MBIA INC
Form 10-K
February 29, 2012
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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**
December 31, 2011 For the fiscal year ended December 31, 2011

or

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

Commission File Number 1-9583

MBIA INC.

(Exact name of registrant as specified in its charter)

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

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

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. ¨

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, 2011 was $925,005,859.

As of February 23, 2012, 193,154,204 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, 2012, are incorporated by reference into Part III of this Form 10-K.

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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: Business Developments, Risks and Uncertainties, and Liquidity 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. Related advisory and portfolio services are provided by Optinuity Alliance Resources Corporation (Optinuity), a service company that we established in the first quarter of 2010, which provides support services such as surveillance, risk management, legal, accounting, treasury and information technology, among others, to our businesses on a fee basis. 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 since 2009. 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 Note 23: Commitments and Contingencies in the Notes to Consolidated Financial Statements of MBIA Inc. and Subsidiaries in Part II, Item 8. After giving effect to the Transformation, MBIA Corp. s remaining portfolio consists of global structured finance and non-U.S. public finance business.

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Item 1. Business (continued)

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, 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 provides services to 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 in Europe and Latin America. We have decided to exit the financial advisory business in Latin America, and we will focus only on the European business going forward through our subsidiary Trifinium Advisors Limited (Trifinium).

OUR BUSINESS STRATEGY

Our ratings downgrades and concerns about the future of monoline insurers have impaired our ability to write new business since late 2007, and pending litigation challenging the establishment of National has further 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. The delinquencies and losses in our RMBS portfolio 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. These determinations were the result of analysis provided by third-party review firms. 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 National as 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 and the repayment of a secured loan from National to MBIA Insurance Corporation described under Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity Key Intercompany Lending Agreements National Secured Loan in Part II, Item 7 of this Form 10-K, 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.

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Item 1. Business (continued)

In particular, in August 2011, Standard & Poor s Financial Services LLC (S&P) issued new guidelines that reflect significant changes to its rating methodology for financial guarantee insurers. These new guidelines were effective immediately. The changes to S&P s rating methodology substantially increase the amount of capital, among other qualitative factors, required to achieve its highest ratings, implement a new Largest Obligors Test and incorporate additional qualitative considerations into the ratings process. In November 2011, S&P affirmed its rating on National at BBB and on MBIA Corp. at B. In December 2011, Moody s Investors Service, Inc. (Moody s) downgraded National s insurer financial strength rating from Baa1 to Baa2 and changed its outlook from developing to negative and also downgraded MBIA Inc. s senior debt rating from Ba3 to B2 and placed the ratings of MBIA Corp. under review for possible downgrade. Moody s cited as the primary reason for its rating actions the weakening of the overall MBIA group s market standing, mainly due to the deterioration of MBIA Corp. s credit profile. The absence of S&P s and Moody s highest ratings could adversely impact our ability to write new insurance business and the premiums we can charge, and could diminish the future acceptance of our financial guarantee insurance products.

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. Discovery and depositions in the Article 78 case began in 2010 and are nearly complete. Since the case was filed, 14 of the original 18 plaintiffs have dismissed their claims. The trial for the Article 78 proceeding is expected to commence in the second quarter of 2012. That timeframe, however, could be subject to further delays. For a complete description of the litigation challenging the Transformation see Note 23: Commitments and Contingencies in the Notes to Consolidated Financial Statements of MBIA Inc. and Subsidiaries in Part II, Item 8.

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 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 proportion has increased over time.

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.

Capital Preservation, Liquidity Management and Deleveraging

We continued taking steps in 2011 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.

RMBS Recoveries

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.

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Item 1. Business (continued)

Since 2008, a large part of our recovery effort has involved filing lawsuits against five sellers/servicers to enforce our contractual rights. We have recorded our largest recoveries against Countrywide Home Loans, Inc. and certain of its affiliates, including Bank of America Corp., and GMAC Mortgage, LLC and Residential Funding Company, LLC, which are subsidiaries of Ally Financial Inc. In December 2011, MBIA reached an agreement with one of the five sellers/servicers with whom it had initiated litigation and that litigation has been dismissed. Given the scope of these litigations, we expect them to be ongoing for several years; however, we anticipate that our first trial will take place sometime between the fourth quarter 2012 and the second quarter 2013. In addition, we received several important rulings in these matters in 2010 and 2011, including a decision permitting us to present evidence of contract, fraud, and damage claims through presentation of a statistically valid random sample of loans rather than on a loan-by-loan basis, a decision permitting us to collect recissory damages and a decision on causation which eliminates a barrier raised by one set of defendants with regard to their liability related to ineligible loans. While appeals of certain of these decisions are pending, we believe that these decisions will guide future opinions in our other cases. For a complete description of our litigation seeking to enforce our contractual rights with respect to securitizations we insure, see Note 23: Commitments and Contingencies in the Notes to Consolidated Financial Statements of MBIA Inc. and Subsidiaries in Part II, Item 8. We believe that these decisions combined with prior events related to settlements between sellers/servicers and government sponsored entities and private investors strengthen the Company s ability to record recoveries related to put-backs.

Commutations

Second, we continued to execute on our strategy of commuting volatile insured exposures and purchasing instruments issued or guaranteed by us where such actions are intended to reduce future expected economic losses, and we may, from time to time, directly or indirectly, seek to purchase or commute additional exposures in the future. 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.

In 2011, MBIA Corp. commuted or agreed to commute $32.4 billion of gross insured exposure primarily comprising CMBS pools, investment grade corporate collateralized debt obligations (CDOs) and multi-sector CDOs, among other types of exposures. Subsequent to December 31, 2011 MBIA Corp. agreed to commute transactions with additional counterparties. These transactions, primarily comprising investment grade corporate CDOs, totaled $3.7 billion in gross insured exposure. The total amount the Company agreed to pay to commute the above transactions was approximately $500 million in excess of its aggregate statutory loss reserve for such 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. The Company enters into commutations in the ordinary course of its business and does not intend to make contemporaneous disclosures regarding any such transactions regardless of the amounts paid to effect such commutations in relation to the statutory loss reserves established for the respective transactions. The Company s ability to commute insured transactions may be limited by available liquidity as determined based on management s assessment.

Liquidity Risk Management and Intercompany Lending Agreements

Third, we have focused on liquidity risk management given the substantial stress on the Company s liquidity resources caused by current conditions and events in the global financial markets and the failure by the originators of RMBS to repurchase the ineligible loans in securitizations the Company has insured. We monitor potential liquidity positions and projections in our businesses and legal entities using stress-scenario testing for purposes of matching liquidity resources to needs. In order to address our liquidity risks and efficiently manage liquidity across the entire enterprise, certain of our subsidiaries which are less liquidity-constrained have entered into intercompany agreements that provide resources to subsidiaries that are more liquidity constrained. These resources include a secured loan from National to MBIA Insurance Corporation, an asset swap between National and the asset/liability products segment and a secured loan between MBIA Corp. and the asset/liability products segment, which in each case were approved by the New York State Department of Financial Services (the NYSDFS) and are subject to ongoing monitoring by the NYSDFS, as well as a repurchase agreement between the conduit segment and the asset/liability products segment. Each of these agreements are discussed in detail under Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity Key Intercompany Lending Agreements in Part II, Item 7 of this Form 10-K.

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Item 1. Business (continued)

If liquidity resources were to fall short of our target liquidity cushions at any time, we could be required to sell or finance assets, including through these intercompany facilities, or raise additional third party capital. There can be no assurance that we will be successful in drawing on such resources or that they will be adequate to cover a short-fall. Each of these items 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.

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 since late 2007, and pending litigation challenging the establishment of National has further constrained our ability to write new business since 2009. However, we expect that once certain of the pending litigations are favorably resolved and MBIA Insurance Corporation repays the secured loan from National, we will be able to obtain the highest possible credit ratings 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, where 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. Despite this objective, there can be no assurance that we will avoid losses on multiple credits as a result of a single event or series of events.

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 generally cannot be accelerated against us 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, in the case of structured finance policies, (iii) payments upon settlement of individual collateral losses as they occur after any deductible or subordination has been exhausted. 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 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 within one to three business days following notification for U.S. transactions and within longer timeframes for international transactions, depending on the terms of the insurance policies. Generally, 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.

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Item 1. Business (continued)

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 are generally supported by taxes, assessments, user fees or tariffs related to the use of these projects, lease payments or 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 and 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 Note 23: Commitments and Contingencies in the Notes to Consolidated Financial Statements of MBIA Inc. and Subsidiaries in Part II, Item 8.

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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 NYSDFS to reset its unassigned surplus to zero as of January 1, 2010, which provided National with dividend capacity of $142 million as of December 31, 2011. In October 2010, the plaintiffs in the Transformation litigation initiated a court proceeding challenging the approval of the surplus reset and we have agreed that National will not pay dividends during the current adjournment of the proceeding (i.e., through April 19, 2012). In addition, in connection with the approval of a release of excessive contingency reserves as of December 31, 2011 in MBIA Insurance Corporation, the Company has agreed that National will not pay dividends without the prior approval of the NYSDFS prior to July 19, 2013 (i.e., for an additional 15 months after the expiration of the current adjournment period). 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, 2011, National had $410.4 billion of gross par outstanding on insured U.S. public finance obligations covering 21,272 policies and diversified among 9,199 credits, which we define as any group of issues supported by the same revenue source. Insurance in force, which includes all insured debt service, as of December 31, 2011 was $656.6 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, 2011:

National U.S. Public Finance Original Gross Par Amount Per Issue as of December 31, 2011

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	14,110	66.3 %	$ 42.6	10.4 %
$10-25 million	3,519	16.5 %	56.2	13.7 %
$25-50 million	1,798	8.5 %	63.4	15.5 %
$50-100 million	1,025	4.8 %	71.3	17.4 %
$100-200 million	524	2.5 %	73.6	17.9 %
$200-300 million	156	0.7 %	37.7	9.2 %
$300-400 million	67	0.3 %	23.1	5.6 %
$400-500 million	37	0.2 %	16.5	4.0 %
Greater than $500 million	36	0.2 %	26.0	6.3 %
Total	21,272	100.0 %	$ 410.4	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, 2011 was 10.4 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, 2011 was $37.7 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, 2011:

National U.S. Public Finance Gross Par Amount Outstanding by Bond Type as of December 31, 2011

In millions	Gross Par Amount
Bond type	
Public finance: United States	
General fund obligation	$ 155,157
General fund obligation Lease	34,475
Municipal utilities	72,850
Tax backed	52,704
Transportation	39,970
Health care	10,294
Higher education	22,491
Student loans	1,226
Municipal housing	5,648
Military housing	7,988
Investor-owned utilities	6,077
Other	1,480
Total United States public finance	$ 410,360

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, 2011, National s gross par amount outstanding for its ten largest insured U.S. public finance credits totaled $25.4 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 from time to time:

- structured finance and asset-backed obligations, including obligations collateralized by diverse pools of 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-related 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, 2011, MBIA Corp. had 1,047 policies outstanding in its insured portfolio. In addition, MBIA Corp. had 233 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 691 credits, which we define as any group of issues supported by the same revenue source.

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.

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Item 1. Business (continued)

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. Certain policies include 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 RMBS transactions has caused, and may continue to cause, material losses beyond any stress analyses undertaken at origination.

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. 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.

International Obligations

Outside the U.S., financial guarantee insurance has been used by issuers of sovereign-related and sub-sovereign bonds, structured finance securities, utility debt and financing for public purpose projects, among others. At the current time we do not insure any direct sovereign debt. 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 has varied to date by region depending on the development stage of the local capital markets, the impact of financial regulatory requirements, accounting standards and legal systems.

Portfolio Profile

As of December 31, 2011, the gross par amount outstanding on MBIA Corp. s insured obligations, including insured obligations of MBIA UK and MBIA Mexico (excluding $3.6 billion of MBIA insured investment agreements and medium-term notes (MTNs) for our asset/liability products transactions), was $141.4 billion. Insurance in force for the above portfolio, which includes all insured debt service, as of December 31, 2011 was $183.5 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 insured obligations as of December 31, 2011:

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

Portfolio Per Issue as of December 31, 2011 (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	323	30.8 %	$ 1.0	0.7 %
$10-25 million	196	18.7 %	3.3	2.4 %
$25-50 million	130	12.4 %	4.7	3.3 %
$50-100 million	128	12.2 %	9.3	6.6 %
$100-200 million	85	8.2 %	12.4	8.7 %
$200-300 million	52	5.0 %	12.9	9.1 %
$300-400 million	39	3.7 %	13.3	9.4 %
$400-500 million	15	1.4 %	6.8	4.8 %
Greater than $500 million	79	7.6 %	77.7	55.0 %
Total	1,047	100.0 %	$ 141.4	100.0 %

(1) Excludes $3.6 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, 2011 was 8.1 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, 2011 was $16.1 billion.

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Item 1. Business (continued)

The table below shows the diversification by type of insurance that was outstanding as of December 31, 2011:

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

Portfolio by Bond Type as of December 31, 2011[1]

In millions Bond type	Gross Par Amount
Public finance: non-United States	
Sovereign-related and sub-sovereign	$ 11,411
International utilities	9,702
Transportation	10,369
Local governments [2]	349
Tax backed	80
Health care	39
Total public finance non-United States	31,950
Global structured finance:	
Collateralized debt obligations [3]	70,278
Mortgage-backed residential	15,135
Mortgage-backed commercial	3,422
Consumer asset-backed:	
Auto loans	710
Student loans	956
Manufactured housing	1,424
Other consumer asset-backed	170
Corporate asset-backed:	
Operating assets:	
Aircraft portfolio lease securitizations	2,884
Secured airline equip securitizations	2,633
Other operating assets	613
Structured insurance securitizations	4,698
Franchise assets	1,004
Intellectual property	1,838
Future flow	390
Other corporate asset-backed	3,257
Total global structured finance	109,412
Total	$ 141,362

(1) Excludes $3.6 billion relating to investment agreements and MTNs issued by affiliates of the Company through our asset/liabilities products segment and guaranteed by MBIA Corp.

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

(3) Includes transactions (represented by structured pools of primarily investment grade corporate credit risks, CMBS or other CRE assets) that may not include typical CDO structuring characteristics, such as tranched credit risk, cash flow waterfalls, or interest and over-collateralization coverage tests.

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, 2011, MBIA Corp. s gross par amount outstanding for its ten largest non-U.S. public finance credits insured totaled $13.9 billion, representing 9.8% 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 $20.0 billion, representing 14.1% of the total.

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Item 1. Business (continued)

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, surveillance and remediation. MBIA s Insured Portfolio Management Division monitors and remediates structured finance and international infrastructure risks while National s surveillance group performs this function with respect to U.S. public finance transactions. A Special Situations Group is involved in certain public finance and infrastructure transactions that require intensive remediation. National, MBIA Insurance Corporation and MBIA UK each have a credit risk committee to review certain prescribed underwriting decisions. On an enterprise-wide basis, executive committees provide risk oversight with the Risk Oversight Committee focused on transactions not otherwise reviewable by credit risk committees, 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.

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 establishes the firm s risk appetite and evaluates and approves the Company s risk tolerance guidelines. The purpose of the risk tolerance guidelines is to delineate the types and amounts of risks the Company can face in light of its stated risk appetite. 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, as well as board committees at National, MBIA Insurance Corporation and MBIA UK, 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 report to the full Board regarding the meetings and activities of the committee.

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.

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Item 1. Business (continued)

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 generally 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 may 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. In addition, the Insured Portfolio Management Division may use various quantitative tools and qualitative analyses to test for credit quality, correlation, liquidity and capital sensitivity within the insured portfolio.

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 deterioration 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.

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. See Losses and Reserves below for information on our loss reserving process.

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 transaction 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, transaction 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.

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Item 1. Business (continued)

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, 2011 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, when this amount exceeds unearned premium revenue on the related insurance contract. We record case basis loss reserves on insured obligations which have defaulted or are expected to default.

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.

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 between 2008 and 2010, in some cases in exercise of the Company s right to reassume business ceded to reinsurers under certain circumstances, including rating downgrades of the 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.

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Item 1. Business (continued)

Commuted reinsurance includes the termination of reinsurance with Channel Reinsurance Ltd (Channel Re) during the third quarter of 2010 which resulted in the re-assumption of insured exposures by MBIA Insurance Corporation, National and MBIA UK of $21.6 billion, $7.8 billion and $2.1 billion, respectively. The termination of reinsurance was executed following MBIA Corp. s acquisition of all of the common stock of Channel Re and its parent, ChannelRe Holdings, Ltd., not previously owned by MBIA Corp. for $40 million in cash. Channel Re and its parent were subsequently liquidated. MBIA Corp. previously held a 17.4% ownership interest in Channel Re and Channel Re agreed to provide committed reinsurance capacity to MBIA Corp. The transaction, including the termination of reinsurance and the liquidation, resulted in increases in MBIA Corp. s statutory capital of $132 million, and its liquidity position of $595 million. MBIA Corp. recognized 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.

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 companies 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, 2011, 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.

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 in each calendar year, subject to certain contract limitations, and a net worth maintenance agreement in which 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, and to remain its sole shareholder and not to pledge its shares. 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.

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Item 1. Business (continued)

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, and if our insurance companies fail to meet such requirements our regulators may impose certain remedial actions on us. 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 NYSDFS and similar supervisory agencies in each of the other jurisdictions in which it is licensed. MBIA UK makes similar filings with the FSA. 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 and take certain other corporate actions, including the release of excessive contingency reserves in MBIA Insurance Corporation described below under Contingency Reserves and entry into 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 MBIA Inc. 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 NYSDFS 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 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 NYSDFS issued in Circular Letter No. 19 (2008) on September 22, 2008, new Best Practices guidelines (the Guidelines) for financial guarantors, which it stated that 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.

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Item 1. Business (continued)

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 NYSDFS, or (b) 100% of adjusted net investment income for such 12-month period (the net investment income for such 12-month period plus the excess, if any, of net investment income over dividends declared or distributed during the two-year period preceding such 12-month period), unless the New York Superintendent of Insurance approves a greater dividend distribution based upon a finding that the insurer will retain sufficient surplus to support its obligations and writings.

In connection with MBIA Insurance Corporation obtaining approval from the NYSDFS to release excessive contingency reserves as of September 30, 2011 and December 31, 2011, MBIA Insurance Corporation agreed that it would not pay any dividends without prior approval from the NYSDFS. Due to its significant negative earned surplus, MBIA Insurance Corporation has not had the statutory capacity to pay dividends since December 31, 2009 and is not expected to have any statutory capacity to pay any dividends in the near term. During the second quarter of 2010, National received approval from the NYSDFS to reset its unassigned surplus to zero as of January 1, 2010. The reset provides National with dividend capacity of $142 million as of December 31, 2011. In October 2010, the plaintiffs in the Transformation litigation initiated a court proceeding challenging the approval of the surplus reset and we have agreed that National will not pay dividends during the current adjournment of the proceeding (i.e., through April 19, 2012). In addition, in connection with the approval of the December 31, 2011 MBIA Insurance Corporation contingency reserve release, the Company has agreed that National will not pay dividends without the prior approval of the NYSDFS prior to July 19, 2013 (i.e., for an additional 15 months after the expiration of the current adjournment period). 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 principles (U.S. STAT), which generally produce statutory earnings in amounts less than earnings computed in accordance with GAAP. Similarly, policyholders surplus, computed on a U.S. STAT 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.

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, a financial guarantee 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.

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Item 1. Business (continued)

Pursuant to approval granted by the NYSDFS in accordance with the New York Insurance Law (NYIL), as of December 31, 2011, MBIA Insurance Corporation released to surplus an aggregate of $582 million of contingency reserves. Absent this release, MBIA Insurance Corporation would have had a short-fall of $582 million of qualifying assets to meet its requirement as a result of its use of cash to pay claims and to effect commutations, and as a result of the failure of certain mortgage originators to honor contractual obligations to repurchase ineligible mortgage loans from securitizations MBIA Corp. had insured. A deficit may occur in the future as claims payments and commutations continue and to the extent we do not realize expected put-back recoveries. Including the above release, pursuant to approvals granted by the NYSDFS in accordance with NYIL, during 2011, MBIA Insurance Corporation released to surplus an aggregate of $900 million of contingency reserves.

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 NYSDFS 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 risk limits. As a condition to granting the waiver, the NYSDFS required that, in addition to complying with these plans, upon written notice from the NYSDFS, 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 NYSDFS. National came into compliance with the aggregate risk limits in 2011; however, neither National nor MBIA Corp. has come into compliance with all of the single risk limits. In 2011, MBIA Corp. reported a *de minimus* number of additional overages to the NYSDFS 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.

Change of Control

Prior approval by the NYSDFS 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 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, 2011 has received appropriate approvals or determinations of non-control in connection with its investment.

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Item 1. Business (continued)

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 $34.5 billion in institutional assets under management as of December 31, 2011, including $12.2 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, in 2010 we 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 (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.

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.

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Item 1. Business (continued)

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 two sources: (1) issuance of customized investment agreements 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.

The Company is subject to significant liquidity risks through this business. See Risk Factors Liquidity and Market Related Risk Factors Adverse developments in the credit markets may materially and adversely affect MBIA Inc. s ability to meet liquidity needs in its asset/liability products segment in Part I, Item 1A and Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity MBIA Inc. Liquidity for a discussion of the risks facing this business and the actions the Company has taken to manage this business.

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 issued 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 $80 million was outstanding as of December 31, 2011; 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.

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Item 1. Business (continued)

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.

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 implemented 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 2011, 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 and MBIA Insurance Corporation repays the secured loan from National. 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.

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Item 1. Business (continued)

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 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 investment consultants and financial advisors.

The Company also competes in the financial advisory market outside of the U.S. through Trifinium. Trifinium s ability to compete will depend on its ability to leverage its 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 it competes. 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.

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Item 1. Business (continued)

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. (Fitch), 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 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. In November 2011, S&P affirmed National s and MBIA Corp. s insurance financial strength ratings based on their updated bond insurance criteria released in August 2011. National s stand-alone credit profile was lowered one notch by S&P under the updated criteria. In December 2011, Moody s downgraded National s insurer financial strength rating from Baa1 to Baa2 and changed its outlook from developing to negative and also downgraded MBIA Inc. s senior debt rating from Ba3 to B2 and placed the ratings of MBIA Corp. under review for possible downgrade. Moody s cited as the primary reason for its rating actions the weakening of the overall MBIA group s market standing, mainly due to the deterioration of MBIA Corp. s credit profile. 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 Corp.	MBIA Inc.
S&P	BBB /Developing outlook	B /Negative outlook	B- / Negative outlook
Moody s	Baa2 /Negative outlook	B3 /Review for a possible downgrade	B2 / 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 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.

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 23, 2012, the Company had 382 employees, including 164 in Optinuity, 34 in National, 36 in MBIA Corp., 117 in Cutwater, 24 in Trifinium Services Limited, our services company in the United Kingdom, and seven in other affiliates. None of the Company s domestic employees are 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 annual reports on Form 10-K, quarterly filings on Form 10-Q, current reports on Form 8-K and amendments to those reports as soon as is reasonably practicable after these materials have been filed with or furnished to the SEC.

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Item 1. Business (continued)

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.

EXECUTIVE OFFICERS OF THE REGISTRANT

The executive officers of the Company and their present ages and positions with the Company as of February 29, 2012 are set forth below:

Name	Age	Position and Term of Office
Joseph W. Brown	63	Chief Executive Officer and Director (officer since February, 2008)
C. Edward Chaplin	55	President, Chief Financial Officer and Chief Administrative Officer (officer since June, 2006)
William C. Fallon	52	President and Chief Operating Officer (officer since July, 2005)
Clifford D. Corso	50	Executive Vice President and Chief Investment Officer (officer since September, 2004)
Ram D. Wertheim	57	Executive Vice President, Chief Legal Officer and Secretary (officer since January, 2000)
Anthony McKiernan	42	Vice President and Chief Portfolio Officer

Joseph W. Brown (age 63) 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 Messrs Chaplin, Fallon, Corso and Wertheim to the office set forth opposite their names above, effective as of November 6, 2008.

Prior to being named President, Chief Financial Officer and Chief Administrative Officer, C. Edward Chaplin (age 55) 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 52) 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.

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Item 1. Business (continued)

Prior to being named Executive Vice President and Chief Investment Officer, Clifford D. Corso (age 50) 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.

Prior to being named Executive Vice President, Chief Legal Officer and Secretary, Ram D. Wertheim (age 57) 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.

Anthony McKiernan (age 42) was appointed Vice President and Chief Portfolio Officer of the Company on August 3, 2011. Mr. McKiernan is also the chief risk officer of MBIA Corp. Mr. McKiernan joined MBIA in 2000 as a vice president in the Credit Analytics Group, and managed the Corporate Insured Portfolio Management Group prior to becoming the Head of the Structured Finance Insured Portfolio Management Group in 2007. Before working at MBIA, Mr. McKiernan was with Fleet Financial Group where he began his career as a Credit Analyst/ Lender in asset-based lending.

On May 10, 2011, the Company announced in its Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2011 that the Company s chief portfolio officer, Mitchell I. Sonkin, would retire on June 30, 2011, following the expiration of his employment agreement, and stay with the Company as a consultant pursuant to a one year consulting agreement that will terminate on June 30, 2012.

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. Our risk factors are grouped into categories and are presented in the following order: Insured Portfolio Loss Related Risk Factors , Liquidity and Market Related Risk Factors , Strategic Plan Related Risk Factors and General Risk Factors .

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 $3.1 billion; the estimated loan put-back recoveries net of reinsurance and income taxes are $2.0 billion, which is 119% 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 resulted in 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 sellers/servicers 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, 2011, we have recognized estimated loan put-back recoveries of $3.1 billion related to our insured transactions. The estimated loan-put-back recoveries net of reinsurance and income taxes are $2.0 billion, which is 119% of the consolidated total shareholders equity of MBIA Inc., excluding preferred stock of subsidiaries.

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Item 1A. Risk Factors (continued)

A substantial majority of our put-back claims have been disputed by the loan sellers/servicers and are currently subject to litigation. The estimated put-back recovery amount is based upon five probability-weighted 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. We have recorded our largest put-back recoveries against Countrywide Home Loans, Inc. and certain of its affiliates, including Bank of America Corp., and GMAC Mortgage, LLC and Residential Funding Company, LLC, which are subsidiaries of Ally Financial Inc.

Although government sponsored market participants and a financial guarantee insurer have been successful in collecting recoveries related to ineligible mortgage loans from sellers/servicers, no other financial guarantee insurer situated similarly to MBIA has collected recoveries in the magnitude of the put-back recoveries we have recorded.

If we fail to ultimately realize the expected recoveries, our current loss reserve estimates may not be adequate for MBIA Corp. to cover potential claims, and MBIA Corp. may have insufficient resources to meet its obligations. 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.

Material misrepresentations made by sponsors of transactions that we insured in the residential mortgage sector may continue to materially and adversely affect our financial condition, results of operations and future business

We are exposed to risk of losses as a result of poor performance of assets included in our insured second-lien RMBS transactions arising from material misrepresentations made by transaction sponsors and the refusal of the sellers/servicers to perform under the related contracts. 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 caused the losses we have incurred to date on those transactions and which represent a substantial portion of the total losses. Since the fourth quarter of 2007, MBIA Corp. has paid $6.2 billion of claims before reinsurance and collections, excluding LAE and including $730 million of claims made on behalf of consolidated variable interest entities (VIEs), on policies insuring second-lien RMBS securitizations. 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, 2011, we recorded estimated recoveries of $3.1 billion related to insured transactions. The recovery amount is based upon five probability-weighted 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, although we have sought to underwrite RMBS 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 believe that the second-lien 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. 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, and misrepresentations made to us in transactions we insure could have a further adverse impact on us.

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Item 1A. Risk Factors (continued)

Continued poor performance of RMBS, CDOs of ABS and ABS insured credit derivatives in our structured finance insured portfolio due to adverse developments in the residential mortgage sector and the broader economy may materially and adversely affect our financial condition, results of operations and future business

The Company is 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 our RMBS, CDOs of ABS and ABS insured credit derivatives portfolios, which has led to the deterioration in the quality of assets and the collection of cash flows from such assets within structured securities and referenced in credit derivatives that we have guaranteed. 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, CDOs of ABS and ABS insured credit derivatives, 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.

In 2011 we recorded $516 million of losses and LAE in our structured finance portfolio before the $690 million benefit related to an increase in recoveries of ineligible mortgage loans and before the elimination of a $90 million benefit as a result of consolidating VIEs. Furthermore, since the fourth quarter of 2007 we have recorded losses and LAE of $2.1 billion, before the elimination of a $194 million benefit of losses and LAE incurred on behalf of consolidated VIEs, (including a $351 million benefit in 2011 before the elimination of a $134 million benefit as a result of consolidating VIEs) related to insured second-lien RMBS exposures. We have made $6.2 billion of claims payments before reinsurance and collections, excluding LAE and including $730 million of claims on behalf of consolidated VIEs. In addition, to date, we have recorded losses and LAE of $416 million, before the elimination of a $116 million expense as a result of consolidating VIEs (including $76 million in 2011 before the elimination of a $44 million expense as a result of consolidating VIEs), on the CDOs of ABS that have case basis reserves as of December 31, 2011. Finally, since the fourth quarter of 2007 we have recorded $2.1 billion of cumulative credit impairments and LAE (including a $551 million benefit in 2011) related to exposure in ABS insured credit derivatives. Continued poor performance in some of the structured finance securities we insure is generally expected, and we may continue to experience losses on these portions of our insured portfolio.

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Item 1A. Risk Factors (continued)

Deteriorating performance of CMBS 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 CMBS pools and CRE CDOs. Through December 31, 2011 we have recorded impairments and LAE of $2.8 billion (including $1.6 billion of impairments and LAE in 2011) related to CMBS and CRE exposure. Included in the impairment amounts are payments in 2011 to commute CMBS and CRE transactions in excess of established reserves. While MBIA Corp. s structured CMBS pool insured position was rated AAA at origination by at least one of Moody s, S&P and Fitch, 34% of the collateral was originally rated BBB and lower. As of December 31, 2011, 64% of CMBS collateral underlying pools insured by MBIA Corp. were rated below investment grade. We insured nine static CMBS pools with $6.4 billion of gross par outstanding as of December 31, 2011 that were originally insured in 2006 and 2007, and in which substantially all of the underlying collateral comprised CMBS tranches originally rated BBB and lower (one of which transactions, with $325 million of gross par outstanding, will be commuted pursuant to a commutation agreement executed in 2011). Within our CRE CDO portfolio, we had four transactions with 2006 or 2007 vintage collateral totaling $1.9 billion of gross par outstanding as of December 31, 2011 in which substantially all of the collateral originally comprised BBB or BBB- rated tranches of CMBS (two of which transactions, with $1.0 billion of gross par outstanding, will be commuted pursuant to a commutation agreement executed in 2011). While we have commuted some of our troubled exposures, average debt service coverage in transactions in our portfolio has decreased over the last year and debt coverage ratios on some loans have deteriorated significantly. Ultimate loss rates remain uncertain, and we have recorded additional impairments on our insured CMBS and CRE portfolio every quarter since the beginning of 2010 as our anticipated economic losses have increased during that time period, including due to the increased cost of commuting our exposures. It is possible that we will experience severe losses or liquidity needs due to increased deterioration in our insured CMBS portfolio, including if macroeconomic stress escalates. In particular, a double dip recession may result in increased delinquencies, higher levels of liquidations of delinquent loans, and severities of loss upon liquidation.

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.

Failure to obtain regulatory approval to implement our risk reduction and liquidity strategies could have a material adverse effect on our business operations, financial condition and liquidity

In recent years key components of our strategy have included commuting volatile insured exposures, purchasing instruments issued or guaranteed by us in order to reduce future expected economic losses and managing the liquidity requirements and risk in our asset/liability products segment. In order to implement this strategy, we put in place intercompany agreements that allocate liquidity resources among our entities in order to fund commutations and provide liquidity where needed. The intercompany agreements with our insurance subsidiaries have required the approval of the NYSDFS and are described further under Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity Key Intercompany Lending Agreements in Part II, Item 7 of this Form 10-K.

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Item 1A. Risk Factors (continued)

Our ability to continue to draw on intercompany financing and provide other intercompany liquidity and capital support and the ability of our insurance subsidiaries to pay dividends to MBIA Inc. will in most cases require further approvals from the NYSDFS. There can be no assurance that we will be able to obtain such approvals. In the event that we do not obtain such regulatory approvals, unless and until we collect the amounts we believe we are owed by the RMBS sellers/servicers who have failed to honor their contractual obligation to repurchase or replace ineligible loans included in the RMBS transactions we insured (which are described under 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 $3.1 billion; the estimated loan put-back recoveries net of reinsurance and income taxes are $2.0 billion, which is 119% of the consolidated total shareholders equity of MBIA Inc., excluding preferred stock of subsidiaries), we do not expect to be able to effect additional commutations of volatile exposure. In addition, if we do not obtain such approvals, MBIA Inc. may not have sufficient assets to meet its collateral posting requirements and other liquidity needs in the asset/liability products segment, as described further under Adverse developments in the credit markets may materially and adversely affect MBIA Inc. s ability to meet liquidity needs in its asset/liability products segment . Furthermore, in connection with obtaining required insurance regulatory approvals to enter into certain transactions, MBIA Inc. and its insurance subsidiaries have agreed, and may in the future agree, to comply with certain conditions, including providing notice to the NYSDFS prior to 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.

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 second-lien 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.

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. 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. There can be no assurance that the future loss projections based on these models are accurate.

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Item 1A. Risk Factors (continued)

Losses on second-lien RMBS related to the large number of ineligible mortgage loans included in second-lien 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 second-lien 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 second-lien 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 and CRE exposure in 2010, and have increased our loss reserves on these exposures during each subsequent quarter as a result of the deterioration of our CMBS and CRE portfolio and the increased cost of commuting our exposures. While our loss reserves reflect our current estimate of ultimate losses, if the deterioration of the CRE market worsens, we could incur substantial additional losses on our CMBS and CRE portfolio in excess of these estimates.

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, including in the Eurozone, 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 each quarter since the fourth quarter of 2009 and many segments of the global capital markets have since recovered, during the second half of 2011 extreme market volatility was caused by S&P s downgrade of the U.S. triple-A rating, fears surrounding the Eurozone debt crisis and the risk of a double dip recession in the U.S. and elsewhere. While we do not insure any direct European sovereign debt, our indirect European sovereign debt exposure totaled $11.4 billion as of December 31, 2011. A default by one or more sovereigns, or sovereign-related or sub-sovereign entities that rely on sovereign support, could have an adverse effect on our insured and investment portfolios. Moreover, 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 consumer confidence and ongoing high unemployment, have contributed to a slow recovery which continues to challenge the U.S. and other economies and suggest 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 (due to the inclusion of ineligible loans in second-lien 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, 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.

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Item 1A. Risk Factors (continued)

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.

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, over the last three years many state and local governments that issue some of the obligations we insure have reported unprecedented budget shortfalls that have required 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 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.

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Item 1A. Risk Factors (continued)

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 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.

Liquidity and Market Related Risk Factors

Continuing elevated loss payments and ongoing delays in our ability to realize expected recoveries on insured RMBS transactions as well as certain other factors 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.

The effects of the credit crisis which began in the subprime segment of the U.S. mortgage-backed securities market and spread to a wide range of financial institutions and markets, asset classes, sectors and countries, have caused the Company to experience material increased liquidity risk pressures. In particular, since the fourth quarter of 2007, MBIA Corp. has paid $6.2 billion of claims before reinsurance and collections, excluding LAE and including $730 million of claims made on behalf of consolidated VIEs, on policies insuring second-lien RMBS securitizations, which we believe were driven 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, since the fourth quarter of 2007, total credit impairments on insured derivatives were estimated at $4.8 billion across 70 CDO insured issues, inclusive of 56 insured issues for which we made settlement and claim payments of $3.8 billion, net of reinsurance and collections. If current trends worsen and result in substantial defaults and losses on the underlying loans, we could incur substantial additional losses on our insured exposures in the future. In addition, portions of MBIA Corp. s outstanding insured portfolio have exhibited high degrees of payment volatility and continue to pose material liquidity risk to MBIA Corp.

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Item 1A. Risk Factors (continued)

Our strategy includes reducing future potential economic losses by commuting policies and purchasing instruments issued or guaranteed by us, which strategy has been constrained by a lack of available liquidity due to the failure of RMBS sellers/servicers to honor their contractual obligation to repurchase or replace ineligible loans included in the RMBS transactions we insured. As a result, National made, and the NYSDFS approved, a $1.1 billion secured loan to MBIA Insurance Corporation in the fourth quarter of 2011 in order to enable MBIA Corp. to fund settlements and commutations of its insurance policies. There can be no assurance that further intercompany borrowing will be available to fund future commutations and settlements. Furthermore, if MBIA Insurance Corporation does not realize, or is delayed in realizing, the expected recoveries it may have insufficient liquidity to commute additional exposures and repayment of the secured loan to National could be delayed, which could adversely impact National s financial condition and its ability to achieve the ratings necessary to write new business.

These factors, combined with a negative earned surplus, have 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 in connection with MBIA Insurance Corporation obtaining approval from the NYSDFS to release excessive contingency reserves as of September 30, 2011 and December 31, 2011, MBIA Insurance Corporation agreed that it would not pay any dividends without prior approval from the NYSDFS. In addition, the plaintiffs in the litigation challenging the establishment of National have initiated a court proceeding challenging the NYSDFS s approval of National s surplus reset which facilitated its ability to pay dividends and we have agreed that National will not pay dividends during the current adjournment of the proceeding (i.e., through April 19, 2012). In connection with the approval of the December 31, 2011 MBIA Insurance Corporation contingency reserve release, the Company has agreed that National will not pay dividends without the prior approval of the NYSDFS prior to July 19, 2013 (i.e., for an additional 15 months after the expiration of the current adjournment period). 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 Note 23: Commitments and Contingencies in the Notes to Consolidated Financial Statements of MBIA Inc. and Subsidiaries in Part II, Item 8. Finally, if certain of our corporate debt obligations were to become accelerated, which could occur due to MBIA Corp. entering rehabilitation proceedings or MBIA Inc. defaulting on its asset/liability products, 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. 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. 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.

Adverse developments in the credit markets may materially and adversely affect MBIA Inc. s ability to meet liquidity needs in its asset/liability products segment

The ratings downgrades of MBIA Corp. have resulted in the termination and collateralization of certain investment agreements issued by MBIA Inc. through our asset/liability products segment 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 businesses in 2008.

Liquidity risk to MBIA Inc. through this business is primarily a result of the following factors:

Currently, the majority of the assets of the asset/liability products segment are pledged against investment agreement liabilities, intercompany and third party financing arrangements and derivatives, which limits our ability to raise liquidity through asset sales. In addition, if the market value or rating eligibility of the assets which are pledged against these obligations were to decline, the Company would be required to pledge additional eligible assets in order to meet minimum required collateral amounts against these liabilities. In such event, we may sell additional assets, potentially with substantial losses, finance unencumbered assets through intercompany or third party facilities, or use free cash or other assets, in some cases with NYSDFS approval, although there can be no assurance that these strategies will be available or adequate to meet our liquidity requirements.

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Item 1A. Risk Factors (continued)

There is a deficit of invested assets to liabilities issued to third-parties and affiliates of $591 million as of December 31, 2011. This deficit is expected to increase as a result of on-going expected operating losses. This deficit will need to be reversed prior to the maturity of the liabilities in order to ensure that there are sufficient funds available to fully retire the liabilities. We expect that MBIA Inc. will be able to eliminate the deficit prior to the maturity of the related liabilities from distributions from its operating subsidiaries and by raising third party capital, although there can be no assurance that MBIA Inc. will be able to eliminate the deficit through such means.

The segment has a negative net interest spread between asset and liability positions because it must hold substantial amounts of cash, U.S. Treasury and agency securities or other high quality assets under financing and hedging arrangements and investment agreements. The negative net interest spread is exacerbated by the deficit of invested assets to liabilities. In addition, the segment has ongoing expenses relating to certain interest rate and foreign exchange derivative transactions it had entered into for hedging purposes, as well as ongoing expenses to fund operations. Taken together the segment is operating in an ongoing negative operating cash flow position.

This business is also subject to risks associated with changes in interest rates and foreign currency exchange rates as described below under Changes in interest rates and foreign currency exchange rates could adversely affect our financial condition and future business .

In 2011, MBIA Inc. maintained three intercompany financing facilities to provide it with additional resources to meet its liquidity requirements within the asset/liability products segment: an asset swap with National, a secured loan from MBIA Insurance Corporation and a repurchase agreement with the conduit segment. Stressed credit market conditions in 2012 could cause MBIA Inc. to have insufficient resources to cover collateral and/or other liquidity requirements in 2012. Management has identified certain contingent actions within its control to mitigate this risk. These contingent actions include: (1) sales of encumbered and other invested assets exposed to credit spread stress risk; (2) termination and settlement of interest rate swap agreements; and (3) other available advances from subsidiaries. These actions, if taken, are expected to result in either additional liquidity or reduced exposure to adverse credit spread movements. There can be no assurance that these actions will be sufficient to fully mitigate this risk. In the event that the Company cannot implement the contingent actions identified above to raise liquidity, or eliminate the deficit, it may have insufficient assets to make all payments on its obligations as they come due, which could result in a default by MBIA Inc. on its obligations and the potential for MBIA Corp., as guarantor of the investment agreements and GFL MTNs, to be called upon to satisfy obligations on those instruments as they come due.

In addition, as described above under Continuing elevated loss payments and ongoing delays in our ability to realize expected recoveries on insured RMBS transactions as well as certain other factors may materially and adversely affect our ability to meet liquidity needs , the lack of dividends from our insurance companies has limited MBIA Inc. s resources available to support the asset/liability products segment.

Finally, a significant portion of the asset/liability products segment s assets are structured finance securities which have been particularly susceptible to price fluctuations during periods of market volatility. During 2011, the asset/liability products segment experienced deterioration in the market values of some of its assets, resulting in increased collateral requirements, as a consequence of market volatility caused by S&P s downgrade of the U.S. triple-A rating, fears surrounding the Eurozone debt crisis and the risk of a double dip recession in the U.S. Consequently, following the third quarter of 2011 the Company extended the maturity date of the secured loan from MBIA Insurance Corporation to MBIA Inc., with NYSDFS approval, to May 2012 for a maximum outstanding amount of $450 million, to provide additional liquidity in the event of future declines in asset values, and contributed $50 million of capital to support the asset/liability products segment s liquidity and capital needs. There can be no assurance that these adverse market conditions will not occur in the future or that the Company will be able to draw on these or other resources in order to support the asset/liability products segment.

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Item 1A. Risk Factors (continued)

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, volatility and disruption in the global credit markets exerted downward pressure on the availability of liquidity and credit capacity for certain issuers, including MBIA, with credit spreads widening considerably. As a result of the cost and limited availability of third party financing, we implemented intercompany agreements to provide additional liquidity from MBIA Inc., MBIA Insurance Corporation, National and Meridian to the asset/liability products business, and this has reduced the liquidity resources available to MBIA Inc., MBIA Insurance Corporation, National and Meridian for other purposes. In addition, National made a secured loan to MBIA Insurance Corporation to finance commutations and settlements of Transformation litigation, which has further reduced National s liquidity. 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. Other 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. In connection with MBIA Insurance Corporation obtaining approval from the NYSDFS to release excessive contingency reserves as of September 30, 2011 and December 31, 2011, MBIA Insurance Corporation agreed that it would not pay any dividends without prior approval from the NYSDFS. Due to its significant negative earned surplus, MBIA Insurance Corporation has not had the statutory capacity to pay dividends since December 31, 2009 and is not expected to have any statutory capacity to pay any dividends in the near term. While National had dividend capacity as of December 31, 2011, in October 2010, the plaintiffs in the litigation challenging the establishment of National initiated a court proceeding challenging the NYSDFS s approval of National s surplus reset which facilitated its ability to pay dividends and we have agreed that National will not pay dividends during the current adjournment of the proceeding (i.e., through April 19, 2012). In addition, in connection with the approval of the December 31, 2011 MBIA Insurance Corporation contingency reserve release, the Company has agreed that National will not pay dividends without the prior approval of the NYSDFS prior to July 19, 2013 (i.e., for an additional 15 months after the expiration of the current adjournment period). Dividend payments by MBIA UK and MBIA Mexico to MBIA Insurance Corporation are also limited by the laws of their respective jurisdictions.

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.

If our insurance companies fail to meet regulatory capital requirements they may become subject to regulatory action

Our insurance companies are subject to various statutory and regulatory restrictions that require them to maintain qualifying investments to support their reserves and minimum surplus. Furthermore, our insurance companies may be restricted from making commutation or other payments if doing so would cause them to fail to meet such requirements, and the NYSDFS may impose other remedial actions on us as described further below to the extent the Company does not meet such requirements. While each of our insurance companies currently satisfies its statutory capital requirements, a material reduction in the statutory capital and surplus of a subsidiary, whether resulting from insured losses, a change in regulatory capital requirements or otherwise (including in the case of MBIA Corp., a failure to realize expected recoveries on insured RMBS transactions) could cause it to fail to meet these requirements, which in turn could require that subsidiary to obtain reinsurance or additional capital, which may not be available on favorable terms or at all, in order to avoid the intervention of its regulator. Pursuant to approval granted by the NYSDFS in accordance with NYIL, as of December 31, 2011, MBIA Insurance Corporation released to surplus an aggregate of $582 million of contingency reserves. Absent this release, MBIA Insurance Corporation would have had a short-fall of $582 million of qualifying assets to meet its requirement as a result of its use of cash to pay claims and to effect commutations, and as a result of the failure of certain mortgage originators to honor contractual obligations to repurchase ineligible mortgage loans from securitizations MBIA Corp. had insured. A deficit may occur in the future as claims payments and commutations continue and to the extent we do not realize expected put-back recoveries. Including the above release, pursuant to approvals granted by the NYSDFS in accordance with NYIL, during 2011, MBIA Insurance Corporation released to surplus an aggregate of $900 million of contingency reserves.

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.

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Item 1A. Risk Factors (continued)

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, including the liabilities of our asset/liability products segment, 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.

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, 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.

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Item 1A. Risk Factors (continued)

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.

The mark-to-market for the insured credit derivative portfolio has fluctuated significantly during the last four years, resulting in volatility in MBIA s earnings. Since the fourth quarter of 2007, MBIA s mark-to-market on insured credit derivatives fluctuated from a high quarterly loss of $3.6 billion in the first quarter of 2008 to a high quarterly gain of $3.3 billion in the second quarter of 2008, and the mark-to-market caused several quarter over quarter fluctuations in earnings of more than $1 billion and frequent quarter over quarter shifts in earnings from a gain to a loss or a loss to a gain. The mark-to-market volatility was primarily a result of fluctuations in MBIA s credit spreads and recovery rates, changes in credit spreads on the underlying collateral, collateral erosion, rating migration and model and input enhancements.

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. In addition, the Company can provide no assurance as to the timing of resolving of this litigation, which has been ongoing since the second quarter of 2009 and may continue for the foreseeable future. Moreover, the Company is defending multiple lawsuits seeking to overturn Transformation, and a successful resolution of any one matter does not assure that each matter will be resolved favorably or in a timely manner.

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Item 1A. Risk Factors (continued)

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 August 2011, S&P published changes to its rating methodology for financial guarantee insurers. As implemented, the changes substantially increase the amount of capital, among other qualitative factors, required to achieve S&P s highest ratings and incorporate additional qualitative considerations into the ratings process. As a result, our insurance companies 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. In December 2011, Moody s downgraded National s insurer financial strength rating from Baa1 to Baa2 and changed its outlook from developing to negative and also downgraded MBIA Inc. s senior debt rating from Ba3 to B2 and placed the ratings of MBIA Corp. under review for possible downgrade. Moody s cited as the primary reason for its rating actions the weakening of the overall MBIA group s market standing, mainly due to the deterioration of MBIA Corp. s credit profile. The absence of S&P s and Moody 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 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.

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.

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Item 1A. Risk Factors (continued)

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. 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 Trifinium in order to provide financial advisory services to European clients and during 2010 and 2011, the Company sought to grow this business. Trifinium is subject to intense competition, and expansion of this business may require expenditures of capital, and management s and employees time and there can be no assurance that this business 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.

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Item 1A. Risk Factors (continued)

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 spreads on our CDS have widened significantly from levels observed prior to our ratings downgrades. 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 affect 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 NYSDFS 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 NYSDFS 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 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. In addition, the Financial Stability Oversight Council created by the Dodd-Frank Reform and Consumer Protection Act (the Dodd-Frank Act) is currently evaluating whether non-bank financial institutions, including insurance companies, should be deemed systemically important under the Dodd-Frank Act, and any determination that we are systemically important could subject us to federal regulatory oversight and increased capital requirements. Internationally, as a result of a directive passed by the European Parliament, insurance regulators in the European Union are revising the capital adequacy requirements and risk governance procedures applicable to insurers in the European Union, including MBIA UK, and the European Parliament is contemplating a directive that would increase regulation of derivative instruments that could impact MBIA Corp. s insured derivatives. Furthermore, the Financial Stability Board, a coordinating body of national financial authorities, is currently evaluating whether MBIA should be designated a global systemically important financial institution , which designation would also subject us to increased capital requirements.

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Item 1A. Risk Factors (continued)

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 NYSDFS 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 increased 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 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 reputation, business, results of operations and financial condition

As further set forth in Note 23: Commitments and Contingencies in the Notes to Consolidated Financial Statements of MBIA Inc. and Subsidiaries in Part II, Item 8, 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.

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.

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Item 1A. Risk Factors (continued)

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 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.

Interruption in telecommunication, information technology and other operational systems, or a failure to maintain the security, confidentiality or privacy of sensitive data residing on such systems, could harm our business.

We depend heavily on our telecommunication, information technology and other operational systems and on the integrity and timeliness of data we use to run our businesses. These systems may fail to operate properly or become disabled as a result of events or circumstances wholly or partly beyond our control. Further, we face the risk of operational and technology failures by others, including various financial intermediaries and of vendors and parties to which we outsource the provision of services or business operations. If these parties do not perform as anticipated, we may experience operational difficulties, increased costs and other adverse effects on our business.

Despite our implementation of a variety of security measures, our information technology and other systems could be subject to physical or electronic break-ins, unauthorized tampering or other security breaches, resulting in a failure to maintain the security, confidentiality or privacy of sensitive data, including personal information relating to clients or transaction counterparties.

Interruption in telecommunication, information technology and other operational systems, or a failure to maintain the security, confidentiality or privacy of sensitive data residing on such systems, whether due to actions by us or others, could delay or disrupt our ability to do business, harm our reputation, subject us to regulatory sanctions and other claims, lead to a loss of clients and revenues and otherwise adversely affect our business.

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 more than 180 days before the end of the year to which this report relates.

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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 and Optinuity have their headquarters. The Company also has offices with approximately 24,330 square feet of rental space in New York, New York; San Francisco, California; Paris, France; Madrid, Spain; London, England; and Mexico City, Mexico. Cutwater has 10,383 square feet of office space in Denver, Colorado. The Company generally believes that these facilities are adequate and suitable for its current needs.

Item 3. Legal Proceedings

For a discussion of the Company s litigation and related matters, see Note 23: Commitments and Contingencies in the Notes to Consolidated Financial Statements of MBIA Inc. and Subsidiaries in Part II, Item 8. In the normal course of operating its businesses, MBIA Inc. 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.

Item 4. Mine Safety Disclosures

Not applicable.

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Part II

Item 5. Market for 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 23, 2012 there were 810 shareholders of record of the Company s common stock. The Company did not pay cash dividends on its common stock during 2011 or 2010. For information on the ability for certain subsidiaries of the Company to transfer funds to the Company in the form of cash dividends or otherwise, see Item 1. Business Insurance Regulation in this annual report.

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

	2011 Stock Price		2010 Stock Price	
Quarter Ended	High	Low	High	Low
March 31	$ 14.96	$ 9.64	$ 6.63	$ 4.05
June 30	10.98	7.57	10.92	5.60
September 30	10.36	5.99	11.51	5.24
December 31	12.65	6.47	13.17	9.43

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.

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, 2011, the Company repurchased 56.7 million shares under the program at an average price of $17.24 per share and $23 million remained available under the $1 billion share buyback program.

The table below presents repurchases made by the Company in each month during the fourth quarter of 2011. 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		$		$ 23,057
November	9,000	8.02		23,057
December				23,057

(1) No shares were repurchased by the Company for settling awards under the Company s long-term incentive plans and 9,000 shares were purchased as an investment in the Company s non-qualified deferred compensation plan.

As of December 31, 2011, 274,896,162 shares of Common Stock of the Company, par value $1 per share, were issued and 193,143,196 shares were outstanding.

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

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 Index (S&P 500 Index) and the S&P 500 Financials Sector Index (S&P Financials Index) for the last five fiscal years. The graph assumes a $100 investment at the closing price on December 31, 2006 and reinvestment of dividends on the respective dividend payment dates without commissions. This graph does not forecast future performance of our common stock.

	2006	2007	2008	2009	2010	2011
MBIA Inc. Common Stock	100.00	26.23	5.73	5.60	16.88	16.32
S&P 500 Index	100.00	105.49	66.46	84.05	96.71	98.76
S&P Financials Index	100.00	81.48	36.44	42.72	47.93	39.77

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Item 6. Selected Financial Data

In millions except per share amounts	2011	2010	2009	2008	2007
Summary Statement of Operations Data:					
Premiums earned	$ 605	$ 594	$ 746	$ 850	$ 708
Net investment income	383	457	568	1,381	1,881
Net change in fair value of insured derivatives	(2,812)	(769)	1,484	(2,220)	(3,611)
Net gains (losses) on financial instruments at fair value and foreign exchange	(99)	88	225	(517)	382
Net investment losses related to other-than- temporary impairments	(101)	(64)	(361)	(959)	(20)
Revenues of consolidated variable interest entities	392	364	(19)	157	309
Total revenues	(1,557)	894	2,954	(857)	(272)
Losses and loss adjustment expenses	(80)	232	864	1,318	900
Operating expenses	308	290	315	304	219
Interest expense	300	325	374	1,017	1,291
Expenses of consolidated variable interest entities	91	83	102	157	315
Total expenses	682	989	1,737	2,871	2,793
Income (loss) before income taxes	(2,239)	(95)	1,217	(3,727)	(3,066)
Net income (loss)	(1,319)	53	634	(2,673)	(1,922)
Net income (loss) available to common shareholders	(1,319)	53	623	(2,673)	(1,922)
Net income (loss) per common share:					
Basic	$ (6.69)	$ 0.26	$ 2.99	$ (12.11)	$ (14.93)
Diluted	$ (6.69)	$ 0.26	$ 2.99	$ (12.11)	$ (14.93)
Summary Balance Sheet Data:					
Fixed-maturity investments	$ 7,015	$ 9,669	$ 9,888	$ 11,438	$ 30,816
Short-term investments	1,571	2,070	2,688	4,693	4,916
Other investments	107	188	255	220	731
Derivative assets	2	4	866	911	1,225
Total assets of consolidated variable interest entities	10,893	14,138	4,312	4,800	5,726
Total assets	26,873	32,279	25,701	29,030	46,718
Unearned premium revenue	3,515	4,145	4,955	3,424	3,108
Loss and loss adjustment expense reserves	836	1,129	1,580	1,558	1,346
Investment agreements	1,578	2,005	2,726	4,667	16,108
Medium-term notes	1,656	1,740	2,285	4,198	9,387
Long-term debt	1,840	1,851	2,224	2,051	1,225
Derivative liabilities	5,164	4,617	4,594	6,471	4,607
Total liabilities of consolidated variable interest entities	9,883	13,055	3,640	4,785	5,700
Total equity	1,723	2,846	2,607	1,022	3,656
Book value per share	8.80	14.18	12.66	4.78	29.16
Dividends declared per common share					1.36
Insurance Statistical Data:					
Debt service outstanding	$ 840,078	$ 1,025,031	$ 1,166,193	$ 1,274,531	$ 1,140,545
Gross par amount outstanding	551,721	672,878	767,232	841,480	762,446

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Item 6. Selected Financial Data (continued)

Supplementary Financial Information

Quarterly Financial Information (unaudited):

	2011					
In millions except per share amounts	**First Reported[1]**	**First Revised[1]**	**Second**	**Third**	**Fourth**	**Full Year[2]**
Premiums earned	$ 137	$ 137	$ 149	$ 176	$ 143	$ 605
Net investment income	114	114	95	92	84	383
Net change in fair value of insured derivatives	(1,677)	(1,776)	(75)	723	(1,682)	(2,812)
Net gains (losses) on financial instruments at fair value and foreign exchange	(24)	(24)	(103)	13	15	(99)
Net investment losses related to other-than- temporary impairments	(13)	(13)	(20)	(11)	(57)	(101)
Revenues of consolidated variable interest entities	18	(90)	41	110	328	392
Total revenues	(1,400)	(1,607)	98	1,120	(1,167)	(1,557)
Losses and loss adjustment expense	(36)	(36)	50	190	(285)	(80)
Operating expenses	75	75	75	76	83	308
Interest expense	75	75	75	75	75	300
Expenses of consolidated variable interest entities	25	25	22	22	22	91
Total expenses	156	156	245	375	(93)	682
Income (loss) before income taxes	(1,556)	(1,763)	(147)	745	(1,074)	(2,239)
Net Income (loss)	(1,137)	(1,274)	137	444	(626)	(1,319)
Net income (loss) per common share:						
Basic	$ (5.68)	$ (6.37)	$ 0.69	$ 2.27	$ (3.23)	$ (6.69)
Diluted	$ (5.68)	$ (6.37)	$ 0.68	$ 2.26	$ (3.23)	$ (6.69)

(1) During the three months ended June 30, 2011, the Company identified a model input error related to the measurement of fair value and associated unrealized losses on certain insured derivatives. The error related to the quarter ended March 31, 2011 and had understated pre-tax mark-to-market loss by $207 million. This error did not affect any prior consolidated financial statements.

(2) May not cross-foot due to rounding.

	2010				
In millions except per share amounts	**First**	**Second**	**Third**	**Fourth**	**Full Year[1]**
Premiums earned	$ 157	$ 156	$ 137	$ 145	$ 594
Net investment income	122	107	113	115	457
Net change in fair value of insured derivatives	(2,245)	1,474	(492)	494	(769)
Net gains (losses) on financial instruments at fair value and foreign exchange	(46)	(2)	12	123	88
Net investment losses related to other-than- temporary impairments	(29)	(13)	0	(21)	(64)
Revenues of consolidated variable interest entities	64	307	15	(23)	364
Total revenues	(1,856)	2,077	(191)	864	894
Losses and loss adjustment expenses	214	(73)	(20)	110	232
Operating expenses	62	69	78	81	290
Interest expense	84	81	81	79	325

Expenses of consolidated variable interest entities	19	18	20	26	83
Total expenses	403	109	165	312	989
Income (loss) before income taxes	(2,259)	1,968	(356)	552	(95)
Net Income (loss)	(1,480)	1,295	(213)	451	53
Net income (loss) per common share:					
Basic	$ (7.22)	$ 6.34	$ (1.06)	$ 2.25	$ 0.26
Diluted	$ (7.22)	$ 6.32	$ (1.06)	$ 2.24	$ 0.26

(1) May not cross-foot due to rounding.

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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 consolidated 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 collateralized debt obligations (CDOs) including multi-sector and commercial mortgage-backed securities (CMBS) pools and commercial real estate (CRE) CDOs and RMBS;

failure to obtain regulatory approval to implement our risk reduction and liquidity strategies;

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

our ability to access capital and our exposure to significant fluctuations in liquidity and asset values within the global credit markets, in particular within our asset/liability products segment;

our ability to fully implement our strategic plan, including our ability to achieve high stable ratings for National Public Finance Guarantee Corporation and subsidiaries (National) or any of our other insurance companies and our ability to commute certain of our insured exposures, including as a result of limited available liquidity;

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 short-falls will result in credit losses or impairments on obligations of state and local governments that we insure;

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; and

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: Business Developments, Risks and Uncertainties, and Liquidity 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 one of the largest financial guarantee insurance businesses 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 operated through MBIA Insurance Corporation and its subsidiaries (MBIA Corp.), and our advisory services business is 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.

Economic and Financial Market Trends and MBIA s Business Outlook

We believe 2011 continued to suggest restrained economic recovery. U.S. Gross Domestic Product growth was limited by supply chain disruptions related to the earthquake in Japan, severe weather in the U.S. and higher energy prices. Additionally, the events in Europe continue to contribute to global volatility and could further impact economic growth both in Europe and the U.S. While the effects of these events may be transitory, we continue to expect sluggish growth within the U.S. 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 mortgage loans supporting our insured RMBS transactions and the volatility of unrealized gains and losses on our insured derivatives, significantly impact our financial results.

During 2011, we continued to identify ineligible loans for which 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. The Company will review loan files within additional insured issues in the future if factors indicate that additional material recovery rights exist, although the Company no longer believes that the practice of reviewing loans for purposes of assessing put-back recoveries is necessary in order to estimate potential recoveries. The estimated amount, likelihood and timing of potential recoveries are expected to be revised and supplemented based on facts and circumstances as they emerge. This would include 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. As of December 31, 2011, we recorded a total of $3.1 billion in expected recoveries related to our put-back claims of ineligible mortgage loans, including expected recoveries recorded in consolidated variable interest entities (VIEs). We have recorded our largest put-back recoveries against Countrywide Home Loans, Inc. and certain of its affiliates, including Bank of America Corp., and GMAC Mortgage, LLC and Residential Funding Company, LLC, which are subsidiaries of Ally Financial Inc. Our cumulative incurred loss related to these ineligible mortgage loans was $4.6 billion as of December 31, 2011. We believe that, based on the strength of our contract claims and the level of ineligible mortgage loans in our insured transactions, we are entitled to collect the full amount of our incurred loss related to these ineligible mortgage loans. However, the amount we actually collect could be less than our cumulative incurred loss due to a variety of factors including the risks inherent in litigation and the risk that the sellers/servicers will not be able to honor any claims or judgments that we have against them. 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 mortgage loans that the Company believes failed to comply with the representations and warranties made by the sellers/servicers of the securitizations to which those mortgage loans were sold (including mortgage loans that failed to comply with the related underwriting criteria), based on the Company s assessment of such mortgage loans compliance with such representations and warranties, which included information provided by third-party review firms. The Company s assessment of the ineligibility of individual mortgage loans has been challenged 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)

For 2011, we estimated an additional $1.6 billion of credit losses related to our insured CMBS exposure, primarily on insured credit default swap (CDS) contracts. This additional amount reflects the cost of commutations during the fourth quarter of 2011, revised expectations for the cost of commuting similar transactions in the future, and deterioration within some transactions. While average debt service coverage in transactions in our aggregate portfolio has decreased over the last year, debt coverage ratios on some loans have deteriorated significantly. Ultimate loss rates remain uncertain, and we have recorded additional impairments on our insured CMBS portfolio every quarter since the beginning of 2010 as our anticipated economic losses have increased during that time period. It is possible that we will experience severe losses or liquidity needs due to increased deterioration in our insured CMBS portfolio, in particular if macroeconomic stress escalates. A double dip recession may result in increased delinquencies, higher levels of liquidations of delinquent loans and/or severities of loss upon liquidation. Although we have also seen stabilization in the delinquency rate over the past several months, loan modifications and extensions granted by the special servicers for these CMBS loans and increased liquidations have contributed to the stabilization. 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.

In 2011, MBIA Corp. commuted or agreed to commute $32.4 billion of gross insured exposure primarily comprising CMBS pools, investment grade corporate CDOs, and multi-sector CDOs, among other types of exposures. Subsequent to December 31, 2011, MBIA Corp. agreed to commute transactions with additional counterparties. These transactions, primarily comprising investment grade corporate CDOs, totaled $3.7 billion in gross insured exposure. The total amount the Company agreed to pay to commute these transactions was approximately $500 million in excess of its aggregate statutory loss reserve for such 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. The Company enters into commutations in the ordinary course of its business and does not intend to make contemporaneous disclosures regarding any such transactions regardless of the amounts paid to effect such commutations in relation to the statutory loss reserves established for the respective transactions. Our ability to commute insured transactions may be limited by available liquidity as determined based on management s assessment.

Escalating uncertainties regarding the European sovereign debt crisis have affected the global economy. MBIA does not insure any direct European sovereign debt. However, MBIA s indirect European sovereign insured debt exposure totaled $11.4 billion as of December 31, 2011 and included obligations of sovereign-related and sub-sovereign issuers, such as regions, departments, and sovereign-owned entities that are supported by a sovereign state, region or department. Of the $11.4 billion insured gross par outstanding, $833 million, $763 million, and $256 million, related to Spain, Portugal, and Ireland, respectively. The remaining $9.5 billion related to countries outside the Eurozone, principally the United Kingdom. The Company has an immaterial amount of direct and indirect European sovereign debt holdings included in its investment portfolios. A default by one or more sovereign issuers could have an adverse effect on our insured debt exposures and investment portfolios.

Our financial results, prepared in accordance with accounting principles generally accepted in the United States of America (GAAP), have been extremely volatile since the fourth quarter of 2007 as a result of unrealized gains and losses from fair valuing our insured credit derivatives, which we do not believe reflect the underlying economics of our business. We fully expect that reported financial results may remain volatile and uncertain during 2012 as a result of actual and perceived future performance of our insured credit derivatives and the perception of MBIA s credit risk. Our economic performance may also be volatile depending on changes in our loss estimates based on deviations of macroeconomic conditions and collateral performance from our expectations, further deterioration in economic conditions and financial markets in the U.S. and abroad, including events such as the European sovereign crisis, and the degree of ineligible loans in RMBS securitizations.

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

EXECUTIVE OVERVIEW (continued)

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 since 2008 by adverse credit rating actions by Standard & Poor s Financial Services LLC (S&P) and Moody s Investors Service, Inc. (Moody s). In August 2011, S&P issued new guidelines that reflect significant changes to its rating methodology for financial guarantee insurers. These new guidelines were effective immediately. The changes to S&P s rating methodology substantially increase the amount of capital required to achieve its highest ratings, implement a new Largest Obligors Test and incorporate additional qualitative considerations into the ratings process. In November 2011, S&P affirmed its rating on National at BBB and on MBIA Corp. at B. In addition, in December 2011, Moody s downgraded National s insurer financial strength rating from Baa1 to Baa2 and changed its outlook from developing to negative and also downgraded MBIA Inc. s senior debt rating from Ba3 to B2 and placed the ratings of MBIA Corp. under review for possible downgrade. Moody s cited the primary reason for its rating actions was the weakening of the overall MBIA group s market standing, mainly due to the deterioration of MBIA Corp. s credit profile. The absence of S&P s and Moody s highest ratings has adversely impacted our ability to write new insurance business and the premiums we can charge, and could diminish the future acceptance of our financial guarantee insurance products.

The pending litigation challenging the establishment of National also has constrained our ability to establish high stable ratings and generate new U.S. public finance financial guarantee insurance business. We do not expect to write significant new financial guarantee insurance business prior to an upgrade of our insurance financial strength ratings. We expect that once the pending litigation is resolved, we will seek to obtain higher ratings for National 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 December 2011, National entered into a secured loan with MBIA Insurance Corporation (National Secured Loan) under which National loaned MBIA Insurance Corporation $1.1 billion in order to enable MBIA Insurance Corporation to fund settlements and commutations of its insurance policies. MBIA Insurance Corporation s ability to repay the National Secured Loan will primarily be predicated on MBIA Corp. s ability to collect on its future receivables, including its ability to successfully enforce its rights to have mortgage sellers/servicers cure, replace or repurchase ineligible mortgage loans from securitizations it insured. As a result, the existence of the National Secured Loan may adversely affect National s ability to achieve higher stable ratings and, therefore, its ability to write new business. Refer to the Liquidity section herein for information about the terms of the National Secured Loan.

Refer to Note 23: Commitments and Contingencies in the Notes to Consolidated Financial Statements for a detailed discussion on the lawsuits filed by and against the Company.

Financial Highlights

For the year ended December 31, 2011, we recorded a consolidated net loss of $1.3 billion or $6.69 per diluted share compared with consolidated net income of $53 million or $0.26 per diluted share for the year ended December 31, 2010, and consolidated net income of $623 million or $2.99 per diluted share for the year ended December 31, 2009, after adjusting for preferred stock dividends of MBIA Insurance Corporation.

We also use adjusted pre-tax income (loss), a non-GAAP measure, to supplement our analysis of our periodic results. We consider adjusted pre-tax income (loss) a measure of fundamental periodic financial performance, which we believe is useful for an understanding of our results. Adjusted pre-tax income (loss) adjusts GAAP pre-tax income (loss) to remove the effects of consolidating insured VIEs and gains and losses related to 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 (loss) is not a substitute for and should not be viewed in isolation from GAAP pre-tax income (loss), and our definition of adjusted pre-tax income (loss) may differ from that used by other companies. Refer to the following Results of Operations section for a reconciliation of adjusted pre-tax income (loss) to GAAP pre-tax income (loss).

