



1 2 0 4 1 2 0 1 0 2 2 0 0 0 1 0 0  
Audited Financial Reports

**MBIA Insurance Corporation**  
**Statutory-Basis Financial Statements**  
**December 31, 2010 and 2009**

**MBIA Insurance Corporation**  
**Table of Contents**  
**December 31, 2010 and 2009**

---

	<b>Page(s)</b>
<b>Report of Independent Auditors</b> .....	1-2
<b>Statutory-Basis Financial Statements</b>	
Statements of Admitted Assets, Liabilities and Capital and Surplus.....	3
Statements of Income .....	4
Statements of Changes in Capital and Surplus.....	5
Statements of Cash Flows.....	6
Notes to Statutory-Basis Financial Statements.....	7-59
<b>Supplemental Schedules</b>	
Summary Investment Schedule.....	60
Supplemental Investment Risks Interrogatories.....	61-66
Supplemental Schedule of Reinsurance Disclosures.....	67-68



## Report of Independent Auditors

To the Board of Directors and Shareholders of MBIA Insurance Corporation:

We have audited the accompanying statutory statements of admitted assets, liabilities and surplus of MBIA Insurance Corporation (the "Company") as of December 31, 2010 and 2009, and the related statutory statements of income and changes in surplus, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

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

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Company as of December 31, 2010 and 2009, or the results of its operations or its cash flows for the years then ended.

In our opinion, the financial statements referred to above present fairly, in all material respects, the admitted assets, liabilities and surplus of the Company as of December 31, 2010 and 2009 and the results of its operations and its cash flows for the years then ended, on the basis of accounting described in Note 2.

As discussed in Note 1 to the consolidated financial statements, the Company has been adversely affected by the financial crisis and economic downturn, has been unable to write meaningful amounts of new insurance business since 2008 and is subject to significant risks and uncertainties that could affect amounts reported in the Company's financial statements in future periods.



Our audit was conducted for the purpose of forming an opinion on the basic statutory basis financial statements taken as a whole. The supplemental schedules listed in the attached index of the Company as of December 31, 2010 and for the year then ended are presented for purposes of additional analysis and are not a required part of the basic statutory basis financial statements. The effects on the supplemental schedules listed in the attached index of the variances between the statutory basis of accounting and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material. As a consequence, the supplemental schedules listed in the attached index do not present fairly, in conformity with accounting principles generally accepted in the United States of America, such information of the Company as of December 31, 2010 and for the year then ended. The supplemental schedules listed in the attached index have been subjected to the auditing procedures applied in the audit of the basic statutory basis financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic statutory basis financial statements taken as a whole.

*PricewaterhouseCoopers LLP*

March 9, 2011

**MBIA INSURANCE CORPORATION**  
**STATUTORY-BASIS STATEMENTS OF ADMITTED ASSETS, LIABILITIES and CAPITAL and SURPLUS**  
(Dollars in thousands except share and per share amounts)

	<u>December 31, 2010</u>	<u>December 31, 2009</u>
<b>Admitted Assets</b>		
Investments:		
Fixed-maturity securities, at amortized cost (fair value \$1,274,509 and \$757,440, respectively )	\$1,211,389	\$739,735
Secured loan with parent	975,000	1,600,000
Short-term investments, at amortized cost which approximates fair value	55,233	643,878
Investment in subsidiaries	432,111	616,400
Investments in unaffiliated common stock, at fair value	150,513	137,119
Investments in preferred stock, at carry value (2010 fair value of \$2,177)	2,119	-
Investment in real estate, net of depreciation	-	65,000
Other investments	3,620	109,121
Total investments	2,829,985	3,911,253
Cash and cash equivalents	469,245	536,499
Total cash and investments	3,299,230	4,447,752
Accrued investment income	12,427	11,615
Current tax receivable	8,335	283,808
Deferred tax asset	70,000	83,300
Reinsurance recoverable on paid losses	566	13,219
Other assets	67,892	27,412
Total admitted assets	\$3,458,450	\$4,867,106
<b>Liabilities, Capital and Surplus</b>		
Liabilities:		
Deferred premium revenue	\$524,303	\$539,518
Loss and loss adjustment expense reserves	67,838	560,955
Contingency reserve	1,655,736	1,447,665
Borrowed money	-	276,842
Amounts withheld for account of others	12,684	21,051
Payable for investments purchased	83	13,004
Other liabilities	123,104	122,983
Total liabilities	2,383,748	2,982,018
Capital and Surplus:		
Common stock, par value \$220.80 per share; authorized, issued and outstanding - 67,936 shares	15,000	15,000
Series A non-cumulative perpetual preferred stock, par value \$1,000 per share, liquidation value \$100,000 per share; authorized - 4,000.08 shares, issued and outstanding - 2,759.08 shares	275,908	275,908
Surplus notes	952,655	952,655
Additional paid-in capital	778,400	777,220
Unassigned surplus	(947,261)	(135,695)
Total capital and surplus	1,074,702	1,885,088
Total liabilities, capital and surplus	\$3,458,450	\$4,867,106

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

**MBIA INSURANCE CORPORATION**  
**STATUTORY-BASIS STATEMENTS OF INCOME**

(Dollars in thousands)

	Years ended December 31,	
	2010	2009
Revenues:		
Gross premiums written	\$353,063	(\$509,339)
Ceded premiums	5,622	(2,627,353)
Net premiums written	358,685	(3,136,692)
Decrease in deferred premium revenue	49,265	3,532,661
Net premiums earned	407,950	395,969
Expenses:		
Losses incurred	874,767	1,733,026
Loss adjustment expenses incurred	170,455	181,733
Other underwriting income	(4,965)	(702,733)
Total underwriting expenses	1,040,257	1,212,026
Net underwriting loss	(632,307)	(816,057)
Investment income:		
Net investment loss	(1,546)	(9,271)
Net realized gains (losses)	17,199	(127,266)
Net investment gain (loss)	15,653	(136,537)
Other income (expense), net	206,357	(37,206)
Loss before income taxes (after capital gains tax)	(410,297)	(989,800)
Provision (benefit) for income taxes	23,674	(305,626)
Net loss	(\$433,971)	(\$684,174)

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

**MBIA INSURANCE CORPORATION**  
**STATUTORY-BASIS STATEMENTS OF CHANGES IN CAPITAL AND SURPLUS**

**For the years ended December 31, 2010 and 2009**

(Dollars in thousands except share amounts)

	Common Stock		Preferred Stock		Additional Paid-in Capital	Surplus Notes	Unassigned Surplus	Total Capital and Surplus
	Shares	Amount	Shares	Amount				
Balance, January 1, 2009	100,000	\$ 15,000	2,759.08	\$ 275,908	\$ 1,899,851	\$ 952,655	\$ 359,008	\$ 3,502,422
Net loss	-	-	-	-	-	-	(684,174)	(684,174)
Change in non-admitted assets	-	-	-	-	-	-	(445,771)	(445,771)
Change in foreign currency translation	-	-	-	-	-	-	122,275	122,275
Change in contingency reserve	-	-	-	-	-	-	1,147,263	1,147,263
Change in net unrealized gain (loss) on investment in subsidiaries	-	-	-	-	-	-	99,000	99,000
Change in net unrealized gain (loss) on other investments, net of tax	-	-	-	-	-	-	(25,626)	(25,626)
Change in net deferred income taxes	-	-	-	-	-	-	453,041	453,041
Redemption of common shares	(32,064)	(4,809)	-	-	(1,123,557)	-	-	(1,128,366)
Increase in par value of common shares	-	4,809	-	-	-	-	-	4,809
Dividends on preferred shares	-	-	-	-	-	-	(13,754)	(13,754)
Special dividends paid on common shares	-	-	-	-	-	-	(1,146,957)	(1,146,957)
Share-based compensation net of deferred income taxes	-	-	-	-	926	-	-	926
Balance, December 31, 2009	<u>67,936</u>	<u>15,000</u>	<u>2,759.08</u>	<u>275,908</u>	<u>777,220</u>	<u>952,655</u>	<u>(135,695)</u>	<u>1,885,088</u>
Net loss	-	-	-	-	-	-	(433,971)	(433,971)
Change in non-admitted assets	-	-	-	-	-	-	(253,014)	(253,014)
Change in foreign currency translation	-	-	-	-	-	-	(126,098)	(126,098)
Change in contingency reserve	-	-	-	-	-	-	(208,072)	(208,072)
Change in net unrealized gain (loss) on investment in subsidiaries	-	-	-	-	-	-	(55,684)	(55,684)
Change in net unrealized gain (loss) on other investments, net of tax	-	-	-	-	-	-	6,995	6,995
Change in net deferred income taxes	-	-	-	-	-	-	258,278	258,278
Share-based compensation net of deferred income taxes	-	-	-	-	1,180	-	-	1,180
Balance, December 31, 2010	<u>67,936</u>	<u>\$15,000</u>	<u>2,759.08</u>	<u>\$ 275,908</u>	<u>\$ 778,400</u>	<u>\$ 952,655</u>	<u>(\$947,261)</u>	<u>\$1,074,702</u>

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

**MBIA INSURANCE CORPORATION**  
**STATUTORY-BASIS STATEMENTS OF CASH FLOWS**

(Dollars in thousands)

	Years ended December 31	
	2010	2009
<b>Cash from operations</b>		
Premiums collected (paid), net of reinsurance	\$ 233,088	(\$ 2,981,059)
Net investment (loss) income	(60,483)	127,531
Miscellaneous (loss) income	(8,593)	11,743
Total	164,012	(2,841,785)
Loss and loss adjustment expense payments	2,262,104	2,648,461
Commissions and income received	(192,486)	(227,723)
Federal income taxes received	(366,354)	(374,266)
Total	1,703,264	2,046,472
Net cash used by operations	(1,539,252)	(4,888,257)
<b>Cash from investments</b>		
Proceeds from investments sold, matured or repaid:		
Fixed-maturity securities	697,413	6,123,607
Stocks	145,565	231,611
Real estate	65,000	-
Other invested assets	52,841	202,543
Proceeds from repayment of secured loan with affiliate	625,000	400,000
Miscellaneous proceeds	29,633	41,838
Total investment proceeds	1,615,452	6,999,599
Cost of investments acquired:		
Fixed-maturity securities	378,042	630,580
Stocks	42,106	115,792
Real estate, net of depreciation	29	1,994
Other invested assets	15	32,890
Miscellaneous applications	11,594	194,651
Total investments acquired	431,786	975,907
Net cash provided by investments	1,183,666	6,023,692
<b>Cash from financing and miscellaneous sources</b>		
Cash provided:		
Net proceeds from borrowed money	(276,842)	276,842
Surplus paid in	1,180	925
Total other cash provided	(275,662)	277,767
Cash applied:		
Net transfers from (to) affiliates	23,548	(56,345)
Securities sold under agreement to repurchase	-	1,353,050
Redemption of common shares and other returns of capital	-	1,123,557
Special dividends paid on common shares	-	1,146,957
Dividends paid on preferred shares	1,005	12,748
Other applications	98	(321)
Total other cash applied	24,651	3,579,646
Net cash used for financing and miscellaneous sources	(300,313)	(3,301,879)
Net change in cash, cash equivalents and short-term investments	(655,899)	(2,166,444)
Cash, cash equivalents and short-term investments - beginning of year	1,180,377	3,346,821
Cash, cash equivalents and short-term investments - end of year	\$ 524,478	\$ 1,180,377

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

**MBIA INSURANCE CORPORATION**  
**NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS**  
**As of and for the years ended December 31, 2010 and 2009**

---

**1. Businesses, Developments, Risks and Uncertainties**

MBIA Insurance Corporation, an entity domiciled in the state of New York (“MBIA”, “MBIA Corp.” or the “Company”) is a wholly-owned subsidiary of MBIA Inc. (“Parent Company”). MBIA Inc. was incorporated in Connecticut on November 12, 1986 as a licensed insurer and, through a series of transactions during December 1986, became the successor to the business of the Municipal Bond Insurance Association (the “Association”), a voluntary unincorporated association of insurers writing municipal bond and note insurance as agent for the member insurance companies. During 2010 and 2009 MBIA Corp. did not write a meaningful amount of business. Activity was largely limited to MBIA Corp.’s reinsurance of a financing transaction structured by its affiliate LatAm Capital Advisors, Inc. for the state of Mexico.

***Business Developments***

MBIA Corp. has been adversely affected by the financial crisis and economic downturn of 2007 through 2009 and the ongoing residual effects on the commercial and residential real estate sectors. Substantial exposure to the structured finance capital markets, through direct securitizations and re-securitizations, has made MBIA Corp. especially vulnerable to the market’s volatility. The impacts of the economic downturn included downgrades of MBIA Corp.’s credit ratings beginning in mid-year 2008 and substantial incurred insurance losses. MBIA Corp. believes most of the incurred insurance losses were attributable to defaults on ineligible mortgages placed in second-lien mortgage securitizations, but MBIA Corp. also sustained losses in collateralized debt obligations comprising asset-backed collateral (“ABS CDOs”) and, in 2010, in commercial mortgage-backed securities (“CMBS”) pools. The insurance losses negatively impacted the statutory capital (defined as policyholders’ surplus and contingency reserves) and liquidity position of MBIA Corp. MBIA Corp.’s statutory capital was reduced from \$4.3 billion in February 2009 to \$2.7 billion as of December 31, 2010.

MBIA Corp. has been unable to write meaningful amounts of new insurance business since 2008 and does not expect to write significant new business prior to an upgrade of its credit ratings. As of December 31, 2010, MBIA Insurance Corporation was rated B with a negative outlook by Standard & Poors Financial Services LLC (“S&P”) and B3 with a negative outlook by Moody’s Investors Services, Inc. (“Moody’s”).

MBIA Corp. has been actively responding to these developments. In 2008, MBIA raised \$1.4 billion in equity to support its business. In 2008, MBIA Corp. was one of the first market participants to recognize the inappropriate underwriting and breaches of representations and warranties in the second-lien mortgage origination and securitization sector and commenced enforcement actions against sellers/servicers who did not honor their contractual obligations to repurchase or replace ineligible loans. As of December 31, 2010, MBIA Corp. had recorded loan put-back recoveries of \$2.5 billion. Additionally, in 2008 and 2009, MBIA Corp. pursued and received approval from the New York State Insurance Department (“NYSID”) to separate MBIA Corp. into two insurance companies, MBIA Corp. and National Public Finance Guarantee Corporation (“National”) to meet the market’s demand for municipal bond insurance from municipal-only companies. The NYSID and MBIA Corp. are both vigorously defending litigation seeking to challenge the NYSID’s decision.

Since 2008, MBIA Corp. has sought to reduce both the absolute amount and the volatility of its liabilities and contingent liabilities through repurchases of securities and commutations of insurance policies. In the period 2008 through 2010, MBIA Corp. undertook actions to mitigate the declines in the liquidity of MBIA Corp. through reinsurance commutations. The impact of these actions has been to mitigate statutory capital erosion and preserve liquidity, and to reduce volatility. MBIA Corp. ended 2010 with \$1.2 billion in liquid assets after claim payments and commutations of insured derivatives, compared to \$1.1 billion at December 31, 2009. MBIA Corp. also reduced its use of reinsurance during this period. At the same time, the U.S. economy has grown for the past six quarters, the pace of increase in delinquencies in troubled real estate sectors has declined, and asset values have begun to improve.

In February 2009, upon receiving the required regulatory approval, the Company transferred its entire U.S. Public Finance insurance portfolio to National. See the ‘Transformation’ section included herein for further information.

***Risks and Uncertainties***

MBIA Corp.’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 MBIA Corp. to revise its estimates and assumptions or could cause actual results to differ from MBIA Corp.’s estimates.

**MBIA INSURANCE CORPORATION**  
**NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS**  
**As of and for the years ended December 31, 2010 and 2009**

---

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

- If the 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 additional losses in that sector. As of December 31, 2010, MBIA Corp. had CMBS pool and commercial real estate ("CRE") collateralized debt obligation ("CDO") insured par exposure of approximately \$35.9 billion and \$7.4 billion, respectively, and during 2010, MBIA Corp. increased its loss reserves related to those exposures by \$1.1 billion and \$35 million, respectively. Refer to "Note 9: Losses and Loss Adjustment Expense Reserves" for information about MBIA Corp.'s estimate of CMBS loss reserves.
- While incurred losses from insured residential mortgage-backed securities ("RMBS") have declined from their peaks, they could ultimately be in excess of MBIA Corp.'s current estimated loss reserves. Refer to "Note 9: Losses and Loss Adjustment Expense Reserves" for information about MBIA Corp.'s RMBS loss reserves.
- While MBIA Corp. has settled a substantial part of its insured ABS CDO exposure at levels within its loss reserves related to these exposures, further economic stress might cause increases in its loss estimates.
- MBIA Corp.'s efforts to recover losses from the second-lien securitization originators could be delayed, settled at amounts below its contractual claims (approximately \$4.6 billion as of December 31, 2010), or potentially settled at amounts below those recorded on its balance sheets (approximately \$2.5 billion as of December 31, 2010). Refer to "Note 9: Losses and Loss Adjustment Expense Reserves" for information about MBIA Corp.'s RMBS loss recoveries.
- MBIA Corp.'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 MBIA Corp. to record allowances against some or all of its net admitted deferred tax asset, which totaled \$70 million as of December 31, 2010. Refer to "Note 6: Income Taxes" for information about MBIA Corp.'s deferred tax assets.

