to the lesser of (i) 10% of policyholders surplus as reported in the latest filed statutory financial statements and (ii) 100% of adjusted net investment income. MBIA Corp. is currently unable to pay dividends, including dividends on its preferred stock, due to earned surplus deficits per its statutory financial statement filing as of December 31, 2010.

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. As such, National is subject to New York State insurance law with respect to the payment of dividends as described above. During the second quarter of 2010, National received approval from the NYSID to reset its unassigned surplus to zero as of January 1, 2010. Previously, National had an unassigned surplus deficit principally as a result of the 2009 reinsurance transaction between National and MBIA Corp. whereby National reinsured MBIA Corp. s U.S. public finance business. Under New York State insurance law, without prior approval of the Superintendent of the NYSID, financial guarantee insurance companies can pay dividends from earned surplus, which is a component of unassigned surplus, subject to meeting minimum capital requirements. The reset provides National with dividend capacity of $91 million as of December 31, 2010. However, at the current time we do not intend to declare dividends. In October, 2010, the plaintiffs in the litigation challenging the establishment of National initiated a court proceeding challenging the approval of the surplus reset. Refer to Legal Proceedings Transformation Litigation in Part I, Item 3 of this Form 10-K for a discussion of this action.

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Cutwater Dividends

During 2010, as a result of a review of its ongoing capitalization needs, Cutwater declared and paid cash dividends of $19 million to MBIA Inc. In the future, we expect that Cutwater will be able to pay dividends to the holding company out of its retained earnings, although there can be no assurance that it will have adequate profitability or that dividends will be paid.

Asset/Liability Products Liquidity

Our asset/liability products segment is subject to material liquidity risk. Cash needs in the asset/liability products segment are primarily for the payment of principal and interest on investment agreements and MTNs, and for posting collateral under repurchase agreements, derivatives and investment agreements, as well as for the payment of operating expenses. The primary sources of cash within the asset/liability products segment used to meet its liquidity needs include scheduled principal and interest on assets held in the segment s investment portfolio and unencumbered assets, including cash held within the wind-down operations that is not required for posting against any of its liabilities. If needed, assets held within the segment can be sold or used in secured repurchase agreement borrowings to raise cash. However, our ability to sell assets or borrow against non-U.S. government securities in the fixed-income markets decreased dramatically and the cost of such transactions increased dramatically over the last two years due to the impact of the credit crisis on the willingness of investors to purchase or lend against even very high-quality assets. In addition, negative net interest spread between asset and liability positions resulted from the need to hold cash as collateral against terminable investment agreement contracts and reduced the cash flow historically provided by net investment income.

In order to monitor liquidity risk and maintain appropriate liquidity resources for near-term cash and collateral requirements within our asset/liability products segment, the Company seeks to calculate monthly forecasts of asset and liability maturities, as well as collateral posting requirements. Cash availability at the low point of our 12-month forecasted cash flows is measured against liquidity needs using stress-scenario testing of each of the potential liquidity needs described above. To the extent there is a shortfall in our liquidity coverage, the Company seeks to manage its cash position and liquidity resources with a goal of maintaining an adequate cushion to the stress scenario. These resources include the sale or pledging of unencumbered assets, the use of free cash within the asset/liability products segment and at the corporate segment level, and potentially increased securities borrowings from National. There can be no assurance that these resources will be adequate to meet a short-fall in liquidity coverage under a stress-scenario.

The asset/liability products segment, through MBIA Inc., maintained simultaneous repurchase and reverse repurchase agreements (Asset Swap) with National for up to $2.0 billion based on the fair value of securities borrowed. As of December 31, 2010, the fair value of security borrowings under these agreements totaled $1.8 billion. The asset/liability products segment has collateralized these security borrowings with assets rated BBB or better and having an aggregate fair value in excess of the securities borrowed. The NYSID approved the Asset Swap in connection with the re-domestication of National to New York. National has agreed to use good faith efforts to reduce the amount of the Asset Swap to no more than 10% of its admitted assets by no later than December 2011.

During the fourth quarter of 2010, the corporate segment made a capital contribution to the asset/liability products segment in the amount of $600 million in settlement of the full outstanding principal balance of the advance made to the segment during the fourth quarter of 2008. Between the fourth quarter of 2008 and the fourth quarter of 2010, we believed that debt repurchases by the asset/liability products segment would enable the segment to eliminate its book value equity deficit and generate excess net assets to repay the $600 million loan. As of December 31, 2010, we do not expect sufficient gains from debt repurchases to repay the loan. As a result, the asset/liability products segment will not make any future payments of principal or interest to the corporate segment under the loan. Other liquidity support outstanding as of December 31, 2010 included a secured loan between MBIA Inc. and MBIA Corp. for up to $2.0 billion, under which $975 million was outstanding as of December 31, 2010 and a repurchase agreement between the asset/liability products segment (through MBIA Inc.) and the conduit segment (through Meridian) for up to $1 billion, under which $50 million was

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outstanding as of December 31, 2010. As of December 31, 2010, including the $2.0 billion of intercompany resources, the asset/liability products segment had cash and investments of $4.2 billion and receivables for securities sold net of payables for securities purchased of $8 million.

Following the Moody s downgrade of MBIA Corp. to Baa1 in November 2008, most outstanding investment agreements were terminated in accordance with their terms. As of December 31, 2010, we had $4.2 billion in remaining third-party liabilities related to our asset/liability products business, of which $2.0 billion were investment agreements. All of the investment agreements were collateralized by cash or high-grade securities. We believe the asset/liability products program has adequate cash and highly liquid securities to retire all remaining investment agreements where holders have a right to terminate. The remaining $2.2 billion in liabilities consist of MTNs issued by GFL and term repurchase agreements. We believe no additional collateral or termination provisions would be triggered in the event of a further downgrade of MBIA Corp. s credit rating. Payments and additional collateral requirements on the liabilities in the asset/liability products segment are expected to be met without the need for additional asset sales in the current stressed credit environment but rather from cash flows from investments and the intercompany facilities described above.