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

EXECUTIVE OVERVIEW (continued)

For the year ended December 31, 2011, consolidated adjusted pre-tax loss was $497 million compared with adjusted pre-tax losses of $377 million and $877 million for the years ended December 31, 2010 and 2009, respectively. The unfavorable change in consolidated adjusted pre-tax loss for the year ended December 31, 2011 compared with 2010 was principally due to lower premiums on insured derivatives as a result of policy commutations and early settlements, an increase in net losses from fair valuing financial instruments within our wind-down operations, and lower insurance fees and reimbursements, partially offset by a decrease in insurance losses and LAE. The favorable change in adjusted pre-tax loss for the year ended December 31, 2010 compared with 2009 resulted principally from a reduction in insurance losses related to commuted transactions, partially offset by losses in our wind-down operations related to fair valuing financial instruments and adverse changes in foreign currency exchange rates.

During 2011, our business segments continued to maintain adequate liquidity to meet their payment obligations despite minimal collections of recoveries in connection with ineligible loans in our insured RMBS securitizations. However, MBIA Corp. s liquidity position weakened as a result of commutation and loss payments and MBIA Inc. s liquidity (primarily comprising of the liquidity positions of its corporate and asset/liability products activities) experienced stress as a result of deterioration in the market values of assets. As of December 31, 2011, National and MBIA Corp. had $703 million and $534 million, respectively, of total liquidity without regard to investments in their subsidiaries. Total liquidity within our insurance businesses includes cash and short-term investments, as well as other assets that are readily available for liquidity purposes. As of December 31, 2011, MBIA Inc. had $226 million of cash and highly liquid assets available for general corporate liquidity purposes, excluding the amounts held in escrow under its tax sharing agreement, and $160 million of cash and liquid assets not pledged as collateral in its asset/liability products activities. A detailed discussion of the Company s liquidity position is presented within the Liquidity section herein.

Our consolidated book value (total shareholders equity) was $1.7 billion as of December 31, 2011, compared with $2.8 billion as of December 31, 2010. The decrease was primarily a result of our consolidated net loss for the year ended December 31, 2011, partially offset by a decrease in net unrealized losses within accumulated other comprehensive loss resulting from improvements in the value of our consolidated investment portfolio. Our consolidated book value per share as of December 31, 2011 was $8.80, compared with $14.18 as of December 31, 2010. The decrease in book value per share resulting from the decrease in our consolidated book value was partially offset by lower shares outstanding as a result of repurchases of common shares during 2011.

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 through the GAAP statements of operations, 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 and a reconciliation of GAAP book value per share to ABV per share.

As of December 31, 2011, ABV per share was $34.50, down from $36.81 as of December 31, 2010, reflecting a modest decline compared with the decline in our consolidated book value described above. The decrease in ABV per share was primarily driven by additional estimated credit impairments on insured credit derivatives and a reduction in the value of expected installment premiums resulting from the early settlement of policies during 2011, partially offset by the effect of repurchasing common shares during 2011.

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 for a discussion of National s and MBIA Corp. s capital position under statutory accounting principles (U.S. STAT).

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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 Insurance Limited) 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 be greater than or less than such estimates resulting in the Company recognizing additional or reversing excess loss and LAE reserves through 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, the extent to which sellers/servicers comply with the representations or warranties made in connection therewith, 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.

Since 2007, the majority of our case basis reserves and insurance loss recoveries were related to insured second-lien 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 based on 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 that pricing is not observable.

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

CRITICAL ACCOUNTING ESTIMATES (continued)

The fair value measurements 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 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 sheets 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 consolidated financial statements are valued based on the estimated value of the underlying collateral or the Company s estimate of discounted cash flows.

Substantially all of the Company s investments are priced by independent third parties, including pricing services and brokers. The fair values of investments for which internal prices were used were not significant to the aggregate fair value of our investment portfolio as of December 31, 2011 or 2010. Investments with fair values derived from pricing services or broker quotes are classified within Level 1, 2 or 3 of the fair value hierarchy, depending on the observability of inputs. Typically we receive one pricing service value or broker quote for each instrument, which represents a non-binding indication of value. When a price is received by more than one source, the Company uses the lower of the prices provided. 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. Independent pricing data is received monthly 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. This review includes comparing significant assumptions such as prepayment speeds, default ratios, forward yield curves, credit spreads and other significant quantitative inputs to internal assumptions, and working with the price provider to reconcile the differences. The price provider may subsequently provide an updated price. In the event that the price provider does not update their price, and the Company still does not agree with the price provided, the Company will try to obtain a price from another third party provider, such as a broker, or use an internally developed price which we believe represents the fair value of the investment. All challenges to third-party prices are reviewed by staff of the Company with relevant expertise to ensure reasonableness of assumptions and compliance with internal control and documentation procedures.

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

CRITICAL ACCOUNTING ESTIMATES (continued)

In addition to challenging pricing assumptions, we obtain independent auditor reports from significant third-party pricing services regarding their key controls over data provided to us. These reports are obtained annually and are reviewed by us to ensure key controls are applied by the pricing services, and that appropriate user controls are in place at MBIA to ensure proper measurement of the fair values of our investments. In the event that any controls are identified by independent auditors in these reports as insufficient, the Company will take the necessary actions to ensure that internal user controls are in place to mitigate the control risks. No significant control deficiencies were noted in 2011 for significant third-party pricing services used.

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 consolidated 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 sheets at values that reflect changes in the risks being hedged, which offset changes in the 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 the 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 section *3. Derivatives* 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. 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 sheets 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 are recorded each period in current earnings. Refer to Note 2: Significant Accounting Policies and Note 10: Derivative Instruments in the Notes to Consolidated Financial Statements for a comprehensive discussion of our derivative use and practices.

Our derivative liabilities are primarily 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 types of collateral underlying our insured derivatives consist of cash securities and CDSs referencing primarily corporate, asset-backed, residential mortgage-backed, commercial mortgage-backed, CRE loans, and CDO securities.

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CRITICAL ACCOUNTING ESTIMATES (continued)

Our insured credit derivative contracts 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 the 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 well as 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 measurements 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 sheets that are classified as Level 3 within the fair value hierarchy as of December 31, 2011 and 2010:

In millions	As of December 31, 2011	2010
Investments:		
Foreign governments[1]	$ 11	$ 11
Corporate obligations[2]	206	246
Mortgage-backed securities:		
Residential mortgage-backed agency[1]	8	41
Residential mortgage-backed non-agency[1]	17	48
Commercial mortgage-backed[1]	24	41
Asset-backed securities:		
Collateralized debt obligations[2]	60	191
Other asset-backed[2]	318	350
State and municipal bonds:		
Taxable bonds[1]		14
Tax-exempt bonds[1]	28	36
Perpetual preferred securities[1]	1	
Other investments[1]	10	
Derivative assets:		
Interest rate derivatives[2]	3	5
Assets of consolidated VIEs:		
Corporate obligations[1]	69	82
Mortgage-backed securities:		
Residential mortgage-backed non-agency[1]	21	40
Commercial mortgage-backed[1]	22	23
Asset-backed securities:		
Collateralized debt obligations[2]	203	245
Other asset-backed[2]	67	81
Loans receivable[1]	2,046	2,183
Loan repurchase commitments[1]	1,077	835
Derivative assets:		
Credit derivatives[2]	447	687
Total Level 3 assets at fair value	$ 4,638	$ 5,159
Medium-term notes[2]	$ 165	$ 116
Derivative liabilities:		
Credit derivatives[2]	4,790	4,350
Liabilities of consolidated VIEs:		
VIE notes[1]	2,889	4,673
Credit derivatives[1]	527	1,455
Currency derivatives[2]	17	14

Total Level 3 liabilities at fair value	$ 8,388	$ 10,608

(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 30% and 24% of total assets measured at fair value on a recurring basis as of December 31, 2011 and 2010, respectively. Level 3 liabilities represented approximately 77% and 78% of total liabilities measured at fair value on a recurring basis as of December 31, 2011 and 2010, 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 our consolidated 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, asset impairments, premium revenue recognition, deferred acquisition costs, deferred compensation, loss reserves and net operating losses.

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 consolidated statements 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, 2011 and 2010, the Company s valuation allowance was $236 million and $376 million, respectively. The change in the valuation allowance for the year ended December 31, 2011 was primarily due to generation of capital gains on asset sales and the re-characterization of certain impairments as bad debts resulting in ordinary losses. Our valuation allowance primarily relates to realized losses on sales of investments being carried forward as capital losses and impairments of certain assets also characterized as capital losses. Capital losses may only be offset by capital gains and any capital loss not utilized in the year generated can only be carried forward five years.

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, 2011, 2010 and 2009:

	Years Ended December 31,		
In millions except for per share amounts	**2011**	**2010**	**2009**
Total revenues (losses)	$ (1,557)	$ 894	$ 2,954
Total expenses	682	989	1,737
Pre-tax income (loss)	(2,239)	(95)	1,217
Provision (benefit) for income taxes	(920)	(148)	583
Net income (loss)	$ (1,319)	$ 53	$ 634

Net income (loss) available to common shareholders	$ (1,319)	$ 53	$ 623
Net income (loss) per common share:			
Basic	$ (6.69)	$ 0.26	$ 2.99
Diluted	$ (6.69)	$ 0.26	$ 2.99

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

RESULTS OF OPERATIONS (continued)

For the year ended December 31, 2011, we recorded a consolidated net loss of $1.3 billion or $6.69 per share compared with consolidated net income of $53 million or $0.26 per share, for 2010. Weighted average shares outstanding totaled 197 million for the year ended December 31, 2011, down 3% from 2010 as a result of share repurchases by the Company. Consolidated total revenues (losses) for the year ended December 31, 2011 reported in the above table included $2.8 billion of net losses on insured derivatives compared with $769 million of net losses for 2010. The net losses on insured derivatives in 2011 and 2010 principally resulted from favorable changes in the market perception of MBIA Corp. s credit risk, which resulted in a tightening of the Company s credit spreads and an improvement in the Company s recovery rate, and unfavorable changes in credit spreads and prices of underlying collateral. Consolidated total expenses for the year ended December 31, 2011 included a benefit of $80 million of net insurance loss and LAE compared with an expense of $232 million for 2010. The net insurance benefit in 2011 and loss in 2010 were principally related to our insured RMBS exposure.

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 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 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 2009. The decrease in our consolidated 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 2009. The decrease in our consolidated expenses principally reflects a reduction in loss and LAE incurred on our insured 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, 2011 was $301 million of income before income taxes related to consolidated VIEs, after the elimination of intercompany revenues and expenses, compared with income before income taxes of $281 million for 2010 and a loss before income taxes of $121 million for 2009. The net effect of consolidated VIEs on our financial results will vary over time as VIEs are consolidated or deconsolidated by the Company, and as the values of consolidated VIE assets and liabilities change.

Adjusted Pre-Tax Income

The following table presents our consolidated adjusted pre-tax income (loss) (a non-GAAP measure) and provides a reconciliation of adjusted pre-tax income (loss) to GAAP pre-tax income (loss) for the years ended December 31, 2011, 2010 and 2009:

	Years Ended December 31,		
In millions	**2011**	**2010**	**2009**
Adjusted total revenues	$ 1,113	$ 1,811	$ 1,566
Adjusted total expenses	1,610	2,188	2,443
Adjusted pre-tax income (loss)	(497)	(377)	(877)
Additions to adjusted pre-tax income (loss):			
Impact of consolidating certain VIEs	(49)	243	(44)
Mark-to-market gains (losses) on insured credit derivatives	(310)	(679)	1,650
Subtractions from adjusted pre-tax income (loss):			
Impairments on insured credit derivatives	1,383	(718)	(488)
Pre-tax income (loss)	$ (2,239)	$ (95)	$ 1,217

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

RESULTS OF OPERATIONS (continued)

For the year ended December 31, 2011, total revenues included in adjusted pre-tax loss decreased compared with 2010 primarily as a result of lower premiums on insured derivatives as a result of policy commutations and early settlements, an increase in net losses from fair valuing financial instruments within our wind-down operations, and lower insurance fees and reimbursements. Total expenses included in adjusted pre-tax loss for the year ended December 31, 2011 decreased compared with 2010 primarily as a result of a decrease in total insurance losses.

For the year ended December 31, 2010, total revenues included in adjusted pre-tax loss increased compared with 2009 principally due to lower realized losses on other-than-temporary impairments and higher premiums on insured derivatives due to the termination of reinsurance with Channel Reinsurance Ltd. (Channel Re), partially offset by reductions in gains on extinguishment of debt and unrealized gains on financial instruments and foreign exchange. Total expenses included in adjusted pre-tax loss for the year ended December 31, 2010 decreased compared with 2009 principally as a result of 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.

Adjusted Book Value

As of December 31, 2011, ABV per share (a non-GAAP measure) was $34.50, down from $36.81 as of December 31, 2010. The decrease in ABV per share was primarily driven by additional estimated credit impairments on insured credit derivatives and a reduction in the value of expected installment premiums resulting from the commutation and early settlement of policies during 2011, partially offset by the effect of repurchasing common shares during 2011.

The following table provides a reconciliation of consolidated book value per share to consolidated ABV per share:

	As of December 31,	
	2011	**2010**
Total shareholders equity of MBIA Inc. (in millions)	$ 1,700	$ 2,832
Common shares outstanding	193,143,196	199,745,600
Book value per share	$ 8.80	$ 14.18
Adjustments for items included in book value per share (after-tax):		
Cumulative net loss from consolidating certain VIEs[1]	0.82	0.50
Cumulative unrealized loss on insured credit derivatives	16.12	14.58
Net unrealized losses included in other comprehensive income	0.85	2.27
Adjustments for items not included in book value per share (after-tax):		
Net unearned premium revenue[2][3]	12.00	13.61
Present value of insured derivative installment revenue[4]	0.86	1.71
Cumulative impairments on insured credit derivatives[4]	(3.74)	(8.69)
Deferred acquisition costs	(1.21)	(1.35)
Total adjustments per share	25.70	22.63
Adjusted book value per share	$ 34.50	$ 36.81

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

(2) Consists of financial guarantee premiums and fees.

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

(4) The discount rate on insured derivative installment revenue and impairments was 5.0% as of December 31, 2011 and 2010.

Our Net unearned premium revenue adjustment to book value per share consists of unearned premium revenue net of prepaid reinsurance premiums related to financial guarantee insurance contracts, 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 sheets in accordance with accounting principles for financial guarantee insurance contracts but which are contractually due to the Company.

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RESULTS OF OPERATIONS (continued)

U.S. Public Finance Insurance

Our U.S. public finance insurance business is primarily 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 exercised, at its discretion, the right to accelerate insured obligations upon default or otherwise. National s guarantees insure municipal bonds, including tax-exempt and taxable indebtedness of U.S. political subdivisions, as well as utility districts, airports, healthcare 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, user fees or tariffs related to the use of these projects, lease payments or other similar types of revenue streams.

The following table presents our U.S. public finance insurance segment results for the years ended December 31, 2011, 2010 and 2009:

	Years Ended December 31,			Percent Change	
In millions	**2011**	**2010**	**2009**	**2011 vs. 2010**	**2010 vs. 2009**
Net premiums earned	$ 454	$ 442	$ 551	3%	-20%
Net investment income	216	230	217	-6%	6%
Fees and reimbursements	8	22	16	-64%	38%
Realized gains (losses) and other settlements on insured derivatives	2	1	1	100%	0%
Net gains (losses) on financial instruments at fair value and foreign exchange	96	55	23	75%	139%
Other net realized gains (losses)	(31)			n/m	n/m
Total revenues	745	750	808	-1%	-7%
Losses and loss adjustment	4	73	94	-95%	-22%
Amortization of deferred acquisition costs	89	83	105	7%	-21%
Operating	77	64	58	20%	10%
Total expenses	170	220	257	-23%	-14%
Pre-tax income	$ 575	$ 530	$ 551	8%	-4%

n/m Percent change not meaningful.

For the years ended December 31, 2011, 2010 and 2009, we did not write a meaningful amount of U.S. public finance insurance. The lack of insurance writings in our U.S. public finance segment reflects the insurance financial strength credit ratings assigned to National by major ratings agencies 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.

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 GAAP, and our definition of adjusted pre-tax income may differ from that used by other companies.

For the years ended December 31, 2011, 2010 and 2009, there were no material differences between adjusted pre-tax income and GAAP pre-tax income.

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RESULTS OF OPERATIONS (continued)

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, 2011 and 2010. 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.

	Gross Par Outstanding as of December 31,			
In millions	**2011**		**2010**	
Rating	**Amount**	**%**	**Amount**	**%**
AAA	$ 22,593	5.5%	$ 27,292	5.7%
AA	187,036	45.6%	225,827	46.8%
A	158,958	38.7%	181,713	37.6%
BBB	38,949	9.5%	45,113	9.3%
Below investment grade	2,824	0.7%	2,747	0.6%
Total	$ 410,360	100.0%	$ 482,692	100.0%

The credit quality distribution of our U.S. public finance insurance exposure as of December 31, 2011 remained relatively consistent with December 31, 2010. Total U.S. public finance insurance gross par outstanding rated A or above, before giving effect to National s guarantee, was approximately 90% and gross par outstanding rated below investment grade, before giving effect to National s guarantee, was less than 1% as of December 31, 2011 and 2010.

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, 2011, U.S. public finance net premiums earned were $454 million compared with $442 million for 2010. The increase in 2011 resulted from an increase in refunded premiums earned of $64 million offset by a decline in scheduled premiums earned of $52 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 year.

For the year ended December 31, 2010, U.S. public finance net premiums earned were $442 million compared with $551 million for 2009. The decrease was due to a decline in scheduled premiums earned of $71 million and a decline in premiums earned from refunding activity of $38 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. 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, 2011, our U.S. public finance insurance investment portfolio generated $216 million of net investment income compared with $230 million for 2010 and $217 million for 2009. The decrease in net investment income for 2011 from 2010 was primarily due to lower yields on new investment purchases, declines in notional amounts and declining average interest rates on the repurchase and reverse repurchase transactions with our asset/liability products segment. The increase in net investment income for 2010 from 2009 reflects the timing of our insurance business transformation in mid-February 2009 compared with a full year of net investment income in 2010.

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RESULTS OF OPERATIONS (continued)

National maintains simultaneous repurchase and reverse repurchase agreements (Asset Swap) 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. In addition, during 2011 the interest income on the National Secured Loan, established in December of 2011, was included in our U.S. public finance net investment income and totaled approximately $4 million for the year ended December 31, 2011. The National Secured Loan enhances the overall yield of our U.S. public finance insurance investment portfolio as lower yielding investments were sold to fund the amount loaned under this agreement. Refer to the Liquidity section included herein for additional information about these agreements.

Investment asset balances at amortized cost as of December 31, 2011 and 2010 are presented in the following table:

	December 31, 2011		December 31, 2010	
In millions	**Investments at Amortized Cost**	**Pre-tax yield(1)**	**Investments at Amortized Cost**	**Pre-tax yield(1)**
Fixed-income securities:				
Tax-exempt	$ 1,067	4.06%	$ 2,748	4.35%
Taxable	2,073	3.89%	2,395	3.74%
Short-term	641	0.70%	343	2.51%
Total fixed-income	3,781	3.40%	5,486	3.97%
Secured loan to affiliate	1,130			
Other	16		3	
Total	$ 4,927		$ 5,489	

(1) Estimated yield-to-maturity.

FEES AND REIMBURSEMENTS For the year ended December 31, 2011, fees and reimbursements were $8 million compared with $22 million and $16 million for 2010 and 2009, respectively. The decrease in 2011 from 2010 was primarily due to the receipt, in 2010, of amounts in excess of those which were contractually due to National upon the termination of a reinsurance agreement as compensation for potential future performance volatility related to reassumed exposures. The increase in 2010 from 2009 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 For the year ended December 31, 2011, net gains and losses on financial instruments at fair value and foreign exchange were $96 million compared with $55 million and $23 million for 2010 and 2009, respectively. The increase in 2011 from 2010 was primarily due to net gains on sales of investments of $88 million to fund the National Secured Loan and to re-position National s investment portfolio. The increase in 2010 from 2009 was primarily due to sales of investments 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.

OTHER NET REALIZED GAINS (LOSSES) Other net realized gains (losses) for the year ended December 31, 2011 included an impairment loss of $31 million, representing the full write-off of goodwill held by National.

LOSSES AND LOSS ADJUSTMENT EXPENSES National s portfolio surveillance group is responsible for monitoring our U.S. public finance segment s insured obligations. The level and frequency of monitoring of any insured obligation 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.

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The following tables present information about our U.S. public finance insurance loss and LAE reserves and recoverables as of December 31, 2011 and 2010, as well as our related loss and LAE provision for the years ended December 31, 2011, 2010 and 2009:

	December 31,		Percent Change
In millions	2011	2010	2011 vs. 2010
Gross losses and LAE reserves	$ 369	$ 623	-41%
Expected recoveries on unpaid losses	(200)	(400)	-50%
Loss and LAE reserves	$ 169	$ 223	-24%
Insurance loss recoverable	$ 155	$ 73	112%
Insurance loss recoverable ceded[1]	$ 4	$ 2	100%
Reinsurance recoverable on paid and unpaid losses	$ 8	$ 9	-11%

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

	Years Ended December 31,			Percent Change	
In millions	2011	2010	2009	2011 vs. 2010	2010 vs. 2009
Loss and LAE related to actual and expected payments	$ (93)	$ 555	$ 138	-117%	n/m
Recoveries of actual and expected payments	97	(481)	(40)	-120%	n/m
Gross losses incurred	4	74	98	-95%	-24%
Reinsurance	0	(1)	(4)	-100%	-75%
Losses and loss adjustment expenses	$ 4	$ 73	$ 94	-95%	-22%

n/m Percent change not meaningful.

For the year ended December 31, 2011, losses and LAE incurred of $4 million primarily related to two tax-backed transactions, a toll road transaction and a housing transaction, partially offset by net reversals of estimated losses on affordable housing transactions. Additionally, a reversal of loss and LAE reserves principally related to future payments on a tax-backed transaction was offset by the reversal of the corresponding recoveries of such payments. 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. Additionally, increases in loss and LAE reserves related to a gaming revenue transaction were offset by expected recovery of the full amount of such losses. 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 loss and LAE reserves are both reserves for insured obligations for which a payment default has occurred and National has already paid a claim and also for which a payment default has not yet occurred but a claim is expected in the future. The following table includes LAE reserves as of December 31, 2011 for one issue that had no expected future claim payments or par outstanding but

for which the Company is obligated to pay LAE incurred in prior periods. As of December 31, 2011 and 2010, loss and LAE reserves comprised the following:

$ in millions	Number of Issues[1]		Loss and LAE Reserve		Par Outstanding	
	2011	2010	2011	2010	2011	2010
Gross of reinsurance:						
Issues with defaults	11	11	$ 163	$ 202	$ 797	$ 870
Issues without defaults	5	4	6	21	26	261
Total gross of reinsurance	16	15	$ 169	$ 223	$ 823	$ 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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RESULTS OF OPERATIONS (continued)

POLICY ACQUISITION COSTS AND OPERATING EXPENSES U.S. public finance insurance segment expenses for the years ended December 31, 2011, 2010 and 2009 are presented in the following table:

	Years Ended December 31,			Percent Change	
In millions	**2011**	**2010**	**2009**	**2011 vs. 2010**	**2010 vs. 2009**
Gross expenses	$ 77	$ 64	$ 58	20%	10%
Amortization of deferred acquisition costs	$ 89	$ 83	$ 105	7%	-21%
Operating	77	64	58	20%	10%
Total insurance operating expenses	$ 166	$ 147	$ 163	13%	-10%

Gross expenses represent total insurance expenses before the deferral of any policy acquisition costs. Gross expenses increased for the year ended December 31, 2011 compared with 2010 primarily due to higher legal costs associated with litigation and higher expenses related to support services provided by Optinuity Alliance Resources Corp. (Optinuity). Gross expenses increased for the year ended December 31, 2010 compared with 2009 primarily due to higher legal costs associated with litigation and building-related expenses associated with the Armonk, New York 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.

Amortization of deferred acquisition costs increased for the year ended December 31, 2011 compared with 2010 and decreased for the year ended December 31, 2010 compared with 2009. Theses variances were consistent with the amortization of the related unearned premium revenue. Operating expenses increased for the year ended December 31, 2011 compared with 2010 and 2009. These increases were a result of the increases in gross expenses as we did not defer a material amount of policy acquisition costs during 2011, 2010 or 2009.

Structured Finance and International Insurance

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 that are primarily located outside of the U.S. which include toll roads, bridges, airports, public transportation facilities, utilities and other types of infrastructure projects serving a substantial public purpose, and obligations of sovereign-related 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, and leases and loans for equipment, aircraft and real property.

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In certain cases, we may be required to consolidate entities established by issuers of insured obligations as part of securitizations when we insure the assets or liabilities of those entities and in connection with remediations under our 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.

The following tables present our structured finance and international insurance segment results for the years ended December 31, 2011, 2010 and 2009:

	Years Ended December 31,			Percent Change	
In millions	**2011**	**2010**	**2009**	**2011 vs. 2010**	**2010 vs. 2009**
Net premiums earned	$ 230	$ 251	$ 333	-8%	-25%
Net investment income	77	125	222	-38%	-44%
Fees and reimbursements	116	200	215	-42%	-7%
Change in fair value of insured derivatives:					
Realized gains (losses) and other settlements on insured derivatives	(2,373)	(163)	(167)	n/m	-2%
Unrealized gains (losses) on insured derivatives	(441)	(607)	1,650	-27%	-137%
Net change in fair value of insured derivatives	(2,814)	(770)	1,483	n/m	n/m
Net gains (losses) on financial instruments at fair value and foreign exchange	69	135	59	-49%	129%
Net investment losses related to other-than-temporary impairments	(62)	(5)	(9)	n/m	-44%
Net gains (losses) on extinguishment of debt			13	n/m	-100%
Other net realized gains (losses)	1	29	(64)	-97%	-145%
Revenues of consolidated VIEs:					
Net investment income	52	53	66	-2%	-20%
Net gains (losses) on financial instruments at fair value and foreign exchange	30	269	10	-89%	n/m
Net investment losses related to other-than-temporary impairments			(93)	n/m	-100%
Other net realized gains (losses)	255	(76)	(41)	n/m	85%
Total revenues	(2,046)	211	2,194	n/m	-90%
Losses and loss adjustment	(84)	159	770	n/m	-79%
Amortization of deferred acquisition costs	136	145	198	-6%	-27%
Operating	145	133	178	9%	-25%
Interest	138	136	137	1%	-1%
Expenses of consolidated VIEs:					
Operating	31	27		15%	n/m
Interest	43	42	87	2%	-52%
Total expenses	409	642	1,370	-36%	-53%
Pre-tax income (loss)	$ (2,455)	$ (431)	$ 824	n/m	n/m

n/m Percent change not meaningful.

For the years ended December 31, 2011, 2010 and 2009, we did not write a meaningful amount of structured finance and international insurance. 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 again in 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. Pre-tax income (loss) in each of the years included in the preceding table was primarily driven by changes in the fair value of our insured credit derivatives, which reflects changes in the market perception of MBIA Corp. s credit risk.

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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 (loss). We believe adjusted pre-tax income (loss), as used by management, is useful for an understanding of the results of operations of our structured finance and international insurance segment. Adjusted pre-tax income (loss) is not a substitute for pre-tax income (loss) determined in accordance with GAAP, and our definition of adjusted pre-tax income (loss) may differ from that used by other companies.

The following table presents the adjusted pre-tax income (loss) of our structured finance and international insurance segment, and a reconciliation of adjusted pre-tax income (loss) to GAAP pre-tax income (loss) for the years ended December 31, 2011, 2010 and 2009:

	Years Ended December 31,			Percent Change	
In millions	**2011**	**2010**	**2009**	**2011 vs. 2010**	**2010 vs. 2009**
Adjusted total revenues	$ 646	$ 1,145	$ 805	-44%	42%
Adjusted total expenses	1,334	1,837	2,075	-27%	-11%
Adjusted pre-tax income (loss)	(688)	(692)	(1,270)	-1%	-46%
Additions to adjusted pre-tax income (loss):					
Impact of consolidating certain VIEs	(74)	222	(44)	-133%	n/m
Mark-to-market gain (loss) on insured credit derivatives	(310)	(679)	1,650	-54%	-141%
Subtractions from adjusted pre-tax income (loss):					
Impairments on insured credit derivatives	1,383	(718)	(488)	n/m	47%
Pre-tax income (loss)	$ (2,455)	$ (431)	$ 824	n/m	n/m

n/m Percent change not meaningful.

For the year ended December 31, 2011, adjusted pre-tax loss was $688 million compared with an adjusted pre-tax loss of $692 million for 2010. Adjusted total revenues for the year ended December 31, 2011 decreased from 2010 principally due to lower fee revenue and, to a lesser extent, lower premiums earned and net investment income, which were partially offset by gains from the sale of investments. Fee revenue in 2010 included the receipt of amounts in excess of those which were contractually due to MBIA Corp. upon the termination of a reinsurance agreement, with no comparable amount recorded in 2011. Adjusted total expenses for the year ended December 31, 2011 decreased from 2010 primarily as a result of a decrease in total financial guarantee insurance losses.

For the year ended December 31, 2010, adjusted pre-tax loss was $692 million compared with an adjusted pre-tax loss of $1.3 billion for 2009. Adjusted total revenues for the year ended December 31, 2010 increased from 2009 principally due to higher premiums on insured derivative transactions due to the termination 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 decreased from 2009 principally due to a reduction in insurance losses and a decrease in policy acquisition and operating expenses.

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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, 2011 and 2010. 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, 2011		Gross Par Outstanding as of December 31, 2010	
Rating	Amount	%	Amount	%
AAA	$ 43,217	30.6%	$ 62,897	33.0%
AA	10,342	7.3%	19,299	10.1%
A	27,197	19.2%	32,620	17.2%
BBB	33,054	23.4%	40,799	21.5%
Below investment grade	27,552	19.5%	34,571	18.2%
Total[(1)]	$ 141,362	100.0%	$ 190,186	100.0%

(1) Includes gross par outstanding of $11.4 billion and $18.1 billion related to our consolidated VIEs as of December 31, 2011 and 2010, respectively.

As of December 31, 2011, total structured finance and international gross par outstanding rated A or above, before giving effect to MBIA s guarantee, was 57% compared with 60% as of December 31, 2010. Additionally, as of December 31, 2011 and 2010, 20% and 18%, respectively, of gross par outstanding was rated below investment grade.

NET PREMIUMS EARNED Our structured finance and international insurance segment generates net premiums from insurance policies accounted for as financial guarantee contracts and insured derivative contracts, and certain of those premiums may be eliminated in our consolidated financial statements as a result of the Company consolidating VIEs. The following table provides net premiums earned by type of insurance contract for the years ended December 31, 2011, 2010 and 2009:

In millions	Years Ended December 31, 2011	2010	2009
Net premiums earned:			
Financial guarantee contracts	$ 230	$ 251	$ 333
Insured derivative contracts[(1)]	101	119	120
VIEs (eliminated in consolidation)	17	41	
Total net premiums earned	$ 348	$ 411	$ 453

(1) Premiums related to insured derivatives are included in Realized gains (losses) and other settlements on insured derivatives on our consolidated statements of operations.

Net premiums earned on non-derivative financial guarantee contracts for the years ended December 31, 2011, 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.

	Years Ended December 31,			Percent Change	
In millions	**2011**	**2010**	**2009**	**2011 vs. 2010**	**2010 vs. 2009**
Net premiums earned:					
U.S.	$ 98	$ 129	$ 166	-24%	-22%
Non-U.S.	132	122	167	8%	-27%
Total net premiums earned	$ 230	$ 251	$ 333	-8%	-25%

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Structured finance and international net premiums earned decreased in 2011 and 2010 due to the maturity and early settlement 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, 2011, our structured finance and international insurance investment portfolio generated $77 million of net investment income compared with $125 million for 2010. The decrease in net investment income of $48 million for the year ended December 31, 2011 was primarily due to lower average asset balances in 2011 as a result of claim and commutation payments, and reinvesting proceeds from sales and maturities of high-yielding securities in lower yielding liquid securities.

For the year ended December 31, 2010, our structured finance and international insurance investment portfolio generated $125 million of net investment income compared with $222 million for 2009. The decrease in net investment income of $97 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 (MBIA Corp. Secured Loan). Interest income on this arrangement, totaling approximately $14 million, $30 million and $60 million for the years ended December 31, 2011, 2010 and 2009, respectively, is included in our structured finance and international insurance net investment income. Refer to the Liquidity section included herein for additional information about this agreement.

Investment asset balances at amortized cost as of December 31, 2011 and 2010 are presented in the following table:

	December 31, 2011		December 31, 2010	
In millions	**Investments at Amortized Cost**	**Pre-tax yield[1]**	**Investments at Amortized Cost**	**Pre-tax yield[1]**
Fixed-income securities:				
Tax-exempt	$ 1	5.79%	$ 50	3.84%
Taxable	1,131	3.38%	1,480	5.81%
Short-term	222	1.46%	673	1.45%
Total fixed-income	1,354	3.07%	2,203	4.43%
Secured loan to affiliate	300		975	
Other	7		10	
Total	$ 1,661		$ 3,188	

(1) Estimated yield-to-maturity.

FEES AND REIMBURSEMENTS For the year ended December 31, 2011, fees and reimbursements were $116 million compared with $200 million for 2010. The decrease was primarily due to the receipt, in 2010, of amounts in excess of those which were contractually due to MBIA Corp. upon the termination of a reinsurance agreement as compensation for potential future performance volatility related to reassumed exposures. For the year ended December 31, 2010, fees and reimbursements were $200 million compared with $215 million for 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.

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RESULTS OF OPERATIONS (continued)

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, 2011, 2010 and 2009:

	Years Ended December 31,			Percent Change	
In millions	**2011**	**2010**	**2009**	**2011 vs. 2010**	**2010 vs. 2009**
Net premiums and fees earned on insured derivatives	$ 104	$ 119	$ 123	-13%	-3%
Realized gains (losses) on insured derivatives	(2,477)	(282)	(290)	n/m	-3%
Realized gains (losses) and other settlements on insured derivatives	(2,373)	(163)	(167)	n/m	-2%
Unrealized gains (losses) on insured derivatives	(441)	(607)	1,650	-27%	-137%
Net change in fair value of insured derivatives	$ (2,814)	$ (770)	$ 1,483	n/m	n/m

n/m Percent 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. Premiums earned related to insured credit derivatives will decrease over time as a result of settlements prior to maturity, and scheduled amortizations. For the years ended December 31, 2011 and 2010, realized losses on insured derivatives of $2.5 billion and $889 million, respectively, resulted primarily from settlements and claim payments on multi-sector CDOs and CMBS transactions. The $889 million of payments for the year ended December 31, 2010 was partially offset by $607 million of collections 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, 2011, unrealized losses on insured derivatives were principally the result of favorable changes in the market perception of MBIA Corp. s credit risk on its derivative liability, reduced collateral pricing and collateral erosion, partially offset by the reversal of unrealized losses from settlements prior to maturity and terminations. 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 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, 2011, MBIA Corp. s five year CDS cost was 31.50% upfront plus 5% per annum compared with 56.25% upfront plus 5% per annum and 64.25% upfront plus 5% per annum as of December 31, 2010 and 2009, respectively. 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 13.50% upfront plus 5% per annum to 33.50% upfront plus 5% per annum as of December 31, 2011. Those costs ranged from 15.75% upfront plus 5% per annum to 57.50% upfront plus 5% per annum as of December 31, 2010 and ranged from 17.50% upfront plus 5% per annum to 64.25% upfront plus 5% per annum as of December 31, 2009.

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As of December 31, 2011, we had $67.0 billion of gross par outstanding on insured credit derivatives compared with $99.5 billion as of December 31, 2010. The decrease in gross par outstanding was primarily due to settlements prior to maturity, contractual terminations, amortizations and maturities. During the year ended December 31, 2011, 48 insured issues, representing $31.4 billion in gross par outstanding, had either matured or were contractually settled prior to maturity. The decrease in gross par was also due to amortization and retranslation of foreign currency exposure at current foreign currency rates partially offset by additional gross par related to the deconsolidation of two VIEs.

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 actual payments plus the present values of our estimates of expected future claim payments, net of expected future recoveries. MBIA Insurance Corporation s expected future claim payments were discounted using a rate of 5.59%, the same rate used to calculate its statutory loss reserves as of December 31, 2011. We estimated that additional credit impairments on insured derivatives (excluding LAE) for the year ended December 31, 2011 were $1.1 billion across 56 CDO insured issues. Beginning with the fourth quarter of 2007 through December 31, 2011, total credit impairments on insured derivatives were estimated at $4.8 billion across 70 CDO insured issues, inclusive of 56 insured issues for which we made settlement and claim payments of $3.8 billion, net of reinsurance and collections. Accordingly, we expect to realize additional net losses of $1.0 billion. Refer to the following Losses and Loss Adjustment Expenses section for additional information about credit impairments on insured derivatives.

Our estimate of credit impairments, a non-GAAP measure, may differ from the fair values recorded in our consolidated financial statements. Although the Company s statements of operations include the fair values, the Company believes its disclosure of credit impairments on insured derivatives provides additional meaningful information about potential realized losses on these contracts. 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 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 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 $12 million, $13 million and $22 million for the years ended December 31, 2011, 2010 and 2009, respectively.

REVENUES OF CONSOLIDATED VIEs For the year ended December 31, 2011, total revenues of consolidated VIEs within our structured finance and international insurance segment were $337 million compared with $246 million for 2010 and a loss of $58 million for 2009. The increase in revenues of consolidated VIEs for the year ended December 31, 2011, primarily relate to an increase of $331 million from other net realized gains and losses as a result of the consolidation and deconsolidation of VIEs. This increase was partially offset by a decrease of $239 million in net gains and losses on financial instruments at fair value and foreign exchange, principally due to a decrease in RMBS securitizations and favorable changes in the market perception of MBIA Corp. s credit risk. The increase in revenues of consolidated VIEs for the year ended December 31, 2010, when compared with 2009, was principally driven by an increase of $259 million in net gains and losses on financial instruments at fair value and foreign exchange, as well as a decrease of other-than-temporary impairments of VIE assets.

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The Company performs an analysis to determine whether its variable interests give it a controlling financial interest in a VIE. This recurring assessment may require the Company to consolidate or deconsolidate entities that it has variable interests in.

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. We establish case basis reserves in connection with insured issues designated as classified credits.

The Company faces significant risks and uncertainties related to potential or actual losses from its CMBS and CRE CDO insured exposure, its second-lien RMBS insured exposure (due to the unpredictable performance of ineligible loans included in the transactions we insured), its RMBS exposure backed by home equity lines of credit (HELOCs) or closed-end second mortgages (CES) and its ABS CDO insured exposure. Continued significant adverse developments and higher than expected payments on these exposures and/or lower than expected recoveries on the RMBS exposures, could result in a decline in the Company s liquidity and statutory capital position.

The impact of insured exposures on the Company s liquidity position is best understood by assessing the ultimate amount of payments that the Company will be required to make with respect to these exposures. In this regard, the Company discloses the discounted expected future net cash flows to be made under all insurance contracts, irrespective of the legal form of the guarantee (i.e., financial guarantee insurance policy or insured derivative contract) or the GAAP accounting basis.

All amounts presented in the following aggregate losses and LAE tables are calculated in accordance with GAAP, with the exception of those related to insured credit derivative impairments. The amounts reported for insured credit derivative impairments are calculated in accordance with U.S. STAT because GAAP does not contain a comparable measurement basis for these contracts. All losses and recoverables reported in the following tables are measured using discounted probability-weighted cash flows. Losses and recoverables on VIEs that are eliminated in consolidation are included because the consolidation of these VIEs does not impact whether or not we will be required to make payments under our insurance contracts. As a result of the different accounting bases of amounts included in the following tables, the total provided in each table represents a non-GAAP measure.

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The following tables present the aggregate loss and LAE reserves and insurance loss recoverables as of December 31, 2011 and 2010, and aggregate changes in the discounted values of net payments expected to be made on all insurance contracts for the years ended December 31, 2011 and 2010:

Aggregate Losses and LAE Roll Forward

In millions	Financial Guarantee Insurance[1]	Financial Guarantee Insurance Related to VIEs[2]	Insurance Credit Derivative Impairments and LAE[3]	Reinsurance[4]	Total[5]
Gross loss and LAE reserves as of December 31, 2010	$ 906	$ 377	$ 2,490	$ (6)	$ 3,767
Gross insurance loss recoverable as of December 31, 2010	(2,459)	(1,061)	(74)	2	(3,592)
Total reserves (recoverable) as of December 31, 2010	(1,553)	(684)	2,416	(4)	175
Ceded reserves	(4)			4	
Net reserves as of December 31, 2010	(1,557)	(684)	2,416		175
Total aggregate losses and LAE incurred	(84)	(90)	1,110		936
(Payments) collections and other	(583)	(238)	(2,492)		(3,313)
Net reserves as of December 31, 2011	(2,224)	(1,012)	1,034		(2,202)
Ceded reserves	0		(1)	1	0
Total reserves (recoverable) as of December 31, 2011	$ (2,224)	$ (1,012)	$ 1,033	$ 1	$ (2,202)
Gross loss and LAE reserves as of December 31, 2011	$ 667	$ 353	$ 1,103	$ (7)	$ 2,116
Insurance loss recoverable as of December 31, 2011	(2,891)	(1,365)	(70)	8	(4,318)
Total reserves (recoverable) as of December 31, 2011	$ (2,224)	$ (1,012)	$ 1,033	$ 1	$ (2,202)

(1) Included in Losses and loss adjustment expense, Loss and loss adjustment expense reserves and Insurance loss recoverable on the Company s consolidated statements of operations and consolidated balance sheets.

(2) Represents loss and LAE, LAE reserves and insurance loss recoverable eliminated upon the consolidation of insured VIEs.

(3) Represents statutory losses and LAE and recoveries for insurance contracts accounted for as derivatives. Realized and unrealized gains and losses on these contracts under GAAP are recorded in Net change in fair value of insured derivatives on the Company s consolidated statements of operations and the fair value of these contracts are recorded in Derivative liabilities on the Company s consolidated balance sheets.

(4) Represents Losses and loss adjustment expense, Loss and loss adjustment expense reserves and Insurance loss recoverable on the Company s consolidated financial statements and are ceded to third-party reinsurers under insurance contracts. As of December 31, 2011, there was a $1 million payable related to insured credit derivative impairments and LAE reinsurance.

(5) Represents totals after ceding to third-party reinsurers under insurance contracts.

Aggregate Losses and LAE (change in discounted values of net payments)

	For the Year Ended December 31, 2011				
In millions	**Second-lien RMBS[1]**	**ABS CDO**	**CMBS**	**Other[2]**	**Total**
Change in actual and expected payments	$ 372	$ (551)	$ 1,648	$ 132	$ 1,601
Change in actual and expected salvage	(723)	76	0	(18)	(665)
Total aggregate losses and LAE	$ (351)	$ (475)	$ 1,648	$ 114	$ 936

(1) Includes HELOC loans and CES.

(2) Includes alternative A-paper transactions and other insurance contracts.

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Aggregate Losses and LAE (change in discounted values of net payments)

	For the Year Ended December 31, 2010				
In millions	**Second-lien RMBS[1]**	**ABS CDO**	**CMBS**	**Other[2]**	**Total**
Change in actual and expected payments	$ 741	$ 381	$ 1,132	$ 77	$ 2,331
Change in actual and expected salvage	(978)	(130)	0	208	(900)
Gain on foreign exchange				(121)	(121)
Total aggregate losses and LAE	$ (237)	$ 251	$ 1,132	$ 164	$ 1,310

(1) Includes HELOC loans and CES.

(2) Includes alternative A-paper transactions and other insurance contracts.

Aggregate Losses and LAE by Insurance Type (change in discounted values of net payments)

	For the Year Ended December 31, 2011				
In millions	**Second-lien RMBS[1]**	**ABS CDO**	**CMBS**	**Other[2]**	**Total**
Financial guarantee insurance[3]	$ (217)	$ 32	$ 3	$ 98	$ (84)
Financial guarantee insurance related to consolidated VIEs (eliminated in consolidation)[4]	(134)	44			(90)
Insured credit derivatives (statutory basis)[5]		(551)	1,645	16	1,110
Total aggregate losses and LAE	$ (351)	$ (475)	$ 1,648	$ 114	$ 936

(1) Includes HELOC loans and CES.

(2) Includes alternative A-paper transactions and other insurance contracts.

(3) Included in Losses and loss adjustment expense as reported on the Company s consolidated statements of operations.

(4) Represents losses and LAE eliminated upon the consolidation of insured VIEs.

(5) Represents statutory losses and LAE for insurance contracts accounted for as derivatives. Realized and unrealized gains and losses on these contracts under GAAP are recorded in Net change in fair value of insured derivatives on the Company s consolidated statements of operations.

Aggregate Losses and LAE by Insurance Type (change in discounted values of net payments)

	For the Year Ended December 31, 2010				
In millions	**Second-lien RMBS[1]**	**ABS CDO**	**CMBS**	**Other[2]**	**Total**
Financial guarantee insurance[3]	$ (177)	$ 118	$	$ 218	$ 159
Financial guarantee insurance related to consolidated VIEs (eliminated in consolidation)[4]	(60)	72		67	79
Insured credit derivatives (statutory basis)[5]		61	1,132		1,193
Gain on foreign exchange				(121)	(121)
Total aggregate losses and LAE	$ (237)	$ 251	$ 1,132	$ 164	$ 1,310

(1) Includes HELOC loans and CES.

(2) Includes alternative A-paper transactions and other insurance contracts.

(3) Included in Losses and loss adjustment expense as reported on the Company s consolidated statements of operations.

(4) Represents losses and LAE eliminated upon the consolidation of insured VIEs.

(5) Represents statutory losses and LAE for insurance contracts accounted for as derivatives. Realized and unrealized gains and losses on these contracts under GAAP are recorded in Net change in fair value of insured derivatives on the Company s consolidated statements of operations.

For the year ended December 31, 2011, total aggregate losses and LAE were primarily driven by commutation settlements for CMBS policies in excess of established reserves, offset by commutation settlements of ABS policies below established reserves. For the year ended December 31, 2010, total aggregate losses and LAE were primarily driven by the establishment of CMBS reserves.

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Summary of Financial Guarantee Insurance Losses and LAE

The following information relates to financial guarantee insurance losses and LAE in accordance with GAAP. 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 and LAE reserving policy and additional information related to its loss reserves.

The following tables present information about our insurance reserves and recoverable as of December 31, 2011 and 2010, as well as our loss and LAE incurred for the years ended December 31, 2011, 2010 and 2009. 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 mortgage loans within second-lien RMBS transactions and other amounts due to MBIA under subrogation rights.

	December 31,		Percent Change
In millions	**2011**	**2010**	**2011 vs. 2010**
Gross losses and LAE reserves	$ 1,029	$ 1,402	-27%
Expected recoveries on unpaid losses	(362)	(496)	-27%
Loss and LAE reserves	$ 667	$ 906	-26%
Insurance loss recoverable	$ 2,891	$ 2,459	18%
Insurance loss recoverable ceded[1]	$ 7	$ 1	n/m
Reinsurance recoverable on paid and unpaid losses	$ 8	$ 6	33%

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

n/m Percent change not meaningful.

	Years Ended December 31,			Percent Change	
In millions	**2011**	**2010**	**2009**	**2011 vs. 2010**	**2010 vs. 2009**
Loss and LAE related to actual and expected payments	$ 323	$ 883	$ 3,143	-63%	-72%
Recoveries of actual and expected payments	(405)	(712)	(2,327)	-43%	-69%
Gross losses incurred	(82)	171	816	-148%	-79%
Reinsurance	(2)	(12)	(46)	-83%	-74%
Losses and loss adjustment expenses	$ (84)	$ 159	$ 770	n/m	-79%

n/m Percent change not meaningful.

Losses and LAE incurred in our structured finance and international insurance segment was a benefit of $84 million in 2011. Included in the $84 million benefit were increases in recoveries of actual and expected payments of $405 million, of which $380 million related to insured second-lien RMBS transactions and $25 million related to other recovery activity. Offsetting these recoveries were $323 million of gross losses related to actual and expected future payments, of which $163 million related to insured second-lien RMBS transactions, $94 million related to insured first-lien transactions and $66 million related to other activity. The $380 million of recoveries related to second-lien RMBS transactions included $448 million of recoveries resulting from ineligible mortgage loans included in insured exposures that are subject to contractual obligations by sellers/servicers to repurchase or replace such mortgage loans offset by a $68 million reduction in excess spread (the difference between interest inflows on assets and interest outflows on liabilities) within the securitizations.

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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 $487 million related to insured second-lien RMBS transactions, and $396 million related to other activity. Offsetting these losses were increases in recoveries of actual and expected payments of $712 million, of which $658 million related to insured second-lien RMBS transactions, and reinsurance of $12 million. The $658 million of recoveries related to second-lien RMBS transactions included $682 million of recoveries resulting from ineligible mortgage loans included in insured exposures that are subject to contractual obligations by sellers/servicers to repurchase or replace such mortgage loans, offset by a $24 million reduction in excess spread 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 $2.7 billion related to insured second-lien RMBS transactions. Offsetting these losses were recoveries of actual and expected payments of $2.3 billion, of which $2.1 billion related to insured second-lien RMBS transactions, and reinsurance of $46 million. The $2.1 billion of recoveries related to second-lien RMBS transactions included $1.5 billion of recoveries resulting from ineligible mortgage loans included in insured exposures that are subject to contractual obligations by sellers/servicers to repurchase or replace such mortgage loans and $653 million related to excess spread within the securitizations.

For the years ended December 31, 2011, 2010 and 2009, losses and LAE incurred included the elimination of a $90 million benefit, a $79 million expense and a $16 million expense, respectively, as a result of the consolidation of VIEs. The $90 million elimination for the year ended December 31, 2011 included recoveries of actual and expected payments of $351 million offset by gross losses related to actual and expected future payments of $261 million. The $79 million elimination for the year ended December 31, 2010 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. The $16 million elimination for the year ended December 31, 2009 included gross losses related to actual and expected future payments of $618 million offset by recoveries of actual and expected payments of $602 million.

Included in the Company s loss and LAE reserves are both 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. The following table includes LAE reserves as of December 31, 2011 and 2010 for three and two issues, respectively, that had no expected future claim payments or par outstanding, but for which the Company is obligated to pay LAE incurred in prior periods. As of December 31, 2011 and 2010, loss and LAE reserves comprised the following:

$ in millions	Number of Issues[1]		Loss and LAE Reserve		Par Outstanding	
	2011	2010	2011	2010	2011	2010
Gross of reinsurance:						
Issues with defaults	92	70	$ 447	$ 727	$ 7,863	$ 7,924
Issues without defaults	26	25	220	179	1,734	2,135
Total gross of reinsurance	118	95	$ 667	$ 906	$ 9,597	$ 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 certain paid claims within Insurance loss recoverable and the corresponding estimated recovery amounts due to reinsurers within Other liabilities on the Company s consolidated balance sheets. As of December 31, 2011 and 2010, our insurance loss recoverable in our structured finance and international insurance segment was $2.9 billion and $2.5 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 second-lien RMBS transactions to repurchase ineligible mortgage loans. As of

December 31, 2011 and 2010, our insurance loss recoverable also included estimated recoveries of approximately $731 million and $674 million, respectively, from excess spread within second-lien RMBS securitizations. Insurance loss recoverables due to reinsurers totaled $7 million and $1 million as of December 31, 2011 and 2010, respectively. Insurance loss recoverables are only paid to reinsurers upon receipt of such amounts by MBIA.

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Residential Mortgage Exposure

MBIA Corp. insures mortgage-backed securities (MBS) backed by residential mortgage loans, including second-lien residential mortgage securitizations (revolving HELOC loans and CES). For the year ended December 31, 2011, we recorded a benefit of $351 million for losses and LAE related to second-lien RMBS transactions, before the elimination of a $134 million benefit as a result of consolidating VIEs. The $217 million consolidated benefit of losses and LAE was due to gross recoveries of actual and expected payments of $380 million offset by gross losses and LAE related to actual and expected payments of $163 million.

MBIA Corp. also insures MBS backed by first-lien subprime mortgage loans directly through RMBS securitizations. 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, 2011, the Company had $3.3 billion of gross par outstanding from direct exposure to subprime mortgage loans compared with $3.5 billion as of December 31, 2010. While subprime transactions directly guaranteed by MBIA Corp. include collateral comprising mortgage loans that originated during 2005, 2006, and 2007, we currently do not expect ultimate material losses on these transactions given the amount of subordination below MBIA Corp. s insured portion of such transactions available to absorb losses from collateral defaults. As of December 31, 2011, the Company had $336 million of gross par outstanding in five insured direct subprime mortgage transactions with 2005, 2006, or 2007 subprime mortgage collateral appearing on the Company s Classified or Caution Lists.

The following table presents the par outstanding of MBIA Corp. s total direct RMBS insured exposure as of December 31, 2011 by S&P credit rating category. Amounts include the par outstanding related to transactions that the Company consolidates under accounting guidance for VIEs.

	Gross Par Outstanding					
In millions	Prime First-lien	Alternative A-paper First-lien	Subprime First-lien	HELOC Second-lien	CES Second-lien	Total
AAA	$ 207	$ 1,402	$ 2,017	$	$ 11	$ 3,637
AA	14	11	75			100
A	2	426	176	47	25	676
BBB	0	475	126	809	24	1,434
Below investment grade	2	1,271	891	3,102	4,021	9,287
Total gross par	$ 225	$ 3,585[1]	$ 3,285[2]	$ 3,958	$ 4,081	$ 15,134

(1) Includes international exposure of $921 million.

(2) Includes international exposure of $15 million.

The following table presents the par outstanding by vintage year of MBIA Corp. s total second-lien residential mortgage loan securitizations insured exposure as of December 31, 2011. Amounts include the par outstanding related to transactions that the Company consolidates under accounting guidance for VIEs.

	Gross Par Outstanding			
In millions	HELOC	% of Total HELOC	CES	% of Total CES
2007	$ 535	13%	$ 2,668	65%
2006	1,412	36%	1,305	32%
2005	1,178	30%		0%
2004	698	18%	72	2%
2003 and prior	135	3%	36	1%
Total gross par	$ 3,958	100%	$ 4,081	100%

As of December 31, 2011, total gross par outstanding for HELOC and CES was $4.0 billion and $4.1 billion, respectively, compared with HELOC and CES of $4.9 billion and $5.1 billion, respectively, as of December 31, 2010.

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During the year ended December 31, 2011, we paid approximately $745 million, net of reinsurance and collections, on insured second-lien RMBS transactions, or $507 million after eliminating $238 million of net payments made on behalf of consolidated VIEs. Through December 31, 2011, we paid a cumulative total of $6.0 billion, net of reinsurance and collections, or $3.9 billion after eliminating $2.1 billion of net payments on insured second-lien RMBS transactions that are currently consolidated as VIEs. As of December 31, 2011, we had loss and LAE reserves related to our remaining insured second-lien RMBS exposure of $285 million before eliminating $93 million of loss and LAE reserves related to our consolidated VIEs. The loss and LAE 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 mortgage loans in the securitizations. As payments are made, a portion of those expected future receipts is recorded within Insurance loss recoverable in our consolidated balance sheets. The payments that we make virtually all go to reduce the principal balances of the securitizations.

The following table provides information about second-lien RMBS transactions included in MBIA Corp. s insured portfolio for which it has made claim and LAE payments, net of collections, as of December 31, 2011 and for which it does not consolidate under accounting guidance for VIEs:

Second-Lien RMBS Transactions with Claim Payments (Excluding Consolidated VIEs)

$ in millions	Number of Issues	Original Par Insured	Gross Par Outstanding	Claim Payments and LAE Net of Collections Since Inception
HELOC	13	$ 14,253	$ 2,377	$ 2,065
CES	9	8,198	2,511	1,952
Total	22	$ 22,451	$ 4,888	$ 4,017
Total net of reinsurance				$ 3,907

As of December 31, 2011, the par outstanding on insured second-lien RMBS transactions included in the preceding table was $4.9 billion compared with $6.0 billion as of December 31, 2010. As of December 31, 2011, we expect to pay an additional $452 million (on a present value basis) on these transactions and expect to receive a total of $991 million (on a present value basis) in reimbursement of past and future expected claims through excess spread in these transactions. Of this amount, $731 million is included in Insurance loss recoverable and $260 million is included in Loss and loss adjustment expense reserves. In addition, we expect to receive $2.0 billion (on a present value basis) in respect of the sellers /servicers obligation to repurchase ineligible mortgage loans, which is included in Insurance loss recoverable .

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 significant percentage 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 23: Commitments and Contingencies in the Notes to Consolidated Financial Statements.

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The following table provides the total of all second-lien RMBS transactions included in MBIA Corp. s insured portfolio for which it has made claim payments and LAE, net of collections, and performed a forensic review of defaulted mortgage loans as of December 31, 2011. The Company no longer believes that the practice of reviewing loans for purposes of assessing put-back recoveries is necessary in order to estimate potential recoveries. Additionally, the Company s put-back claims are not only related to non-performing loans but to any loan where representations and warranties are breached. There were five issues with gross par outstanding of $282 million that were not included within our forensic review and are excluded from the following table. The securitizations included in the following table are not consolidated by the Company under accounting guidance for VIEs.

Second-Lien RMBS Transactions with Claim Payments and Forensic Reviews (Excluding Consolidated VIEs)

$ in millions	Number of Issues	Original Par Insured	Gross Par Outstanding	Claim Payments and LAE Net of Collections Since Inception
HELOC	9	$ 12,533	$ 2,143	$ 1,828
CES	8	7,594	2,463	1,952
Total	17	$ 20,127	$ 4,606	$ 3,780
Total net of reinsurance				$ 3,682

We have recorded actual or expected put-back recoveries for amounts paid on all second-lien RMBS transactions included in the above table with the exception of two issues with original par insured of $695 million, gross par outstanding of $111 million and gross claims paid since inception of $450 million. There is one additional issue for which a forensic review was performed but has been excluded from the above table because it has not been placed on our Classified List and we have not made a claim payment. There are two first-lien alternative A-paper deals for which a forensic review was performed, but have been excluded from the above table.

The following table provides information about second-lien RMBS transactions included in MBIA Corp. s insured portfolio for which it has made claim payments and LAE, net of collections, as of December 31, 2011 and for which it consolidates under accounting guidance for VIEs. As such, these payments are not reflected as insurance losses in our consolidated financial statements subsequent to consolidation. Of the $2.1 billion gross payments, $655 million were eliminated subsequent to consolidation. As of December 31, 2011, the Company has recorded actual or expected put-back recoveries as a result of forensic reviews and extrapolation for amounts paid on all second-lien RMBS transactions included in the following table:

Second-Lien RMBS Transactions with Claim Payments and Forensic Reviews (Consolidated VIEs)

$ in millions	Number of Issues	Original Par Insured	Gross Par Outstanding	Claim Payments and LAE Net of Collections Since Inception
HELOC	6	$ 3,657	$ 1,145	$ 612
CES	7	5,068	1,510	1,514
Total	13	$ 8,725	$ 2,655	$ 2,126

Total net of reinsurance	$ 2,054

As of December 31, 2011 we expect to pay an additional $168 million (on a present value basis) on these transactions and expect to receive a total of $363 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 $1.1 billion (on a present value basis) as of December 31, 2011 from the contractual obligation of the sellers/servicers to repurchase ineligible mortgage loans, that were recorded in Loan repurchase commitments , presented in Assets of consolidated variable interest entities, on the consolidated balance sheets.

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.

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Other

We may seek to purchase, from time to time, directly or indirectly, obligations guaranteed by MBIA or seek to commute policies. 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. Our ability to purchase guaranteed obligations and to commute policies will depend on management s assessment of available liquidity.

POLICY ACQUISITION COSTS AND OPERATING EXPENSES Structured finance and international insurance segment expenses for the years ended December 31, 2011, 2010 and 2009 are presented in the following table:

	Years Ended December 31,			Percent Change	
In millions	**2011**	**2010**	**2009**	**2011 vs. 2010**	**2010 vs. 2009**
Gross expenses	$ 149	$ 140	$ 190	6%	-26%
Amortization of deferred acquisition costs	$ 136	$ 145	$ 198	-6%	-27%
Operating	145	133	178	9%	-25%
Total insurance operating expenses	$ 281	$ 278	$ 376	1%	-26%

Gross expenses represent total insurance expenses before the deferral of any policy acquisition costs. Gross expenses increased for the year ended December 31, 2011 compared with 2010 due to an increase in compensation as a result of a reversal of accrued bonus expense in 2010. Gross expenses decreased for the year ended December 31, 2010 compared with 2009 due to reductions in compensation and other administrative expenses resulting from the transfer of employees to 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, 2011 compared with 2010 and 2009 principally reflects the acceleration of deferred costs into earnings in prior periods as policies were terminated. Operating expenses increased for the year ended December 31, 2011 compared with 2010 as a result of the increase in gross expenses. Operating expenses decreased for the year ended December 31, 2010 compared with 2009 as a result of the decrease in gross expenses. We did not defer a material amount of policy acquisition costs during 2011 or 2010. 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 consisted of interest related to MBIA Corp. s surplus notes. For the years ended December 31, 2011, 2010 and 2009, interest expense related to MBIA Corp. s surplus notes was $134 million.

Beginning in December 2011, interest expense in our structured finance and international insurance segment includes interest associated with the National Secured Loan. Interest expense on the National Secured Loan totaled approximately $4 million for the year ended December 31, 2011.

EXPENSES OF CONSOLIDATED VIEs For the year ended December 31, 2011, total expenses of consolidated VIEs were $74 million compared with $69 million for 2010 and $87 million for 2009. The increase in expenses in 2011 was primarily due to an increase in operating expenses. The decrease in expenses in 2010 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.

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Structured Finance and International Insurance Selected Portfolio Exposures

The following is a summary of selected significant exposures within the insured portfolio of our structured finance and international insurance segment. The Company has large exposures to many of these sectors. Moreover, many of them are and have been considered volatile over the past several years. As described below, considerable incurred losses and future expected payments are attributable to many of these sectors.

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 CMBS pools 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.

MBIA Corp. s $70.2 billion CDO portfolio represented 50% of its total insured gross par outstanding of $141.4 billion as of December 31, 2011. 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 Outstanding as of December 31, 2011
Multi-sector CDOs[(1)]	$	6.1
Investment grade CDOs and structured corporate credit pools		32.6
High yield corporate CDOs		6.6
Commercial real estate pools and CDOs		24.9
Total	$	70.2

(1) Includes one multi-sector CDO-squared transaction with gross par of $153 million as of December 31, 2011.

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 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 primarily rely on underlying collateral originally rated single-A or above (CDOs of high-grade U.S. ABS) and collateral originally rated triple-B (CDOs of mezzanine U.S. ABS).

Generally, we are subject to a claim on a multi-sector CDO when the subordination in the underlying securities collateralizing MBIA Corp. s insured tranche (Underlying Collateral Subordination) is fully eroded and the subordination below MBIA Corp. s insured tranche in the CDO transaction (Insured Tranche Subordination) is fully eroded. MBIA Corp. s payment obligation after a default generally insures current interest and ultimate principal.

Total gross par exposure in our multi-sector CDO portfolio was $35.9 billion as of December 31, 2007. Since 2007 through December 31, 2011, our multi-sector CDO gross par exposure has decreased by approximately $29.8 billion primarily from negotiated commutations of $19.8 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, 2011, our gross par exposure to multi-sector CDOs was $6.1 billion and represented 9% of MBIA Corp. s CDO exposure and approximately 4% 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, 2011					
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	$ 153[1]	100%	0%	100%	32.7%	10.0%	$ (20)
2004	2	460	70%	30%	100%	0.0-4.8%	10.0-13.0%	(36)
2005	1	721	32%	68%	100%	0.0%	20.0%	(166)
2006	3	1,368	43%	57%	100%	0.0%	12.0-14.0%	(483)
2007	1	1,100	100%	0%	100%	0.0%	13.0%	(404)
Subtotal	8	3,802						(1,109)
CDOs of Mezzanine U.S. ABS								
2000	1	1	62%	38%	100%	95.1%	21.4%	
2002	6	490	64%	36%	100%	0.0-71.4%	13.8-28.1%	
2003	4	515	57%	43%	100%	0.0-58.6%	21.5-29.8%	
2004	3	321	42%	58%	100%	0.0%	25.0-30.5%	(25)
Subtotal	14	1,327						(25)
Total	22	5,129						(1,134)
		332	Multi-Sector CDO European Mezzanine and Other Collateral (1 CDO)					(24)
		668	Multi-Sector CDO insured in the Secondary Market prior to 2005 (34 CDOs)					
Grand Total		$ 6,129						$ (1,158)

(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, 2011, gross par outstanding on MBIA Corp.-insured CDOs of high-grade U.S. ABS totaled $3.8 billion. The majority of the collateral contained within this category is RMBS. Original Insured Tranche Subordination levels in these transactions ranged from 10% to 20% compared with current Insured Tranche Subordination levels of 0% to 32.7%. As of December 31, 2011, gross par outstanding on MBIA Corp.-insured CDOs of mezzanine U.S. ABS totaled $1.3 billion and the majority of the collateral consisted of RMBS and CMBS. 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 95.1%.

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, 2011, our credit impairment estimates for 28 classified multi-sector CDO transactions for which MBIA Corp. expects to incur actual net claims in the future (15 of which are insured in the secondary market), representing 49% of all

MBIA Corp.-insured multi-sector CDO transactions (including both CDS and non-CDS contracts), aggregated $729 million. Of the remaining transactions, 18% are on our Caution List and 33% 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, 2011, 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	100%	0%
AA	0%	3%
A	0%	0%
BBB	0%	6%
Below investment grade	0%	91%
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, 2011, the majority of insurance protection provided by MBIA Corp. on investment grade corporate CDO exposure was attached at a super senior level. Our gross par exposure to investment grade corporate CDOs of $32.6 billion represents 46% of MBIA Corp. s CDO exposure and 23% of MBIA Corp. s total gross par insured. The Company s insured investment grade corporate CDOs have experienced 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. As of December 31, 2011, 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 $13.8 billion that was typically structured to include buckets (typically 30% to 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 were typically rated double-A and 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, 2011							
Year Insured	# of CDOs	Gross Par Outstanding	Corporate Collateral	Other Collateral	Total	Current Insured Tranche Subordination Range Below MBIA	Original Insured Tranche Subordination Range Below MBIA	Net Derivative / Asset (Liability)

2001	1	$	61	100%	0%	100%	60.8%	13.5%	$
2005	7		10,279	93%	7%	100%	11.0-25.5%	14.0-27.5%	(497)
2006	4		6,815	94%	6%	100%	11.4-22.2%	16.0-25.0%	(482)
2007	13		15,447	98%	2%	100%	11.9-34.2%	15.0-35.0%	(385)
Subtotal	25		32,602						(1,364)
			42	Investment Grade Corporate CDOs insured in the Secondary Market prior to 2003 (5 CDOs)					
Grand Total		$	32,644						$ (1,364)

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High Yield Corporate CDOs

Our high yield corporate CDO portfolio, totaling $6.6 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 MBIA Corp. s CDO exposure and approximately 5% of MBIA Corp. s total gross par insured as of December 31, 2011.

There have been some declines 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, 2011**		
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]**
2003	1	$ 162	100%	14.9%	24.2%	$
2004	2	3,016	100%	45.1-72.0%	22.0-33.3%	
2005	1	908	100%	27.3%	21.8%	
2006	2	955	100%	36.6-74.6%	33.3-49.0%	
2007	3	1,453	100%	28.5-31.2%	32.0-34.0%	0
Subtotal	9	6,494				0
		108	High Yield Corporate CDO insured in the Secondary Market prior to 2003 (6 CDOs)			
Grand Total		$ 6,602				$ 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, 2011, we had $24.9 billion of gross par exposure to the CRE 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 $3.4 billion in CRE loan pools, primarily comprising European assets, some of which are subject to commutation agreements. These CRE loans are not included in the following discussion. Subsequent to December 31, 2011, MBIA Corp. agreed to commute $563 million of gross insured CRE exposure.

During the course of 2011 and since December 31, 2011, the Company agreed to early settlements which totaled $20.7 billion related to CRE exposures in all three of these sectors. Additionally, the Company commuted $8.0 billion in CRE related exposures in 2010.

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.