While MBIA Corp. believes it continues to have sufficient capital and liquidity to meet all of its obligations for the foreseeable future, 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. Failure to maintain adequate levels of statutory surplus could lead to intervention by the Company's insurance regulators in its operations and constitute an event of default under certain of MBIA Corp.'s contracts, thereby materially and adversely affecting the Company's financial condition and results of operations.

As of December 31, 2010, MBIA Corp. had insured gross par outstanding of \$190.2 billion and statutory capital of \$2.7 billion. 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 election to accelerate. Certain investment agreement contracts written by MBIA Inc. and its subsidiaries are insured by MBIA Corp. and if MBIA Inc. and its subsidiaries were to have insufficient assets to pay amounts due, MBIA Corp.'s insurance coverage would be drawn upon to make such payments. MBIA Corp. has also insured debt obligations of its affiliates, including medium-term notes issued by MBIA Global Funding, LLC and Meridian Funding Company, LLC, and provides reinsurance to its insurance subsidiaries. MBIA Corp. has also written insurance policies guaranteeing the obligations of an affiliate, LaCrosse Financial Products, LLC ("LaCrosse"), 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.

Since the beginning of the economic downturn in 2008, the collateral underlying many of MBIA Corp.'s insured structured finance transactions has experienced diminished value and financial stress. Although MBIA Corp.'s current reserves represent its best estimate of losses that it incurred to date, there is a possibility such losses could increase significantly. A material increase in losses in MBIA Corp.'s structured finance insured portfolio could have a material adverse effect on MBIA Corp.'s statutory capital, financial conditions, cash flows, and results of operations.

**MBIA INSURANCE CORPORATION**  
**NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS**  
**As of and for the years ended December 31, 2010 and 2009**

---

***International Insurance Subsidiaries***

MBIA Corp. writes business both in the U.S. and outside of the U.S. MBIA Corp. owns MBIA UK Insurance Limited (“MBIA UK”), a financial guarantee insurance company licensed in the United Kingdom which writes financial guarantee insurance in the member countries of the European Economic Area and other regions outside the United States. MBIA UK also insures the policies previously insured by MBIA Assurance, S.A. (“MBIA Assurance”), a French insurance company owned by MBIA Corp. which was dissolved in 2007 after the transfer of MBIA Assurance’s obligations to MBIA UK. MBIA Corp. writes financial guarantee insurance in Mexico through MBIA México, S.A. de C.V. (“MBIA Mexico”).

In September 2010, MBIA Corp.’s investment in Capital Markets Assurance Corporation (“CMAC”) was liquidated and all operations of CMAC were finalized. This transaction was accounted for as a statutory purchase. CMAC was a financial guarantee insurer and wholly-owned subsidiary of MBIA Corp. that was acquired in February 1998 and was previously reported within MBIA Corp.’s financial statements as an affiliated common stock. The “Agreement and Plan of Merger” was filed with and approved by NYSID. CMAC has not written any new insurance business since the acquisition and CMAC’s net insured exposure was 100% reinsured by MBIA Corp. As part of the liquidation, MBIA Corp. assumed all of CMAC’s insured obligations and received cash and fixed-maturity securities with a fair value of \$133 million.

During the third quarter of 2010, MBIA Corp. acquired all of the common stock of Channel Reinsurance Ltd. (“Channel Re”) and its parent ChannelRe Holdings, Ltd. not previously owned by MBIA Corp. for \$40 million in cash, commuted all reinsurance arrangements with MBIA Corp. and MBIA UK and liquidated Channel Re and ChannelRe Holdings, Ltd. The transaction was accounted for as a statutory purchase and resulted in an increase in MBIA Corp.’s statutory capital of \$132 million and was accretive to its liquidity position. Channel Re was a financial guarantee reinsurance company formed in 2004 to provide committed reinsurance capacity to MBIA Corp. and its affiliates.

***Transformation***

In February 2009, after receiving the required regulatory approvals, MBIA Inc. established and capitalized National, as a U.S. public finance-only financial guarantor, which was previously named MBIA Insurance Corp. of Illinois (“MBIA Illinois”) and previously owned by MBIA Corp. In connection with the establishment of National, the stock of MBIA Illinois was transferred to a newly established intermediate holding company, which is wholly-owned by MBIA Inc. Additionally, National was further capitalized with approximately \$2.1 billion from funds distributed by MBIA Corp. to MBIA Inc. as a dividend and return of capital, which MBIA Inc. contributed to National through the intermediate holding company.

In February 2009, MBIA Corp. entered into a quota share reinsurance agreement effective January 1, 2009 pursuant to which MBIA Corp. ceded all of its U.S. public finance exposure to National and into an assignment agreement under which MBIA Corp. assigned its rights and obligations with respect to the U.S. public finance business that MBIA Corp. assumed from Financial Guaranty Insurance Corporation (“FGIC”). The exposure transferred to National under the reinsurance and assignment agreements totaled \$553.7 billion of net par outstanding. The reinsurance and assignment enables covered policyholders and certain ceding reinsurers to make claims for payment directly against National in accordance with the terms of those agreements. MBIA Corp. received ceding commission of \$765 million in connection with this transaction.

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

MBIA Corp. is no longer insuring new credit derivative contracts except in transactions related to the reduction of existing derivative exposure. The structured finance market continues to recover from the global credit crisis with new issuance volume, though increasing, still well below historical averages. It is unclear how or when MBIA Corp. may be able to re-engage this market.

**MBIA INSURANCE CORPORATION**  
**NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS**  
**As of and for the years ended December 31, 2010 and 2009**

---

***Liquidity***

As a financial services company, MBIA Corp. is materially affected by conditions in global financial markets. Current conditions and events in these markets have created substantial liquidity risk for MBIA Corp. Liquidity risk arises in MBIA Corp. when claims on insured exposures result in payment obligations, when operating cash inflows fall due to depressed new business writings, when investment income decreases, when unanticipated expenses arise, or when invested assets experience credit defaults or significant declines in fair value.

As part of its liquidity risk management framework, MBIA Corp. also seeks to evaluate and manage liquidity. There are legal, regulatory and other limitations on MBIA Corp.'s ability to utilize the liquidity resources within the overall enterprise. Unexpected loss payments arising from ineligible mortgage loans in securitizations that MBIA Corp. has insured, dislocation in the global financial markets, the overall economic downturn in the U.S., and the loss of MBIA Corp.'s triple-A insurance financial strength ratings in 2008 significantly increased the liquidity needs and decreased the financial flexibility. MBIA Corp. continued to satisfy all of its payment obligations and MBIA Corp. believes that it has adequate resources to meet its ongoing liquidity needs in both the short-term and the long-term. However, MBIA Corp. could face additional liquidity pressure in all of its operations and businesses through increased liquidity demands or a decrease in its liquidity supply if (i) loss payments on MBIA Corp.'s insured transactions were to rise significantly, including due to ineligible mortgages in securitizations that MBIA Corp. has insured, (ii) market or adverse economic conditions persist for an extended period of time or worsen, (iii) MBIA Corp. is unable to sell assets at values necessary to satisfy payment obligations or is unable to access new capital through the issuance of debt, (iv) MBIA Corp. experiences an unexpected acceleration of payments required to settle liabilities or (v) MBIA Corp. is unable to collect or is delayed in collecting on its contract claim recoveries related to ineligible mortgages in securitizations. These pressures could arise from exposures beyond residential mortgage-related stress, which to date has been the main cause of stress.

As a result of the transaction executed with Channel Re and its previous shareholders in the third quarter of 2010, MBIA Corp. acquired a substantial portion of assets previously held by Channel Re. These assets consist primarily of U.S. Treasury and high quality corporate bonds which can readily be sold to raise liquidity at MBIA Corp. The transaction resulted in an increase in MBIA Corp.'s statutory capital position. MBIA Corp. also engaged in several transactions and the early prepayment of a MBIA Inc. loan to its asset/liability products segment to increase liquidity in MBIA Corp. As a result, after \$1.8 billion of claim payments in 2010, MBIA Corp. ended the year with a greater amount of liquid assets than it held as of December 31, 2009.

Since the fourth quarter of 2007 through December 31, 2010, MBIA Corp. has made \$7.6 billion of cash payments, before reinsurance and collections, associated with RMBS securitizations and commutations and claim payments relating to CDS contracts referencing CDO-squared, multi-sector CDOs, CMBS pools and CRE CDOs. The total gross insured exposure associated with the commuted insured obligations was \$24.7 billion and related to ABS CDOs, CRE CDOs, CMBS pools and high yield corporate CDOs. In MBIA Corp.'s outstanding insured portfolio, these types of insured exposures have exhibited the highest degree of payment volatility and continue to pose material liquidity risk to MBIA Corp.

Of the \$7.6 billion, MBIA Corp. has paid \$5.5 billion of claims on policies insuring second-lien RMBS securitizations. MBIA Corp. believes these payments were driven by an overwhelming number of ineligible mortgage loans being placed in the securitizations in breach of the representations and warranties of the sellers/servicers. Therefore, payments have been far in excess of the level that might be expected in an economic downturn. As a result of the unprecedented and unexpected mortgage loan defaults driven by placement of ineligible loans in RMBS securitizations, MBIA Corp. could incur payment obligations beyond its current estimate. MBIA Corp. is seeking to enforce its rights to have mortgage sellers/servicers repurchase ineligible loans from securitizations and has recorded a total of \$2.5 billion of related recoveries on its balance sheet. These recoveries are being pursued through litigation discussed more fully in "Note: 16 Contingencies and Commitments."

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

The reference herein to "ineligible" mortgage loans refers to those mortgages that MBIA Corp. believes failed to comply with the representations and warranties made by the sellers/servicers of the securitizations to which those

**MBIA INSURANCE CORPORATION**  
**NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS**  
**As of and for the years ended December 31, 2010 and 2009**

---

mortgages were sold with respect to such mortgages, including failure to comply with the related underwriting criteria, based on MBIA Corp.'s assessment which included information provided by third-party review firms, of such mortgages' compliance with such representations and warranties. MBIA Corp.'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 MBIA Corp.'s determinations will prevail.

MBIA Corp.'s financial guarantee contracts and CDS contracts cannot be accelerated, thereby mitigating liquidity risk. However, with respect to the insurance of CDS contracts, in certain events, including the insolvency or payment default of the insurer or the issuer of the CDS, the CDS contract may be subject to termination by the counterparty, triggering a claim for the fair value of the contract. Further, in the event of a default in payment of principal, interest or other insured amounts by an insured issuer, MBIA Corp. generally promises to make funds available in the insured amount on the next business day following notification for U.S. transactions and within longer timeframes for international transactions, depending on the terms of the insurance policy. MBIA Corp. provides for this payment, in some cases through a third-party bank, upon receipt of proof of ownership of the obligations due, as well as upon receipt of instruments appointing the insurer as agent for the holders and evidencing the assignment of the rights of the holders with respect to the payments made by the insurer.

Additionally, MBIA Corp. requires cash for the payment of operating expenses, as well as principal and interest related to its surplus notes. MBIA Corp. also provides guarantees to the holders of MBIA Inc.'s asset/liability products debt obligations. If MBIA Inc.'s asset/liability products segment or MBIA Inc. were unable to service the principal and interest payments on its asset/liability debt and investment agreements, the holders of the insured liabilities would make a claim under the MBIA Corp. insurance policies. Finally, in 2008 MBIA Corp. lent \$2.0 billion to MBIA Inc.'s asset/liability products segment on a secured basis for the purpose of minimizing the risk that such a claim would be made. The loan matures in the fourth quarter of 2011. During 2010, a total of \$625 million was repaid and the amount outstanding was \$975 million as of December 31, 2010.

In order to monitor liquidity risk and maintain appropriate liquidity resources for payments associated with MBIA Corp.'s residential mortgage-related exposures, MBIA Corp. employs a stress scenario-based liquidity model using the same "Roll Rate Methodology" as described in "Note 9: Losses and Loss Adjustment Expense Reserves." Using this methodology, MBIA Corp. estimates the level of payments that would be required to be made under stress-level default assumptions of the underlying collateral taking into account MBIA Corp.'s obligation to cover such defaults under its insurance policies. These estimated payments, together with all other significant operating, financing and investing cash flows are forecasted on a monthly basis for a period covering (i) the next 24-months and (ii) then annually thereafter to the final maturity of the longest dated outstanding insured obligation. The stress-loss scenarios and cash flow forecasts are periodically updated to account for changes in risk factors and to reconcile differences between forecasted and actual payments.

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

## **2. Summary of Significant Accounting Policies**

### Basis of Presentation

The statutory financial statements of MBIA Corp. are presented on the basis of accounting practices prescribed or permitted by the NYSID. The NYSID recognizes only statutory accounting practices prescribed or permitted by the State of New York for determining and reporting the financial condition and results of operations of an insurance company, for determining its solvency under the New York Insurance Law. The National Association of Insurance Commissioners ("NAIC") *Accounting Practices and Procedures Manual* ("NAIC SAP") has been adopted as a

**MBIA INSURANCE CORPORATION**  
**NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS**  
**As of and for the years ended December 31, 2010 and 2009**

---

component of prescribed or permitted practices by the State of New York. The Commissioner of Insurance has the right to permit other specific practices that deviate from prescribed practices.

As of December 31, 2010, MBIA Corp. does not have any accounting practices which are permitted, rather than prescribed, by the NYSID.

Use of Estimates in the Preparation of the Financial Statements

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

Cash and Cash Equivalents

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

Investments

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

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

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

The Company utilizes the retrospective adjustment method to value all loan-backed securities except for interest only securities or securities where the yield has become negative. These securities are valued using the prospective method.

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

Loan-backed bonds and structured securities with an NAIC designation of 3 through 6 are reported at the lower of amortized cost or fair value as determined by the SVO (in accordance with the NAIC’s structured securities initiative, non-agency RMBS and CMBS fair values are determined by Pacific Investment Management Company and BlackRock Solutions, respectively). In the event the SVO has not determined the fair value of a security, fair

**MBIA INSURANCE CORPORATION**  
**NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS**  
**As of and for the years ended December 31, 2010 and 2009**

---

value amounts are determined by using independent market sources, when available, and appropriate valuation methodologies when market quotes are not available. In cases where specific market quotes are unavailable, interpreting market data and estimating market values require considerable judgment by management. Accordingly, the estimates presented are not necessarily indicative of the amount MBIA Corp. could realize in the market.

Investment income is recorded as earned. All investment income due and accrued with amounts that are over 90 days past due are recorded as non-admitted assets. As of December 31, 2010 and 2009 there were no non-admitted assets for investment income due and accrued. Realized gains and losses on the sale of investments are determined by specific identification and are included in the Statement of Income as a separate component of revenues. Unrealized gains and losses from the revaluation of bonds and common stocks not valued at amortized cost are credited or charged to unassigned surplus

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

Common stocks are stated at fair value except for investments in stocks of subsidiaries. In accordance with Section 1414 *Valuation of Investments* of the New York Insurance Statutes and SSAP 97 "Investments in Subsidiary, Controlled and Affiliated Entities," investments in the stock of subsidiaries and affiliates are valued at their statutory equity basis (approximately \$432 million and \$616 million at December 31, 2010 and 2009 respectively). As of December 31, 2010, MBIA Mexico and MBIA UK Holdings Ltd. ("UK Holdings") are included in "Investments in Subsidiaries" on the Company's Statutory-Basis Statements of Admitted Assets, Liabilities and Capital and Surplus at \$11 million and \$421 million, respectively.

Preferred stocks are stated in accordance with SSAP 32 "Investments in Preferred Stock (including investments in preferred stock of subsidiary, controlled, or affiliated entities)." Perpetual preferred stocks with an NAIC designation of P1 and P2 are carried at fair value while perpetual preferred stocks with an NAIC designation of P3 through P6 are carried at the lower of cost or fair value. Redeemable preferred stocks with an NAIC designation of RP1 and RP2 are carried at amortized cost while redeemable preferred stocks with an NAIC designation of RP3 through RP6 are carried at the lower of amortized cost or fair value.