As of December 31, 2010, the asset/liability products segment held $781 million in cash and short-term investments of which $239 million was free cash not pledged as collateral against its liabilities.

The Company has managed the asset/liability products segment within a number of risk and liquidity parameters and maintains cash and liquidity resources that it believes will be sufficient in the near term to make all payments due on the investment agreement and GFL MTN obligations and to meet other financial requirements such as posting collateral and paying operating expenses. However, to the extent we experience further asset impairments, asset or liability cash flow variability or reductions in the market value or rating eligibility of assets pledged as collateral, we may have insufficient resources to meet any increase in collateral margin requirements on guaranteed investment contracts or intercompany and third party liquidity or swap arrangements. In such events, we may be forced to sell additional assets at potentially substantial losses to meet such obligations. In addition, as a result of a deficit in this business of cash, investments and other liquid assets at amortized cost to debt issued to third parties and affiliates at amortized cost, which deficit is expected to increase as a result of the negative spread in the portfolio, we may have insufficient assets to make all payments due on the investment agreement and GFL MTN obligations as they come due. In order to address this deficit, the Company is pursuing strategies such as investing in assets that produce higher yields and seeking to purchase liabilities at a discount, and may be required to pursue additional strategies such as raising capital to resolve the deficit. While the asset/liability products segment may receive further liquidity support from our corporate segment, there can be no assurance that such support would be adequate to meet all payment obligations.

Consolidated Cash Flows

Operating Cash Flows

For the year ended December 31, 2010, net cash used by operating activities totaled $1.3 billion compared with $2.2 billion for the same period of 2009. The Company s net use of cash in 2010 and 2009 were largely related to loss payments on financial guarantee insurance policies insuring RMBS exposure and payments for commutations of financial guarantee and CDS contracts, partially offset by a tax refund related to our NOL carry back recovery and recoveries received in connection with our commutation of reinsurance with Channel Re. Cash from operating activities was also adversely impacted by a decrease in net investment income and premium collections, net of premiums received related to the commutation of reinsurance with Channel Re. We believe that we have sufficient cash on hand, liquid assets and future cash receipts to satisfy expected claims payments and other expenses in the future.

Investing Cash Flows

For the years ended December 31, 2010 and 2009, net cash provided by investing activities was $5.0 billion. Net cash provided by investing activities in 2010 resulted from sales and redemptions of securities for purposes of funding insurance-related loss payments, investment agreement withdrawals, and repayments of other debt, as

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well as cash recognized in the consolidation of VIEs. In 2009, net cash provided by investing activities resulted from sales of securities for purposes of funding investment agreement withdrawals and terminations, MTN maturities and repurchases, and improving liquidity in our business segments.

Financing Cash Flows

For the year ended December 31, 2010, net cash used by financing activities was $3.4 billion compared with $4.3 billion for the same period of 2009. Net cash used by financing activities in 2010 principally related to withdrawals of investment agreements, principal payments on VIE notes and payments for the retirement of debt. In 2009, net cash used by financing activities principally related to withdrawals and terminations of investment agreements and maturities and repurchases of MTNs within our asset/liability products segment.

Credit Facilities

Triple-A One, an MBIA-administered multi-seller conduit consolidated in the Company s conduit segment, historically issued commercial paper to fund assets, which were insured by MBIA Corp. Triple-A One also maintained backstop liquidity facilities covering 100% of the face amount of commercial paper outstanding. During 2008, conditions in the asset-backed commercial paper market deteriorated making it increasingly difficult for Triple-A One to issue new commercial paper at commercially acceptable rates to repay maturing obligations. Accordingly, Triple-A One borrowed under its liquidity facilities to repay maturing commercial paper. MBIA Corp. s obligations under the financial guarantee policies issued by MBIA Corp. to insure the assets of Triple-A One cannot be accelerated to repay borrowings under the liquidity facilities and these policies only guarantee ultimate payments over time relating to the assets. By September 2008, these facilities were drawn in full and Triple-A One ceased issuing commercial paper. As of December 31, 2010, borrowings under liquidity facilities totaled $360 million and will be repaid as the assets purchased by Triple-A One mature.

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Investments

The following discussion of investments, including references to consolidated investments, excludes cash and investments reported under Assets of consolidated variable interest entities on our consolidated balance sheets. Cash and investments of VIEs support the repayment of VIE obligations and are not available to settle obligations of MBIA.

Our available-for-sale investments comprise high-quality fixed-income securities and short-term investments. As of December 31, 2010 and 2009 the fair value of our consolidated available-for-sale investments was $11.9 billion and $12.8 billion, respectively, as presented in the following table. Additionally, consolidated cash and cash equivalents as of December 31, 2010 and 2009 were $366 million and $803 million, respectively.

	As of December 31,		Percent Change
In millions	**2010**	**2009**	**2010 vs. 2009**
Available-for-sale investments:			
U.S. public finance insurance operations segment			
Amortized cost	$ 5,489	$ 5,257	4%
Unrealized net gain (loss)	(66)	15	n/m
Fair value	$ 5,423	$ 5,272	3%
Structured finance and international insurance operations			
Amortized cost	$ 2,211	$ 2,206	0%
Unrealized net gain (loss)	(14)	1	n/m
Fair value	$ 2,197	$ 2,207	0%
Corporate segment			
Amortized cost	$ 275	$ 259	6%
Unrealized net gain (loss)		(2)	-100%
Fair value	$ 275	$ 257	7%
Advisory services			
Amortized cost	$ 21	$ 40	-48%
Unrealized net gain (loss)			n/m
Fair value	$ 21	$ 40	-48%
Wind-down operations			
Amortized cost	$ 4,489	$ 6,194	-28%
Unrealized net gain (loss)	(505)	(1,141)	-56%
Fair value	$ 3,984	$ 5,053	-21%