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Structured CMBS Pools

As of December 31, 2011, our gross par exposure to structured CMBS pools totaled approximately $19.3 billion and represented approximately 14% of MBIA Corp. s total gross par insured. Since the end of 2007 through December 31, 2011, our structured CMBS pools gross par exposure has decreased by approximately $21.4 billion, primarily from negotiated commutations and early settlements. Our structured CMBS pool insured transactions are pools of CMBS bonds, Real Estate Investment Trust (REIT) debt and other CRE CDOs structured with first loss deductibles such that MBIA Corp. s obligation attached at a minimum of a triple-A level when the policies were issued. The deductible sizing was a function of the underlying collateral ratings and certain structural attributes. MBIA Corp. s guarantees for most structured CMBS pool transactions cover losses on collateral assets once the deductibles have 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 ultimately backed by the commercial mortgage loans securitized within each CMBS trust. 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, 2011 for all MBIA Corp.-insured structured CMBS pool transactions:

$ in millions			**As of December 31, 2011**						
Year Insured	**# of Pools**	**Gross Par Outstanding**	**CMBS**	**REIT Debt**	**Other**	**Total**	**Current Deductible**	**Original Deductible**	**Net Derivative /Asset (Liability)**
2003	1	$ 115	72%	25%	3%	100%	35.5%	26.0%	$
2006	5	1,740	97%	0%	3%	100%	10.0-27.2%	10.0-39.0%	(117)
2007	19	17,373	96%	0%	4%	100%	5.0-84.8%	5.0-82.3%	(1,813)
Subtotal	25	19,228							(1,930)
		58	Structured CMBS Pools insured in the Secondary Market prior to 2005 (4 pools)						
Grand Total		$ 19,286							$ (1,930)

While on an aggregate basis the deductible levels in the above table show little erosion, certain policies reflected in the table have experienced significant deductible erosion. This significant deductible erosion was largely due to liquidations of underlying loan collateral in those transactions over the past two years. Several insured transactions reflected in the table, which have an aggregate gross par outstanding of $4.1 billion, include concentrations of repackaged CRE-related collateral (e.g., a CRE CDO or other re-securitization of CMBS) that, in many cases, had low original ratings. Given the low ratings of the repackaged CMBS collateral, many of the underlying repackaged securities are expected to have substantial or complete losses, which will cause erosion of the deductibles in those insured transactions, and are modeled as such by MBIA for purpose of assessing credit impairments.

In addition, we have experienced ratings erosion in the total CMBS collateral underlying our insured static pools. Whereas approximately 34% of the total CMBS collateral underlying the pools outstanding as of December 31, 2011, was originally rated BBB and below and approximately

44% was originally rated AAA, 64% of the total CMBS collateral underlying these pools as of December 31, 2011 was rated below investment grade. The higher risk of the collateral that was originally rated BBB and below 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.

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Currently, we insure nine static CMBS pools, having $6.4 billion of gross par outstanding as of December 31, 2011, that were originally insured in 2006 and 2007, and in which substantially all of the underlying collateral comprised CMBS tranches originally rated BBB and lower. The remainder of the collateral in these nine pools consisted of higher rated CMBS bonds, REIT debt and other securities. The BBB and below rated CMBS bonds underlying these nine pools had original credit enhancement levels that ranged from 0.0% to 9.0% with an original weighted average credit enhancement level of 3.2%, compared to credit enhancement levels that range from 0.0% to 85.0% with a weighted average credit enhancement level of 2.4% as of December 31, 2011. MBIA Corp. s original policy level deductibles for these nine insured pools ranged from 23.0% to 82.3% with an original weighted average deductible by gross par outstanding of 37.6%, compared to deductibles that range from 16.4% to 84.8% with a weighted average deductible by gross par outstanding of 32.4% as of December 31, 2011. As of December 31, 2011, most of MBIA Corp. s estimated credit impairments of $505 million for our static CMBS pools relate to a subset of these nine pools. One of these transactions totaling $325 million of gross par outstanding, will be commuted pursuant to a commutation agreement executed in 2011. The Company has no material credit risk exposure to this pool. Additionally, during 2011, the Company commuted 12 CMBS pools transactions comprised of collateral originally rated BBB or lower, reducing gross par outstanding by $11.2 billion for this subset of static CMBS pools.

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	6.7%	3.6%	21.2%	12.2%	43.7%
AA	0.0%	0.0%	0.8%	2.6%	3.4%
A	0.0%	1.9%	14.1%	3.0%	19.0%
BBB	1.9%	4.8%	16.6%	4.6%	27.9%
Below investment grade or not rated	2.6%	1.6%	0.8%	1.0%	6.0%
Total	11.2%	11.9%	53.5%	23.4%	100.0%

As of December 31, 2011, our structured CMBS pool portfolio comprised almost 43,000 loans. The current weighted average debt service coverage ratio (DSCR) of underlying mortgage loans in the CMBS pools was 1.51 based on net operating income derived from the most recent property level financial statements (based on 82% of the properties having provided 2010 financial statements or a more recent time period) compared with an average DSCR of 1.69 as of December 31, 2010. Although the average DSCR decreased over the past 12 months, many properties experienced significant declines in financial performance over the past year resulting in the percentage of properties with a DSCR less than 1.0 increasing from nearly 15% as of December 31, 2010 to 17.3% as of December 31, 2011. The weighted average loan-to-value ratio was 80% as of December 31, 2011 compared with 76% as of December 31, 2010. The majority of the loans are long-term and fixed-rate in nature. Approximately 21% of the loans will mature within the next three years; however, the weighted average DSCR of these loans was significantly higher at 1.82 based on the latest available financial statements. Approximately eight percent of the loans mature in the next 12 months and these loans have a weighted average DSCR of 2.04. Transaction attachment points range from 5% to 85% and underlying bond level credit enhancement generally ranges from 0% to 30% or higher, both of which are structural factors that were intended to minimize potential losses.

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Delinquencies have increased markedly in the CRE market over the last two years given the economic climate and the shortage of financing. As of December 31, 2011, 30-day and over delinquencies decreased in the fixed-rate conduit CMBS market to 8.7% and increased in MBIA Corp. s insured static pooled CMBS portfolio to 10.5%. The higher delinquency rate in MBIA Corp. s portfolio was primarily due to a concentration in the 2006 and early 2007 vintages. Additionally, the market includes newer vintage transactions from 2010 and 2011, which have virtually no delinquencies, whereas MBIA s gross portfolio size has not increased over that time. Although we have also seen a stabilization in the pace of increases in the delinquency rate over the past several months, some of the deceleration is attributable to the loan modifications and extensions granted by the special servicers for these CMBS loans as well as increased liquidations. 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.

Actual losses will be a function of the proportion of loans in the pools that are foreclosed and liquidated and the loss severities associated with those liquidations. If the deductibles in the Company s insured transactions and underlying referenced CMBS transactions are fully eroded, additional property level losses upon foreclosures and liquidations could result in substantial losses for MBIA. Ultimate loss rates remain uncertain and it is possible that we will experience severe losses or liquidity needs due to increased deterioration in our insured CMBS portfolio, in particular if macroeconomic stress escalates, there is a double dip recession, increased delinquencies, higher levels of liquidations of delinquent loans, and/or higher severities of loss upon liquidation. Although we still believe the likelihood of a double dip recession is low, we do consider the possibility in our estimates for future claims.

CRE CDOs

As of December 31, 2011, our gross par exposure to CRE CDOs totaled approximately $5.6 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, 2011, our CRE CDO insured portfolio did not contain any CDOs of ABS exposures. Some of the CRE CDO transactions do contain some RMBS collateral, but overall this comprises 3% of the collateral in the CRE CDO portfolio.

Within our CRE CDO portfolio, we had four transactions with 2006 or 2007 vintage collateral totaling $1.9 billion of gross par outstanding as of December 31, 2011 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. Two of these transactions, totaling $1.0 billion, will be commuted pursuant to a commutation agreement executed in 2011. The Company no longer has material credit risk exposure to these two transactions.

The following table presents the collateral as a percentage of the performing pool balances as of December 31, 2011 for all MBIA Corp.-insured CRE CDO transactions:

$ in millions			**As of December 31, 2011**							
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	$ 45	59%	0%	21%	20%	100%	20.0-34.3%	22.0-22.4%	$
2005	1	84	89%	0%	4%	7%	100%	24.1%	22.7%	(2)
2006	9	2,043	37%	48%	6%	9%	100%	2.5-50.2%	24.0-50.0%	(226)
2007	10	3,443	64%	18%	4%	14%	100%	0.0-51.5%	20.0-60.0%	(85)

Total	22	$	5,615	$	(313)

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

RESULTS OF OPERATIONS (continued)

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. The following table presents information about our reinsurance agreements as of December 31, 2011 for our U.S. public finance and structured finance and international insurance operations:

In millions

Reinsurers	Standard & Poor s Rating (Status)	Moody s Rating (Status)	Ceded Par Outstanding	LOC / Trust Accounts	Reinsurance Recoverable[1]
Assured Guaranty Corp.	AA- (Stable Outlook)	Aa3 (Negative Outlook)	$ 3,235	$	$ 16
Assured Guaranty Re Ltd.	AA- (Stable Outlook)	A1 (Negative Outlook)	542	5	0
Overseas Private Investment Corporation	AA+ (Negative Outlook)	Aaa (Negative Outlook)	320		
Export Development Canada	AAA (Stable)	Aaa (Stable)	77	1	
Others	A+ or above	A1 or above	95	1	0
Total			$ 4,269	$ 7	$ 16

(1) Total reinsurance recoverable of $16 million comprised recoverables on paid and unpaid losses of $1 million and $15 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, 2011, 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.

As of December 31, 2011, the aggregate amount of insured par outstanding ceded by MBIA to reinsurers under reinsurance agreements was $4.3 billion compared with $5.7 billion as of December 31, 2010. Of the $4.3 billion of ceded par outstanding as of December 31, 2011, $2.6 billion was ceded from our U.S. public finance insurance segment and $1.7 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. on U.S. public finance exposure, National will assume liability for such ceded claim payments. As of December 31, 2011, 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 $2.6 billion. For Financial

Guaranty Insurance Company (FGIC) policies assigned to National from MBIA Insurance Corporation, National maintains the right to receive third-party reinsurance totaling $9.1 billion.

Advisory Services

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

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RESULTS OF OPERATIONS (continued)

The following table summarizes the results and assets under management of our advisory services segment for the years ended December 31, 2011, 2010 and 2009. These results include revenues and expenses from transactions with the Company s insurance, corporate, and wind-down operations.

	Years Ended December 31,			Percent Change	
In millions	**2011**	**2010**	**2009**	**2011 vs. 2010**	**2010 vs. 2009**
Fees	$ 67	$ 68	$ 54	-1%	26%
Net gains (losses) on financial instruments at fair value and foreign exchange	0	2	0	-100%	n/m
Total revenues	67	70	54	-4%	30%
Operating expenses	64	71	49	-10%	45%
Pre-tax income (loss)	$ 3	$ (1)	$ 5	n/m	-120%
Ending assets under management:					
Third-party	$ 22,284	$ 25,321	$ 25,411	-12%	0%
Insurance and corporate	7,722	9,541	9,251	-19%	3%
Asset/liability products and conduits	4,454	5,868	7,426	-24%	-21%
Total ending assets under management	$ 34,460	$ 40,730	$ 42,088	-15%	-3%

n/m Percent change not meaningful.

For the year ended December 31, 2011, the favorable change in pre-tax income (loss) compared with 2010 was primarily driven by decreases in operating expenses related to a reversal of accrued long-term compensation costs. Decreases in advisory fees due to declines in asset balances managed for our other segments and for third parties were largely offset by a $7 million performance fee received from our corporate segment for advisory-related services provided in 2011.

For the year ended December 31, 2010, the increase in fee revenue compared with 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.

Average third-party assets under management for the years ended December 31, 2011, 2010 and 2009 were $24.9 billion, $26.0 billion and $23.7 billion, respectively. As of December 31, 2011, third-party ending assets under management were $22.3 billion, a decrease of $3.0 billion from December 31, 2010 and a decrease of $3.1 billion from December 31, 2009. The decrease in third-party assets was principally due to a decline in our short-term pool products, which resulted from lower operating balances at the state and local government level and the continued low interest rate environment. As of December 31, 2011, ending assets under management related to the Company s other segments of $12.2 billion, decreased $3.2 billion from December 31, 2010 and $4.5 billion from December 31, 2009 due to a reduction in the assets managed for our insurance and asset/liability products segments.

The Company had in effect a commitment to the pooled investment programs managed or administered by Cutwater Colorado Investor Services Corp. (Cutwater-CISC), formerly known as Colorado Investor Services Corporation. The commitment, which is accounted for as a derivative and recorded on the balance sheets at fair value, covers losses in the programs should the net asset value per share decline below a specified per share value. As of December 31, 2011, the maximum amount of payments that the Company would be required to make under the commitment was $3.3 billion. The fair value of the commitment was not material as of December 31, 2011. The commitment was terminated on January 1, 2012, the date on which Cutwater-CISC was no longer manager or administrator of the programs.

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

RESULTS OF OPERATIONS (continued)

Corporate

General corporate activities are conducted through our corporate segment. Our corporate operations primarily consist of holding company activities, including Optinuity. 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, information technology, and insurance portfolio surveillance, among others, to our corporate segment and other operating businesses on a fee-for-service basis.

The following table summarizes the consolidated results of our corporate segment for the years ended December 31, 2011, 2010 and 2009. These results include revenues and expenses that arise from general corporate activities and from providing support to our other segments.

	Years Ended December 31,			Percent Change	
In millions	**2011**	**2010**	**2009**	**2011 vs. 2010**	**2010 vs. 2009**
Net investment income	$ 2	$ 15	$ 23	-87%	-35%
Fees	154	83		86%	n/m
Net gains (losses) on financial instruments at fair value and foreign exchange	23	(28)	(3)	n/m	n/m
Net investment losses related to other-than-temporary impairments	(8)			n/m	n/m
Net gains (losses) on extinguishment of debt	0	0	4	n/m	-100%
Other net realized gains (losses)	25	0	0	n/m	n/m
Total revenues	196	70	24	n/m	n/m
Operating	114	102	24	12%	n/m
Interest	58	66	69	-12%	-4%
Total expenses	172	168	93	2%	81%
Pre-tax income (loss)	$ 24	$ (98)	$ (69)	n/m	42%

n/m Percent change not meaningful.

Net investment income for the year ended December 31, 2011 decreased compared with 2010 primarily as a result of the settlement of a loan with our asset/liability products segment in December 2010 whereby the corporate segment made a capital contribution to the asset/liability products segment in settlement of the full outstanding principal balance of the loan. Interest income on the loan, included in net investment income, was $14 million for the year ended December 31, 2010. Net investment income for the year ended December 31, 2010 decreased compared with 2009 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.

Fees are generated from support services provided to business units within the Company on a fee-for-service basis. Fees for the year ended December 31, 2011 increased compared with 2010 primarily due to a $65 million fee paid by our conduit segment for administrative and other services. Such fees may vary significantly from period to period.

Net gains (losses) on financial instruments at fair value and foreign exchange for the 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.

For the year ended December 31, 2011, other net realized gains (losses) included insurance recoveries of $25 million received from our directors and officers insurance policy. These insurance recoveries reimbursed the Company for a portion of the expenses incurred by the Company related to private securities litigation. No recoveries were received in 2010 or 2009.

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

RESULTS OF OPERATIONS (continued)

Corporate operating expenses for the year ended December 31, 2011 increased compared with 2010 primarily as a result of a $7 million performance-based fee paid to our advisory services segment and an increase in compensation-related expenses within Optinuity. Corporate operating expenses increased for the year ended December 31, 2010 compared with 2009 primarily due to general and administrative expenses related to Optinuity.

Interest expense for the year ended December 31, 2011 decreased compared with 2010 as a result of corporate debt repurchases and maturities.

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 historically funded transactions by issuing debt insured by MBIA Corp. The rating downgrades of MBIA Corp. resulted in the termination and collateralization of certain derivatives and investment agreements and, together with the rising cost and declining availability of funding and illiquidity within many of the asset classes in which proceeds were invested, 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, as a result, the outstanding liability balances and corresponding asset balances will continue to decline over time as liabilities mature, terminate or are repurchased by us.

Asset/Liability Products

The following table presents the results of our asset/liability products segment for years ended December 31, 2011, 2010 and 2009. These results include revenues and expenses from transactions with the Company s insurance and corporate operations.

	Years Ended December 31,			Percent Change	
In millions	**2011**	**2010**	**2009**	**2011 vs. 2010**	**2010 vs. 2009**
Net investment income	$ 85	$ 105	$ 190	-19%	-45%
Fees and reimbursements			1	n/m	-100%
Net gains (losses) on financial instruments at fair value and foreign exchange	(284)	(76)	146	n/m	n/m
Net investment losses related to other-than-temporary impairments	(30)	(59)	(352)	-49%	-83%
Net gains (losses) on extinguishment of debt	23	36	203	-36%	-82%
Other net realized gains (losses)	(36)	0	4	n/m	-100%
Revenues of consolidated VIEs:					
Net investment income	(7)	(8)	0	-13%	n/m
Net gains (losses) on financial instruments at fair value and foreign exchange	12	42		-71%	n/m
Net investment losses related to other-than-temporary impairments			(13)	n/m	-100%
Other net realized gains (losses)	40			n/m	n/m
Total revenues	(197)	40	179	n/m	-78%
Operating expenses	12	13	32	-8%	-59%
Interest	131	175	274	-25%	-36%

Total expenses	143	188	306	-24%	-39%
Pre-tax income (loss)	$ (340)	$ (148)	$ (127)	130%	17%

n/m Percent change not meaningful.

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RESULTS OF OPERATIONS (continued)

For the year ended December 31, 2011, the results of our asset/liability products segment were adversely affected by net losses from fair valuing financial instruments, primarily due to adverse movements in interest rates, and realized losses from asset sales. 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 2009. 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 2010 and 2009.

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 $591 million and $329 million as of December 31, 2011 and 2010, respectively. The increase in this deficit was driven primarily by a negative spread of investment income to interest expense, losses from sales of investments and other-than-temporary impairments of assets. We expect this deficit to continue to increase as a result of on-going expected operating losses. Our ability to resolve this deficit will depend on our ability to successfully implement our strategies to raise additional liquidity. There can be no assurance that we will be successful in implementing our strategies or that such strategies will provide adequate liquidity to meet all payment obligations. Refer to the Liquidity section included herein for a discussion about the liquidity position of MBIA Inc. as it relates to our asset/liability products segment.

Conduits

The following table presents the results of our conduit segment for the years ended December 31, 2011, 2010 and 2009. These results include revenues and expenses from transactions with the Company s insurance and corporate operations.

	Years Ended December 31,			Percent Change	
In millions	**2011**	**2010**	**2009**	**2011 vs. 2010**	**2010 vs. 2009**
Revenues of consolidated VIEs:					
Net investment income	$ 16	$ 18	$ 19	-11%	-5%
Net gains (losses) on financial instruments at fair value and foreign exchange	0	9	(13)	-100%	n/m
Net gains (losses) on extinguishment of debt		25	44	-100%	-43%
Total revenues	16	52	50	-69%	4%
Operating expenses		0	2	n/m	-100%
Expenses of consolidated VIEs:					
Operating	68	3	4	n/m	-25%
Interest	17	18	15	-6%	20%
Total expenses	85	21	21	n/m	0%
Pre-tax income (loss)	$ (69)	$ 31	$ 29	n/m	7%

n/m Percent change not meaningful.

Our conduit segment is principally operated through Meridian and Triple-A One Funding Corporation (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.

For the year ended December 31, 2011, total revenues decreased as a result of gains recorded in 2010 from the extinguishment of MTNs issued by Meridian with no comparable gains in 2011. Total expenses for the year ended December 31, 2011 increased compared with 2010 as a result of a $65 million fee paid to our corporate segment for administrative and other services. Such fees may vary significantly from period to period.

As of December 31, 2011 and 2010, our conduit segment s investments (including cash) totaled $1.5 billion and our conduit segment s debt obligations totaled $1.5 billion.

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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, 2011, 2010 and 2009 are presented in the following table:

	Years Ended December 31,		
In millions	**2011**	**2010**	**2009**
Pre-tax income (loss)	$ (2,239)	$ (95)	$ 1,217
Provision (benefit) for income taxes	$ (920)	$ (148)	$ 583
Effective tax rate	41.1%	155.8%	47.9%

For the year ended December 31, 2011, the Company s effective tax rate applied to its pre-tax loss was higher than the U.S. statutory tax rate of 35%. Included in the December 31, 2011 effective tax rate are tax benefits resulting from the reversal of a portion of our valuation allowance and tax-exempt interest income from investments.

For the year ended December 31, 2010, the Company s effective tax rate applied to our pre-tax loss was higher than the U.S. 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 U.S. statutory tax rate of 35% primarily due to an increase in our valuation allowance.

Refer to Note 14: Income Taxes in the Notes to Consolidated Financial Statements for a further discussion of income taxes, including the Company s 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 (CPR) 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 $3.5 billion and $4.7 billion as of December 31, 2011 and 2010, respectively. MBIA Inc. utilizes its capital resources to support the business activities of its subsidiaries. As of December 31, 2011, MBIA Inc. s investments in subsidiaries totaled $3.4 billion.

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 CPR of MBIA Corp. and National as well as other business needs.

During 2011, we repurchased 6.5 million of common shares of MBIA Inc. under our share repurchase program at a cost of $50 million and an average price of $7.64 per share. As of December 31, 2011, $23 million was available for future repurchases under the program.

During 2011, we repurchased $122 million par value of GFL MTNs at a cost of approximately 80% of par value. Also, during 2011, MBIA Inc., through its asset/liability products segment, purchased $5 million par value of surplus notes issued by MBIA Insurance Corporation at a cost of approximately 55% of par value.

During 2011, MBIA Inc. purchased 111 shares of the outstanding preferred stock of MBIA Insurance Corporation at a weighted average price of approximately $20,200 per share or 20.20% of the face value.

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

CAPITAL RESOURCES (continued)

Insurance Statutory Capital

National and MBIA Insurance Corporation are incorporated and licensed in, and are subject to primary insurance regulation and supervision by, the State of New York. National and MBIA Insurance Corporation each are required to file detailed annual financial statements, as well as interim financial statements, with the New York State Department of Financial Services (NYSDFS), previously referred to as The New York State Insurance Department or 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 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 GAAP in a number of ways. Refer to the statutory accounting practices note to consolidated 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 GAAP.

National

Capital and Surplus

National reported total statutory capital of $2.8 billion as of December 31, 2011 compared with $2.4 billion as of December 31, 2010. As of December 31, 2011, statutory capital comprised $1.4 billion of contingency reserves and $1.4 billion of policyholders surplus. The increase in National s statutory capital is primarily due to statutory net income of $478 million for 2011. Consistent with our plan to transform our insurance business, the Company received approval from the NYSDFS to reset National s unassigned surplus to zero, which was effective January 1, 2010. As of December 31, 2011, National s unassigned surplus was $834 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 Note 23: Commitments and Contingencies in the Notes to Consolidated Financial Statements for a discussion of this action.

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 is also required to maintain contingency reserves to provide protection to policyholders in the event of extreme losses in adverse economic events. Refer to the following MBIA Insurance Corporation Capital and Surplus section for additional information about contingency reserves under the New York Insurance Law (NYIL). National s policyholders surplus was $1.4 billion as of December 31, 2011. 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.

NYIL regulates the payment of dividends by financial guarantee insurance companies and provides that such companies may not declare or distribute dividends except out of statutory earned surplus. Under NYIL, 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 reported in the latest statutory financial statements (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 Superintendent of the NYSDFS approves a greater dividend distribution based upon a finding that the insurer will retain sufficient surplus to support its obligations.

National is subject to NYIL with respect to the payment of dividends as described above. National had a positive earned surplus as of December 31, 2011, which provides National with dividend capacity. National did not declare or pay any dividends during 2011. In connection with the court proceeding challenging the approval of the National surplus reset, as described above, we have agreed that National will not pay dividends during the current adjournment of the proceeding (i.e., through April 19, 2012). In addition, in connection with the approval of a release of excessive contingency reserves as of December 31, 2011 in MBIA Insurance Corporation, the Company has agreed that National will not pay dividends without the prior approval of the NYSDFS prior to July 19, 2013 (i.e., for an additional 15 months after the expiration of the current adjournment period).

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CAPITAL RESOURCES (continued)

National s statutory policyholders surplus was lower than its GAAP shareholder s equity by $2.1 billion as of December 31, 2011. U.S. STAT differs from GAAP in certain respects. Refer to the statutory accounting practices note to consolidated financial statements of National within exhibit 99.2 of this annual report on Form 10-K for an explanation of the differences between U.S. STAT and GAAP.

CPR (Statutory Basis)

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. Our calculation of CPR may differ from the calculation of CPR reported by other companies.

National s CPR, and components thereto, as of December 31, 2011 and 2010 are presented in the following table. In the fourth quarter of 2011, we modified our calculation of CPR to include loss and LAE reserves gross of salvage reserves to reflect the expected availability of salvage to pay claims once it is collected. U.S. STAT requires salvage reserves to be netted against the loss and LAE reserves liability on National s statutory balance sheet. The modification to CPR was made to all periods presented in the following table.

	As of December 31,	
In millions	**2011**	**2010**
Policyholders surplus	$ 1,424	$ 908
Contingency reserves	1,385	1,473
Statutory capital	2,809	2,381
Unearned premium reserve	2,485	2,873
Present value of installment premiums[1]	239	282
Premium resources[2]	2,724	3,155
Net loss and LAE reserves[1]	(3)	`96
Salvage reserves	161	108
Gross loss and LAE reserve	158	204
Total claims-paying resources	$ 5,691	$ 5,740

(1) Calculated using a discount rate of 4.77% and 4.19% as of December 31, 2011 and 2010, respectively.
(2) Includes financial guarantee and insured credit derivative related premiums.

National s total CPR as of December 31, 2011 of $5.7 billion remained flat compared with December 31, 2010, as net income was offset by decreases in unearned premiums, estimated future cash collections, and gross loss and LAE reserves.

MBIA Insurance Corporation

Capital and Surplus

MBIA Insurance Corporation reported total statutory capital of $2.3 billion as of December 31, 2011 compared with $2.7 billion as of December 31, 2010. As of December 31, 2011, statutory capital comprised $706 million of contingency reserves and $1.6 billion of policyholders surplus. For the year ended December 31, 2011, MBIA Insurance Corporation had a statutory net loss of $477 million which was primarily due to losses incurred offset by premium revenue and net investment income. MBIA Insurance Corporation s policyholders surplus as of December 31, 2011 includes a negative unassigned surplus of $427 million.

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CAPITAL RESOURCES (continued)

As of December 31, 2011, MBIA Insurance Corporation recognized estimated recoveries of $2.0 billion, net of reinsurance and income taxes at a rate of 35%, on a statutory basis related to put-backs of ineligible loans in our insured transactions. These expected insurance recoveries represented 89% of MBIA Insurance Corporation s statutory capital (defined as policyholders surplus plus contingency reserves) as of December 31, 2011. There can be no assurance that we will be successful or that we will not be delayed in realizing these recoveries. Refer to Executive Overview Economic and Financial Market Trends and MBIA s Business Outlook included herein.

In order to maintain its New York State financial guarantee insurance license, MBIA Insurance Corporation is required to maintain a minimum of $65 million of policyholders surplus. MBIA Insurance Corporation s policyholders surplus was $1.6 billion as of December 31, 2011. MBIA Insurance Corporation s policyholders surplus is expected to grow over time from the recognition of unearned premiums and investment income and the expected release of the contingency reserves. In addition, MBIA Insurance Corporation 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.

Under NYIL, MBIA Insurance Corporation is also required to establish a contingency reserve to provide protection to policyholders in the event of extreme losses in adverse economic events. The amount of the reserve is based on the percentage of principal insured or premiums earned, depending on the type of obligation (net of collateral, reinsurance, refunding, refinancings and certain insured securities). Under NYIL, MBIA Insurance Corporation is required to invest its minimum surplus and contingency reserves, and 50% of its loss reserves and unearned premium reserves, in certain qualifying assets. Reductions in the contingency reserve may be recognized based on excessive reserves and under certain stipulated conditions, subject to the approval of the Superintendent of the NYSDFS. Pursuant to approval granted by the NYSDFS in accordance with NYIL, as of December 31, 2011, MBIA Insurance Corporation released to surplus an aggregate of $582 million of contingency reserves. Absent this release, MBIA Insurance Corporation would have had a short-fall of $582 million of qualifying assets used to meet its requirement as a result of its use of cash to pay claims and to effect commutations, and as a result of the failure of certain mortgage originators to honor contractual obligations to repurchase ineligible mortgage loans from securitizations MBIA Corp. had insured. Including the above release, pursuant to approvals granted by the NYSDFS in accordance with NYIL, during 2011, MBIA Insurance Corporation released to surplus an aggregate of $900 million of excessive contingency reserves.

In connection with MBIA Corp. obtaining approval from the NYSDFS to release excessive contingency reserves as of September 30, 2011 and December 31, 2011, MBIA Corp. agreed that it would not pay any dividends without prior approval from the NYSDFS. Due to its significant negative earned surplus, MBIA Corp. has not had the statutory capacity to pay dividends since December 31, 2009 and is not expected to have any statutory capacity to pay any dividends in the near term. In addition, as noted above, in connection with the approval of the December 31, 2011 contingency reserve release, National agreed that it would not pay any dividends without prior approval from the NYSDFS until July 19, 2013 (which is 15 months after the expiration of the period during which National has agreed not to pay dividends in connection with the court proceeding challenging the approval of National s unassigned surplus reset).

MBIA Insurance Corporation s statutory policyholders surplus is higher than its GAAP shareholders equity by $2.0 billion as of December 31, 2011. U.S. STAT differs from GAAP in certain respects. Refer to the statutory accounting practices note to consolidated financial statements of MBIA Corp. within exhibit 99.3 of this annual report on Form 10-K for an explanation of the differences between U.S. STAT and GAAP.

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CAPITAL RESOURCES (continued)

Claims-Paying Resources (Statutory Basis)

CPR is a key measure of the resources available to MBIA Insurance Corporation 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 Insurance Corporation, using the same measure that MBIA s management uses to evaluate MBIA Insurance Corporation s resources to pay claims under its insurance policies. There is no directly comparable GAAP measure. Our calculation of CPR may differ from the calculation of CPR reported by other companies.

MBIA Insurance Corporation s CPR, and components thereto, as of December 31, 2011 and 2010 are presented in the following table. In the fourth quarter of 2011, we modified our calculation of CPR to include loss and LAE reserves gross of salvage reserves to reflect the expected availability of salvage to pay claims once it is collected. U.S. STAT requires salvage reserves to be netted against the loss and LAE reserves liability on MBIA Insurance Corporation s statutory balance sheet. The modification to CPR was made to all periods presented in the following table.

In millions	As of December 31, 2011	2010
Policyholders surplus	$ 1,597	$ 1,075
Contingency reserves	706	1,656
Statutory capital	2,303	2,731
Unearned premium reserve	607	703
Present value of installment premiums[1]	1,226	1,655
Premium resources[2]	1,833	2,358
Net loss and LAE reserves[1]	(2,266)	155
Salvage reserves[3]	4,249	3,599
Gross loss and LAE reserve	1,983	3,754
Total claims-paying resources	$ 6,119	$ 8,843

(1) Calculated using a discount rate of 5.59% and 5.93% as of December 31, 2011 and 2010, respectively.
(2) Includes financial guarantee and insured credit derivative related premiums.
(3) This amount primarily consists of expected recoveries related to the Company s put-back claims.

MBIA Insurance Corporation s total CPR as of December 31, 2011 was $6.1 billion compared with $8.8 billion as of December 31, 2010. The decrease in CPR is primarily due to loss payments associated with insured RMBS securitizations and payments associated with the commutation of insured CMBS CDO s, structured CMBS pools, investment grade corporate CDOs and a multi-sector CDO, which resulted in a reduction to gross loss and LAE reserves.

LIQUIDITY

As a financial services company, MBIA has been materially adversely affected by conditions in global financial markets. Current conditions and events in these markets, in addition to the failure by the originators of RMBS to repurchase the ineligible loans in securitizations that the Company had insured, have put substantial stress on our liquidity resources.

We have utilized a liquidity risk management framework, the primary objectives of which are to monitor liquidity positions and projections in our legal entities and guide the matching of liquidity resources to needs. We monitor our 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 evaluate and manage liquidity on a legal entity basis to take into account the legal, regulatory and other limitations on available liquidity resources within the enterprise.

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LIQUIDITY (continued)

The majority of our liquidity management efforts focus on:

- The liquidity resources of MBIA Inc., which are subject to uncertainty in the timing and amount of cash inflows from dividends paid by National and MBIA Corp., the necessity of having to support the liquidity needs of the asset/liability products business, and potential cross-defaults of holding company debt with other obligations in the consolidated group. The asset/liability products business of MBIA Inc. is subject to ongoing negative cash flow and has a deficit of invested assets to liabilities. In addition, the liquidity resources of MBIA Inc. are subject to collateralization requirements in connection with the liabilities it has issued to third parties and affiliates and in connection with third party derivative contracts;

- The liquidity resources of MBIA Corp., which are subject to losses on insured exposures, payments to counterparties in consideration for the commutation of insured transactions, and delays in the collection of contract claim recoveries related to ineligible mortgage loans in certain insured transactions; and

- The liquidity resources of National, for which the Company has not observed material liquidity risk to date but which are exposed to unexpected loss payments on its insured transactions, liquidity support arrangements with its affiliates and the need to meet ongoing operating expenses.

In order to address these liquidity risks and efficiently manage liquidity across the entire enterprise, certain of our subsidiaries which are less liquidity constrained have entered into intercompany agreements that provide resources to subsidiaries that are more liquidity constrained. These resources include intercompany agreements described further below between the Company s primary insurance subsidiaries and between these insurance subsidiaries and the asset/liability products business (through MBIA Inc.), which in each case were approved by the NYSDFS and are subject to ongoing monitoring by the NYSDFS.

Key Intercompany Lending Agreements

National Secured Loan

In December 2011, National provided the National Secured Loan to MBIA Insurance Corporation under which National loaned MBIA Insurance Corporation $1.1 billion at a fixed annual interest rate of 7% and with a maturity date of December 2016. MBIA Insurance Corporation has the option to defer payments of interest when due by capitalizing interest amounts to the loan balance, subject to the collateral value exceeding certain thresholds. MBIA Insurance Corporation s obligation to repay the loan is secured by a pledge of collateral having an estimated value in excess of the notional amount of the loan as of December 31, 2011. The National Secured Loan was approved by the NYSDFS as well as by the boards of directors of MBIA Inc., MBIA Insurance Corporation and National in order to enable MBIA Corp. to fund settlements and commutations of its insurance policies. MBIA Insurance Corporation may seek to increase the size of the loan in the future. Any such increase or other amendment to the terms of the loan would be subject to regulatory approval by the NYSDFS.

Asset Swap

National maintains the Asset Swap (simultaneous repurchase and reverse repurchase agreements) with MBIA Inc. for up to $2.0 billion based on the fair value of securities borrowed. The Asset Swap provides MBIA Inc. with eligible assets to pledge under investment agreement and derivative contracts in the asset/liability products business. As of December 31, 2011, the notional amount utilized under each of these agreements was $1.3 billion and the fair value of collateral pledged by National and MBIA Inc. under these agreements was $1.4 billion and $1.5 billion, respectively. The net average interest rate on these transactions was 0.34%, 0.35% and 1.70% for the years ended December 31, 2011, 2010 and 2009, respectively. The NYSDFS approved the Asset Swap in connection with the re-domestication of National to New York.

National has committed to the NYSDFS to use commercially reasonable efforts to reduce the amount of the Asset Swap over time.

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LIQUIDITY (continued)

MBIA Corp. Secured Loan

MBIA Corp., as lender, maintained the MBIA Corp. Secured Loan (a secured lending agreement) with MBIA Inc. for the benefit of MBIA Inc. s asset/liability products business, which totaled $2.0 billion at inception and which was scheduled to mature in November 2011. In the fourth quarter of 2011, the maturity of the MBIA Corp. Secured Loan was extended with the approval of the NYSDFS to May 2012 with a maximum outstanding amount of $450 million. The interest rate on the MBIA Corp. Secured Loan is 2.43%. As of December 31, 2011, the amount outstanding under the MBIA Corp. Secured Loan was $300 million after repayments of $675 million during 2011.The fair value of the collateral pledged by MBIA Inc. to MBIA Corp. under this agreement was $168 million as of December 31, 2011.

Conduit Repurchase Agreement

During the fourth quarter of 2010, MBIA Inc. entered into a repurchase agreement with Meridian Funding Company, LLC (Conduit Repurchase Agreement), under which $1.0 billion notional amount may be utilized, subject to a pledge of collateral. The Conduit Repurchase Agreement had an average interest rate during 2011 of 2.41%. As of December 31, 2011, the notional amount utilized by MBIA Inc. under this agreement was $80 million.

MBIA Inc. Liquidity

The activities of MBIA Inc. consist of holding and managing investments, servicing outstanding corporate debt instruments, investment agreements and medium-term notes (MTNs) issued by the asset/liability products and conduits segments, posting collateral under financing and hedging arrangements and investment agreements, making payments and collateral postings related to interest rate and foreign exchange swaps, and paying operating expenses. The primary sources of cash within MBIA Inc. used to meet its liquidity needs include available cash and liquid assets not subject to collateral posting requirements, as well as scheduled principal and interest on assets held in its investment portfolio, dividends from subsidiaries, payments under tax sharing agreements with these subsidiaries (once the payments become unrestricted) and the ability to issue debt and equity. There can be no assurance as to the amount and timing of any such dividends or payments under the tax sharing agreements. MBIA Inc. 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 with respect to MBIA Corp. MBIA Inc. s obligations under its loans from GFL may be accelerated only 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 that are not already collateralized.

During 2011, pursuant to the tax sharing agreement, National paid MBIA Inc. $114 million related to the 2010 tax year and $144 million of estimated taxes related to the 2011 tax year. Consistent with the tax sharing agreement, these amounts were placed in an escrow account until the expiration of National s two-year net operating loss (NOL) carry-back period under U.S. tax rules. At the expiration of National s carry-back period, any funds remaining after any reimbursement to National in respect of any NOL carry-backs would be available for general corporate purposes, including to satisfy any other obligations under the tax sharing agreement.

MBIA Inc. is subject to material liquidity risks and uncertainty. To mitigate these risks, the Company seeks to maintain cash and liquid investments in excess of its expected cash requirements over a multi-year period. The Company seeks to manage liquidity within a number of risk and liquidity parameters and maintains cash and liquidity resources that it believes will be sufficient to make all payments due on its obligations and to meet other financial requirements, such as posting collateral, through 2012.

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Liquidity risk within MBIA Inc. is primarily a result of the following factors:

Currently, the majority of the assets of MBIA Inc. are pledged against investment agreement liabilities, intercompany and third party financing arrangements and derivatives, which limits its ability to raise liquidity through asset sales. In addition, if the market value or rating eligibility of the assets which are pledged against these obligations were to decline, the Company would be required to pledge additional eligible assets in order to meet minimum required collateral amounts against these liabilities. In such event, the Company may sell additional assets, potentially with substantial losses, finance unencumbered assets through intercompany or third party facilities, or use free cash or other assets, in some cases with NYSDFS approval, although there can be no assurance that these strategies will be available or adequate to meet liquidity requirements.

There is a deficit of invested assets to liabilities issued to third parties and affiliates of $591 million as of December 31, 2011. This deficit is expected to increase as a result of on-going expected operating losses. This deficit will need to be reversed prior to the maturity of the liabilities in order to ensure that there are sufficient funds available to fully retire the liabilities. The Company expects that MBIA Inc. will be able to eliminate the deficit prior to the maturity of the related liabilities from distributions from its operating subsidiaries and by raising third party capital, although there can be no assurance that MBIA Inc. will be able to eliminate the deficit through such means.

Because the majority of MBIA Inc. s assets are pledged against the obligations described above, the widening of credit spreads would have an adverse impact on the market value of these assets and increase collateralization requirements for the portfolio. The following table presents the estimated pre-tax change in fair value of the asset/liability products business assets as of December 31, 2011 from instantaneous shifts in credit spread curves. This table assumes that all credit spreads move by the same amount; however, it is more likely that the actual changes in credit spreads will vary by investment sector and individual security. The table presents 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.

	Change in Credit Spreads (Asset/Liability Products Business)			
In millions	**200 Basis Point Decrease**	**50 Basis Point Decrease**	**50 Basis Point Increase**	**200 Basis Point Increase**
Estimated change in fair value	$ 266	$ 75	$ (71)	$ (265)

In 2011, MBIA Inc. maintained three intercompany financing facilities to provide it with additional resources to meet its liquidity requirements within the asset/liability products business: the Asset Swap, the MBIA Corp. Secured Loan and the Conduit Repurchase Agreement. Refer to the preceding Key Intercompany Lending Agreements section for a description of these facilities.

During 2011, MBIA Inc. experienced deterioration in the market values of some of its assets, resulting in increased collateral requirements. During the fourth quarter of 2011, the Company extended the maturity date of the MBIA Corp. Secured Loan, with NYSDFS approval, to May 2012 for a maximum outstanding amount of $450 million, to provide additional liquidity in the event of future declines in asset values.

Stressed credit market conditions in 2012 could cause MBIA Inc. to have insufficient resources to cover collateral and/or other liquidity requirements in 2012. Management has identified certain contingent actions within its control to mitigate this risk. These contingent actions include: (1) sales of encumbered and other invested assets exposed to credit spread stress risk; (2) termination and settlement of interest rate swap agreements; and (3) other available advances from subsidiaries. These actions, if taken, are expected to result in either additional liquidity or reduced exposure to adverse credit spread movements. There can be no assurance that these actions will be sufficient to fully mitigate this risk. In the event that the Company cannot implement the contingent actions identified above to raise liquidity, or eliminate the deficit, it may

have insufficient assets to make all payments on its obligations as they come due, which could result in a default by MBIA Inc. on its obligations and the potential for MBIA Corp., as guarantor of the investment agreements and GFL MTNs, to be called upon to satisfy obligations on those instruments as they come due.

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LIQUIDITY (continued)

MBIA Corp. Liquidity

Liquidity available in the structured finance and international insurance segment is affected by the payment of claims on insured exposures, payments made to commute insured exposure, the Company s ability to collect on receivables associated with loss payments, a reduction in investment income, any unanticipated expenses, or the impairment or a significant decline in the fair value of invested assets. The Company may also experience liquidity constraints as a result of New York Insurance Law requirements that the Company maintains specified, high quality assets to back the Company s reserves and surplus.

The Company believes the current liquidity position of MBIA Corp. is adequate to make expected future claims payments. However, the liquidity position of MBIA Corp. has been stressed due to the failure of the sellers/servicers of RMBS transactions insured by MBIA Corp. to repurchase ineligible mortgage loans in certain insured transactions and payments to counterparties in consideration for the commutation of insured transactions, which have resulted in a substantial reduction of exposure and potential loss volatility. While MBIA Corp. has made and may in the future make payments to counterparties in consideration for the commutation of insured transactions, MBIA Corp. s ability to commute insured transactions will depend on management s assessment of available liquidity.

Payment requirements for the structured finance and international financial guarantee contracts fall into three categories: (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, which payments are unscheduled and therefore more difficult to predict, and which category applies to most of the transactions on which the Company have recorded loss reserves. MBIA Corp. is generally required to satisfy claims within one to three business days, and as a result seeks to identify potential claims in advance through the Company s monitoring process. While the Company s financial guarantee policies generally cannot be accelerated, thereby mitigating liquidity risk, the insurance of CDS contracts may, in certain events, including the insolvency or payment default of the insurer or the issuer of the CDS, be subject to termination by the counterparty, triggering a claim for the fair value of the contract. Additionally, the Company s structured finance and international insurance segment requires cash for the payment of operating expenses, as well as principal and interest related to its surplus notes. In order to monitor liquidity risk and maintain appropriate liquidity resources, the Company uses the same methodology as the Company uses to monitor credit quality and losses within the Company s insured portfolio including stress scenarios. Refer to Note 6: Loss and Loss Adjustment Expense Reserves in the Notes to Consolidated Financial Statements for further discussion.

Since the fourth quarter of 2007 through December 31, 2011, MBIA Corp. has made $10.7 billion of cash payments, before reinsurance and collections and excluding LAE, (including payments made to debt holders of consolidated VIEs) associated with second-lien RMBS securitizations and with commutations and claim payments relating to CDS contracts. These cash payments include loss payments of $730 million made on behalf of MBIA Corp. s consolidated VIEs. Of the $10.7 billion, MBIA Corp. has paid $6.2 billion of gross claims (before reinsurance and collections and excluding LAE) on policies insuring second-lien RMBS securitizations, driven primarily by an extensive number of ineligible mortgage loans being placed in the securitizations in breach of the representations and warranties of the sellers/servicers.

MBIA Corp. is seeking to enforce its rights to have mortgage sellers/servicers cure, replace or repurchase ineligible mortgage loans from securitizations and has recorded a total of $3.1 billion of related expected recoveries on its consolidated balance sheets as of December 31, 2011, including expected recoveries recorded in the Company s consolidated VIEs. A substantial majority of the Company s put-back claims have been disputed by the loan sellers/servicers and is currently subject to litigation discussed more fully in Note 23: Commitments and Contingencies in the Notes to Consolidated Financial Statements. There is some risk that the sellers/servicers or other responsible parties might not be able to satisfy any judgment the Company secures in litigation. There can be no assurance that the Company will be successful or that the Company will not be delayed in realizing these recoveries. The Company believes that it has adequate liquidity resources to provide for anticipated cash outflows; however, if the Company does not realize or is delayed in realizing these expected recoveries, the Company may not have adequate liquidity to fully execute the strategy to reduce future potential economic losses by commuting policies and purchasing instruments issued or guaranteed by the Company, or to repay any intercompany borrowings.

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LIQUIDITY (continued)

A portion of the commutation payments made in the fourth quarter of 2011 were financed through the National Secured Loan that was entered into in the fourth quarter of 2011. The National Secured Loan was approved by the NYSDFS as well as by the boards of directors of MBIA Inc., MBIA Insurance Corporation and National in order to enable MBIA Corp. to fund settlements and commutations of its insurance policies. MBIA Insurance Corporation s obligation to repay the loan is secured by a pledge of collateral having a value in excess of the notional amount of the loan. Interest on the loan may be accrued and deferred at any time that the value of that collateral exceeds certain thresholds. MBIA Insurance Corporation s ability to repay the loan and any accrued interest will be primarily predicated on MBIA Corp. s ability to collect on its future receivables, including its ability to successfully enforce its rights to have mortgage sellers/servicers cure, replace or repurchase ineligible mortgage loans from securitizations it insured. MBIA Insurance Corporation may seek to increase the size of the loan in the future. Any such increase or other amendment to the terms of the loan would be subject to regulatory approval by the NYSDFS.

MBIA Corp. also insures third party holders of the Company s asset/liability products segment s obligations. If the Company was unable to meet payment or collateral requirements associated with these obligations, the holders thereof could make claims under the MBIA Corp. insurance policies. In 2008, to provide additional liquidity to the asset/liability products business, MBIA Corp. lent $2.0 billion to the segment on a secured basis under the MBIA Corp. Secured Loan, the outstanding balance of which loan was $300 million as of December 31, 2011. The MBIA Corp. Secured Loan was originally scheduled to mature in the fourth quarter of 2011, but has been extended with the approval of the NYSDFS to May 2012 with a maximum outstanding amount of $450 million. During the year ended December 31, 2011, a total of $675 million was repaid.

As of December 31, 2011, MBIA Corp. held cash and available-for-sale investments of $1.5 billion, of which $534 million comprised cash and highly liquid assets. The Company believes that MBIA Corp. s liquidity resources will adequately provide for anticipated cash outflows. In the event of unexpected liquidity requirements, the Company may have insufficient resources to meet its obligations or insufficient qualifying assets to support its surplus and reserves, and may seek to increase its cash holdings position by selling or financing assets, or raising external capital, and there can be no assurance that the Company will be able to draw on these additional sources of liquidity.

National Liquidity

Despite continued adverse macroeconomic conditions in the U.S., the incidence of default among U.S. public finance issuers remains extremely low and 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.

Liquidity risk arises in the Company s U.S. public finance insurance segment primarily from the following:

The insurance policies issued or reinsured by National, the entity from which the Company conducts its U.S. public finance insurance business, provide unconditional and irrevocable guarantees of payments 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, National generally promises to make funds available in the insured amount within one to three business days following notification. In some cases, the amount due can be substantial, particularly if the default occurs on a transaction to which National has a large notional exposure or on a transaction structured with large, bullet-type principal maturities. The fact that the U.S. public finance insurance segment s financial guarantee contracts generally cannot be accelerated by a party other than the insurer helps to mitigate liquidity risk in this segment.

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National has entered into certain intercompany transactions to support the liquidity needs of its affiliates. These include the National Secured Loan to MBIA Insurance Corporation in the fourth quarter of 2011 and the Asset Swap through which National provides liquid assets to the Company s asset/liability products business. These transactions may impair National s ability to implement its business plan while they remain outstanding as the repayment of the National Secured Loan will primarily be predicated on MBIA Corp. s ability to successfully enforce its rights to have mortgage sellers/servicers cure, replace or repurchase ineligible mortgage loans from securitizations it insured, while changes in the market value of securities sold to National under its Asset Swap with the asset/liability products business can adversely affect its liquidity position.

The Company s U.S. public finance insurance segment requires cash for the payment of operating expenses. Declines in operating cash inflows due to depressed new business writings, declines in cash inflows from investment income, unanticipated expenses, or an impairment or significant decline in the fair value of invested assets could negatively impact its liquidity position.

As of December 31, 2011, the notional amount utilized under the Asset Swap was $1.3 billion and the fair value of collateral pledged by National under the agreement was $1.4 billion. The Asset Swap provides yield enhancement to the Company s U.S. public finance insurance investment portfolio as a result of increased net interest earnings from the agreement. The net average interest rate on this transaction was 0.34%, 0.35% and 1.70% for the years ended December 31, 2011, 2010 and 2009, respectively.

National held cash and short-term investments of $771 million as of December 31, 2011, of which $703 million was highly liquid and consisted predominantly of highly rated municipal, U.S. agency and corporate bonds. With the exception of its loan to MBIA Insurance Corporation, most of National s investments, including those encumbered by the Asset Swap, are liquid and highly rated.

Consolidated Cash Flows

Operating Cash Flows

For the year ended December 31, 2011, net cash used by operating activities totaled $3.0 billion compared with $1.3 billion for the same period of 2010. The Company s net use of cash in 2011 was largely related to payments for commutations of insured derivative contracts and loss payments on financial guarantee insurance policies insuring RMBS exposure. The Company s net use of cash in 2010 was largely related to loss payments on financial guarantee insurance policies insuring RMBS exposure, partially offset by a tax refund related to our NOL carryback recovery. 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, 2011 and 2010, net cash provided by investing activities was $4.3 million and $5.0 billion, respectively. Net cash provided by investing activities in 2011 and 2010 resulted from sales and redemptions of securities for purposes of funding commutations of insured derivative contracts, insurance-related loss payments, investment agreement withdrawals, and repayments of other debt. Additionally for 2010, cash provided by investing activities included cash recognized in the consolidation of VIEs.

Financing Cash Flows

For the year ended December 31, 2011, net cash used by financing activities was $1.8 billion compared with $3.4 billion for the same period of 2010. Net cash used by financing activities in 2011 and 2010 principally related to principal payments on VIE notes, withdrawals of investment agreements, and payments for the retirement of other debt.

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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, 2011, 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, 2011 and 2010 the fair values of our consolidated available-for-sale investments were $8.4 billion and $11.9 billion, respectively, as presented in the following table. Additionally, consolidated cash and cash equivalents as of December 31, 2011 and 2010 were $473 million and $366 million, respectively.

	As of December 31,		Percent Change
In millions	**2011**	**2010**	**2011 vs. 2010**
Available-for-sale investments:			
U.S. public finance insurance operations segment			
Amortized cost	$ 3,787	$ 5,489	-31%
Unrealized net gain (loss)	108	(66)	n/m
Fair value	3,895	5,423	-28%
Structured finance and international insurance operations			
Amortized cost	1,361	2,211	-38%
Unrealized net gain (loss)	(15)	(14)	7%
Fair value	1,346	2,197	-39%
Corporate segment			
Amortized cost	448	275	63%
Unrealized net gain (loss)	(61)		n/m
Fair value	387	275	41%
Advisory services			
Amortized cost	17	21	-19%
Unrealized net gain (loss)			n/m
Fair value	17	21	-19%
Wind-down operations			
Amortized cost	2,939	4,489	-35%
Unrealized net gain (loss)	(206)	(505)	-59%
Fair value	2,733	3,984	-31%

Total available-for-sale investments:			
Amortized cost	8,552	12,485	-32%
Unrealized net gain (loss)	(174)	(585)	-70%
Total available-for-sale investments at fair value	8,378	11,900	-30%
Investments carried at fair value:			
U.S. public finance insurance operations segment			
Amortized cost	165		n/m
Unrealized net gain (loss)	(1)		n/m
Fair value	164		n/m
Structured finance and international insurance operations			
Amortized cost	25	1	n/m
Unrealized net gain (loss)			n/m
Fair value	25	1	n/m
Corporate segment			
Amortized cost	41	10	n/m
Unrealized net gain (loss)	(19)		n/m
Fair value	22	10	120%
Advisory services			
Amortized cost	3	2	50%
Unrealized net gain (loss)			n/m
Fair value	3	2	50%

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In millions	As of December 31, 2011	2010	Percent Change 2011 vs. 2010
Wind-down operations			
Amortized cost	102	27	n/m
Unrealized net gain (loss)	(12)	(15)	-20%
Fair value	90	12	n/m
Total investments carried at fair value:			
Amortized cost	336	40	n/m
Unrealized net gain (loss)	(32)	(15)	113%
Total Investments carried at fair value	304	25	n/m
Held-to-maturity investments:			
Structured finance and international insurance operations amortized cost	1	1	0%
Total held-to-maturity investments at amortized cost	1	1	0%
Other investments			
U.S. public finance insurance operations segment			
Amortized cost	9		n/m
Corporate segment			
Amortized cost		1	-100%
Advisory services			
Amortized cost	1		n/m
Total other investments			
Amortized cost	10	1	n/m
Consolidated investments at carrying value	$ 8,693	$ 11,927	-27%

n/m Percent change not meaningful.

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, 2011 is presented in the following table. Alternate ratings sources, such as S&P or the best estimate of the ratings assigned by the Company, have been used for a small percentage of securities that are not rated by Moody s.

	U.S. Public Finance		Structured Finance and International		Advisory Services		Corporate		Wind-down Operations		Total	
In millions	Fair Value	% of Fixed-Income Investments	Fair Value	% of Fixed-Income Investments	Fair Value	% of Fixed-Income Investments	Fair Value	% of Fixed-Income Investments	Fair Value	% of Fixed-Income Investments	Fair Value	% of Fixed-Income Investments
Available-for-sale:												
Aaa	$ 1,744	54%	$ 947	85%	$ 1	50%	$	0%	$ 323	15%	$ 3,015	46%
Aa	1,086	33%	56	5%		0%		0%	385	18%	1,527	23%
A	285	9%	8	1%	1	50%		0%	662	32%	956	14%
Baa	110	3%	16	1%		0%		0%	480	23%	606	9%
Below investment grade	18	1%	58	5%		0%	95	65%	241	12%	412	6%
Not rated	4	0%	34	3%		0%	52	35%	4	0%	94	2%
Total	$ 3,247	100%	$ 1,119	100%	$ 2	100%	$ 147	100%	$ 2,095	100%	$ 6,610	100%
Short-term investments	642		220		15		240		555		1,672	
Investments held-to-maturity			1								1	
Investments held at fair value	164		25		3		22		90		304	
Other investments	15		7		1				83		106	
Consolidated investments at carrying value	$ 4,068		$ 1,372		$ 21		$ 409		$ 2,823		$ 8,693	

As of December 31, 2011, 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	Aaa	Aa	Below investment grade	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, 2011, Insured Investments at fair value represented $1.3 billion or 15% of consolidated investments, of which $747 million or 9% of consolidated investments were

Company-Insured Investments.

As of December 31, 2011, 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 5% of the total investment portfolio would be rated below investment grade.

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

LIQUIDITY (continued)

The distribution of the Company s Insured Investments by financial guarantee insurer as of December 31, 2011 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	Corporate Fair Value	Corporate % of Total Investments	Wind-down Operations Fair Value	Wind-down Operations % of Total Investments	Total Fair Value	Total % of Total Investments
MBIA Corp.	$	0%	$ 43	1%	$ 47	1%	$ 428	5%	$ 518	7%
Assured Guaranty Municipal Corp.	80	1%		0%		0%	162	2%	242	3%
Ambac Financial Group, Inc.	26	0%		0%	47	1%	116	1%	189	2%
National	123	1%		0%		0%	106	1%	229	2%
FGIC	3	0%	3	0%	20	0%	83	1%	109	1%
Other	3	0%		0%		0%	7	0%	10	0%
Total	$ 235	2%	$ 46	1%	$ 114	2%	$ 902	10%	$ 1,297	15%

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, 2011 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	Corporate	Wind-down Operations	Total
National:					
Aaa	$	$	$	$	$
Aa	54			22	76
A	43			35	78
Baa	26			49	75
Below investment grade					

Total National	$ 123	$	$	$ 106	$ 229
MBIA Corp.:					
Aaa	$	$	$	$	$
Aa		5		111	116
A				37	37
Baa		1		124	125
Below investment grade		36	23	156	215
Not rated		1	24		25
Total MBIA Corp.	$	$ 43	$ 47	$ 428	$ 518
Total MBIA Insured Investments	$ 123	$ 43	$ 47	$ 534	$ 747

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

LIQUIDITY (continued)

Without giving effect to the MBIA guarantee of the Company-Insured Investments in the consolidated investment portfolio, as of December 31, 2011, 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 3% of the Company-Insured Investment portfolio was rated below investment grade.

Impaired Investments

As of December 31, 2011 and 2010, we had impaired investments (investments for which fair value was less than amortized cost) with a fair value of $2.4 billion and $7.0 billion, respectively.

We analyze impaired investments within our investment portfolio for other-than-temporary impairments on a quarterly basis. Key factors considered when assessing other-than-temporary impairments include but are not limited to: (a) structural and economic factors among security types that represent our largest exposure to credit impairment losses; (b) the duration and severity of the unrealized losses (i.e., a decline in the market value of a security by 20% or more at the time of the review, or 5% impaired at the time of review with a fair value below amortized cost for a consecutive 12-month period) and (c) the results of various cash flow modeling techniques. 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, 2011. 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, 2011						
In millions	**2012**	**2013**	**2014**	**2015**	**2016**	**Thereafter**	**Total**
U.S. public finance insurance segment:							
Gross insurance claim obligations	$ 194	$ 8	$ 7	$ 8	$ 7	$ 226	$ 450
Lease liability	0	0	0	0	1		1
Structured finance and international insurance segment:							
Surplus notes	133	946					1,079
Gross insurance claim obligations	1,089	203	81	18	30	3,239	4,660
Lease liability	1	1	0				2
Advisory services segment:							
Lease liability	0	0	0	0	1	2	3
Corporate segment:							
Long-term debt	57	57	57	57	57	1,560	1,845
Lease liability	1	1	1	1	1	3	8
Asset/liability products segment:							
Investment agreements	504	213	170	199	78	955	2,119
Medium-term notes	122	69	89	281	149	2,115	2,825

Securities sold under agreements to repurchase	288						288
Conduit segment:							
Medium-term notes	19	22	194	27	633	462	1,357
Long-term liquidity loans	4	4	6	8	11	617	650
Total	$ 2,412	$ 1,524	$ 605	$ 599	$ 968	$ 9,179	$ 15,287

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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 sheets. Insured derivatives are recorded at fair value and reported within Derivative liabilities on the Company s consolidated balance sheets. 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, 2011, VIE notes issued by issuer-sponsored consolidated VIEs totaled $7.6 billion, including $4.8 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, 2011.

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, 2011 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	$ (284)	$ (143)	$ (45)	$ (2)	$ (30)	$ (74)

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, 2011 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	$ (73)	$ (36)	$ 36	$ 73

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 as of December 31, 2011 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	$ 114	$ 44	$ (61)	$ (250)

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, 2011, approximately 23% 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 2011, the value of the Company s credit derivative contracts was predominantly affected by the Company s own credit risk on the portfolio and reduced collateral pricing. As risk factors change, the values of credit derivative contracts will change and the resulting gains or losses will be recorded within net income.

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

MARKET RISK (continued)

In 2011, 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, 2011. 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)	$ 1,863	$ 611	$ 166	$	$ (177)	$ (749)	$ (2,271)
Estimated net fair value	$ (2,936)	$ (4,188)	$ (4,633)	$ (4,799)	$ (4,976)	$ (5,548)	$ (7,070)

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.

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, 2011.

	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)	$ 100	$ 50	$	$ (50)	$ (100)
Estimated net fair value	$ (4,700)	$ (4,750)	$ (4,800)	$ (4,850)	$ (4,900)

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

MARKET RISK (continued)

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, 2011. 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)	$ 1,480	$ 455	$	$ (362)	$ (1,227)
Estimated net fair value	$ (3,320)	$ (4,345)	$ (4,800)	$ (5,162)	$ (6,027)

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, 2011. 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)	$ 484	$ 261	$	$ (276)	$ (531)
Estimated net fair value	$ (4,316)	$ (4,539)	$ (4,800)	$ (5,076)	$ (5,331)

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 50%, and a decrease of 50%. The actual upfront spread used in the valuation as of December 31, 2011 ranged from 13.50% to 33.50% based on the tenor of each transaction. The below amounts include an additional annual running credit spread of 5%.

	MBIA Upfront Credit Spread (Structured Finance and International Insurance Operations)			
In millions	Increase by 50 Percent	No Change	Decrease by 50 Percent	Decrease to 0 Percentage Points
Estimated pre-tax net gains (losses)	$ 317	$	$ (1,145)	$ (2,354)
Estimated net fair value	$ (4,483)	$ (4,800)	$ (5,945)	$ (7,154)

With the inclusion of the MBIA recovery rate in the calculation of nonperformance risk for insured CDS liabilities, the following sensitivity table presents the estimated pre-tax 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 25 Percentage Points	No Change	Increase to 50 Percentage Points
Estimated pre-tax net gains (losses)	$ 522	$	$ (548)
Estimated net fair value	$ (4,278)	$ (4,800)	$ (5,348)

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

MARKET RISK (continued)

MBIA Corp. 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 Corp. s insured structured credit derivatives, in the absence of credit impairments or the termination of derivatives at losses, the cumulative unrealized losses should reverse before or at maturity of the contracts. 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 consolidated 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.

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

MBIA INC. AND SUBSIDIARIES

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See Item 6. Selected Financial Data for Supplementary Financial Information.

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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, 2011 and 2010, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2011 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, 2011, 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, as a result of insured losses and realized investment losses during the period from 2007 to 2011, the Company has seen ratings downgrades, a near cessation of new insurance business written by the Company and increasing liquidity pressure and faces 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 a new accounting standard for Variable Interest Entities.