MBIA Corp.'s investment portfolio is reviewed quarterly to identify those securities in which fair value is less than amortized cost in order to assess whether such a decline in value is other-than-temporary. An investment is considered for a potential other-than-temporary impairment if it meets any of the following criteria:

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

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

For loan-backed and structured securities, MBIA Corp. estimates cash flows expected to be collected over the life of the security. If MBIA Corp. determines that if, based on current information and events, there is a decrease in cash flows expected to be collected (that is they will be unable to collect all cash flows expected at acquisition plus any additional cash flows expected to be collected arising from changes in estimates after acquisition) an other-than-temporary impairment shall be considered to have occurred. For loan-backed securities that management has no intent to sell and believes that it is more likely than not such securities will not be required to be sold prior to

**MBIA INSURANCE CORPORATION**  
**NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS**  
**As of and for the years ended December 31, 2010 and 2009**

---

recovery, only the credit loss component of the other-than-temporary impairment is recognized as a net realized loss, while the rest of the fair value loss is recognized as a reduction to unassigned funds (surplus). If management intends to sell the security or if management believes that it is more likely than not such securities will be required to be sold prior to recovery, the entire amount of the unrealized loss is recognized as a realized loss. These assessments require management to exercise judgment as to whether an investment is impaired based on market conditions and trends and the availability of relevant data. MBIA Corp. did not recognize any other-than-temporary impairments in 2010. See “Note 3: Investments” for information regarding securities that were impaired in 2009.

The NAIC adopted SSAP 100 “Fair Value Measurements” effective December 31, 2010. See “Note 5: Fair Value of Financial Instruments” for further information regarding valuation methodologies and related disclosures.

Premium Revenue Recognition

The Company’s premiums written consist of upfront premiums and installment premiums received and accrued for policies issued in current and prior years. Upfront premiums are earned proportionately to the ratio of scheduled periodic maturity of principal and interest (debt service) to the original total principal and interest insured. Installment premiums are earned on a straight-line basis over each installment period, generally one year or less. Unearned premiums represent the portion of premiums written in prior years that is applicable to the unexpired risk of insured obligations. When an insured obligation is retired early, is called by the issuer, or is in substance paid in advance through a refunding accomplished by placing U.S. Government securities in escrow, the remaining unearned premium is earned at that time, since there is no longer risk to MBIA Corp. The amounts earned from refundings were \$64 million and \$26 million in 2010 and 2009, respectively. As the outstanding principal of an installment-based policy is paid down by the issuer of an MBIA-insured obligation, less premium is collected and recognized by MBIA Corp. Additionally, MBIA Corp. may receive premiums upon the early termination of installment-based policies, which are earned when received.

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

Ceding commission income is recognized in earnings at the same time the related premium is recognized. However, ceding commission income that exceeds the anticipated acquisition costs of the business ceded will be established as a liability, equal to the difference between the anticipated acquisition cost and the reinsurance commission received. The excess ceding commission income is amortized pro-rata over the period which the ceded unearned premium is amortized.

Expenses incurred in connection with the acquisition of new insurance business are charged to operations as incurred. Expenses incurred are reduced for ceding commissions received or receivable, to the extent admissible.

The Company does not utilize anticipated investment income as a factor in the premium deficiency calculation. The Company had no premium deficiency as of December 31, 2010 and 2009.

Fees and Expense Reimbursements

The Company collects advisory fees in connection with certain transactions. These fees are included as a reduction to “Other Underwriting Expenses Incurred” within the Statements of Income and represent \$10 million for the years ended December 31, 2010 and 2009.

Loss and Loss Adjustment Expense (“LAE”) Reserves

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

**MBIA INSURANCE CORPORATION**  
**NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS**  
**As of and for the years ended December 31, 2010 and 2009**

---

MBIA Corp. recognizes loss reserves on a contract-by-contract basis where an insured event has occurred (i.e., a payment default on the insured obligation) or an insured event is expected in the future based upon credit deterioration which has already occurred and has been identified. Case reserves are measured based on the probability-weighted present value of expected net cash inflows and outflows to be paid under the contract, discounted using a rate equal to the yield-to-maturity of MBIA Corp.'s fixed-income investment portfolio, excluding cash and cash equivalents and other investments not intended to defease long-term liabilities, in a manner consistent with the prior year. The loss reserve is subsequently remeasured each reporting period for expected increases or decreases due to changes in the likelihood of default and potential recoveries. Subsequent changes to the measurement of the loss reserve are recognized as losses incurred in the period of change. Measurement and recognition of loss reserves is reported net of any reinsurance. MBIA Corp. estimates the likelihood of possible claims payments and possible recoveries using probability-weighted expected cash flows based on information available as of the measurement date, including market information. The methods for making such estimates are continually reviewed and any adjustments are reflected in the period determined. Once a case basis reserve is established for an insured obligation, MBIA Corp. continues to record premium revenue to the extent premiums have been or are expected to be collected on that obligation.

The Company does not establish loss reserves for all payments that may be due under an insured obligation. Case basis reserves cover the estimated amount of principal and interest the Company expects to pay on its insured obligations and the costs of settlement and other loss mitigation expenses, net of expected recoveries. MBIA Corp. recognizes potential salvage and subrogation recoveries on paid losses based on a similar probability-weighted net cash flow projection discounted using the same rate discussed above, as of the measurement date. Such recovery amounts are reported within "Loss and LAE reserves" on MBIA Corp.'s balance sheet, as a contra liability.

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

A number of variables are taken into account in establishing specific case basis reserves for individual policies. These variables include the creditworthiness of the underlying issuer of the insured obligation, whether the obligation is secured or unsecured and the expected recovery rates on the insured obligation, the projected cash flow or market value of any assets that support the insured obligation and the historical and projected loss rates on such assets. Factors that may affect the actual ultimate underwriting losses for any policy include the state of the economy, changes in interest rates, rates of inflation and the salvage values of specific collateral. Management believes that the Company's reserves are adequate to cover the 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.

Refer to "Note 9: Losses and Loss Adjustment Expense Reserves" for additional information regarding the Company's loss reserving methodology.

#### Contingency Reserve

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

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

Contingency reserves are established and maintained net of collateral and reinsurance. The reserves may be released in the same manner in which they were established and withdrawals, to the extent there may be excess, may be made

**MBIA INSURANCE CORPORATION**  
**NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS**  
**As of and for the years ended December 31, 2010 and 2009**

---

with either the prior written approval of the Superintendent of the NYSID or upon thirty days prior written notice, depending upon the circumstances specified in Article 69, Section 6903 of the New York Insurance Law. Contingency reserves established for policies which are terminated, matured or net of refundings to the extent that the refunded issue is paid off or secured by obligations which are directly payable or guaranteed by the U.S. government may be released without prior approval or notice. Additionally, as of December 31, 2010 and 2009 in conjunction with the provisions noted above, MBIA Corp has released contingency reserves upon satisfaction of certain conditions of New York State Insurance Law. MBIA Corp. continually assesses its contingency reserves to determine if amounts are excessive in relation to the outstanding insured obligations and could potentially release additional contingency reserves in the future upon demonstrating to the satisfaction of the NYSID that the amounts are excessive. The Company's contingency reserve as of December 31, 2010 and 2009 was \$1.7 billion and \$1.4 billion, respectively.

Income Taxes

Under SSAP 10R "Income Taxes-Revised", the amount of deferred tax assets that an insurance company could admit was limited to the lesser of deferred tax assets expected to reverse in one year or 10% of adjusted statutory policyholders' surplus. The Company has not admitted additional deferred tax assets ("DTAs") pursuant to SSAP 10R, paragraph 10(e) as financial guarantee companies are not permitted to do so.

MBIA Corp. files its U.S. Corporation Income Tax Return as a member of MBIA Inc. consolidated group and participates in the MBIA tax sharing agreement under which MBIA Corp. is allocated its share of the consolidated tax liability or tax benefit as determined under the tax sharing agreement. To the extent that the consolidated tax liability of the Parent Company and its subsidiaries is less than MBIA Corp.'s tax liability on a separate company basis, the difference would be held in escrow for two years in the event MBIA Corp. were to incur a tax loss which could be carried back. Intercompany tax balances are settled annually following the Parent Company's filing of its federal income tax return.

The provision for federal income taxes is based on income from operations. Deferred income taxes are provided based on temporary differences between the financial reporting and tax bases of assets and liabilities. Changes in net deferred income taxes are recognized as a separate component of gains and losses in surplus.

Reclassifications

Certain reclassifications have been made to prior year balances in order to conform to the current year presentation.

**3. Investments**

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

The following tables set forth the book adjusted/carrying value and fair value of the bonds and equity investments included in the investment portfolio of MBIA Corp., as of December 31, 2010 and 2009. Fair value of the bonds is based upon valuations adopted and approved by the NAIC's SVO. If the fair value of a security is not available from the SVO, an independent third-party source is used.

**MBIA INSURANCE CORPORATION**  
**NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS**  
**As of and for the years ended December 31, 2010 and 2009**

<b>In thousands</b>	<b>As of December 31, 2010</b>			
	<b>Book Adjusted/ Carry Value</b>	<b>Gross Unrealized</b>	<b>Gross Unrealized</b>	<b>Fair Value</b>
		<b>Gains</b>	<b>Losses</b>	
U.S. Governments	\$ 431,643	\$ 626	\$ (4,934)	\$ 427,335
All Other Governments	22,322	573	-	22,895
States, Territories and Possessions	14,760	3	(494)	14,269
Political Subdivisions of States, Territories and Possessions	12,977	-	(588)	12,389
Special Revenue and Special Assessment Obligations	106,883	201	(1,826)	105,258
Industrial and Miscellaneous	613,406	96,499	(24,186)	685,719
Hybrid Securities	9,398	-	(2,754)	6,644
Total fixed-maturity investments	<u>\$ 1,211,389</u>	<u>\$ 97,902</u>	<u>\$ (34,782)</u>	<u>\$ 1,274,509</u>
Preferred Stock	2,119	58	-	2,177
Investments in unaffiliated common stock	121,492	29,022	-	150,514
Total fixed-maturity investments and stock	<u>\$ 1,335,000</u>	<u>\$ 126,982</u>	<u>\$ (34,782)</u>	<u>\$ 1,427,200</u>
Secured loan with parent	975,000	-	(383,543)	591,457
Total fixed-maturity investments, unaffiliated common stock and secured loan	<u>\$ 2,310,000</u>	<u>\$ 126,982</u>	<u>\$ (418,325)</u>	<u>\$ 2,018,657</u>

<b>In thousands</b>	<b>As of December 31, 2009</b>			
	<b>Book Adjusted/ Carry Value</b>	<b>Gross Unrealized</b>	<b>Gross Unrealized</b>	<b>Fair Value</b>
		<b>Gains</b>	<b>Losses</b>	
U.S. Governments	\$ 5,971	\$ 124	\$ -	\$ 6,095
All Other Governments	55,965	1,359	-	57,324
Special Revenue and Special Assessment Obligations	1,442	102	-	1,544
Industrial and Miscellaneous	669,401	46,439	(30,319)	685,521
Hybrid Securities	6,956	-	-	6,956
Total fixed-maturity investments	<u>\$ 739,735</u>	<u>\$ 48,024</u>	<u>\$ (30,319)</u>	<u>\$ 757,440</u>
Investments in unaffiliated common stock	123,172	13,947	-	137,119
Total fixed-maturity investments and stock	<u>\$ 862,907</u>	<u>\$ 61,971</u>	<u>\$ (30,319)</u>	<u>\$ 894,559</u>
Secured loan with parent	1,600,000	-	(819,819)	780,181
Total fixed-maturity investments, unaffiliated common stock and secured loan	<u>\$ 2,462,907</u>	<u>\$ 61,971</u>	<u>\$ (850,138)</u>	<u>\$ 1,674,740</u>

Included in the tables above are bonds with an amortized cost and fair value of approximately \$4 million for the years ended December 31, 2010 and 2009, which were on deposit with various regulatory authorities to comply with insurance laws.

The following table sets forth the distribution by contractual maturity of the Company's bonds at book adjusted/carry value and fair value as of December 31, 2010. Contractual maturities may differ from expected maturities because borrowers may have the right to call or prepay obligations.

**MBIA INSURANCE CORPORATION**  
**NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS**  
**As of and for the years ended December 31, 2010 and 2009**

<b>In thousands</b>	<b>Book Adjusted/ Carry Value</b>	<b>Fair Value</b>
Due in one year or less	\$ 16,176	\$ 16,196
Due after one year through five years	311,371	312,803
Due after five years through ten years	300,017	298,549
Due after ten years through fifteen years	18,827	17,767
Due after fifteen years through twenty years	10,371	7,628
Due after twenty years	73,018	70,036
Mortgage-backed	481,609	551,530
Total fixed-maturity investments	<u>\$ 1,211,389</u>	<u>\$ 1,274,509</u>

The following tables set forth the gross unrealized losses of the Company's bonds and stock investments as of December 31, 2010 and 2009. The table has segregated 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.

<b>In thousands</b>	<b>As of December 31, 2010</b>					
	<b>Less than 12 Months</b>		<b>12 Months or Longer</b>		<b>Total</b>	
	<b>Fair Value</b>	<b>Unrealized Losses</b>	<b>Fair Value</b>	<b>Unrealized Losses</b>	<b>Fair Value</b>	<b>Unrealized Losses</b>
U.S. Governments	\$ 309,160	\$ (4,934)	\$ -	\$ -	\$ 309,160	\$ (4,934)
All Other Governments	-	-	-	-	-	-
States, Territories and Possessions	8,552	(494)	-	-	8,552	(494)
Political Subdivisions of States, Territories and Possessions	12,390	(588)	-	-	12,390	(588)
Special Revenue and Special Assessment Obligations	88,696	(1,826)	-	-	88,696	(1,826)
Industrial and Miscellaneous	113,911	(6,397)	39,905	(17,789)	153,816	(24,186)
Hybrid Security	6,644	(2,754)	-	-	6,644	(2,754)
Total fixed-maturity investments	<u>\$ 539,353</u>	<u>\$ (16,993)</u>	<u>\$ 39,905</u>	<u>\$ (17,789)</u>	<u>\$ 579,258</u>	<u>\$ (34,782)</u>
Common stock	-	-	-	-	-	-
Preferred stock	-	-	-	-	-	-
Total	<u>\$ 539,353</u>	<u>\$ (16,993)</u>	<u>\$ 39,905</u>	<u>\$ (17,789)</u>	<u>\$ 579,258</u>	<u>\$ (34,782)</u>

As of December 31, 2010, the Company's bond and equity investment portfolios had a gross unrealized loss of approximately \$35 million. There were eight securities that were in an unrealized loss position for a continuous twelve-month period or longer. Seven of the eight securities had unrealized losses in which the book value exceeded market value by more than 5%.

**MBIA INSURANCE CORPORATION**  
**NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS**  
**As of and for the years ended December 31, 2010 and 2009**

In thousands	As of December 31, 2009					
	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Special Revenue and Special Assessment						
Obligations			15	0	15	0
Industrial and Miscellaneous	165,463	(12,939)	52,925	(17,380)	218,388	(30,319)
Total fixed-maturity investments	\$ 165,463	\$ (12,939)	\$ 52,940	\$ (17,380)	\$ 218,403	\$ (30,319)
Common stock	-	-	-	-	-	-
Preferred stock	-	-	-	-	-	-
Total	\$ 165,463	\$ (12,939)	\$ 52,940	\$ (17,380)	\$ 218,403	\$ (30,319)

As of December 31, 2009, the Company's bond and equity investment portfolios had a gross unrealized loss of approximately \$30 million. There were nine securities that were in an unrealized loss position for a continuous twelve-month period or longer. Eight of the nine securities had unrealized losses in which the book value exceeded market value by more than 5%.

The following tables set forth the gross unrealized losses of the Company's loan-backed and structured securities as of December 31, 2010 and 2009 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.