Total available-for-sale investments:					
Amortized cost	$	12,485	$	13,956	-11%
Unrealized net gain (loss)		(585)		(1,127)	-48%
Total available-for-sale investments at fair value	$	11,900	$	12,829	-7%
Investments carried at fair value:					
Structured finance and international insurance operations					
Amortized cost	$	1	$		n/m
Unrealized net gain (loss)					n/m
Fair value	$	1	$		n/m
Corporate segment					
Amortized cost	$	10	$		n/m
Unrealized net gain (loss)					n/m
Fair value	$	10	$		n/m
Advisory services					
Amortized cost	$	2	$		n/m
Unrealized net gain (loss)					n/m
Fair value	$	2	$		n/m
Wind-down operations					
Amortized cost	$	27	$		n/m
Unrealized net gain (loss)		(15)			n/m
Fair value	$	12	$		n/m

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In millions	As of December 31, 2010	2009	Percent Change 2010 vs. 2009
Total investments carried at fair value:			
Amortized cost	$ 40	$	n/m
Unrealized net gain (loss)	$ (15)		n/m
Total Investments carried at fair value	$ 25	$	n/m
Held-to-maturity investments:			
Structured finance and international insurance operations - amortized cost	$ 1	$ 2	-50%
Total held-to-maturity investments at amortized cost	$ 1	$ 2	-50%
Other investments			
Corporate segment			
Amortized cost	$ 1	$	n/m
Total other investments			
Amortized cost	$ 1	$	n/m
Consolidated investments at carrying value	$ 11,927	$ 12,831	-7%

n/m Percentage change not meaningful.

The carrying value of our consolidated investment portfolio was $11.9 billion and $12.8 billion as of December 31, 2010 and 2009, respectively.

The fair value of the Company s investments is based on prices which include quoted prices in active markets and prices based on market-based inputs that are either directly or indirectly observable, as well as prices from dealers in relevant markets. Differences between fair value and amortized cost arise primarily as a result of changes in interest rates and general market credit spreads occurring after a fixed-income security is purchased, although other factors may also influence fair value, including specific credit-related changes, supply and demand forces and other market factors. When the Company holds an available-for-sale investment to maturity, any unrealized gain or loss currently recorded in accumulated other comprehensive income (loss) in the shareholders equity section of the balance sheet is reversed. As a result, the Company would realize a value substantially equal to amortized cost. However, when investments are sold prior to maturity, the Company will realize any difference between amortized cost and the sale price of an investment as a realized gain or loss within its consolidated statements of operations.

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Credit Quality

The credit quality distribution of the Company s fixed-income investment portfolios, excluding short-term investments, based on ratings from Moody s as of December 31, 2010 is presented in the following table. Alternate ratings sources, such as S&P, have been used for a small percentage of securities that are not rated by Moody s.

In millions	U.S. Public Finance Fair Value	U.S. Public Finance % of Fixed-Income Investments	Structured Finance and International Fair Value	Structured Finance and International % of Fixed-Income Investments	Advisory Services Fair Value	Advisory Services % of Fixed-Income Investments	Corporate Fair Value	Corporate % of Fixed-Income Investments	Wind-down Operations Fair Value	Wind-down Operations % of Fixed-Income Investments	Total Fair Value	Total % of Fixed-Income Investments
Available-for-sale:												
Aaa	$ 2,357	47%	$ 951	63%	$ 2	100%	$	0%	$ 641	21%	$ 3,951	41%
Aa	2,058	41%	112	7%		0%		0%	577	19%	2,747	29%
A	526	10%	125	8%		0%		0%	891	30%	1,542	16%
Baa	122	2%	92	6%		0%		0%	518	17%	732	8%
Below investment grade	9	0%	174	12%		0%		0%	223	8%	406	4%
Not rated	3	0%	59	4%		0%		0%	133	5%	195	2%
Total	$ 5,075	100%	$ 1,513	100%	$ 2	100%	$	0%	$ 2,983	100%	$ 9,573	100%
Short-term investments	345		675		18		267		765		2,070	
Investments held-to-maturity			1								1	
Investments held at fair value			1		2		10		12		25	
Other investments	3		9		1		9		236		258	
Consolidated investments at carrying value	$ 5,423		$ 2,199		$ 23		$ 286		$ 3,996		$ 11,927	

As of December 31, 2010, the weighted average credit quality of the Company s available-for-sale investment portfolios, excluding short-term and other investments, as presented in the preceding table are as follows:

	U.S. Public Finance	Structured Finance and International Insurance	Advisory Services	Corporate	Wind-down Operations
Weighted average credit quality ratings	Aa	Aa	Aaa		A

Insured Investments

MBIA s consolidated investment portfolio includes investments that are insured by various financial guarantee insurers (Insured Investments), including investments insured by MBIA Corp. and National (Company-Insured Investments). As of December 31, 2010, Insured Investments at fair value represented $2.0 billion or 17% of consolidated investments, of which $1.0 billion or 8% of consolidated investments were Company-Insured Investments.

As of December 31, 2010, based on the actual or estimated underlying ratings of our consolidated investment portfolio, without giving effect to financial guarantees, the weighted average rating of the consolidated investment portfolio would be in the Aa range, the weighted average rating of only the Insured Investments in the investment portfolio would be in the Baa range, and 6% of the total investment portfolio would be rated below investment grade.

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The distribution of the Company s Insured Investments by financial guarantee insurer as of December 31, 2010 is presented in the following table:

In millions	U.S. Public Finance Fair Value	U.S. Public Finance % of Total Investments	Structured Finance and International Fair Value	Structured Finance and International % of Total Investments	Wind-down Operations Fair Value	Wind-down Operations % of Total Investments	Total Fair Value	Total % of Total Investments
MBIA Corp.	$ 1	0%	$ 153	1%	$ 460	4%	$ 614	5%
FSA	246	2%	2	0%	314	3%	562	5%
Ambac	87	1%	2	0%	188	2%	277	3%
National	283	2%	14	0%	98	1%	395	3%
FGIC	12	0%	3	0%	129	1%	144	1%
Other	10	0%		0%	9	0%	19	0%
Total	$ 639	5%	$ 174	1%	$ 1,198	11%	$ 2,011	17%

In purchasing Insured Investments, the Company independently assesses the underlying credit quality, structure and liquidity of each investment, in addition to the creditworthiness of the insurer. Insured Investments are diverse by sector, issuer and size of holding. The Company assigns underlying ratings to its Insured Investments without giving effect to financial guarantees based on underlying ratings assigned by Moody s, or another external agency, when a rating is not published by Moody s. When an external underlying rating is not available, the underlying rating is based on the Company s best estimate of the rating of such investment. A downgrade of a financial guarantee insurer will likely have an adverse affect on the fair value of investments insured by the downgraded financial guarantee insurer. If MBIA determines that declines in the fair values of Insured Investments are other-than-temporary, the Company will record a realized loss through earnings.