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

February 29, 2012

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MBIA INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In millions except share and per share amounts)

	December 31, 2011	December 31, 2010
Assets		
Investments:		
Fixed-maturity securities held as available-for-sale, at fair value (amortized cost $6,259 and $9,679)	$ 6,177	$ 9,092
Fixed-maturity securities at fair value	295	25
Investments pledged as collateral, at fair value (amortized cost $642 and $548)	543	552
Short-term investments held as available-for-sale, at fair value (amortized cost $1,577 and $2,073)	1,571	2,070
Other investments (includes investments at fair value of $96 and $185)	107	188
Total	8,693	11,927
Cash and cash equivalents	473	366
Accrued investment income	63	95
Premiums receivable	1,360	1,589
Deferred acquisition costs	351	412
Prepaid reinsurance premiums	88	97
Insurance loss recoverable	3,046	2,531
Reinsurance recoverable on paid and unpaid losses	16	15
Goodwill		31
Property and equipment, at cost (less accumulated depreciation of $139 and $135)	69	71
Receivable for investments sold	32	8
Derivative assets	2	4
Current income taxes		41
Deferred income taxes, net	1,745	908
Other assets	42	46
Assets of consolidated variable interest entities:		
Cash	160	764
Investments held-to-maturity, at amortized cost (fair value $3,489 and $3,760)	3,843	4,039
Fixed-maturity securities held as available-for-sale, at fair value (amortized cost $473 and $338)	432	339
Fixed-maturity securities at fair value	2,884	5,241
Loans receivable at fair value	2,046	2,183
Loan repurchase commitments	1,077	835
Derivative assets	450	699
Other assets	1	38
Total assets	**$ 26,873**	**$ 32,279**
Liabilities and Equity		
Liabilities:		
Unearned premium revenue	$ 3,515	$ 4,145
Loss and loss adjustment expense reserves	836	1,129
Reinsurance premiums payable	64	71
Investment agreements	1,578	2,005
Medium-term notes (includes financial instruments carried at fair value $165 and $116)	1,656	1,740
Securities sold under agreements to repurchase	287	471
Short-term debt		65
Long-term debt	1,840	1,851
Current income taxes	48	
Deferred fee revenue	8	10
Payable for investments purchased	3	2
Derivative liabilities	5,164	4,617
Other liabilities	268	272
Liabilities of consolidated variable interest entities:		
Variable interest entity notes (includes financial instruments carried at fair value $4,754 and $6,680)	8,697	10,590

Long-term debt	360	360
Derivative liabilities	825	2,104
Other liabilities	1	1
Total liabilities	**25,150**	**29,433**
Commitments and contingencies (See Note 23)		
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 274,896,162 and 274,719,578	275	275
Additional paid-in capital	3,072	3,064
Retained earnings	805	2,124
Accumulated other comprehensive loss, net of deferred tax of $105 and $229	(176)	(406)
Treasury stock, at cost 81,752,966 and 74,973,978 shares	(2,276)	(2,225)
Total shareholders equity of MBIA Inc.	1,700	2,832
Preferred stock of subsidiary and noncontrolling interest	23	14
Total equity	**1,723**	**2,846**
Total liabilities and equity	**$ 26,873**	**$ 32,279**

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 millions except share and per share amounts)

	Years Ended December 31,		
	2011	2010	2009
Revenues:			
Premiums earned:			
Scheduled premiums earned	$ 456	$ 504	$ 609
Refunding premiums earned	149	90	137
Premiums earned (net of ceded premiums of $12, $28, and $87)	605	594	746
Net investment income	383	457	568
Fees and reimbursements	50	160	146
Change in fair value of insured derivatives:			
Realized gains (losses) and other settlements on insured derivatives	(2,371)	(162)	(166)
Unrealized gains (losses) on insured derivatives	(441)	(607)	1,650
Net change in fair value of insured derivatives	(2,812)	(769)	1,484
Net gains (losses) on financial instruments at fair value and foreign exchange	(99)	88	225
Investment losses related to other-than-temporary impairments:			
Investment losses related to other-than-temporary impairments	(125)	(206)	(531)
Other-than-temporary impairments recognized in accumulated other comprehensive income (loss)	24	142	170
Net investment losses related to other-than-temporary impairments	(101)	(64)	(361)
Net gains (losses) on extinguishment of debt	26	35	225
Other net realized gains (losses)	(1)	29	(60)
Revenues of consolidated variable interest entities:			
Net investment income	70	73	88
Net gains (losses) on financial instruments at fair value and foreign exchange	59	342	(4)
Investment losses related to other-than-temporary impairments:			
Investment losses related to other-than-temporary impairments			(275)
Other-than-temporary impairments recognized in accumulated other comprehensive loss			169
Net investment losses related to other-than-temporary impairments			(106)
Net gains on extinguishment of debt		25	44
Other net realized gains (losses)	263	(76)	(41)
Total revenues	(1,557)	894	2,954
Expenses:			
Losses and loss adjustment	(80)	232	864
Amortization of deferred acquisition costs	63	59	82
Operating	308	290	315
Interest	300	325	374
Expenses of consolidated variable interest entities:			
Operating	29	24	1
Interest	62	59	101

Total expenses	682	989	1,737
Income (loss) before income taxes	(2,239)	(95)	1,217
Provision (benefit) for income taxes	(920)	(148)	583
Net income (loss)	(1,319)	53	634
Preferred stock dividends of subsidiary			11
Net income (loss) available to common shareholders	$ (1,319)	$ 53	$ 623
Net income (loss) per common share:			
Basic	$ (6.69)	$ 0.26	$ 2.99
Diluted	$ (6.69)	$ 0.26	$ 2.99
Weighted average number of common shares outstanding:			
Basic	197,019,968	202,421,433	208,156,622
Diluted	197,019,968	203,021,134	208,156,622

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, 2011, 2010 and 2009

(In millions except share amounts)

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock		Total Shareholders Equity of MBIA Inc.	Preferred Stock of Subsidiary and Noncontrolling Interest	
	Shares	Amount				Shares	Amount		Shares	Amount
Balance, January 1, 2009	**273,199,801**	**$ 273**	**$ 3,051**	**$ 1,629**	**$ (1,776)**	**(65,278,904)**	**$ (2,183)**	**$ 994**	**2,759**	**$ 28**
ASC 944-20 transition adjustment, net of tax of $27				55				55		
ASC 320-10 transition adjustment, net of tax of $30				86	(56)			30		
Comprehensive income (loss):										
Net income (loss)				634				634		
Other comprehensive loss:										
Change in unrealized gains and losses on investments, net of tax of $526					1,075			1,075		
Portion of other-than-temporary impairment losses recognized in other comprehensive loss, net of tax of $50					(264)			(264)		
Change in fair value of derivative instruments, net of tax of $46					85			85		
Change in foreign currency translation, net of tax of $4					(5)			(5)		
Other comprehensive income (loss)								891		
Total comprehensive income (loss)								1,525		
Share-based compensation, net of tax of $5	1,627,071	2	7			85,280	3	12		
Treasury shares acquired under share repurchase program						(4,965,400)	(15)	(15)		
Preferred shares of subsidiary acquired									(1,082)	(11)
Preferred stock dividends of subsidiary				(11)				(11)		
Balance, December 31, 2009	**274,826,872**	**$ 275**	**$ 3,058**	**$ 2,393**	**$ (941)**	**(70,159,024)**	**$ (2,195)**	**$ 2,590**	**1,677**	**$ 17**
ASU 2009-17 transition adjustment:										
Consolidated variable interest entities, net of tax of $23				(319)	264			(55)		
Deconsolidated variable interest entities, net of tax of $2				(3)	85			82		

Total ASU 2009-17 transition adjustment				(322)	349			27			
Comprehensive income (loss):											
Net income (loss)				53				53			
Other comprehensive income (loss):											
Change in unrealized gains and losses on investments, net of tax of $112					322			322			
Portion of other-than-temporary impairment losses recognized in other comprehensive loss, net of tax of $4					(7)			(7)			
Change in fair value of derivative instruments, net of tax of $7					14			14			
Change in foreign currency translation, net of tax of $2					(143)			(143)			
Other comprehensive income (loss)								186			
Total comprehensive income (loss)								239			
Share-based compensation, net of tax of $3	(107,294)		6			(78,654)	1	7			
Treasury shares acquired under share repurchase program						(4,736,300)	(31)	(31)			
Preferred shares of subsidiary acquired									(251)		(3)
Balance, December 31, 2010	**274,719,578**	**$ 275**	**$ 3,064**	**$ 2,124**	**$ (406)**	**(74,973,978)**	**$ (2,225)**	**$ 2,832**	**1,426**	**$**	**14**
Comprehensive income (loss):											
Net income (loss)				(1,319)				(1,319)			
Other comprehensive income (loss):											
Change in unrealized gains and losses on investments, net of tax of $119					252			252			
Portion of other-than-temporary impairment losses recognized in other comprehensive loss, net of tax of $3					6			6			
Change in fair value of derivative instruments, net of tax of $3					5			5			
Change in foreign currency translation, net of tax of $1					(33)			(33)			
Other comprehensive income (loss)								230			
Total comprehensive income (loss)								(1,089)			
Share-based compensation, net of tax of $4	176,584		8			(237,912)	(1)	7			
Treasury shares acquired under share repurchase program						(6,541,076)	(50)	(50)			
Preferred shares of subsidiary acquired									(111)		(2)
Change in noncontrolling interest in subsidiary											11
Balance, December 31, 2011	**274,896,162**	**$ 275**	**$ 3,072**	**$ 805**	**$ (176)**	**(81,752,966)**	**$ (2,276)**	**$ 1,700**	**1,315**	**$**	**23**

	2011	2010	2009
Disclosure of reclassification amounts:			
Change in unrealized gains and losses and other-than-temporary impairments on investments arising during the period, net of tax	$ 218	$ 121	$ 283
Reclassification adjustment, net of tax	40	194	528
Change in net unrealized gains and losses and other-than-temporary impairment losses, net of tax	$ 258	$ 315	$ 811

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

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MBIA INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions)

	Years Ended December 31,		
	2011	2010	2009
Cash flows from operating activities:			
Net income (loss)	$ (1,319)	$ 53	$ 634
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:			
Change in:			
Accrued investment income	34	1	102
Premiums receivable	209	259	349
Deferred acquisition costs	61	61	100
Unearned premium revenue	(624)	(635)	(906)
Prepaid reinsurance premiums	8	75	180
Reinsurance premiums payable	(8)	(39)	(191)
Loss and loss adjustment expense reserves	(293)	(81)	196
Reinsurance recoverable on paid and unpaid losses	(1)	(11)	115
Insurance loss recoverable	(514)	(769)	(1,987)
Payable to reinsurers on recoveries	8	(71)	126
Accrued interest payable	(11)	1	(3)
Accounts receivable	7	5	41
Accrued expenses	16	11	(109)
Deferred fee revenue	(2)	(1)	(34)
Current income taxes	86	501	(292)
Amortization of bond (premiums) discounts, net	(8)	(23)	(59)
Depreciation	7	8	9
Amortization of medium-term notes (premiums) discounts, net	(11)	(5)	(16)
Net investment losses related to other-than-temporary impairments	101	64	467
Realized (gains) losses and other settlements on insured derivatives		(607)	
Unrealized (gains) losses on insured derivatives	441	607	(1,650)
Net (gains) losses on financial instruments at fair value and foreign exchange	46	(430)	(221)
Other net realized (gains) losses	(235)	47	101
Deferred income tax benefit	(935)	(221)	1,091
(Gains) losses on extinguishment of debt	(26)	(60)	(269)
Share-based compensation	13	2	6
Other operating	(26)	2	28
Total adjustments to net income (loss)	(1,657)	(1,309)	(2,826)
Net cash provided (used) by operating activities	(2,976)	(1,256)	(2,192)
Cash flows from investing activities:			
Purchase of fixed-maturity securities	(7,744)	(9,967)	(10,422)
Sale and redemption of fixed-maturity securities	11,321	11,896	12,677
Decrease in loans receivable	291	860	
Purchase of held-to-maturity investments		(157)	(251)
Redemptions of held-to-maturity investments	196	756	750
Sale (purchase) of short-term investments, net	680	662	2,011
Sale (purchase) of other investments, net	73	53	217
Purchase of controlling interest in an affiliate, net of cash received		(27)	
Consolidation/deconsolidation of variable interest entities, net	(432)	754	
(Payments) proceeds for derivative settlements	(85)	17	
Collateral (to) from swap counterparty		166	
Capital expenditures	(5)	(5)	(6)
Disposal of capital assets		3	
Net cash provided (used) by investing activities	4,295	5,011	4,976

Cash flows from financing activities:			
Proceeds from issuance of investment agreements	108	97	148
Payments for drawdowns of investment agreements	(524)	(767)	(2,047)
Issuance of medium-term notes	24	25	176
Principal paydown of medium-term notes	(137)	(507)	(2,345)
Principal paydown of variable interest entity notes	(1,100)	(1,793)	(128)
Securities sold under agreements to repurchase	(184)	(31)	(317)
Dividends paid		(1)	(10)
Net proceeds from issuance of debt	105		279
Payments for retirement of debt	(65)	(393)	(55)
Proceeds from bank loans			88
(Payments) proceeds for derivative settlements			46
Purchase of treasury stock	(50)	(31)	(16)
Contribution from noncontrolling interest and redemption of subsidiary preferred stock, net	9	(29)	(11)
Restricted stock awards settlements	(2)	2	2
Collateral from reverse repurchase agreement counterparties			30
Collateral (to) from swap counterparty			(101)
Net cash provided (used) by financing activities	(1,816)	(3,428)	(4,261)
Net increase (decrease) in cash and cash equivalents	(497)	327	(1,477)
Cash and cash equivalents beginning of period	1,130	803	2,280
Cash and cash equivalents end of period	$ 633	$ 1,130	$ 803
Supplemental cash flow disclosures:			
Income taxes refunded	$ (74)	$ (414)	$ (209)
Interest paid:			
Investment agreements	$ 33	$ 92	$ 133
Medium-term notes	36	64	96
Variable interest entity notes	273	290	105
Securities sold under agreements to repurchase	1	2	72
Other borrowings and deposits	4	7	8
Long-term debt	193	199	204
Noncash items:			
Share-based compensation	$ 13	$ 2	$ 6
Dividends declared but not paid			1

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

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 1: Business Developments, Risks and Uncertainties, and Liquidity

Summary

MBIA Inc., together with its consolidated subsidiaries, (collectively, MBIA or the Company) operates one of the largest financial guarantee insurance businesses in the industry and is a provider of asset management advisory services. These activities are managed through three business segments: United States (U.S.) public finance insurance, structured finance and international insurance, and advisory services. The Company s U.S. public finance insurance business is primarily operated through National Public Finance Guarantee Corporation and its subsidiaries (National), its structured finance and international insurance business is primarily operated through MBIA Insurance Corporation and its subsidiaries (MBIA Corp.), and its asset management advisory services business is primarily operated through Cutwater Holdings, LLC and its subsidiaries (Cutwater). The holding company, MBIA Inc., and certain of its subsidiaries also manage certain other business activities, the results of which are reported in its corporate, asset/liability products, and conduit segments. The corporate segment includes revenues and expenses that arise from general corporate activities. While the asset/liability products and conduit businesses represent separate business segments, they may be referred to collectively as wind-down operations as the funding programs managed through those businesses are in wind-down. Refer to Note 15: Business Segments for further information about the Company s reporting segments.

Business Developments

As a result of insured losses and realized investment losses during the period from 2007 to 2011, the Company has seen ratings downgrades, a near cessation of new insurance business written by the Company, and increasing liquidity pressure. The Company has been unable to write meaningful amounts of new insurance business since 2008 and does not expect to write significant new insurance business prior to an upgrade of the credit ratings of its insurance subsidiaries. As of December 31, 2011, National was rated BBB with a developing outlook by Standard & Poor s Financial Services LLC (S&P) and Baa2 with a negative outlook by Moody s Investors Service, Inc. (Moody s). As of December 31, 2011, MBIA Insurance Corporation was rated B with a negative outlook by S&P and B3 with a review for a possible downgrade by Moody s.

In August 2011, S&P issued new guidelines that reflect significant changes to its rating methodology for financial guarantee insurers. These new guidelines were effective immediately. The changes to S&P s rating methodology substantially increase the amount of capital, among other qualitative factors, required to achieve its highest ratings, implement a new Largest Obligors Test and incorporate additional qualitative considerations into the ratings process. In November 2011, S&P affirmed its rating on National at BBB and on MBIA Insurance Corporation at B. In addition, in December 2011, Moody s downgraded National s insurer financial strength rating from Baa1 to Baa2 and changed its outlook from developing to negative, downgraded MBIA Inc. s senior debt rating from Ba3 to B2, and placed the ratings of MBIA Insurance Corporation under review for possible downgrade. Moody s cited the primary reason for its rating actions was the weakening of the overall MBIA group s market standing, mainly due to the deterioration of MBIA Insurance Corporation s credit profile. If the Company is unable to establish high stable S&P and Moody s ratings, the Company s ability to write new insurance business, the premiums the Company can charge, and the future acceptance of its financial guarantee insurance products may be adversely impacted.

During 2011, the Company continued to seek to reduce both the absolute amount and the volatility of its liabilities and potential liabilities through purchases of securities at discounts and commutations of insurance policies. The combination of payments to reduce liabilities, claims payments and the failure of certain mortgage originators to honor contractual obligations to repurchase ineligible mortgage loans from securitizations the Company had insured has increased liquidity pressure on MBIA Insurance Corporation and MBIA Inc. The liquidity position of MBIA Inc. primarily comprises the liquidity positions of its corporate and asset/liability products activities. As of December 31, 2011, MBIA Inc. had $226 million of cash and highly liquid assets available for general corporate liquidity purposes, excluding the amounts held in escrow under its tax sharing agreement, and $160 million of cash and liquid assets not pledged as collateral in its asset/liability products activities. The Company believes this liquidity position provides MBIA Inc. with sufficient funds to cover expected obligations through 2012. The liquidity position of MBIA Inc. experienced significant stress in 2011 primarily as a result of the deterioration in the market values of assets as a result of macroeconomic stress.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 1: Business Developments, Risks and Uncertainties, and Liquidity (continued)

For MBIA Corp., cash and liquid assets have also declined, from $1.2 billion as of December 31, 2010 to $534 million as of December 31, 2011 as a result of claims and commutation payments. Claims payments primarily resulted from the failure of certain mortgage-backed securities (MBS) sponsors to honor contractual obligations to repurchase ineligible mortgage loans. In 2011, MBIA Corp. made $835 million in gross claim payments, and commuted or agreed to commute $32.4 billion of gross insured exposure primarily comprising commercial mortgage-backed securities (CMBS) pools, investment grade corporate collateralized debt obligations (CDOs), multi-sector CDOs, among other types of exposures for which it paid $2.5 billion. The Company s ability to commute insured transactions may be limited by available liquidity as determined based on management s assessment. As a result of the decline in its liquid assets, the Company undertook actions in 2011 to mitigate liquidity stress through intercompany lending arrangements and the monetization of illiquid assets.

In connection with MBIA Corp. obtaining approval from the New York State Department of Financial Services (NYSDFS), previously referred to as The New York State Insurance Department or NYSID, to release excessive contingency reserves as of September 30, 2011 and December 31, 2011, MBIA Corp. agreed that it would not pay any dividends without prior approval from the NYSDFS. Due to its significant negative earned surplus, MBIA Corp. has not had the statutory capacity to pay dividends since December 31, 2009 and is not expected to have any statutory capacity to pay any dividends in the near term. In addition, in connection with the approval of the December 31, 2011 contingency reserve release, the Company agreed that National would not pay any dividends without prior approval from the NYSDFS until July 19, 2013 (which is 15 months after the expiration of the period during which National has agreed not to pay dividends in connection with the court proceeding challenging the approval of National s unassigned surplus reset, as described in Note 23: Commitments and Contingencies). Refer to Note 17: Insurance Regulations and Dividends for more information about MBIA Corp. s release of excessive contingency reserves.

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

Risks and Uncertainties

The Company s financial statements include estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. The outcome of certain significant risks and uncertainties could cause the Company to revise its estimates and assumptions or could cause actual results to differ from the Company s estimates. While the Company believes it continues to have sufficient capital and liquidity to meet all of its expected obligations, if one or more possible adverse outcomes were to be realized, its statutory capital, financial position, results of operations and cash flows could be materially and adversely affected.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 1: Business Developments, Risks and Uncertainties, and Liquidity (continued)

Significant risks and uncertainties that could affect amounts reported in the Company s financial statements in future periods include, but are not limited to, the following:

MBIA Corp. s efforts to recover losses from the second-lien securitization originators could be delayed, settled at amounts below its contractual claims or potentially settled at amounts below those recorded on its balance sheets prepared under accounting principles generally accepted in the United States of America (GAAP) and statutory accounting principles (U.S. STAT). Contractual claims could become subject to bankruptcy proceedings of the originators. As of December 31, 2011 and 2010, the Company s estimated recoveries after income taxes calculated at the federal statutory rate of 35%, were $2.0 billion and $1.6 billion, respectively, which was 119% and 58% of the consolidated total shareholders equity of MBIA, excluding preferred stock of subsidiaries and noncontrolling interests. As of December 31, 2011 and 2010, the related measures calculated under U.S. STAT were 89% and 59%, respectively, of the statutory capital of MBIA Corp. Refer to Note 6: Loss and Loss Adjustment Expense Reserves for information about the Company s second-lien residential mortgage-backed securities (RMBS) loss recoveries.

MBIA Inc. may not have sufficient liquidity to make all payments due on its liabilities and to meet other financial requirements, such as posting collateral, primarily as a result of a deficit of invested assets to debt issued to third parties and affiliates. In addition, it does not expect to receive dividends from its regulated insurance subsidiaries in the near term. Refer to Note 17: Insurance Regulation and Dividends for a discussion of dividend restrictions applicable to the Company s insurance subsidiaries. Furthermore, during 2011, MBIA Inc. experienced other-than-temporary impairments and deterioration in the market values of some of its assets. If MBIA Inc. were required to sell invested assets at their current market values in order to settle liabilities, the liquidity position of MBIA Inc. would experience additional stress. A failure by MBIA Inc. to settle liabilities that are also insured by MBIA Corp. could result in claims on MBIA Corp. Resolving the deficit will depend on the Company s ability to successfully implement strategies, such as raising capital and/or receiving further liquidity support under intercompany financing arrangements, and there can be no assurance that the Company will be successful in implementing these strategies or that such strategies will provide adequate liquidity. Refer to the following Liquidity section for additional information about MBIA Inc. s liquidity position.

MBIA Corp. has commuted most of its higher risk CMBS pool exposures. However, if the U.S. economy weakens, commercial real estate values decline and commercial real estate servicer behavior does not continue to mitigate potential or actual credit losses in line with current trends, MBIA Corp. could incur substantial losses in that sector. As of December 31, 2011, MBIA Corp. had CMBS pool and commercial real estate (CRE) CDO insured par exposure of approximately $19.3 billion and $5.6 billion, respectively, excluding approximately $3.4 billion of CRE loan pools, primarily comprising European assets. Since the end of 2007 through December 31, 2011, MBIA Corp. s CMBS pool and CRE CDO gross par exposure has decreased by approximately $29.1 billion, primarily from negotiated commutations and early settlements. Refer to Note 6: Loss and Loss Adjustment Expense Reserves for information about the Company s estimate of CMBS credit impairments.

Incurred losses from insured RMBS have declined from their peaks. However, due to the large percentage of ineligible loans included within MBIA Corp. s second-lien portfolio, performance remains difficult to predict and losses could ultimately be in excess of MBIA Corp. s current estimated loss reserves. Refer to Note 6: Loss and Loss Adjustment Expense Reserves for information about MBIA Corp. s RMBS loss reserves.

While MBIA Corp. has settled a substantial portion of its insured asset-backed securities (ABS) CDO exposure at levels within MBIA Corp. s statutory loss reserves related to those exposures, further economic stress might cause increases in MBIA Corp. s loss estimates on its remaining exposure. As of December 31, 2011, MBIA Corp. s ABS CDO gross par outstanding was approximately $6.1 billion, and had decreased approximately $29.8 billion since 2007.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 1: Business Developments, Risks and Uncertainties, and Liquidity (continued)

In recent years, key components of the Company s strategy have included commuting volatile insured exposures, purchasing instruments issued or guaranteed by the Company in order to reduce future expected economic losses and managing the liquidity requirements and risk in MBIA Inc. In order to implement this strategy, the Company put in place intercompany agreements that allocate liquidity resources among its entities in order to fund commutations and provide liquidity, where needed. The intercompany agreements with the Company s insurance subsidiaries have required the approval of the NYSDFS. The Company s ability to continue to draw on intercompany financing, provide other intercompany liquidity and capital support, obtain permission for contingency reserve releases, and the ability of its insurance subsidiaries to pay dividends to MBIA Inc. will in most cases require further approvals from the NYSDFS, and there can be no assurance that the Company will be able to obtain such approvals. In addition, in connection with providing such approvals, the NYSDFS may require the Company or its insurance subsidiaries to agree to take, or refrain from taking, certain actions.

The Company s recent financial results have been volatile, which has impacted management s ability to accurately project future taxable income. Insurance losses incurred beyond those currently projected may cause the Company to record additional allowances against a portion or all of its deferred tax assets. Refer to Note 14: Income Taxes for information about the Company s deferred tax assets.

Litigation over the NYSDFS approval of National s creation or additional hurdles to achieving high stable ratings may impede National s ability to resume writing municipal bond insurance for some time, reducing its long-term ability to generate capital and cash from operations.

Municipal and state fiscal distress in the U.S. could adversely affect the Company s operations if it resulted in larger-than-expected incurred insurance losses. Additionally, the sovereign debt crisis in the Eurozone could have an adverse impact on insured European exposures and/or cause a global slowdown in growth, thereby adversely affecting U.S. insured exposures.

In the event the economy and the markets to which MBIA is exposed do not improve, or decline, the unrealized losses on insured credit derivatives could increase, causing additional stress in the Company s reported financial results. In addition, volatility in the relationship between MBIA s credit spreads and those on underlying collateral assets of insured credit derivatives can create significant unrealized gains and losses in the Company s reported results of operations. Refer to Note 7: Fair Value of Financial Instruments for information about the Company s valuation of insured credit derivatives.

As of December 31, 2011, the Company had $1.7 billion of shareholders equity and MBIA Insurance Corporation and National had $2.3 billion and $2.8 billion, respectively, of statutory capital. Statutory capital, defined as policyholders surplus and contingency reserves, is a key measure of an insurance company s financial condition under insurance laws and regulations. Failure to maintain adequate levels of statutory surplus and total statutory capital could lead to intervention by the Company s insurance regulators in its operations and constitute an event of default under certain of the Company s contracts, thereby materially and adversely affecting the Company s financial condition and results of operations.

Liquidity

As a financial services company, MBIA has been materially adversely affected by conditions in global financial markets. Current conditions and events in these markets, in addition to the failure by the originators of RMBS to repurchase the ineligible loans in securitizations that the Company has insured, have put substantial stress on the Company s liquidity resources.

The Company has utilized a liquidity risk management framework, the primary objectives of which are to monitor liquidity positions and projections in its legal entities and guide the matching of liquidity resources to needs. The Company monitors its 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 the Company s liquidity risk management framework, the Company evaluates and manages liquidity on a legal entity basis to take into account the legal, regulatory and other limitations on available liquidity resources within the enterprise.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 1: Business Developments, Risks and Uncertainties, and Liquidity (continued)

The majority of the Company s liquidity management efforts focus on:

- The liquidity resources of MBIA Inc., which are subject to uncertainty in the timing and amount of cash inflows from dividends paid by National and MBIA Corp., the necessity of having to support the liquidity needs of the asset/liability products business, and potential cross-defaults of holding company debt with other obligations in the consolidated group. The asset/liability products business of MBIA Inc. is subject to ongoing negative cash flow and has a deficit of invested assets to liabilities. In addition, the liquidity resources of MBIA Inc. are subject to collateralization requirements in connection with the liabilities it has issued to third parties and affiliates and in connection with third party derivative contracts;

- The liquidity resources of MBIA Corp. which are subject to losses on insured exposures, payments to counterparties in consideration for the commutation of insured transactions, and delays in the collection of contract claim recoveries related to ineligible mortgage loans in certain insured transactions; and

- The liquidity resources of National, for which the Company has not observed material liquidity risk to date but which are exposed to unexpected loss payments on its insured transactions, liquidity support arrangements with its affiliates and the need to meet ongoing operating expenses.

In order to address these liquidity risks and efficiently manage liquidity across the entire enterprise, certain of the Company s subsidiaries which are less liquidity constrained have entered into intercompany agreements that provide resources to subsidiaries that are more liquidity constrained. These resources include intercompany agreements described further below between the Company s primary insurance subsidiaries and between these insurance subsidiaries and the asset/liability products business (through MBIA Inc.), which in each case were approved by the NYSDFS and are subject to ongoing monitoring by the NYSDFS.

Key Intercompany Lending Agreements

National Secured Loan

In December 2011, National provided a secured loan to MBIA Insurance Corporation (National Secured Loan) under which National loaned MBIA Insurance Corporation $1.1 billion at a fixed annual interest rate of 7% and with a maturity date of December 2016. MBIA Insurance Corporation has the option to defer payments of interest when due by capitalizing interest amounts to the loan balance, subject to the collateral value exceeding certain thresholds. MBIA Insurance Corporation s obligation to repay the loan is secured by a pledge of collateral having an estimated value in excess of the notional amount of the loan as of December 31, 2011. The National Secured Loan was approved by the NYSDFS as well as by the boards of directors of MBIA Inc., MBIA Insurance Corporation and National in order to enable MBIA Corp. to fund settlements and commutations of its insurance policies. Any increase or other amendment to the terms of the loan would be subject to regulatory approval by the NYSDFS.

Asset Swap

National maintains simultaneous repurchase and reverse repurchase agreements (Asset Swap) with MBIA Inc. for up to $2.0 billion based on the fair value of securities borrowed. The Asset Swap provides MBIA Inc. with eligible assets to pledge under investment agreement and derivative contracts in the asset/liability products business. As of December 31, 2011, the notional amount utilized under each of these agreements was $1.3 billion and the fair value of collateral pledged by National and MBIA Inc. under these agreements was $1.4 billion and $1.5 billion,

respectively. The net average interest rate on these transactions was 0.34%, 0.35% and 1.70% for the years ended December 31, 2011, 2010 and 2009, respectively. The NYSDFS approved the Asset Swap in connection with the re-domestication of National to New York. National has committed to the NYSDFS to use commercially reasonable efforts to reduce the amount of the Asset Swap over time.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 1: Business Developments, Risks and Uncertainties, and Liquidity (continued)

MBIA Corp. Secured Loan

MBIA Corp., as lender, maintained a secured lending agreement with MBIA Inc. (MBIA Corp. Secured Loan) for the benefit of MBIA Inc. s asset/liability products business, which totaled $2.0 billion at inception and which was scheduled to mature in November 2011. In the fourth quarter of 2011, the maturity of the MBIA Corp. Secured Loan was extended with the approval of the NYSDFS to May of 2012 with a maximum outstanding amount of $450 million. The interest rate on the MBIA Corp. Secured Loan is 2.43%. As of December 31, 2011, the amount outstanding under the MBIA Corp. Secured Loan was $300 million after repayments of $675 million during 2011. The fair value of the collateral pledged by MBIA Inc. to MBIA Corp. under this agreement was $168 million as of December 31, 2011.

Conduit Repurchase Agreement

During the fourth quarter of 2010, MBIA Inc. entered into a repurchase agreement with Meridian Funding Company, LLC (Conduit Repurchase Agreement), under which $1.0 billion notional amount may be utilized, subject to a pledge of collateral. The Conduit Repurchase Agreement had an average interest rate during 2011 of 2.41%. As of December 31, 2011, the notional amount utilized by MBIA Inc. under this agreement was $80 million.

MBIA Inc. Liquidity

The activities of MBIA Inc. consist of holding and managing investments, servicing outstanding corporate debt instruments, investment agreements and medium-term notes (MTNs) issued by the asset/liability products and conduits segments, posting collateral under financing and hedging arrangements and investment agreements, making payments and collateral postings related to interest rate and foreign exchange swaps, and paying operating expenses. The primary sources of cash within MBIA Inc. used to meet its liquidity needs include available cash and liquid assets not subject to collateral posting requirements, as well as scheduled principal and interest on assets held in its investment portfolio, dividends from subsidiaries, payments under tax sharing agreements with these subsidiaries (once the payments become unrestricted) and the ability to issue debt and equity. There can be no assurance as to the amount and timing of any such dividends or payments under the tax sharing agreements. MBIA Inc. 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 with respect to MBIA Corp. MBIA Inc. s obligations under its loans from MBIA Global Funding, LLC (GFL) may be accelerated only upon the occurrence of a bankruptcy or liquidation of MBIA Inc. Refer to Note 15: Business Segments 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 that are not already collateralized.

During 2011, pursuant to the tax sharing agreement, National paid MBIA Inc. $114 million related to the 2010 tax year and $144 million of estimated taxes related to the 2011 tax year. Consistent with the tax sharing agreement, these amounts were placed in an escrow account until the expiration of National s two-year net operating loss (NOL) carry-back period under U.S. tax rules. At the expiration of National s carry-back period, any funds remaining after any reimbursement to National in respect of any NOL carry-backs would be available for general corporate purposes, including to satisfy any other obligations under the tax sharing agreement.

MBIA Inc. is subject to material liquidity risks and uncertainty. To mitigate these risks, the Company seeks to maintain cash and liquid investments in excess of its expected cash requirements over a multi-year period. The Company seeks to manage liquidity within a number of risk and liquidity parameters and maintains cash and liquidity resources that it believes will be sufficient to make all payments due on its obligations and to meet other financial requirements, such as posting collateral, through 2012.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 1: Business Developments, Risks and Uncertainties, and Liquidity (continued)

Liquidity risk within MBIA Inc. is primarily a result of the following factors:

Currently, the majority of the assets of MBIA Inc. are pledged against investment agreement liabilities, intercompany and third party financing arrangements and derivatives, which limits its ability to raise liquidity through asset sales. In addition, if the market value or rating eligibility of the assets which are pledged against these obligations were to decline, the Company would be required to pledge additional eligible assets in order to meet minimum required collateral amounts against these liabilities. In such event, the Company may sell additional assets, potentially with substantial losses, finance unencumbered assets through intercompany or third party facilities, use free cash or other assets, in some cases with NYSDFS approval, although there can be no assurance that these strategies will be available or adequate to meet liquidity requirements.

There is a deficit of invested assets to liabilities issued to third-parties and affiliates of $591 million as of December 31, 2011. This deficit is expected to increase as a result of on-going expected operating losses. This deficit will need to be reversed prior to the maturity of the liabilities in order to ensure that there are sufficient funds available to fully retire the liabilities. The Company expects that MBIA Inc. will be able to eliminate the deficit prior to the maturity of the related liabilities from distributions from its operating subsidiaries and by raising third party capital, although there can be no assurance that MBIA Inc. will be able to eliminate the deficit through such means.

Because the majority of MBIA Inc. s assets are pledged against the obligations described above, the widening of credit spreads would have an adverse impact on the market value of these assets and increase collateralization requirements for the portfolio. The following table presents the estimated pre-tax change in fair value of the asset/liability products business assets as of December 31, 2011 from instantaneous shifts in credit spread curves. This table assumes that all credit spreads move by the same amount; however, it is more likely that the actual changes in credit spreads will vary by investment sector and individual security. The table presents 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.

	Change in Credit Spreads (Asset/Liability Products Business)			
In millions	**200 Basis Point Decrease**	**50 Basis Point Decrease**	**50 Basis Point Increase**	**200 Basis Point Increase**
Estimated change in fair value	$ 266	$ 75	$ (71)	$ (265)

In 2011, MBIA Inc. maintained three intercompany financing facilities to provide it with additional resources to meet its liquidity requirements within the asset/liability products business: the Asset Swap, the MBIA Corp. Secured Loan and the Conduit Repurchase Agreement. Refer to the preceding Key Intercompany Lending Agreements section for a description of these facilities.

During 2011, MBIA Inc. experienced deterioration in the market values of some of its assets, resulting in increased collateral requirements. During the fourth quarter of 2011, the Company extended the maturity date of the MBIA Corp. Secured Loan, with NYSDFS approval, to May 2012 for a maximum outstanding amount of $450 million, to provide additional liquidity in the event of future declines in asset values.

Stressed credit market conditions in 2012 could cause MBIA Inc. to have insufficient resources to cover collateral and/or other liquidity requirements in 2012. Management has identified certain contingent actions within its control to mitigate this risk. These contingent actions include: (1) sales of encumbered and other invested assets exposed to credit spread stress risk; (2) termination and settlement of interest rate swap agreements; and (3) other available advances from subsidiaries. These actions, if taken, are expected to result in either additional liquidity

or reduced exposure to adverse credit spread movements. There can be no assurance that these actions will be sufficient to fully mitigate this risk. In the event that the Company cannot implement the contingent actions identified above to raise liquidity, or eliminate the deficit, it may have insufficient assets to make all payments on its obligations as they come due, which could result in a default by MBIA Inc. on its obligations and the potential for MBIA Corp., as guarantor of the investment agreements and GFL MTNs, to be called upon to satisfy obligations on those instruments as they come due.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 1: Business Developments, Risks and Uncertainties, and Liquidity (continued)

MBIA Corp. Liquidity

Liquidity available in the structured finance and international insurance segment is affected by the payment of claims on insured exposures, payments made to commute insured exposure, the Company s ability to collect on receivables associated with loss payments, a reduction in investment income, any unanticipated expenses, or the impairment or a significant decline in the fair value of invested assets. The Company may also experience liquidity constraints as a result of New York Insurance Law (NYIL) requirements that the Company maintains specified, high quality assets to back the Company s reserves and surplus.

The Company believes the current liquidity position of MBIA Corp. is adequate to make expected future claims payments. However, the liquidity position of MBIA Corp. has been stressed due to the failure of the sellers/servicers of RMBS transactions insured by MBIA Corp. to repurchase ineligible mortgage loans in certain insured transactions and payments to counterparties in consideration for the commutation of insured transactions, which have resulted in a substantial reduction of exposure and potential loss volatility. While MBIA Corp. has made and may in the future make payments to counterparties in consideration for the commutation of insured transactions, MBIA Corp. s ability to commute insured transactions will depend on management s assessment of available liquidity.

Payment requirements for the structured finance and international financial guarantee contracts fall into three categories: (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, which payments are unscheduled and therefore more difficult to predict, and which category applies to most of the transactions on which the Company have recorded loss reserves. MBIA Corp. is generally required to satisfy claims within one to three business days, and as a result seeks to identify potential claims in advance through the Company s monitoring process. While the Company s financial guarantee policies generally cannot be accelerated, thereby mitigating liquidity risk, the insurance of credit default swap (CDS) contracts may, in certain events, including the insolvency or payment default of the insurer or the issuer of the CDS, be subject to termination by the counterparty, triggering a claim for the fair value of the contract. Additionally, the Company s structured finance and international insurance segment requires cash for the payment of operating expenses, as well as principal and interest related to its surplus notes. In order to monitor liquidity risk and maintain appropriate liquidity resources, the Company uses the same methodology as the Company uses to monitor credit quality and losses within the Company s insured portfolio including stress scenarios. Refer to Note 6: Loss and Loss Adjustment Expense Reserves for further discussion.

Since the fourth quarter of 2007 through December 31, 2011, MBIA Corp. has made $10.7 billion of cash payments, before reinsurance and collections and excluding LAE, (including payments made to debt holders of consolidated variable interest entities (VIEs)) associated with second-lien RMBS securitizations and with commutations and claim payments relating to CDS contracts. These cash payments include loss payments of $730 million made on behalf of MBIA Corp. s consolidated VIEs. Of the $10.7 billion, MBIA Corp. has paid $6.2 billion of claims on policies insuring second-lien RMBS securitizations, driven primarily by an extensive number of ineligible mortgage loans being placed in the securitizations in breach of the representations and warranties of the sellers/servicers.

MBIA Corp. is seeking to enforce its rights to have mortgage sellers/servicers cure, replace or repurchase ineligible mortgage loans from securitizations and has recorded a total of $3.1 billion of related expected recoveries on its consolidated balance sheets as of December 31, 2011, including expected recoveries recorded in the Company s consolidated VIEs. A substantial majority of the Company s put-back claims have been disputed by the loan sellers/servicers and is currently subject to litigation discussed more fully in Note 23: Commitments and Contingencies . There is some risk that the sellers/servicers or other responsible parties might not be able to satisfy any judgment the Company secures in litigation. There can be no assurance that the Company will be successful or that the Company will not be delayed in realizing these recoveries. The Company believes that it has adequate liquidity resources to provide for anticipated cash outflows; however, if the Company does not realize or is delayed in realizing these expected recoveries, the Company may not have adequate liquidity to fully execute the strategy to reduce future potential economic losses by commuting policies and purchasing instruments issued or guaranteed by the Company, or to repay any intercompany borrowings.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 1: Business Developments, Risks and Uncertainties, and Liquidity (continued)

A portion of the commutation payments made in the fourth quarter of 2011 were financed through the National Secured Loan that was entered into in the fourth quarter of 2011. The National Secured Loan was approved by the NYSDFS as well as by the boards of directors of MBIA Inc., MBIA Insurance Corporation and National in order to enable MBIA Corp. to fund settlements and commutations of its insurance policies. MBIA Insurance Corporation s obligation to repay the loan is secured by a pledge of collateral having a value in excess of the notional amount of the loan. Interest on the loan may be accrued and deferred at any time that the value of that collateral exceeds certain thresholds. MBIA Insurance Corporation s ability to repay the loan and any accrued interest will be primarily predicated on MBIA Corp. s ability to collect on its future receivables, including its ability to successfully enforce its rights to have mortgage sellers/servicers cure, replace or repurchase ineligible mortgage loans from securitizations it insured. MBIA Insurance Corporation may seek to increase the size of the loan in the future. Any such increase or other amendment to the terms of the loan would be subject to regulatory approval by the NYSDFS.

MBIA Corp. also insures third party holders of the Company s asset/liability products segment s obligations. If the Company was unable to meet payment or collateral requirements associated with these obligations, the holders thereof could make claims under the MBIA Corp. insurance policies. In 2008, to provide additional liquidity to the asset/liability products business, MBIA Corp. lent $2.0 billion to the segment on a secured basis under the MBIA Corp. Secured Loan, the outstanding balance of which loan was $300 million as of December 31, 2011. The MBIA Corp. Secured Loan was originally scheduled to mature in the fourth quarter of 2011, but has been extended with the approval of the NYSDFS to May 2012 with a maximum outstanding amount of $450 million. During the year ended December 31, 2011, a total of $675 million was repaid.

As of December 31, 2011, MBIA Corp. held cash and available-for-sale investments of $1.5 billion, of which $534 million comprised cash and highly liquid assets. The Company believes that MBIA Corp. s liquidity resources will adequately provide for anticipated cash outflows. In the event of unexpected liquidity requirements, the Company may have insufficient resources to meet its obligations or insufficient qualifying assets to support its surplus and reserves, and may seek to increase its cash holdings position by selling or financing assets, or raising external capital, and there can be no assurance that the Company will be able to draw on these additional sources of liquidity.

National Liquidity

Despite continued adverse macroeconomic conditions in the U.S., the incidence of default among U.S. public finance issuers remains extremely low and 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.

Liquidity risk arises in the Company s U.S. public finance insurance segment primarily from the following:

The insurance policies issued or reinsured by National, the entity from which the Company conducts its U.S. public finance insurance business, provide unconditional and irrevocable guarantees of payments 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, National generally promises to make funds available in the insured amount within one to three business days following notification. In some cases, the amount due can be substantial, particularly if the default occurs on a transaction to which National has a large notional exposure or on a transaction structured with large, bullet-type principal maturities. The fact that the U.S. public finance insurance segment s financial guarantee contracts generally cannot be accelerated by a party other than the insurer helps to mitigate liquidity risk in this segment.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 1: Business Developments, Risks and Uncertainties, and Liquidity (continued)

National has entered into certain intercompany transactions to support the liquidity needs of its affiliates. These include the National Secured Loan to MBIA Insurance Corporation in the fourth quarter of 2011 and the Asset Swap through which National provides liquid assets to the Company s asset/liability products business. These transactions may impair National s ability to implement its business plan while they remain outstanding as the repayment of the National Secured Loan will primarily be predicated on MBIA Corp. s ability to successfully enforce its rights to have mortgage sellers/servicers cure, replace or repurchase ineligible mortgage loans from securitizations it insured, while changes in the market value of securities sold to National under its Asset Swap with the asset/liability products business can adversely affect its liquidity position.

The Company s U.S. public finance insurance segment requires cash for the payment of operating expenses. Declines in operating cash inflows due to depressed new business writings, declines in cash inflows from investment income, unanticipated expenses, or an impairment or significant decline in the fair value of invested assets could negatively impact its liquidity position.

As of December 31, 2011, the notional amount utilized under the Asset Swap was $1.3 billion and the fair value of collateral pledged by National under the agreement was $1.4 billion. The Asset Swap provides yield enhancement to the Company s U.S. public finance insurance investment portfolio as a result of increased net interest earnings from the agreement. The net average interest rate on this transaction was 0.34%, 0.35% and 1.70% for the years ended December 31, 2011, 2010 and 2009, respectively.

National held cash and short-term investments of $771 million as of December 31, 2011, of which $703 million was highly liquid and consisted predominantly of highly rated municipal, U.S. agency and corporate bonds. With the exception of its loan to MBIA Insurance Corporation, most of National s investments, including those encumbered by the Asset Swap, are liquid and highly rated.

Note 2: Significant Accounting Policies

Basis of Presentation

The consolidated financial statements have been prepared on the basis of GAAP. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. As additional information becomes available or actual amounts become determinable, the recorded estimates are revised and reflected in operating results.

Certain amounts have been reclassified in prior years financial statements to conform to the current presentation. This includes the reclassification of certain investments from the previously reported line Investments held-to-maturity, at amortized cost to Fixed-maturity securities held as available-for-sale, at fair value reported under Assets of consolidated variable interest entities and certain investments from the previously reported line Other investments to Fixed-maturity securities held as available-for-sale, at fair value on the Company s consolidated balance sheets. These reclassifications had no impact on total revenues, expenses, assets, liabilities, or shareholders equity for all periods presented.

Consolidation

The consolidated financial statements include the accounts of MBIA Inc., its wholly-owned subsidiaries and all other entities in which the Company has a controlling financial interest. All material intercompany balances and transactions have been eliminated. The Company determines whether it has a controlling financial interest in an entity by first evaluating whether an entity is a voting interest entity or a VIE.

Voting interest entities are entities in which (i) the total equity investment at risk is sufficient to enable an entity to finance its activities independently and (ii) the equity holders have the obligation to absorb losses, the right to receive residual returns and the right to make decisions about the entity s activities. Voting interest entities are consolidated when the Company has a majority voting interest.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 2: Significant Accounting Policies (continued)

VIEs are entities that lack one or more of the characteristics of a voting interest entity. The consolidation of a VIE is required if an entity has a variable interest (such as an equity or debt investment, a beneficial interest, a guarantee, a written put option or a similar obligation) and that variable interest or interests give it a controlling financial interest in the VIE. A controlling financial interest is present when an enterprise has both (a) the power to direct the activities of a VIE that most significantly impact the entity s economic performance and (b) the obligation to absorb losses or the right to receive benefits of the VIE that could potentially be significant to the VIE. The enterprise with the controlling financial interest, known as the primary beneficiary, is required to consolidate the VIE. The Company consolidates all VIEs in which it is the primary beneficiary. Refer to Note 4: Variable Interest Entities for additional information.

Investments

The Company classifies its fixed-maturity investments as available-for-sale, held-to-maturity, or trading. Available-for-sale investments are reported in the consolidated balance sheets at fair value with unrealized gains and losses, net of applicable deferred income taxes, reflected in accumulated other comprehensive income (loss) in shareholders equity. Bond discounts and premiums are amortized using the effective yield method over the remaining term of the securities. For mortgage-backed securities (MBS) and ABS discounts and premiums are adjusted quarterly for the effects of actual and expected prepayments on a retrospective basis. For pre-refunded bonds, the remaining term is determined based on the contractual refunding date. Investment income is recorded as earned. Realized gains and losses represent the difference between the amortized cost value and the sale proceeds. The first-in, first-out method is used to identify the investments sold and the resulting realized gains and losses are included as a separate component of revenues.

Held-to-maturity investments consist mainly of debt securities for which the Company has the ability and intent to hold such investments to maturity. These investments are reported in the consolidated balance sheets at amortized cost. Discounts and premiums are amortized using the effective yield method over the remaining term of the assets. Investment income, including interest income, is recorded as earned.

Investments designated as trading consist primarily of debt securities which are held in portfolios that are actively managed and are subject to frequent buying and selling. Trading securities are carried at fair value with changes in fair value recorded in earnings.

Other investments include the Company s investment in equity securities. The Company records its share of the unrealized gains and losses on equity investments, net of applicable deferred income taxes, in accumulated other comprehensive income (loss) in shareholders equity when it does not have a controlling financial interest in or exert significant influence over an entity (generally a voting interest of less than 20%).

Short-term investments include all fixed-maturity securities with a remaining effective term to maturity of less than one year, commercial paper and money market securities.

Fixed-Maturity Securities Held at Fair Value

Fixed-maturity securities at fair value include all fixed-maturity securities held by the Company for which changes in fair values are reflected in earnings. These include securities designated as trading securities, as well as those fixed maturity securities for which the Company has elected the fair value option. Changes in fair value and realized gains and losses from the sale of these securities are reflected in earnings as part of Net gains (losses) on financial instruments at fair value and foreign exchange . Any interest income is reflected in earnings as part of net investment income. Refer to Note 7: Fair Value of Financial Instruments for additional disclosures related to securities for which the Company has elected the fair value option.

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

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 2: Significant Accounting Policies (continued)

Other-Than-Temporary Impairments on Investment Securities

The Company s consolidated statements of operations reflect the full impairment (the difference between a security s amortized cost basis and fair value) on debt securities that the Company intends to sell or would more likely than not be required to sell before the expected recovery of the amortized cost basis. For available-for-sale and held-to-maturity debt securities that management has no intent to sell and believes that it is more likely than not, such securities will not be required to be sold prior to recovery, only the credit loss component of the impairment is recognized in earnings. For available-for-sale securities, the remaining fair value loss is recognized in accumulated other comprehensive income, net of applicable deferred income taxes.

The Company s available-for-sale and held-to-maturity securities for which the fair value is less than amortized cost are reviewed no less than quarterly in order to determine whether a credit loss exists. This evaluation includes both qualitative and quantitative considerations. In assessing whether a decline in value is related to a credit loss, the Company considers several factors, including but not limited to (a) the magnitude and duration of the decline, (b) credit indicators and the reasons for the decline, such as general interest rate or credit spread movements, credit rating downgrades, issuer-specific changes in credit spreads, and the financial condition of the issuer, and (c) any guarantees associated with a security such as those provided by financial guarantee insurance companies. Credit loss expectations for ABS and CDOs are assessed using discounted cash flow modeling, and the recoverability of amortized cost for corporate obligations is generally assessed using issuer-specific credit analyses.

Cash, Cash Equivalents and Collateral

Cash and cash equivalents include cash on hand and demand deposits with banks with original maturities of less than 90 days.

Under certain non-insurance derivative contracts entered into by the Company, collateral postings are required by either MBIA or the counterparty. The Company reports cash received or posted in its consolidated statements of cash flows as operating, investing or financing, consistent with the classification of the asset or liability that created the posting requirement.

Deferred Acquisition Costs

Deferred acquisition costs include those expenses that relate primarily to, and vary with, the acquisition of new insurance business. The Company periodically conducts a study to determine which operating costs have been incurred to acquire new insurance business and qualify for deferral. For business produced directly by National or MBIA Corp., such costs include compensation of employees involved in underwriting and deferred issuance functions, certain rating agency fees, state premium taxes and certain other underwriting expenses, reduced by ceding commission income on premiums ceded to reinsurers. Deferred acquisition costs also include ceding commissions paid by the Company in connection with assuming business from other financial guarantors. Deferred acquisition costs, net of ceding commissions received, related to non-derivative insured financial guarantee transactions are deferred and amortized over the period in which the related premiums are earned. Acquisition costs related to insured derivative transactions are expensed as incurred.

Goodwill

Goodwill represents the excess of the cost of acquiring a business enterprise over the fair value of the net assets acquired. Goodwill is tested for impairment at least annually. Goodwill is impaired if the estimated fair value of a reporting unit is less than its carrying value. Any impairment loss is measured as the difference between the implied fair value and carrying value of goodwill and the excess of the fair value of its reported and unreported net assets over its carrying value is less than the amount of goodwill attributable to the reporting unit. Refer to Note 13: Goodwill for an explanation of the Company s annual impairment test.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 2: Significant Accounting Policies (continued)

Property and Equipment

Property and equipment consists of land, buildings, leasehold improvements, furniture, fixtures and computer equipment and software. All property and equipment is recorded at cost and, except for land, is depreciated over the appropriate useful life of the asset using the straight-line method. Leasehold improvements are amortized over the useful life of the improvement or the remaining term of the lease, whichever is shorter. The cost and related accumulated depreciation applicable to assets sold or retired are removed from the accounts and any gain or loss on disposition is recognized as a component of Other net realized gains (losses). Maintenance and repairs are charged to current earnings as incurred.

Property, leasehold improvements and equipment are tested for potential impairment whenever events or changes in circumstances suggest that an asset s or asset group s carrying value may not be fully recoverable. An impairment loss, calculated as the difference between the estimated fair value and the carrying value of an asset or asset group, is recognized if the sum of the expected undiscounted cash flows relating to the asset or asset group is less than the corresponding carrying value.

The useful lives of each class of assets are as follows:

Buildings and site improvements	2-31 years
Leasehold improvements	2-11 years
Furniture and fixtures	5-10 years
Computer equipment and software	3-10 years

Derivatives

MBIA has entered into derivative transactions as an additional form of financial guarantee and for purposes of hedging risks associated with existing assets and liabilities. All derivative instruments are recognized at fair value on the balance sheet as either assets or liabilities depending on the rights or obligations under the contract. The recognition of changes in the fair value of a derivative within the statements of operations will depend on the intended use of the derivative. If the derivative does not qualify as part of a hedging relationship or is not designated as such, the gain or loss on the derivative is recognized in the statements of operations as net gains (losses) on financial instruments at fair value and foreign exchange or change in fair value of insured derivatives, depending on the nature of the derivative.

The nature of the Company s business activities requires the management of various financial and market risks, including those related to changes in interest rates and foreign currency exchange rates. The Company uses derivative instruments to mitigate or eliminate certain of those risks. The Company has designated some derivatives as fair value hedges.

A fair value hedge represents the hedging of an exposure to changes in the fair value of an asset or a liability. For a derivative to be accounted for as a fair value hedge, it must be highly effective in achieving offsetting changes in fair value attributable to the hedged risk during the period that the hedge is designated. The Company tests all fair value hedges at least quarterly to ensure that they are highly effective. The Company considers a hedge to be highly effective if the changes in the fair value of the derivative provide offset of at least 80% and not more than 125% of the changes in fair value of the hedged item. For derivatives that qualify as fair value hedges, the gain or loss on the hedging instrument is recognized in earnings and the gain or loss on the hedged item attributable to the hedged risk shall adjust the carrying amount of the hedged item and be recognized currently in earnings. Any portion of the total change in fair value of the hedging instrument that is ineffective in offsetting designated changes in the fair value of the hedged item are recognized in earnings as net gains (losses) on financial instruments at fair value and foreign exchange.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 2: Significant Accounting Policies (continued)

If circumstances or events arise that require the termination and settlement of a derivative contract prior to maturity, any resulting gain or loss will be recognized immediately in earnings. For qualifying fair value hedges, if the hedge relationship is terminated, the derivative fair value adjustment is reported as part of the basis of the hedged item and is amortized to earnings as a yield adjustment. If the underlying hedged item of a hedge relationship ceases to exist, all changes in the fair value of the derivative are recognized in earnings each period until the derivative matures or terminates.

Certain of the Company s financial guarantees that meet the definition of a derivative are subject to a financial guarantee scope exception, as defined by the accounting guidance for derivative instruments and hedging activities. This scope exception provides that these financial guarantee contracts are not subject to accounting guidance for derivative instruments and should be accounted for as financial guarantee contracts only if:

- they provide for payments to be made solely to reimburse the guaranteed party for failure of the debtor to satisfy its required payment obligations under a non-derivative contract, either at pre-specified payment dates or accelerated payment dates, as a result of the occurrence of an event of default (as defined in the financial obligation covered by the guarantee contract) or notice of acceleration being made to the debtor by the creditor;

- payment under the financial guarantee contract is made only if the debtor s obligation to make payments as a result of conditions as described above is past due; and

- the guaranteed party is, as a precondition in the contract (or in the back-to-back arrangement, if applicable) for receiving payment of any claim under the guarantee, exposed to the risk of nonpayment both at inception of the financial guarantee contract and throughout its term either through direct legal ownership of the guaranteed obligation or through a back-to-back arrangement with another party that is required, by the back-to-back arrangement, to maintain direct ownership of the guaranteed obligation.

Financial guarantee contracts which have any of the following would not qualify for the financial guarantee scope exception:

- payments are required based on changes in the creditworthiness of a referenced credit, rather than failure of that debtor to pay when due (i.e., default);

- the guaranteed party is not actually exposed to loss (that is, it neither owns the referenced asset nor is itself a guarantor of that asset) throughout the term of the contract; or

- the compensation to be paid under the contract could exceed the amount of loss actually incurred by the guaranteed party.

Approximately 90% of the Company s financial guarantee contracts qualify for the scope exception defined above and, therefore, are accounted for as financial guarantee insurance contracts. The remaining contracts do not meet the scope exception, primarily because the guaranteed party is not exposed to the risk of nonpayment both at inception of the financial guarantee contract and throughout its term. These contracts are accounted for as derivatives and reported on the Company s balance sheets as either assets or liabilities, depending on the rights or obligations

under the contract, at fair value. The Company refers to these contracts as insured CDS contracts. Insured CDS contracts are not designated as hedges and changes in the fair value are reflected in the statements of operations as unrealized gains (losses) on insured derivatives.

Contracts that do not in their entirety meet the definition of a derivative instrument, such as bonds, insurance policies and leases, may contain embedded derivative instruments, which are implicit or explicit terms that affect some or all of the cash flows or the value of other exchanges required by the contract in a manner similar to a derivative instrument. The effect of including or embedding a derivative instrument in another contract, referred to as the host contract, is that some or all of the cash flows or other exchanges that otherwise would be required by the host contract, whether unconditional or contingent upon the occurrence of a specified event, will be modified based on one or more underlying references.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 2: Significant Accounting Policies (continued)

Refer to Note 10: Derivative Instruments for a further discussion of the Company s use of derivatives and their impact on the Company s consolidated financial statements and Note 7: Fair Value of Financial Instruments for derivative valuation techniques and fair value disclosures.

Offsetting of Fair Value Amounts Related to Derivative Instruments

The Company has a policy of presenting the fair value amounts recognized for eligible derivative contracts executed with the same counterparty on a net basis in the consolidated balance sheets. Accrued receivables and accrued payables which meet the offsetting criteria are netted, separately from the derivative values, in other assets/other liabilities. Cash collateral is offset against amounts recognized as derivative liabilities for eligible derivative contracts. Refer to Note 10: Derivative Instruments for the impact of netting eligible derivative contracts executed with the same counterparty on the consolidated balance sheets.

Fair Value Measurements Definition and Hierarchy

In determining fair value, the Company uses various valuation approaches, including both market and income approaches. The accounting guidance for fair value measurement establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available and reliable. Observable inputs are those the Company believes that market participants would use in pricing the asset or liability developed based on market data. Unobservable inputs are those that reflect the Company s beliefs about the assumptions market participants would use in pricing the asset or liability developed based on the best information available. The hierarchy is broken down into three levels based on the observability and reliability of inputs as follows:

Level 1 Valuations based on quoted prices in active markets for identical assets or liabilities that the Company has the ability to access. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail any degree of judgment. Assets utilizing Level 1 inputs generally include U.S. Treasuries, foreign government bonds, money market securities and certain corporate obligations that are highly liquid and actively traded.

Level 2 Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly. Level 2 assets include debt securities with quoted prices that are traded less frequently than exchange-traded instruments, securities which are priced using observable inputs and derivative contracts whose values are determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data. Assets and liabilities utilizing Level 2 inputs include: U.S. government and agency MBS; most over-the-counter (OTC) derivatives; corporate and municipal bonds; and certain other MBS or ABS.

Level 3 Valuations based on inputs that are unobservable and supported by little or no market activity and that are significant to the overall fair value measurement. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. Assets and liabilities utilizing Level 3 inputs include certain MBS, ABS and CDO securities where observable pricing information was not able to be obtained for a significant portion of the underlying assets; OTC derivatives and certain insured derivatives that require significant management judgment and estimation in the valuation.

The level of activity in a market contributes to the determination of whether an input is observable. An active market is one in which transactions for an asset or liability occurs with sufficient frequency and volume to provide pricing information on an ongoing basis. In determining whether a market is active or inactive, the Company considers the following traits to be indicative of an active market:

transactions are frequent and observable;

prices in the market are current;

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 2: Significant Accounting Policies (continued)

price quotes among dealers do not vary significantly over time; and

sufficient information relevant to valuation is publicly available.

The availability of observable inputs can vary from product to product and period to period and is affected by a wide variety of factors, including, for example, the type of product, whether the product is new and not yet established in the marketplace, and other characteristics particular to the transaction. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised by the Company in determining fair value is greatest for instruments categorized in Level 3. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes the level in the fair value hierarchy within which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

Fair value is a market-based measure considered from the perspective of a market participant rather than an entity-specific measure. Therefore, even when market assumptions are not readily available, the Company s own assumptions are set to reflect those that it believes market participants would use in pricing the asset or liability at the measurement date. The Company uses prices and inputs that are current as of the measurement date, including during periods of market dislocation. In periods of market dislocation, the observability of prices and inputs may be reduced for many instruments. This condition could cause an instrument to be reclassified from Level 1 to Level 2 or Level 2 to Level 3. The Company has also taken into account its own nonperformance risk and that of its counterparties when measuring fair value.

The Company previously elected to record at fair value certain financial instruments that contained an embedded derivative requiring bifurcation in accordance with the accounting guidance for hybrid financial instruments. These instruments included certain MTNs and certain available-for-sale securities. Management elected to fair value hybrid instruments in those instances where the host contract and the embedded derivative were not separately subject to a hedging relationship.

Refer to Note 7: Fair Value of Financial Instruments for additional fair value disclosures.

Loss and Loss Adjustment Expenses

The Company recognizes claim liabilities (loss reserves) on a contract-by-contract basis when the present value of expected net cash outflows to be paid under the contract discounted using a risk-free rate as of the measurement date exceeds the unearned premium revenue. A claim liability is subsequently remeasured each reporting period for expected increases or decreases due to changes in the likelihood of default and potential recoveries. Subsequent changes to the measurement of the claim liability are recognized as claim expense in the period of change. Measurement and recognition of claim liability is reported gross of any reinsurance. The Company estimates the likelihood of possible claims payments and possible recoveries using probability-weighted expected cash flows based on information available as of the measurement date, including market information. Accretion of the discount on a claim liability is included in claim expense.

The Company recognizes potential recoveries on paid claims based on probability-weighted net cash inflows present valued at applicable risk-free rates as of the measurement date. Such amounts are reported within Insurance loss recoverable on the Company s consolidated balance sheets. To the extent the Company had recorded potential recoveries in its claim liability previous to a claim payment, such recoveries are reclassified to Insurance loss recoverable upon payment of the related claim and remeasured each reporting period.

The Company s claim liability, insurance loss recoverable, and accruals for loss adjustment expenses (LAE) incurred are disclosed in Note 6: Loss and Loss Adjustment Expense Reserves.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 2: Significant Accounting Policies (continued)

Investment Agreements and Medium-Term Notes

Investment agreements and MTNs are recorded as liabilities and carried at their face value, adjusted for any premiums or discounts, plus accrued interest. Interest expense is accrued at the contractual interest rate. Premiums and discounts related to investment agreements and MTNs are amortized on a constant yield basis as an adjustment to interest expense.

Securities Sold Under Agreements to Repurchase

Securities sold under agreements to repurchase represent collateralized transactions and are carried on the Company s consolidated balance sheets at their contractual amounts plus accrued interest.

Financial Guarantee Insurance Premiums

Unearned Premium Revenue and Receivable for Future Premiums

The Company recognizes a liability for unearned premium revenue at the inception of financial guarantee insurance and reinsurance contracts on a contract-by-contract basis. Unearned premium revenue recognized at inception of a contract is measured at the present value of the premium due. For most financial guarantee insurance contracts, the Company receives the entire premium due at the inception of the contract, and recognizes unearned premium revenue liability at that time. For certain other financial guarantee contracts, the Company receives premiums in installments over the term of the contract. Unearned premium revenue and a receivable for future premiums are recognized at the inception of an installment contract, and measured at the present value of premiums expected to be collected over the contract period or expected period using a risk-free discount rate. The expected period is used in the present value determination of unearned premium revenue and receivable for future premiums for contracts where (a) the insured obligation is contractually prepayable, (b) prepayments are probable, (c) the amount and timing of prepayments are reasonably estimable, and (d) a homogenous pool of assets is the underlying collateral for the insured obligation. The Company has determined that substantially all of its installment contracts meet the conditions required to be treated as expected period contracts. The receivable for future premiums is reduced as installment premiums are collected. The Company reports the accretion of the discount on installment premiums receivable as premium revenue and discloses the amount recognized in Note 5: Insurance Premiums. The Company assesses the receivable for future premiums for collectability each reporting period, adjusts the receivable for uncollectible amounts and recognizes any write-off as operating expense, and discloses the amount recognized in Note 5: Insurance Premiums. As premium revenue is recognized, the unearned premium revenue liability is reduced.

Premium Revenue Recognition

The Company recognizes and measures premium revenue over the period of the contract in proportion to the amount of insurance protection provided. Premium revenue is measured by applying a constant rate to the insured principal amount outstanding in a given period to recognize a proportionate share of the premium received or expected to be received on a financial guarantee insurance contract. A constant rate for each respective financial guarantee insurance contract is calculated as the ratio of (a) the present value of premium received or expected to be received over the period of the contract to (b) the sum of all insured principal amounts outstanding during each period over the term of the contract.

An issuer of an insured financial obligation may retire the obligation prior to its scheduled maturity through refinancing or legal defeasance in satisfaction of the obligation according to its indenture, which results in the Company s obligation being extinguished under the financial guarantee contract. The Company recognizes any remaining unearned premium revenue on the insured obligation as refunding premiums earned in the period the contract is extinguished to the extent the unearned premium revenue has been collected.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 2: Significant Accounting Policies (continued)

Non-refundable commitment fees are considered insurance premiums and are initially recorded under unearned premium revenue in the consolidated balance sheets when received. Once the related financial guarantee insurance policy is issued, the commitment fees are recognized as premium written and earned using the constant rate method. If the commitment agreement expires before the related financial guarantee is issued, the non-refundable commitment fee is immediately recognized as premium written and earned at that time.

Fee and Reimbursement Revenue Recognition

The Company collects insurance related fees for services performed in connection with certain transactions. In addition, the Company may be entitled to reimbursement of third-party insurance expenses that it incurs in connection with certain transactions. Depending upon the type of fee received and whether it is related to an insurance policy, the fee is either earned when it is received or deferred and earned over the life of the related transaction. Work, waiver and consent, termination, administrative and management fees are earned when the related services are completed and the fee is received. Structuring fees are earned on a straight-line basis over the life of the related insurance policy. Amounts received from reinsurers in excess of those which are contractually due to MBIA upon the termination of reinsurance agreements are recorded as fees and earned when received.

Fees related to investment management services are recognized in earnings over the period that the related services are provided. Asset management fees are typically based on the net asset values of assets under management.

Stock-Based Compensation

The Company recognizes in earnings all stock-based payment transactions at the fair value of the stock-based compensation provided. Under the modified prospective transition method selected by the Company, all equity-based awards granted to employees and existing awards modified on or after January 1, 2003 are accounted for at fair value with compensation expense recorded in net income. Refer to Note 19: Long-term Incentive Plans for a further discussion regarding the methodology utilized in recognizing employee stock compensation expense.

Foreign Currency Translation

Financial statement assets and liabilities denominated in foreign currencies are translated into U.S. dollars generally using rates of exchange prevailing at the balance sheet date. Operating results are translated at average rates of exchange prevailing during the year. Unrealized gains or losses, net of deferred taxes, resulting from translation of the financial statements of a non-U.S. operation, when the functional currency is other than the U.S. dollar, are included in accumulated other comprehensive income (loss) in shareholders equity. Foreign currency remeasurement gains and losses resulting from transactions in non-functional currencies are recorded in current earnings. Exchange gains and losses resulting from foreign currency transactions are recorded in current earnings.

Income Taxes

Deferred income taxes are recorded with respect to loss carryforwards and 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. Such temporary differences relate principally to premium revenue recognition, deferred acquisition costs, unrealized appreciation or depreciation of investments and derivatives, invested asset impairments and cancellation of indebtedness income. Valuation allowances are established to reduce deferred tax assets to the amount that more likely than not will be realized. Deferred tax assets and liabilities are adjusted for the effect of changes in tax laws and rates in the period in which changes are approved by the relevant authority.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 2: Significant Accounting Policies (continued)

MBIA Inc. and its eligible U.S. subsidiaries file a consolidated Federal income tax return. The U.S. income taxes, which represent a majority of the taxes paid by the Company, are allocated based on the provisions of the Company s tax sharing agreement which governs the intercompany settlement of tax obligations and benefits. The method of allocation between the members is generally based upon separate-company calculations as if each member filed a separate tax return on its own. MBIA Inc. also intends, as part of the agreement, that no member s NOL will expire without compensation.

In establishing a liability for an unrecognized tax benefit (UTB), assumptions may be made in determining whether a tax position is more likely than not to be sustained upon examination by the taxing authority and also in determining the ultimate amount that is likely to be realized. A tax position is recognized only when, based on management s judgment regarding the application of income tax laws, it is more likely than not that the tax position will be sustained upon examination. The amount of tax benefit recognized is based on the Company s assessment of the largest amount of benefit that is more likely than not to be realized on ultimate settlement with the taxing authority. This measurement is based on many factors, including whether a tax dispute may be settled through negotiation with the taxing authority or is only subject to review in the courts. As new information becomes available, the Company evaluates its tax positions, and adjusts its UTB, as appropriate. If the tax benefit ultimately realized differs from the amount previously recognized the Company recognizes an adjustment of the UTB.

Refer to Note 14: Income Taxes for additional information about the Company s income taxes.

Note 3: Recent Accounting Pronouncements

Recently Adopted Accounting Standards

Disclosures about the Credit Quality of Financing Receivables and Allowance for Credit Losses (ASU 2010-20)

In July 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2010-20, Receivables (Topic 310) Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses. ASU 2010-20 provides amended disclosure requirements related to certain financing receivables and related allowance for credit losses. The disclosure provisions are effective for the Company for the year ended December 31, 2010. These amended requirements are related only to disclosures, and do not affect the Company s consolidated balance sheets, results of operations or cash flows. The Company accounts for its insurance premiums receivable in accordance with Accounting Standards Codification 944, Financial Guarantee Insurance Contracts. Refer to Note 5: Insurance Premiums for disclosures related to the Company s receivable for insurance premiums.

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

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

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 3: Recent Accounting Pronouncements (continued)

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

In January 2010, the FASB issued ASU 2010-06, Fair Value Measurements and Disclosures (Topic 820) Improving Disclosures about Fair Value Measurements, to require additional disclosures about transfers into and out of Levels 1 and 2 and separate disclosures about purchases, sales, issuances, and settlements relating to Level 3 measurements. The standard also clarifies existing disclosures about the level of disaggregation, valuation techniques and inputs to fair value measurements. The Company adopted this standard as of the first quarter of 2010 except for the requirement to provide the Level 3 activity of purchases, sales issuances and settlements on a gross basis, which the Company adopted in the first quarter of 2011. As this standard only affects disclosures related to fair value, the adoption of this standard did not affect the Company s consolidated balance sheets, results of operations, or cash flows. Refer to Note 7: Fair Value of Financial Instruments for these disclosures.

Consolidation of Variable Interest Entities (ASU 2009-17)

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

Upon the adoption of the accounting guidance, the Company recognized a cumulative transition adjustment of $319 million, net of tax, as a decrease to its beginning retained earnings balance as of January 1, 2010 as a result of consolidated VIEs. The cumulative transition adjustment represents the recognized changes in assets and liabilities resulting from the adoption, including the impact of the fair value option election for certain of the financial assets and liabilities, offset in part by the elimination of intercompany balances with the consolidated VIEs. The Company also recognized a cumulative transition adjustment of $3 million, net of tax, as a decrease to its beginning retained earnings balance as of January 1, 2010, related to the deconsolidation of VIEs as a result of the implementation of this accounting guidance. This adjustment was the result of the deconsolidation of the assets and liabilities of previously consolidated VIEs, offset in part by the recognition of financial interests in these deconsolidated VIEs which were previously eliminated in consolidation. The adjustments to retained earnings were offset by a reduction of accumulated other comprehensive loss, net of deferred taxes of $349 million. This reduction was a result of reclassifying assets of VIEs, which the Company had consolidated prior to ASU 2009-17, for which the fair value election was made for the assets of these VIEs. Prior to the adoption of ASU 2009-17, the assets of these VIEs were carried as available-for-sale with unrealized gains and losses reflected in accumulated other comprehensive loss.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 3: Recent Accounting Pronouncements (continued)

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

		Increase/(Decrease)		
In millions	**Fair Value Option**	**Unpaid Principal Balance**	**Deconsolidated VIEs**	**Total**
Assets:				
Total investments	$ (593)	$ (3,058)	$ (172)	$ (3,823)
Accrued investment income	(3)	(3)		(6)
Premiums receivable	(23)	(127)		(150)
Deferred acquisition costs	(7)			(7)
Insurance loss recoverable	(594)			(594)
Current income taxes		14		14
Deferred income taxes, net	10	(3)	2	9
Other assets	(484)	5		(479)
Assets of consolidated VIEs:				
Cash	320			320
Investments held-to-maturity		4,798		4,798
Fixed-maturity securities at fair value	5,507			5,507
Loans receivable at fair value	2,002			2,002
Loan repurchase commitments	436			436
Derivative assets	30			30
Other assets	37	16		53
Total assets	6,638	1,642	(170)	8,110
Liabilities:				
Unearned premium revenue	(46)	(92)		(138)
Loss and loss adjustment expense reserves	(364)			(364)
Medium-term notes		(1,429)		(1,429)
Long-term debt		(433)		(433)
Payable for investments purchased	(1)			(1)
Derivative liabilities	(33)	(9)		(42)
Other liabilities	(8)	(2)		(10)
Liabilities of consolidated VIEs:				
Variable interest entity notes	6,358	3,170	(252)	9,276
Long-term debt		433		433
Derivative liabilities	764	9		773
Other liabilities		18		18
Total liabilities	6,670	1,665	(252)	8,083
Equity:				
Retained earnings	(296)	(23)	(3)	(322)
Accumulated other comprehensive income (loss)	264		85	349

Total equity	$ (32)	$ (23)	$ 82	$ 27

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 3: Recent Accounting Pronouncements (continued)

In connection with the adoption of the amended accounting guidance, the Company has elected the fair value option for eligible financial assets and financial liabilities for most, but not all, of the consolidated VIEs. The Company elected the fair value option for certain VIEs designed as RMBS securitizations, multi-sector CDOs, and CRE CDOs. Financial assets and financial liabilities of consolidated VIEs designed as life insurance securitizations collateralized by surplus notes issued by life insurance companies that can only be used to settle obligations of the respective VIEs were measured at the unpaid principal balance as of January 1, 2010. The financial assets of such VIEs are classified as held-to-maturity investments on the Company s consolidated balance sheets. The Company elected the fair value option for the consolidated VIEs designed as RMBS securitizations, multi-sector CDOs, and CRE CDOs because fair value was considered a more appropriate measurement model for the financial assets and financial liabilities to represent the economic performance and business activity of the respective VIEs. The Company did not elect the fair value option for consolidated VIEs designed as life insurance securitizations because a held-to-maturity classification for the financial assets held by the consolidated VIEs was considered a more appropriate measurement model to represent the economic performance and business activity of the respective VIEs.