In thousands	As of December 31, 2010					
	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Single class mortgage-backed securities	\$ 59,976	\$ (486)	\$ -	\$ -	\$ 59,976	\$ (486)
Multi-class residential mortgage-backed securities	13,644	(2,321)	24,797	(7,230)	38,441	(9,551)
Multi-class commercial mortgage-backed/asset-backed securities	12,386	(3,604)	15,108	(10,559)	27,494	(14,163)
Total loan-backed securities	\$ 86,006	\$ (6,411)	\$ 39,905	\$ (17,789)	\$ 125,911	\$ (24,200)

In thousands	As of December 31, 2009					
	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Single class mortgage-backed securities	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Multi-class residential mortgage-backed securities	51,881	(10,764)	26,354	(4,677)	78,235	(15,441)
Multi-class commercial mortgage-backed/asset-backed securities	95,706	(2,162)	26,570	(12,703)	122,276	(14,865)
Structured securities	54,000	(40,881)	-	-	54,000	(40,881)
Total loan-backed securities	\$ 201,587	\$ (53,807)	\$ 52,924	\$ (17,380)	\$ 254,511	\$ (71,187)

The Company has evaluated whether the unrealized losses in its investment portfolios were other-than-temporary considering the circumstances that gave rise to the unrealized losses, along with MBIA Corp.'s ability and intent to hold these securities to maturity or until such time as to recover an amount equal to their amortized cost. See "Note 2: Summary of Significant Accounting Policies" for further information regarding the analysis performed in determining if a security is other-than-temporarily impaired.

**MBIA INSURANCE CORPORATION**  
**NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS**  
**As of and for the years ended December 31, 2010 and 2009**

---

Based on its evaluation, during 2010, MBIA Corp. did not recognize impairments on any structured securities. In 2009, one structured security was impaired, prior to the impairment, the amortized cost of the security was \$180 million. The impairment recognized in earnings was a realized loss of \$85 million. The amount represents the decline in present value of cash flows expected to be collected below the amortized cost basis of the security. The fair value of the security was \$45 million and \$54 million at December 31, 2010 and 2009, respectively. The amortized cost basis after the other-than-temporary impairment was \$95 million as of December 31, 2010 and 2009. MBIA Corp. did not have any loan-backed or structured securities with an other-than-temporary impairment that has not been recorded in earnings.

MBIA determined that the unrealized losses on the remaining securities in its portfolio were temporary in nature because its impairment analysis, including projected future cash flows, indicated that the Company would be able to recover the amortized cost of impaired assets. The Company also concluded that it has both the ability and intent to hold these securities until their fair values recover to an amount at least equal to amortized cost or to maturity.

*Subsidiary, Controlled and Affiliated (SCA Entities)*

MBIA Corp. owns 100% of UK Holdings which is carried at its statutory equity basis of \$421 million as of December 31, 2010 which exceeds 10% of MBIA Corp.'s admitted assets. As of December 31, 2010, UK Holdings had total assets and liabilities of \$695 million and \$274 million, respectively. For the year ended December 31, 2010 UK Holdings incurred a net loss of \$28 million.

**4. Investment Income and Gains and Losses**

The following table includes investment income from MBIA Corp. for the years ended December 31, 2010 and 2009. Investment expenses primarily include amounts paid and payable related to MBIA Corp.'s surplus notes. In 2010, net realized gains and losses were generated due to the sale of investments. During 2009, net realized gains and losses on bonds were largely generated as a result of the restructuring of MBIA Corp.

<b>In thousands</b>	<b>Years ended December 31,</b>	
	<b>2010</b>	<b>2009</b>
Fixed-maturity	\$ 107,183	\$ 125,927
Short-term investments	2,079	6,371
Other investments	4,281	12,867
Interest on secured loan	29,552	61,686
Gross investment income	\$ 143,095	\$ 206,851
Investment expenses	144,641	216,122
Net investment (loss)	\$ (1,546)	\$ (9,271)

**MBIA INSURANCE CORPORATION**  
**NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS**  
**As of and for the years ended December 31, 2010 and 2009**

The components of net realized gains and losses for the years ended December 31, 2010 and 2009 are as follows:

<b>In thousands</b>	<b>Years ended December 31,</b>	
	<b>2010</b>	<b>2009</b>
Fixed-maturity:		
Gains	\$ 14,920	\$ 110,259
Losses	(1,235)	(151,206)
Net	13,685	(40,947)
Other investments:		
Gains	3,514	26,372
Losses	-	(112,690)
Net	3,514	(86,318)
Total net realized gains (losses), before taxes	\$ 17,199	\$ (127,265)

In the first quarter of 2010, MBIA Corp sold its real estate investment property to an affiliate for \$65 million. See “Note 11: Information Concerning Parent, Subsidiaries and Affiliates” for further information.

During 2010, MBIA Corp. did not recognize any other-than-temporary impairments on its investment portfolio. During 2009, MBIA Corp. recognized a \$25 million impairment loss on its real estate investment property held for sale due to an independent appraisal value being lower than the net admitted value of the real estate. This loss is included within “Net realized gains (losses)” on the Company’s Statement of Income. See “Note 2: Summary of Significant Accounting Policies” for a description of the general categories of information MBIA Corp. considers in determining whether a security is other-than-temporarily impaired. See “Note 3: Investments” for discussion on securities impaired in 2009.

**5. Fair Value of Financial Instruments**

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

For assets and liabilities recorded on the balance sheet at fair value, SSAP 100, “Fair Value Measurements” establishes a disclosure hierarchy for inputs used in measuring fair value. Observable inputs are those the Company believes that market participants would use in pricing the asset or liability developed based on market data. Unobservable inputs are those that reflect the Company’s beliefs about the assumptions market participants would use in pricing the asset or liability developed based on the best information available. The fair value hierarchy is broken down into three levels based on the observability and reliability of inputs as follows:

- Level 1-Valuations based on quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access at measurement date.
- Level 2-Valuations based on other than quoted prices included within Level 1 that are observable for asset or liability, either directly or indirectly. If the asset or liability has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the asset or liability.
- 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.

**MBIA INSURANCE CORPORATION**  
**NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS**  
**As of and for the years ended December 31, 2010 and 2009**

---

*Valuation Methodologies*

**Fixed-maturity securities and Short-term investments** – Fixed-maturity securities and short-term investments with an NAIC designation of 1 and 2 are carried at amortized cost while fixed-maturity securities and short-term investments with an NAIC designation of 3 through 6 are carried at the lower of cost or fair value.

Fair value of fixed-maturity securities and short-term investments with an NAIC designation of 1 and 2 are generally provided by the NAIC SVO published market prices. If NAIC SVO published market prices are not available, the fair value is determined using an independent third-party pricing service which maximizes observable inputs, including price quotations of recent trades of same or similar securities. When observable price quotations are not available, fair value is determined based on cash flow models with yield curves, bond or single name credit default swap spreads and diversity scores as key inputs. These bonds are generally categorized in Level 2 of the fair value hierarchy; in instances where significant inputs are unobservable, they are categorized in Level 3 of the hierarchy.

**Cash and cash equivalents, Accrued investment income, Receivable for investments sold and Payable for investments purchased** – The carrying amounts of these items approximate fair value.

**Common and preferred stock** – The fair value of common stock is based upon quoted market prices, if available. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities. Common stocks of uncombined subsidiaries and affiliates in which MBIA Corp. has an interest of 20% or more are carried on a statutory equity basis. Perpetual preferred stocks with an NAIC designation of P1 and P2 are carried at fair value while perpetual preferred stocks with an NAIC designation of P3 through P6 are carried at the lower of cost or fair value. Redeemable preferred stocks with an NAIC designation of RP1 and RP2 are carried at amortized cost while redeemable preferred stocks with an NAIC designation of RP3 through RP6 are carried at the lower of amortized cost or fair value.

**Real estate** – The investment in real estate represents land occupied by the Company. The investment is carried at the lower of fair value, determined by an independent appraisal, or amortized cost.

**Other investments** – Other investments are recorded at book value and include the Company's interest in equity securities (including exchange-traded closed-end funds), and premium tax credit investments. The carrying value of these investments approximates fair value.

**Derivative assets** – The fair value of a derivative asset is the exit price the Company would receive to sell a derivative in an orderly transaction between market participants at the measurement date.

**Secured loan with parent** – The fair value of the secured loan is estimated based on the underlying collateral securities received. The underlying collateral securities received are generally corporate bonds. The fair value of these corporate bonds is obtained using recently executed transactions or market price quotations where observable. When observable price quotations are not available, fair value is determined based on cash flow models with yield curves, bond or single name CDS spreads and diversity scores as key inputs.

**Deferred premium revenue** – The fair value of the Company's deferred premium revenue is the unearned premium reserve on upfront policies net of reinsurance premiums plus the present value of premium receivables. The carrying amount of deferred premium revenue represents the unamortized balance of premiums collected.

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

**MBIA INSURANCE CORPORATION**  
**NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS**  
**As of and for the years ended December 31, 2010 and 2009**

<b>In thousands</b>	<b>As of December 31, 2010</b>		<b>As of December 31, 2009</b>	
	<b>Carrying Amount</b>	<b>Estimated Fair Value</b>	<b>Carrying Amount</b>	<b>Estimated Fair Value</b>
<b>Assets:</b>				
Bonds	\$ 1,211,389	\$ 1,274,509	\$ 739,735	\$ 757,440
Secured loan with parent	975,000	591,457	1,600,000	780,181
Short-term investments	55,233	55,233	643,878	643,878
Investment in unaffiliated common stock	150,513	150,513	137,119	137,119
Investment in preferred stock	2,119	2,177	-	-
Real estate	-	-	65,000	65,000
Other investments	2,404	2,404	107,886	106,161
Derivative assets	-	-	11,095	11,095
Cash and cash equivalents	469,245	469,245	536,499	536,499
Accrued investment income	12,427	12,427	11,615	11,615
Receivable for investments sold	1,216	1,216	1,235	1,235
<b>Liabilities:</b>				
Deferred premium revenue	\$ 524,303	\$ 2,179,347	\$ 539,518	\$ 1,913,234
Loss and LAE reserves	67,838	67,838	560,955	560,955
Payable for investments purchased	83	83	13,004	13,004

***Fair Value Measurements***

The following fair value hierarchy table presents information about the Company's assets and liabilities measured at fair value as of December 31, 2010. The Company had no liabilities measured at fair value as of December 31, 2010.

<b>In thousands</b>	<b>Fair Value Measurements at Reporting Date Using</b>			
	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>	<b>Balance as of December 31, 2010</b>
<b>Assets:</b>				
<b>Investments:</b>				
<b>Fixed-maturity investments:</b>				
Industrial and miscellaneous	\$ -	\$ 65,724	\$ 57,995	\$ 123,719
Hybrid securities	-	9,397	-	9,397
Preferred stock	1,113	-	-	1,113
Investments in unaffiliated common stock	7,619	142,895	-	150,514
<b>Total assets</b>	<b>\$ 8,732</b>	<b>\$ 218,016</b>	<b>\$ 57,995</b>	<b>\$ 284,743</b>

During the year 2010, there were no transfers from Levels 1 and 2.

***Level 3 Analysis***

Level 3 assets were \$58 million as of December 31, 2010, and represented approximately 20% of total assets measured at fair value. As of December 31, 2010, fixed-maturity securities at fair value primarily consist of non-

**MBIA INSURANCE CORPORATION**  
**NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS**  
**As of and for the years ended December 31, 2010 and 2009**

investment grade, non-agency residential mortgage-backed securities with first and second-lien mortgages as collateral. The tranches range from mezzanine to senior and have issuance dates from 2005 through 2007.

The following tables present information about changes in Level 3 assets measured at fair value on a recurring basis for the years ended December 31, 2010 and 2009. There were no liabilities measured at fair value on a recurring basis for the year ended December 31, 2010. Gains and losses reported in this table may include changes in fair value that are attributable to both observable and unobservable inputs.

**Fair Value Measurements in Level 3 of the Fair Value Hierarchy for the year ended December 31, 2010**

<b>In thousands</b>	<b>Balance at 12/31/2009</b>	<b>Transfers in Level 3</b>	<b>Transfers out of Level 3</b>	<b>Total gains and (losses) included in Net Income</b>	<b>Total gains and (losses) included in Surplus</b>	<b>Purchases, issuances, sales and settlements</b>	<b>Balance at 12/31/2010</b>
Assets:							
Fixed Maturity Investments							
Industrial and Miscellaneous	\$ 118,754	\$ -	\$ (56,301)	\$ -	\$ (17,497)	\$ 13,039	\$ 57,995
Total Assets	\$ 118,754	\$ -	\$ (56,301)	\$ -	\$ (17,497)	\$ 13,039	\$ 57,995

**Fair Value Measurements in Level 3 of the Fair Value Hierarchy for the year ended December 31, 2009**

<b>In thousands</b>	<b>Balance at 12/31/2008</b>	<b>Transfers in Level 3</b>	<b>Transfers out of Level 3</b>	<b>Total gains and (losses) included in Net Income</b>	<b>Total gains and (losses) included in Surplus</b>	<b>Purchases, issuances, sales and settlements</b>	<b>Balance at 12/31/2009</b>
Assets:							
Fixed Maturity Investments							
Industrial and Miscellaneous	\$ 12,577	\$ 139,119	\$ (12,236)	\$ (85,119)		\$ 64,413	\$ 118,754
Securities purchased under agreement to resell	548,770	-	-	-	-	(548,770)	-
Total Assets	\$ 561,347	\$ 139,119	\$ (12,236)	\$ (85,119)	\$ -	\$ (484,357)	\$ 118,754
Liabilities:							
Securities purchased under agreement to resell	\$ 548,770	\$ -	\$ -	\$ -	\$ -	\$ (548,770)	\$ -
Total Liabilities	\$ 548,770	\$ -	\$ -	\$ -	\$ -	\$ (548,770)	\$ -

For the year ended December 31, 2010 there were no securities transferred into Level 3 and one transfer from Level 3 to Level 2 for \$56 million. For the year ended December 31, 2009 transfers into Level 3 were \$139 million and transfers out of Level 3 to Level 2 were \$12 million. These transfers were principally for securities where inputs, which are significant to their valuation, became unobservable or observable during the year. Unaffiliated industrial and miscellaneous and other fixed income, constituted the majority of the affected instruments.

Realized gains and losses included in earnings pertaining to Level 3 assets and liabilities for the years ended December 31, 2010 and 2009 were zero and a loss of \$85 million, respectively. Unrealized gains and losses included in surplus pertaining to Level 3 assets and liabilities for the years ended December 31, 2010 and 2009 were a loss of \$17 million and zero, respectively. There were no unrealized gains and losses related to Level 3 liabilities for the years ended December 31, 2010 and 2009.

**MBIA INSURANCE CORPORATION**  
**NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS**  
**As of and for the years ended December 31, 2010 and 2009**

**6. Income Taxes**

The components of DTAs and deferred tax liabilities (“DTLs”) are as follows. References to paragraphs are those within SSAP 10R:

**In thousands**

Description	2010			2009		
	Ordinary	Capital	Total	Ordinary	Capital	Total
Gross deferred tax assets	\$ 1,523,954	\$ 28,422	\$ 1,552,376	\$ 935,159	\$ 59,126	\$ 994,285
Statutory valuation allowance	-	(28,422)	(28,422)	-	-	-
Adjusted gross deferred tax assets	1,523,954	-	1,523,954	935,159	59,126	994,285
Gross deferred tax liabilities	(574,341)	-	(574,341)	(293,018)	(7,171)	(300,189)
Net deferred tax asset (liability) before admissibility test	949,613	-	949,613	642,141	51,955	694,096
Admitted pursuant to paragraph 10.a.	-	-	-	16,179	-	16,179
Admitted pursuant to paragraph 10.b.	70,000	-	70,000	64,748	2,373	67,121
Admitted pursuant to paragraph 10.c.	574,341	-	574,341	293,018	7,171	300,189
Total admitted under paragraph 10.a., 10.b. and 10.c.	644,341	-	644,341	373,945	9,544	383,489
Admitted deferred tax asset	644,341	-	644,341	373,945	9,544	383,489
Deferred tax liability	(574,341)	-	(574,341)	(293,018)	(7,171)	(300,189)
Net admitted deferred tax asset (liability)	70,000	-	70,000	80,927	2,373	83,300
Non-admitted deferred tax asset	879,613	-	879,613	561,214	49,582	610,796
Increase in non-admitted deferred tax asset	\$ 318,399	\$ (49,582)	\$ 268,817	\$ 404,027	\$ 46,466	\$ 450,493

The Company has no unrecognized DTLs for amounts described in SSAP 10R, paragraph 6(d) and paragraph 31 of accounting principles for income taxes.