The underlying ratings of the Company-Insured Investments as of December 31, 2010 are reflected in the following table. Amounts represent the fair value of such investments including the benefit of the MBIA guarantee. The ratings in the following table are based on ratings from Moody s. Alternate ratings sources, such as S&P, have been used for a small percentage of securities that are not rated by Moody s.

In millions

Underlying Ratings Scale	U.S. Public Finance Insurance	Structured Finance and International Insurance	Wind-down Operations	Total
National:				
Aaa	$	$	$	$
Aa	90		42	132
A	128		32	160
Baa	65	14	24	103
Below investment grade				

Total National	$ 283	$ 14	$ 98	$ 395
MBIA Corp.:				
Aaa	$	$	$ 213	$ 213
Aa		6	14	20
A			31	31
Baa		2	163	165
Below investment grade	1	145	39	185
Total MBIA Corp.	$ 1	$ 153	$ 460	$ 614
Total MBIA Insured Investments	$ 284	$ 167	$ 558	$ 1,009

Without giving effect to the MBIA guarantee of the Company-Insured Investments in the consolidated investment portfolio, as of December 31, 2010, based on actual or estimated underlying ratings, the weighted average rating of the consolidated investment portfolio was in the Aa range, the weighted average rating of only the Company-Insured Investments was in the Baa range, and 4% of the Company-Insured Investment portfolio was rated below investment grade.

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Impaired Investments

As of December 31, 2010 and 2009, we had impaired investments (investments for which fair value was less than amortized cost) with a fair value of $7.0 billion and $6.5 billion, respectively, principally related to ABS, MBS, and corporate securities. We analyze impaired investments within our investment portfolio for other-than-temporary impairments on a quarterly basis. Our analysis focuses on securities that meet one of the following two thresholds: (i) 20% impaired at the time of review or (ii) 5% impaired at the time of review with a fair value below amortized cost for a consecutive 12-month period.

As part of our assessment of other-than-temporary impairments of investments, we consider (i) the magnitude and duration of decline in fair value, (ii) the reason for the decline in fair value, and (iii) whether we have the intent to sell the securities or more likely than not will be required to sell the securities before their anticipated recovery. In calculating credit-related losses, we utilize cash flow modeling based on the type of security. Our cash flow analysis considers all sources of cash, including credit enhancement, that support the payment of amounts owed by an issuer of a security. This includes the consideration of cash expected to be provided by financial guarantors, including MBIA Corp., resulting from an actual or potential insurance policy claim.

Refer to Note 8: Investments in the Notes to Consolidated Financial Statements for a detailed discussion about impaired investments.

Contractual Obligations

The following table summarizes the Company s future estimated cash payments relating to contractual obligations as of December 31, 2010. Estimating these payments requires management to make estimates and assumptions regarding these obligations. The estimates and assumptions used by management are described below. Since these estimates and assumptions are subjective, actual payments in future periods may vary from those reported in the following table. Refer to Note 16: Insurance In Force in the Notes to Consolidated Financial Statements for information about the Company s exposure under insurance contracts.

	As of December 31, 2010						
In millions	**2011**	**2012**	**2013**	**2014**	**2015**	**Thereafter**	**Total**
U.S. public finance insurance segment:							
Gross insurance claim obligations	$ 165	$ 146	$ 12	$ 14	$ 20	$ 607	$ 964
Lease liability	0	0	0	0	0	1	1
Structured finance and international insurance segment:							
Surplus notes	133	133	951				1,217
Gross insurance claim obligations	1,051	209	541	76	71	13,536	15,484
Lease liability	1	1	0	0			2
Advisory services segment:							
Lease liability	0	0	0	0	0	1	1
Corporate-segment:							
Short-term debt	66						66
Long-term debt	57	57	57	57	57	1,622	1,907
Lease liability	1	1	1	1	1	4	9
Asset/liability products segment:							
Investment agreements	172	626	239	309	207	1,097	2,650
Medium-term notes	51	171	100	143	345	2,377	3,187
Securities sold under agreements to repurchase	2	474					476
Conduit segment:							
Medium-term notes	10	6	10	186	15	1,150	1,377

Long-term liquidity loans	5	7	10	14	17	739	792
Total	$ 1,714	$ 1,831	$ 1,921	$ 800	$ 733	$ 21,134	$ 28,133

Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations

LIQUIDITY (continued)

Gross insurance claim obligations represent the future value of probability-weighted payments MBIA expects to make (before estimated recoveries, reinsurance and the consolidation of VIEs) under insurance policies for which the Company has recorded loss reserves (financial guarantees) or has estimated credit impairments (insured derivatives). The discounted value of estimated payments included in the table, along with probability-weighted estimated recoveries and estimated negotiated early settlements, on policies accounted for as financial guarantee insurance contracts is reported as case basis reserves within Loss and loss adjustment expense reserves on the Company s consolidated balance sheet. Insured derivatives are recorded at fair value and reported within Derivative liabilities on the Company s consolidated balance sheet. Estimated potential claim payments on obligations issued by VIEs consolidated in our structured finance and international insurance segment are included within Gross insurance claim obligations in the preceding table. Obligations of these VIEs are collateralized by assets held by the VIEs, and investors in such obligations do not have recourse to the general credit of MBIA. As of December 31, 2010, VIE notes issued by issuer-sponsored consolidated VIEs totaled $9.5 billion, including $6.7 billion recorded at fair value, and are not considered contractual obligations of MBIA beyond MBIA s insurance claim obligation. The Company s involvement with VIEs is continually reassessed as required by consolidation guidance, and may result in consolidation or deconsolidation of VIEs in future periods. As the Company consolidates and deconsolidates VIEs, the amount of VIE debt obligations recorded on its balance sheet may change significantly.