The Company s conduit segment includes two VIEs that were consolidated prior to adoption and remain consolidated under this amended accounting guidance. Financial assets held by the consolidated VIEs in the conduit segment were classified as investments held-to-maturity, both prior to and subsequent to the adoption of the amended accounting guidance. Refer to Note 7: Fair Value of Financial Instruments for additional disclosures related to the fair value option election for the financial assets and liabilities of the consolidated VIEs.

Transfers of Financial Assets (ASU 2009-16)

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

Recent Accounting Developments

Disclosures about Offsetting Assets and Liabilities (ASU 2011-11)

In December 2011, the FASB issued ASU 2011-11, Balance Sheet (Topic 210) Disclosures about Offsetting Assets and Liabilities. ASU 2011-11 creates new disclosure requirements about the nature of the Company s rights of setoff and related arrangements associated with its financial instruments and derivative instruments. The disclosure requirements are effective for the Company beginning in the first quarter 2013. This standard will only affect the Company s disclosures and will not affect the Company s consolidated balance sheets, results of operations, or cash flows.

Testing Goodwill for Impairment (ASU 2011-08)

In September 2011, the FASB issued ASU 2011-08, Intangibles Goodwill and Other (Topic 350) Testing Goodwill for Impairment. Under the revised guidance, an entity has an option to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. The new guidance is effective for the Company beginning January 1, 2012 with early adoption permitted. The Company did not early adopt the guidance. The adoption of this standard will not have a material effect on the Company s consolidated balance sheets, results of operations, or cash flows.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 3: Recent Accounting Pronouncements (continued)

Presentation of Comprehensive Income (ASU 2011-05)

In June 2011, the FASB issued ASU 2011-05, Comprehensive Income (Topic 220) Presentation of Comprehensive Income. This amendment eliminates the current option to report other comprehensive income and its components in the statements of changes in equity. The amendment does not change what currently constitutes net income and other comprehensive income. The new guidance is effective for the Company beginning January 1, 2012. In December 2011, the FASB issued ASU 2011-12 Comprehensive Income (Topic 220) Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05, which defers certain aspects of ASU 2011-05 related to the presentation of reclassification adjustments. These standards will only affect the Company s presentation of comprehensive income and will not affect the Company s consolidated balance sheets, results of operations, or cash flows. The new presentation will be included in the Company s Quarterly Report on Form 10-Q for the quarter ending March 31, 2012.

Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs (ASU 2011-04)

In May 2011, the FASB issued ASU 2011-04, Fair Value Measurement (Topic 820) Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs . This amendment results in a consistent definition of fair value and common requirements for measurement of and disclosure about fair value between GAAP and International Financial Reporting Standards. The new guidance is effective for the Company beginning January 1, 2012. This standard is expected to only affect the Company s disclosures related to fair value; therefore, the adoption of this standard is not expected to affect the Company s consolidated balance sheets, results of operations, or cash flows.

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

In October 2010, the FASB issued ASU 2010-26, Financial Services Insurance (Topic 944) Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts. This amendment specifies which costs incurred in the acquisition of new and renewal insurance contracts should be capitalized. The new guidance is effective for the Company beginning January 1, 2012 with early adoption as of January 1, 2011 permitted. The Company did not early adopt the guidance as of January 1, 2011. The adoption of this standard will not have a material effect on the Company s consolidated balance sheets, results of operations, or cash flows.

Note 4: Variable Interest Entities

Structured Finance and International Insurance

Through MBIA s structured finance and international insurance segment, the Company provides credit protection to issuers of obligations that may involve issuer-sponsored special purpose entities (SPEs). An SPE may be considered a VIE to the extent the SPE s total equity at risk is not sufficient to permit the SPE to finance its activities without additional subordinated financial support or its equity investors lack any one of the following characteristics (i) the power to direct the activities of the SPE that most significantly impact the entity s economic performance or (ii) the obligation to absorb the expected losses of the entity or the right to receive the expected residual returns of the entity. A holder of a variable interest or interests in a VIE is required to assess whether it has a controlling financial interest, and thus is required to consolidate the entity as primary beneficiary. An assessment of a controlling financial interest identifies the primary beneficiary as the variable interest holder that has both of the following characteristics (i) the power to direct the activities of the VIE that most significantly impact the entity s economic performance and (ii) the obligation to absorb losses of the entity or the right to receive benefits from the entity that could potentially be significant to the VIE. The primary beneficiary is required to consolidate the VIE. An ongoing reassessment of controlling financial interest is required to be performed based on any substantive changes in facts and circumstances involving the VIE and its variable interests.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 4: Variable Interest Entities (continued)

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

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

Wind-down Operations

In its asset/liability products segment, the Company invests in obligations issued by issuer-sponsored SPEs which are included in fixed-maturity securities held as available-for-sale. The Company evaluates issuer-sponsored SPEs to determine if the entity is a VIE. For all entities determined to be VIEs, the Company evaluates whether its investment is determined to have both of the characteristics of a controlling financial interest in the VIE. The Company performs an ongoing reassessment of controlling financial interests in issuer-sponsored VIEs based on investments held. MBIA s wind-down operations do not have a controlling financial interest in any issuer-sponsored VIEs and are not the primary beneficiary of any issuer-sponsored VIEs. In the third quarter of 2011, the one VIE that the Company formed, sponsored and was the primary beneficiary of, included in the asset/liability products segment, was dissolved and deconsolidated by the Company. The Company was the sole variable interest holder of the VIE and retained all the fixed-maturity securities, consisting of alternative A-paper (Alt-A) non-agency RMBS securities, and recognized no gain or loss upon deconsolidation.

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

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 4: Variable Interest Entities (continued)

Nonconsolidated VIEs

The following tables present the total assets of nonconsolidated VIEs in which the Company holds a variable interest as of December 31, 2011 and 2010. The following tables also present the Company s maximum exposure to loss for nonconsolidated VIEs as well as the value of the assets and liabilities the Company has recorded for its interest in these VIEs as of December 31, 2011 and 2010. The Company has aggregated nonconsolidated VIEs based on the underlying credit exposure of the insured obligation. The nature of the Company s variable interests in nonconsolidated VIEs is related to financial guarantees, insured CDS and any investments in obligations issued by nonconsolidated VIEs.

			December 31, 2011					
			Carrying Value of Assets			Carrying Value of Liabilities		
In millions	VIE Assets	Maximum Exposure to Loss	Investments[1]	Premiums Receivable[2]	Insurance Loss Recoverable[3]	Unearned Premium Revenue[4]	Loss and Loss Adjustment Expense Reserves[5]	Derivative Liabilities[6]
Insurance:								
Global structured finance:								
Collateralized debt obligations	$ 26,507	$ 15,466	$ 42	$ 67	$	$ 58	$ 3	$ 113
Mortgage-backed residential	47,669	16,379	25	87	2,773	86	428	5
Mortgage-backed commercial	5,001	2,644		2		2		
Consumer asset-backed	8,015	4,563	16	26		25	23	
Corporate asset-backed	29,855	15,577	241	192	22	205		1
Total global structured finance	117,047	54,629	324	374	2,795	376	454	119
Global public finance	42,106	21,774		215		270		
Total insurance	$ 159,153	$ 76,403	$ 324	$ 589	$ 2,795	$ 646	$ 454	$ 119

(1) Reported within Investments on MBIA s consolidated balance sheets.

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

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

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

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

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

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 4: Variable Interest Entities (continued)

			December 31, 2010					
			Carrying Value of Assets			Carrying Value of Liabilities		
In millions	VIE Assets	Maximum Exposure to Loss	Investments[1]	Premiums Receivable[2]	Insurance Loss Recoverable[3]	Unearned Premium Revenue[4]	Loss and Loss Adjustment Expense Reserves[5]	Derivative Liabilities[6]
Insurance:								
Global structured finance:								
Collateralized debt obligations	$ 30,628	$ 18,068	$ 126	$ 78	$	$ 68	$	$ 360
Mortgage-backed residential	56,828	18,494	71	95	2,270	93	598	3
Mortgage-backed commercial	5,547	3,138		2		2		
Consumer asset-backed	11,709	6,780	19	30		29		
Corporate asset-backed	42,380	22,468	246	325	5	340		
Total global structured finance	147,092	68,948	462	530	2,275	532	598	363
Global public finance	42,370	21,201		225		280		
Total insurance	$ 189,462	$ 90,149	$ 462	$ 755	$ 2,275	$ 812	$ 598	$ 363

(1) Reported within Investments on MBIA s consolidated balance sheets.

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

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

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

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

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

Consolidated VIEs

The carrying amounts of assets and liabilities of consolidated VIEs were $10.9 billion and $9.9 billion, respectively, as of December 31, 2011, and $14.1 billion and $13.1 billion, respectively, as of December 31, 2010. The carrying amounts of assets and liabilities are presented separately in Assets of consolidated variable interest entities and Liabilities of consolidated variable interest entities on the Company s consolidated balance sheets. Additional VIEs are consolidated or deconsolidated based on an ongoing reassessment of controlling financial interest, when events occur or circumstances arise, and whether the ability to exercise rights that constitute power to direct activities of any VIEs are present according to the design and characteristics of these entities. Net realized losses related to the initial consolidation of an additional VIE were $16 million for the year ended December 31, 2011 and $76 million for the year ended December 31, 2010. Net realized gains related to the deconsolidation of VIEs were $271 million for the year ended December 31, 2011 and immaterial for the year ended December 31, 2010.

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

Note 5: Insurance Premiums

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

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 5: Insurance Premiums (continued)

As of December 31, 2011 and 2010, the Company reported premiums receivable of $1.4 billion and $1.6 billion, respectively, primarily related to installment policies for which premiums will be collected over the estimated term of the contracts. Premiums receivable for an installment policy is initially measured at the present value of premiums expected to be collected over the expected period or contract period of the policy using a risk-free discount rate. Premiums receivable for policies that use the expected period of risk due to expected prepayments are adjusted in subsequent measurement periods when prepayment assumptions change using the risk-free discount rate as of the remeasurement date. As of December 31, 2011 and 2010, the weighted average risk-free rate used to discount future installment premiums was 2.8% and 3.1%, respectively, and the weighted average expected collection term of the premiums receivable was 9.13 years and 9.16 years, respectively.

The Company evaluates whether any premiums receivable are uncollectible at each balance sheet date. If the Company determines that premiums are uncollectible, it records a write-off of such amounts in current earnings. The majority of the Company s premiums receivable consists of the present values of future installment premiums that are not yet billed or due primarily from structured finance transactions. Given that premiums due to MBIA typically have priority over most other payment obligations of structured finance transactions, the Company determined that the amount of uncollectible premiums as of December 31, 2011 and 2010 was insignificant.

As of December 31, 2011 and 2010, the Company reported reinsurance premiums payable of $64 million and $71 million, respectively, which represents the portion of the Company s premiums receivable that is due to reinsurers. The reinsurance premiums payable is accreted and paid to reinsurers as premiums due to MBIA are accreted and collected.

The following tables present a roll forward of the Company s premiums receivable for the years ended December 31, 2011 and 2010:

In millions	Premiums Receivable as of December 31, 2010	Adjustments					Premiums Receivable as of December 31, 2011	Reinsurance Premiums Payable as of December 31, 2011
		Premium Payments Received	Premiums from New Business Written	Changes in Expected Term of Policies	Accretion of Premiums Receivable Discount	Other[1]		
$	1,589	$ (212)	$	$ (76)	$ 40	$ 19	$ 1,360	$ 64

(1) Primarily consists of unrealized gains (losses) due to foreign currency exchange rates.

In millions	Premiums Receivable as of December 31, 2009	Adjustments						Premiums Receivable as of December 31, 2010	Reinsurance Premiums Payable as of December 31, 2010
		Accounting Transition Adjustment[1]	Premium Payments Received	Premiums from New Business Written	Changes in Expected Term of Policies	Accretion of Premiums Receivable Discount	Other[2]		

$ 2,021	$ (150)	$ (253)	$ 12	$ (42)	$ 48	$ (47)	$ 1,589	$ 71

(1) Reflects the adoption of the accounting principles for the consolidation of VIEs.

(2) Primarily consists of unrealized gains (losses) due to foreign currency exchange rates.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 5: Insurance Premiums (continued)

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

In millions	Expected Collection of Premiums
Three months ended:	
March 31, 2012	$ 38
June 30, 2012	57
September 30, 2012	34
December 31, 2012	43
Twelve months ended:	
December 31, 2013	146
December 31, 2014	129
December 31, 2015	120
December 31, 2016	111
Five years ended:	
December 31, 2021	419
December 31, 2026	283
December 31, 2031 and thereafter	351
Total	$ 1,731

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

		Expected Future Premium Earnings			
In millions	Unearned Premium Revenue	Upfront	Installments	Accretion	Total Expected Future Premium Earnings
December 31, 2011	$ 3,515				
Three months ended:					
March 31, 2012	3,420	$ 55	$ 40	$ 9	$ 104
June 30, 2012	3,328	54	38	9	101
September 30, 2012	3,240	53	35	9	97
December 31, 2012	3,156	51	33	8	92
Twelve months ended:					
December 31, 2013	2,835	195	126	32	353
December 31, 2014	2,543	180	112	30	322
December 31, 2015	2,275	165	103	28	296

December 31, 2016	2,030	150	95	26	271
Five years ended:					
December 31, 2021	1,099	581	350	99	1,030
December 31, 2026	533	346	220	61	627
December 31, 2031 and thereafter		296	237	63	596
Total		$ 2,126	$ 1,389	$ 374	$ 3,889

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 6: Loss and Loss Adjustment Expense Reserves

Loss and Loss Adjustment Expense Process

The Company s insured portfolio management groups within its U.S. public finance insurance and structured finance and international insurance businesses (collectively, IPM) monitor MBIA s outstanding insured obligations with the objective of minimizing losses. IPM meets this objective by identifying issuers that, because of deterioration in credit quality or changes in the economic, regulatory or political environment, are at a heightened risk of defaulting on debt service of obligations insured by MBIA. In such cases, IPM works with the issuer, trustee, bond counsel, servicer, underwriter and other interested parties in an attempt to alleviate or remedy the problem and avoid defaults on debt service payments. Once an obligation is insured, MBIA typically requires the issuer, servicer (if applicable) and the trustee to furnish periodic financial and asset-related information, including audited financial statements, to IPM for review. IPM also monitors publicly available information related to insured obligations. Potential problems uncovered through this review, such as poor financial results, low fund balances, covenant or trigger violations and trustee or servicer problems, or other events that could have an adverse impact on the insured obligation, could result in an immediate surveillance review and an evaluation of possible remedial actions. IPM also monitors and evaluates the impact on issuers of general economic conditions, current and proposed legislation and regulations, as well as state and municipal finances and budget developments.

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

The Company does not establish any case basis reserves for insured obligations that are assigned to Caution List Low, Caution List Medium or Caution List High. In the event MBIA expects to pay a claim as determined by probability-weighted cash flow analysis with respect to an insured transaction, it places the insured transaction on its Classified List and establishes a case basis reserve. The following provides a description of each surveillance category:

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

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

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

Classified List Includes all insured obligations where MBIA has paid a claim or where a claim payment is expected. It also includes insured obligations where a significant LAE payment has been made, or is expected to be made, to mitigate a claim payment. This may include property improvements, bond purchases and commutation payments. Generally, IPM is actively remediating these credits where possible, including restructurings through legal proceedings, usually with the assistance of specialist counsel and advisors.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 6: Loss and Loss Adjustment Expense Reserves (continued)

In establishing case basis loss reserves, the Company calculates 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 as required by accounting principles for financial guarantee contracts. Yields on U.S. Treasury offerings are used to discount loss reserves denominated in U.S. dollars, which represent the majority of the loss reserves. Similarly, yields on foreign government offerings are used to discount loss reserves denominated in currencies other than the U.S. dollar. If the Company were to apply different discount rates, its case basis reserves may have been higher or lower than those established as of December 31, 2011. For example, a higher discount rate applied to expected future payments would have decreased the amount of a case basis reserve established by the Company and a lower rate would have increased the amount of a reserve established by the Company. Similarly, a higher discount rate applied to the potential future recoveries would have decreased the amount of a loss recoverable established by the Company and a lower rate would have increased the amount of a loss recoverable established by the Company.

As of December 31, 2011, the majority of the Company s case basis reserves and insurance loss recoveries recorded in accordance with GAAP were related to insured first and second-lien RMBS transactions. These reserves and recoveries do not include estimates for policies insuring credit derivatives. Policies insuring credit derivative contracts are accounted for as derivatives and carried at fair value under GAAP. The fair values of insured derivative contracts are influenced by a variety of market and transaction-specific factors that may be unrelated to potential future claim payments under the Company s insurance policies. In the absence of credit impairments on insured derivative contracts or the early termination of such contracts at a loss, the cumulative unrealized losses recorded from fair valuing these contracts should reverse before or at the maturity of the contracts.

Notwithstanding the difference in accounting under GAAP for financial guarantee policies and the Company s insured derivatives, insured derivatives have similar terms, conditions, risks, and economic profiles to financial guarantee insurance policies, and, therefore, are evaluated by the Company for loss (referred to as credit impairment herein) and LAE periodically in the same way that loss and LAE reserves are estimated for financial guarantee insurance policies. Credit impairments represent actual payments and collections plus the present value of estimated expected future claim payments, net of recoveries. MBIA Insurance Corporation s expected future claim payments were discounted using a rate of 5.59%, the same rate it used to calculate its statutory loss reserves as of December 31, 2011. These credit impairments, calculated in accordance with U.S. STAT, differ from the fair values recorded in the Company s consolidated financial statements. The Company regards its credit impairment estimates as critical information for investors as it provides information about loss payments the Company expects to make on insured derivative contracts. As a result, the following loss and LAE process discussion includes information about loss and LAE activity recorded in accordance with GAAP for financial guarantee insurance policies and credit impairments estimated in accordance with U.S. STAT for insured derivative contracts. Refer to Note 7: Fair Value of Financial Instruments included herein for additional information about the Company s insured credit derivative contracts.

RMBS Case Basis Reserves and Recoveries

The Company s RMBS reserves and recoveries relate to financial guarantee insurance policies. The Company calculated RMBS case basis reserves as of December 31, 2011 for both first-lien and second-lien RMBS transactions using a process called the Roll Rate Methodology. The Roll Rate Methodology is a multi-step process using a database of loan level information, a proprietary internal cash flow model, and a commercially available model to estimate expected ultimate cumulative losses on insured bonds. Roll Rate is defined as the probability that current loans become delinquent and that loans in the delinquent pipeline are charged-off or liquidated. Generally, Roll Rates are calculated for the previous three months and averaged. The loss reserve estimates are based on a probability-weighted average of three scenarios of loan losses (base case, stress case, and an additional stress case).

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 6: Loss and Loss Adjustment Expense Reserves (continued)

In calculating ultimate cumulative losses for RMBS, the Company estimates the amount of loans that are expected to be charged-off (deemed uncollectible by servicers of the transactions) or liquidated in the future. The Company assumes that such charged-off loans have zero recovery values.

First-lien RMBS Reserves

The Company s first-lien RMBS case basis reserves as of December 31, 2011, which relate to RMBS backed by Alt-A and subprime mortgage loans were determined using the Roll Rate Methodology. The Company assumes that the Roll Rate for loans in foreclosure, Real Estate Owned (REO) and bankruptcy are 90%, 90% and 75%, respectively. Roll Rates for current, 30-59 day delinquent loans, 60-89 day delinquent loans and 90+ day delinquent loans are calculated on a transaction-specific basis. Roll Rates for loans that are current as of November 30, 2011 (Current Roll to Loss) stay at the November 30, 2011 level for two months before declining to 25% of this level over a 24-month period. Additionally, the Company runs scenarios where the 90+ day roll rate to loss is set at 90%. The Roll Rates are applied to the amounts in the respective delinquency buckets based on delinquencies as of November 30, 2011 to estimate future losses from loans that are delinquent as of the current reporting period.

In calculating ultimate cumulative losses for first-lien RMBS, the Company estimates the amount of loans that are expected to be liquidated through foreclosure or short sale. The time to liquidation for a defaulted loan is specific to the loan s delinquency bucket with the latest three-month average loss severities generally used to calculate losses at loan liquidation. The loss severities are reduced over time to account for reduction in the amount of foreclosure inventory, future increases in home prices, and principal amortization of the loan.

Second-lien RMBS Reserves

The Company s second-lien RMBS case basis reserves as of December 31, 2011 relate to RMBS backed by home equity lines of credit (HELOCs) and closed-end second mortgages (CES).

The Roll Rates for 30-59 day delinquent loans and 60-89 day delinquent loans are calculated on a transaction-specific basis. The Company assumes that the Roll Rate for 90+ day delinquent loans, excluding foreclosures, REO and bankruptcies, is 95%. The Roll Rates are applied to the amounts in the respective delinquency buckets based on delinquencies as of November 30, 2011 to estimate future losses from loans that are delinquent as of the current reporting period.

Current Roll to Loss is calculated on a transaction-specific basis. A proportion of loans reported current as of November 30, 2011 is assumed to become delinquent every month, at a Current Roll to Loss rate that persists at a high level for a time and subsequently starts to decline. A key assumption in the model is the period of time in which the Company projects high levels of Current Roll to Loss to persist. In the Company s base case, the Company assumes that the Current Roll to Loss begins to decline immediately and continues to decline over the next six months to 25% of their levels as of November 30, 2011. In the stress case, the period of elevated delinquency and loss is extended by six months. In the additional stress case, the Company assumes that the current trends in losses will remain through mid-2013, after which time they will revert to the base case. For example, in the base case, as of November 30, 2011, if the amount of current loans which become 30-59 days delinquent is 10%, and recent performance suggests that 30% of those loans will be charged-off, the Current Roll to Loss for the transaction is 3%. In the base case, it is then assumed that the Current Roll to Loss will reduce linearly to 25% of its original value over the next six months (i.e., 3% will linearly reduce to 0.75% over the six months from December 2011 to May 2012). After that six-month period, the Company further reduces the Current Roll to Loss to 0% by early 2014 with the expectation that the performing seasoned loans will eventually result in loan performance reverting to historically low levels of default. In the model, the Company assumes that all current loans that become delinquent are charged-off.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 6: Loss and Loss Adjustment Expense Reserves (continued)

In addition, in the Company s loss reserve models for transactions secured by HELOCs, the Company considers borrower draw and prepayment rates and factors that could reduce the excess spread generated by current loans which offset losses and reduce payments. For HELOCs, the current three-month average draw rate is generally used to project future draws on the line. For HELOCs and transactions secured by fixed-rate CES, the three-month average conditional prepayment rate is generally used to start the projection for trends in voluntary principal prepayments. Projected cash flows are also based on an assumed constant basis spread between floating rate assets and floating rate insured debt obligations (the difference between Prime and London Interbank Offered Rate (LIBOR) interest rates, minus any applicable fees). For all transactions, cash flow models consider allocations and other structural aspects of the transactions, including managed amortization periods, rapid amortization periods and claims against MBIA Corp. s insurance policy consistent with such policy s terms and conditions. In developing multiple loss scenarios, stress is applied by elongating the Current Roll to Loss rate for various periods, simulating a slower improvement in the transaction performance. The estimated net claims from the procedure above are then discounted using a risk-free rate to a net present value reflecting MBIA s general obligation to pay claims over time and not on an accelerated basis. The above assumptions represent MBIA s best estimates of how transactions will perform over time.

The Company monitors portfolio performance on a monthly basis against projected performance, reviewing delinquencies, Roll Rates, and prepayment rates (including voluntary and involuntary). However, given the large percentage of mortgage loans that were not underwritten by the sellers/servicers in accordance with applicable underwriting guidelines, performance remains difficult to predict and losses may exceed expectations. In the event of a material deviation in actual performance from projected performance, the Company would increase or decrease the case basis reserves accordingly. If actual performance were to remain at the peak levels the Company is modeling for six months longer than in the probability-weighted outcome, the addition to the case basis reserves before considering potential recoveries would be approximately $120 million.

Second-lien RMBS Recoveries

As of December 31, 2011, the Company recorded estimated recoveries of $3.1 billion, gross of income taxes, related to second-lien RMBS put-back claims on ineligible loans, consisting of $2.0 billion included in Insurance loss recoverable and $1.1 billion included in Loan repurchase commitments presented under the heading Assets of consolidated variable interest entities on the Company s consolidated balance sheets. As of December 31, 2011 and 2010, the Company s estimated recoveries after income taxes calculated at the federal statutory rate of 35%, were $2.0 billion and $1.6 billion, respectively, which was 119% and 58% of the consolidated total shareholders equity of MBIA, excluding preferred stock of subsidiaries and noncontrolling interests. The percentage increase of recoveries relative to shareholders equity was principally driven by losses on insured derivatives as a result of MBIA s nonperformance risk on the derivative liabilities and an increase in recorded estimated recoveries related to put-back claims of ineligible loans. These estimated recoveries relate to the Company s put-back claims of ineligible loans, which have been disputed by the loan sellers/servicers and are currently subject to litigation initiated by the Company to pursue recovery. While the Company believes that it will prevail in enforcing its contractual rights, there is uncertainty with respect to the ultimate outcome. Furthermore, there is a risk that sellers/servicers or other responsible parties might not be able to satisfy their put-back obligations.

Beginning in 2008, the Company utilized loan level forensic review consultants to re-underwrite/review mortgage loan files underlying certain first and second-lien RMBS transactions insured by MBIA. The consultants graded the individual mortgages that were sampled into an industry standard three level grading scale, defined as (i) Level 1 loans complied with specific underwriting guidelines, (ii) Level 2 loans contained some deviation from underwriting guidelines but also contained sufficient compensating factors and (iii) Level 3 loans contained material deviation from the underwriting guidelines without any compensating factors. MBIA s forensic review consultants utilized the same underwriting guidelines that the originators were to have used to qualify borrowers when originally underwriting the loans and determined that more than 80% of the loans reviewed were considered to be ineligible mortgage loans. The Company has developed estimates of breach rates primarily based upon loans with credit breaches or credit and compliance breaches because the Company believes that loans with these types of breaches are not judgmental and cannot be cured. Breach rates were determined by dividing the number of loans that contained credit and/or credit and compliance breaches by the total number of loans reviewed for a particular transaction.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 6: Loss and Loss Adjustment Expense Reserves (continued)

Recent legal decisions have led the Company to conclude that the practice of reviewing individual loans for the purpose of assessing put-back recoveries is no longer necessary. The Company determined in the context of the favorable decision on its motion *in limine* addressing the use of sampling to establish breach-of-contract claims in the Countrywide litigation (MBIA Insurance Corp. v. Countrywide Home Loans, Inc., et al, Index No. 602825/08 (N.Y. Sup. Ct.)) that a sufficient number of loans in each securitization have already been reviewed to demonstrate widespread breaches of the contractual provisions of the agreements with the sponsors. Furthermore, MBIA has received subsequent opinions which have confirmed that the Company is not limited to a loan-by-loan put-back remedy and can seek a pool-wide remedy based on sampling and extrapolation, as well as decisions in MBIA s favor related to causation and rescissory damages.

The above-referenced developments have led the Company to utilize probability-weighted scenarios primarily based on the percentage of incurred losses the Company would collect as opposed to recoveries based primarily on loan file reviews. The Company s recovery estimates incorporate five scenarios that include full recovery of its incurred losses and limited/reduced recoveries due to litigation delays and risks and/or potential financial distress of the sellers/servicers. Probabilities were assigned across these scenarios, with most of the probability weight on partial recovery scenarios. However, based on the Company s assessment of the strength of its contract claims, the Company believes it is entitled to collect the full amount of its incurred losses on these transactions, which totaled $4.6 billion through December 31, 2011.

The Company has not recognized potential recoveries related to sellers/servicers that MBIA has determined did not have sufficient capital and resources to honor their obligations. The Company assesses the financial abilities of the sellers/servicers using external credit ratings and other factors. The impact of such factors on cash flows related to expected recoveries is incorporated into the Company s probability-weighted scenarios. The indicative scenarios and related probabilities assigned to each scenario based on the Company s judgment about their relative likelihoods of being realized are used to develop a distribution of possible outcomes. The sum of the probabilities assigned to all scenarios is 100%. Expected cash inflows from recoveries are discounted using the current risk-free rate associated with the underlying transaction, which ranged from 0.92% to 1.92%, depending upon the transaction s expected average life.

The Company s potential recoveries are typically based on either salvage rights, the rights conferred to MBIA through the transactional documents (inclusive of the insurance agreement), or subrogation rights embedded within financial guarantee insurance policies. The second-lien RMBS transactions with respect to which MBIA has estimated put-back recoveries provide the Company with such rights. Expected salvage and subrogation recoveries, as well as recoveries from other remediation efforts, reduce the Company s claim liability. Once a claim payment has been made, the claim liability has been satisfied and MBIA s right to recovery is no longer considered an offset to future expected claim payments, but is recorded as a salvage asset. The amount of recoveries recorded by the Company is limited to paid claims plus the present value of projected future claim payments. As claim payments are made, the recorded amount of potential recoveries may exceed the remaining amount of the claim liability for a given policy.

To date, sellers/servicers have not substituted loans which MBIA has put-back, and the amount of loans repurchased has been insignificant. The unsatisfactory resolution of these put-backs led MBIA to initiate litigation against five of the sellers/servicers to enforce their obligations. The Company has alleged several causes of action in its complaints, including breach of contract, fraudulent inducement and indemnification. MBIA s aggregate $3.1 billion of estimated potential recoveries do not include damages from causes of action other than breach of contract. Irrespective of amounts recorded in its financial statements, MBIA is seeking to recover the full amount of its incurred losses and other damages on these transactions. MBIA has not collected any material amounts of cash related to these recoveries. Additional information on the status of these litigations can be found in the Recovery Litigation discussion within Note 23: Commitments and Contingencies.

MBIA has received five decisions with regard to the respective defendants motions to dismiss the Company s claims. In each instance, the respective court denied the motion, allowing MBIA to proceed on, at minimum, its fraud and breach-of-contract claims. In December 2011, MBIA reached an agreement with one of the five sellers/servicers with whom it had initiated litigation and that litigation has been dismissed.

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Notes to Consolidated Financial Statements

Note 6: Loss and Loss Adjustment Expense Reserves (continued)

The Company s assessment of the recovery outlook for insured second-lien RMBS issues is principally based on the following factors:

1. the strength of the Company s existing contract claims related to ineligible loan substitution/repurchase obligations;

2. the settlement for $1.1 billion of Assured Guaranty s put-back related claims with Bank of America in April 2011;

3. the improvement in the financial strength of the sellers/servicers due to mergers and acquisitions and/or government assistance, which should facilitate their ability to comply with required loan repurchase/substitution obligations. The Company is not aware of any provisions that explicitly preclude or limit the successors obligations to honor the obligations of the original sponsor. The Company s assessment of any credit risk associated with these sponsors (or their successors) is reflected in the Company s probability-weighted potential recovery scenarios;

4. evidence of loan repurchase/substitution compliance by sellers/servicers for put-back requests made by other harmed parties with respect to ineligible loans; this factor is further enhanced by (i) Bank of America s disclosure that it has resolved $8.0 billion of repurchase requests in the fourth quarter of 2010; (ii) the Fannie Mae settlements with Ally Bank announced on December 23, 2010 and with Bank of America (which also involved Freddie Mac) announced on December 31, 2010, and (iii) the Company s settlement agreements entered into on July 16, 2010 and December 13, 2011 respectively, between MBIA Corp. and sponsors of certain MBIA Corp.-insured mortgage loan securitizations in which the Company received consideration in exchange for a release relating to its representation and warranty claims against the sponsor. These settlements resolved all of MBIA s representation and warranty claims against the sponsors on mutually beneficial terms and in aggregate were slightly more than the recoveries previously recorded by the Company related to these exposures;

5. the favorable outcome for MBIA on defendants motions to dismiss in the litigations discussed above, where the respective courts allowed MBIA s contract and fraud claims against the defendants to proceed;

6. the favorable outcome in the Countrywide litigation on MBIA s motion to present evidence of liability and damages through the introduction of statistically valid random samples of loans rather than on a loan-by-loan basis;

7. the favorable outcome in the Countrywide litigation denying Bank of America s motion to dismiss MBIA s claims for successor liability;

8. the favorable outcome in the Countrywide litigation on MBIA s motion regarding causation and MBIA s right to rescissory damages;

9. the unanimous ruling from the New York Supreme Court Appellate Division, First Department, in the Countrywide litigation allowing MBIA to pursue its fraud claims; and

10. loan repurchase reserves and/or settlements which have been publicly disclosed by certain sellers/servicers to cover such obligations.

The Company continues to consider all relevant facts and circumstances, including the factors described above, in developing its assumptions on expected cash inflows, probability of potential recoveries (including the outcome of litigation) and recovery period. The estimated amount and likelihood of potential recoveries are expected to be revised and supplemented as developments in the pending litigation proceedings occur or new litigation is initiated. While the Company believes it will be successful in realizing recoveries from contractual and other claims, the ultimate amounts recovered may be materially different from those recorded by the Company given the inherent uncertainty of the manner of resolving the claims (e.g., litigation) and the assumptions used in the required estimation process for accounting purposes which are based, in part, on judgments and other information that are not easily corroborated by historical data or other relevant benchmarks.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 6: Loss and Loss Adjustment Expense Reserves (continued)

All of the Company s policies insuring second-lien RMBS for which litigation has been initiated against sellers/servicers are in the form of financial guarantee insurance contracts. The Company has not recorded a gain contingency with respect to pending litigation.

ABS CDOs (Financial Guarantees and Insured Derivatives)

MBIA s insured ABS CDOs are transactions that include a variety of collateral ranging from corporate bonds to structured finance assets (which includes but are not limited to RMBS related collateral, CDOs of ABS, corporate CDOs and collateralized loan obligations). These transactions were insured as either financial guarantee insurance policies or credit derivatives with the majority insured in the form of credit derivatives. Since the fourth quarter of 2007, MBIA s insured par exposure within the ABS CDO portfolio has been substantially reduced through a combination of terminations and commutations. Accordingly, as of December 31, 2011, the insured par exposure of the ABS CDO financial guarantee insurance policies and credit derivatives portfolio has declined by approximately 83% of the insured amount as of December 31, 2007.

The Company s ABS CDOs originally benefited from two sources of credit enhancement. First, the subordination in the underlying securities collateralizing the transaction must be fully eroded and second, the subordination below the insured tranche in the CDO transaction must be fully eroded before the insured tranche is subject to a claim. The Company s payment obligations after a default vary by transaction and by insurance type.

The primary factor in estimating reserves on insured ABS CDO policies written as financial guarantees and in estimating impairments on insured ABS CDO credit derivatives is the losses associated with the underlying collateral in the transactions. MBIA s approach to establishing reserves or impairments in this portfolio employs a methodology which is similar to other structured finance asset classes insured by MBIA. The Company uses a total of five probability-weighted scenarios (which range from commutation based scenarios to a lengthened RMBS liquidation scenario) in order to estimate its reserves or impairments for ABS CDOs.

As of December 31, 2011, the Company had loss and LAE reserves totaling $171 million related to ABS CDO financial guarantee insurance policies. For the year ended December 31, 2011, the Company incurred $32 million of losses and LAE related to ABS CDO financial guarantee insurance policies after the elimination of $44 million as a result of consolidating VIEs. In addition, as of December 31, 2011, the Company estimated insured ABS CDO credit derivative impairments and LAE reserves, net of reinsurance and recoveries, totaling $444 million. For the year ended December 31, 2011, estimated impairments and LAE related to insured ABS CDO credit derivatives were a benefit of $551 million, which was primarily due to commutations of credit derivative exposures at less than previously estimated impairments. In the event of further deteriorating performance of the collateral referenced or held in ABS CDO transactions, the amount of losses estimated by the Company could increase materially.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 6: Loss and Loss Adjustment Expense Reserves (continued)

Credit Impairments Related to Structured CMBS Pools and CRE CDOs, Accounted for as Derivatives

Most of the structured CMBS pools and CRE CDOs insured by MBIA are accounted for as insured credit derivatives and are carried at fair value in the Company s consolidated financial statements. The following discussion provides information about the Company s process for estimating credit impairments on these contracts using its statutory loss reserve methodology, determined as the present value of the probability-weighted potential future losses, net of estimated recoveries, across multiple scenarios as described below, plus actual payments and collections. For the year ended December 31, 2011, additional credit impairments and LAE on structured CMBS pools and CRE CDO portfolios was estimated to be $1.6 billion as a result of additional delinquencies and loan level liquidations, as well as continued refinements of MBIA s assessment of various commutation possibilities. The cumulative credit impairments and LAE on structured CMBS pools and CRE CDO portfolios were estimated to be $2.8 billion through December 31, 2011. Although the pace of increases in the delinquency rate has slowed and many loans are being modified, liquidations have taken place. Some loans were liquidated with minimal losses of 1% to 2%, others experienced near complete losses, and in some cases severities exceeded 100%. These liquidations have led to losses in the CMBS market, and in many cases, have resulted in reductions of enhancement to the individual CMBS bonds referenced by the insured structured CMBS pools. In certain insured transactions, these losses have resulted in deductible erosion. Bond level enhancement and pool level deductibles are structural features intended to mitigate losses to the Company. However, some of the transactions reference similar rated subordinate tranches of CMBS bonds. When there are broad-based declines in property performance, this leverage can result in rapid deterioration in pool performance.

In the CRE CDO portfolio, transaction specific structures require managers to report reduced enhancement according to certain guidelines which often include downgrades even when the bond is still performing. As a result, as well as additional collateral defaults, reported enhancement has been reduced significantly in some CRE CDOs. Moreover, many of the CRE CDO positions are amortizing more quickly than originally expected as most or all interest that would have been allocated to more junior classes within the CDO have been diverted and redirected to pay down the senior most classes insured by MBIA.

The Company has developed multiple scenarios to consider the range of potential outcomes in the CRE market and their impact on MBIA. The approaches require substantial judgments about the future performance of the underlying loans, and include the following:

The first approach considers the range of commutation agreements achieved in 2010 and 2011, which included 54 structured CMBS pools, CRE CDO and CRE loan pool policies totaling $28.7 billion of gross insured exposure. The Company considers the range of commutations achieved over the past several years with multiple counterparties. This approach results in an estimated price to commute the remaining policies with price estimates, based on this experience. It is customized by counterparty and is dependent on the level of dialogue with the counterparty and the credit quality and payment profile of the underlying exposure.

The second approach considers current delinquency rates and uses current and projected net operating income (NOI) and capitalization rates (Cap Rates) to project losses under three scenarios. In the first scenario, NOI and Cap Rates remain flat with no improvement over the remaining life of the loans (often four to five more years). In the second and third scenarios, loans are stratified by size with larger loans being valued utilizing lower Cap Rates than for smaller loans. These scenarios also assume that Cap Rates and NOIs remain flat for the near term and then begin to improve gradually. Additionally, in these scenarios, any loan with a balance greater than $75 million with a debt service coverage ratio less than 1.0x or that was reported as being in any stage of delinquency, was reviewed individually so that performance and loss severity could be more accurately determined. Specific loan level assumptions for this large loan subset were then incorporated into this scenario, as well as certain smaller loans when there appeared to be a material change in the asset s financial or delinquency performance over the preceding six months. The second and third scenarios project different levels of additional defaults with respect to loans that are current. This approach relies heavily on year-end financial statements at the property level. In modeling these scenarios, the Company has received financial statements for

year-end 2010 for 82% of the properties in the pools. The Company expects to start receiving financial statements for year-end 2011 in the first and second quarters of 2012.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 6: Loss and Loss Adjustment Expense Reserves (continued)

The third approach stratifies loans into debt service coverage buckets and projects defaults by using probabilities implied by a third-party default study for each bucket and relies on year-end financial statements at the property level. The implied defaults are converted into losses using a loss severity assumption. As the Company continues to see more current market performance statistics regarding modifications and liquidations in this cycle, the Company will continue to de-emphasize this more actuarial-based approach and focus more on those scenarios which best reflect current market observations.

The fourth approach stratifies loans into buckets based on delinquency status (including a current bucket) and utilizes recent Roll Rates actually experienced within each of the commercial mortgage-backed index (CMBX) series in order to formulate an assumption to predict future delinquencies. Ultimately, this generates losses over a projected time horizon based on the assumption that loss severities will begin to decline from the high levels seen in 2010 and 2011. The Company further examines those loans referenced in the CMBX indices which were categorized as 90+ days delinquent or in the process of foreclosure and determined the monthly ratio of such loans which were cured versus those which were liquidated or still delinquent over the past 32 months. The Company then applies the most recent rolling six-month average of this cure ratio to all loans in the 90+ day delinquent bucket or in the foreclosure process (and those projected to roll into late stage delinquency from the current and lesser stage levels of delinquency) and assumes all other loans are liquidated. The Company assumes all loans in the REO category liquidate over the next twelve months.

The loss severities projected by these scenarios vary widely, from moderate to substantial losses. Actual losses will be a function of the proportion of loans in the pools that are foreclosed and liquidated and the loss severities associated with those liquidations. If the deductibles in the Company s insured transactions and underlying referenced CMBS transactions are fully eroded, additional property level losses upon foreclosures and liquidations could result in substantial losses for MBIA. Since foreclosures and liquidations have only begun to take place during this economic cycle, particularly for larger properties, ultimate loss rates remain uncertain. Whether CMBS collateral is included in a structured pool or in a CRE CDO, the Company believes the modeling related to the underlying bond should be the same. The Company assigns a wide range of probabilities to these scenarios, with lower severity scenarios being weighted more heavily than higher severity scenarios. This reflects the view that liquidations will continue to be mitigated by loan extensions and modifications, and that property values and NOIs have bottomed for many sectors and markets in the U.S. The weightings are customized to each counterparty. If macroeconomic stress were to increase or the U.S. goes into a recession, higher delinquencies, liquidations and/or higher severities of loss upon liquidation may result and the Company may incur substantial additional losses. Relatively little liquidation has taken place to date, so the range of possible outcomes is wider than those for the Company s exposures to ABS CDOs and second-lien RMBS.

Loss and LAE Activity

Financial Guarantee Insurance Losses (Non-Derivative)

The Company s financial guarantee insurance losses and LAE for the year ended December 31, 2011 are presented in the following table:

Losses and LAE

	Year Ended December 31, 2011		
In millions	**Second-lien RMBS**	**Other**	**Total**
Losses and LAE related to actual and expected payments	$ 163	$ 67	$ 230
Recoveries of actual and expected payments	(380)	72	(308)
Gross losses incurred	(217)	139	(78)

Reinsurance	0	(2)	(2)
Losses and LAE	$ (217)	$ 137	$ (80)

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 6: Loss and Loss Adjustment Expense Reserves (continued)

The second-lien RMBS losses and LAE related to actual and expected payments included in the preceding table comprise net increases of previously established reserves. The second-lien RMBS recoveries of actual and expected payments comprise $448 million in recoveries resulting from ineligible mortgage loans included in insured exposures that are subject to contractual obligations by sellers/servicers to repurchase or replace such mortgages, offset by a $68 million reduction in excess spread. Other losses and LAE were primarily driven by first-lien RMBS mortgage and ABS CDO transactions as a result of continued credit deterioration within those sectors. Additionally, the reversal of loss and LAE reserves related to lower expected future claim payments from an insured tax-backed transaction were offset by the reversal of the corresponding recoveries of such payments.

Current period changes in the Company s estimate of potential recoveries may impact the amount recorded as an insurance loss recoverable asset, the amount of expected recoveries on unpaid losses netted against the gross loss and LAE reserve liability, or both. Total paid losses and LAE, net of reinsurance and collections, for the year ended December 31, 2011 was $729 million, including $507 million related to insured second-lien RMBS transactions. For the year ended December 31, 2011, the increase in insurance loss recoverable related to paid losses totaled $507 million, and primarily related to insured second-lien RMBS transactions.

The following table provides information about the financial guarantees and related claim liability included in each of MBIA s surveillance categories as of December 31, 2011:

	Surveillance Categories				
$ in millions	**Caution List Low**	**Caution List Medium**	**Caution List High**	**Classified List**	**Total**
Number of policies	54	28	14	200	296
Number of issues[1]	32	18	11	130	191
Remaining weighted average contract period (in years)	8.2	5.6	6.0	9.6	8.8
Gross insured contractual payments outstanding[2]:					
Principal	$ 4,310	$ 1,213	$ 561	$ 10,420	$ 16,504
Interest	2,653	351	144	5,836	8,984
Total	$ 6,963	$ 1,564	$ 705	$ 16,256	$ 25,488
Gross claim liability	$	$	$	$ 1,812	$ 1,812
Less:					
Gross potential recoveries				3,813	3,813
Discount, net				177	177
Net claim liability (recoverable)	$	$	$	$ (2,178)	$ (2,178)
Unearned premium revenue	$ 155	$ 16	$ 3	$ 134	$ 308

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

(2) Represents contractual principal and interest payments due by the issuer of the obligations insured by MBIA.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 6: Loss and Loss Adjustment Expense Reserves (continued)

The following table provides information about the financial guarantees and related claim liability included in each of MBIA s surveillance categories as of December 31, 2010:

	Surveillance Categories				
$ in millions	**Caution List Low**	**Caution List Medium**	**Caution List High**	**Classified List**	**Total**
Number of policies	199	43	12	179	433
Number of issues[1]	40	26	12	110	188
Remaining weighted average contract period (in years)	9.4	6.9	9.1	9.4	9.2
Gross insured contractual payments outstanding[2]:					
Principal	$ 5,041	$ 1,419	$ 1,446	$ 11,190	$ 19,096
Interest	3,439	536	746	6,132	10,853
Total	$ 8,480	$ 1,955	$ 2,192	$ 17,322	$ 29,949
Gross claim liability	$	$	$	$ 2,692	$ 2,692
Less:					
Gross potential recoveries				4,045	4,045
Discount, net				27	27
Net claim liability (recoverable)	$	$	$	$ (1,380)	$ (1,380)
Unearned premium revenue	$ 148	$ 16	$ 72	$ 141	$ 377

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

(2) Represents contractual principal and interest payments due by the issuer of the obligations insured by MBIA.

The gross claim liability as of December 31, 2011 and 2010 in the preceding tables represents the Company s estimate of undiscounted probability-weighted future claim payments, which principally relate to insured first and second-lien RMBS transactions and U.S. public finance transactions. The gross potential recoveries represent the Company s estimate of undiscounted probability-weighted recoveries of actual claim payments and recoveries of estimated future claim payments, and principally relate to insured second-lien RMBS transactions. Both amounts reflect the elimination of claim liabilities and potential recoveries related to VIEs consolidated by the Company.

The following table presents the components of the Company s loss and LAE reserves and insurance loss recoverable for insured obligations within MBIA s classified list as reported on the Company s consolidated balance sheets as of December 31, 2011 and 2010. The loss reserves (claim liability) and insurance claim loss recoverable included in the following table represent the present value of the probability-weighted future claim payments and recoveries reported in the preceding tables.

In millions	As of December 31, 2011	2010
Loss reserves (claim liability)	$ 781	$ 1,059
LAE reserves	55	70
Loss and LAE reserves	$ 836	$ 1,129
Insurance claim loss recoverable	$ (3,032)	$ (2,531)
LAE insurance loss recoverable	(14)	
Insurance loss recoverable	$ (3,046)	$ (2,531)
Reinsurance recoverable on unpaid losses	$ 15	$ 14
Reinsurance recoverable on LAE reserves	0	1
Reinsurance recoverable on paid losses	1	0
Reinsurance recoverable on paid and unpaid losses	$ 16	$ 15

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 6: Loss and Loss Adjustment Expense Reserves (continued)

As of December 31, 2011, loss and LAE reserves include $1.4 billion of reserves for expected future payments offset by expected recoveries of such future payments of $562 million. As of December 31, 2010, loss and LAE reserves included $2.0 billion of reserves for expected future payments offset by expected recoveries of such future payments of $896 million. As of December 31, 2011 and 2010, the insurance loss recoverable primarily related to estimated recoveries of payments made by the Company resulting from ineligible mortgage loans in certain insured second-lien residential mortgage loan securitizations that are subject to a contractual obligation by the sellers/servicers to repurchase or replace the ineligible mortgage loans and expected future recoveries on second-lien RMBS transactions resulting from expected excess spread generated by performing loans in such transactions. The Company expects to be reimbursed for the majority of its potential recoveries related to ineligible mortgage loans by the second quarter of 2013.

The following table presents the Company s second-lien RMBS exposure, gross undiscounted claim liability and potential recoveries, before the elimination of amounts related to consolidated VIEs, as of December 31, 2011. All loan files reviewed with potential recoveries are included within the Classified List.

Second-lien RMBS Exposure		**Outstanding**		**Gross Undiscounted**	
$ in billions	**Issues**	**Gross Principal**	**Gross Interest**	**Claim Liability**	**Potential Recoveries**
Insured issues designated as Classified List	34	$ 7.5	$ 2.8	$ 0.6	$ 4.6
Loan files reviewed with potential recoveries	26	$ 7.1	$ 2.7	$ 0.6	$ 4.5

The Company has performed loan file reviews on 29 of the 34 issues and recorded potential recoveries on 26 of those 29 issues, primarily related to four issuers (Countrywide, RFC, GMAC and Credit Suisse). The gross potential recoveries include estimated recoveries based on the Company s incurred loss to date. In addition, the Company has received consideration on two transactions which have been excluded from the loan files reviewed with potential recoveries in the preceding table.

The following tables present changes in the Company s loss and LAE reserves for the years ended December 31, 2011 and 2010. Changes in the loss and LAE reserves attributable to the accretion of the claim liability discount, changes in discount rates, changes in the timing and amounts of estimated payments and recoveries, changes in assumptions and changes in LAE reserves are recorded in Losses and loss adjustment expenses in the Company s consolidated statements of operations. As of December 31, 2011 and 2010, the weighted average risk-free rate used to discount the Company s loss reserves (claim liability) was 1.53% and 2.73%, respectively. LAE reserves are expected to be settled within a one year period and are not discounted.

In millions	**Changes in Loss and LAE Reserves for the Year Ended December 31, 2011**								
Gross Loss and LAE Reserves as of December 31, 2010	**Loss Payments for Cases with Reserves**	**Accretion of Claim Liability Discount**	**Changes in Discount Rates**	**Changes in Timing of Payments**	**Changes in Amount of Net Payments**	**Changes in Assumptions**	**Changes in Unearned Premium Revenue**	**Change in LAE Reserves**	**Gross Loss and LAE Reserves as of December 31, 2011**
$ 1,129	$ (523)	$ 14	$ (20)	$ 38	$	$ 193	$ 20	$ (15)	$ 836

The decrease in the Company s gross loss and LAE reserves reflected in the preceding table was primarily due to a decrease in reserves related to loss payments. Offsetting these decreases were changes in assumptions due to additional defaults and charge-offs of ineligible mortgage loans on insured second-lien RMBS issues outstanding as of December 31, 2010 and changes in the timing of payments.

In millions	Changes in Loss and LAE Reserves for the Year Ended December 31, 2010									
Gross Loss and LAE Reserves as of December 31, 2009	Accounting Transition Adjustment[1]	Loss Payments for Cases with Reserves	Accretion of Claim Liability Discount	Changes in Discount Rates	Changes in Timing of Payments	Changes in Amount of Net Payments	Changes in Assumptions	Changes in Unearned Premium Revenue	Change in LAE Reserves	Gross Loss and LAE Reserves as of December 31, 2010
$ 1,580	$ (364)	$ (1,046)	$ 8	$ 28	$ 39	$ (3)	$ 914	$ (28)	$ 1	$ 1,129

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

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 6: Loss and Loss Adjustment Expense Reserves (continued)

The decrease in gross loss and LAE reserves reflected in the preceding table was primarily due to a decrease in reserves related to payment activity and an accounting transition adjustment related to the adoption of the amended accounting principles for the consolidation of VIEs. Partially offsetting the decrease were changes in assumptions due to additional defaults and charge-offs of ineligible mortgage loans in insured second-lien RMBS issues outstanding as of December 31, 2009.

The following table presents changes in the Company s insurance loss recoverable and changes in recoveries on unpaid losses reported within the Company s claim liability for the year ended December 31, 2011. Changes in insurance loss recoverable attributable to the accretion of the discount on the recoverable, changes in discount rates, changes in the timing and amounts of estimated collections, changes in assumptions and changes in LAE recoveries are recorded in Losses and loss adjustment expenses in the Company s consolidated statements of operations.

Changes in Insurance Loss Recoverable and Recoveries on Unpaid Losses for the Year Ended December 31, 2011

In millions	Gross Reserve as of December 31, 2010	Collections for Cases with Recoveries	Accretion of Recoveries	Changes in Discount Rates	Changes in Timing of Collections	Changes in Amount of Collections	Changes in Assumptions	Change in LAE Recoveries	Gross Reserve as of December 31, 2011
Insurance Loss Recoverable	$ 2,531	$ (101)	$ 57	$ 49	$	$ (227)	$ 723	$ 14	$ 3,046
Recoveries on Unpaid Losses	896		16	68			(416)	(2)	562
Total	$ 3,427	$ (101)	$ 73	$ 117	$	$ (227)	$ 307	$ 12	$ 3,608

The Company s insurance loss recoverable increased during 2011 primarily due to changes in assumptions associated with estimates of potential recoveries on issues outstanding as of December 31, 2010, and relate to ineligible mortgage loans included in insured second-lien residential mortgage securitization exposures that are subject to contractual obligations by sellers/servicers to repurchase or replace such mortgages, partially offset by changes in the amount of collections. Recoveries on unpaid losses decreased primarily due to changes in assumptions as a result of reduced expectations of future claim payments on U.S. public finance transactions, which resulted in a corresponding reduction in future expected recoveries. In addition, a reduction of excess spread related to first and second-lien RMBS transactions reported in recoveries on unpaid losses was offset by an increase in excess spread on paid losses reported in insurance loss recoverable.

The following table presents changes in the Company s insurance loss recoverable and changes in recoveries on unpaid losses reported within the Company s claim liability for the year ended December 31, 2010. Changes in insurance loss recoverable attributable to the accretion of the discount on the recoverable, changes in discount rates, changes in the timing and amounts of estimated collections, changes in assumptions and changes in LAE recoveries are recorded in Losses and loss adjustment expenses in the Company s consolidated statements of operations.

Changes in Insurance Loss Recoverable and Recoveries on Unpaid Losses for the Year Ended December 31, 2010

In millions	Gross Reserve as of December 31,	Accounting Transition Adjustment[1]	Collections for Cases	Accretion of Recoveries	Changes in Discount	Changes in Timing of	Changes in Amount of	Changes in Assumptions	Change in LAE Recoveries	Gross Reserve as of December 31, 2010

	2009		with Recoveries		Rates	Collections	Collections			
Insurance Loss Recoverable	$ 2,445	$ (594)	$ (81)	$ 36	$ (10)	$ 33	$ (56)	$ 790	$ (32)	$ 2,531
Recoveries on Unpaid Losses	831	(215)		15	(1)		(8)	259	15	896
Total	$ 3,276	$ (809)	$ (81)	$ 51	$ (11)	$ 33	$ (64)	$ 1,049	$ (17)	$ 3,427

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

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 6: Loss and Loss Adjustment Expense Reserves (continued)

The Company s insurance loss recoverable increased during 2010 primarily due to changes in assumptions associated with estimates of potential recoveries on issues outstanding as of December 31, 2009 resulting from ineligible mortgages included in insured second-lien residential mortgage securitization exposures that are subject to contractual obligations by sellers/servicers to repurchase or replace such mortgages, offset by a decrease due to the adoption of the amended accounting principles for the consolidation of VIEs and collection activity. Recoveries on unpaid losses increased primarily due to changes in assumptions offset by a decrease due to the adoption of the amended accounting principles for the consolidation of VIEs.

The following table presents the Company s total estimated recoveries from ineligible mortgage loans included in certain insured second-lien mortgage loan securitizations as of December 31, 2011. The total estimated recoveries from ineligible loans of $3.1 billion include $2.0 billion recorded as Insurance loss recoverable and $1.1 billion recorded as Loan repurchase commitments presented under the heading Assets of consolidated variable interest entities on the Company s consolidated balance sheets.

In millions

Total Estimated Recoveries from Ineligible Loans as of December 31, 2010	Accretion of Future Collections	Changes in Discount Rates	Recoveries (Collections)	Changes in Amount of Collections	Changes in Assumptions	Total Estimated Recoveries from Ineligible Loans as of December 31, 2011
$ 2,517	$ 65	$ 35	$ (86)	$ 29	$ 559	$ 3,119

The following table presents the Company s total estimated recoveries from ineligible mortgage loans included in certain insured second-lien mortgage loan securitizations as of December 31, 2010. The total estimated recoveries from ineligible loans of $2.5 billion as of December 31, 2010 include $1.7 billion recorded as Insurance loss recoverable and $835 million recorded as Loan repurchase commitments presented under the heading Assets of consolidated variable interest entities on the Company s consolidated balance sheets.

In millions

Total Estimated Recoveries from Ineligible Loans as of December 31, 2009	Accretion of Future Collections	Changes in Discount Rates	Recoveries (Collections)	Changes in Assumptions	Total Estimated Recoveries from Ineligible Loans as of December 31, 2010
$ 1,575	$ 51	$ 21	$ (67)	$ 937	$ 2,517

The Company s total estimated recoveries from ineligible loans in the preceding tables increased primarily as a result of the probability-weighted scenarios as described within the preceding Second-lien RMBS Recoveries section.

Remediation actions may involve, among other things, waivers or renegotiations of financial covenants or triggers, waivers of contractual provisions, the granting of consents, transfer of servicing, consideration of restructuring plans, acceleration, security or collateral enforcement, actions in bankruptcy or receivership, litigation and similar actions. The types of remedial actions pursued are based on the insured obligation s risk type and the nature and scope of the event giving rise to the remediation. As part of any such remedial actions, MBIA seeks to improve its security position and to obtain concessions from the issuer of the insured obligation. From time to time, the issuer of an MBIA-insured

obligation may, with the consent of MBIA, restructure the insured obligation by extending the term, increasing or decreasing the par amount or decreasing the related interest rate, with MBIA insuring the restructured obligation.

Costs associated with remediating insured obligations assigned to the Company s Caution List Low, Caution List Medium, Caution List High a Classified List are recorded as LAE. LAE is primarily recorded as part of the Company s provision for its loss reserves and included in Losses and loss adjustment expense on the Company s consolidated statements of operations. The following table presents the expenses (gross and net of reinsurance) related to remedial actions for insured obligations:

	Years ended December 31,		
In millions	**2011**	**2010**	**2009**
Loss adjustment expense incurred, gross	$ 120	$ 91	$ 270
Loss adjustment expense incurred, net	$ 120	$ 86	$ 259

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Notes to Consolidated Financial Statements

Note 7: Fair Value of Financial Instruments

Financial Instruments

The following table presents the carrying value and fair value of financial instruments reported on the Company s consolidated balance sheets as of December 31, 2011 and 2010:

	As of December 31,			
	2011		2010	
In millions	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Assets:				
Investments held as available-for-sale and held at fair value	$ 8,586	$ 8,586	$ 11,739	$ 11,739
Other investments	107	107	188	188
Cash and cash equivalents	473	473	366	366
Receivable for investments sold	32	32	8	8
Non-insured derivatives	2	2	4	4
Assets of consolidated VIEs:				
Cash	160	160	764	764
Investments held-to-maturity	3,843	3,489	4,039	3,760
Fixed-maturity securities held as available-for-sale	432	432	339	339
Fixed-maturity securities held as trading	2,884	2,884	5,241	5,241
Loans receivable	2,046	2,046	2,183	2,183
Loan repurchase commitments	1,077	1,077	835	835
Derivative assets	450	450	699	699
Liabilities:				
Investment agreements	1,578	1,853	2,005	2,172
Medium-term notes	1,656	1,187	1,740	766
Securities sold under agreements to repurchase	287	286	471	454
Short-term debt			65	65
Long-term debt	1,840	1,117	1,851	1,155
Payable for investments purchased	3	3	2	2
Derivative liabilities:				
Insured derivatives	4,808	4,808	4,375	4,375
Non-insured derivatives	356	356	242	242
Total derivative liabilities	5,164	5,164	4,617	4,617
Warrants	38	38	58	58
Liabilities of consolidated VIEs:				
Variable interest entity notes	8,697	8,051	10,590	10,285
Long-term debt	360	368	360	340
Derivative liabilities	825	825	2,104	2,104
Financial Guarantees:				
Gross	1,305	1,451	2,743	2,225
Ceded	104	94	112	48

Valuation Techniques

Valuation techniques for financial instruments measured at fair value and included in the preceding table are described below. The Company s assets and liabilities measured at fair value have been categorized according to the fair value hierarchy based on the lowest level input that is significant to the fair value measurement in its entirety.

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Notes to Consolidated Financial Statements

Note 7: Fair Value of Financial Instruments (continued)

Fixed-Maturity Securities (including short-term investments) Held as Available-For-Sale and Fixed-Maturity Securities Held at Fair Value

U.S. Treasury and government agency U.S. Treasury securities are valued based on quoted market prices in active markets. The fair value of U.S. Treasuries is based on live trading feeds. U.S. Treasury securities are categorized in Level 1 of the fair value hierarchy. Government agency securities include debentures and other agency mortgage pass-through certificates as well as to-be-announced (TBA) securities. TBA securities are liquid and have quoted market prices based on live data feeds. Fair value of mortgage pass-through certificates is obtained via a simulation model, which considers different rate scenarios and historical activity to calculate a spread to the comparable TBA security. Government agency securities generally use market-based and observable inputs. As such, these securities are classified as Level 2 of the fair value hierarchy.

Foreign governments Foreign government obligations are generally valued based on quoted market prices in active markets, and are categorized in Level 1 of the fair value hierarchy. When quoted market prices are not available, fair value is determined using a valuation model based on observable inputs including interest rate yield curves, cross-currency basis index spreads, and country credit spreads for structures similar to the financial instrument in terms of issuer, maturity and seniority. These financial instruments are generally categorized in Level 2 of the fair value hierarchy. Bonds that contain significant inputs that are not observable are categorized as Level 3.

Corporate obligations Corporate obligations are valued using recently executed transaction prices or quoted market prices where observable. When observable price quotations are not available, fair value is determined using a valuation model based on observable inputs including interest rate yield curves, CDS spreads for similar instruments, and diversity scores. Corporate obligations are generally categorized in Level 2 of the fair value hierarchy or categorized in Level 3 when significant inputs are unobservable. Corporate obligations are classified as Level 1 of the fair value hierarchy when quoted market prices in an active market for identical financial instruments are available.

Mortgage-backed securities and asset-backed securities MBS and ABS are valued using recently executed transaction prices. When position-specific quoted prices are not available, MBS and ABS are valued based on quoted prices for similar securities. If quoted prices are not available, MBS and ABS are valued using a valuation model based on observable inputs including interest rate yield curves, spreads, prepayments and volatilities, and categorized in Level 2 of the fair value hierarchy. MBS and ABS are categorized in Level 3 of the fair value hierarchy when significant inputs are unobservable.

State and municipal bonds State and municipal bonds are valued using recently executed transaction prices, quoted prices or valuation models based on observable inputs including interest rate yield curves, bond or CDS spreads, and volatility. State and municipal bonds are generally categorized in Level 2 of the fair value hierarchy, or categorized in Level 3 when significant inputs are unobservable.

Investments Held-To-Maturity

The fair values of investments held-to-maturity are determined using recently executed transaction prices or quoted prices when available. When position-specific quoted prices are not available, fair values of investments held-to-maturity are based on quoted prices of similar securities. When quoted prices for similar investments are not available, fair values are based on valuation models using observable inputs including interest rate yield curves, and bond spreads of similar securities.

Other Investments

Other investments include the Company s interest in equity securities. Fair values of other investments are determined by using quoted prices, or valuation models that use market-based and observable inputs. Other investments are categorized in Level 1, Level 2, or Level 3 of the fair value hierarchy.

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Notes to Consolidated Financial Statements

Note 7: Fair Value of Financial Instruments (continued)

Cash and Cash Equivalents, Receivable for Investments Sold and Payable for Investments Purchased

The carrying amounts of cash and cash equivalents, receivable for investments sold and payable for the settlement of derivatives and investments purchased approximates fair values due to the short maturities of these instruments.

Loans Receivable at Fair Value

Loans receivable at fair value comprise loans held by consolidated VIEs consisting of residential mortgage loans, commercial mortgage loans and other whole business loans. Fair values of residential mortgage loans are determined using quoted prices for MBS with similar characteristics and adjusted for the fair values of the financial guarantee obligations provided by MBIA Corp. on the related MBS. Fair values of commercial mortgage loans and other whole business loans are valued based on quoted prices of similar collateralized MBS. Loans receivable at fair value are categorized in Level 3 of the fair value hierarchy.

Loan Repurchase Commitments

Loan repurchase commitments are obligations owed by the sellers/servicers of mortgage loans to either MBIA as reimbursement of paid claims or to the RMBS trusts as defined in the transaction documents. Loan repurchase commitments are consolidated under the amended accounting principles for the consolidation of VIEs. This asset represents the rights of MBIA against the sellers/servicers for representations and warranties that the securitized residential mortgage loans sold to the trust comply with stated underwriting guidelines and for the sellers/servicers to cure, replace, or repurchase mortgage loans that fail to comply. Fair value measurements of loan repurchase commitments represent the amounts owed by the sellers/servicers to either MBIA as reimbursement of paid claims or to the RMBS trusts as defined in the transaction documents. Loan repurchase commitments are not securities and no quoted prices or comparable market transaction information are observable or available. Loan repurchase commitments at fair value are categorized in Level 3 of the fair value hierarchy. Fair values of loan repurchase commitments are determined using discounted cash flow techniques based on observable inputs including:

- estimates of future cash flows for the asset;
- expectations about possible variations in the amount and/or timing of the cash flows representing the uncertainty inherent in the cash flows;
- time value of money, represented by the rate on risk-free monetary assets;
- the price for bearing the uncertainty inherent in the cash flows (risk premium); and
- other case-specific factors that would be considered by market participants.

Refer to the discussion of Second-lien RMBS Recoveries within Note 6: Loss and Loss Adjustment Expense Reserves for a further description of how these estimates of future cash flows for the assets are determined, as well as the additional risk margins and discounts applied.

Investment Agreements

The fair values of investment agreements are determined using discounted cash flow techniques based on observable interest rates currently being offered for similar agreements with comparable maturity dates. Investment agreements contain collateralization and termination agreements that substantially mitigate the nonperformance risk of the Company.

Medium-Term Notes

The fair values of MTNs are determined using discounted cash flow techniques based on inputs including observable interest rates currently being offered for similar notes with comparable maturity dates, and nonperformance risk. Nonperformance risk is determined using the Company s own credit spreads.

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Notes to Consolidated Financial Statements

Note 7: Fair Value of Financial Instruments (continued)

The Company has elected to record three MTNs at fair value. Fair values of such notes are determined using quoted market prices or discounted cash flow techniques. Significant inputs into the valuation include yield curves and spreads to the swap curve. As these notes are not actively traded, certain significant inputs (e.g., spreads to the swap curve) are unobservable. MTNs are categorized as Level 3 of the fair value hierarchy.

Variable Interest Entity Notes

The fair values of VIE notes are determined based on recently executed transaction prices or quoted prices where observable. When position-specific quoted prices are not observable, fair values are based on quoted prices of similar securities. Fair values based on quoted prices of similar securities may be adjusted for factors unique to the securities, including any credit enhancement. When observable quoted prices are not available, fair value is determined based on discounted cash flow techniques of the underlying collateral using observable inputs including interest rate yield curves and bond spreads of similar securities. VIE notes are categorized in Level 2 or Level 3 of the fair value hierarchy based on the lowest level input that is significant to the fair value measurement in its entirety.

Securities Sold Under Agreements to Repurchase

The fair values of securities sold under agreements to repurchase are determined using discounted cash flow techniques based on observable inputs including interest rates on similar repurchase agreements. Securities sold under agreements to repurchase include term reverse repurchase agreements that contain credit enhancement provisions including over-collateralization agreements to sufficiently mitigate the nonperformance risk of the Company.

Long-term Debt

Long-term debt consists of notes, debentures, surplus notes and floating rate liquidity loans. The fair value of long-term notes, debentures and surplus notes are estimated based on quoted prices for the identical or similar securities. The fair value for floating rate liquidity loans are determined using discounted cash flow techniques of the underlying collateral pledged to the specific loans, as these loans are non-recourse and fully backed by a pool of underlying assets.

Derivatives Asset/Liability Products

The asset/liability products business has entered into derivative transactions primarily consisting of interest rate swaps, cross currency swaps, and CDS contracts. Fair values of OTC derivatives are determined using valuation models based on observable inputs, nonperformance risk of the Company s own credit and nonperformance risk of the counterparties. Observable and market-based inputs include interest rate yields, credit spreads and volatilities. These derivatives are categorized in Level 2 or Level 3 of the fair value hierarchy based on the lowest level input that is significant to the fair value measurement in its entirety.