Income tax expense by component is as follows:

**In thousands**

Description	12/31/10	12/31/09
Current income tax expense (benefit)	\$ 68	\$ (279,343)
Prior year over (under) accrual of tax reserves	23,606	(26,283)
Realized capital losses benefit	-	-
Federal income taxes incurred (benefit)	<u>\$ 23,674</u>	<u>\$ (305,626)</u>

**MBIA INSURANCE CORPORATION**  
**NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS**  
**As of and for the years ended December 31, 2010 and 2009**

The tax effects of temporary difference that give rise to significant portions of DTAs and DTLs are as follows:

**In thousands**

DTAs	12/31/10	12/31/09	Change	Character
Contingency reserve	\$ 579,508	\$ 443,981	\$ 135,527	Ordinary
Losses incurred	315,190	229,433	85,757	Ordinary
Net operating loss carryforward	99,416	-	99,416	Ordinary
Unearned premium reserve	20,938	23,536	(2,598)	Ordinary
Compensation	29,120	34,434	(5,314)	Ordinary
Debt issuance costs	-	-	-	Ordinary
Capital gain adjustments	28,422	51,955	(23,533)	Capital
Foreign exchange gains	18,493	18,623	(130)	Ordinary
Unrealized losses	48,865	51,626	(2,761)	Ordinary
Other	37,030	272	36,758	Ordinary
Gross DTAs	<u>\$ 1,176,982</u>	<u>\$ 853,860</u>	<u>\$ 323,122</u>	

**In thousands**

DTL	12/31/10	12/31/09	Change	Character
Loss reserve - accounting method	\$ -	\$ (90,398)	\$ 90,398	Ordinary
International operations	(83,607)	(69,366)	(14,241)	Ordinary
Depreciation	(4,697)	-	(4,697)	Ordinary
Deferral of cancellation of indebtedness income	(4,778)	-	(4,778)	Ordinary
Investments	(105,865)	-	(105,865)	Ordinary
Gross DTLs	<u>\$ (198,947)</u>	<u>\$ (159,764)</u>	<u>\$ (39,183)</u>	

	12/31/10	12/31/09	Change
Total deferred tax assets	1,176,982	853,860	323,122
Valuation allowance	(28,422)	-	(28,422)
Total deferred tax liabilities	(198,947)	(159,764)	(39,183)
Net deferred tax asset (liability)	<u>\$ 949,613</u>	<u>\$ 694,096</u>	<u>\$ 255,517</u>
Tax effect of unrealized gains (losses)			<u>2,761</u>
Change in net deferred income tax			<u>\$ 258,278</u>

Prior to 2009, the Company treated losses incurred for tax purposes similarly to its statutory accounting treatment, which called for no deferred taxes. At the end of 2008, the Company filed for a change in method of accounting for its losses incurred that permitted a tax deduction when claim payments were made on such losses. This became effective in 2009 and thus required deferred taxes for the difference in treatment.

In 2009, the Company established a DTA related to contingency reserves. Deferred taxes on contingency reserves must be established to the extent corresponding tax and loss bonds ("T&L") are not purchased. The Company has no T&L bonds.

**MBIA INSURANCE CORPORATION**  
**NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS**  
**As of and for the years ended December 31, 2010 and 2009**

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

<b>Dollars in thousands</b>	Amount	Tax Effect	Effective Tax Rate
Loss before taxes	\$ (410,297)	\$ (143,604)	35%
Tax exempt interest and dividend received deduction	(4,451)	(1,557)	0%
Meals and entertainment	47	16	0%
Nondeductible transaction costs	2,500	875	0%
Excessive remuneration	2,000	700	0%
Other	(37)	(13)	0%
Taxable loss	<u>(410,238)</u>	<u>(143,583)</u>	<u>35%</u>
Prior year adjustment		1,015	0%
Foreign tax credit		(466)	0%
Foreign tax		986	0%
Valuation Allowance		28,422	-7%
Contingency reserve		(135,526)	33%
Other items		<u>14,548</u>	<u>-4%</u>
		<u>(234,604)</u>	<u>57%</u>
Federal income tax incurred (benefit)		23,674	-6%
Change in net deferred income tax		<u>(258,278)</u>	<u>63%</u>
Total statutory income tax		<u>\$ (234,604)</u>	<u>57%</u>

At December 31, 2010, the Company had \$284 million of net operating loss carry forwards expiring through the year 2030. At December 31, 2010, the Company did not have any capital loss or minimum tax credit carryforwards.

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

There is no income tax expense for 2008, 2009 and 2010 that is available for recoupment in the event of future net losses.

Accounting for Uncertainty in Income Taxes

The change in the unrecognized tax benefit ("UTB") as of December 31, 2010 is as follows:

<b>In thousands</b>	
Unrecognized tax benefits at December 31, 2009	\$ 6,472
The gross amount of increase/(decrease) in UTBs due to tax positions taken:	
During prior year	-
During current year	-
The amount of decreases in the UTBs relating to settlements with taxing authorities	-
The reductions to UTBs as a result of a lapse of the applicable statute of limitation	<u>(5,167)</u>
Unrecognized tax benefits at December 31, 2010	<u>\$ 1,305</u>

For the year ended December 31, 2010, the total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate was approximately \$1 million.

**MBIA INSURANCE CORPORATION**  
**NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS**  
**As of and for the years ended December 31, 2010 and 2009**

---

It is reasonably possible that the amounts of unrecognized tax benefits will significantly increase or decrease within the next twelve months due to the possibility of finalizing adjustments and concluding all the significant tax examinations. The range of this possible change in the amount of uncertain tax benefits cannot be estimated at this time.

MBIA Corp. files its U.S. Corporation Income Tax Return as a member of MBIA Inc. consolidated group and participates in the MBIA tax sharing agreement under which MBIA Corp. is allocated its share of the consolidated tax liability or tax benefit as determined under the tax sharing agreement. To the extent that the consolidated tax liability of the Parent Company and its subsidiaries is less than MBIA Corp.'s tax liability on a separate company basis, the difference would be held in escrow for two years in the event MBIA Corp. were to incur a tax loss which could be carried back. Intercompany tax balances are settled annually following the Parent Company's filing of its federal income tax return.

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

**7. Reconciliation of Statutory Accounting to GAAP-Basis Accounting**

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

- Upfront premiums are earned on a SAP basis proportionate to the scheduled periodic maturity of principal and payment of interest ("debt service") to the original total principal and interest insured. Additionally, under SAP, installment premiums are earned on a straight-line basis over each installment period generally one year or less. Under GAAP, MBIA Corp. recognizes and measures premium revenue over the period of the contract in proportion to the amount of insurance protection provided. Upfront and installment premium revenue is measured by applying a constant rate to the insured principal amount outstanding in a given period to recognize a proportionate share of the premium received or expected to be received on a financial guarantee insurance contract. Additionally, under GAAP, installment premiums receivable are recorded at the present value of the premiums due or expected to be collected over the period of the insurance contract using a discount rate which reflects the risk-free rate at the inception of the contract;

**MBIA INSURANCE CORPORATION**  
**NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS**  
**As of and for the years ended December 31, 2010 and 2009**

---

- under SAP, acquisition costs are charged to operations as incurred rather than GAAP's requirement to defer and amortize the costs as the related premiums are earned;
- a contingency reserve is computed on the basis of statutory requirements, and is not permitted under GAAP;
- loss reserves are reported net of insurance loss recoverables and are discounted using a rate equal to the yield-to-maturity of MBIA Corp.'s fixed-income portfolio, excluding cash and cash equivalents and other investments not intended to defease long-term liabilities, in a manner consistent with the prior year. Under GAAP, loss reserves are discounted using a risk-free rate as of the measurement date and are reported net of the unearned premium revenue and gross of insurance recoverables which are reported as an asset;
- salvage and subrogation generally are recorded as a reduction to loss and loss LAE reserves for GAAP and statutory reporting. In certain instances under GAAP, the Company records salvage and subrogation, including insurance loss recoverables, as an asset. This would occur, for example, when the Company becomes entitled to the underlying collateral of an insured credit under salvage and subrogation rights as a result of a claim payment and the recovery of such salvage is reasonable and estimable;
- assets and liabilities relating to reinsurance are reported on a net basis. Therefore, incurred losses and LAE are reported net of reinsurance recoverables and deferred premiums are reported net of prepaid reinsurance premium. Under GAAP, these reinsurance balances are required to be shown on a gross basis as an asset;
- certain assets, which consist primarily of deferred tax assets, premium and intercompany receivables over 90 days, prepaid expenses and certain electronic data processing equipment described as "non-admitted", are excluded from the balance sheet and charged directly to unassigned surplus under SAP. Non-admitted assets were approximately \$889 million and \$636 million at December 31, 2010 and 2009, respectively. Under GAAP, these amounts are typically reflected as assets;
- changes in net deferred income taxes are recognized as a separate component of gains and losses in surplus. Under GAAP, changes in MBIA Corp.'s net deferred income tax balances are either recognized as a component of net income or other comprehensive income depending on how the underlying pre-tax impact is reflected;
- investments in bonds are generally carried at amortized cost under SAP. Accordingly, unrealized changes in fair value are not reflected in the statutory-based statements of income and changes in capital and surplus or the statutory statements of admitted assets, liabilities and capital and surplus. Bonds not qualified to be carried at amortized cost are carried at fair value as required by the NAIC with the differences between these values recorded directly to unassigned surplus net of an adjustment for deferred federal income taxes, rather than recording the difference in unrealized gains and losses through shareholders' equity. Unrealized gains and losses on common stocks are recorded directly to unassigned surplus net of an adjustment for deferred federal income taxes. Investments in subsidiaries and affiliates are valued pursuant to Section 1414 *Valuation of Investments* of the New York Insurance Statutes and SSAP 97;
- guarantees of derivatives are not recorded at fair value, while under GAAP, guarantees that do not qualify for the financial guarantee scope exception under accounting principles for derivative instruments and hedging activities are recorded at fair value;
- surplus notes are recorded as a component of policyholders' surplus, while under GAAP, surplus notes are recorded as a long-term debt obligation;
- subsidiary financial data is not consolidated and the results of operations of subsidiary companies are charged or credited directly to surplus as part of unrealized capital gains and losses. Under GAAP, subsidiaries are consolidated;
- variable interest entities are not consolidated by the primary beneficiary under statutory requirements; and

**MBIA INSURANCE CORPORATION**  
**NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS**  
**As of and for the years ended December 31, 2010 and 2009**

- the statements of cash flows reconcile to cash and cash equivalents under GAAP rather than cash, cash equivalents and short-term investments. In addition, under SAP, cash flows from operations are reported consistent with the statement of income.

<u>In thousands</u>	<u>As of December 31,</u>	
	<u>2010</u>	<u>2009</u>
Statutory policyholders' surplus	\$ 1,074,702	\$ 1,885,088
Premium revenue recognition	387,541	352,892
Deferral of acquisition costs	155,816	214,079
Loss reserves	2,340,154	1,994,700
Contingency reserves	1,655,736	1,447,665
Income tax liabilities, net	(44,887)	(69,515)
Investments, including unrealized gains (losses)	315,531	(20,373)
Surplus notes	(952,655)	(952,655)
Derivative assets and liabilities	(4,494,010)	(3,816,145)
Non-admitted assets and other items	907,236	659,086
GAAP-basis shareholder's equity	<u>\$ 1,345,164</u>	<u>\$ 1,694,822</u>

The following is a reconciliation of statutory net loss to net (loss) income presented on a GAAP-basis for MBIA Corp.

<u>In thousands</u>	<u>Years ended December 31,</u>	
	<u>2010</u>	<u>2009</u>
Statutory net loss	\$ (433,971)	\$ (684,174)
Premium revenue recognition	(156,942)	(135,254)
Amortization of acquisition costs	(157,388)	(216,477)
Incurred losses	838,331	1,131,822
Change in fair value of insured derivatives	(853,443)	1,474,165
Deferred income taxes	187,109	(606,896)
Surplus notes (issuance cost and interest expense)	(714)	65,970
Commissions	95,163	(659,822)
Other	(23,612)	40,327
GAAP-basis net (loss) income	<u>\$ (505,467)</u>	<u>\$ 409,661</u>

## 8. Capital and Surplus and Dividend Restrictions

MBIA Corp. has 67,936 common shares authorized, issued and outstanding as of December 31, 2010, with a par value of \$220.80. All shares are Class A shares.

MBIA Corp. has 2,759 shares of Series A preferred stock issued and outstanding as of December 31, 2010, with a par value of \$1,000 and a liquidation preference of \$100,000 per share. See the 'Preferred Stock' section included herein for additional information regarding preferred stock.

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

**MBIA INSURANCE CORPORATION**  
**NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS**  
**As of and for the years ended December 31, 2010 and 2009**

In 2010, MBIA Corp. did not declare or pay any dividends to MBIA Inc. MBIA Corp. is currently unable to pay dividends, including dividends on its preferred stock, as a result of it having an earned surplus deficit as of December 31, 2010.

On February 17, 2009, MBIA Corp. declared and paid a dividend of \$1.2 billion to MBIA Inc. related to the restructuring of MBIA Insurance Corporation, after receiving prior approval from the Superintendent of the NYSID. The \$1.2 billion dividend together with a \$945 million return of capital represents the \$2.1 billion distributed to MBIA Inc. to further capitalize National.

As a result of the establishment of National and the reinsurance of the MBIA Corp. and FGIC portfolios by National, MBIA Corp. exceeded as of the closing date certain single and aggregate risk limits under New York insurance law. MBIA Corp. obtained waivers from the NYSID of such limits. In connection with the waivers, MBIA Corp. submitted a plan to the NYSID to achieve compliance with the applicable regulatory limits. Under the plan, MBIA Corp. agreed not to write new financial guarantee insurance for certain issuers and in certain categories of business until it is in compliance with single risk limits and agreed to take commercially reasonable steps, including considering reinsurance, the addition of capital and other risk mitigation strategies, in order to comply with the regulatory single and aggregate risk limits. As a condition to granting the waiver, the NYSID required that, in addition to complying with the plan, upon written notice from the NYSID, MBIA Corp. would cease writing new financial guarantee insurance if it were not in compliance with the risk limitation requirements by December 31, 2009. As of December 31, 2010 and 2009, MBIA Corp. exceeded certain single risk limits under New York insurance law. To date, MBIA Corp. has not yet received such written notice from the NYSID. MBIA Corp. continues to work with the NYSID to achieve compliance with the single and aggregate risk limits. In 2010, MBIA Corp. reported a de minimis number of additional overages to the NYSID due to changes in its statutory capital.

MBIA Corp. has no restrictions on unassigned surplus as of December 31, 2010. Additionally, MBIA Corp. owns no common stock in affiliates for special purposes as of December 31, 2010.

The portion of unassigned funds (surplus) represented by cumulative net unrealized capital gains is \$178 million after deducting applicable deferred taxes of \$39 million. Additionally, the portion of unassigned funds (surplus) represented by non-admitted assets is \$889 million.

Surplus notes

On January 16, 2008, MBIA Corp. issued \$1.0 billion of 14% fixed-to-floating rate surplus notes due January 15, 2033 as presented in the following table:

**In thousands**

<b>Date Issued</b>	<b>Interest Rate</b>	<b>Par Value (Face Amount of Notes)</b>	<b>Carrying Value of Note</b>	<b>Principal And/Or Interest Paid Current Year (2010)</b>	<b>Total Principal And/Or Interest Paid</b>	<b>Unapproved Principal And/Or Interest</b>	<b>Date of Maturity</b>
1/16/2008	14%	\$1,000,000	\$952,655	\$133,372	\$383,700	\$ -	1/15/2033

As of December 31, 2010 and 2009, MBIA Corp. had \$953 million in surplus debentures outstanding. During 2010, MBIA Corp. received approval from the NYSID to pay the July 2010 and January 2011 interest on surplus notes. During 2010 and 2009, MBIA Corp. has recorded \$133 million and \$200 million, respectively, in interest expense related to the surplus notes. Surplus note interest expense is included within "Net investment income" on the Statement of Income.

No surplus notes were repurchased in 2010 or 2009.

The surplus notes were originally issued to Lehman Brothers Inc., Morgan Stanley & Co. Incorporated, J.P. Morgan Securities Inc., Banc of America Securities LLC, BNY Capital Markets, Inc., Deutsche Bank Securities Inc., HSBC

**MBIA INSURANCE CORPORATION**  
**NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS**  
**As of and for the years ended December 31, 2010 and 2009**

---

Securities (USA) Inc. and KeyBanc Capital Market Inc. in exchange for cash. The Bank of New York Mellon is the fiscal agent for the surplus notes.

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% from and including January 15, 2013 to but excluding the date on which the notes are paid in full, payable quarterly in arrears on January 15, April 15, July 15, and October 15 of each year, beginning on April 15, 2013. Interest and principal payments on the surplus notes are subject to prior approval by the Superintendent of the NYSID. The surplus notes are callable at par at MBIA Corp.'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.