Surplus notes, investment agreements, MTNs, securities sold under agreements to repurchase, short-term debt and long-term debt include principal and interest and exclude premiums or discounts. Liabilities issued at discounts reflect principal due at maturity. Interest payments on floating rate obligations are estimated using applicable forward rates. Principal and interest on callable obligations or obligations that allow investors to withdraw funds prior to legal maturity are based on the expected call or withdrawal dates of such obligations. Liabilities denominated in foreign currencies are presented in U.S. dollars using applicable exchange rates as of December 31, 2010.

The repayment of principal on our Surplus Notes is reflected in 2013, the first call date. Principal payments under investment agreements are based on expected withdrawal dates. All other principal payments are based on contractual maturity dates.

MARKET RISK

In general, MBIA s market risk relates to changes in the value of financial instruments that arise from adverse movements in factors such as interest rates, foreign exchange rates and credit spreads. MBIA is exposed to changes in interest rates, foreign exchange rates and credit spreads that affect the fair value of its financial instruments, namely investment securities, investment agreement liabilities, MTNs, debentures and certain derivative transactions. The Company s investment portfolio holdings are primarily U.S. dollar-denominated fixed-income securities including municipal bonds, U.S. government bonds, MBS, collateralized mortgage obligations, corporate bonds and ABS. In periods of rising and/or volatile interest rates, foreign exchange rates and credit spreads, profitability could be adversely affected should the Company have to liquidate these securities.

MBIA minimizes its exposure to interest rate risk, foreign exchange risk and credit spread movement through active portfolio management to ensure a proper mix of the types of securities held and to stagger the maturities of its fixed-income securities. In addition, the Company enters into various swap agreements that hedge the risk of loss due to interest rate and foreign currency volatility.

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Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations

MARKET RISK (continued)

Interest Rate Sensitivity

Interest rate sensitivity can be estimated by projecting a hypothetical instantaneous increase or decrease in interest rates. The following table presents the estimated pre-tax change in fair value of the Company s financial instruments as of December 31, 2010 from instantaneous shifts in interest rates.

	Change in Interest Rates					
In millions	300 Basis Point Decrease	200 Basis Point Decrease	100 Basis Point Decrease	100 Basis Point Increase	200 Basis Point Increase	300 Basis Point Increase
Estimated change in fair value	$ 517	$ 424	$ 248	$ (274)	$ (543)	$ (796)

Foreign Exchange Sensitivity

Foreign exchange rate sensitivity can be estimated by projecting a hypothetical instantaneous increase or decrease in foreign exchange rates. The following table presents the estimated pre-tax change in fair value of the Company s financial instruments as of December 31, 2010 from instantaneous shifts in foreign exchange rates.

	Change in Foreign Exchange Rates			
	Dollar Weakens		Dollar Strengthens	
In millions	20%	10%	10%	20%
Estimated change in fair value	$ (56)	$ (28)	$ 28	$ 56

Credit Spread Sensitivity

Credit spread sensitivity can be estimated by projecting a hypothetical instantaneous increase or decrease in credit spreads. The following table presents the estimated pre-tax change in fair value of the Company s financial instruments (including investment securities and investment agreement and MTN obligations) as of December 31, 2010 from instantaneous shifts in credit spread curves. For this table it was assumed that all credit spreads move by the same amount. It is more likely that the actual changes in credit spreads will vary by security. MBIA Corp. s investment portfolio would generally be expected to experience lower credit spread volatility than the investment portfolio of the asset/liability products segment because of higher credit quality and portfolio composition in sectors that have been less volatile historically. The table shows hypothetical increases and decreases in credit spreads of 50 and 200 basis points. Because downward movements of these amounts in some cases would result in negative spreads, a floor was assumed for minimum spreads. The changes in fair value reflect partially offsetting effects as the value of the investment portfolios generally change in opposite direction from the liability portfolio.

	Change in Credit Spreads			
In millions	200 Basis Point Decrease	50 Basis Point Decrease	50 Basis Point Increase	200 Basis Point Increase
Estimated change in fair value	$ 489	$ 201	$ (186)	$ (692)

Insured Credit Derivatives Sensitivity

MBIA issued insurance policies insuring payments due on structured credit derivative contracts and directly entered into credit derivative contracts, which are marked-to-market through earnings under the accounting principles for derivatives and hedging activities. All these transactions were insured by the Company s structured finance and international insurance operations. The majority of these structured CDSs related to structured finance transactions with underlying reference obligations of cash securities and CDSs referencing liabilities of corporations or of other structured finance securitizations. The asset classes of the underlying reference obligations included corporate, asset-backed, residential mortgage-backed and commercial mortgage-backed securities. These transactions were usually underwritten at or above a triple-A credit rating level. As of December 31, 2010, approximately 21% of the tranches insured by the Company were rated triple-A. Additionally, MBIA s wind-down operations enter into single-name CDSs as part of its asset management activities. In 2010,

Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations

MARKET RISK (continued)

the value of the Company s credit derivative contracts was affected predominantly by the effect of the Company s own credit risk on the portfolio. As risk factors change, the values of credit derivative contracts will change and the resulting gains or losses will be recorded within net income.

In 2006 and 2007, the Company s portfolio of insured structured CDSs became increasingly concentrated in transactions where the underlying reference obligations comprised CMBS and asset-backed collateral including RMBS, in addition to corporate securities. As a result, the portfolio is more sensitive to changes in credit spreads in those sectors. Beginning in the second half of 2007, credit spreads in those sectors increased significantly, resulting in a substantial decrease in the fair value of the Company s portfolio of structured CDSs.

In 2010, the Company has observed a tightening of its own credit spreads. As changes in fair value can be caused by factors unrelated to the performance of MBIA s business and credit portfolio, including general market conditions and perceptions of credit risk, as well as market use of credit derivatives for hedging purposes unrelated to the specific referenced credits in addition to events that affect particular credit derivative exposures, the application of fair value accounting will cause the Company s earnings to be more volatile than would be suggested by the underlying performance of MBIA s business operations and credit portfolio.