The Company has policies and procedures in place regarding counterparties, including review and approval of the counterparty and the Company s exposure limit, collateral posting requirements, collateral monitoring and margin calls on collateral. The Company manages counterparty credit risk on an individual counterparty basis through master netting arrangements covering derivative transactions in the asset/liability products and corporate segments. These agreements allow the Company to contractually net amounts due from a counterparty with those amounts due to such counterparty when certain triggering events occur. The Company only executes swaps under master netting agreements, which typically contain mutual credit downgrade provisions that generally provide the ability to require assignment or termination in the event either the Company or the counterparty is downgraded below a specified credit rating. The netting agreements minimize the potential for losses related to credit exposure and thus serve to mitigate the Company s nonperformance risk under these derivatives.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 7: Fair Value of Financial Instruments (continued)

In certain cases, the Company also manages credit risk through collateral agreements that give the Company the right to hold or the obligation to provide collateral when the current market value of derivative contracts exceeds an exposure threshold. Under these arrangements, the Company may receive or provide U.S. Treasury and other highly rated securities or cash to secure the derivative. The delivery of high-quality collateral can minimize credit exposure and mitigate the potential for nonperformance risk impacting the fair values of the derivatives.

Derivatives Insurance

The derivative contracts insured by MBIA cannot be legally traded and generally do not have observable market prices. MBIA Corp. determines the fair values of insured credit derivatives using valuation models. These models include the Binomial Expansion Technique (BET) Model and an internally developed model referred to as the Direct Price Model. For a limited number of other insured credit derivatives, fair values are determined using a dual-default model. The valuation of insured derivatives includes the impact of its own credit standing. All of these derivatives are categorized as Level 3 of the fair value hierarchy as their fair value is derived using significant unobservable inputs.

Description of MBIA s Insured Derivatives

As of December 31, 2011, the Company had $74.2 billion of gross par outstanding on insured derivatives. The majority of MBIA s insured derivatives are credit derivatives that reference structured pools of cash securities and CDS. The Company generally insured the most senior liabilities of such transactions and, at transaction closing, the Company s exposure generally had more subordination than needed to achieve triple-A ratings from credit rating agencies (referred to as Super Triple-A exposure). The collateral underlying the Company s insured derivatives consists of cash securities and CDS referencing primarily corporate, asset-backed, residential mortgage-backed, commercial mortgage-backed, CRE loans, and CDO securities. As of December 31, 2011, the gross par outstanding of the Company s insured credit derivatives totaled $67.1 billion. The remaining $7.1 billion of gross par outstanding on insured derivatives as of December 31, 2011 primarily related to insured interest rate and inflation-linked swaps for which the Company has insured counterparty credit risk.

Most of MBIA s insured CDS contracts require MBIA to make payments for losses of the principal outstanding under the contracts when losses on the underlying referenced collateral exceed a predetermined deductible. MBIA s gross par outstanding and maximum payment obligation under these contracts as of December 31, 2011 was $50.2 billion. The underlying referenced collateral for contracts executed in this manner largely consists of investment grade corporate debt, structured CMBS pools and, to a lesser extent, corporate and multi-sector CDOs. MBIA s 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, 2011, gross par outstanding on MBIA Corp.-insured CDOs of high-grade U.S. ABS totaled $3.8 billion. The majority of the collateral contained within the Company s ABS multi-sector CDOs comprised RMBS. MBIA also had $16.9 billion of gross par outstanding on insured CDS contracts that require MBIA to make timely interest and ultimate principal payments.

Considerations Regarding an Observable Market for MBIA s Insured Derivatives

Insured derivatives are not transferable, and quoted prices or market transactions are generally not available for identical or similar contracts. While market prices are generally available for traded securities and market standard CDS contracts, MBIA s insured derivatives are unique which make comparisons to market standard CDS contracts unreliable. Market standard CDS contracts are instruments that reference securities, such as corporate bonds, in which quoted prices are observable for the underlying reference obligation. Market standard CDS contracts also include provisions requiring collateral posting, and cash settlement upon default of the underlying reference obligation.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 7: Fair Value of Financial Instruments (continued)

MBIA s insured CDS contracts are designed to replicate the Company s financial guarantee insurance policies, and do not contain typical CDS market standard features for collateral posting or cash settlement upon default of the underlying reference obligation. The Company s insured CDS contracts provide credit protection on collateralized securities or reference portfolios of securities, and benefit from credit enhancement, including a stated deductible or subordination. The Company is not required to post collateral in any circumstance. MBIA payments under an insured derivative contract are due after an aggregate amount of losses are incurred on the underlying reference obligations in excess of the deductible or subordination amounts. Once such losses exceed the deductible or subordination amounts, MBIA is generally obligated to pay the losses, net of recoveries, on any subsequent defaults on the reference obligations. Certain insured CDS contracts also provide for further deferrals of payment at the option of MBIA. In the event of a failure to pay an amount due under the insured CDS by MBIA Corp. or the insolvency of MBIA Corp., the counterparty may terminate the insured CDS and make a claim for the amount due, which would be based on the fair value of the insured CDS at such time. An additional difference between the Company s insured derivatives and typical market standard CDS contracts is that the Company s contract, like its financial guarantee contracts, generally cannot be accelerated by the counterparty in the ordinary course of business but only upon the occurrence of certain events including the failure to pay an amount due under the CDS or the insolvency of the financial guarantee insurer of the CDS, MBIA Insurance Corporation or MBIA UK Insurance Ltd (MBIA UK). Similar to the Company s financial guarantee insurance contracts, all insured CDS policies are unconditional and irrevocable obligations of the Company and are not transferable unless the transferees are also licensed to write financial guarantee insurance policies. Since insured CDS contracts are accounted for as derivatives under relevant accounting guidance for derivative instruments and hedging activities, MBIA Corp. did not defer the charges associated with underwriting the CDS policies and they were expensed at origination.

Occasionally, insured CDS contracts are terminated by agreement between MBIA and the counterparty. When these contracts are terminated, any settlement amounts paid are evaluated and considered as a data point in pricing other similar insured derivative contracts whenever possible.

Valuation Models Used

Approximately 76% of the balance sheet fair value of insured credit derivatives as of December 31, 2011 was valued using the BET Model. Approximately 24% of the balance sheet fair value of insured credit derivatives as of December 31, 2011 was valued using the internally developed Direct Price Model. An immaterial amount of insured credit derivatives were valued using other methods, including a dual-default model.

A. Description of the BET Model

1. Valuation Model Overview

The BET Model was originally developed by Moody s to estimate the loss distribution on a diverse pool of assets. The Company has modified this technique in an effort to incorporate more market information and provide more flexibility in handling pools of non- homogeneous assets. The modifications are (a) the Company uses market credit spreads to determine default probability instead of using historical loss experience, and (b) for collateral pools where the spread distribution is characterized by extremes, the Company models each segment of the pool individually instead of using an overall pool average.

The BET Model estimates what a bond insurer would charge to guarantee a transaction at the measurement date, based on the market-implied default risk of the underlying collateral and the remaining structural protection in a deductible or subordination. This approach assumes that bond insurers would be willing to accept these contracts from the Company at a price equal to what the Company could issue them for in the current market. While the premium charged by financial guarantors is not a direct input into the Company s model, the model estimates such premium, and this premium increases as the probability of loss increases, driven by various factors including rising credit spreads, negative credit migration, lower recovery rates, lower diversity score and erosion of deductible or subordination.

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Notes to Consolidated Financial Statements

Note 7: Fair Value of Financial Instruments (continued)

Inputs to the process of determining fair value for structured transactions using the BET Model include estimates of collateral loss, allocation of loss to separate tranches of the capital structure, and calculation of the change in value.

Estimates of aggregated collateral losses are calculated by reference to the following (described in further detail under BET Model Inputs below):

credit spreads of underlying collateral based on actual spreads or spreads on similar collateral with similar ratings, or in some cases is benchmarked; for collateral pools where the spread distribution is characterized by extremes, each segment of the pool is modeled separately instead of using an overall pool average;

diversity score of the collateral pool as an indication of correlation of collateral defaults; and

recovery rate for all defaulted collateral.

Allocation of losses to separate tranches of the capital structure according to priority of payments in a transaction.

The unrealized gain or loss on a transaction inception to date is the difference between the original price of the risk (the original market-implied expected loss) and the current price of the risk based on the assumed market-implied expected losses derived from the model.

Additional structural assumptions of the BET Model are:

Default probabilities are determined by three factors: credit spread, recovery rate after default, and the time period under risk.

Frequencies of defaults are modeled evenly over time.

Collateral assets are generally considered on an average basis rather than being modeled on an individual basis.

Collateral asset correlation is modeled using a diversity score which is calculated based on industry or sector concentrations. Recovery rates are based on historical averages and updated based on market evidence.

2. Model Strengths and Weaknesses

The primary strengths of the BET Model:

- The model takes account of transaction structure and key drivers of fair value. Transaction structure includes par insured, weighted average life, level of deductible or subordination (if any), and composition of collateral.

- The model is a consistent approach to marking positions that minimizes the level of subjectivity. The Company has also developed a hierarchy for usage of various market-based spread inputs that reduces the level of subjectivity, especially during periods of high illiquidity.

- The model uses market-based inputs including credit spreads for underlying reference collateral, recovery rates specific to the type and credit rating of reference collateral, diversity score of the entire collateral pool, and MBIA s CDS and derivative recovery rate level.

The primary weaknesses of the BET Model:

- As of December 31, 2011, some of the model inputs were either unobservable or derived from illiquid markets which might adversely impact the model s reliability.

- The BET Model requires an input for collateral spreads. However, some securities are quoted only in price terms. For securities that trade substantially below par, the calculation of spreads from price to spread can be subjective.

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Notes to Consolidated Financial Statements

Note 7: Fair Value of Financial Instruments (continued)

Results may be affected by using average spreads and a single diversity factor, rather than using specific spreads for each piece of underlying collateral and collateral-specific correlations.

3. BET Model Inputs

a. Credit spreads

The average spread of collateral is a key input as the Company assumes credit spreads reflect the market s assessment of default probability for each piece of collateral. Spreads are obtained from market data sources published by third parties (e.g., dealer spread tables for assets most closely resembling collateral within the Company s transactions) as well as collateral-specific spreads on the underlying reference obligations provided by trustees or market sources. Also, when these sources are not available, the Company benchmarks spreads for collateral against market spreads or prices. This data is reviewed on an ongoing basis for reasonableness and applicability to the Company s derivative portfolio. The Company also calculates spreads based on quoted prices and on internal assumptions about expected life, when pricing information is available and spread information is not.

The actual calculation of pool average spread varies depending on whether the Company is able to use collateral-specific credit spreads or generic spreads as an input.

If collateral-specific spreads are available, the spread for each individual piece of collateral is identified and a weighted average is calculated by weighting each spread by the corresponding par exposure.

If collateral-specific credit spreads are not available, the Company uses generic spread tables based on asset class and average rating of the collateral pool. Average credit rating for the collateral is calculated from the weighted average rating factor (WARF) for the collateral portfolio and then mapped to an appropriate spread. WARF is based on a 10,000 point scale designed by Moody s where lower numbers indicate better credit quality. Ratings are not spaced equally on this scale because the marginal difference in default probability at higher rating quality is much less than at lower rating levels. The Company obtains WARF from the most recent trustee s report or the Company calculates it based on the collateral credit ratings. For a WARF calculation, the Company identifies the credit ratings of all collateral (using, in order of preference as available, Moody s, S&P or Fitch ratings), then converts those credit ratings into a rating factor on the WARF scale, averages those factors (weighted by par) to create a portfolio WARF, and then maps the portfolio WARF back into an average credit rating for the pool. The Company then applies this pool rating to a market spread table or index appropriate for the collateral type to determine the generic spread for the pool which becomes the market-implied default input into the BET Model.

If there is a high dispersion of ratings within a collateral pool, the collateral is segmented into different rating groups and each group is used in calculating the overall average.

When spreads are not available on either a collateral-specific basis or ratings-based generic basis, MBIA uses its hierarchy of spread sources (discussed below) to identify the most appropriate spread for that asset class to be used in the model.

The Company uses the spread hierarchy listed below in determining which source of spread information to use, with the rule being to use CDS spreads where available and cash security spreads as the next alternative. Cash security spreads reflect trading activity in funded fixed-income instruments while CDS spreads reflect trading levels for non-funded derivative instruments. While both markets are driven partly by an

assessment of the credit quality of the referenced security, there are factors which create significant differences. These factors include CDS spreads driven by speculative activity as the CDS market facilitates both long and short positions without ownership of the underlying security, allowing for significant leverage.

Spread Hierarchy:

Collateral-specific credit spreads when observable.

Sector-specific spread tables by asset class and rating.

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Notes to Consolidated Financial Statements

Note 7: Fair Value of Financial Instruments (continued)

Corporate spreads, including Bloomberg and Risk Metrics spread tables based on rating.

Benchmark from most relevant market source when corporate spreads are not directly relevant.

If current market-based spreads are not available, the Company applies either sector-specific spreads from spread tables provided by dealers or corporate spread tables. The sector-specific spread applied depends on the nature of the underlying collateral. Transactions with corporate collateral use the corporate spread table. Transactions with asset-backed collateral use one or more of the dealer asset-backed tables. If there are no observable market spreads for the specific collateral, and sector-specific and corporate spread tables are not appropriate to estimate the spread for a specific type of collateral, the Company uses the fourth alternative in its hierarchy. This includes using tranched corporate collateral, where the Company applies corporate spreads as an input with an adjustment for its tranched exposure.

As of December 31, 2011, sector-specific spreads were used in 7% of the transactions valued using the BET Model. Corporate spreads were used in 51% of the transactions and spreads benchmarked from the most relevant spread source were used for 42% of the transactions. When determining the percentages above, there were some transactions where MBIA incorporated multiple levels within the hierarchy, including using actual collateral-specific credit spreads in combination with a calculated spread based on an assumed relationship. In those cases, MBIA classified the transaction as being benchmarked from the most relevant spread source even though the majority of the average spread was from actual collateral-specific spreads. The spread source can also be identified by whether or not it is based on collateral WARF. No collateral-specific spreads are based on WARF, sector-specific and corporate spreads are based on WARF, and some benchmarked spreads are based on WARF. WARF-sourced and/or ratings-sourced credit spreads were used for 80% of the transactions.

Over time, the data inputs change as new sources become available, existing sources are discontinued or are no longer considered to be reliable or the most appropriate. It is always the Company s objective to move to higher levels on the spread hierarchy table defined above. However, the Company may on occasion move to lower priority inputs due to the discontinuation of data sources or due to the Company considering higher priority inputs no longer representative of market spreads.

b. Diversity Scores

Diversity scores are a means of estimating the diversification in a portfolio. The diversity score estimates the number of uncorrelated assets that are assumed to have the same loss distribution as the actual portfolio of correlated assets. A lower diversity score represents higher assumed correlation, increasing the chances of a large number of defaults, and thereby increasing the risk of loss in the senior tranche. A lower diversity score will generally have a negative impact on the valuation for the Company s senior tranche. The calculation methodology for a diversity score includes the extent to which a portfolio is diversified by industry or asset class, which is either calculated internally or reported by the trustee on a regular basis. Diversity scores are calculated at transaction origination, and adjusted as the collateral pool changes over time. MBIA s internal modeling of the diversity score is based on Moody s methodology.

c. Recovery Rate

The recovery rate represents the percentage of par expected to be recovered after an asset defaults, indicating the severity of a potential loss. MBIA generally uses rating agency recovery assumptions which may be adjusted to account for differences between the characteristics and performance of the collateral used by the rating agencies and the actual collateral in MBIA-insured transactions. The Company may also adjust rating agency assumptions based on the performance of the collateral manager and on empirical market data.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 7: Fair Value of Financial Instruments (continued)

d. Input Adjustments for Insured CMBS Derivatives in the Current Market

Approximately $22.9 billion gross par of MBIA s insured derivative transactions as of December 31, 2011 includes substantial amounts of CMBS and commercial mortgage collateral. Since the CMBX is now quoted in price terms and the BET Model requires a spread input, it is necessary to convert CMBX prices to spreads. Through the third quarter of 2010, the Company assumed that a portion of the CMBX price reflected market illiquidity. The Company assumed this illiquidity component was the difference between par and the price of the highest priced CMBX triple-A series. The Company assumed that the price of each CMBX index has two components: an illiquidity component and a loss component. The market implied losses were assumed to be the difference of par less the liquidity adjusted price. These loss estimates were converted to spreads using an internal estimate of duration. Beginning in the fourth quarter of 2010, the Company determined that it would not be appropriate to continue to use a CMBS illiquidity component in the models due to increased liquidity in the marketplace.

e. Nonperformance Risk

The Company s valuation methodology for insured credit derivative liabilities incorporates the Company s own nonperformance risk. The Company calculates the fair value by discounting the market value loss estimated through the BET Model at discount rates which include MBIA CDS spreads as of December 31, 2011. The CDS spreads assigned to each deal are based on the weighted average life of the deal. The Company limits the nonperformance impact so that the derivative liability could not be lower than the Company s recovery derivative price multiplied by the unadjusted derivative liability.

B. Description of Direct Price Model

1. Valuation Model Overview

The Direct Price Model was developed internally to address weaknesses in the Company s BET Model specific to valuing insured multi-sector CDOs, as previously discussed. There are three significant model inputs used in determining fair value using the Direct Price Model. Significant inputs include market prices obtained or estimated for all collateral within a transaction, the present value of the market-implied potential losses calculated for the transaction, and the impact of nonperformance risk.

2. Model Strengths and Weaknesses

The primary strengths of the Direct Price Model are:

- The model takes account of transaction structure and key drivers of market value. The transaction structure includes par insured, legal final maturity, level of deductible or subordination (if any) and composition of collateral.

- The model is a consistent approach to marking positions that minimizes the level of subjectivity. Model structure, inputs and operation are well documented by MBIA s internal controls, creating a strong controls process in execution of the model.

- The model uses market inputs for each transaction with the most relevant being market prices for collateral, MBIA s CDS and derivative recovery rate level and interest rates. Most of the market inputs are observable.

The primary weaknesses of the Direct Price Model are:

There is no market in which to test and verify the fair values generated by the Company s model.

The model does not take into account potential future volatility of collateral prices. When the market value of collateral is substantially lower than insured par and there is no or little subordination left in a transaction, which is the case for most of the transactions marked with this model, the Company believes this assumption still allows a reasonable estimate of fair value.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 7: Fair Value of Financial Instruments (continued)

3. Model Inputs

Collateral prices

Fair value of collateral is based on quoted prices when available. When quoted prices are not available, a matrix pricing grid is used based on security type and rating to determine fair value of collateral which applies an average based on securities with the same rating and security type categories.

Interest rates

The present value of the market-implied potential losses was calculated assuming that MBIA deferred all principal losses to the legal final maturity. This was done through a cash flow model that calculated potential interest payments in each period and the potential principal loss at the legal final maturity. These cash flows were discounted using the LIBOR flat swap curve.

Nonperformance risk

The methodology for calculating MBIA s nonperformance risk is the same as used for the BET Model. Due to the current level of MBIA CDS spread rates and the long tenure of these transactions, the derivative recovery rate was used to estimate nonperformance risk for all transactions marked by this model.

Overall Model Results

As of December 31, 2011 and 2010, the Company s net insured derivative liability was $4.8 billion and $4.4 billion, respectively, and was primarily related to the fair values of insured credit derivatives, based on the results of the aforementioned pricing models. In the current environment, the most significant driver of changes in fair value is nonperformance risk. In aggregate, the nonperformance calculation resulted in a pre-tax net insured derivative liability that was $5.7 billion and $12.1 billion lower than the net liability that would have been estimated if the Company excluded nonperformance risk in its valuation as of December 31, 2011 and 2010, respectively. Nonperformance risk is a fair value concept and does not contradict the Company s internal view, based on fundamental credit analysis of the Company s economic condition, that the Company will be able to pay all claims when due.

The Company reviews the 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 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 are considered, as well as negotiated settlements of existing transactions. MBIA Corp. negotiated settlements of insured CDS transactions in 2010 and 2011. In assessing the reasonableness of the fair value estimate for insured CDS, the Company considered the executed prices for those transactions as well as a review of internal consistency with MBIA s methodology.

Warrants

Stock warrants issued by the Company are recorded at fair value based on a modified Black-Scholes model. Inputs into the warrant valuation include interest rates, stock volatilities and dividend data. As all significant inputs are market-based and observable, warrants are categorized in

Level 2 of the fair value hierarchy.

Financial Guarantees

Gross Financial Guarantees The fair value of gross financial guarantees is determined using discounted cash flow techniques based on inputs that include (i) assumptions of expected losses on financial guarantee policies where loss reserves have not been recognized, (ii) amount of losses expected on financial guarantee policies where loss reserves have been established, net of expected recoveries (iii) the cost of capital reserves required to support the financial guarantee liability, (iv) operating expenses, and (v) discount rates. The MBIA Corp. CDS spread and recovery rate are used as the discount rate for MBIA Corp., while the Assured Guaranty Corp. CDS spread and recovery rate are used as the discount rate for National. Discount rates are adjusted to reflect nonperformance risk of the Company.

The carrying value of MBIA s gross financial guarantees consists of unearned premium revenue and loss and LAE reserves, net of the insurance loss recoverable as reported on MBIA s consolidated balance sheets.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 7: Fair Value of Financial Instruments (continued)

Ceded Financial Guarantees The fair value of ceded financial guarantees is determined by applying the percentage ceded to reinsurers to the related fair value of the gross financial guarantees. The carrying value of ceded financial guarantees consists of prepaid reinsurance premiums and reinsurance recoverable on paid and unpaid losses as reported on MBIA s consolidated balance sheets.

Fair Value Measurements

The following fair value hierarchy tables present information about the Company s assets (including short-term investments) and liabilities measured at fair value on a recurring basis as of December 31, 2011 and 2010:

	Fair Value Measurements at Reporting Date Using				
In millions	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Counterparty and Cash Collateral Netting**	**Balance as of December 31, 2011**
Assets:					
Investments:					
Fixed-maturity investments:					
Taxable bonds:					
U.S. Treasury and government agency	$ 1,038	$ 103	$	$	$ 1,141
Foreign governments	277	62	11		350
Corporate obligations	1	1,531	206		1,738
Mortgage-backed securities:					
Residential mortgage-backed agency		1,276	8		1,284
Residential mortgage-backed non-agency		350	17		367
Commercial mortgage-backed		34	24		58
Asset-backed securities:					
Collateralized debt obligations		78	60		138
Other asset-backed		130	318		448
State and municipal bonds		924			924
Total taxable bonds	1,316	4,488	644		6,448
Tax exempt bonds:					
State and municipal bonds		1,137	28		1,165
Other fixed-maturity investments		15			15
Total fixed-maturity investments	1,316	5,640	672		7,628
Money market securities	912				912
Perpetual preferred securities		106	1		107
Other	25		10		35
Total	2,253	5,746	683		8,682
Derivative assets:					
Non-insured derivative assets:					

Credit derivatives	1			1
Interest rate derivatives	91	3		94
Other			(93)	(93)
Total derivative assets	92	3	(93)	2

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 7: Fair Value of Financial Instruments (continued)

	Fair Value Measurements at Reporting Date Using				
In millions	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Counterparty and Cash Collateral Netting**	**Balance as of December 31, 2011**
Assets of consolidated VIEs:					
Corporate obligations		170	69		239
Mortgage-backed securities:					
Residential mortgage-backed agency		3			3
Residential mortgage-backed non-agency		1,437	21		1,458
Commercial mortgage-backed		559	22		581
Asset-backed securities:					
Collateralized debt obligations		330	203		533
Other asset-backed		236	67		303
Total fixed maturity securities at fair value		2,735	382		3,117
Money market securities	199				199
Loans receivable			2,046		2,046
Loan repurchase commitments			1,077		1,077
Derivative assets:					
Credit derivatives			447		447
Interest rate derivatives		3			3
Total assets	$ 2,452	$ 8,576	$ 4,638	$ (93)	$ 15,573
Liabilities:					
Medium-term notes	$	$	$ 165	$	$ 165
Derivative liabilities:					
Insured derivatives:					
Credit derivatives		18	4,790		4,808
Non-insured derivatives:					
Interest rate derivatives		445			445
Currency derivatives		4			4
Other				(93)	(93)
Other liabilities:					
Warrants		38			38
Liabilities of consolidated VIEs:					
Variable interest entity notes		1,865	2,889		4,754
Derivative liabilities:					
Credit derivatives			527		527
Interest rate derivatives		281			281
Currency derivatives			17		17

Total liabilities	$	$ 2,651	$ 8,388	$ (93)	$ 10,946

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 7: Fair Value of Financial Instruments (continued)

	Fair Value Measurements at Reporting Date Using				
In millions	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Counterparty and Cash Collateral Netting**	**Balance as of December 31, 2010**
Assets:					
Investments:					
Fixed-maturity investments:					
Taxable bonds:					
U.S. Treasury and government agency	$ 915	$ 149	$	$	$ 1,064
Foreign governments	409	49	11		469
Corporate obligations		2,602	246		2,848
Mortgage-backed securities:					
Residential mortgage-backed agency		1,548	41		1,589
Residential mortgage-backed non-agency		414	48		462
Commercial mortgage-backed		120	41		161
Asset-backed securities:					
Collateralized debt obligations		108	191		299
Other asset-backed		310	350		660
State and municipal bonds		738	14		752
Total taxable bonds	1,324	6,038	942		8,304
Tax exempt bonds:					
State and municipal bonds		2,787	36		2,823
Other fixed-maturity investments	13	19			32
Total fixed-maturity investments	1,337	8,844	978		11,159
Money market securities	553				553
Perpetual preferred securities		192			192
Other	16	5			21
Total	1,906	9,041	978		11,925
Derivative assets:					
Non-insured derivative assets:					
Credit derivatives		3			3
Interest rate derivatives		57	5		62
Other				(61)	(61)
Total derivative assets		60	5	(61)	4

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 7: Fair Value of Financial Instruments (continued)

	Fair Value Measurements at Reporting Date Using				
In millions	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Counterparty and Cash Collateral Netting**	**Balance as of December 31, 2010**
Assets of consolidated VIEs:					
U.S. Treasury and government agency	4				4
Corporate obligations	7	360	82		449
Mortgage-backed securities:					
Residential mortgage-backed agency		37			37
Residential mortgage-backed non-agency		2,706	40		2,746
Commercial mortgage-backed		907	23		930
Asset-backed securities:					
Collateralized debt obligations		583	245		828
Other asset-backed		352	81		433
State and municipal taxable and tax-exempt bonds		4			4
Total fixed maturity securities at fair value	11	4,949	471		5,431
Money market securities	150				150
Loans receivable			2,183		2,183
Loan repurchase commitments			835		835
Derivative assets:					
Credit derivatives			687		687
Interest rate derivatives		12			12
Total assets	$ 2,067	$ 14,062	$ 5,159	$ (61)	$ 21,227
Liabilities:					
Medium-term notes	$	$	$ 116	$	$ 116
Derivative liabilities:					
Insured derivatives:					
Credit derivatives		25	4,350		4,375
Non-insured derivatives:					
Interest rate derivatives		297			297
Currency derivatives		6			6
Other				(61)	(61)
Other liabilities:					
Warrants		58			58
Liabilities of consolidated VIEs:					
Variable interest entity notes		2,007	4,673		6,680
Derivative liabilities:					
Credit derivatives			1,455		1,455
Interest rate derivatives		635			635

Currency derivatives			14		14
Total liabilities	$	$ 3,028	$ 10,608	$ (61)	$ 13,575

Level 3 assets at fair value, as of December 31, 2011 and 2010 represented approximately 30% and 24% of total assets measured at fair value, respectively. Level 3 liabilities at fair value, as of December 31, 2011 and 2010, represented approximately 77% and 78% of total liabilities measured at fair value as of December 31, 2011 and 2010, respectively.

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Notes to Consolidated Financial Statements

Note 7: Fair Value of Financial Instruments (continued)

The following tables present information about changes in Level 3 assets (including short-term investments) and liabilities measured at fair value on a recurring basis for the years ended December 31, 2011 and 2010:

Changes in Level 3 Assets and Liabilities Measured at Fair Value on a Recurring Basis for the Year Ended December 31, 2011

In millions	Balance, Beginning of Year	Realized Gains / (Losses)	Unrealized Gains / (Losses) Included in Earnings	Unrealized Gains / (Losses) Included in OCI	Foreign Exchange Recognized in OCI or Earnings	Purchases	Issuances	Settlements	Sales	Transfers into Level 3[1]	Transfers out of Level 3[1]	Ending Balance	Change in Unrealized Gains (Losses) for the Period Included in Earnings for Assets still held as of December 31, 2011
Assets:													
Foreign governments	$ 11	$	$	$	$ (7)	$ 13	$	$ (5)	$ (1)	$ 7	$ (7)	$ 11	$
Corporate obligations	246	(4)		(8)	7	20		(127)	(62)	166	(32)	206	
Residential mortgage-backed agency	41			1		2		(1)	(2)	8	(41)	8	
Residential mortgage-backed non-agency	48	(2)		10	2	12		(22)	(18)	10	(23)	17	
Commercial mortgage-backed	41	(2)			1	9		(3)	(21)		(1)	24	
Collateralized debt obligations	191	(4)		25	2	6	3	(121)	4	50	(96)	60	
Other asset-backed	350			(30)		9		(22)	(2)	78	(65)	318	
State and municipal taxable bonds	14	1						(15)					
State and municipal tax-exempt bonds	36					2		(9)	(1)			28	
Perpetual preferred securities										1		1	
Other investments						10						10	
Assets of consolidated VIEs:													
Corporate obligations	82		(17)					(6)		17	(7)	69	(2)
Residential mortgage-backed	40		(3)	3				(6)	(6)	13	(20)	21	

non-agency																
Commercial mortgage-backed	23		9						(2)	(13)	7	(2)	22	3		
Collateralized debt obligations	245		(25)	(7)		60			(7)	(39)	71	(95)	203	5		
Other asset-backed	81		(10)						(2)	(19)	19	(2)	67	(4)		
Loans receivable	2,183		132			24			(291)	(2)			2,046	132		
Loan repurchase commitments	835		230				12						1,077	230		
Total assets	$ 4,467	$ (11)	$ 316	$ (6)	$ 5	$ 167	$ 15	$ (639)	$ (182)	$ 447	$ (391)	$ 4,188	$ 364			

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 7: Fair Value of Financial Instruments (continued)

In millions	Balance, Beginning of Year	Realized (Gains) / Losses	Unrealized (Gains) / Losses Included in Earnings	Unrealized (Gains) / Losses Included in OCI	Foreign Exchange Recognized in OCI or Earnings	Purchases	Issuances	Settlements	Sales	Transfers into Level 3[1]	Transfers out of Level 3[1]	Ending Balance	Change in Unrealized (Gains) Losses for the Period Included in Earnings for Liabilities still held as of December 31, 2011
Liabilities:													
Medium-term notes	$ 116	$	$ 78	$	$ (4)	$	$	$ (25)	$	$	$	$ 165	$ 78
Credit derivatives, net	4,350	2,477	440			(8)		(2,477)		8		4,790	2,702
Interest rate derivatives, net	(5)		1							1		(3)	12
Liabilities of consolidated VIEs:													
VIE notes	4,673		94					(554)	(1,324)			2,889	94
Credit derivatives, net	768		(11)						(677)			80	(80)
Currency derivatives, net	14		3									17	3
Total liabilities	$ 9,916	$ 2,477	$ 605	$	$ (4)	$ (8)	$	$ (3,056)	$ (2,001)	$ 9	$	$ 7,938	$ 2,809

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

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 7: Fair Value of Financial Instruments (continued)

Changes in Level 3 Assets and Liabilities Measured at Fair Value on a Recurring Basis for the Year Ended December 31, 2010

In millions	Balance, Beginning of Year	Realized Gains / (Losses)	Unrealized Gains / (Losses) Included in Earnings	Unrealized Gains / (Losses) Included in OCI	Foreign Exchange Recognized in OCI or Earnings	Purchases, Issuances and Settlements, net	Transfers into Level 3[1]	Transfers out of Level 3[1]	Ending Balance	Change in Unrealized Gains (Losses) for the Period Included in Earnings for Assets still held as of December 31, 2010
Assets:										
U.S. Treasury and government agency	$ 6	$	$	$	$	$ 21	$	$ (27)	$	$
Foreign governments	12				1	5		(7)	11	
Corporate obligations	358	(1)		54	(2)	(158)	81	(86)	246	
Residential mortgage-backed agency	48			3		(6)	41	(45)	41	
Residential mortgage-backed non-agency	64	(3)		38		(22)	53	(82)	48	
Commercial mortgage-backed	43			3	(1)	(4)	2	(2)	41	
Collateralized debt obligations	245	(14)		74		(100)	142	(156)	191	
Other asset-backed	379			22		(55)	32	(28)	350	
State and municipal taxable bonds						14			14	
State and municipal tax-exempt bonds	50			1		(15)			36	
Other fixed-maturity investments	19					(19)				
Assets of consolidated VIEs:										
Corporate obligations			6			83	3	(10)	82	(19)
Residential mortgage-backed non-agency	166	(1)	(2)	3		(122)	25	(29)	40	4
Commercial mortgage-backed	3		19			23	2	(24)	23	(1)
Collateralized debt obligations	42		(71)			272	9	(7)	245	8
Other asset-backed	193		97			(150)		(59)	81	3

Loans receivable			36		21	2,126			2,183	36
Loan repurchase commitments			120			715			835	120
Total assets	$ 1,628	$ (19)	$ 205	$ 198	$ 19	$ 2,608	$ 390	$ (562)	$ 4,467	$ 151

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 7: Fair Value of Financial Instruments (continued)

In millions	Balance, Beginning of Year	Realized Gains / (Losses)	Unrealized (Gains) / Losses Included in Earnings	Unrealized Gains / (Losses) Included in OCI	Foreign Exchange Recognized in OCI or Earnings	Purchases, Issuances and Settlements, net	Transfers into Level 3[1]	Transfers out of Level 3[1]	Ending Balance	Change in Unrealized (Gains) Losses for the Period Included in Earnings for Liabilities still held as of December 31, 2010
Liabilities:										
Medium-term notes	$ 110	$	$ 13	$	$ (7)	$	$	$	$ 116	$ 13
Credit derivatives, net	3,799	282	609			(340)			4,350	1,338
Interest rate derivatives, net	(6)	(8)	5		4				(5)	3
Currency derivatives, net	(3)		5		(2)					
Liabilities of consolidated VIEs:										
VIE notes			522		39	4,112			4,673	522
Credit derivatives, net			23			745			768	24
Currency derivatives, net						14			14	
Total liabilities	$ 3,900	$ 274	$ 1,177	$	$ 34	$ 4,531	$	$	$ 9,916	$ 1,900

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

Transfers into and out of Level 3 were $456 million and $391 million, respectively, for the year ended December 31, 2011. Transfers into and out of Level 2 were $391 million and $456 million, respectively, for the year ended December 31, 2011. These transfers were principally for available-for-sale securities where inputs, which are significant to their valuation, became observable or unobservable during the year. These inputs included spreads, prepayment speeds, default speeds, default severities, yield curves observable at commonly quoted intervals, and market corroborated inputs. Corporate obligations, CDOs and other asset-backed comprised the majority of the transferred instruments. There were no transfers into or out of Level 1. For the year ended December 31, 2011, the net unrealized losses related to the transfers into Level 3 was $2 million and the net unrealized gains related to the transfers out of Level 3 was $32 million.

Transfers into and out of Level 3 were $390 million and $562 million, respectively, for the year ended December 31, 2010. Transfers into and out of Level 2 were $562 million and $390 million, respectively, for the year ended December 31, 2010. These transfers were principally for available-for-sale securities where inputs, which are significant to their valuation, became observable or unobservable during the year. These inputs included spreads, prepayment speeds, default speeds, default severities, yield curves observable at commonly quoted intervals, and market corroborated inputs. CDOs, corporate obligations, RMBS non-agency and other asset-backed comprised the majority of the transferred

instruments. There were no transfers into or out of Level 1. For the year ended December 31, 2010, the net unrealized losses related to the transfers into Level 3 was $10 million and the net unrealized gains related to the transfers out of Level 3 was $120 million.

All Level 1, 2 and 3 designations are made at the end of each accounting period.

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Notes to Consolidated Financial Statements

Note 7: Fair Value of Financial Instruments (continued)

Gains and losses (realized and unrealized) included in earnings pertaining to Level 3 assets and liabilities for the years ended December 31, 2011, 2010 and 2009 are reported on the consolidated statements of operations as follows:

	Year Ended December 31, 2011				
				Consolidated VIEs	
In millions	Unrealized Gains (Losses) on Insured Derivatives	Net Realized Gains (Losses)	Net Gains (Losses) on Financial Instruments at Fair Value and Foreign Exchange	Net Realized Gains (Losses)	Net Gains (Losses) on Financial Instruments at Fair Value and Foreign Exchange
Total gains (losses) included in earnings	$ (440)	$ (2,488)	$ (75)	$	$ 230
Change in unrealized gains (losses) for the period included in earnings for assets and liabilities still held as of December 31, 2011	$ (2,702)	$	$ (86)	$	$ 347

	Year Ended December 31, 2010				
				Consolidated VIEs	
In millions	Unrealized Gains (Losses) on Insured Derivatives	Net Realized Gains (Losses)	Net Gains (Losses) on Financial Instruments at Fair Value and Foreign Exchange	Net Realized Gains (Losses)	Net Gains (Losses) on Financial Instruments at Fair Value and Foreign Exchange
Total gains (losses) included in earnings	$ (609)	$ (282)	$ (11)	$	$ (340)
Change in unrealized gains (losses) for the period included in earnings for assets and liabilities still held as of December 31, 2010	$ (1,338)	$	$ (3)	$	$ (395)

	Year Ended December 31, 2009
	Consol
	VI

llions	Unrealized Gains (Losses) on Insured Derivatives	Net Realized Gains (Losses)	Net Gains (Losses) on Financial Instruments at Fair Value and Foreign Exchange	Net Gain Fi Ins
gains (losses) included in earnings	$ 1,380	$ 146	$ (11)	$
ge in unrealized gains (losses) for the period included in earnings for assets and liabilities still held as of December 31, 2009	$ 1,140	$	$ (11)	$

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 7: Fair Value of Financial Instruments (continued)

Fair Value Option

The Company elected to record at fair value certain financial instruments of the VIEs that have been consolidated in connection with the adoption of the accounting guidance for consolidation of VIEs, among others.

The following table presents the changes in fair value included in the Company s consolidated statements of operations for the years ended December 31, 2011 and 2010 for all financial instruments for which the fair value option was elected:

	Net Gains (Losses) on Financial Instruments at Fair Value and Foreign Exchange	
In millions	**2011**	**2010**
Fixed-maturity securities held at fair value	$ (484)	$ 374
Loans receivable at fair value:		
Residential mortgage loans	(143)	295
Other loans	(19)	(26)
Loan repurchase commitments	242	336
Other assets		26
Long-term debt	594	(661)

The following table reflects the difference between the aggregate fair value and the aggregate remaining contractual principal balance outstanding as of December 31, 2011 and 2010 for loans and long-term debt for which the fair value option was elected.

	As of December 31,					
	2011			2010		
In millions	**Contractual Outstanding Principal**	**Fair Value**	**Difference**	**Contractual Outstanding Principal**	**Fair Value**	**Difference**
Loans receivable at fair value:						
Residential mortgage loans	$ 2,769	$ 1,895	$ 874	$ 3,334	$ 2,014	$ 1,320
Residential mortgage loans (90 days or more past due)	259		259	243		243
Other loans	129	43	86	412	124	288
Other loans (90 days or more past due)	324	108	216	149	45	104
Total loans receivable at fair value	$ 3,481	$ 2,046	$ 1,435	$ 4,138	$ 2,183	$ 1,955
Long-term debt	$ 13,583	$ 4,754	$ 8,829	$ 17,217	$ 6,680	$ 10,537

Substantially all gains and losses included in earnings during the years ended December 31, 2011 and 2010 on loans receivable and long-term debt reported in the preceding table are attributable to credit risk. This is primarily due to the high rate of defaults on loans and the collateral supporting the long-term debt, resulting in depressed pricing of the financial instruments.

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Notes to Consolidated Financial Statements

Note 8: Investments

The Company s fixed-maturity portfolio consists of high-quality (average rating Aa) taxable and tax-exempt investments of diversified maturities. Other investments primarily comprise equity investments, including those accounted for under the equity method, highly rated perpetual securities and loan receivables that bear interest. The following tables present the amortized cost, fair value and other-than-temporary impairments of fixed-maturity investments and other investments designated as available-for-sale in the consolidated investment portfolio of the Company as of December 31, 2011 and 2010:

	December 31, 2011				
In millions	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Other-Than-Temporary Impairments[1]
Fixed-maturity investments:					
Taxable bonds:					
U.S. Treasury and government agency	$ 1,091	$ 39	$	$ 1,130	$
Foreign governments	326	23		349	
Corporate obligations	1,698	43	(106)	1,635	(2)
Mortgage-backed securities:					
Residential mortgage-backed agency	1,198	47		1,245	
Residential mortgage-backed non-agency	325	31	(83)	273	(125)
Commercial mortgage-backed	58	1	(10)	49	
Asset-backed securities:					
Collateralized debt obligations	251		(118)	133	(69)
Other asset-backed	520	2	(82)	440	(37)
State and municipal bonds	903	35	(17)	921	
Total taxable bonds	6,370	221	(416)	6,175	(233)
Tax-exempt bonds:					
State and municipal bonds	1,122	41	(2)	1,161	
Total tax-exempt bonds	1,122	41	(2)	1,161	
Total fixed-maturity investments	7,492	262	(418)	7,336	(233)
Other investments:					
Perpetual preferred securities	127		(19)	108	
Other investments	22	1		23	
Money market securities	911			911	
Total other investments	1,060	1	(19)	1,042	
Assets of consolidated VIEs:					
Corporate obligations	2			2	
Mortgage-backed securities:					
Residential mortgage-backed non-agency	119		(26)	93	
Asset-backed securities:					
Collateralized debt obligations	112		(15)	97	
Other asset-backed	41			41	
Other investments:					
Money market securities	199			199	

Total available-for-sale investments	$ 9,025	$ 263	$ (478)	$ 8,810	$ (233)

(1) Represents the amount of other-than-temporary losses recognized in accumulated other comprehensive income (loss) since the adoption of the accounting guidance for other-than-temporary impairments.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 8: Investments (continued)

	December 31, 2010				
In millions	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**	**Other-Than-Temporary Impairments[1]**
Fixed-maturity investments:					
Taxable bonds:					
U.S. Treasury and government agency	$ 1,055	$ 12	$ (3)	$ 1,064	$
Foreign governments	451	19	(1)	469	
Corporate obligations	2,922	49	(127)	2,844	
Mortgage-backed securities:					
Residential mortgage-backed agency	1,537	39	(13)	1,563	
Residential mortgage-backed non-agency	627	36	(180)	483	(155)
Commercial mortgage-backed	199	24	(19)	204	
Asset-backed securities:					
Collateralized debt obligations	472	1	(180)	293	(86)
Other asset-backed	732	1	(112)	621	
State and municipal bonds	797	7	(52)	752	
Total taxable bonds	8,792	188	(687)	8,293	(241)
Tax-exempt bonds:					
State and municipal bonds	2,907	19	(104)	2,822	
Total tax-exempt bonds	2,907	19	(104)	2,822	
Total fixed-maturity investments	11,699	207	(791)	11,115	(241)
Other investments:					
Perpetual preferred securities	195	8	(12)	191	
Other investments	38	3		41	
Money market securities	552			552	
Total other investments	785	11	(12)	784	
Assets of consolidated VIEs:					
Asset-backed securities:					
Collateralized debt obligations	91		(1)	90	
Other asset-backed	98	2		100	
Other investments:					
Money market securities	149			149	
Total available-for-sale investments	$ 12,822	$ 220	$ (804)	$ 12,238	$ (241)

(1) Represents the amount of other-than-temporary losses recognized in accumulated other comprehensive income (loss) since the adoption of the accounting guidance for other-than-temporary impairments.

The fair value of securities on deposit with various regulatory authorities was $11 million as of December 31, 2011 and 2010, respectively. These deposits are required to comply with state insurance laws.

Substantially all of the obligations under investment agreements require the Company to pledge securities as collateral. As of December 31, 2011 and 2010, the fair value of securities pledged as collateral with respect to these investment agreements approximated $1.9 billion and $2.4 billion, respectively. The Company s collateral as of December 31, 2011, consisted principally of MBS, state and municipal bonds, and U.S. Treasury and government agency bonds, and was primarily held with major U.S. banks. Additionally, the Company pledged money market securities as collateral under investment agreements in the amount of $224 million and $113 million as of December 31, 2011 and 2010, respectively.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 8: Investments (continued)

The following table presents the distribution by contractual maturity of available-for-sale fixed-maturity investments at amortized cost and fair value as of December 31, 2011. Contractual maturity may differ from expected maturity as borrowers may have the right to call or prepay obligations.

			Consolidated VIEs	
In millions	**Amortized Cost**	**Fair Value**	**Amortized Cost**	**Fair Value**
Due in one year or less	$ 639	$ 640	$	$
Due after one year through five years	1,451	1,465	2	2
Due after five years through ten years	683	707		
Due after ten years through fifteen years	578	583		
Due after fifteen years	1,789	1,801		
Mortgage-backed	1,581	1,567	119	93
Asset-backed	771	573	153	138
Total fixed-maturity investments	$ 7,492	$ 7,336	$ 274	$ 233

Investments that are held-to-maturity are reported on the Company s consolidated balance sheets at amortized cost. These investments, which primarily relate to the Company s consolidated VIEs, principally consist of ABS and loans issued by major national and international corporations and other structured finance clients. As of December 31, 2011, unrecognized gross gains were $17 million and gross losses were $371 million. There were no unrecognized gross gains as of December 31, 2010. Unrecognized gross losses were $279 million as of December 31, 2010. The following table presents the distribution of held-to-maturity investments by contractual maturity at amortized cost and fair value as of December 31, 2011:

			Consolidated VIEs	
In millions	**Amortized Cost**	**Fair Value**	**Amortized Cost**	**Fair Value**
Due in one year or less	$	$	$	$
Due after one year through five years[(1)]	1	1		
Due after five years through ten years				
Due after ten years through fifteen years				
Due after fifteen years				
Mortgage-backed				
Asset-backed			3,843	3,489
Total held-to-maturity investments	$ 1	$ 1	$ 3,843	$ 3,489

(1) Relates to tax credit investments reported in Other investments on the Company s consolidated balance sheets.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 8: Investments (continued)

Impaired Investments

The following tables present the gross unrealized losses included in accumulated other comprehensive income (loss) as of December 31, 2011 and 2010 related to available-for-sale fixed-maturity and other investments. These tables segregate investments that have been in a continuous unrealized loss position for less than twelve months from those that have been in a continuous unrealized loss position for twelve months or longer.

	December 31, 2011					
	Less than 12 Months		12 Months or Longer		Total	
In millions	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Fixed-maturity investments:						
Taxable bonds:						
U.S. Treasury and government agency	$ 200	$	$	$	$ 200	$
Foreign governments	20				20	
Corporate obligations	297	(15)	418	(91)	715	(106)
Mortgage-backed securities:						
Residential mortgage-backed agency	20		49		69	
Residential mortgage-backed non-agency	34	(5)	167	(78)	201	(83)
Commercial mortgage-backed	17	(2)	22	(8)	39	(10)
Asset-backed securities:						
Collateralized debt obligations	13	(2)	117	(116)	130	(118)
Other asset-backed	53	(7)	328	(75)	381	(82)
State and municipal bonds	152	(2)	76	(15)	228	(17)
Total taxable bonds	806	(33)	1,177	(383)	1,983	(416)
Tax-exempt bonds:						
State and municipal bonds	14		75	(2)	89	(2)
Total tax-exempt bonds	14		75	(2)	89	(2)
Total fixed-maturity investments	820	(33)	1,252	(385)	2,072	(418)
Other investments:						
Perpetual preferred securities	47	(3)	45	(16)	92	(19)
Total other investments	47	(3)	45	(16)	92	(19)
Assets of consolidated VIEs:						
Corporate obligations	2				2	
Mortgage-backed securities:						
Residential mortgage-backed non-agency	3		90	(26)	93	(26)
Asset-backed securities:						
Collateralized debt obligations	9		88	(15)	97	(15)
Other asset-backed	31				31	

Total	$ 912	$ (36)	$ 1,475	$ (442)	$ 2,387	$ (478)

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 8: Investments (continued)

	December 31, 2010					
	Less than 12 Months		12 Months or Longer		Total	
In millions	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Fixed-maturity investments:						
Taxable bonds:						
U.S. Treasury and government agency	$ 370	$ (3)	$	$	$ 370	$ (3)
Foreign governments	33	(1)			33	(1)
Corporate obligations	685	(13)	725	(114)	1,410	(127)
Mortgage-backed securities:						
Residential mortgage-backed agency	785	(11)	59	(2)	844	(13)
Residential mortgage-backed non-agency	51	(2)	336	(178)	387	(180)
Commercial mortgage-backed	11		85	(19)	96	(19)
Asset-backed securities:						
Collateralized debt obligations	3		278	(180)	281	(180)
Other asset-backed	61	(2)	480	(110)	541	(112)
State and municipal bonds	437	(26)	135	(26)	572	(52)
Total taxable bonds	2,436	(58)	2,098	(629)	4,534	(687)
Tax-exempt bonds:						
State and municipal bonds	2,002	(83)	181	(21)	2,183	(104)
Total tax-exempt bonds	2,002	(83)	181	(21)	2,183	(104)
Total fixed-maturity investments	4,438	(141)	2,279	(650)	6,717	(791)
Other investments:						
Perpetual preferred securities	20		140	(12)	160	(12)
Other investments	3				3	
Total other investments	23		140	(12)	163	(12)
Assets of consolidated VIEs:						
Asset-backed securities:						
Collateralized debt obligations	62	(1)	5		67	(1)
Other asset-backed	7				7	
Total	$ 4,530	$ (142)	$ 2,424	$ (662)	$ 6,954	$ (804)

Gross unrealized losses on available-for-sale securities presented in the preceding tables decreased as of December 31, 2011 compared with December 31, 2010 primarily due to market value improvement on MBIA Inc. s investment portfolios partially offset by the transfer of unrealized gains as of December 31, 2010 into earnings from asset sales during 2011. Investments with unrealized losses that met the criteria described in the Other-Than-Temporary Impairments section below were tested for other-than-temporary impairments and principally related to ABS, MBS, and corporate obligations.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 8: Investments (continued)

The following table presents the fair values and gross unrealized losses by credit rating category of ABS included in the Company s consolidated investment portfolio as of December 31, 2011 for which fair value was less than amortized cost. Of the total fair value and unrealized losses of ABS, $397 million of fair value and $120 million of unrealized losses are included in the Company s asset/liability products investment portfolio. Fair values include the benefit of guarantees provided by financial guarantors, including MBIA. The credit ratings are based on ratings from Moody s as of December 31, 2011 or an alternate ratings source, such as S&P, when a security is not rated by Moody s. For investments that are insured by various third-party guarantee insurers, the credit rating reflects the higher of the insurer s rating or the underlying bond s rating.

In millions	Aaa		Aa		A		Baa		Below Investment Grade		Not Rated		Total	
Asset-backed Sector	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
ABS CDO	$ 5	$	$ 5	$	$ 6	$ (2)	$ 1	$ (3)	$ 23	$ (57)	$	$	$ 40	$ (62)
Corporate CDO	45	(8)	65	(8)			21	(9)	63	(45)	39	(9)	233	(79)
Auto loans	2		2						13				17	
Credit cards	3												3	
Equipment leases					19	(2)	7						26	(2)
Small business/ student loans	16	(2)							11	(1)			27	(3)
Other ABS	4		29	(5)	54	(11)	61	(7)	12	(3)	133	(43)	293	(69)
Total	$ 75	$ (10)	$ 101	$ (13)	$ 79	$ (15)	$ 90	$ (19)	$ 122	$ (106)	$ 172	$ (52)	$ 639	$ (215)

Fifty-four percent of the Company s investments in ABS reported in the preceding table were rated investment grade with 12% rated Aaa. Of the total ABS investments reported in the preceding table, $338 million include the benefit of guarantees provided by MBIA Corp. and $111 million include the benefit of guarantees provided by third-party financial guarantors. The average credit rating of all guaranteed ABS investments using the higher of the guarantors ratings or the underlying bond ratings was Baa and the average underlying credit rating of guaranteed ABS investments, without giving effect to the guarantees, was below investment grade. Without giving effect to the benefit of guarantees provided by financial guarantors, including MBIA Corp., $258 million or 40% of the securities included in the preceding table were rated below investment grade.

The following table presents the fair values and gross unrealized losses by credit rating category of MBS included in the Company s consolidated investment portfolio as of December 31, 2011 for which fair value was less than amortized cost. Fair values include the benefit of guarantees provided by financial guarantors, including MBIA. The credit ratings are based on ratings from Moody s as of December 31, 2011 or an alternate ratings source, such as S&P, when a security is not rated by Moody s. For investments that are insured by various third-party guarantee insurers, the credit rating reflects the higher of the insurer s rating or the underlying bond s rating.

In millions	Aaa		Aa		A		Baa		Below Investment Grade		Not Rated		Total	
Mortgage-backed Securities	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
RMBS:														
Collateralized	$ 69	$	$ 39	$ (10)	$ 10	$ (1)	$ 2	$	$ 34	$ (16)	$ 13	$ (12)	$ 167	$ (39)

Home equity	2		80	(22)	1						84	(40)	1		168	(62)				
Pass-through securities	20														20					
Other			9	(4)							7	(4)			16	(8)				
CMBS	2		1		2		23	(9)			1	(1)	1		30	(10)				
Total	$ 93	$	$ 129	$ (36)	$ 13	$ (1)	$ 25	$ (9)	$ 126	$ (61)	$ 15	$ (12)	$ 401	$ (119)						

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 8: Investments (continued)

Sixty-five percent of the Company s investments in MBS reported in the preceding table were rated investment grade with 23% rated Aaa. Of the total MBS investments reported in the preceding table, $18 million include the benefit of guarantees provided by MBIA Corp. and $239 million include the benefit of guarantees provided by third-party financial guarantors. The average credit rating of all guaranteed MBS investments using the higher of the guarantors ratings or the underlying bond ratings was Baa and the average underlying credit rating of guaranteed MBS investments, without giving effect to the guarantees, was below investment grade. Without giving effect to the benefit of guarantees provided by financial guarantors, including MBIA Corp., $262 million or 65% of the securities included in the preceding table were rated below investment grade.

The following table presents the fair values and gross unrealized losses by credit rating category of direct corporate obligations included in the Company s consolidated investment portfolio as of December 31, 2011 for which fair value was less than amortized cost. Fair values include the benefit of guarantees provided by financial guarantors, including MBIA. The credit ratings are based on ratings from Moody s as of December 31, 2011 or an alternate ratings source, such as S&P, when a security is not rated by Moody s. For investments that are insured by various third-party guarantee insurers, the credit rating reflects the higher of the insurer s rating or the underlying bond s rating.

In millions	Aaa		Aa		A		Baa		Below Investment Grade		Not Rated		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Corporate Obligations	$ 70	$	$ 71	$ (8)	$ 209	$ (37)	$ 224	$ (35)	$ 27	$	$ 116	$ (26)	$ 717	$ (106)

Eighty percent of the Company s investments in corporate obligations reported in the preceding table were rated investment grade with 10% rated Aaa. Of the total corporate obligations reported in the preceding table, $97 million include the benefit of guarantees provided by MBIA Corp., and $74 million include the benefit of guarantees provided by third-party financial guarantors. The average credit rating of all guaranteed corporate obligations included in the preceding table using the higher of the guarantors ratings or the underlying bond ratings was A and the average underlying credit rating of these guaranteed corporate obligations without giving effect to the guarantees was Baa. Without giving effect to the benefit of guarantees provided by financial guarantors, including MBIA Corp. and National, $33 million or 5% of the securities included in the preceding table were rated below investment grade.

The following tables present the gross unrealized losses of held-to-maturity investments as of December 31, 2011 and 2010. Held-to-maturity investments are reported at amortized cost on the Company s consolidated balance sheets. The tables segregate investments that have been in a continuous unrealized loss position for less than twelve months from those that have been in a continuous unrealized loss position for twelve months or longer.

	December 31, 2011					
	Less than 12 Months		12 Months or Longer		Total	
In millions	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Assets of consolidated VIEs:						
Other asset-backed securities	$ 284	$ (31)	$ 2,185	$ (340)	$ 2,469	$ (371)
Total	$ 284	$ (31)	$ 2,185	$ (340)	$ 2,469	$ (371)

	December 31, 2010					
	Less than 12 Months		12 Months or Longer		Total	
In millions	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Assets of consolidated VIEs:						
Other asset-backed securities	$	$	$ 3,760	$ (279)	$ 3,760	$ (279)
Total	$	$	$ 3,760	$ (279)	$ 3,760	$ (279)

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 8: Investments (continued)

As of December 31, 2011 and 2010, the Company s available-for-sale fixed-maturity investment, other investment and held-to-maturity investment portfolios gross unrealized losses totaled $849 million and $1.1 billion, respectively. The weighted average contractual maturity of securities in an unrealized loss position as of December 31, 2011 and 2010 was 21 years and 20 years, respectively. As of December 31, 2011, there were 290 securities that were in an unrealized loss position for a continuous twelve-month period or longer with aggregate unrealized losses of $782 million. Within these securities, the book value of 218 securities exceeded market value by more than 5% as presented in the following table:

Percentage Book Value Exceeded Market Value	Number of Securities	Book Value (in millions)	Fair Value (in millions)
5% to less than 16%	56	$ 2,341	$ 2,091
16% to less than 26%	42	1,047	821
26% to 50%	79	532	350
Greater than 50%	41	167	47
Total	218	$ 4,087	$ 3,309

As of December 31, 2010, there were 412 securities that were in an unrealized loss position for a continuous twelve-month period or longer with aggregate unrealized losses of $941 million. Within the 412 securities, the book value of 321 securities exceeded market value by more than 5%.

Other-Than-Temporary Impairments

The Company has an ongoing review process for all securities in its investment portfolio, including a quarterly assessment of other-than-temporary impairments. This evaluation includes both qualitative and quantitative considerations. In assessing whether a decline in value is related to a credit loss, the Company considers several factors, including but not limited to (i) the magnitude and duration of declines in fair value; (ii) the reasons for the declines in fair value, such as general credit spread movements in each asset-backed sector, transaction-specific changes in credit spreads, credit rating downgrades, modeled defaults, and principal and interest payment priorities within each investment structure; and (iii) any guarantees associated with a security such as those provided by financial guarantee insurance companies, including MBIA Corp. and National.

In calculating credit-related losses, the Company utilizes cash flow modeling based on the type of security. The Company s 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. In general, any change in the amount and/or timing of cash flows received or expected to be received, whether or not such cash flows are contractually defined, is reflected in the Company s cash flow analysis for purposes of assessing an other-than-temporary impairment loss on an impaired security.

ABS investments are evaluated for other-than-temporary impairments using historical collateral performance, deal waterfall and structural protections, credit ratings, and forward looking projections of collateral performance based on business and economic conditions specific to each collateral type and risk. The underlying collateral is evaluated to identify any specific performance concerns, and stress scenarios are considered in forecasting ultimate returns of principal. Based on this evaluation, if a principal default is projected for a security, estimated future cash flows are discounted at the security s purchase yield. If the present value of cash flows is less than the Company s amortized cost for the security, the difference is recorded as an other-than-temporary impairment loss.

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Notes to Consolidated Financial Statements

Note 8: Investments (continued)

RMBS investments are evaluated for other-than-temporary impairments using industry-standard quantitative tools. Loan level data is obtained and analyzed in a model that produces prepayment, default, and severity vectors. The model utilizes macro inputs, including housing price assumptions and interest rates, which are consistent with industry views. The vector outputs are used as inputs to a third-party cash flow model, which considers deal waterfall dynamics and structural features, to generate cash flows for an RMBS investment. These cash flows are then discounted at the security s purchase yield. If the present value of the cash flows is less than the Company s amortized cost for the investment, the difference is recorded as an other-than-temporary impairment loss. For CDO investments, the Company utilizes the same tools as for RMBS securities, aggregating the bond level cash flows to the CDO investment level.

Corporate obligation investments are evaluated for other-than-temporary impairments using industry-standard credit analysis techniques. The Company s analysis includes a detailed review of a number of quantitative and qualitative factors impacting the value of an individual security. These factors include the interest rate of the security (fixed or floating), the security s current market spread, any collateral supporting the security, the security s position in the issuer s capital structure, and credit rating upgrades or downgrades. Additionally, these factors include an assessment of various issuer-related credit metrics including market capitalization, earnings, cash flow, capitalization, interest coverage, leverage, liquidity, management and a third-party quantitative default probability model. The Company s analysis is augmented by comparing market prices for similar securities of other issuers in the same sector, as well as any recent corporate or government actions that may impact the ultimate return of principal. If the Company determines that, after considering these factors, a principal default is projected, a recovery analysis is performed using the above data. If the Company s estimated recovery value for the security is less than its amortized cost, the difference is recorded as an other-than-temporary impairment loss.

The Company does not record other-than-temporary impairments related to credit concerns about issuers of securities insured by MBIA Corp. and National since investors in these securities, including MBIA, are guaranteed payment of principal and interest when due by MBIA. Securities insured by the Company, whether or not owned by the Company, are evaluated for impairment as part of its insurance surveillance process and, therefore, losses on securities insured by the Company are recorded in accordance with its loss reserving policy. Refer to Note 2: Significant Accounting Policies and Note 6: Loss and Loss Adjustment Expense Reserves for information about the Company s loss reserving policy and loss reserves.

In considering cash expected to be provided from other third-party financial guarantors, the Company assesses the financial guarantor s ability to make claim payments under a variety of scenarios that test the guarantor s ultimate claims paying ability. The weighted average outcome of these scenarios, combined with the cash flows provided by the insured security, are used to determine the recoverability of the Company s amortized cost.

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Notes to Consolidated Financial Statements

Note 8: Investments (continued)

The following table provides information about securities held by the Company as of December 31, 2011 that were in an unrealized loss position and insured by a financial guarantor, along with the amount of insurance loss reserves corresponding to the par amount owned by the Company:

In millions	Fair Value	Unrealized Loss	Insurance Loss Reserve[2]
Asset-backed:			
MBIA[1]	$ 338	$ (78)	$ 17
Other	111	(24)	
Total asset-backed	449	(102)	17
Mortgage-backed:			
MBIA[1]	18	(5)	
Other	239	(95)	
Total mortgage-backed	257	(100)	
Corporate obligations:			
MBIA[1]	97	(17)	
Other	74	(15)	
Total corporate obligations	171	(32)	
Other:			
MBIA[1]	102	(16)	
Other	30		
Total other	132	(16)	
Total	$ 1,009	$ (250)	$ 17

(1) Includes investments insured by MBIA Corp. and National.

(2) Insurance loss reserve estimates are based on the proportion of par value owned to the total amount of par value insured.

The Company concluded that it does not have the intent to sell securities in an unrealized loss position and it is more likely than not, that it will not have to sell these securities before recovery of their cost basis. In making this conclusion, the Company examined the cash flow projections for its investment portfolios, the potential sources and uses of cash in its businesses, and the cash resources available to its business other than sales of securities. It also considered the existence of any risk management or other plans as of December 31, 2011 that would require the sale of impaired securities.

Each quarter, an internal committee, comprising staff that is independent of the Company s evaluation process for determining other-than-temporary impairments of securities, reviews and approves the valuation of investments. Among other responsibilities, this

committee ensures that the Company s process for identifying and calculating other-than-temporary impairments, including the use of models and assumptions, is reasonable and complies with the Company s internal policy.

Refer to Note 9: Investment Income and Gains and Losses for information on realized losses due to other-than-temporary impairments.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 9: Investment Income and Gains and Losses

The following table includes total investment income from all operations:

	Years ended December 31,		
In millions	**2011**	**2010**	**2009**
Net investment income			
Fixed-maturity	$ 357	$ 407	$ 511
Held-to-maturity	6	7	9
Short-term investments	6	22	21
Other investments	19	22	32
Consolidated VIEs	69	73	89
Gross investment income	457	531	662
Investment expenses	4	1	6
Net investment income	453	530	656
Realized gains and losses			
Fixed-maturity			
Gains[1]	252	112	160
Losses	(224)	(112)	(447)
Net	28		(287)
Other investments			
Gains	12		28
Losses	(10)	(1)	(124)
Net	2	(1)	(96)
Consolidated VIEs			
Gains			12
Losses			(109)
Net			(97)
Total net realized gains (losses)[2]	30	(1)	(480)
Total investment income	$ 483	$ 529	$ 176

(1) Includes net trading gains of $9 million for the year ended December 31, 2011.

(2) These balances are included in the Net gains (losses) on financial instruments at fair value and foreign exchange and Net investment losses related to other-than-temporary impairments line items on MBIA s consolidated statements of operations.

Total investment income is generated as a result of the ongoing management of the Company s investment portfolios. For the year ended December 31, 2011, total investment income increased compared to the same period of 2010 primarily due to an increase in total net realized

gains, partially offset by decreases in net investment income. For the year ended December 31, 2010, total investment income increased compared to the same period of 2009 primarily due to a reduction in total net realized losses, partially offset by decreases in net investment income.

For the year ended December 31, 2011, net realized gains from fixed-maturity investments increased, compared to the same period of 2010, primarily due to net gains from the sale of investments. For the year ended December 31, 2010, net realized losses from fixed-maturity investments decreased, compared to the same period of 2009, due to lower other-than-temporary impairments primarily related to RMBS, ABS and perpetual preferred securities.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 9: Investment Income and Gains and Losses (continued)

The portion of other-than-temporary impairment losses on fixed-maturity securities that does not represent credit losses is recognized in accumulated other comprehensive income (loss). The following table presents the amount of credit loss impairments recognized in earnings on fixed-maturity securities held by MBIA as of the dates indicated, for which a portion of the other-than-temporary impairment losses was recognized in accumulated other comprehensive income (loss), and the corresponding changes in such amounts.

In millions	Years ended December 31,		
Credit Losses Recognized in Earnings Related to Other-Than-Temporary Impairments	**2011**	**2010**	**2009**
Beginning Balance	$ 262	$ 389	$
Credit losses recognized in retained earnings related to the adoption of accounting principles effective April 1, 2009[1]			226
Accounting transition adjustment[2]		(149)	
Additions for credit loss impairments recognized in the current period on securities not previously impaired	63	24	241
Additions for credit loss impairments recognized in the current period on securities previously impaired	31	18	14
Additions for credit loss impairments recognized in prior periods for securities that were re-impaired with a non-credit component in the current period		1	13
Reductions for credit loss impairments previously recognized on securities sold during the period	(15)	(16)	(102)
Reductions for credit loss impairments previously recognized on securities impaired to fair value during the period[3]		(4)	
Reductions for increases in cash flows expected to be collected over the remaining life of the security		(1)	(3)
Ending Balance	$ 341	$ 262	$ 389

(1) Reflects the adoption of the accounting principles for recognition of other-than-temporary impairments.

(2) Reflects the adoption of the accounting principles for the consolidation of VIEs.

(3) Represents circumstances where the Company determined in the current period that it intends to sell the security or it is more likely than not that it will be required to sell the security before recovery of the security s amortized cost.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 9: Investment Income and Gains and Losses (continued)

For ABS (e.g., RMBS and CDOs), the Company estimated expected future cash flows of each security by estimating the expected future cash flows of the underlying collateral and applying those collateral cash flows, together with any credit enhancements such as subordination interests owned by third parties, to the security. The expected future cash flows of the underlying collateral are determined using the remaining contractual cash flows adjusted for future expected credit losses (which consider current delinquencies and nonperforming assets, future expected default rates and collateral value by vintage and geographic region) and prepayments. The expected cash flows of the security are then discounted at the interest rate used to recognize interest income on the security to arrive at a present value amount. The following table presents a summary of the significant inputs considered in determining the measurement of the credit loss component recognized in earnings for each significant class of ABS for the years ended December 31, 2011, 2010 and 2009:

	Years ended December 31,		
Asset-backed Securities	**2011**	**2010**	**2009**
Expected size of losses[1]:			
Range[2]	2.48% to 100.00%	0.21% to 100.00%	0.00% to 100.00%
Weighted average[3]	55.40%	52.20%	38.44%
Current subordination levels[4]:			
Range[2]	0.00% to 35.46%	0.00% to 42.16%	0.00% to 48.68%
Weighted average[3]	1.53%	4.50%	9.75%
Prepayment speed (annual CPR)[5]:			
Range[2]	0.00 to 100.00	0.00 to 40.20	0.00 to 36.20
Weighted average[3]	12.67	9.45	6.98

(1) Represents future expected credit losses on impaired assets expressed as a percentage of total outstanding balance.

(2) Represents the range of inputs/assumptions based upon the individual securities within each category.

(3) Calculated by weighting the relevant input/assumption for each individual security by the outstanding notional of the security.