The notes are unsecured debt obligations and were issued in accordance with Section 1307 of the New York Insurance Law. The notes rank equally with any future surplus notes or similar obligations of MBIA Corp., and will be subordinate in right of payment to all other existing and future indebtedness, policy claims and other creditor claims of MBIA Corp. Each payment of interest on or principal of the notes (including upon redemption) may be made only with the prior approval of the NYSID and only out of surplus funds available for such payments under the New York Insurance Law.

#### Preferred Stock

MBIA Corp. had access to \$400 million through the Money Market Committed Preferred Custodial Trust ("CPCT") facility issued by eight trusts (the "Trusts"), which were created for the primary purpose of issuing CPCT securities and investing the proceeds in high-quality commercial paper or short-term U.S. Government obligations. MBIA Corp. had a put option to sell to the Trusts the preferred stock of MBIA Corp. in exchange for proceeds of \$400 million. Any preferred stock issued by MBIA Corp. would be perpetual and non-cumulative. Preferred stock has preference over common stock upon liquidation. MBIA Corp. excised the put options in the fourth quarter of 2008.

As of December 31, 2010 and 2009, MBIA Corp. had 2,759 shares of the preferred stock issued and outstanding. 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, 2010 no preferred stock dividends were declared or paid due to MBIA Corp.'s unassigned surplus deficit. As of December 31, 2009, dividends in the amount of \$14 million were declared on the preferred stock, of which \$13 million had been paid. 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. 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 shall automatically be increased by two and the holders of the preferred stock will be entitled to fill the vacancies so created at the next regularly scheduled meeting of the MBIA Corp. board.

During 2010, MBIA Inc. repurchased 251 shares of the outstanding preferred stock of MBIA Corp. at a weighted average purchase price of approximately \$10,400 per share or 10% of the liquidation value. As of December 31, 2010, 1,426 preferred shares of MBIA Corp. remained outstanding to unaffiliated investors with a carrying value of \$143 million.

#### **9. Loss and Loss Adjustment Expense Reserves**

MBIA Corp.'s Insured Portfolio Management Division ("IPM") monitors MBIA Corp.'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 Corp. In such cases, IPM works with the issuer,

**MBIA INSURANCE CORPORATION**  
**NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS**  
**As of and for the years ended December 31, 2010 and 2009**

---

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 Corp. 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.

MBIA Corp. 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 Corp. expects to pay a claim with respect to an insured transaction, it places the insured transaction on its “Classified List” and establishes a case basis reserve. The following provides a description of each surveillance category:

“Caution List – Low” - Includes issuers where debt service protection is adequate under current and anticipated circumstances. However, debt service protection and other measures of credit support and stability may have declined since the transaction was underwritten and the issuer is less able to withstand further adverse events. Transactions in this category generally require more frequent monitoring than transactions that do not appear within a surveillance category. 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 have breached one or more covenants or triggers, have not taken conclusive remedial action, and IPM adopts a remediation plan and takes more proactive remedial actions.

“Classified List” - Includes all insured obligations where MBIA Corp. 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.

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

**MBIA INSURANCE CORPORATION**  
**NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS**  
**As of and for the years ended December 31, 2010 and 2009**

scope of the event giving rise to the remediation. As part of any such remedial actions, MBIA Corp. 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 Corp.-insured obligation may, with the consent of MBIA Corp., restructure the insured obligation by extending the term, increasing or decreasing the par amount or decreasing the related interest rate, with MBIA Corp. insuring the restructured obligation.

Discount Rate

Loss reserves on financial guarantee business include amounts discounted on a non-tabular basis at 5.93% and 6.51% for the years ended December 31, 2010 and 2009, respectively. MBIA Corp. uses a discount rate equal to the yield-to-maturity of MBIA Corp.'s fixed-income investment portfolio, excluding cash and cash equivalents and other investments not intended to defease long-term liabilities, as of the current reporting date. MBIA Corp. does not discount unpaid LAE reserves. The non-tabular discount for the years ended December 31, 2010 and 2009 was \$4.4 billion and \$3.9 billion, respectively.

The following table provides information about the financial guarantees and related loss reserves ("net claim liability") included in each of MBIA Corp.'s surveillance categories as of December 31, 2010:

<u>\$ in millions</u>	Surveillance Categories				
	Caution List	Caution List	Caution List	Classified	Total
	Low	Medium	High	List	
Number of policies	202	46	15	229	492
Number of issues <sup>(1)</sup>	44	29	15	149	237
Remaining weighted average contract period (in years)	7.8	4.0	7.6	11.7	10.2
Gross insured contractual payments outstanding:					
Principal	\$ 7,676	\$ 4,445	\$ 2,083	\$ 36,547	\$ 50,751
Interest	3,467	791	813	19,245	24,316
Total	\$ 11,143	\$ 5,236	\$ 2,896	\$ 55,792	\$ 75,067
Gross claim liability	\$ -	\$ -	\$ -	\$ 10,179	\$ 10,179
Less:					
Gross potential recoveries	-	-	-	5,706	5,706
Discount, net	-	-	-	4,357	4,357
Reinsurance	-	-	-	134	134
Plus:					
Loss adjustment expense reserves	-	-	-	86	86
Net claim liability	\$ -	\$ -	\$ -	\$ 68	\$ 68
Net unearned premium revenue	\$ 41	\$ -	\$ 1	\$ 15	\$ 57

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

**MBIA INSURANCE CORPORATION**  
**NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS**  
**As of and for the years ended December 31, 2010 and 2009**

A summary of the components of the liability for loss and LAE reserves are shown in the following table:

<b>In thousands</b>	<b>As of December 31,</b>	
	<b>2010</b>	<b>2009</b>
Gross loss and LAE reserves, January 1	\$ 1,061,036	\$ 1,838,008
Losses ceded to National	-	179,316
Adjusted gross loss and LAE reserves, January 1	1,061,036	2,017,324
Less: Reinsurance recoverable	500,081	146,628
Net loss and LAE reserves, January 1	560,955	1,870,696
Plus: Incurred losses and LAE related to:		
Current year	1,310,841	484,024
Prior years	(265,619)	1,430,735
Total incurred losses and LAE	1,045,222	1,914,759
Less: Paid losses and LAE related to:		
Current year	44,380	268,887
Prior years	1,493,760	2,655,222
Total paid losses and LAE	1,538,140	2,924,109
Less: Foreign currency revaluation	199	121,075
Net loss and LAE reserves, December 31	67,838	560,955
Add: Reinsurance recoverable	101,116	500,081
Gross loss and LAE reserves, December 31	\$ 168,954	\$ 1,061,036

Total net loss and LAE expense incurred was \$1.0 billion and \$1.9 billion in 2010 and 2009, respectively. Net case basis activity during 2010 primarily consisted of \$1.1 billion related to structured CMBS, and \$16 million related to insured multi-sector asset-backed CDOs in the form of an insured CDS, offset by a \$256 million benefit related to insured obligations with RMBS exposure. The RMBS activity primarily represented the \$364 million favorable development seen during 2010. Net case basis activity during 2009 primarily consisted of \$800 million related to insured multi-sector CDOs and \$942 million related to insured obligations from RMBS exposure.

As of December 31, 2010, MBIA Corp. has established loss and LAE reserves of \$68 million, net of salvage reserves of \$3.6 billion, for which MBIA Corp. expects to incur actual claims or receive a benefit in the future.

The following table presents changes in MBIA Corp.'s loss and LAE reserve as of December 31, 2010. Changes in the loss and LAE reserve attributable to the accretion of the discount on the loss reserves, changes in discount rates, changes in the timing and amounts of estimated net payments and changes in assumptions are recorded in "Losses and loss adjustment expenses" in MBIA Corp.'s statement of income. LAE reserves are expected to be settled within a one year period and are not discounted. As of December 31, 2010, the rate used to discount the claim liability was 5.93%.

<b>In millions</b>									
<b>Loss and LAE Reserve as of December 31, 2009</b>	<b>Gross Loss Payments</b>	<b>Accretion of Claim Liability</b>	<b>Changes in Discount Rate</b>	<b>Changes in Timing of Payments</b>	<b>Changes in Amount of Net Payments</b>	<b>Changes in Assumptions</b>	<b>Changes in LAE Reserves</b>	<b>Reinsurance</b>	<b>Loss and LAE Reserve as of December 31, 2010</b>
\$ 561	\$ (2,375)	\$ (20)	\$ 157	\$ 42	\$ -	\$ 815	\$ 473	\$ 415	\$ 68

MBIA Corp. sells credit protection by entering into CDS contracts with various financial institutions. In certain cases MBIA Corp. purchases back-to-back credit protection on all or a portion of the risk written, primarily from the

**MBIA INSURANCE CORPORATION**  
**NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS**  
**As of and for the years ended December 31, 2010 and 2009**

---

reinsurance companies. During the year ended December 31, 2010 and December 31, 2009, MBIA Corp. recorded \$16 million and \$800 million, respectively, of additional incurred loss and LAE related to multi-sector CDO transactions and \$1.1 billion related to CMBS exposure for the year ended December 31, 2010. Please refer to the 'CMBS' section included within for additional information regarding loss and LAE reserves related to CMBS exposures. Also, please refer to the 'Multi-Sector CDOs' section included within for additional information regarding loss and LAE reserves related to Multi-Sector CDO exposure.

MBIA Corp. also insures mortgage-backed securities backed by mortgages, including second-lien residential mortgage securitizations (revolving home equity line of credit ("HELOC") loans, closed-end second ("CES") mortgages and first lien Alternative-A ("Alt-A") transactions). Since the second half of 2007, MBIA Corp. has observed deterioration in the performance of several of its home equity transactions. During the year ended December 31, 2010, MBIA Corp. paid \$1.4 billion in claims, net of reinsurance and collections on these RMBS transactions.

Since the second half of 2007, MBIA Corp. has observed an increase in delinquencies in its insured RMBS transactions, which peaked in January 2009. Paid losses have also been in excess of original expectations. Due to a combination of the overall weakening in the economic environment, servicer performance related issues and relatively few successful loan modifications by the loan servicers, additional case basis incurred related to MBIA Corp.'s residential mortgage exposures of \$850 million was recorded during the year ended December 31, 2010. This provision primarily reflects additions to previously established reserves on certain deals rather than a material increase in the number of transactions requiring loss reserves. Case basis incurred on these transactions was offset by the establishment of expected recoveries of \$1.1 billion related to loan losses principally associated with ineligible mortgage loans in certain insured second-lien residential mortgage loan securitizations and Alt-A transactions that are subject to a contractual obligation by the sellers/servicers to repurchase or replace the mortgages loans and amounts expected to be paid from excess cash flows within the securitizations.

#### RMBS Reserves

MBIA Corp.'s RMBS case basis reserves as of December 31, 2010, which relate to RMBS backed by home equity lines of credit ("HELOCs") and closed-end second mortgages ("CES"), were determined through 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. 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). In calculating ultimate cumulative losses, MBIA Corp. estimates the amount of loans that are expected to be "charged-off" (deemed uncollectible by servicers of the transactions) in the future. MBIA Corp. assumes that such charged-off loans have zero recovery values.

"Roll Rate" is defined as the probability that current loans become delinquent and that loans in the delinquent pipeline are charged-off. Generally, Roll Rates are calculated for the previous three months and averaged. MBIA Corp. assumes that the Roll Rate for 90+ day delinquent loans is 100% except for loans within the additional stress case scenario, where MBIA Corp. assumes a Roll Rate that is calculated using the actual observed average Roll Rate for 90+ day delinquent loans during the past twelve months. As of December 31, 2010, that Roll Rate used in MBIA Corp.'s additional stress case scenario was 97%. Roll Rates for 30-59 days delinquent loans and 60-89 days delinquent loans are calculated on a transaction specific basis. The Roll Rates are applied to the amounts in the respective delinquency buckets based upon delinquencies as of November 30, 2010 to estimate future losses from loans that are delinquent as of the current reporting period.

Roll Rates for loans that are current as of November 30, 2010 ("Current Roll to Loss") are calculated on a transaction-specific basis. A proportion of loans reported current as of November 30, 2010 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 MBIA Corp. projects high levels of Current Roll to Loss to persist. In MBIA Corp.'s base case, MBIA Corp. 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 2010. In the stress case, the period of elevated delinquency and loss is extended by six months. In the additional stress

**MBIA INSURANCE CORPORATION**  
**NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS**  
**As of and for the years ended December 31, 2010 and 2009**

---

case, MBIA Corp. assumes that the current trends in delinquencies will remain through mid-2012, after which time they will revert to the base case. For example, as of November 30, 2010, if 10% of the loans are in the 30-59 day delinquent bucket, 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 2010 to June 2011). After that six-month period, MBIA Corp. further reduces the Current Roll to Loss to 0% by early 2014 with the expectation that the performing seasoned loans and an economic recovery will eventually result in loan performance reverting to historically low levels of default. In the model, MBIA Corp. assumes that all current loans that become delinquent are “charged-off” after six months of delinquency.

In addition, in MBIA Corp.’s loss reserve models for transactions secured by HELOCs, MBIA Corp. considered borrower draw and repayment rates. For HELOCs, the current three-month average draw rate was used to project future draws on the line. For HELOCs and transactions secured by fixed-rate CES, the three-month average conditional repayment rate was used to project voluntary principal repayments. The current loans generate excess spread which offsets the losses and reduces the payments. Cash flows also assumed a constant basis spread between floating rate assets and floating rate insured debt obligations (the difference between Prime and LIBOR interest rates, minus any applicable fees). For all transactions, cash flow models considered 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. For loans that remain current (not delinquent) throughout the projection period, MBIA Corp. assumes that voluntary prepayments occur at the average rate experienced in the most recent three-month period. 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 were discounted using a 5.93% discount rate to a net present value reflecting MBIA Corp.’s general obligation to pay claims over time and not on an accelerated basis. The above assumptions represent MBIA Corp.’s best estimates of how transactions will perform over time.

MBIA Corp. monitors portfolio performance on a monthly basis against projected performance, reviewing delinquencies, Roll Rates, and prepayment rates (including voluntary and involuntary). In the event of a material deviation in actual performance from projected performance, MBIA Corp. would increase or decrease the case basis reserves accordingly.

Since the third quarter of 2009, paid claims in each month have been somewhat below that projected in MBIA Corp.’s model. MBIA Corp. has not modified its expectations to reflect the lower paid claims rate. The difference between actual and projected paid claims has not been significant.

MBIA Corp. employs a similar approach to Alt-A transactions with limited exceptions. The three major exceptions are: 1) the timelines to charge-off depend on the delinquency bucket of a loan (e.g., a loan in the real estate owned bucket is on an average liquidated more quickly than a loan in the foreclosure bucket) and 2) MBIA Corp. does not assume a 100% loss severity for charged-off Alt-A loans. The loss severity used for projections is the three-month average of the current loss severities for loans in an Alt-A transaction and 3) current Roll to loss stays at the November 30, 2010 level for five months before declining to 25% of this level over a 24 month period.

#### RMBS Recoveries

As of December 31, 2010, MBIA Corp. has recorded recoveries of \$2.5 billion, gross of income taxes related to RMBS transactions. These estimated recoveries relate to MBIA Corp.’s put-back claims of ineligible loans, which have been disputed by the loan sellers/servicers and are currently subject to litigation initiated by MBIA Corp. to pursue recovery. In addition, there is a risk that the sellers/servicers or other responsible parties might not be able to satisfy their put-back obligations. While MBIA Corp. believes that it will prevail in enforcing its contractual rights, there is uncertainty with respect to the ultimate outcome. Although it has been reported that government-sponsored market participants and bond insurers situated similarly to MBIA Corp. also have been successful in putting back ineligible mortgages to sellers/servicers and receiving compensation and other guarantee insurers situated similarly to MBIA Corp. also have recorded similar expected recoveries for RMBS transaction losses, there can be no assurance that MBIA Corp. will successfully recover its contract claims.

**MBIA INSURANCE CORPORATION**  
**NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS**  
**As of and for the years ended December 31, 2010 and 2009**

---

Beginning in 2008, MBIA Corp. engaged loan level forensic review consultants to re-underwrite/review a sample of the mortgage loan files underlying RMBS transactions insured by MBIA Corp. The securitizations on which MBIA Corp. has recorded losses contain well over 500,000 individual mortgages, of which over 48,000 mortgage loans were reviewed within 32 insured issues containing first and second-lien mortgage loan securitizations. MBIA Corp. recorded recoveries related to 27 of these 32 issues. It is possible that MBIA Corp. will review loan files within additional insured issues in the future if factors indicate that material recovery rights exist. During their review, the consultants utilized the same underwriting guidelines that the originators were to have used to qualify borrowers when originally underwriting the loans and determined that there were high proportions of ineligible mortgages within the sample. The forensic review 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.