The following tables reflect sensitivities to changes in credit spreads, collateral prices, rating migrations, recovery rates and to changes in our own credit spreads and recovery rates. Each table stands on its own and should be read independently of each other.

Sensitivity to changes in credit spreads can be estimated by projecting a hypothetical instantaneous shift in credit spread curves. The following table presents the estimated pre-tax change in fair value and the cumulative estimated net fair value of the Company s credit derivatives portfolio of instantaneous shifts in credit spreads as of December 31, 2010. In scenarios where credit spreads decreased, a floor of zero was used. Refer to Note 7: Fair Value of Financial Instruments in the Notes to Consolidated Financial Statements for further information about the Company s financial assets and liabilities that are accounted for at fair value, including valuation techniques and disclosures required by GAAP.

	Change in Credit Spreads						
In millions	**600 Basis Point Decrease**	**200 Basis Point Decrease**	**50 Basis Point Decrease**	**0 Basis Point Change**	**50 Basis Point Increase**	**200 Basis Point Increase**	**600 Basis Point Increase**
Estimated pre-tax net gains (losses)	$ 1,561	$ 558	$ 150	$	$ (160)	$ (672)	$ (1,973)
Estimated net fair value	$ (2,801)	$ (3,804)	$ (4,212)	$ (4,362)	$ (4,522)	$ (5,034)	$ (6,335)

Actual shifts in credit spread curves will vary based on the credit quality of the underlying reference obligations. In general, within any asset class, higher credit rated reference obligations will exhibit less credit spread movement than lower credit rated reference obligations. Additionally, the degree of credit spread movement can vary significantly for different asset classes. The basis point change presented in the preceding table, however, represents a fixed basis point change in referenced obligation credit spreads across all credit quality rating categories and asset classes and, therefore, the actual impact of spread changes would vary from this presentation depending on the credit rating and distribution across asset classes, both of which will adjust over time depending on new business written and runoff of the existing portfolio.

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Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations

MARKET RISK (continued)

Since the Company is now using collateral prices as an input into the new Direct Price Model for certain multi-sector insured CDOs, a sensitivity analysis below shows the estimated pre-tax change in fair value and the cumulative estimated net fair value of the Company s insurance credit derivatives portfolio of a 10% and 20% change in collateral prices as of December 31, 2010.

	Change in Collateral Prices (Structured Finance and International Insurance Operations)				
In millions	**20% Increase**	**10% Increase**	**No Change**	**10% Decrease**	**20% Decrease**
Estimated pre-tax net gains (losses)	$ 137	$ 69	$	$ (68)	$ (137)
Estimated net fair value	$ (4,228)	$ (4,296)	$ (4,365)	$ (4,433)	$ (4,502)

Sensitivity to changes in the collateral portfolio credit quality can be estimated by projecting a hypothetical change in rating migrations. The following table presents the estimated pre-tax change in fair value and the cumulative estimated net fair value of the Company s insurance credit derivatives portfolio of a one and three notch rating change in the credit quality as of December 31, 2010. A notch represents a one step movement up or down in the credit rating. Refer to Note 7: Fair Value of Financial Instruments in the Notes to Consolidated Financial Statements for further information about the Company s financial assets and liabilities that are accounted for at fair value, including valuation techniques and disclosures required by GAAP.

	Change in Credit Ratings (Structured Finance and International Insurance Operations)				
In millions	**Three Notch Increase**	**One Notch Increase**	**No Change**	**One Notch Decrease**	**Three Notch Decrease**
Estimated pre-tax net gains (losses)	$ 1,620	$ 642	$	$ (728)	$ (1,676)
Estimated net fair value	$ (2,745)	$ (3,723)	$ (4,365)	$ (5,093)	$ (6,041)

Recovery rates on defaulted collateral are an input into the Company s valuation model. Sensitivity to changes in the recovery rate assumptions used by the Company can be estimated by projecting a hypothetical change in these assumptions. The following table presents the estimated pre-tax change in fair value and the cumulative estimated net fair value of the Company s insurance credit derivatives portfolio of a 10% and 20% change in the recovery rate assumptions as of December 31, 2010. Refer to Note 7: Fair Value of Financial Instruments in the Notes to Consolidated Financial Statements for further information about the Company s financial assets and liabilities that are accounted for at fair value, including valuation techniques and disclosures required by GAAP.

	Change in Recovery Rates (Structured Finance and International Insurance Operations)				
In millions	**20% Increase**	**10% Increase**	**No Change**	**10% Decrease**	**20% Decrease**
Estimated pre-tax net gains (losses)	$ 270	$ 155	$	$ (130)	$ (278)
Estimated net fair value	$ (4,095)	$ (4,210)	$ (4,365)	$ (4,495)	$ (4,643)

Accounting principles for fair value measurements and disclosures require the Company to incorporate its own nonperformance risk in its valuation methodology. Sensitivity to changes in the Company s credit spreads can be estimated by projecting a hypothetical change in this assumption. The following table presents the estimated pre-tax change in fair value and the cumulative estimated net fair value of the Company s insurance credit derivative portfolio using upfront credit spreads of 0%, an increase of 15%, and a decrease of 30%. The actual upfront spread used in the valuation as of December 31, 2010 ranged from 15.75% to 57.5% based on the tenor of each transaction. The below amounts include an additional annual running credit spread of 5%.

In millions	MBIA Upfront Credit Spread (Structured Finance and International Insurance Operations) Increase by 15 Percent	No Change	Decrease by 30 Percent	Decrease to 0 Percentage Points
Estimated pre-tax net gains (losses)	$ 79	$	$ (1,114)	$ (6,268)
Estimated net fair value	$ (4,286)	$ (4,365)	$ (5,479)	$ (10,633)

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Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations

MARKET RISK (continued)

With the inclusion of the MBIA recovery rate in the calculation of nonperformance risk for insured CDS liabilities, the following sensitivity analysis shows the change in fair value of insured CDS liabilities due to changes in that recovery rate. The values we are showing below reflect the approximate trading range of the MBIA recovery rate in the last few months.