(4) Represents current level of credit protection (subordination) for the securities, expressed as a percentage of the balance of the collateral group backing the bond.

(5) Values represent high and low points of lifetime vectors of constant prepayment rates.

Net unrealized gains (losses), including the portion of other-than-temporary impairments included in accumulated other comprehensive income (loss), reported within shareholders equity consisted of:

	As of December 31,	
In millions	**2011**	**2010**
Fixed-maturity:		
Gains	$ 262	$ 208
Losses	(459)	(782)
Foreign exchange	(5)	(14)

Net	(202)	(588)
Other investments:		
Gains	1	10
Losses	(19)	(22)
Net	(18)	(12)
Total	(220)	(600)
Deferred income tax provision (benefit)	(86)	(208)
Unrealized gains (losses), net	$ (134)	$ (392)

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 9: Investment Income and Gains and Losses (continued)

The change in net unrealized gains (losses), including the portion of other-than-temporary impairments, presented in the table above consisted of:

	As of December 31,	
In millions	**2011**	**2010**
Fixed-maturity	$ 386	$ 749
Other investments	(6)	47
Total	380	796
Deferred income tax charged (credited)	122	213
Change in unrealized gains (losses), net[1]	$ 258	$ 583

(1) The annual change as of December 31, 2010 included $266 million of net unrealized gains due to the transition adjustment for the adoption of the accounting principles for consolidation of VIEs.

Note 10: Derivative Instruments

Overview

MBIA has entered into derivative transactions as an additional form of financial guarantee and for purposes of hedging risks associated with existing assets and liabilities and forecasted transactions. CDS are also entered into in the asset/liability products business to replicate investments in cash assets consistent with the Company s risk objectives and credit guidelines for its asset management business. The Company accounts for derivative transactions in accordance with the accounting principles for derivative and hedging activities, which requires that all such transactions be recorded on the balance sheet at fair value. Refer to Note 7: Fair Value of Financial Instruments for the definition of fair value of derivative instruments.

Changes in the fair value of derivatives, excluding insured derivatives, are recorded each period in current earnings within Net gains (losses) on financial instruments at fair value and foreign exchange. Changes in the fair value of insured derivatives are recorded each period in current earnings within Net change in fair value of insured derivatives. The net change in the fair value of the Company s insured derivatives has two primary components: (i) realized gains (losses) and other settlements on insured derivatives and (ii) unrealized gains (losses) on insured derivatives. Realized gains (losses) and other settlements on insured derivatives include (i) premiums received and receivable on written CDS contracts, (ii) premiums paid and payable to reinsurers in respect to CDS contracts, (iii) net amounts received or paid on reinsurance commutations, (iv) losses paid and payable to CDS contract counterparties due to the occurrence of a credit event or settlement agreement, (v) losses recovered and recoverable on purchased CDS contracts due to the occurrence of a credit event or settlement agreement and (vi) fees relating to CDS contracts. The Unrealized gains (losses) on insured derivatives include all other changes in fair value of the insured derivative contracts.

U.S. Public Finance Insurance

The Company s derivative exposure within its U.S. public finance insurance operations primarily consists of insured interest rate and inflation-linked swaps related to insured U.S. public finance debt issues. These derivatives do not qualify for the financial guarantee scope

exception. The Company has also purchased certain investments containing embedded derivatives. All derivatives are recorded at fair value on the Company s balance sheet with the changes in fair value recorded in current earnings within Unrealized gains (losses) on insured derivatives , for the insured derivatives, or Net gains (losses) on financial instruments at fair value and foreign exchange for the embedded derivatives.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 10: Derivative Instruments (continued)

Structured Finance and International Insurance

The Company entered into derivative transactions that it viewed as an extension of its core financial guarantee business but which do not qualify for the financial guarantee scope exception and, therefore, must be recorded at fair value on the balance sheet. The Company s structured finance and international insurance operations, which insured the majority of the Company s notional derivative exposure, have insured CDS contracts, primarily referencing corporate, asset-backed, residential mortgage-backed, commercial mortgage-backed, CRE loans, and CDO securities that the Company intends to hold for the entire term of the contract absent a negotiated settlement with the counterparty.

Variable Interest Entities

VIEs consolidated by the Company have entered into derivative transactions primarily consisting of interest rate swaps and CDS contracts. Interest rate swaps are entered into to hedge the risks associated with fluctuations in interest rates or fair values of certain contracts. CDS contracts are entered into to hedge credit risk or to replicate investments in cash assets.

Advisory Services

The Company has also provided loss protection on certain Cutwater Investor Services Corp. (Cutwater-ISC) managed municipal pools that invest in highly rated short-term fixed-income securities. Such protection is accounted for as a derivative and is included as part of the Company s principal protection guarantees.

Asset/Liability Products

The Company s asset/liability products business has entered into derivative transactions primarily consisting of interest rate swaps, cross currency swaps, and CDS contracts. Interest rate swaps are entered into to hedge the risks associated with fluctuations in interest rates or fair values of certain contracts. Cross currency swaps are entered into to hedge the variability in cash flows resulting from fluctuations in foreign currency rates. CDS contracts are entered into to hedge credit risk or to replicate investments in cash assets consistent with the Company s risk objectives and credit guidelines for its asset management business.

Certain interest rate and cross currency swaps qualify as fair value hedges. The fair value hedges are used to protect against changes in the market value of the hedged assets or liabilities. The gains and losses relating to the fair value hedges are recorded directly in earnings. Fair value hedges are hedging existing assets, liabilities or forecasted transactions.

Credit Derivatives Sold

The following table presents information about credit derivatives sold by the Company s insurance operations that were outstanding as of December 31, 2011. Credit ratings represent the lower of underlying ratings currently assigned by Moody s, S&P or MBIA.

In millions		**Notional Value**						
Credit Derivatives Sold	**Weighted Average Remaining Expected Maturity**	**AAA**	**AA**	**A**	**BBB**	**Below BBB**	**Total Notional**	**Fair Value Asset (Liability)**

Insured credit default swaps	5.6 Years	$ 15,475	$ 12,065	$ 6,336	$ 14,042	$ 17,639	$ 65,557	$ (4,716)
Non-insured credit default swaps-VIE	3.6 Years					643	643	(527)
Insured swaps	19.7 Years		164	4,270	2,589	133	7,156	(9)
All others (insured)	2.8 Years					195	195	(91)
Total notional		$ 15,475	$ 12,229	$ 10,606	$ 16,631	$ 18,610	$ 73,551	
Total fair value		$ (114)	$ (116)	$ (205)	$ (1,355)	$ (3,553)		$ (5,343)

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 10: Derivative Instruments (continued)

The following table presents information about credit derivatives sold by the Company s insurance operations that were outstanding as of December 31, 2010. Credit ratings represent the lower of underlying ratings currently assigned by Moody s, S&P or MBIA.

In millions		Notional Value						
Credit Derivatives Sold	Weighted Average Remaining Expected Maturity	AAA	AA	A	BBB	Below BBB	Total Notional	Fair Value Asset (Liability)
Insured credit default swaps	7.6 Years	$ 20,721	$ 18,530	$ 11,323	$ 15,356	$ 33,377	$ 99,307	$ (4,325)
Non-insured credit default swaps-VIE	4.8 Years					2,612	2,612	(1,455)
Insured swaps	16.6 Years		321	4,801	4,740	676	10,538	(11)
All others (insured)	8.5 Years			113		195	308	(39)
Total notional		$ 20,721	$ 18,851	$ 16,237	$ 20,096	$ 36,860	$ 112,765	
Total fair value		$ (41)	$ (86)	$ (315)	$ (477)	$ (4,911)		$ (5,830)

Referenced credit ratings assigned by MBIA to insured credit derivatives are derived by the Company s surveillance group. In assigning an internal rating, current status reports from issuers and trustees, as well as publicly available transaction-specific information, are reviewed. Also, where appropriate, cash flow analyses and collateral valuations are considered. The maximum potential amount of future payments (undiscounted) on CDS contracts are estimated as the notional value plus any additional debt service costs, such as interest or other amounts owing on CDS contracts. The maximum amount of future payments that MBIA may be required to make under these guarantees is $71.0 billion. This amount is net of $1.4 billion of insured derivatives ceded under reinsurance agreements in which MBIA economically hedges a portion of the credit and market risk associated with its insured derivatives and offsetting agreements with a counterparty. The maximum potential amount of future payments (undiscounted) on insured swaps are estimated as the notional value of such contracts.

MBIA may hold recourse provisions with third parties in derivative transactions through both reinsurance and subrogation rights. MBIA s reinsurance arrangements provide that in the event MBIA pays a claim under a guarantee of a derivative contract, MBIA has the right to collect amounts from any reinsurers that have reinsured the guarantee on either a proportional or non-proportional basis, depending upon the underlying reinsurance agreement. MBIA may also have recourse through subrogation rights whereby if MBIA makes a claim payment, it is entitled to any rights of the insured counterparty, including the right to any assets held as collateral.

The following table presents information about credit derivatives sold by the Company s advisory services business that were outstanding as of December 31, 2011. Credit ratings represent the lower of ratings currently assigned by Moody s, S&P or external counterparties.

In millions		Notional Value						
Credit Derivatives Sold	Weighted Average Remaining Expected	AAA	AA	A	BBB	Below BBB	Total Notional	Fair Value Asset (Liability)

	Maturity							
Principal protection guarantees	0.0 Years	$ 3,269	$	$	$	$	3,269	$
Total notional		$ 3,269	$	$	$	$	3,269	$
Total fair value		$	$	$	$	$		$

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 10: Derivative Instruments (continued)

The following table presents information about credit derivatives sold by the Company s advisory services business that were outstanding as of December 31, 2010. Credit ratings represent the lower of ratings currently assigned by Moody s, S&P or external counterparties.

In millions		Notional Value						
Credit Derivatives Sold	Weighted Average Remaining Expected Maturity	AAA	AA	A	BBB	Below BBB	Total Notional	Fair Value Asset (Liability)
Principal protection guarantees	1.0 Years	$ 4,237	$	$	$	$	$ 4,237	$
Total notional		$ 4,237	$	$	$	$	$ 4,237	$
Total fair value		$	$	$	$	$		$

The maximum potential amount of future payments (undiscounted) on derivatives presented in the preceding table are estimated as the notional value of such contracts.

Financial Statement Impact

The fair value of amounts recognized for eligible derivative contracts executed with the same counterparty under a master netting agreement, including any cash collateral that may have been received or posted by the Company, is presented on a net basis in accordance with accounting guidance for the offsetting of fair value amounts related to derivative instruments.

As of December 31, 2011, the total fair value of the Company s derivative assets, after counterparty netting, was $459 million, of which $452 million was reported within Derivative assets and Derivative assets-VIEs on the Company s consolidated balance sheets, and the total fair value of the Company s derivative liabilities, after counterparty netting, was $6.0 billion, which was reported within Derivative liabilities and Derivative liabilities-VIEs on the Company s consolidated balance sheets.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 10: Derivative Instruments (continued)

As of December 31, 2011, the total fair value of the Company s derivative assets, before counterparty netting, was $552 million and the total fair value of the Company s derivative liabilities, before counterparty netting, was $6.1 billion. The following table presents the total fair value of the Company s derivative assets and liabilities by instrument and balance sheet location, before counterparty netting, as of December 31, 2011:

In millions

		Derivative Assets[1]		Derivative Liabilities[1]	
Derivative Instruments	**Notional Amount Outstanding**	**Balance Sheet Location**	**Fair Value**	**Balance Sheet Location**	**Fair Value**
Designated as hedging instruments:					
Interest rate swaps	$ 241	Derivative assets	$ 10	Derivative liabilities	$ (44)
Total designated	$ 241		$ 10		$ (44)
Not designated as hedging instruments:					
Insured credit default swaps	$ 66,851	Derivative assets	$	Derivative liabilities	$ (4,708)
Insured swaps	7,156	Derivative assets		Derivative liabilities	(9)
Non-insured credit default swaps	30	Derivative assets	1	Derivative liabilities	
Non-insured credit default swaps-VIE	1,272	Derivative assets-VIE	447	Derivative liabilities-VIE	(527)
Interest rate swaps	2,706	Derivative assets	84	Derivative liabilities	(401)
Interest rate swaps-VIE	4,878	Derivative assets-VIE		Derivative liabilities-VIE	(281)
Interest rate swaps embedded	480	Medium-term notes	7	Medium-term notes	(14)
Currency swaps	62	Derivative assets		Derivative liabilities	(4)
Currency swaps-VIE	123	Derivative assets-VIE		Derivative liabilities-VIE	(17)
All other	3,465	Derivative assets		Derivative liabilities	(91)
All other-VIE	472	Derivative assets-VIE	3	Derivative liabilities-VIE	
All other embedded	121	Other investments		Other investments	(12)
Total non-designated	$ 87,616		$ 542		$ (6,064)
Total derivatives	$ 87,857		$ 552		$ (6,108)

(1) In accordance with the accounting guidance for derivative instruments and hedging activities, the balance sheet location of the Company s embedded derivative instruments is determined by the location of the related host contract.

As of December 31, 2010, the total fair value of the Company s derivative assets, after counterparty netting, was $708 million, of which $703 million was reported within Derivative assets and Derivative assets-VIEs on the Company s consolidated balance sheets, and the total fair value of the Company s derivative liabilities, after counterparty netting, was $6.7 billion which was reported within Derivative liabilities and Derivative liabilities-VIEs on the Company s consolidated balance sheets.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 10: Derivative Instruments (continued)

As of December 31, 2010, the total fair value of the Company s derivative assets, before counterparty netting, was $769 million and the total fair value of the Company s derivative liabilities, before counterparty netting was $6.8 billion. The following table presents the total fair value of the Company s derivative assets and liabilities by instrument and balance sheet location, before counterparty netting, as of December 31, 2010:

In millions

		Derivative Assets[1]		Derivative Liabilities[1]	
Derivative Instruments	**Notional Amount Outstanding**	**Balance Sheet Location**	**Fair Value**	**Balance Sheet Location**	**Fair Value**
Designated as hedging instruments:					
Interest rate swaps	$ 394	Derivative assets	$ 16	Derivative liabilities	$ (41)
Currency swaps	20	Derivative assets		Derivative liabilities	(2)
Total designated	$ 414		$ 16		$ (43)
Not designated as hedging instruments:					
Insured credit default swaps	$ 99,331	Derivative assets	$	Derivative liabilities	$ (4,325)
Insured swaps	10,537	Derivative assets		Derivative liabilities	(11)
Non-insured credit default swaps	35	Derivative assets	3	Derivative liabilities	
Non-insured credit default swaps-VIE	3,973	Derivative assets-VIE	687	Derivative liabilities-VIE	(1,455)
Interest rate swaps	3,480	Derivative assets	46	Derivative liabilities	(255)
Interest rate swaps-VIE	14,054	Derivative assets-VIE	2	Derivative liabilities-VIE	(634)
Interest rate swaps embedded	493	Medium-term notes	5	Medium-term notes	(7)
Interest rate swaps embedded-VIE	100	Other assets-VIE		Other liabilities-VIE	(1)
Currency swaps	47	Derivative assets		Derivative liabilities	(4)
Currency swaps-VIE	137	Derivative assets-VIE		Derivative liabilities-VIE	(14)
All other	4,644	Derivative assets		Derivative liabilities	(40)
All other-VIE	592	Derivative assets-VIE	10	Derivative liabilities-VIE	
All other embedded	219	Other investments		Other investments	(9)
Total non-designated	$ 137,642		$ 753		$ (6,755)
Total derivatives	$ 138,056		$ 769		$ (6,798)

(1) In accordance with the accounting guidance for derivative instruments and hedging activities, the balance sheet location of the Company s embedded derivative instruments is determined by the location of the related host contract.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 10: Derivative Instruments (continued)

The following tables present the effect of derivative instruments on the consolidated statements of operations for the year ended December 31, 2011:

In millions

Derivatives in Fair Value Hedging Relationships	Location of Gain (Loss) Recognized in Income on Derivative	Gain (Loss) Recognized in Income on Derivative	Gain (Loss) Recognized in Income on Hedged Item	Net Gain (Loss) Recognized in Income
Interest rate swaps	Net gains (losses) on financial instruments at fair value and foreign exchange	$ (8)	$ 8	$
Interest rate swaps	Interest income (expense)			(9)
Currency swaps	Net gains (losses) on financial instruments at fair value and foreign exchange	2	(2)	
Total		$ (6)	$ 6	$ (9)

In millions

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized in Income on Derivative	Net Gain (Loss) Recognized in Income
Insured credit default swaps	Unrealized gains (losses) on insured derivatives	$ (389)
Insured credit default swaps	Realized gains (losses) and other settlements on insured derivatives	(2,371)
Non-insured credit default swaps	Net gains (losses) on financial instruments at fair value and foreign exchange	(2)
Non-insured credit default swaps-VIE	Net gains (losses) on financial instruments at fair value and foreign exchange-VIE	12
Interest rate swaps	Net gains (losses) on financial instruments at fair value and foreign exchange	(193)
Interest rate swaps-VIE	Net gains (losses) on financial instruments at fair value and foreign exchange-VIE	53
Currency swaps	Net gains (losses) on financial instruments at fair value and foreign exchange	(1)
Currency swaps-VIE	Net gains (losses) on financial instruments at fair value and foreign exchange-VIE	(3)
All other	Unrealized gains (losses) on insured derivatives	(52)
All other	Net gains (losses) on financial instruments at fair value and foreign exchange	(6)
All other-VIE		(8)

	Net gains (losses) on financial instruments at fair value and foreign exchange-VIE
Total	$ (2,960)

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 10: Derivative Instruments (continued)

The following tables present the effect of derivative instruments on the consolidated statements of operations for the year ended December 31, 2010:

In millions

Derivatives in Fair Value Hedging Relationships	Location of Gain (Loss) Recognized in Income on Derivative	Gain (Loss) Recognized in Income on Derivative	Gain (Loss) Recognized in Income on Hedged Item	Net Gain (Loss) Recognized in Income
Interest rate swaps	Net gains (losses) on financial instruments at fair value and foreign exchange	$ (42)	$ 41	$ (1)
Interest rate swaps	Interest income (expense)			(5)
Total		$ (42)	$ 41	$ (6)

In millions

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized in Income on Derivative	Net Gain (Loss) Recognized in Income
Insured credit default swaps	Unrealized gains (losses) on insured derivatives	$ (596)
Insured credit default swaps	Realized gains (losses) and other settlements on insured derivatives	(162)
Insured swaps	Unrealized gains (losses) on insured derivatives	2
Non-insured credit default swaps	Net gains (losses) on financial instruments at fair value and foreign exchange	(1)
Non-insured credit default swaps-VIE	Net gains (losses) on financial instruments at fair value and foreign exchange-VIE	(24)
Interest rate swaps	Net gains (losses) on financial instruments at fair value and foreign exchange	(138)
Interest rate swaps-VIE	Net gains (losses) on financial instruments at fair value and foreign exchange-VIE	25
Credit linked notes	Net gains (losses) on financial instruments at fair value and foreign exchange	18
Currency swaps	Net gains (losses) on financial instruments at fair value and foreign exchange	10
All other	Unrealized gains (losses) on insured derivatives	(13)
All other	Net gains (losses) on financial instruments at fair value and foreign exchange	(17)
All other-VIE	Net gains (losses) on financial instruments at fair value and foreign exchange-VIE	(16)

Total	$	(912)

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 10: Derivative Instruments (continued)

The following tables present the effect of derivative instruments on the consolidated statements of operations for the year ended December 31, 2009:

In millions

Derivatives in Fair Value Hedging Relationships	Location of Gain (Loss) Recognized in Income on Derivative	Gain (Loss) Recognized in Income on Derivative	Gain (Loss) Recognized in Income on Hedged Item	Net Gain (Loss) Recognized in Income
Interest rate swaps	Net gains (losses) on financial instruments at fair value and foreign exchange	$ (57)	$ 48	$ (9)
Interest rate swaps	Interest income (expense)			2
Currency swaps	Net gains (losses) on financial instruments at fair value and foreign exchange	17	(16)	1
Currency swaps	Interest income (expense)			1
Total		$ (40)	$ 32	$ (5)

In millions

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized in Income on Derivative	Net Gain (Loss) Recognized in Income
Insured credit default swaps	Unrealized gains (losses) on insured derivatives	$ 1,660
Insured credit default swaps	Realized gains (losses) and other settlements on insured derivatives	(167)
Insured swaps	Unrealized gains (losses) on insured derivatives	1
Non-insured credit default swaps	Net gains (losses) on financial instruments at fair value and foreign exchange	17
Interest rate swaps	Net gains (losses) on financial instruments at fair value and foreign exchange	17
Interest rate swaps-VIE	Net gains (losses) on financial instruments at fair value and foreign exchange-VIE	13
Total return swaps	Net gains (losses) on financial instruments at fair value and foreign exchange	6
Credit linked notes	Net gains (losses) on financial instruments at fair value and foreign exchange	27
Currency swaps	Net gains (losses) on financial instruments at fair value and foreign exchange	(1)
All other	Unrealized gains (losses) on insured derivatives	(11)

All other	Net gains (losses) on financial instruments at fair value and foreign exchange	(8)
Total		$ 1,554

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 10: Derivative Instruments (continued)

Counterparty Credit Risk

The Company manages counterparty credit risk on an individual counterparty basis through master netting agreements covering derivative transactions in the asset/liability products segment. These agreements allow the Company to contractually net amounts due from a counterparty with those amounts due to such counterparty when certain triggering events occur. The Company only executes swaps under master netting agreements, which typically contain mutual credit downgrade provisions that generally provide the ability to require assignment or termination in the event either MBIA or the counterparty is downgraded below a specified credit rating.

Under these arrangements, the Company may receive or provide U.S. Treasury and other highly rated securities or cash to secure counterparties exposure to the Company or its exposure to counterparties, respectively. Such collateral is available to the holder to pay for replacing the counterparty in the event that the counterparty defaults. As of December 31, 2011 and 2010, the Company did not hold or post cash collateral from derivative counterparties. As of December 31, 2011 and 2010, the Company had securities with a fair value of $470 million and $452 million, respectively, posted to derivative counterparties.

As of December 31, 2011, the fair value was positive on one Credit Support Annex (CSA) which governs collateral posting requirements between MBIA and its derivative counterparties. The positive fair value for this CSA was $2 million for which the Company did not receive collateral because the Company s credit rating was below the CSA minimum credit ratings level for holding counterparty collateral. The counterparty was rated Aa3 by Moody s and A+ by S&P.

As of December 31, 2010, the fair value was positive on two CSAs which govern collateral posting requirements between MBIA and its derivative counterparties. The aggregate positive fair value for these two CSAs was $4 million, for which the Company did not receive collateral because the Company s credit rating was below the CSA minimum credit ratings level for holding counterparty collateral. The lowest rated of the two counterparties was A1 by Moody s and A+ by S&P.

Note 11: Collateralized Transactions

The Company enters into securities borrowing and lending contracts in connection with MBIA s collateralized investment agreement and repurchase agreement activities and to invest short-term cash balances or to provide liquidity to the Company s asset/liability programs. Such contracts are only transacted with high-quality dealer firms. It is the Company s policy to take possession of securities borrowed under these contracts. The Company minimizes the credit risk of counterparties to transactions that might be unable to fulfill their contractual obligations by monitoring customer credit exposure and collateral values and requiring additional collateral to be deposited with the Company when deemed necessary.

The Company routinely pledges securities it owns in accordance with the terms of its collateralized transactions. Securities pledged in connection with investment agreement activities may not be repledged by the investment agreement counterparty. Securities pledged as part of repurchase agreements may be repledged by the counterparty of the contract or by MBIA. As of December 31, 2011 and 2010, the fair value of financial assets pledged as collateral under repurchase agreements in which the counterparties have the right to repledge the securities were $543 million and $552 million, respectively. As of December 31, 2011 and 2010, securities sold under agreements to which the Company has agreed to repurchase were $287 million and $471 million, respectively. There was no cash collateral pledged under these agreements as of December 31, 2011 and 2010.

Under certain non-insurance derivative contracts entered into by the Company, collateral postings are required by either MBIA or the counterparty when the aggregate market value of derivative contracts entered into with the same counterparty exceeds a predefined threshold. Securities pledged in connection with these derivative contracts may not be repledged by the counterparty Refer to Note 10: Derivative Instruments for information related to collateral postings related to non-insurance derivative contracts.

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Notes to Consolidated Financial Statements

Note 12: Debt

Long-Term Debt

The Company s long-term debt consists of notes and debentures as follows:

In millions	As of December 31, 2011	2010
6.400% Senior Notes due 2022[1]	$ 275	$ 281
7.000% Debentures due 2025	56	56
7.150% Debentures due 2027	100	100
6.625% Debentures due 2028	141	141
5.700% Senior Notes due 2034[2]	329	329
	901	907
Less unamortized discount	1	1
Subtotal	$ 900	$ 906
14% Surplus Notes due 2033[3]	940	945
Total	$ 1,840	$ 1,851

(1) Callable on or after August 15, 2006 at 100.00.

(2) Callable anytime at the greater of 100.00 or the present value of the remaining scheduled payments of principal and interest.

(3) Callable on January 15, 2013 and every fifth anniversary thereafter at 100.00.

The Company s long-term debt presented in the preceding table is subject to certain restrictive covenants, none of which significantly restrict the Company s operating activities or dividend-paying ability. As of December 31, 2011 and 2010, the Company was in compliance with all debt covenants as there was no occurrence of any event of default with respect to the above securities. Key events of default include (i) default in the payment of any interest or principal when it becomes due and payable, (ii) default in the performance, or breach, of any covenant or warranty of MBIA, (iii) events of default with respect to the Company s indebtedness, other than its debt securities or non-recourse obligations, in an aggregate principal amount in excess of $10 million which consist of the failure to make any payment at maturity or result in the acceleration of the maturity of the Company s indebtedness, (iv) entry by a court having jurisdiction in the premises of a decree or order for relief in respect of MBIA in an involuntary case or proceeding under any applicable federal or state bankruptcy, insolvency, reorganization or other similar law, and (v) commencement by MBIA of a voluntary case or proceeding under any applicable federal or state bankruptcy, insolvency, reorganization or other similar law.

On January 16, 2008, MBIA Insurance Corporation issued $1.0 billion of 14% fixed-to-floating rate surplus notes due January 15, 2033. As of December 31, 2011 and 2010, the par amount outstanding was $940 million and $945 million, respectively. The surplus notes have an initial interest rate of 14% until January 15, 2013 and thereafter at an interest rate of three-month LIBOR plus 11.26%. Interest and principal payments on the surplus notes are subject to prior approval by the Superintendent of the NYSDFS. The surplus notes are callable at par at MBIA Insurance Corporation s option on the fifth anniversary of the date of issuance and every fifth anniversary thereafter, subject to prior approval by the Superintendent and other restrictions. The cash received from the issuance of surplus notes was used for general business purposes and the

deferred debt issuance costs are being amortized over the term of the surplus notes. During the first quarter of 2011, MBIA Inc., through its asset/liability products segment, purchased $5 million par value of MBIA Insurance Corporation surplus notes at a cost of approximately 55% of par value. The gain on the purchase of the surplus notes by MBIA Inc. is only reflected in the consolidated accounts of the Company. To date, MBIA Insurance Corporation has repurchased a total of $47 million par value outstanding of its surplus notes at a weighted average price of $77.08.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 12: Debt (continued)

The aggregate maturity of debt obligations, excluding accrued interest and premiums or discounts, as of December 31 for each of the next five years and thereafter commencing in 2012 was:

In millions	2012	2013	2014	2015	2016	After 2016	Total
Corporate debt	$	$	$	$	$	$ 901	$ 901
14% Surplus Notes due 2033[1]		940					940
Total debt obligations due	$	$ 940	$	$	$	$ 901	$ 1,841

(1) Callable on January 15, 2013 and every fifth anniversary thereafter at 100.00.

Investment Agreement Obligations

Obligations under investment agreement contracts are recorded as liabilities on the Company s consolidated balance sheets based upon proceeds received plus unpaid accrued interest at the balance sheet date. Upon the occurrence of certain contractually agreed-upon events, some of these funds may be withdrawn by the investor prior to their contractual maturity dates. Additionally, certain investment agreements provide for early termination at the option of the investor upon the downgrade of MBIA Corp. to certain credit rating levels. Such terminations significantly reduced outstanding investment agreement balances during 2009 and 2008.

Investment agreements have been issued with either fixed or floating interest rates in both U.S. dollars and foreign currencies. As of December 31, 2011, the annual interest rates on these agreements ranged from 0% to 7.38% and the weighted average interest rate was 4.31%. As of December 31, 2010, the annual interest rates on these agreements ranged from 0% to 7.38% and the weighted average interest rate was 3.73%. Expected principal payments due under these investment agreements in each of the next five years ending December 31 and thereafter, based upon contractual maturity dates, are as follows:

In millions	Principal Amount
Maturity date:	
2012	$ 471
2013	182
2014	140
2015	171
2016	53
Thereafter	671
Total expected principal payments[1]	$ 1,688
Less discount and other adjustments[2]	110
Total	$ 1,578

(1) Foreign currency denominated investment agreements are presented in U.S. dollars. Amounts reflect principal due at maturity for investment agreements issued at a discount.
(2) Includes discounts of $153 million on investment agreements, net fair value adjustments of $33 million and accrued interest of $10 million.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 12: Debt (continued)

Medium-Term Note Obligations

MTN obligations are recorded as liabilities on the Company s balance sheets based upon proceeds received, net of unamortized discounts and premiums, plus unpaid accrued interest at the balance sheet date. The MTNs are measured at fair value in accordance with the accounting guidance for certain hybrid financial instruments, which was adopted on January 1, 2007. MTNs are issued by GFL as part of MBIA s asset/liability products. MTNs have been issued with either fixed or floating interest rates and GFL has issued MTNs in U.S. dollars and foreign currencies. As of December 31, 2011, the interest rates of the MTNs ranged from 0% to 8.68% and the weighted average interest rate was 3.19%. As of December 31, 2010, the interest rates of the MTNs ranged from 0% to 8.37% and the weighted average interest rate was 3.17%. Expected principal payments due under MTN obligations based on their contractual maturity dates are as follows:

In millions	Principal Amount
Maturity date:	
2012	$ 89
2013	41
2014	61
2015	253
2016	123
Thereafter	1,893
Total expected principal payments[1]	$ 2,460
Less discount and other adjustments[2]	804
Total	$ 1,656

(1) Foreign currency denominated MTNs are presented in U.S. dollars. Amounts reflect principal due at maturity for notes issued at a discount or premium.
(2) Includes discounts of $773 million and fair value adjustments of $41 million, net of accrued interest of $10 million.

The Company may buy back and extinguish debt originally issued by either MBIA Inc. or its subsidiaries. Purchase prices are generally negotiated through dealers, similar to buying or selling an asset in the open market. The Company repurchases its debt at discounted prices in an effort to improve its own economic position while also providing liquidity to investors of MBIA debt. In all cases, debt buybacks were executed in response to investor or dealer inquiries.

Other Borrowing Arrangements

The Company has $10 million of outstanding letters of credit for Cutwater-ISC that is intended to support the net asset value of certain investment pools managed by Cutwater-ISC. These letters of credit can be drawn upon in the event that the liquidation of such assets is required and the proceeds are less than the cost.

In addition, the Company has issued commitments to two pooled investment programs managed or administered by Cutwater-ISC and its subsidiary. These commitments cover losses in such programs should the net asset values per share decline below specified per share values. As of December 31, 2011 and 2010, the maximum amount of future payments that the Company would be required to make under these commitments was $3.3 billion and $4.2 billion, respectively. These commitments were terminated on January 1, 2012, the date on which

Cutwater-ISC and its subsidiary were no longer manager or administrator to these programs.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 12: Debt (continued)

Debt of Consolidated Variable Interest Entities

Variable Interest Entity Notes

VIE notes are variable interest rate debt instruments denominated in U.S. dollars issued by consolidated VIEs within the Company s structured finance and international insurance and conduit segments. VIE notes within the structured finance and international insurance segment consist of debt instruments issued by issuer-sponsored consolidated VIEs collateralized by assets held by those consolidated VIEs. VIE notes related to the conduit segment consist of floating rate MTN obligations issued by a Company-sponsored conduit collateralized by assets held by the conduit. As of December 31, 2011, the interest rates of the MTNs ranged from 0.64% to 1.78% and the weighted average interest rate was 1.41%. As of December 31, 2010, the interest rates of the MTNs ranged from 0.52% to 1.76% and the weighted average interest rate was 1.37%. The maturity of VIE notes, by segment, as of December 31, 2011 is presented in the following table:

In millions	Structured Finance and International Insurance	Conduits	Total[1]
Maturity date:			
2012	$ 420	$	$ 420
2013	382		382
2014	304	173	477
2015	761		761
2016	560	605	1,165
Thereafter	5,167	325	5,492
Total	$ 7,594	$ 1,103	$ 8,697

(1) Includes $4.8 billion of VIE notes accounted for at fair value as of December 31, 2011.

Long-Term Debt

Long-term debt consists of borrowings under liquidity facilities drawn by Triple-A One Funding Corporation (Triple-A One), an MBIA-administered multi-seller conduit consolidated in the Company s conduit segment. Under private placement offerings, Triple-A One issued commercial paper with maturities of up to 270 days to fund the purchase of assets from structured finance clients. Assets purchased by Triple-A One are insured by MBIA Corp. Historically, Triple-A One maintained backstop liquidity facilities for each transaction, covering 100% of the face amount of commercial paper outstanding. These liquidity facilities were designed to allow Triple-A One to repay investors in the event of a market disruption in which Triple-A One would be unable to issue new commercial paper to replace maturing commercial paper. The financial guarantee policies issued by MBIA to insure the assets of Triple-A One cannot be accelerated to repay maturing commercial paper or borrowings under liquidity facilities and only guarantee ultimate payments over time relating to the assets. As a result of the deteriorating market environment, Triple-A One fully drew on its liquidity facilities in September 2008 and ceased issuing commercial paper. All commercial paper holders have been repaid in full and borrowings under liquidity facilities, which totaled $360 million as of December 31, 2011 and 2010, will be repaid as the assets purchased by Triple-A One mature. The Company expects that the facilities will be fully repaid by 2037. The interest rate applicable to borrowings as of December 31, 2011 and 2010 was one-month LIBOR plus 0.75%. Given the fully drawn position of its

liquidity facilities and no expectation of issuing commercial paper in the foreseeable future, Triple-A One s ratings were withdrawn by Moody s and S&P at the request of Triple-A One.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 13: Goodwill

Under the accounting guidance for goodwill and other intangible assets, goodwill is tested for impairment at least annually or when events indicate that an impairment may exist. The Company performed its annual impairment testing of goodwill, which related to its U.S. public finance insurance reporting unit, as of January 1, 2012.

As of January 1, 2012, the fair value of the Company s U.S. public finance reporting unit did not exceed its carrying value, indicating that goodwill was potentially impaired. The fair value as of January 1, 2012 reflected the prolonged delay on the resolution of the litigation challenging the establishment of National, which adversely impacted the timing of writing new business, a key trigger for assessing goodwill impairment. As a result, in 2011, the Company recorded an impairment loss of $31 million, representing the full amount of goodwill, within Other net realized gains (losses) in its consolidated statements of operations. In performing this evaluation, the Company calculated the fair value of its U.S. public finance reporting unit utilizing discounted cash flow modeling. The inputs to the Company s valuation model included its estimates of market participant assumptions.

Note 14: Income Taxes

Income (loss) from operations before provision (benefit) for income taxes consisted of:

	Years ended December 31,		
In millions	**2011**	**2010**	**2009**
Domestic	$ (2,231)	$ (146)	$ 1,100
Foreign	(8)	51	117
Income (loss) before income taxes	$ (2,239)	$ (95)	$ 1,217

The Company files a consolidated tax return that includes all of its U.S. subsidiaries and foreign branches. The Company also files tax returns in the United Kingdom (U.K.), France, Spain, and various state and local jurisdictions. Income tax expense (benefit) on income (loss) and shareholders equity consisted of:

	Years ended December 31,		
In millions	**2011**	**2010**	**2009**
Current taxes:			
Federal	$ (1)	$ 91	$ (488)
State	1	(17)	5
Foreign	15	(1)	(25)
Deferred taxes:			
Federal	(919)	(239)	1,046
State	0		
Foreign	(16)	18	45
Provision (benefit) for income taxes	(920)	(148)	583
Income taxes charged (credited) to shareholders equity related to:			
Total adjustments due to the adoption of new accounting standards		(21)	(3)
Change in unrealized gains and losses on investments	119	112	526

Change in other-than-temporary impairment losses	3	(4)	(50)
Change in fair value of derivative instruments	3	(7)	46
Change in foreign currency translation	(1)	2	4
Share-based compensation	4	3	5
Total income taxes charged (credited) to shareholders equity	128	85	528
Total effect of income taxes	$ (792)	$ (63)	$ 1,111

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 14: Income Taxes (continued)

A reconciliation of the U.S. federal statutory tax rate of 35% to the Company s effective income tax rate for the years ended December 31, 2011, 2010 and 2009 is presented in the following table:

	Years ended December 31,		
	2011	2010	2009
Federal income tax computed at the statutory rates	35.0%	35.0%	35.0%
Increase (reduction) in taxes resulting from:			
Tax-exempt interest	1.5%	40.2%	(3.1)%
Mark-to-market on warrants	0.3%	(11.2)%	0.0%
Change in valuation allowance	6.2%	119.4%	13.8%
Change in uncertain tax positions	(1.0)%	(22.3)%	0.0%
State income tax, net of federal benefit	0.0%	11.5%	0.3%
Deferred tax inventory adjustment	0.0%	(13.6)%	0.7%
Foreign taxes	0.1%	(1.8)%	(1.6)%
Other	(1.0)%	(1.4)%	2.8%
Effective tax rate	41.1%	155.8%	47.9%

Deferred Tax Asset, Net of Valuation Allowance

The Company recognizes deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements or tax returns. Deferred tax assets and liabilities are determined based on the differences between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. The effect of a change in tax rates on tax assets and liabilities is recognized in income in the period that includes the enactment date.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 14: Income Taxes (continued)

The tax effects of temporary differences that give rise to deferred tax assets and liabilities as of December 31, 2011 and 2010 are presented in the following table:

In millions	As of December 31, 2011	2010
Deferred tax liabilities:		
Unearned premium revenue	$ 174	$ 61
Loss and loss adjustment expense reserves	31	493
Deferral of cancellation of indebtedness income	119	119
Deferred acquisition costs	123	144
Investments in VIEs	154	173
Other		216
Total gross deferred tax liabilities	601	1,206
Deferred tax assets:		
Compensation and employee benefits	40	40
Net operating loss and tax credit carryforwards	330	274
Capital loss carryforward and other-than-temporary impairments	236	376
Net unrealized losses on insured derivatives	1,614	1,442
Net losses on financial instruments at fair value and foreign exchange	58	41
Net unrealized losses in accumulated other comprehensive income	105	229
Alternative minimum tax credit carryforward	22	45
Net deferred taxes on VIEs	73	43
Other	104	
Total gross deferred tax assets	2,582	2,490
Valuation allowance	236	376
Net deferred tax asset	$ 1,745	$ 908

The Company establishes a valuation allowance against its deferred tax asset when it is more likely than not that all or a portion of the deferred tax asset will not be realized. All evidence, both positive and negative, needs to be identified and considered in making the determination. Future realization of the existing deferred tax asset ultimately depends, in part, on the existence of sufficient taxable income of appropriate character (for example, ordinary income versus capital gains) within the carryforward period available under the tax law.

As of December 31, 2011, the Company reported a net deferred tax asset of $1.7 billion. The $1.7 billion deferred tax asset is net of a $236 million valuation allowance. As of December 31, 2011, the Company had a full valuation allowance against the deferred tax asset related to losses from asset impairments and realized losses from sales of investments as these losses are considered capital losses, have a five year carryforward period, and can only be used to offset capital gain income. The 2011 valuation allowance reflects a decrease of $140 million from the 2010 valuation allowance of $376 million. The change in the valuation allowance for the year ended December 31, 2011 was primarily due to generation of capital gains on asset sales and the re-characterization of certain impairments as bad debts resulting in ordinary losses. The remaining valuation allowance reflects the fact that the Company cannot predict capital gains in future years.

The Company has concluded that it is more likely than not that the remaining deferred tax assets will be realized. In its conclusion, the Company considered the following evidence (both positive and negative):

Due to the long-tail nature of the financial guarantee business, MBIA Inc. s insurance subsidiaries, without regard to any new business, will have a steady stream of scheduled premium earnings with respect to the existing insured portfolio. Additionally, MBIA Corp. s announcement in February 2008 of a temporary suspension in writing new structured finance transactions and a permanent cessation with respect to insuring new CDS contracts, except in transactions related to the reduction of existing derivative exposure, would not have an impact on the expected earnings related to the existing insured portfolio.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 14: Income Taxes (continued)

The Company performed taxable income projections over a fifteen and twenty year period to determine whether it will have sufficient income to offset its deferred tax asset that will generate future ordinary deductions. In this analysis, the Company concluded that premium earnings, even without regard to any new business, combined with investment income, less deductible expenses, will be sufficient to recover its net deferred tax asset. The Company s taxable income projections used to assess the recoverability of its deferred tax asset include an estimate of future loss and LAE equal to the present value discount of loss reserves already recognized on the balance sheet and an estimate of loss adjustment expense which is generally insignificant. The Company does not assume additional losses, with the exception of the accretion of its existing present value loss reserves, because the Company establishes case basis reserves on a present value basis based on an estimate of probable losses on specifically identified credits that have defaulted or are expected to default.

While the ratings downgrades by the rating agencies have significantly adversely impacted the Company s ability to write new insurance business, the downgrades did not have a material impact on earnings from the existing insured portfolio, which the Company believes will be sufficient to absorb losses in the event that the cumulative unrealized losses become fully impaired.

With respect to installment policies, the Company generally does not have an automatic cancellation provision solely in connection with ratings downgrades. For purposes of projecting future taxable income, the Company has applied a discount to adjust for the possible cancellation of future installment premiums based on recent data. With regard to upfront policies, to the extent that the issuer chooses to terminate a policy, any unearned premium reserve with respect to that policy will be accelerated into earnings (i.e. refundings).

As of December 31, 2011, the Company had approximately $105 million of deferred tax assets related to net unrealized losses on investments included in accumulated other comprehensive income (loss). The Company intends to hold these investments until maturity or until such time as the value recovers. As such, the Company expects that the related deferred tax assets will reverse over the life of the securities.

After reviewing all of the evidence available, both positive and negative, MBIA believes that it has appropriately valued the recoverability of its deferred tax assets, net of the valuation allowance, as of December 31, 2011. The Company continues to assess the adequacy of its valuation allowance as additional evidence becomes available. The Company s recent financial results have been volatile which has impacted management s ability to accurately project future taxable income. Continued volatility or losses beyond those projected may cause the Company to conclude that certain of the deferred tax assets within the $1.7 billion as of December 31, 2011 may not be realizable.

Treatment of Undistributed Earnings of Certain Foreign Subsidiaries Accounting for Income Taxes Special Areas

No U.S. deferred income taxes have been provided on the differences in the book and tax basis in the Company s carrying value of MBIA UK and other entities because of the Company s practice and intent to permanently reinvest these earnings. The cumulative amounts of such differences were $15 million, $3 million and $57 million as of December 31, 2011, 2010 and 2009, respectively. The estimated tax liability with respect to this difference was $5 million as of December 31, 2011.

Five-Year NOL Carryback

On November 6, 2009, as part of *The Worker, Homeownership, and Business Assistance Act of 2009*, the NOL carryback provision of the Internal Revenue Code was amended to allow all businesses with NOLs in either 2008 or 2009 (but not both) to elect to claim refunds of taxes paid within the prior five years. In the fifth preceding year of the carryback period, the recovery is 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.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 14: Income Taxes (continued)

In April 2010, the Company filed its 2009 tax return and elected to carryback its reported NOL under the five-year carryback provision. In the second quarter of 2010, the Company received a tax refund with respect to its carryback in the amount of $391 million which it allocated to the members of its affiliated group in accordance with the tax allocation agreement. In September 2010, the Company filed a superseding and final tax return which reported an additional tax loss. A subsequent carryback claim was filed before December 31, 2010 requesting an additional refund of $41 million, which has been received and allocated among the members of MBIA.

Accounting for Uncertainty in Income Taxes

It is the Company s policy to record and disclose interest and penalties related to uncertainty in the accounting for income taxes as a component of income tax expense in the statements of operations. For the years ended December 31, 2011, 2010, and 2009, the Company recorded interest of $1.5 million, $0.6 million, and $0.5 million, respectively. As of December 31, 2011, 2010, and 2009 the amounts related to interest and penalties included in the consolidated balance sheets were not material.

The following table presents the change in the UTB during 2009, 2010 and 2011:

In millions		
Unrecognized tax positions as of January 1, 2009	$	19
The gross amount of the increase (decrease) in UTB as a result of tax positions taken:		
During a prior year		2
The amounts of decreases in the UTB related to settlement with taxing authorities:		(11)
Unrecognized tax positions as of December 31, 2009	$	10
The gross amount of the increase (decrease) in UTB as a result of tax positions taken:		
During a prior year		21
The reduction to UTB as a result of the applicable statute of limitations		(5)
Unrecognized tax positions as of December 31, 2010	$	26
The gross amount of the increase (decrease) in UTB as a result of tax positions taken:		
During a prior year		21
Unrecognized tax positions as of December 31, 2011	$	47

For the years ended December 31, 2011, 2010, and 2009, the portion of the UTB that, if recognized, would affect the effective tax rate was approximately $47 million, $25 million, and $9 million, respectively.

MBIA s major tax jurisdictions include the U.S. and the U.K. MBIA and its U.S. subsidiaries file a U.S. consolidated federal income tax return. The Internal Revenue Service (IRS) has concluded its field work with respect to the examination of tax years 2004 through 2009. On January 12, 2012, the Joint Committee on Taxation notified the Company that the results of the IRS field examination were reviewed and accepted.

The U.K. tax authorities are currently auditing tax years 2005 through 2009. The New York State tax authorities are currently auditing the New York State combined tax returns for the years 2005 through 2007. The Company expects the examinations to be concluded before December 31, 2012.

The total amount of UTB is expected to decrease within the next 12 months due to finalizing adjustments and concluding all significant tax examinations. The range of this possible change to the amount of the unrecognized tax benefit is $20 million to $25 million.

As of December 31, 2011, the Company has a 2008 capital loss carryforward of $155 million which will expire in 2013. The Company also has a cumulative NOL carryforward of $943 million, which will expire from tax years 2029 through 2031, and a minimum tax credit carryforward of $22 million, which has an unlimited carryforward period.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 15: Business Segments

MBIA manages its activities through three principal business operations: U.S. public finance insurance, structured finance and international insurance, and advisory services. The Company s U.S. public finance insurance business is operated through National, its structured finance and international insurance business is operated through MBIA Corp., and its advisory services business is operated through Cutwater. MBIA Inc. and certain of its subsidiaries also manage certain other business activities, the results of which are reported in its corporate, asset/liability products, and conduit segments. The corporate segment includes revenues and expenses that arise from general corporate activities. While the asset/liability products and conduit businesses represent separate business segments, they may be referred to collectively as wind-down operations as the funding programs managed through those businesses are in wind-down.

As defined by segment reporting, an operating segment is a component of a company (i) that engages in business activities from which it earns revenue and incurs expenses, (ii) whose operating results are regularly reviewed by the Chief Operating Decision Maker to assess the performance of the segment and to make decisions about the allocation of resources to the segment and, (iii) for which discrete financial information is available. The following sections provide a description of each of the Company s reportable operating segments.

U.S. Public Finance Insurance

The Company s U.S. public finance insurance segment is principally conducted through National. The financial guarantees issued by National provide unconditional and irrevocable guarantees of the payment of principal of, and interest or other amounts owing on, U.S. public finance insured obligations when due. The obligations are generally not subject to acceleration, except that National may have the right, at its discretion, to accelerate insured obligations upon default or otherwise. National issues financial guarantees for 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. National has not written any meaningful amount of business since its formation in 2009.

Structured Finance and International Insurance

The Company s structured finance and international insurance segment is principally conducted through MBIA Corp. The financial guarantees issued by MBIA Corp. generally provide unconditional and irrevocable guarantees of the payment of principal of, and interest or other amounts owing on, global structured finance and non-U.S. public finance 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 guaranteed investment contracts written by MBIA Inc. are insured by MBIA Corp., and if MBIA Inc. were to have insufficient assets to pay amounts due upon maturity or termination, MBIA Corp. would make such payments. MBIA Corp. also insures debt obligations of the following affiliates:

MBIA Inc.;

GFL;

Meridian Funding Company LLC;

LaCrosse Financial Products, LLC (LaCrosse), a wholly-owned affiliate, in which MBIA Corp. has written insurance policies guaranteeing the obligations under credit default swaps (CDS), including termination payments that may become due upon certain events including the insolvency or payment default by MBIA Corp. or LaCrosse; and

Triple-A One.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 15: Business Segments (continued)

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-related and sub-sovereign issuers. Structured finance and 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. The Company is no longer insuring new credit derivative contracts except for transactions related to the reduction of existing derivative exposure. MBIA Corp. has not written any meaningful amount of business since 2008.

In 2010, the accounting guidance for the consolidation of VIEs was amended and the Company was required to consolidate certain entities that are designed as VIEs where MBIA has contractual rights under insurance policies to direct the activities of the VIE when performance and other triggers were breached. The Company does not believe there is any difference in the risks and profitability of financial guarantees provided to VIEs compared with other financial guarantees written by MBIA. Refer to Note 3: Recent Accounting Pronouncements for information on accounting guidance that affected the consolidation of VIEs.

Advisory Services

The advisory services segment primarily consists of the operations of Cutwater-ISC, Cutwater Asset Management Corp. (Cutwater-AMC), and Cutwater Asset Management U.K. Limited (Cutwater-UK). Cutwater-ISC and Cutwater-AMC offers advisory services, including cash management, discretionary asset management and structured products on a fee-for-service basis. The Company offers these services to public, not-for-profit, corporate and financial services clients, including the Company and its subsidiaries, as well as portfolio accounting and reporting services. Cutwater-ISC and Cutwater-AMC are Securities and Exchange Commission (SEC) registered investment advisers. Cutwater-AMC is also a Financial Industry Regulatory Authority member firm. Cutwater-UK provides fee-based asset management services to the Company s foreign insurance affiliates and Euro Asset Acquisition Limited (EAAL), and to third-party institutional clients and investment structures. Cutwater-UK is registered with the Financial Services Authority in the U.K.

Corporate

The Company s corporate segment is a reportable segment and includes revenues and expenses that arise from general corporate activities, such as fees, net investment income, net gains and losses, interest expense on MBIA Inc. debt and general corporate expenses. In the first quarter of 2010, MBIA established a service company, Optinuity Alliance Resources Corporation, which provides general support services to the corporate segment and other operating businesses. Employees of the service company provide various support services including management, legal, accounting, treasury, information technology, and insurance portfolio surveillance, among others, on a fee-for-service basis. The service company s revenues and expenses are included in the results of the corporate segment.

Wind-down Operations

The Company s wind-down operations consist of the asset/liability products and conduit segments.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 15: Business Segments (continued)

The asset/liability products segment principally consists of the activities of MBIA Inc., MBIA Investment Management Corp. (IMC), GFL and EAAL. IMC, along with MBIA Inc., provided customized investment agreements, guaranteed by MBIA Corp., for bond proceeds and other public funds for such purposes as construction, loan origination, escrow and debt service or other reserve fund requirements. It has also provided customized products for funds that are invested as part of asset-backed or structured product transactions. GFL raises funds through the issuance of MTNs with varying maturities, which are, in turn, guaranteed by MBIA Corp. GFL lends the proceeds of these MTN issuances to MBIA Inc. (GFL Loans). MBIA Inc. invests the proceeds of investment agreements and GFL Loans in eligible investments, which consisted of investment grade securities at the time of purchase with a minimum average double-A credit quality rating. MBIA Inc. primarily purchases domestic securities, which are pledged to MBIA Corp. as security for its guarantees on investment agreements

and MTNs. Additionally, MBIA Inc. loans a portion of the proceeds from investment agreements and MTNs to EAAL. EAAL primarily purchases foreign assets as permitted under the Company s investment guidelines.

The Company s conduit segment administers two conduits through MBIA Asset Finance, LLC. Assets financed by these conduits are currently funded by MTNs and liquidity loans.

The ratings downgrades of MBIA Corp. have resulted in a substantial reduction of funding activities and the termination and collateralization of certain investment agreements, as well as winding down of existing asset/liability products and conduit obligations.

Segment Results

The following tables provide the Company s segment results for the years ended December 31, 2011, 2010 and 2009:

	Year Ended December 31, 2011						
In millions	**U.S. Public Finance Insurance**	**Structured Finance and International Insurance**	**Advisory Services**	**Corporate**	**Wind-down Operations**	**Eliminations**	**Consolidated**
Revenues[1]	$ 599	$ 319	$ 26	$ 4	$ 90	$	$ 1,038
Realized gains and other settlements on insured derivatives	2	(2,373)					(2,371)
Unrealized gains (losses) on insured derivatives		(441)					(441)
Net gains (losses) on financial instruments at fair value and foreign exchange	96	58		23	(276)		(99)
Net investment losses related to other-than-temporary impairments		(62)		(8)	(31)		(101)
Net gains (losses) on extinguishment of debt					24	2	26
Other net realized gains (losses)	(31)	1		25	4		(1)
Revenues of consolidated VIEs		361			31		392
Inter-segment revenues[2]	79	91	41	152	(23)	(340)	
Total revenues	745	(2,046)	67	196	(181)	(338)	(1,557)
Loss and loss adjustment expense	4	(84)					(80)

Operating expenses	52	166	58	92	3		371
Interest expense		133		58	109		300
Expenses of consolidated VIEs		70			21		91
Inter-segment expenses[2]	114	124	6	22	95	(361)	
Total expenses	170	409	64	172	228	(361)	682
Income (loss) before taxes	$ 575	$ (2,455)	$ 3	$ 24	$ (409)	$ 23	$ (2,239)
Identifiable assets	$ 7,848	$ 19,985	$ 53	$ 829	$ 5,203	$ (7,045) [3]	$ 26,873

(1) Represents the sum of third-party financial guarantee net premiums earned, net investment income, insurance-related fees and reimbursements, investment fees and other fees.

(2) Represents intercompany premium income and expense, intercompany asset management fees and expenses, and intercompany interest income and expense pertaining to intercompany receivable and payables.

(3) Consists of intercompany reinsurance balances, repurchase agreements and loans.

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Note 15: Business Segments (continued)

	Year Ended December 31, 2010						
In millions	**U.S. Public Finance Insurance**	**Structured Finance and International Insurance**	**Advisory Services**	**Corporate**	**Wind-down Operations**	**Eliminations**	**Consolidated**
Revenues[1]	$ 601	$ 463	$ 30	$ 4	$ 113	$	$ 1,211
Realized gains and other settlements on insured derivatives	1	(163)					(162)
Unrealized gains (losses) on insured derivatives		(607)					(607)
Net gains (losses) on financial instruments at fair value and foreign exchange	55	135	2	(28)	(76)		88
Net investment losses related to other-than-temporary impairments		(5)			(59)		(64)
Net gains (losses) on extinguishment of debt					35		35
Other net realized gains (losses)		29					29
Revenues of consolidated VIEs		246			96	22	364
Inter-segment revenues[2]	93	113	38	94	(18)	(320)	
Total revenues	750	211	70	70	91	(298)	894
Loss and loss adjustment expense	73	159					232
Operating expenses	43	149	64	89	4		349
Interest expense		135		65	125		325
Expenses of consolidated VIEs		64			19		83
Inter-segment expenses[2]	104	135	7	14	60	(320)	
Total expenses	220	642	71	168	208	(320)	989
Income (loss) before taxes	$ 530	$ (431)	$ (1)	$ (98)	$ (117)	$ 22	$ (95)
Identifiable assets	$ 8,436	$ 23,980	$ 54	$ 653	$ 6,432	$ (7,276) [3]	$ 32,279

(1) Represents the sum of third-party financial guarantee net premiums earned, net investment income, insurance-related fees and reimbursements, investment fees and other fees.

(2) Represents intercompany premium income and expense, intercompany asset management fees and expenses, and intercompany interest income and expense pertaining to intercompany receivable and payables.

(3) Consists of intercompany reinsurance balances, repurchase agreements and loans.

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Notes to Consolidated Financial Statements

Note 15: Business Segments (continued)

	Year Ended December 31, 2009						
In millions	**U.S. Public Finance Insurance**	**Structured Finance and International Insurance**	**Advisory Services**	**Corporate**	**Wind-down Operations**	**Eliminations**	**Consolidated**
Revenues[1]	$ 638	$ 593	$ 32	$ 4	$ 193	$	$ 1,460
Realized gains and other settlements on insured derivatives	1	(167)					(166)
Unrealized gains (losses) on insured derivatives		1,650					1,650
Net gains (losses) on financial instruments at fair value and foreign exchange	23	59		(3)	146		225
Net investment losses related to other-than-temporary impairments		(9)			(352)		(361)
Net gains (losses) on extinguishment of debt		13		4	203	5	225
Other net realized gains (losses)		(64)			4		(60)
Revenues of consolidated VIEs		(58)			39		(19)
Inter-segment revenues[2]	146	177	22	19	(3)	(361)	
Total revenues	808	2,194	54	24	230	(356)	2,954
Loss and loss adjustment expense	94	770					864
Operating expenses	38	260	48	24	27		397
Interest expense		136		69	169		374
Expenses of consolidated VIEs		88			14		102
Inter-segment expenses[2]	125	116	1		116	(358)	
Total expenses	257	1,370	49	93	326	(358)	1,737
Income (loss) before income taxes	$ 551	$ 824	$ 5	$ (69)	$ (96)	$ 2	$ 1,217
Identifiable assets	$ 8,184	$ 16,447	$ 125	$ 1,276	$ 8,092	$ (8,423) [3]	$ 25,701

(1) Represents the sum of third-party financial guarantee net premiums earned, net investment income, insurance-related fees and reimbursements, investment fees and other fees.

(2) Represents intercompany premium income and expense, intercompany asset management fees and expenses, and intercompany interest income and expense pertaining to intercompany receivable and payables.

(3) Consists of intercompany reinsurance balances, repurchase agreements and loans.

Premiums on financial guarantees and insured derivatives reported within the Company s insurance segments are generated within and outside the U.S. The following table summarizes premiums earned on financial guarantees and insured derivatives by geographic location of risk for the

years ended December 31, 2011, 2010 and 2009:

In millions	Years Ended December 31, 2011	2010	2009
Total premiums earned:			
United States	$ 545	$ 555	$ 661
United Kingdom	37	35	29
Europe (excluding United Kingdom)	29	23	21
Internationally diversified	33	41	83
Central and South America	36	40	41
Asia	15	9	17
Other	13	11	16
Total	$ 708	$ 714	$ 868

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Notes to Consolidated Financial Statements

Note 15: Business Segments (continued)

The following tables provide the results of the segments within the wind-down operations for the years ended December 31, 2011, 2010 and 2009:

	Year Ended December 31, 2011			
In millions	**Asset / Liability Products**	**Conduits**	**Eliminations**	**Total Wind-down Operations**
Revenues[1]	$ 90	$	$	$ 90
Net gains (losses) on financial instruments at fair value and foreign exchange	(276)			(276)
Net investment losses related to other-than-temporary impairments	(31)			(31)
Net gains (losses) on extinguishment of debt	24			24
Other net realized gains (losses)	4			4
Revenues of consolidated VIEs	11	20		31
Inter-segment revenues[2]	(19)	(4)		(23)
Total revenues	(197)	16		(181)
Operating expenses	3			3
Interest expense	109			109
Expenses of consolidated VIEs	2	19		21
Inter-segment expenses[2]	29	66		95
Total expenses	143	85		228
Income (loss) before taxes	$ (340)	$ (69)	$	$ (409)
Identifiable assets	$ 3,752	$ 1,531	$ (80)	$ 5,203

(1) Represents the sum of third-party interest income, investment management services fees and other fees.

(2) Represents intercompany asset management fees and expenses plus intercompany interest income and expense pertaining to intercompany debt.

	Year Ended December 31, 2010			
In millions	**Asset / Liability Products**	**Conduits**	**Eliminations**	**Total Wind-down Operations**
Revenues[1]	$ 109	$ 4	$	$ 113
Net gains (losses) on financial instruments at fair value and foreign exchange	(76)			(76)
Net investment losses related to other-than-temporary impairments	(59)			(59)

Net gains (losses) on extinguishment of debt	35			35
Other net realized gains (losses)	0			0
Revenues of consolidated VIEs	44	52		96
Inter-segment revenues[2]	(13)	(4)	(1)	(18)
Total revenues	40	52	(1)	91
Operating expenses	5	(1)		4
Interest expense	125			125
Expenses of consolidated VIEs	0	19		19
Inter-segment expenses[2]	58	3	(1)	60
Total expenses	188	21	(1)	208
Income (loss) before taxes	$ (148)	$ 31	$	$ (117)
Identifiable assets	$ 5,125	$ 1,565	$ (258)	$ 6,432

(1) Represents the sum of third-party interest income, investment management services fees and other fees.

(2) Represents intercompany asset management fees and expenses plus intercompany interest income and expense pertaining to intercompany debt.

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Note 15: Business Segments (continued)

	Year Ended December 31, 2009			
In millions	**Asset / Liability Products**	**Conduits**	**Eliminations**	**Total Wind-down Operations**
Revenues[1]	$ 192	$ 1	$	$ 193
Net gains (losses) on financial instruments at fair value and foreign exchange	146			146
Net investment losses related to other-than-temporary impairments	(352)			(352)
Net gains (losses) on extinguishment of debt	203			203
Other net realized gains (losses)	4			4
Revenues of consolidated VIEs	(13)	52		39
Inter-segment revenues[2]	(1)	(3)	1	(3)
Total revenues	179	50	1	230
Operating expenses	25	2		27
Interest expense	169			169
Expenses of consolidated VIEs	0	14		14
Inter-segment expenses[2]	112	5	(1)	116
Total expenses	306	21	(1)	326
Income (loss) before taxes	$ (127)	$ 29	$ 2	$ (96)
Identifiable assets	$ 6,191	$ 1,992	$ (91)	$ 8,092

(1) Represents the sum of third-party interest income, investment management services fees and other fees.

(2) Represents intercompany asset management fees and expenses plus intercompany interest income and expense pertaining to intercompany debt.

Note 16: Insurance in Force

MBIA guarantees the payment of principal of, and interest or other amounts owing on, municipal, asset-backed, mortgage-backed and other non-municipal securities. Additionally, MBIA Corp. has insured CDS primarily on pools of collateral, which it previously considered part of its core financial guarantee business. The pools of collateral are made up of corporate obligations, but also include commercial and RMBS-related assets. MBIA s insurance in force represents the aggregate amount of the insured principal of, and interest or other amounts owing on, insured obligations. MBIA s ultimate exposure to credit loss in the event of nonperformance by the issuer of the insured obligation is represented by the insurance in force in the tables that follow.

The financial guarantees issued by MBIA provide unconditional and irrevocable guarantees of the payment of the principal of, and interest or other amounts owing on, insured obligations when due. The obligations are generally not subject to acceleration, except that MBIA may have

the right, at its discretion, to accelerate insured obligations upon default or otherwise. Certain guaranteed investment contracts written by MBIA Inc. and guaranteed by MBIA Corp. are terminable based upon the credit ratings downgrades of MBIA Corp. and if MBIA Inc. were to have insufficient assets to pay the termination payments, MBIA Corp. s insurance coverage would be drawn on to make such payments. These amounts have been excluded in the tables that follow.

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

National and MBIA Corp. maintain underwriting guidelines based on those aspects of credit quality that it deems important for each category of obligation considered for insurance.

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Note 16: Insurance in Force (continued)

As of December 31, 2011, insurance in force, which represents principal and interest or other amounts owing on insured obligations, had an expected maturity range of 1 to 46 years. The distribution of MBIA Corp. s and National s combined insurance in force by geographic location, excluding $4.4 billion and $4.9 billion relating to transactions guaranteed by MBIA Corp. on behalf of various investment management services affiliated companies as of December 31, 2011 and 2010, respectively, is presented in the following table:

In billions	As of December 31, 2011		2010	
Geographic Location	Insurance in Force	% of Insurance in Force	Insurance in Force	% of Insurance in Force
California	$ 125.0	14.9%	$ 144.5	14.1%
New York	62.3	7.4%	73.4	7.2%
Florida	47.9	5.7%	58.0	5.7%
Texas	41.7	5.0%	49.7	4.8%
Illinois	41.2	4.9%	46.1	4.5%
New Jersey	30.3	3.6%	34.3	3.4%
Washington	22.8	2.7%	26.9	2.6%
Michigan	21.1	2.5%	24.3	2.4%
Pennsylvania	18.5	2.2%	24.8	2.4%
Massachusetts	15.1	1.8%	20.9	2.0%
Subtotal	425.9	50.7%	502.9	49.1%
Nationally diversified	102.4	12.2%	147.7	14.4%
Other states	224.2	26.7%	268.5	26.2%
Total United States	752.5	89.6%	919.1	89.7%
Internationally diversified	28.9	3.4%	36.9	3.6%
Country specific	58.7	7.0%	69.0	6.7%
Total non-United States	87.6	10.4%	105.9	10.3%
Total	$ 840.1	100.0%	$ 1,025.0	100.0%

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Notes to Consolidated Financial Statements

Note 16: Insurance in Force (continued)

The insurance in force by type of bond, excluding transactions guaranteed by MBIA Corp. on behalf of various investment management services affiliated companies, is presented in the following table:

In billions	As of December 31, 2011		2010	
Bond Type	Insurance in Force	% of Insurance in Force	Insurance in Force	% of Insurance in Force
Global public finance United States:				
General obligation	$ 234.3	27.9%	$ 278.7	27.2%
General obligation lease	51.7	6.2%	60.2	5.9%
Municipal utilities	117.0	13.9%	138.8	13.5%
Tax-backed	86.3	10.3%	98.9	9.6%
Transportation	68.3	8.1%	84.5	8.2%
Higher education	36.9	4.4%	42.5	4.1%
Health care	16.9	2.0%	21.4	2.1%
Military housing	19.4	2.3%	20.5	2.0%
Investor-owned utilities[1]	11.5	1.4%	13.5	1.3%
Municipal housing	9.4	1.1%	11.0	1.1%
Student loans	2.1	0.3%	3.6	0.4%
Other[2]	2.8	0.3%	3.8	0.4%
Total United States	656.6	78.2%	777.4	75.8%
Global public finance non-United States:				
International utilities	16.2	1.9%	18.6	1.8%
Sovereign-related and sub-sovereign[3]	18.6	2.2%	20.3	2.0%
Transportation	15.0	1.8%	15.9	1.6%
Local governments[4]	0.5	0.1%	0.6	0.1%
Health care	0.1	0.0%	0.0	0.0%
Tax backed	0.2	0.0%	0.2	0.0%
Total non-United States	50.6	6.0%	55.6	5.5%
Total global public finance	707.2	84.2%	833.0	81.3%

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Note 16: Insurance in Force (continued)

In billions	As of December 31, 2011		2010	
Bond Type	Insurance in Force	% of Insurance in Force	Insurance in Force	% of Insurance in Force
Global structured finance:				
Collateralized debt obligations[5]	78.7	9.4%	123.5	12.1%
Mortgage-backed residential	21.1	2.5%	24.1	2.4%
Mortgage-backed commercial	4.4	0.5%	5.4	0.5%
Consumer asset-backed:				
Auto loans	0.7	0.1%	2.2	0.2%
Student loans	1.7	0.2%	1.9	0.2%
Manufactured housing	2.2	0.3%	2.5	0.2%
Other consumer asset-backed	0.2	0.0%	0.4	0.0%
Corporate asset-backed:				
Operating assets:				
Aircraft portfolio lease securitizations	3.2	0.4%	4.5	0.4%
Rental car fleets		0.0%	0.3	0.0%
Secured airline equipment securitization (EETC)	3.2	0.3%	3.5	0.3%
Other operating assets	0.7	0.1%	0.9	0.1%
Structured insurance securitizations	7.5	0.9%	9.2	0.9%
Franchise assets	1.3	0.2%	1.6	0.2%
Intellectual property	1.9	0.2%	3.7	0.4%
Future flow	0.4	0.0%	1.2	0.1%
Other corporate asset-backed	5.7	0.7%	7.1	0.7%
Total global structured finance	132.9	15.8%	192.0	18.7%
Total	$ 840.1	100.0%	$ 1,025.0	100.0%

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

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

(3) 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.

(4) Includes municipal owned entities backed by sponsoring local government.

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

The insurance operations have entered into certain guarantees of derivative contracts, included in the preceding tables, which are accounted for as derivative instruments. MBIA generally guarantees the timely payment of principal and interest related to these derivatives upon the occurrence of a credit event with respect to a referenced obligation. The maximum amount of future payments that MBIA may be required to make under these guarantees is $73.1 billion. MBIA s guarantees of derivative contracts have a legal maximum maturity range of 1 to 71 years. A small number of insured credit derivative contracts have long-dated maturities, which comprise the longest maturity dates of the underlying collateral. However, the expected maturities of such contracts are much shorter due to amortizations and prepayments in the underlying collateral pools. The fair values of these guarantees as of December 31, 2011 and 2010 are recorded on the consolidated balance sheets as derivative liabilities, representing gross losses, of $4.8 billion and $4.4 billion, respectively.