Prior to the fourth quarter of 2009, MBIA Corp. believed that the distribution of possible outcomes was evenly distributed around the par amount of loans reviewed that were eligible for put-back. Thus, the probability-weighted expected recovery value was equivalent to the par amount of the losses from files that were reviewed and found to have credit or credit and compliance breaches. In the fourth quarter of 2009 and subsequent, based on new information that became available, MBIA Corp. estimated that it would more likely recover substantially more than the value of files already reviewed than not. Accordingly, MBIA Corp. developed probability based scenarios which were primarily based upon loan file reviews combined with extrapolation-based scenarios which included scenarios for the recoupment of expected future charge-offs from non-performing loans as well as a scenario of recovering total incurred losses. Importantly, MBIA Corp.'s put-back claims are not only related to non-performing loans but to any loan where representations and warranties were breached.

During the fourth quarter of 2010, two important developments transpired which have led MBIA Corp. to conclude that the practice of reviewing loans for purposes of assessing put-back recoveries is no longer necessary. First, MBIA Corp. has determined 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. Second, MBIA Corp. received a favorable decision on the sampling motion in the Countrywide litigation (MBIA Insurance Corp. v. Countrywide Home Loans, Inc., et al, Index No. 08-602825 (N.Y. Sup. Ct.)). That decision indicates that MBIA Corp. can present representative samples of loans from each of the securitizations at issue in the case to establish its causes of action, including its breach-of-contract claims.

As a result of the above developments, MBIA Corp. has revised its put-back recovery scenarios. As of the fourth quarter of 2010, MBIA Corp. replaced scenarios that were primarily based on loan file reviews with probability-based scenarios primarily based on the percentage of incurred losses MBIA Corp. expects to collect. MBIA Corp.'s recovery estimates are based on five scenarios that include full recovery its 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. However, based on MBIA Corp.'s assessment of the strength of its contract claims, MBIA Corp. believes it is entitled to collect the full amount of its incurred losses, which totaled \$4.6 billion as of December 31, 2010.

MBIA Corp. has developed estimates of breach rates primarily based upon loans with credit breaches or credit and compliance breaches because MBIA Corp. believes that loans with these types of breaches are not judgmental and cannot be cured. The results of the loan file reviews across all insured issues have indicated average breach rates in these categories in excess of 80% . 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.

MBIA Corp. has not recognized potential recoveries related to sellers/servicers that MBIA Corp. has determined did not have sufficient capital and resources to honor their obligations. The Company assesses the potential financial distress 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 upon MBIA Corp.'s judgment about

**MBIA INSURANCE CORPORATION**  
**NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS**  
**As of and for the years ended December 31, 2010 and 2009**

---

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 at 5.93%.

MBIA Corp.'s potential recoveries are typically realized either through salvage, the rights conferred to MBIA Corp. through the transactional documents (inclusive of the insurance agreement), or subrogation rights embedded within financial guarantee insurance policies. The RMBS transactions with respect to which MBIA Corp. has estimated put-back recoveries provide MBIA Corp. with such rights. Expected salvage and subrogation recoveries, as well as recoveries from other remediation efforts, reduce MBIA Corp.'s claim liability. Once a claim payment has been made, the claim liability has been satisfied and MBIA Corp.'s right to recovery is no longer considered an offset to future expected claim payments, but is recorded as salvage. The amount of recoveries recorded by MBIA Corp. 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 claim liability for a given policy.

To date, sellers/servicers have not substituted loans which MBIA Corp. has put back, and the amount of loans repurchased has been insignificant. The unsatisfactory resolution of these put-backs has led MBIA Corp. to initiate litigation against five of the seller/servicers to enforce their obligations. MBIA Corp. has alleged several causes of action in its complaints, including breach of contract, fraudulent inducement and indemnification. MBIA Corp.'s aggregate \$2.5 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 Corp. is seeking to recover the full amount of its incurred losses and other damages. Currently, MBIA Corp. has received four decisions with regard to the motions to dismiss MBIA Corp.'s claims, all of which have denied the defendants' motions to dismiss, allowing each of the cases to proceed on, at minimum, the fraud and breach-of-contract claims. All of these decisions are being appealed. The motion to dismiss in the fifth case has just been filed. Additional information on the status of these litigations can be found in the "Recovery Litigation" discussion within "Note 16: Contingencies and Commitments."

MBIA Corp.'s assessment of the recovery outlook for insured RMBS issues is principally based on the following factors:

1. the strength of MBIA Corp.'s existing contract claims related to ineligible loan substitution/repurchase obligations;
2. the improvement in the financial strength of issuers due to mergers and acquisitions and/or government assistance, which should facilitate their ability to comply with required loan repurchase/substitution obligations. MBIA Corp. is not aware of any provisions that explicitly preclude or limit the successors' obligations to honor the obligations of the original sponsor. MBIA Corp.'s assessment of any credit risk associated with these sponsors (or their successors) is reflected in MBIA Corp.'s probability-weighted potential recovery scenarios;
3. 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 they have resolved \$8.0 billion of repurchase requests in the fourth quarter of 2010; (ii) the recent Fannie Mae settlements announced on December 23, 2010 with Ally Bank and with Bank of America (which also involved Freddie Mac) announced on December 31, 2010, and (iii) MBIA Corp.'s settlement agreement entered into on July 16, 2010 between MBIA Corp. and the sponsor of several MBIA Corp.-insured mortgage loan securitizations in which MBIA Corp. received a payment in exchange for a release relating to its representation and warranty claims against the sponsor. This settlement also resolves all of MBIA Corp.'s representation and warranty claims against the sponsor on mutually beneficial terms and is substantially consistent with the recoveries previously recorded by MBIA Corp. related to these exposures;
4. the favorable outcome for MBIA Corp. on defendants' motions to dismiss in the actions captioned *MBIA Insurance Corp. v. Countrywide Home Loans, Inc., et al*, Index No. 08-602825 (N.Y. Sup. Ct.) and *MBIA Insurance Corp. v. Residential Funding Co., LLC*, Index No. 603552/08 (N.Y.

**MBIA INSURANCE CORPORATION**  
**NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS**  
**As of and for the years ended December 31, 2010 and 2009**

Sup. Ct.), MBIA v GMAC and MBIA Insurance Corp v. Credit Suisse Securities where the respective courts each allowed MBIA's fraud claims against the Countrywide, RFC, GMAC and Credit Suisse Securities defendants to proceed;

5. the favorable outcome for MBIA Corp. on its motion to present evidence of Countrywide's liability and damages through the introduction of a statistically valid random sample of loans rather than on a loan-by-loan basis; and
6. loan repurchase reserves which have been publicly disclosed by certain sellers/servicers to cover such obligations.

MBIA Corp. will continue 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 MBIA Corp. 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 MBIA Corp. 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.

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

The following table presents the net par outstanding of MBIA Corp.'s total direct RMBS insured exposure, including those issues that have been placed in a surveillance category, as of December 31, 2010 by S&P credit rating category.

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

**MBIA INSURANCE CORPORATION**  
**NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS**  
**As of and for the years ended December 31, 2010 and 2009**

The following table presents the net par outstanding by vintage year of MBIA Corp.'s total second-lien residential mortgage loan securitizations insured exposure as of December 31, 2010.

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

During the year ended December 31, 2010, MBIA Corp. paid approximately \$1.4 billion, net of reinsurance and collections, on insured RMBS transactions. As of December 31, 2010, MBIA Corp. paid a cumulative total of \$5.2 billion, net of reinsurance and collections, on these transactions and had case basis reserves of \$973 million. The case basis reserves represent the present value of the difference between cash payments MBIA Corp. expects to make on the insured transactions and the cash receipts MBIA Corp. expects from the performing mortgages in the securitizations. The payments that MBIA Corp. makes largely go to reduce the principal balances of the securitizations.

The following table provides information about RMBS transactions included in MBIA Corp.'s insured portfolio for which it has made claim payments as of December 31, 2010.

<b>\$ in millions</b>	<b>Number of Issues</b>	<b>Original Par Insured</b>	<b>Net Par Outstanding</b>	<b>Net Claims and LAE Paid Since Inception</b>
HELOC	18	\$ 17,688	\$ 4,195	\$ 2,256
CES	16	12,956	4,972	2,956
Alt-A	5	1,092	665	(26)
Total	<u>39</u>	<u>\$ 31,736</u>	<u>\$ 9,832</u>	<u>\$ 5,186</u>

As of December 31, 2010, the net par outstanding on insured RMBS transactions included in the preceding table was \$9.8 billion compared with \$12.0 billion as of December 31, 2009. As of December 31, 2010, MBIA Corp. expects to pay an additional \$1.3 billion (on a present value basis) on these transactions. MBIA Corp. expects to receive a total of \$1.2 billion (on a present value basis) in reimbursement of past and future expected claims through excess spread in these transactions. In addition, MBIA Corp. expects to receive \$2.5 billion (on a present value basis) in respect of the sellers/servicers obligation to repurchase ineligible loans and that amount is included in loss and LAE reserves.

**CMBS**

For the year ended December 31, 2010, MBIA Corp. incurred loss and LAE on the structured CMBS pools and CRE CDO portfolios of \$1.1 billion. The loss and LAE incurred is estimated using MBIA Corp.'s loss reserve methodology, determined as the present value of the probability-weighted potential future losses, net of recoveries across multiple scenarios as described below. 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% while others experienced near complete losses. These have led to losses in the CMBS market and, in many cases, have resulted in reductions of enhancement to the individual CMBS bonds within the structured CMBS pools insured by MBIA Corp. In a few cases, these losses have resulted in minimal deductible erosion in certain insured transactions. Bond level enhancement and pool level deductibles are structural features intended to mitigate

**MBIA INSURANCE CORPORATION**  
**NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS**  
**As of and for the years ended December 31, 2010 and 2009**

---

losses to MBIA Corp. As that protection is eroded, loss and LAE reserves increase even in the absence of significant further collateral deterioration.

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. Because of this as well as additional collateral defaults, reported enhancement has been reduced significantly in some CRE CDOs. However, because of this 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 has been diverted and redirected to pay down the senior most classes insured by MBIA Corp.

MBIA Corp. has developed multiple scenarios to consider the range of potential outcomes in the CRE market and their impact on MBIA Corp. The approaches require substantial judgments about the future performance of the underlying loans. The first approach considers the range of commutations achieved in the course of 2010, which included commutations of nineteen structured CMBS pool and CRE CDO policies totaling \$7.0 billion of gross insured exposure. Additionally, one structured CMBS pool with \$1.0 billion of gross insured exposure was contractually terminated. This approach results in an estimated price to commute the remaining policies with price estimates based on this experience. The second approach considers current delinquency and uses current and projected net operating income (“NOI”) and capitalization rates (“Cap Rates”) to project losses under two scenarios. In the first scenario, NOI and Cap Rates remain flat with no improvement over the remaining life of the loans (often six to seven more years.) In the second scenario, loans are bifurcated by size with larger loans being valued utilizing lower Cap Rates than for smaller loans. This scenario also assumes that Cap Rates and NOIs remain flat for the near term and then begin to improve slowly. Additionally, in this scenario, 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.

A third approach stratifies loans into debt service coverage buckets and uses default probabilities implied by a third-party default study for each bucket to project defaults. The implied defaults are converted into losses using a loss severity assumption. This approach relies on recent financial statements at the property level. In modeling these scenarios, MBIA Corp. has received financial statements for 2009 or later on approximately 84% of the properties in the pools. As MBIA Corp. continues to see more current market performance statistics regarding modifications and liquidations in this cycle, MBIA Corp. will continue to de-emphasize this more actuarial-based approach and focus more on those scenarios which best reflect current market observations.

A 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 remain at the peak level for a given time period and then decrease over time. This approach was applied in two scenarios. In the first scenario, MBIA Corp. assumes that 90% of the loans greater than 90 days delinquent (and those projected to roll into late stage delinquency from the current and lesser stage levels of delinquency) are liquidated. In the second scenario, MBIA Corp. assumes that 75% of these loans liquidated and that 25% are modified and returned to current. These estimates are based on the levels of modifications that took place in the fixed-rate conduit universe in 2010. Whether CMBS collateral is included in a structured pool or in a CRE CDO, MBIA Corp. believes the modeling related to the underlying bond should be the same. Additionally for one of the transactions, small allocations of other collateral were included (specifically Real Estate Investment Trust debt and RMBS/ABS). This collateral was modeled in keeping with protocol used for modeling other asset classes, including multi-sector CDOs.

The loss severities projected by these scenarios vary widely, from moderate to substantial losses. MBIA Corp. assigns a 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. For the year ended December 31, 2010 the probability-weighted incurred loss estimate was \$1.1 billion. If macroeconomic stress continues or there is a “double dip” recession, higher delinquencies, higher levels of

**MBIA INSURANCE CORPORATION**  
**NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS**  
**As of and for the years ended December 31, 2010 and 2009**

---

liquidations of delinquent loans and higher severities of loss upon liquidation, MBIA Corp. may incur substantial additional 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 MBIA Corp.'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 Corp. Since foreclosures and liquidations have only recently begun to take place during this economic cycle, particularly for larger loans and assets, ultimate loss rates remain uncertain.

Multi-Sector CDOs

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

Since mid-2007, the multi-sector CDO portfolio has experienced stress related to the U.S. mortgage crisis primarily due to the degradation of underlying RMBS and CDO collateral. As of December 31, 2010 and 2009, loss and LAE reserves of \$1.4 billion and \$1.8 billion, respectively were established for 28 and 16, respectively multi-sector CDOs for which MBIA Corp. expects to incur actual net claims in the future. In the event of further deteriorating performance of the collateral referenced or held in the multi-sector CDO transactions, the amount of the loss reserves could increase materially.

MBIA's multi-sector CDOs originally benefited from two sources of credit enhancement. First, the subordination in the underlying securities collateralizing the MBIA Corp. wrapped tranche must be fully eroded and second, the subordination below MBIA Corp.'s insured tranche in the CDO transaction must be fully eroded before MBIA Corp.'s insured interest is subject to a claim. MBIA Corp.'s payment obligations after a default vary by deal and by insurance type. There are currently two policy payment types: (i) where MBIA Corp. insures current interest and ultimate principal; and (ii) where MBIA Corp. insures payments upon settlement of individual collateral losses as they occur after the complete erosion of deal deductibles, such payment profiles are referred to as "Asset Coverage with a Deductible."

Commutations

During the fourth quarter of 2010, MBIA Corp. reached agreements with five counterparties for commutations of transactions including multi-sector CDOs, CDO-squared transactions, structured CMBS pools, commercial real estate CDOs and high-yield corporate CDOs. The agreements eliminated \$15.7 billion in gross insured exposure. In the first quarter of 2011, the MBIA Corp. reached an agreement for the commutation of \$3.3 billion of additional gross insured exposure, comprising structured CMBS pools and an investment grade corporate CDO. The total amount the Company paid to commute the transactions in the fourth quarter of 2010 and the first quarter of 2011 was within its aggregate statutory loss reserve for these transactions. Since the fourth quarter of 2008, MBIA Corp. has commuted \$28.0 billion of its multi-sector CDO, multi-sector CDO-squared, CRE CDO and CMBS pool gross insured exposure for payments that were within its loss reserves.

**10. Insurance In Force**

MBIA Corp. guarantees the payment of principal of, and interest or other amounts owing on, municipal, asset-/mortgage-backed and other non-municipal securities. MBIA Corp.'s insurance in force represents the aggregate amount of the insured principal of, and interest or other amounts owing on insured obligations. MBIA Corp.'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.

**MBIA INSURANCE CORPORATION**  
**NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS**  
**As of and for the years ended December 31, 2010 and 2009**

The insurance policies issued by MBIA Corp. are unconditional and irrevocable guarantees of the payment of the principal and the interest or other amounts owing on, insured obligations when due. The obligations are generally not subject to acceleration, except that MBIA Corp. 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 upon ratings downgrades, and if MBIA Inc. were to have insufficient assets to pay the termination payments, MBIA Corp.'s insurance 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 issue must comply with 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 MBIA Corp.'s upon the payment of a claim by MBIA Corp.