	MBIA s Recovery Rate (Structured Finance and International Insurance Operations)		
In millions	Decrease to 15 Percentage Points	No Change	Increase to 40 Percentage Points
Estimated pre-tax net gains (losses)	$ 1,100	$	$ (2,442)
Estimated net fair value	$ (3,265)	$ (4,365)	$ (6,807)

MBIA s insurance of structured credit derivatives typically remain in place until the maturity of the derivative. We have, however, periodically established positions which offset its insurance positions in the reinsurance market, in which contracts also typically remain in place until the maturity of the insurance contract. Any difference between the price of the initial transaction and the offsetting transaction will result in gains or losses. With respect to MBIA s insured structured credit derivatives, in the absence of credit impairment, the cumulative gains and losses should reverse at maturity. Additionally, in the event of the termination and settlement of a contract prior to maturity, any resulting gain or loss upon settlement will be recorded in our financial statements. In February 2008, we announced our intention not to insure credit derivatives in the future, except in transactions that are intended to reduce our overall exposure to insured derivatives. This may result in termination of certain existing contracts prior to maturity.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Information concerning quantitative and qualitative disclosures about market risk appears in Part II, Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations under the heading Market Risk.

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Item 8. Financial Statements and Supplementary Data

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of MBIA Inc.:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, of changes in shareholders equity and of cash flows present fairly, in all material respects, the financial position of MBIA Inc. and its subsidiaries (the Company) as of December 31, 2010 and 2009, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2010 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedules listed in the index appearing under Item 15(a)(2), present fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company s management is responsible for these financial statements and financial statement schedules, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management s Report on Internal Control Over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements, on the financial statement schedules, and on the Company s internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

As discussed in Note 1 to the consolidated financial statements, the Company has been adversely affected by the financial crisis and economic downturn, has been unable to write meaningful amounts of new insurance business since 2008 and is subject to significant risks and uncertainties that could affect amounts reported in the Company s financial statements in future periods.

As discussed in Note 3 to the consolidated financial statements, the Company adopted in 2010 new accounting standards for Variable Interest Entities and, in 2009, Financial Guarantee Insurance and Reinsurance Contracts and Recognition and Presentation of Other-Than-Temporary Impairments.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

New York, NY

March 1, 2011

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MBIA INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In thousands except share and per share amounts)

	December 31, 2010	December 31, 2009
Assets		
Investments:		
Fixed-maturity securities held as available-for-sale, at fair value (amortized cost $9,597,732 and $10,366,737) (includes hybrid financial instruments at fair value $0 and $30,690)	$ 9,020,928	$ 9,330,413
Fixed-maturity securities at fair value	25,041	
Investments pledged as collateral, at fair value (amortized cost $547,800 and $587,648)	551,688	557,245
Short-term investments held as available-for-sale, at fair value (amortized cost $2,072,955 and $2,696,724)	2,070,320	2,688,208
Other investments (includes investments at fair value of $256,820 and $252,608)	258,981	255,491
Total	11,926,958	12,831,357
Cash and cash equivalents	365,841	803,243
Accrued investment income	95,320	94,821
Premiums receivable	1,589,005	2,020,619
Deferred acquisition costs	412,001	469,550
Prepaid reinsurance premiums	97,270	357,773
Insurance loss recoverable	2,531,494	2,444,754
Reinsurance recoverable on paid and unpaid losses	15,111	61,996
Goodwill	31,371	31,371
Property and equipment, at cost (less accumulated depreciation of $135,127 and $139,076)	71,385	76,834
Receivable for investments sold	7,948	18,088
Derivative assets	3,780	865,708
Current income taxes	41,388	545,883
Deferred income taxes, net	907,531	716,615
Other assets	45,195	50,448
Assets of consolidated variable interest entities:		
Cash	763,891	
Investments held-to-maturity, at amortized cost (fair value $3,908,991 and $2,800,400)	4,187,644	3,131,765
Fixed-maturity securities held as available-for-sale, at fair value (amortized cost $188,937 and $754,096)	189,554	516,369
Fixed-maturity securities at fair value	5,240,742	128,112
Loans receivable at fair value	2,183,364	481,622
Loan repurchase commitments	835,047	
Derivative assets	699,072	
Other assets	38,099	53,844
Total assets	$ 32,279,011	$ 25,700,772
Liabilities and Equity		
Liabilities:		
Unearned premium revenue	$ 4,145,234	$ 4,955,256
Loss and loss adjustment expense reserves	1,129,358	1,580,021
Reinsurance premiums payable	71,151	239,154
Investment agreements	2,005,326	2,725,958
Medium-term notes (includes financial instruments carried at fair value $116,310 and $109,768)	1,739,507	2,285,047
Securities sold under agreements to repurchase	470,570	501,871
Short-term debt	64,768	18,112
Long-term debt	1,850,532	2,223,536
Deferred fee revenue	9,995	11,061
Payable for investments purchased	2,173	15,780
Derivative liabilities	4,616,509	4,593,760
Other liabilities	272,391	304,066
Liabilities of consolidated variable interest entities:		
Variable interest entity notes (includes financial instruments carried at fair value $6,679,982 and $0)	10,589,989	3,179,712

Long-term debt	360,000	433,132
Derivative liabilities	2,104,242	9,104
Other liabilities	968	18,326
Total liabilities	29,432,713	23,093,896
Commitments and contingencies (See Note 24)		
Equity:		
Preferred stock, par value $1 per share; authorized shares 10,000,000; issued and outstanding none		
Common stock, par value $1 per share; authorized shares 400,000,000; issued shares 274,719,578 and 274,826,872	274,720	274,827
Additional paid-in capital	3,063,914	3,057,733
Retained earnings	2,123,566	2,393,282
Accumulated other comprehensive loss, net of deferred tax of $228,845 and $451,112	(405,484)	(940,871)
Treasury stock, at cost 74,973,978 and 70,159,024 shares	(2,224,577)	(2,194,873)
Total shareholders equity of MBIA Inc.	2,832,139	2,590,098
Preferred stock of subsidiary	14,159	16,778
Total equity	2,846,298	2,606,876
Total liabilities and equity	$ 32,279,011	$ 25,700,772