In the fourth quarter of 2011, MBIA entered into credit derivative contracts to economically hedge $1.3 billion of gross insurance in force related to two insured CDS transactions referencing CRE CDOs and one structured CMBS pool. These credit derivative contracts were entered into in connection with commutations agreed to in the fourth quarter of 2011 that the Company expects to settle during 2012, at which time the credit derivatives will terminate and the hedged exposure will be eliminated. These derivative contracts are discussed further in Note 10: Derivative Instruments.

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Note 16: Insurance in Force (continued)

Investment agreement contracts and MTNs issued by the Company s asset/liability products segment are insured by MBIA Corp. and are not included in the previous tables. If MBIA Inc. or these subsidiaries were to have insufficient assets to pay amounts due, MBIA Corp. would make such payments under its insurance policies. As of December 31, 2011, the maximum amount of future payments that MBIA Corp. could be required to make under these guarantees is $4.4 billion. These guarantees, which have a maximum maturity range of 1 to 36 years, were entered into on an arm s length basis and are fully collateralized by marketable securities. MBIA Corp. has both direct recourse provisions and subrogation rights in these transactions. If MBIA Corp. is required to make a payment under any of these affiliate guarantees, it would have the right to seek reimbursement from such affiliate and to liquidate any collateral to recover amounts paid under the guarantee.

Reinsured Exposure

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. As of December 31, 2011, the use of reinsurance was immaterial to the insurance operations business and the Company expects that it will continue to be immaterial in the future.

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, 2011, 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.

The aggregate amount of insurance in force ceded by MBIA to reinsurers was $7.5 billion and $9.8 billion as of December 31, 2011 and 2010, respectively. For Financial Guaranty Insurance Company (FGIC) policies assigned to National from MBIA, National maintains the right to receive third-party reinsurance totaling $9.1 billion and $10.4 billion of insured par outstanding as of December 31, 2011 and 2010, respectively. The aggregate amount of insurance in force for FGIC policies is $16.1 billion and $18.3 billion as of December 31, 2011 and 2010, respectively.

As of December 31, 2011, the aggregate amount of insured par outstanding ceded by MBIA to reinsurers under reinsurance agreements was $4.3 billion compared with $5.7 billion as of December 31, 2010. The following table presents information about the Company s reinsurance agreements as of December 31, 2011 for its U.S. public finance and structured finance and international insurance operations.

In millions

Reinsurers	Standard & Poor s Rating (Status)	Moody s Rating (Status)	Ceded Par Outstanding	LOC / Trust Accounts	Reinsurance Recoverable[1]
Assured Guaranty Corp.	AA- (Stable Outlook)	Aa3 (Negative Outlook)	$ 3,235	$	$ 16
Assured Guaranty Re Ltd.	AA- (Stable Outlook)	A1 (Negative Outlook)	542	5	0
Overseas Private Investment Corporation	AA+	Aaa	320		

	(Negative Outlook)	(Negative Outlook)			
Export Development Canada	AAA	Aaa			
	(Stable)	(Stable)	77	1	
Others	A+	A1			
	or above	or above	95	1	0
Total			$ 4,269	$ 7	$ 16

(1) Total reinsurance recoverable of $16 million comprised recoverables on paid and unpaid losses of $1 million and $15 million, respectively.

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Notes to Consolidated Financial Statements

Note 16: Insurance in Force (continued)

Since December 2007, several of the Company s financial guarantee reinsurers, including Assured Guaranty Corp., Assured Guaranty Re Ltd., and Old Republic Insurance Co. have had their credit ratings either downgraded or put on negative watch by one or more of the major rating agencies. Although there was no material impact on the Company for any of these rating agency actions relating to these reinsurers, a further deterioration in the financial condition of one or more of these reinsurers could require the establishment of reserves against any receivables due from the reinsurers.

Premium Summary

The components of financial guarantee net premiums earned, including premiums assumed from and ceded to other companies, are presented in the following table:

	Years Ended December 31,		
In millions	**2011**	**2010**	**2009**
Net premiums earned:			
Direct	$ 505	$ 516	$ 726
Assumed	112	106	107
Gross	617	622	833
Ceded	(12)	(28)	(87)
Net	$ 605	$ 594	$ 746

For the years ended December 31, 2011, 2010 and 2009, recoveries received on claims for financial guarantee policies under reinsurance contracts totaled $10 million, $21 million and $41 million, respectively. Ceding commissions from reinsurance, before deferrals and net of returned ceding commissions, were revenue of $3 million, $7 million and $6 million for the years December 31, 2011, 2010, and 2009, respectively.

Note 17: Insurance Regulations and Dividends

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

The NYIL regulates the payment of dividends by financial guarantee insurance companies and provides that such companies may not declare or distribute dividends except out of statutory earned surplus. Under the NYIL, 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 reported in the latest statutory financial statements and (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 Superintendent of the NYSDFS approves a greater dividend distribution based upon a finding that the insurer will retain sufficient surplus to support its obligations.

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Notes to Consolidated Financial Statements

Note 17: Insurance Regulations and Dividends (continued)

In 2011, MBIA Corp. did not declare or pay any dividends to MBIA Inc. or the holders of its preferred stock. MBIA Corp. is currently unable to pay dividends, including those related to its preferred stock, as a result of its earned surplus deficit as of December 31, 2011 and is not expected to have any statutory capacity to pay any dividends in the near term. In connection with MBIA Corp. obtaining approval from the NYSDFS to release excessive contingency reserves as of September 30, 2011 and December 31, 2011, as described below, MBIA Corp. agreed that it would not pay any dividends without prior approval from the NYSDFS.

Effective January 1, 2010, National was granted a permitted practice by the NYSDFS to reset its unassigned surplus to zero. Previously, National had an unassigned surplus deficit principally as a result of the 2009 reinsurance transaction between MBIA Corp. and National. The reset provides National with dividend capacity of $142 million and $91 million as of December 31, 2011 and 2010, respectively. National did not declare or pay any dividends during 2011 or 2010. In October 2010, the plaintiffs in the Transformation litigation initiated a court proceeding challenging the approval of the surplus reset. Refer to Note 23: Commitments and Contingencies for further information on the Transformation litigation. In connection with this court proceeding, we have agreed that National will not pay dividends during the current adjournment of the proceeding (i.e., through April 19, 2012). In addition, in connection with the approval of a release of excessive contingency reserves as of December 31, 2011 in MBIA Insurance Corporation, as described below, the Company has agreed that National will not pay dividends without the prior approval of the NYSDFS prior to July 19, 2013 (i.e., for an additional 15 months after the expiration of the current adjournment period in the court proceeding).

As a result of the establishment of National and the reinsurance of the MBIA Corp. and FGIC portfolios by National, National and MBIA Corp. exceeded as of the closing date certain single and aggregate risk limits under the NYIL. These insurers obtained waivers from the NYSDFS of such limits. In connection with the waivers, they submitted a plan to the NYSDFS 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 NYSDFS required that, in addition to complying with these plans, upon written notice from the NYSDFS, 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. In 2010, National was not in compliance with its single or aggregate risk limits requirements, while MBIA Corp. was in compliance with its aggregate but not its single risk limits requirements. As of December 31, 2011, both National and MBIA Corp. satisfied their aggregate risk limits requirement but not their single-risk limits requirements. To date, no such notice has been received from the NYSDFS. In 2011 and 2010, MBIA Corp. reported a *de minimis* number of additional overages to the NYSDFS due to changes in its statutory capital.

Under the NYIL, MBIA Insurance Corporation is also required to establish a contingency reserve to provide protection to policyholders in the event of extreme losses in adverse economic events. The amount of the reserve is based on the percentage of principal insured or premiums earned, depending on the type of obligation (net of collateral, reinsurance, refunding, refinancings and certain insured securities). Under the NYIL, MBIA Insurance Corporation is required to invest its minimum surplus and contingency reserves, and 50% of its loss reserves and unearned premium reserves, in certain qualifying assets. Reductions in the contingency reserve may be recognized based on excess reserves and under certain stipulated conditions, subject to the approval of the Superintendent of the NYSDFS. Pursuant to approval granted by the NYSDFS in accordance with NYIL, and subject to the conditions of the approval as noted above, as of December 31, 2011, MBIA Insurance Corporation released to surplus an aggregate of $582 million of contingency reserves. Absent this release, MBIA Insurance Corporation would have had a short-fall of $582 million of qualifying assets to meet its requirement as a result of its use of cash to pay claims and to effect commutations, and as a result of the failure of certain mortgage originators to honor contractual obligations to repurchase ineligible mortgage loans from securitizations MBIA Corp. had insured. Including the above release, pursuant to approvals granted by the NYSDFS in accordance with NYIL, during 2011, MBIA Insurance Corporation released to surplus an aggregate of $900 million of excessive contingency reserves.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 17: Insurance Regulations and Dividends (continued)

Consolidated results of operations for MBIA Corp. determined in accordance with statutory accounting practices for the years ended December 31, 2011 and 2010 were net losses of $477 million and $434 million, respectively. As of December 31, 2011, MBIA Corp. s statutory capital was $2.3 billion, consisting of policyholders surplus of $1.6 billion and contingency reserve of $706 million. As of December 31, 2010, MBIA Corp. had statutory capital of $2.7 billion.

For the years ended December 31, 2011 and 2010, National had statutory net income of $478 million and $409 million, respectively. As of December 31, 2011, National s statutory capital was $2.8 billion, consisting of policyholders surplus of $1.4 billion and contingency reserves of $1.4 billion. As of December 31, 2010, National had statutory capital of $2.4 billion.

Note 18: Pension and Profit Sharing Plans

The Company maintains a qualified non-contributory defined contribution pension plan to which the Company contributes 10% of each eligible employee s annual compensation. Annual compensation for determining such contributions consists of base salary, bonus and commissions, as applicable. Pension benefits vest over a five-year period with 20% vested after two years, 60% vested after three years, 80% vested after four years and 100% vested after five years. The Company funds the annual pension contribution by the following February of each applicable year. Pension expense related to the Company s qualified pension plan for the years ended December 31, 2011, 2010 and 2009 was $6 million, $7 million, and $6 million, respectively.

The Company also maintains a qualified profit sharing/401(k) plan. The plan is a voluntary contributory plan that allows eligible employees to defer compensation for federal income tax purposes under Section 401(k) of the Internal Revenue Code of 1986, as amended. Employees may contribute, through payroll deductions, up to 25% of eligible compensation. The Company matches employee contributions up to the first 5% of such compensation. The 401(k) matching contributions are made in the form of cash, whereby participants may direct the Company match to an investment of their choice. The benefit of the Company s contributions vest over a five-year period with 20% vested after two years, 60% vested after three years, 80% vested after four years and 100% vested after five years. Generally, a participating employee is entitled to distributions from the plans upon termination of employment, retirement, death or disability. Participants who qualify for distribution may receive a single lump sum, transfer the assets to another qualified plan or individual retirement account, or receive a series of specified installment payments. Profit sharing/401(k) expense related to the Company s qualified plan for the years ended December 31, 2011, 2010 and 2009 was $4 million, $3 million, and $3 million, respectively.

In addition to the above two plans, the Company maintains a non-qualified deferred compensation plan. Contributions to the above qualified plans that exceed limitations established by federal regulations are then contributed to the non-qualified deferred compensation plan. The non-qualified pension expense for the years ended December 31, 2011, 2010 and 2009 was $2 million, $3 million, and $2 million, respectively. The non-qualified profit sharing/401(k) expense for each of the years ended December 31, 2011, 2010 and 2009 was $1 million for each applicable year.

The Company maintains voluntary retirement benefits, which provide certain benefits to eligible employees of the Company upon retirement. A description of these benefits is included in the Company s proxy statement.

Note 19: Long-term Incentive Plans

Plan Description

The Company maintains the MBIA Inc. 2005 Omnibus Incentive Plan (the Omnibus Plan). Under the Omnibus Plan, a maximum of 6,000,000 shares of the Company s common stock can be used for any type of award including stock options, performance shares, performance units, restricted stock, restricted stock units and dividend equivalents. On May 7, 2009, the Company s shareholders approved an increase in the total number of shares of common stock reserved and available for issuance under the Omnibus Plan from 6,000,000 shares to 10,000,000 shares.

Any shares issued under the Omnibus Plan in connection with stock options shall be counted against this limit as one share covered by such option. For all awards other than stock options, any shares issued shall be counted against this limit as two shares for every share issued.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 19: Long-term Incentive Plans (continued)

The stock option component of the Omnibus Plan enables key employees of the Company and its subsidiaries to acquire shares of common stock of the Company or to benefit from appreciation in the price of the common stock of the Company. The stock option grants, which may be awarded every year, provide the right to purchase shares of common stock at the fair value of the stock on the date of the grant. Options granted will either be Incentive Stock Options (ISOs), where they qualify under Section 422(a) of the Internal Revenue Code, or Non-Qualified Stock Options (NQSOs). ISOs and NQSOs are granted at a price not less than 100% of the fair value, defined as the closing price on the grant date, of the Company s common stock. Options are exercisable as specified at the time of grant depending on the level of the recipient (generally four or five years) and expire either seven or ten years from the date of grant (or shorter if specified or following termination of employment).

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

Following the effective date of the Omnibus Plan, no new options or awards were granted under any of the prior plans authorized by the shareholders and all shares authorized but unissued were canceled. All stock awards granted under the prior plans and subsequently canceled or expired after the effective date of the Omnibus Plan, become available for grant under the Omnibus Plan.

In 2011, no options were granted and 225,874 options were canceled or expired. In 2011, 235,050 restricted shares were granted, no restricted share units were granted, 58,466 restricted shares were forfeited and no restricted share units were canceled. This restricted share activity affects the available share balance for future grants under the Omnibus Plan at a two-for-one ratio. There were 6,533,715 shares available for future grants under the Omnibus Plan as of December 31, 2011.

The shareholders of the Company approved a restricted share grant for the CEO which was granted in February 2009. The grant did not reduce the shares available for grant under the Omnibus Plan, as the grant was separately approved by the shareholders of the Company. In addition, the vesting schedule of the grant is linked to the Company s market value performance. For further information regarding performance based awards, please refer to the *Performance Based Awards* section of this note.

In accordance with accounting guidance for share-based payments, the Company expenses the fair value of employee stock options and other forms of stock-based compensation. In addition, the guidance classifies share-based payment awards as either liability awards, which are remeasured at fair value at each balance sheet date, or equity awards, which are measured on the grant date and not subsequently remeasured. Generally, awards with cash-based settlement, repurchase features or that are settled at a fixed dollar amount are classified as liability awards, and changes in fair value will be reported in earnings. Awards with net-settlement features or that permit a cashless exercise with third-party brokers are classified as equity awards and changes in fair value are not reported in earnings. The Company s long-term incentive plans include features which result in both liability and equity awards. For liability awards, the Company remeasures these awards at each balance sheet date. In addition, the guidance requires the use of a forfeiture estimate. The Company uses historical employee termination information to estimate the forfeiture rate applied to current stock-based awards.

The Company maintains voluntary retirement benefits as discussed in Note 18: Pension and Profit Sharing Plans. One of the components of the retirement program for those employees that are retirement eligible is to continue to vest all outstanding stock options and restricted share awards linked to growth in modified book value beyond the retirement date in accordance with the original vesting terms and to immediately vest all outstanding time-based restricted share grants. The accounting guidance for share-based payment requires compensation costs for those employees to be recognized from the date of grant through the retirement eligible date, unless there is a risk of forfeiture, in which case the compensation cost is recognized in accordance with the original vesting schedule. Accelerated expense relating to this retirement benefit for both stock option awards and restricted stock awards has been included in the compensation expense amounts.

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Notes to Consolidated Financial Statements

Note 19: Long-term Incentive Plans (continued)

Restricted Stock

The fair value of the restricted shares awarded, determined on the grant date, was $2 million and $4 million, and the fair value of the restricted shares canceled was $1 million and $33 million for 2011 and 2010, respectively. Restricted shares have been recorded as unearned compensation, which is a component of paid-in capital within shareholders equity on the Company s consolidated balance sheets and have been included in Share-based compensation on the Company s consolidated statements of changes in shareholders equity. The amount of unearned compensation, net of estimated forfeitures, was $11 million as of December 31, 2011, which is expected to be recognized as expense over a weighted average period of 2.2 years. Unearned compensation is amortized to expense over the appropriate three- to five- year vesting period (except for a minor portion granted to members of the MBIA Inc. Board of Directors which is amortized over a ten-year period).

Compensation expense related to the restricted shares, net of estimated forfeitures, was $9 million, $6 million and $9 million for the years ended December 31, 2011, 2010 and 2009, respectively. The tax benefit related to the restricted share awards during 2011, 2010 and 2009 was $2 million, $2 million and $3 million, respectively. In addition, during 2011, 2010 and 2009 there was a tax charge of $1 million, respectively, for each of the years in paid-in capital related to the restricted shares that vested at a lower market value in comparison to the market value on the date of grant.

A summary of the Company s restricted shares outstanding as of December 31, 2011, 2010 and 2009, and changes during the years ended on those dates, is presented in the following table:

	Restricted Share Activity		
	2011	2010	2009
Outstanding at beginning of year	5,013,890	5,169,193	3,619,969
Granted	235,050	805,776	2,194,686
Vested	(308,692)	(48,009)	(77,847)
Forfeited	(58,466)	(913,070)	(567,615)
Outstanding at end of year	4,881,782	5,013,890	5,169,193

The following table presents the total number of restricted share awards granted during the last three years. The proxy officers are disclosed in the Company s proxy statement.

	Number of Restricted Shares Granted		
	2011	2010	2009
Proxy officers		600,000	1,291,990
Other	235,050	205,776	902,696
Total	235,050	805,776	2,194,686

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 19: Long-term Incentive Plans (continued)

Stock Options

The Company determines the fair value for stock option awards at the date of grant and is estimated using the Black-Scholes option pricing model. This model was developed for use in estimating the fair value of traded options that have no vesting restrictions, are fully transferable and contain both service and some performance conditions. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. During 2011, no stock option awards were granted. The number of significant options granted and the assumptions used for valuing such option grants during 2010 and 2009 are shown in the following table:

	March 2010	March 2009
Number of options granted	1,100,000	1,900,000
Exercise price	$ 5.05	$ 4.02
Dividend yield	0.000%	0.705%
Expected volatility	0.9938	0.8520
Risk-free interest rate	2.585%	2.209%
Expected option term (in years)	5.00	5.00

Employee stock option compensation expense, net of estimated forfeitures, for the years ended December 31, 2011, 2010, and 2009 totaled $4 million, $2 million and $6 million, respectively. During 2011, 2010, and 2009 there were no stock option awards exercised. During 2011 and 2010, the Company wrote off a deferred tax asset of $3 million and $2 million, respectively, related to the cancellation of fully vested stock option awards as a charge to paid-in capital. As of December 31, 2011, there was $5 million of total unrecognized compensation cost related to non-vested stock options. This amount is expected to be recognized as expense over a weighted average period of 1.6 years.

During the year ended December 31, 2011, no stock option awards were granted. The following table presents the total number of options granted during 2010 and 2009. The proxy officers are disclosed in the Company s proxy statement.

	Number of Options Granted	
	2010	2009
Proxy officers	600,000	1,750,000
Other senior officers		
Senior officers	600,000	1,750,000
Other	500,000	150,000
Total	1,100,000	1,900,000

A summary of the Company s stock options outstanding as of December 31, 2011, 2010 and 2009, and changes during the years ended on those dates, is presented in the following tables:

	2011	
Options	**Number of Shares**	**Weighted Avg. Price per Share**
Outstanding at beginning of year	6,650,947	$ 22.1713
Granted		
Expired or canceled	(225,874)	46.0164
Outstanding at end of year	6,425,073	$ 21.3330
Exercisable at end of year	2,211,878	$ 46.1478
Weighted average fair value per share of options granted during the year		$

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 19: Long-term Incentive Plans (continued)

	2010	
Options	**Number of Shares**	**Weighted Avg. Price per Share**
Outstanding at beginning of year	7,044,820	$ 25.3110
Granted	1,100,000	5.0500
Expired or canceled	(1,493,873)	24.3703
Outstanding at end of year	6,650,947	$ 22.1713
Exercisable at end of year	2,050,252	$ 53.1172
Weighted average fair value per share of options granted during the year		$ 3.79

	2009	
Options	**Number of Shares**	**Weighted Avg. Price per Share**
Outstanding at beginning of year	6,312,194	$ 34.9822
Granted	1,900,000	4.0200
Expired or canceled	(1,167,374)	42.9522
Outstanding at end of year	7,044,820	$ 25.3110
Exercisable at end of year	2,006,620	$ 50.0301
Weighted average fair value per share of options granted during the year		$ 2.61

The following table summarizes information about outstanding stock options as of December 31, 2011:

	Stock Options Outstanding				Stock Options Excercisable			
Range of Average Exercise Price	**Number of Options**	**Weighted Average Remaining Contractual Life in Years**	**Weighted Average Exercise Price**	**Aggregate Instrinsic Value (in millions)**	**Number of Options**	**Weighted Average Remaining Contractual Life in Years**	**Weighted Average Exercise Price**	**Aggregate Instrinsic Value (in millions)**
$4.02-$12.50	4,550,000	4.03	$ 7.8101	$ 19	350,000	4.12	$ 4.0200	$ 3
$36.69-$55.60	838,632	0.75	44.9540		835,437	0.75	44.9401	
$57.10-$70.86	1,036,441	2.78	61.5861		1,026,441	2.76	61.4958	
Total	6,425,073	3.40	$ 21.3330	$ 19	2,211,878	2.21	$ 46.1478	$ 3

Performance Based Awards

During 2010, the Board of Managers of Cutwater established the Cutwater Asset Management Equity Participation Plan (the Plan). The purpose of the Plan is to promote the interests of Cutwater and its equity security holders and is designed to provide compensation tied to the value of Cutwater by the grant of equity participation units. Each unit represents the contractual right to receive cash payments based on the value of Cutwater. These grants have a restriction period lasting five years, after which time the awards fully vest providing the participant is continuously employed by Cutwater or one of its affiliates during that period. The maximum number of units available for grant under the Plan is 350,000. During 2011, 31,000 units were granted and 15,136 were canceled. As of December 31, 2011, 244,180 units were outstanding and 105,820 units were available for future grants under the Plan. In accordance with the accounting guidance for awards that include a cash-based settlement feature, the Plan is classified as a liability award. The original value of the award was determined on the date of grant and remeasured at each balance sheet date. A liability is accrued over the vesting period of the Plan and reflects the present value of the award as of each balance sheet date. Any change is reflected in earnings. Compensation cost related to the Plan for the year ended December 31, 2011 was a benefit of $2 million. The benefit was due to a decline in the present value of the award. Compensation cost related to the Plan for the year ended December 31, 2010 was $5 million.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 19: Long-term Incentive Plans (continued)

During 2009, the Company granted 1,291,990 restricted shares to the CEO which has a vesting schedule dependent on the achievement of certain stock price targets of the Company. The grant and corresponding compensation expense has been included in the above restricted stock disclosure for 2009. As permitted by the accounting guidance for share-based payment, the Company estimates the fair value of awards that contain only market performance conditions at the date of grant using a binomial lattice model with a Monte Carlo simulation. The binomial lattice model can better incorporate assumptions about a stock price path because the model can accommodate a large number of potential stock prices over the award s term in comparison to the Black-Scholes model.

Deferred Cash Awards

During 2011, 2010 and 2009, the Company granted deferred cash-based long-term incentive awards. These grants have a vesting period of either three or five years, after which time the award fully vests. Payment is generally contingent on the employee s continuous employment with the Company through the payment date. The deferred cash awards are granted to employees from the vice-president level up. Compensation expense related to the deferred cash awards was $9 million, $7 million and $5 million for the years ended December 31, 2011, 2010 and 2009, respectively.

Note 20: Earnings Per Share

Basic earnings per share excludes dilution and is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share reflects the dilutive effect of all stock options and other items outstanding during the period that could potentially result in the issuance of common stock. For the years ended December 31, 2011, 2010 and 2009, there were 3,797,548, 4,526,442, and 7,401,350, respectively, of stock options outstanding that were not included in the diluted earnings per share calculation because they were antidilutive.

The following table presents the computation of basic and diluted earnings per share for the years ended December 31, 2011, 2010 and 2009:

	Years Ended December 31,		
$ in millions except share and per share amounts	**2011**	**2010**	**2009**
Net income (loss)	$ (1,319)	$ 53	$ 634
Net income (loss) available to common shareholders	$ (1,319)	$ 53	$ 623
Basic weighted average shares[(1)]	197,019,968	202,421,433	208,156,622
Effect of common stock equivalents:			
Stock options		599,701	
Diluted weighted average shares	197,019,968	203,021,134	208,156,622
Net income (loss) per common share:			
Basic	$ (6.69)	$ 0.26	$ 2.99
Diluted	$ (6.69)	$ 0.26	$ 2.99

(1) Includes 5,080,742, 5,325,428 and 5,259,561 of unvested restricted stock and units that receive nonforfeitable dividends or dividend equivalents for the years ended December 31, 2011, 2010 and 2009, respectively.

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MBIA Inc. and Subsidiaries

Notes to Consolidted Financial Statements

Note 21: Common and Preferred Stock

Common Stock

Stock Warrants

The Company granted Warburg Pincus warrants to purchase 11.5 million shares of MBIA common stock at an exercise price of $30.25 per share, B warrants, which, upon obtaining certain approvals, will become exercisable to purchase 9.8 million shares at a price of $30.25 per share, and B2 warrants to purchase 4 million shares at a price of $16.20 per share. Warrants granted to Warburg Pincus are recorded as liabilities and reported within Other liabilities on the consolidated balance sheets due to terms and conditions in the agreements that could require net cash settlement. As of December 31, 2011 and 2010, the fair value of the warrants was $38 million and $58 million, respectively.

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. The Company believes that share repurchases can be an appropriate deployment of capital in excess of amounts needed to support the Company s liquidity while maintaining the claims-paying resources of MBIA Corp. and National, as well as other business needs.

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. As of December 31, 2011, the Company repurchased 56.7 million shares of MBIA Inc. under the share repurchase program at a cost of $977 million and an average price of $17.24 per share, and $23 million remained available under the program. During 2011, MBIA repurchased 6.5 million shares at an average price of $7.64 per share.

During 2011 and 2010, 102,578 and 16,984 shares, respectively, were purchased by the Company for settling awards under the Company s long-term incentive plans.

Preferred Stock

In November 2008, through a Money Market Committed Preferred Custodial Trust (CPCT) facility issued by eight trusts (the Trusts), MBIA Corp. exercised a put option to sell to the Trusts perpetual preferred stock issued by MBIA Corp. Upon MBIA exercising the put option, the Trusts transferred proceeds of $400 million to MBIA Corp. in exchange for 4,000 shares of non-cumulative perpetual preferred stock. Once the proceeds were received, MBIA exercised its right to terminate the CPCT facility by making a fixed-rate election. As a result, the Trusts were terminated and third-party investors received a pro-rata share of MBIA Corp. s preferred stock. MBIA Corp. s preferred stock has preference over common stock upon liquidation.

As of December 31, 2011, MBIA Insurance Corporation had 2,759 shares of preferred stock issued and outstanding with a carrying value of $28 million. As of December 31, 2011, MBIA Inc. had repurchased 1,444 shares of the outstanding preferred stock of MBIA Insurance Corporation at a weighted average purchase price of $10,900 per share or 10.9% of face value. During 2011, MBIA Inc. repurchased 111 shares at a weighted average price of $20,200 per share or 20.2% of face value. As of December 31, 2011, on a consolidated basis, 1,315 preferred shares of MBIA Insurance Corporation remained outstanding to unaffiliated investors with a carrying value of $12 million.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 21: Common and Preferred Stock (continued)

In accordance with MBIA s fixed-rate election, the dividend rate on the preferred stock was determined using a fixed-rate equivalent of LIBOR plus 200 basis points. Each share of preferred stock has a par value of $1,000 with a liquidation preference of $100,000. The holders of the preferred stock are not entitled to any voting rights as shareholders of MBIA Corp. and their consent is not required for taking any corporate action. Subject to certain requirements, the preferred stock may be redeemed, in whole or in part, at the option of MBIA Corp. at any time or from time to time for cash at a redemption price equal to the liquidation preference per share plus any accrued and unpaid dividends thereon at the date of redemption for the then current dividend period and any previously accumulated dividends payable without interest on such unpaid dividends. As of December 31, 2011 and 2010, there were no dividends declared on the preferred stock. Payment of dividends on MBIA Corp. s preferred stock is subject to the same restrictions that apply to dividends on common stock under New York State insurance law. The terms of the preferred stock provide that if MBIA Corp. fails to pay dividends in full on the preferred stock for 18 consecutive months, the authorized number of members of the MBIA Corp. board of directors will automatically be increased by two and the holders of the preferred stock will be entitled to fill the vacancies so created at a special meeting of the preferred shareholders of MBIA Corp. Due to its nonpayment of dividends on the preferred stock for 18 consecutive months, MBIA Corp. held a meeting of preferred stockholders on August 12, 2011 to elect the two new directors. The meeting was adjourned because a quorum was not present.

Note 22: Related Party Transactions

Related parties are defined as the following:

Affiliates of the Company: An affiliate is a party that directly or indirectly controls, is controlled by or is under common control with the Company. Control is defined as having, either directly or indirectly, the power to direct the management and operating policies of a company through ownership, by contract or otherwise.

Entities for which investments are accounted for using the equity method by the Company.

Trusts for the benefit of employees, such as pension and profit sharing trusts that are managed by or under the trusteeship of management.

Principal owners of the Company defined as owners of record or known beneficial owners of more than 10% of the voting interests of the Company.

Management of the Company which includes persons who are responsible for achieving the objectives of the Company and who have the authority to establish policies and make decisions by which those objectives are to be pursued. Management normally includes members of the Board of Directors, the CEO, Chief Operating Officer, Vice President in charge of principal business functions and other persons who perform similar policymaking functions.

Members of the immediate families of principal owners of the Company and its management. This includes family members whom a principal owner or a member of management might control or influence or by whom they may be controlled or influenced because of

the family relationship.

Other parties with which the Company may deal if one party controls or can significantly influence the management or policies of the other to an extent that one of the transacting parties might be prevented from fully pursuing its own separate interests.

Other parties that can significantly influence the management or policies of the transacting parties or that have an ownership interest in one of the transacting parties and can significantly influence the other to the extent that one or more of the transacting parties might be prevented from fully pursuing its own separate interests.

Since 1989, MBIA Corp. has executed five surety bonds to guarantee the payment obligations of the members of the Municipal Bond Insurance Association (the Association), a voluntary unincorporated association of insurers writing municipal bond and note insurance as agents for the member insurance companies that had their S&P claims-paying rating downgraded from AAA on their previously issued Association policies. In the event that the Association does not meet their policy payment obligations, MBIA Corp. will pay the required amounts directly to the paying agent. The aggregate outstanding exposure on these surety bonds as of December 31, 2011 was $340 million.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 22: Related Party Transactions (continued)

MBIA, through its subsidiaries, is responsible for providing investment advisory and certain related administrative services to the MBIA Capital/Claymore Managed Duration Investment Grade Municipal Fund (the Fund). MBIA earned investment management, accounting, administration and service fees related to the Fund, net of underwriting fees paid to a third party, and are included in Fees and reimbursements in the Company s consolidated statements of operations. These amounts were not significant for the years ended December 31, 2011, 2010 and 2009.

Cutwater-AMC, an indirect wholly owned subsidiary of MBIA, is responsible for providing investment advisory services to the MBIA Municipal Bond Inflation Protection Fund (MIPS Fund) of FundVantage Trust, an SEC-registered open-end, management investment company launched in November 2007. The investment objective of the MIPS Fund is to seek high after-tax inflation protected returns and it is intended to be marketed to institutional and retail investors. MBIA Corp. invested $25 million in the MIPS Fund as the initial shareholder and waived investment management fees related to the MIPS Fund in 2009. However, MBIA Corp. earned $0.2 million from its investment in the MIPS Fund in 2009, which is included in net investment income in the Company s consolidated statements of operations. MBIA Corp. redeemed its investment in the MIPS Fund in April 2009.

The Company had no loans outstanding to any executive officers or directors during 2011 and 2010.

Note 23: Commitments and Contingencies

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

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 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 June 10, 2011, defendants filed a renewed motion to dismiss the complaint.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 23: Commitments and Contingencies (continued)

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) was filed in the U.S. District Court for the Southern District of New York, alleging violations of the federal securities laws. The amended complaint alleged 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 by, among other things, issuing 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 March 31, 2010, the claims against Dunton and Chaplin were dismissed without prejudice. On April 30, 2010, plaintiffs filed their Second Consolidated Amended Class Action Complaint. On September 6, 2011, the parties entered into a Stipulation and Agreement of Settlement of the lawsuit. On September 30, 2011, the re-alleged claims against Dunton and Chaplin were withdrawn and dismissed with prejudice, and on December 19, 2011, the Court approved the Settlement and dismissed the action with prejudice.

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 MBIA and nearly all of the same co-defendants were filed by the City of Stockton, the Public Financing Authority of 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 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 Standard & Poor s Corporation.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 23: Commitments and Contingencies (continued)

In August 2011, plaintiffs filed amended versions of their respective complaints. The claims 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 guaranties), 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 claims of breach of contract and fraud against MBIA and the other monoline defendants. The non-municipal plaintiffs also allege a California unfair competition cause of action. On October 20, 2011, the court overruled MBIA s demurrers to plaintiffs amended complaints. On December 2, 2011, MBIA and the other monoline defendants filed a special motion to strike pursuant to California s anti-SLAPP statute.

On July 23, 2008, the City of Los Angeles filed a separate complaint in the Superior Court, County of Los Angeles, naming as defendants MBIA 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 plaintiffs call 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 MBIA 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. As of May 31, 2011, MBIA has answered all of the existing complaints.

On March 12, 2010, the City of Phoenix, Arizona filed a complaint in the United States District Court for the District of Arizona against MBIA 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 Corp. 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, MBIA Corp., National, certain MBIA employees (collectively for this paragraph, MBIA) and various financial institutions and law firms. Tri-City subsequently filed three amended complaints. The Third Amended Complaint, filed on January 26, 2011, purports to state 10 causes of action 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 June 13, 2011, Tri-City Healthcare District filed its Fourth Amended Complaint against MBIA Inc., MBIA Corp. and National, which purports to state seven causes of action against MBIA for fraud in the inducement, concealment, negligent misrepresentation, negligence, breach of contract, duress, and breach of the covenant of good faith arising from Tri-City Healthcare District s investment in auction rate securities. On September 8, 2011, the court granted in part and denied in part MBIA s demurrer to Tri-City s Fourth Amended Complaint. On October 4, 2011, MBIA filed its answer to the remaining causes of action.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 23: Commitments and Contingencies (continued)

The Company cannot predict the impact, if any, that any of the matters concerning Corporate Litigation, described above, may 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. At this stage of the litigation, there has not been a determination as to the amount, if any, of damages. Accordingly, the Company is not able to estimate any amount of loss or range of loss.

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). An amended complaint, adding Bank of America as successor to Countrywide s liabilities, and Countrywide Home Loans Servicing LP as defendants was filed on August 24, 2009. The amended complaint alleges 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 alleges 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. On April 29, 2010, the court denied Bank of America s motion to dismiss and allowed MBIA Corp. s claims for successor and vicarious liability to proceed. 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 June 30, 2011, the Appellate Division of the New York State Supreme Court unanimously affirmed the lower court s denial of Countrywide s motion to dismiss MBIA Corp. s fraud claim. On October 31, 2011, the court denied Bank of America s motion to consolidate and/or sever the successor liability claims (allowing deposition and expert discovery on the successor liability claim to proceed but reserving decision on whether to sever and consolidate the successor liability claim). Bank of America has appealed this ruling. On January 3, 2012, the court granted in part and denied in part MBIA Corp. s motion for partial summary judgment regarding proof of causation, holding that MBIA is not required to establish a direct causal link between Countrywide s misrepresentations and MBIA s claims payments made pursuant to the insurance policies at issue, but reserving judgment on the causation burden for the contractual repurchase claims. On January 25, 2012, Bank of America filed a Notice of Appeal against the January 3 order, and MBIA filed a Notice of Cross-Appeal on February 6, 2012.

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.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 23: Commitments and Contingencies (continued)

On October 15, 2008, MBIA Corp. commenced an action in the United States 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, the court denied in 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 and quality control reviews of 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 October 13, 2011, the court granted MBIA Corp. s motion to renew consideration of the court s June 1 revised opinion and reinstated MBIA Corp. s claim for fraudulent inducement but struck the demand for a jury trial. On November 4, 2011, Credit Suisse filed a Notice of Appeal of the court s ruling granting MBIA Corp. s motion to renew. On November 7, 2011, MBIA Corp. filed a Notice of Cross-Appeal of the portion of the decision striking its jury trial demand.

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 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 home equity lines of credit. 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 United States District Court for the District of Columbia and alleges that IndyMac fraudulently induced MBIA Corp. to provide financial guarantee insurance on securitizations of home equity lines of credit 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 October 6, 2011, the court issued a ruling granting the FDIC s motion to dismiss. On November 4, 2011, MBIA Corp. filed a Notice of Appeal.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 23: Commitments and Contingencies (continued)

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 United States District Court for the Central District of California. On November 30, 2009, the IndyMac trusts were consensually dismissed from the litigation. On August 3, 2010, the court denied defendants Motion for Judgment on the Pleadings in its entirety. Effective January 30, 2012, the case has been reassigned to Judge Kenneth Freeman.

Transformation Litigation

On March 11, 2009, a complaint was filed in the United States District Court of the Southern District of New York against MBIA, MBIA Corp. and National, entitled Aurelius Capital Master, Ltd. et al. v. MBIA Inc. et al., 09-cv-2242 (S.D.N.Y.). The lead plaintiffs, Aurelius Capital Master, Ltd., Aurelius Capital Partners, LP, Fir Tree Value Master Fund, L.P., Fir Tree Capital Opportunity Master Fund, L.P., and Fir Tree Mortgage Opportunity Master Fund, L.P. (the Aurelius Plaintiffs), purport to be acting as representatives for a class consisting of all holders of securities, instruments, or other obligations for which MBIA Corp., before February 18, 2009, issued financial guarantee insurance other than United States municipal/governmental bond securities. The complaint alleges that certain of the terms of the transactions entered into by MBIA Corp., which were approved by the New York State Department of Insurance, constituted fraudulent conveyances under §§ 273, 274 and 276 of New York Debtor and Creditor Law and a breach of the implied covenant of good faith and fair dealing under New York common law. The Complaint seeks, inter alia, (a) a declaration that the alleged fraudulent conveyances are null and void and set aside, (b) a declaration that National is responsible for the insurance policies issued by MBIA Corp. up to February 17, 2009, and (c) an award of damages in an unspecified amount together with costs, expenses and attorneys fees in connection with the action. In light of the June 28, 2011 Court of Appeals decision referenced below, on July 27, 2011, the court entered an amended case management plan and scheduling order setting a discovery cut-off of November 9, 2012. On August 8, 2011, Fir Tree Value Master Fund, L.P., Fir Tree Capital Opportunity Master Fund, L.P., and Fir Tree Mortgage Opportunity Master Fund, L.P. voluntarily dismissed all claims against defendants without prejudice.

On May 13, 2009, a complaint was filed in the New York State Supreme Court against MBIA, 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 MBIA, which were approved by the New York State Department of Insurance, constituted fraudulent conveyances and a breach of the implied covenant of good faith and fair dealing under New York law. The complaint seeks a judgment (a) ordering the defendants to unwind the Transactions, (b) declaring that the Transactions constituted a fraudulent conveyance, (c) declaring that MBIA 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 June 28, 2011, the New York State Court of Appeals reversed the Appellate Division s decision and allowed all of the plaintiffs claims to proceed, with the exception of plaintiffs claim for unjust enrichment. On August 15, 2011, the court entered a scheduling order coordinating discovery in the plenary action with the Aurelius case in federal court and setting a discovery cut-off of November 9, 2012. Fourteen of the original eighteen plaintiffs have dismissed their claims, several of which dismissals were related to the commutation of certain of their MBIA-insured exposures.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 23: Commitments and Contingencies (continued)

On June 15, 2009, the same group of eighteen 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 New York State Insurance Department, the New York State Insurance Department, MBIA Inc. et al. In its motions to dismiss the three above-referenced plenary actions, MBIA argued that an Article 78 proceeding is the exclusive forum in which a plaintiff may raise any challenge to the Transformation approved by the Superintendent of the Department of Insurance. The petition seeks a judgment (a) declaring void and to annul the approval letter of the Superintendent of the Department of Insurance, (b) to recover dividends paid in connection with the Transactions, (c) declaring that the approval letter does not extinguish plaintiffs direct claims against MBIA in the plenary action described above. MBIA and the New York State Insurance Department filed their answering papers to the Article 78 Petition on November 24, 2009 and argued that based on the record and facts, approval of Transformation and its constituent transactions was neither arbitrary nor capricious nor in violation of New York Insurance Law. On November 16, 2011, MBIA submitted its sur-reply papers. The NYSDFS filed its sur-reply papers on December 30, 2011. A trial is expected to commence in the second quarter of 2012. As described above, fourteen of the original eighteen plaintiffs have dismissed their claims.

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 New York State Insurance Department, the New York State Insurance Department, MBIA Inc. et al. This petition challenges the New York State Insurance Department s June 22, 2010 approval of National s restatement of earned surplus. 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. At this stage of the litigation, there has not been a determination as to the amount, if any, of damages. Accordingly, the Company is not able to estimate any amount of loss or range of loss.

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.

Note 24: Subsequent Events

Refer to Note 23: Commitments and Contingencies for information about legal proceedings that commenced after December 31, 2011.

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Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this report, an evaluation of the effectiveness of the design and operation of the Company s disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934) was performed under the supervision and with the participation of the Company s senior management, including the Chief Executive Officer and the Chief Financial Officer. Based on that evaluation, the Company s management, including the Chief Executive Officer and the Chief Financial Officer, concluded that the Company s disclosure controls and procedures were effective as of the end of the period covered by this report.

Changes in Internal Control over Financial Reporting

As required by Rule 13a-15(d) under the Exchange Act, the Company s management, including its Chief Executive Officer and Chief Financial Officer, has evaluated the Company s internal control over financial reporting to determine whether any changes occurred during the fourth fiscal quarter covered by this annual report that have materially affected or are reasonably likely to materially affect, our internal control over financial reporting. Based on that evaluation, there has been no such change during the fourth fiscal quarter of 2011.

Management s Report on Internal Control over Financial Reporting

Management of MBIA Inc. and its subsidiaries is responsible for establishing and maintaining adequate internal control over financial reporting. The Company s internal control over financial reporting is a process designed under the supervision of the Company s principal executive and principal financial officers to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with accounting principles generally accepted in the United States of America.

MBIA s internal control over financial reporting includes policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets; (2) provide reasonable assurances that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures are being made only in accordance with authorizations of management and the directors of the Company; and, (3) 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 Company s 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.

As of December 31, 2011, management conducted an assessment of the effectiveness of the Company s internal control over financial reporting based on the framework established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment and those criteria, management has determined that the Company s internal control over financial reporting as of December 31, 2011 was effective.

The effectiveness of the Company s internal control over financial reporting as of December 31, 2011 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report, which is included in Item 8, Financial Statements and Supplementary Data .

Item 9B. Other Information

None.

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Part III

Item 10. Directors, Executive Officers and Corporate Governance

Information regarding directors will be set forth under Election of Directors and The Board of Directors and its Committees in the Company s Proxy Statement to be filed within 120 days of the end of our fiscal year ended December 31, 2011 (the Proxy Statement) and is incorporated by reference.

Information regarding executive officers is set forth under Part I, Item 1, Business Executive Officers of the Registrant, included in this annual report.

Information regarding Section 16(a) beneficial ownership reporting compliance will be set forth in the section Section 16(a) Beneficial Ownership Reporting Compliance in the Proxy Statement and is incorporated by reference.

Information regarding the Company s Audit Committee will be set forth under The Board of Directors and its Committees in the Proxy Statement and is incorporated by reference.

The Company has adopted a code of ethics that applies to all employees of the Company including its Chief Executive Officer, Chief Financial Officer and its controller. A copy of such code of ethics can be found on the Company s internet website at www.mbia.com. The Company intends to satisfy the disclosure requirements under Item 10 of Form 8-K regarding an amendment to, or waiver from, a provision of its code of ethics and that relates to a substantive amendment or material departure from a provision of the Code by posting such information on its internet website at www.mbia.com.

Item 11. Executive Compensation

Information regarding compensation of the Company s executive officers will be set forth under Board of Directors and its Committees, Compensation and Governance Committee Report, Compensation Discussion and Analysis and Executive Compensation Tables in the Proxy Statement and is incorporated by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Information regarding security ownership of certain beneficial owners and management will be set forth under Security Ownership of Certain Beneficial Owners and Security Ownership of Directors and Executive Officers in the Proxy Statement and is incorporated by reference.

The following table provides information as of December 31, 2011, regarding securities authorized for issuance under our equity compensation plans. All outstanding awards relate to our common stock. For additional information about our equity compensation plans refer to Note 19: Long-term Incentive Plans in the Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K.

Plan category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights[1]	(b) Weighted average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))[2]
Equity compensation plans approved by security holders	6,566,219	$ 21.33	6,563,701
Equity compensation plans not approved by security holders			
Total	6,566,219	$ 21.33	6,563,701

(1) Includes 134,852 phantom shares granted under the Deferred Compensation and Stock Ownership Plan for Non-Employee Directors and 6,294 restricted stock units awarded to employees granted under the MBIA Inc. 2005 Omnibus Incentive Plan. The weighted average exercise price in column (b) does not take these awards into account.

(2) Includes 6,533,715 shares of common stock available for future grants under the MBIA Inc. 2005 Omnibus Incentive Plan and 29,986 shares of common stock available for future grants under the Deferred Compensation and Stock Ownership Plan for Non-Employee Directors.

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Item 13. Certain Relationships and Related Transactions, and Director Independence

Information regarding certain relationships and related transactions and director independence will be set forth under Certain Relationships and Related Transactions and The Board of Directors and its Committees in the Proxy Statement and is incorporated by reference.

Item 14. Principal Accounting Fees and Services

Information regarding principal accounting fees and services will be set forth under Principal Accountant Fees and Services in the Proxy Statement and is incorporated by reference.

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Part IV

Item 15. Exhibits, Financial Statement Schedules

(a) Financial Statements and Financial Statement Schedules and Exhibits.

1. Financial Statements

The following financial statements of MBIA Inc. have been included in Part II, Item 8 hereof:

Report of Independent Registered Public Accounting Firm.

Consolidated balance sheets as of December 31, 2011 and 2010.

Consolidated statements of operations for the years ended December 31, 2011, 2010 and 2009.

Consolidated statements of changes in shareholders equity for the years ended December 31, 2011, 2010 and 2009.

Consolidated statements of cash flows for the years ended December 31, 2011, 2010 and 2009.

Notes to consolidated financial statements.

2. Financial Statement Schedules

The following financial statement schedules are filed as part of this report.

Schedule	Title
I.	Summary of investments, other than investments in related parties, as of December 31, 2011.
II.	Condensed financial information of Registrant for December 31, 2011, 2010 and 2009.
IV.	Reinsurance for the years ended December 31, 2011, 2010 and 2009.

The report of the Registrant s Independent Registered Public Accounting Firm with respect to the above listed financial statement schedules is included within the report listed under Item 15.1 above.

All other schedules are omitted because they are not applicable or the required information is shown in the consolidated financial statements or notes thereto.

3. Exhibits

An exhibit index immediately preceding the Exhibits indicates the exhibit number where each exhibit filed as part of this report can be found.

*(**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 (i) 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; (ii) 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; (iii) may apply standards of materiality in a way that is different from what may be viewed as material to investors; and (iv) 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.)*

3. Articles of Incorporation and By-Laws.

3.1. Amended and Restated Certificate of Incorporation, dated May 5, 2005, incorporated by reference to Exhibit 3.1 to the Company s Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2005.

3.2. By-Laws as Amended as of July 14, 2009, incorporated by reference to Exhibit 3.1 to the Company s Current Report on Form 8-K filed on July 16, 2009.

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4. Instruments Defining the Rights of Security Holders, including Indentures.

4.1. Indenture, dated as of August 1, 1990, between MBIA Inc. and The First National Bank of Chicago, Trustee, incorporated by reference to Exhibit 10.72 to the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 1992.

4.2. Senior Indenture, dated as of November 24, 2004, between MBIA Inc. and The Bank of New York, as Trustee, incorporated by reference to Exhibit 4.01 to the Company s Current Report on Form 8-K filed on November 29, 2004.

4.3. First Supplemental Indenture, dated as of November 24, 2004, between MBIA Inc. and The Bank of New York, as Trustee, in connection with the $350,000,000 5.70% senior notes due 2034, incorporated by reference to Exhibit 4.02 to the Company s Current Report on Form 8-K filed on November 29, 2004.

4.4. Fiscal Agency Agreement, dated as of January 16, 2008, between MBIA Insurance Corporation and The Bank of New York, incorporated by reference to Exhibit 4.01 to the Company s Current Report on Form 8-K filed on January 17, 2008.

4.5. Form of MBIA Corp. 14% Fixed-to-Floating Rate Global Note due January 15, 2033, incorporated by reference to Exhibit 4.02 to the Company s Current Report on Form 8-K filed on January 17, 2008.

4.6. Warrant Agreement, dated as of January 30, 2008, between the Company and Warburg Pincus Private Equity X, LP., incorporated by reference to Exhibit 4.7 to the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2007.

4.7. B Warrant Agreement, dated as of January 30, 2008, between the Company and Warburg Pincus Private Equity X, LP., incorporated by reference to Exhibit 4.8 to the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2007.

4.8. B2 Warrant Agreement, dated as of January 30, 2008, between the Company and Warburg Pincus Private Equity X, LP, incorporated by reference to Exhibit 4.1 to the Company s Current Report on Form 8-K filed on February 7, 2008.

4.9. B2 Warrant Agreement, dated as of January 30, 2008, between the Company and Warburg Pincus X Partners, L.P. incorporated by reference to Exhibit 4.2 to the Company s Current Report on Form 8-K filed on February 7, 2008.

10. Material Contracts

10.01. Amended and Restated Investment Agreement, dated February 6, 2008, between MBIA Inc. and Warburg Pincus Private Equity X, L.P., incorporated by reference to exhibit 10.1 to the Company s Current Report on Form 8-K filed on February 7, 2008.

10.02. Reinsurance Agreement, dated as of September 30, 2008, between Financial Guaranty Insurance Company and MBIA Insurance Corporation, incorporated by reference to Exhibit 10.1 to the Company s Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2008.

Executive Compensation Plans and Arrangements

The following Exhibits identify all existing executive compensation plans and arrangements:

10.03. Amended and Restated Deferred Compensation and Stock Ownership Plan for Non-Employee Directors, effective as of March 21, 2002, incorporated by reference to the MBIA Inc. Form S-8 filed on March 14, 2002 (Reg. No. 333-84300).

10.04. Form of Restricted Stock Agreement for Directors, incorporated by reference to Exhibit 10.62 to the Company s Annual report on Form 10-K for the fiscal year ended December 31, 2003.

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10.05. Form of Restricted Stock Agreement for Executive Officers, incorporated by reference to Exhibit 10.63 to the Company s Annual report on Form 10-K for the fiscal year ended December 31, 2003.

10.06. Form of Stock Option Agreement for Executive Officers, incorporated by reference to Exhibit 10.65 to the Company s Annual report on Form 10-K for the fiscal year ended December 31, 2003.

10.07. MBIA Inc. Annual Incentive Plan, effective January 1, 2011, incorporated by reference to Exhibit A to the Company s Proxy Statement filed on March 19, 2010.

10.08. MBIA Inc. 2005 Omnibus Incentive Plan, as amended through March, 2009, incorporated by reference to Exhibit B to the Company s Proxy Statement filed on March 20, 2009.

10.09. Key Employee Employment Protection Plan, amended as of February 27, 2007, incorporated by reference to Exhibit 10.80 to the 2007 10-K, as further amended by Amendment No. 2, effective February 22, 2010, incorporated by reference to Exhibit 10.15 to the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2009.

10.10. Form of Key Employee Employment Protection Agreement, amended as of February 27, 2007, incorporated by reference to Exhibit 10.81 to the Company s Annual report on Form 10-K for the fiscal year ended December 31, 2007.

10.11. Form of Restricted Stock Agreement, incorporated by reference to Exhibit 10.86 to the Company s Annual report on Form 10-K for the fiscal year ended December 31, 2007.

10.12. MBIA Inc. 2005 Non-Employee Director Deferred Compensation Plan, effective as of November 8, 2007, incorporated by reference to Exhibit 10.1 to the Company s Form S-8 filed on August 8, 2008 (Reg. No. 333-152894).

10.13. Restricted Stock Award Agreement dated as of February 18, 2008 by and between MBIA Inc. and Joseph W. Brown, incorporated by reference to Appendix E to the Company s Proxy Statement filed on March 28, 2008.

10.14. Form of MBIA Inc. 2005 Omnibus Incentive Plan Nonqualified Stock Option Agreement, effective as of May 5, 2005, incorporated by reference to Exhibit 10.30 to the Company s Annual report on Form 10-K for the fiscal year ended December 31, 2008.

10.15. Amended and Restated MBIA Inc. Deferred Compensation and Excess Benefit Plan, effective as of March 22, 2010, incorporated by reference to Exhibit 10.1 to the Company s Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2010.

10.16. Cutwater Holdings, LLC Equity Participation Plan effective as of May 7, 2010, incorporated by reference to Exhibit 10.2 to the Company s Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2010.

10.17. Consulting Agreement between MBIA Inc. and Mitchell Sonkin dated May 9, 2011, incorporated by reference to Exhibit 10.1 to the Company s Quarterly report on Form 10-Q for the fiscal quarter ended March 31, 2011.

+21. List of Subsidiaries.

+23. Consent of PricewaterhouseCoopers LLP.

+31.1. Chief Executive Officer Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

+31.2. Chief Financial Officer Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

*32.1. Chief Executive Officer Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

*32.2. Chief Financial Officer Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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99.1. Quota Share Reinsurance Agreement between MBIA Insurance Corporation and MBIA Insurance Corp. of Illinois dated February 17, 2009, incorporated by reference to Exhibit 99.1 to the Company s Current Report on Form 8-K filed on February 20, 2009.

+99.2. Additional Exhibits National Public Finance Guarantee Corporation and Subsdiaries GAAP Financial Statements.

+99.3. Additional Exhibits MBIA Insurance Corporation and Subsidiaries GAAP Financial Statements.

*101. Additional Exhibits MBIA Inc. and Subsidiaries Consolidated Financial Statements and Notes to Consolidated Financial Statements from the Company s Annual Report on Form 10-K for the year ended December 31, 2011, formatted in XBRL.

+ Filed Herewith
* Furnished Herewith

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

MBIA Inc.

(Registrant)

Dated: February 29, 2012

By /s/ Joseph W. Brown
Name: Joseph W. Brown
Title: Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Joseph W. Brown **Joseph W. Brown**	Director and Chief Executive Officer	February 29, 2012
/s/ C. Edward Chaplin **C. Edward Chaplin**	President, Chief Financial Officer and Chief Administrative Officer	February 29, 2012
/s/ Douglas C. Hamilton **Douglas C. Hamilton**	Assistant Vice President and Controller (chief accounting officer)	February 29, 2012
/s/ Daniel P. Kearney **Daniel P. Kearney**	Non-Executive Chairman and Director	February 29, 2012
/s/ David A. Coulter **David A. Coulter**	Director	February 29, 2012
/s/ Claire L. Gaudiani **Claire L. Gaudiani**	Director	February 29, 2012
/s/ Steven J. Gilbert **Steven J. Gilbert**	Director	February 29, 2012
/s/ Kewsong Lee **Kewsong Lee**	Director	February 29, 2012
/s/ Charles R. Rinehart	Director	February 29, 2012

	Charles R. Rinehart		
/s/	Theodore Shasta	Director	February 29, 2012
	Theodore Shasta		
/s/	Richard C. Vaughan	Director	February 29, 2012
	Richard C. Vaughan		

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SCHEDULE I

MBIA INC. AND SUBSIDIARIES

SUMMARY OF INVESTMENTS, OTHER THAN INVESTMENTS IN RELATED PARTIES

December 31, 2011

(In millions)

Type of investment	Cost	Fair Value	Amount at which shown in the balance sheet
Fixed-maturity:			
Available-for-sale			
U.S. Treasury and government agency	$ 783	$ 822	$ 822
Foreign governments	264	286	286
Corporate obligations	1,437	1,375	1,375
Mortgage-backed securities:			
Residential mortgage-backed agency	1,190	1,237	1,237
Residential mortgage-backed non-agency	306	255	255
Commercial mortgage-backed	57	48	48
Asset-backed securities:			
Collateralized debt obligations	250	133	133
Other asset-backed	477	401	401
State and municipal bonds			
Tax-exempt bonds	1,064	1,103	1,103
Taxable bonds	893	910	910
Sub-total available-for-sale	6,721	6,570	6,570
Short-term available-for-sale	1,697	1,691	1,691
Total available-for-sale	8,418	8,261	8,261
Fair Value	337	305	305
Total fixed maturity	8,755	8,566	8,566
Other Investments	145	127	127
Total investments	$ 8,900	$ 8,693	$ 8,693
Assets of consolidated variable interest entities:			
Available-for-sale			
Corporate obligations	2	2	2
Mortgage-backed securities:			
Residential mortgage-backed non-agency	119	93	93
Asset-backed securities:			
Collateralized debt obligations	112	97	97
Other asset-backed	41	41	41
Other investments	199	199	199
Total available-for-sale	473	432	432
Fair Value	3,087	2,884	2,884
Held-to-maturity			

Asset-backed securities:			
Other asset-backed	3,843	3,489	3,843
Total held-to-maturity	3,843	3,489	3,843
Total investments of consolidated variable interest entities	$ 7,403	$ 6,805	$ 7,159

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SCHEDULE II

MBIA INC. (PARENT COMPANY)

CONDENSED BALANCE SHEETS

(In millions, except per share amounts)

	December 31, 2011	December 31, 2010
Assets		
Investments:		
Fixed-maturity securities held as available-for-sale, at fair value (amortized cost $1,989 and $2,988)	$ 1,809	$ 2,436
Investments held-to-maturity, at amortized cost (fair value $0 and $55)		59
Fixed-maturity securities at fair value	96	18
Investments pledged as collateral, at fair value (amortized cost $623 and $548)	543	552
Short-term investments held as available-for-sale, at fair value (amortized cost $648 and $992)	643	985
Other investments	83	183
Total	3,174	4,233
Cash and cash equivalents	132	83
Accrued investment income	20	23
Investment in wholly-owned subsidiaries	3,410	4,640
Affiliate loan receivable		128
Derivative assets	2	4
Current income taxes	31	156
Deferred income taxes, net	114	134
Receivable for investments sold	14	8
Other assets	70	41
Total assets	**$ 6,967**	**$ 9,450**
Liabilities and Shareholders' Equity		
Liabilities:		
Investment agreements	$ 1,523	$ 1,940
Medium-term notes	50	45
Securities sold under agreements to repurchase	669	1,502
Short-term debt		65
Long-term debt	900	905
Affiliate loans payable	1,688	1,776
Derivative liabilities	356	241
Other liabilities	81	111
Total liabilities	**5,267**	**6,585**
Shareholders' Equity:		
Preferred stock, par value $1 per share; authorized shares 10,000,000; issued and outstanding shares none		
Common stock, par value $1 per share; authorized shares 400,000,000; issued shares 274,896,162 and 274,719,578	275	275
Additional paid-in capital	3,072	3,064
Retained earnings	805	2,209

Accumulated other comprehensive loss, net of deferred tax of $134 and $222	(176)	(458)
Treasury stock, at cost 81,752,966 and 74,973,978 shares	(2,276)	(2,225)
Total shareholders' equity	**1,700**	**2,865**
Total liabilities and shareholders' equity	**$ 6,967**	**$ 9,450**

The condensed financial statements should be read in conjunction with the consolidated financial statements and notes thereto and the accompanying notes.

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SCHEDULE II

MBIA INC. (PARENT COMPANY)

CONDENSED STATEMENTS OF OPERATIONS

(In millions)

	Years Ended December 31,		
	2011	**2010**	**2009**
Revenues:			
Net investment income	$ 90	$ 122	$ 220
Net gains (losses) on financial instruments at fair value and foreign exchange	(278)	(117)	102
Investment losses related to other-than-temporary impairments:			
Investment losses related to other-than-temporary impairments	(20)	(206)	(524)
Other-than-temporary impairments recognized in accumulated other comprehensive income (loss)	(13)	147	173
Net investment losses related to other-than-temporary impairments	(33)	(59)	(351)
Net gains (losses) on extinguishment of debt		(1)	(66)
Other net realized gains (losses)	(17)	1	4
Total revenues	(238)	(54)	(91)
Expenses:			
Operating	29	31	30
Interest	162	200	61
Total expenses	191	231	91
Gain (loss) before income taxes and equity in earnings of subsidiaries	(429)	(285)	(182)
Provision (benefit) for income taxes	(286)	(183)	92
Gain (loss) before equity in earnings of subsidiaries	(143)	(102)	(274)
Equity in net income (loss) of subsidiaries	(1,233)	99	892
Net income (loss)	$ (1,376)	$ (3)	$ 618

The condensed financial statements should be read in conjunction with the

consolidated financial statements and notes thereto and the accompanying notes.

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SCHEDULE II

MBIA INC. (PARENT COMPANY)

CONDENSED STATEMENTS OF CASH FLOWS

(In millions)

	Years Ended December 31,		
	2011	2010	2009
Cash flows from operating activities:			
Net income (loss)	$ (1,376)	$ (3)	$ 618
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:			
Change in:			
Accrued investment income	2	2	45
Intercompany accounts receivable	(29)	155	(138)
Accrued interest payable	(5)	5	(41)
Current income taxes	124	56	(353)
Equity in earnings of subsidiaries	1,233	(99)	(892)
Dividends from subsidiaries	46	19	1,174
Amortization of bond (premiums) discounts, net	(23)	(23)	(52)
Net investment losses related to other-than-temporary impairments	33	59	351
Net (gains) losses on financial instruments at fair value and foreign exchange	284	117	(102)
Other net realized (gains) losses	42	(1)	(4)
Deferred income tax benefit	(85)	(90)	321
(Gains) losses on extinguishment of debt		1	66
Share-based compensation	4	2	6
Other operating	6	(12)	(36)
Total adjustments to net income (loss)	1,632	191	345
Net cash provided (used) by operating activities	256	188	963
Cash flows from investing activities:			
Purchase of fixed-maturity securities	(3,737)	(6,394)	(6,910)
Sale and redemption of fixed-maturity securities	4,651	7,288	8,687
Sale (purchase) of short-term investments, net	251	363	1,735
Sale (purchase) of other investments, net	81	55	182
(Payments) proceeds for derivative settlements	(85)	16	
Collateral (to) from swap counterparty		166	
Contributions to subsidiaries		(35)	(1,243)
Net cash provided (used) by investing activities	1,161	1,459	2,451
Cash flows from financing activities:			
Proceeds from issuance of investment agreements	102	91	140
Payments for drawdowns of investment agreements	(500)	(735)	(1,968)
Securities sold under agreements to repurchase	(835)	(618)	(696)
Payments for retirement of debt	(70)	(43)	(50)
Payments for affiliate loans	(13)	(380)	(1,782)
(Payments) proceeds for derivative settlements			53
Purchase of treasury stock	(50)	(30)	(16)
Restricted stock awards settlements	(2)	2	2
Collateral from reverse repurchase agreement counterparties			30

Collateral (to) from swap counterparty			(101)
Net cash provided (used) by financing activities	(1,368)	(1,713)	(4,388)
Net increase (decrease) in cash and cash equivalents	49	(66)	(974)
Cash and cash equivalents beginning of period	83	149	1,123
Cash and cash equivalents end of period	$ 132	$ 83	$ 149
Supplemental cash flow disclosures:			
Income taxes paid (received), net	$ (453)	$ (136)	$ 127
Interest paid:			
Investment agreements	$ 29	$ 35	$ 61
Securities sold under agreements to repurchase	$ 1	$ 2	$ 7
Affiliate loans	$ 19	$ 36	$ 65
Long-term debt	$ 60	$ 66	$ 70

The condensed financial statements should be read in conjunction with the

consolidated financial statements and notes thereto and the accompanying notes.

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SCHEDULE II

MBIA INC. (PARENT COMPANY)

NOTES TO CONDENSED FINANCIAL STATEMENTS

1. Condensed Financial Statements

Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. It is suggested that these condensed financial statements be read in conjunction with the Company s consolidated financial statements and the notes thereto.

The activities of MBIA Inc. consist of general corporate activities and funding activities, which principally include holding and managing investments, servicing outstanding corporate debt, investment agreements and medium-term notes issued by MBIA Inc. and its subsidiaries, and posting collateral under investment agreement and derivative contracts.

MBIA Inc. is subject to the same liquidity risks and uncertainties as described in footnote 1 to the Company s consolidated financial statements. As of December 31, 2011, MBIA Inc. had $226 million of cash and highly liquid assets available for general corporate liquidity purpose, and $160 million of cash and liquid assets not pledged as collateral in its funding activities.

2. Significant Accounting Policies

MBIA Inc. (the Parent Company) carries its investments in subsidiaries under the equity method.

Certain amounts have been reclassified in prior years financial statements to conform to the current presentation. This includes the reclassification of amounts from Other investments to Fixed-maturity securities held as available-for-sale, at fair value and from Other liabilities to Affiliate loans payable on the Parent Company s balance sheet. These reclassifications had no impact on total revenues, expenses, assets, liabilities, or shareholders equity for all periods presented.

3. Dividends from Subsidiaries

During 2011, Optinuity Alliance Resource Corporation declared and paid dividends of $38 million to MBIA Inc. and Euro Asset Acquisition Limited declared and paid dividends of $8 million to MBIA Inc.

In 2010, Cutwater Holdings, LLC declared and paid dividends of $19 million to MBIA Inc.

4. Obligations under Investment Agreements and Medium-Term Notes

The investment agreement business, as described in footnotes 2 and 12 to the Company s consolidated financial statements, is conducted by both MBIA Inc. and its wholly owned subsidiary, MBIA Investment Management Corp.

5. Pledged Collateral

Substantially all of the obligations under investment agreements require MBIA Inc. to pledge securities as collateral. As of December 31, 2011 and 2010, the fair value of securities pledged as collateral with respect to these investment agreements approximated $428 million and $590 million, respectively. The Parent Company s collateral as of December 31, 2011, consisted principally of mortgage-backed securities, corporate obligations, and U.S. Treasury and government agency bonds, and was primarily held with major U.S. banks. Additionally, the Parent Company pledged money market securities as collateral under investment agreements in the amount of $224 million and $113 million as of December 31, 2011 and 2010, respectively.

Under derivative contracts entered into by MBIA Inc., collateral postings are required by either MBIA Inc. or the counterparty when the aggregate market value of derivative contracts entered into with the same counterparty exceeds a predefined threshold. As of December 31, 2011 and 2010, MBIA Inc. pledged securities with a fair value of $470 million and $452 million, respectively, to derivative counterparties.

6. Affiliate Loans Payable

Affiliate loans payable consists of loans payable to MBIA Global Funding, LLC (GFL). GFL raises funds through the issuance of medium-term notes with varying maturities, which are, in turn, guaranteed by MBIA Insurance Corporation. GFL lends the proceeds of these medium-term note issuances to MBIA Inc. (GFL Loans). MBIA Inc. invests the proceeds of the GFL Loans in eligible investments, which consisted of investment grade securities at the time of purchase with a minimum average double-A credit quality rating. Included within Securities sold under agreements to repurchase on the Parent Company s balance sheet is a secured loan from MBIA Insurance Corporation of $300 million.

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SCHEDULE IV

MBIA INC. AND SUBSIDIARIES

REINSURANCE

Years Ended December 31, 2011, 2010 and 2009

(In millions)

Column A Insurance Premium Written	Column B Direct Amount	Column C Ceded to Other Value	Column D Assumed From Other Companies	Column E Net Amount	Column F Percentage of Amount Assumed to Net
2011	$ (5)	$ 3	$ (2)	$ (10)	20%
2010	$ (19)	$ (229)	$ 7	$ 217	3%
2009	$ (3)	$ (93)	$ (62)	$ 28	(221)%

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Securities and Exchange Commission

Washington, D.C. 20549

Exhibits

to

Form 10-K

Annual Report Pursuant to Section 13 or 15(d)

of the Securities Exchange Act of 1934

For the fiscal year ended December 31, 2011

Commission File No. 1-9583

MBIA Inc.

Exhibit Index

21.	List of Subsidiaries.
23.	Consent of PricewaterhouseCoopers LLP.
31.1.	Chief Executive Officer Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2.	Chief Financial Officer Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
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* Furnished Herewith