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

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MBIA INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands except share and per share amounts)

	Years Ended December 31, 2010	2009	2008
Revenues:			
Premiums earned:			
Scheduled premiums earned	$ 503,914	$ 609,211	$ 604,781
Refunding premiums earned	90,303	137,125	245,663
Premiums earned (net of ceded premiums of $27,751, $86,790 and $117,451)	594,217	746,336	850,444
Net investment income	457,308	567,452	1,381,281
Fees and reimbursements	159,893	145,490	42,940
Change in fair value of insured derivatives:			
Realized gains (losses) and other settlements on insured derivatives	(162,329)	(166,102)	(397,371)
Unrealized gains (losses) on insured derivatives	(606,852)	1,650,445	(1,822,679)
Net change in fair value of insured derivatives	(769,181)	1,484,343	(2,220,050)
Net gains (losses) on financial instruments at fair value and foreign exchange	87,716	225,328	(517,060)
Investment losses related to other-than-temporary impairments:			
Investment losses related to other-than-temporary impairments	(206,359)	(530,860)	(958,695)
Other-than-temporary impairments recognized in accumulated other comprehensive loss	142,179	169,785	
Net investment losses related to other-than-temporary impairments	(64,180)	(361,075)	(958,695)
Net gains on extinguishment of debt	35,530	225,436	410,345
Other net realized gains (losses)	28,845	(60,497)	(2,402)
Revenues of consolidated variable interest entities:			
Net investment income	72,610	88,014	169,615
Net gains (losses) on financial instruments at fair value and foreign exchange	342,105	(3,923)	(13,021)
Investment losses related to other-than-temporary impairments:			
Investment losses related to other-than-temporary impairments		(274,822)	
Other-than-temporary impairments recognized in accumulated other comprehensive loss		168,656	
Net investment losses related to other-than-temporary impairments		(106,166)	
Net gains on extinguishment of debt	25,060	44,023	
Other net realized gains (losses)	(76,125)	(40,740)	
Total revenues	893,798	2,954,021	(856,603)
Expenses:			
Losses and loss adjustment	231,944	864,137	1,318,001
Amortization of deferred acquisition costs	58,567	81,743	74,805
Operating	290,478	315,517	304,188
Interest	324,928	374,151	1,016,975
Expenses of consolidated variable interest entities:			
Operating	24,005	715	2,009
Interest	59,104	100,877	154,808
Total expenses	989,026	1,737,140	2,870,786

Income (loss) before income taxes		(95,228)		1,216,881		(3,727,389)
Provision (benefit) for income taxes		(147,757)		582,821		(1,054,696)
Net income (loss)		52,529		634,060		(2,672,693)
Preferred stock dividends of subsidiary				10,823		
Net income (loss) available to common stockholders	$	52,529	$	623,237	$	(2,672,693)
Net income (loss) per common share:						
Basic	$	0.26	$	2.99	$	(12.11)
Diluted	$	0.26	$	2.99	$	(12.11)
Weighted average number of common shares outstanding:						
Basic		202,421,433		208,156,622		220,786,378
Diluted		203,021,134		208,156,622		220,786,378

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

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MBIA INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY

For The Years Ended December 31, 2010, 2009 and 2008

(In thousands except share amounts)

	Common Stock				Accumulated Other	Treasury Stock		Total Shareholders	Preferred Stock of Subsidiary	
			Additional		Comprehensive			Equity		
	Shares	Amount	Paid-in Capital	Retained Earnings	Income (Loss)	Shares	Amount	of MBIA Inc.	Shares	Amount
Balance, January 1, 2008	**160,244,614**	**$ 160,245**	**$ 1,649,511**	**$ 4,301,880**	**$ (490,829)**	**(34,872,515)**	**$ (1,965,002)**	**$ 3,655,805**		**$**
Comprehensive income (loss):										
Net income (loss)				(2,672,693)				(2,672,693)		
Other comprehensive income (loss):										
Change in unrealized gains and losses on investments net of deferred income taxes of $655,688					(1,330,638)			(1,330,638)		
Change in fair value of derivative instruments net of deferred income taxes of $125					231			231		
Change in foreign currency translation net of deferred income taxes of $15,905					45,282			45,282		
Other comprehensive income (loss)								(1,285,125)		
Total comprehensive income (loss)								(3,957,818)		
Issuance of common stock	110,779,238	110,779	1,448,908					1,559,687		
Treasury shares acquired under share repurchase program						(30,468,608)	(220,784)	(220,784)		
Share-based compensation net of deferred income taxes of $15,616	2,175,949	2,176	(47,913)			62,219	3,267	(42,470)		
Issuance of preferred stock of subsidiary									2,759	27,598
Balance, December 31, 2008	**273,199,801**	**$ 273,200**	**$ 3,050,506**	**$ 1,629,187**	**$ (1,775,954)**	**(65,278,904)**	**$ (2,182,519)**	**$ 994,420**	**2,759**	**$ 27,598**

ASC 944-20 transition adjustment net of deferred income taxes of $27,170	55,346		55,346
ASC 320-10 transition adjustment net of deferred income taxes of $29,930	85,512	(55,582)	29,930
Comprehensive income (loss):			
Net income (loss)	634,060		634,060
Other comprehensive income (loss):			
Change in unrealized gains and losses on investments net of deferred income taxes of $526,102		1,074,689	1,074,689
Portion of other-than-temporary impairment losses recognized in other comprehensive loss, net of deferred income taxes of $50,268		(264,081)	(264,081)
Change in fair value of derivative instruments net of deferred income taxes of $45,848		85,147	85,147
Change in foreign currency translation net of deferred income taxes of $3,894		(5,090)	(5,090)
Other comprehensive income (loss)			890,665
Total comprehensive income (loss)			1,524,725

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