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

As of December 31, 2010, insurance in force, which represents principal and interest and other amounts owing on insured obligations, had an expected maturity range of 1-47 years. The distribution of insurance in force by geographic location, excluding \$4.9 billion and \$7.3 billion relating to transactions guaranteed by MBIA Corp. on behalf of various investment management services affiliated companies as of December 31, 2010 and 2009, respectively, is presented in the following table:

In billions	As of December 31,			
	2010		2009	
	Insurance in Force	% of Insurance in Force	Insurance in Force	% of Insurance in Force
<b>Geographic Location</b>				
Delaware	\$ 1.3	0.5%	\$ 1.4	0.5%
New York	1.1	0.4%	1.3	0.4%
California	0.5	0.2%	0.5	0.2%
Minnesota	0.3	0.1%	0.3	0.1%
Florida	0.2	0.1%	0.2	0.1%
Pennsylvania	0.0	0.0%	0.1	0.0%
Missouri	0.0	0.0%	0.0	0.0%
Alabama	0.0	0.0%	0.0	0.0%
Puerto Rico	0.0	0.0%	0.0	0.0%
Nebraska	-	0.0%	0.2	0.1%
Subtotal	3.4	1.3%	4.0	1.4%
Nationally diversified	138.4	55.9%	170.7	56.7%
Total United States	141.8	57.2%	174.7	58.1%
Internationally diversified	36.9	14.9%	47.7	15.8%
Country specific	68.9	27.9%	78.5	26.1%
Total non-United States	105.8	42.8%	126.2	41.9%
Total	\$ 247.6	100.0%	\$ 300.9	100.0%

**MBIA INSURANCE CORPORATION**  
**NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS**  
**As of and for the years ended December 31, 2010 and 2009**

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

In billions	As of December 31,			
	2010		2009	
	Insurance in Force	% of Insurance in Force	Insurance in Force	% of Insurance in Force
<b>Bond Type</b>				
Global public finance - non-United States:				
International utilities	18.6	7.5%	19.7	6.5%
Sovereign and sub-sovereign <sup>(1)</sup>	20.3	8.2%	21.9	7.3%
Transportation	15.9	6.4%	16.7	5.6%
Local governments <sup>(2)</sup>	0.6	0.2%	0.7	0.2%
Health care	0.0	0.0%	0.2	0.1%
Tax backed	0.2	0.1%	-	0.0%
Total global public finance - non-United States	<u>55.6</u>	<u>22.4%</u>	<u>59.2</u>	<u>19.7%</u>
Global structured finance - United States:				
Collateralized debt obligations <sup>(3)</sup>	89.2	36.0%	110.7	36.8%
Mortgage-backed residential	22.5	9.1%	26.3	8.8%
Mortgage-backed commercial	0.6	0.2%	0.6	0.2%
Consumer asset-backed:				
Auto loans	2.2	0.9%	4.6	1.5%
Student loans	1.9	0.8%	2.2	0.7%
Manufactured housing	2.5	1.0%	2.8	1.0%
Other consumer asset-backed	0.4	0.1%	0.6	0.2%
Corporate asset-backed:				
Operating assets:				
Aircraft portfolio lease securitizations	2.9	1.2%	3.3	1.1%
Rental car fleets	0.3	0.1%	2.2	0.7%
Secured airline equipment securitization (EETC)	3.2	1.3%	3.5	1.2%
Other operating assets	0.9	0.4%	1.1	0.4%
Structured insurance securitizations	9.1	3.7%	9.4	3.1%
Franchise assets	0.8	0.3%	1.3	0.4%
Intellectual property	3.7	1.5%	4.0	1.3%
Other corporate asset-backed	1.6	0.6%	2.1	0.7%
Total United States	<u>141.8</u>	<u>57.2%</u>	<u>174.7</u>	<u>58.1%</u>
Global structured finance - non-United States:				
Collateralized debt obligations <sup>(3)</sup>	34.3	13.9%	44.7	14.8%
Mortgage-backed residential	1.6	0.7%	2.9	1.0%
Mortgage-backed commercial	4.8	2.0%	6.1	2.0%
Corporate asset-backed:				
Operating assets:				
Aircraft portfolio lease securitizations	1.6	0.7%	2.1	0.7%
Secured airline equipment securitization (EETC)	0.3	0.1%	0.4	0.1%
Structured insurance securitizations	0.1	0.0%	0.1	0.0%
Franchise assets	0.8	0.3%	1.2	0.4%
Future flow	1.2	0.5%	2.4	0.8%

**MBIA INSURANCE CORPORATION**  
**NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS**  
**As of and for the years ended December 31, 2010 and 2009**

Other corporate asset-backed	5.5	2.2%	7.1	2.4%
Total non-United States	50.2	20.4%	67.0	22.2%
Total global structured finance	192.0	77.6%	241.7	80.3%
Total	<u>\$ 247.6</u>	<u>100.0%</u>	<u>\$ 300.9</u>	<u>100.0%</u>

- (1) - 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.
- (2) - Includes municipal owned entities backed by sponsoring local government.
- (3) - Includes transactions (represented by structured pools of primarily investment grade corporate credit risks or commercial real estate assets) that do not include typical CDO structuring characteristics, such as tranching credit risk, cash flow waterfalls, or interest and over-collateralization coverage tests.

MBIA Corp. has also issued guarantees of certain obligations issued by its investment management affiliates that are not included in the previous tables. These guarantees take the form of insurance policies issued by MBIA Corp. on behalf of the investment management affiliates. Should one of these affiliates default on their insured obligations, MBIA Corp. will be required to pay all scheduled principal and interest amounts outstanding. As of December 31, 2010, the maximum amount of future payments that MBIA Corp. could be required to make under these guarantees is \$4.9 billion. These guarantees have a maximum range of maturity of 1-37 years. These guarantees 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 all or a portion of the amounts paid under the guarantee.

### **Ceded Exposure**

Reinsurance enables MBIA Corp. 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. MBIA Corp. generally retains the right to reassume the business ceded to reinsurers under certain circumstances, including a reinsurer's rating downgrade below specified thresholds. In 2010, MBIA reassumed par outstanding of \$32.0 billion from two reinsurers, Channel Re and Mitsui Sumitomo Insurance Company, Ltd. As of December 31, 2010, our use of unaffiliated reinsurance was immaterial to our insurance operations and we expect that it will continue to be immaterial in the future.

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

As of December 31, 2010, the aggregate amount of insured par outstanding ceded by MBIA Corp. to reinsurers under reinsurance agreements was \$321.6 billion, compared with \$383.6 billion as of December 31, 2009. Of the \$321.6 billion of ceded par outstanding as of December 31, 2010, \$5.7 billion was ceded to third-party reinsurers and \$315.9 billion was ceded to National. The aggregate amount of insurance in force ceded by MBIA Corp. to reinsurers under reinsurance agreements was \$518.9 billion and \$611.6 billion as of December 31, 2010 and 2009, respectively. Of the \$518.9 billion insurance in force ceded as of December 31, 2010, \$9.8 billion was ceded to third-party reinsurers and \$509.1 billion was ceded to National.

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

**MBIA INSURANCE CORPORATION**  
**NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS**  
**As of and for the years ended December 31, 2010 and 2009**

Since December 2007, several of MBIA Corp.'s other 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 MBIA Corp. 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.

**Commutation of Ceded Reinsurance**

MBIA Corp. commuted ceded reinsurance agreements in the current period with the reinsurers listed below. MBIA Corp. recognized the amounts received from the reinsurers as a reduction of losses and loss adjustment expenses paid (thereby reducing losses and loss adjustment expenses incurred) in the current period. MBIA Corp. also increased its loss and loss adjustment expense reserves (thereby increasing losses and loss adjustment expenses incurred) to recognize the effect of releasing the reinsurers from their obligations under the agreements. There was no net effect on losses as the reduction to paid and the increase to reserves offset. The amounts presented below do not include balances related to MBIA UK which were also commuted in the current period.

<b>In thousands</b>	<b>Mitsui Sumitomo</b>	<b>ChannelRe</b>	<b>Other</b>	<b>Total</b>
Ceded Written Premium	\$ 20,665	\$ 123,806	\$ -	\$ 144,471
Change in UPR	(20,665)	(123,806)	-	(144,471)
Premiums Earned	-	-	-	-
Ceded Paid Losses	(17,941)	423,599	-	405,658
Change in Loss Reserves	17,941	(423,599)	-	(405,658)
Losses Incurred	-	-	-	-
Ceding Commission	(5,812)	(29,780)	-	(35,592)
Other	91,511	14,342	724	106,577
	<u>\$ 85,699</u>	<u>\$ (15,438)</u>	<u>\$ 724</u>	<u>\$ 70,985</u>

The above transactions resulted in a recapture of approximately \$32.0 billion in par outstanding.

**Premium Summary**

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

<b>In thousands</b>	<b>Years Ended December 31,</b>			
	<b>2010</b>		<b>2009</b>	
	<b>Written</b>	<b>Earned</b>	<b>Written</b>	<b>Earned</b>
Direct	\$ 352,340	\$ 733,177	\$ 407,062	\$ 787,915
Assumed	723	2,669	(916,402)	23,607
Gross	353,063	735,846	(509,340)	811,522
Ceded	5,622	(327,896)	(2,627,352)	(415,553)
Net	<u>\$ 358,685</u>	<u>\$ 407,950</u>	<u>\$ (3,136,692)</u>	<u>\$ 395,969</u>

**MBIA INSURANCE CORPORATION**  
**NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS**  
**As of and for the years ended December 31, 2010 and 2009**

---

For the years ended December 31, 2010 and 2009, recoveries received on claims for policies under reinsurance contracts totaled \$133 million and \$171 million, respectively. Ceding commissions received from or paid to reinsurers, before deferrals and net of returned ceding commissions, were expense of \$32 million and income of \$778 million in 2010 and 2009, respectively.

The maximum amount of return commission, which would have been due reinsurers if all reinsurance contracts were canceled with the return of the unearned premium reserve would be \$491 million and \$637 million as of December 31, 2010 and 2009, respectively. The direct unearned premium reserve at December 31, 2010 and 2009 was \$2.7 billion and \$3.0 billion, respectively.

**11. Information Concerning Parent, Subsidiaries and Affiliates**

All outstanding voting shares of MBIA Corp. are owned by its parent company, MBIA Inc., an insurance holding company incorporated in the State of Connecticut and located in the State of New York.

As of December 31, 2010, MBIA Corp. reported \$0.4 million as an amount payable to MBIA Inc. and \$29 million as an amount receivable to its subsidiaries and affiliates. The terms of the settlement require that these amounts be settled within 90 days. As of December 31, 2009, MBIA Corp. reported \$3 million as an amount payable to MBIA Inc. and \$0.2 million as a payable to its subsidiaries and affiliates.

In September 2010, after receiving the required regulatory approvals, CMAC was liquidated. See “Note 1: Businesses, Developments, Risks and Uncertainties ” for further disclosure. As of December 31, 2010, MBIA Corp. no longer has a management agreement to provide management and administrative services in connection with insurance business to CMAC.

On March 1, 2010, MBIA Corp. sold its interest in real estate to National Real Estate Holdings of Armonk, LLC (“NREHA”), a wholly-owned subsidiary of National. The sale price of \$65 million, which represented MBIA Corp.’s carrying value of the real estate, was based on the fair value of the real estate at the time of sale as determined, in part, through assessments made by independent third parties. Concurrent to the sale, MBIA Corp. entered into a lease arrangement with NREHA in order to retain occupancy of space necessary to conduct its business. The sale by MBIA Corp. and the purchase by NREHA, as well as the lease arrangement, were non-disapproved by the NYSID.

In the first quarter of 2010, MBIA Corp. entered into a Master Services Agreement (“MSA”) with a newly formed affiliate service company, Optinuity Alliance Resources Corporation (“Optinuity”), dated January 1, 2010, which was approved by the NYSID. Employees of the service company were principally transferred from MBIA Corp. As a result of the MSA, Optinuity provides various support services including management, legal, accounting, treasury, information technology, among others, on a fee-for-service basis. The fee for the year ended December 31, 2010 was \$40 million.

MBIA Corp. had entered into services agreements with National in order for them to provide to each other certain administrative and other support services. Effective January 1, 2010 this agreement was terminated and re-established with Optinuity.

In the fourth quarter of 2010, pursuant to Section 1505(d) of the New York Insurance Law, MBIA Corp. received non-disapproval from the Superintendent of the NYSID for the sale of an investment security portfolio containing municipal lease investments to National for \$34 million, representing the fair market value of the portfolio. The portfolio is specifically comprised of investments of 42 lease-related obligations backed by leases or lease revenues and other similar obligations, of U.S. state or local governmental or quasi-governmental authorities (the “Municipal Lease Obligations”). The Municipal Lease Obligations represent an investment grade portfolio with a low history of default, short tenor and yield generally higher than that of comparable municipal bonds with similar characteristics.

MBIA Corp. has provided guarantees for various members of the holding company group of MBIA Inc. At December 31, 2010 the total gross par outstanding was approximately 2% of MBIA Corp.’s total gross outstanding par value.

**MBIA INSURANCE CORPORATION**  
**NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS**  
**As of and for the years ended December 31, 2010 and 2009**

---

From time to time, MBIA Corp. may enter into transactions with related parties, which MBIA Corp. deems immaterial or which occur in the normal course of business and which are deemed to be transacted at “arm’s length” by management. Since 1989, MBIA Corp. has executed five surety bonds to guarantee the payment obligations of the members of the Association who had their S&P claims-paying rating downgraded from triple-A on their previously issued Association policies. In the event that they do not meet their Association 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, 2010 is \$340 million.

MBIA Corp.’s investment portfolio is managed by Cutwater Asset Management Corp. (“Cutwater-AMC”), a wholly-owned subsidiary of Cutwater Holdings, LLC which provides bond management services for MBIA Inc. and its affiliates, as well as third-party institutional clients. For the years ended December 31, 2010 and 2009, Cutwater-AMC charged fees of \$8 million and \$4 million, respectively, to MBIA Corp., based on the average market value of its investment portfolio in each period. These fees are reported as investment expense within “Net Investment Income” on the Company’s Statutory-Basis Statements of Income. Effective January 1, 2011, Cutwater-AMC assigned the agreement to its affiliate Cutwater Investors Service Corp. in accordance with the terms of the above mentioned agreement.

MBIA Corp. insures outstanding investment agreement liabilities for its investment management services’ affiliated companies. See “Note 10: Insurance in Force” for disclosure regarding the insurance in force exposure.

During the fourth quarter of 2008, an intercompany secured loan was established between MBIA Inc. and MBIA Corp. for up to \$2.0 billion to support the projected liquidity needs of the asset/liability products segment of MBIA Inc. Pursuant to the loan, MBIA Inc. may transfer securities in its portfolio to MBIA Corp. in exchange for up to \$2.0 billion in cash. The amount outstanding under this agreement was \$975 million and \$1.6 billion, as of December 31, 2010 and 2009, respectively. As of December 31, 2010, the secured loan has a term of less than one year. The loan is 28% of admitted assets at December 31, 2010 and has been approved by the NYSID in accordance with section 1505 of the New York Insurance Law. As a condition to obtaining section 1505 approval to enter into the secured loan MBIA Inc. and MBIA Corp. agreed to provide notice to the NYSID prior entering into certain transactions or taking other corporate actions (such as paying dividends when applicable statutory tests are satisfied) that would not otherwise require regulatory approval. Interest income on the loan for the years ended December 31, 2010 and 2009, was \$30 million and \$62 million, respectively. MBIA Corp. also held and transferred securities under an agreement to repurchase and resell with MBIA Inc. that was terminated in the first quarter of 2009.

MBIA Corp. had no loans outstanding with any executive officers or directors during 2010 or 2009.

Investments in U.S. insurance subsidiaries are reported at their audited statutory book values, adjusted for unamortized goodwill, in accordance with the statutory equity method. Investments in foreign insurance subsidiaries are reported at their audited U.S. GAAP equity value adjusted to a statutory basis of accounting as provided for in paragraph 9 of SSAP 97. See “Note 3: Investments” for SCA entities which exceed 10% of MBIA Corp.’s admitted assets of December 31, 2010.

As previously discussed, in February 2009, after receiving the required regulatory approvals, MBIA Inc. established and capitalized National as a U.S. public finance-only financial guarantor, which was previously named MBIA Illinois and previously owned by MBIA Corp. In connection with the establishment of National, the stock of MBIA Illinois was transferred to a newly established intermediate holding company, which is wholly-owned by MBIA Inc. Additionally, National was further capitalized with approximately \$2.1 billion from funds distributed by MBIA Corp. to MBIA Inc. as a dividend and return of capital, which MBIA Inc. contributed to National through the intermediate holding company.

## **12. Debt**

In the third quarter of 2010, MBIA Corp. repaid all remaining debt outstanding under the Federal Reserve’s Term Asset-Backed Securities Loan Facility (“TALF”). Principal amounts outstanding under TALF loans totaled \$277 million as of December 31, 2009, and were repaid using the proceeds from the ABS financed by the TALF loans.

**MBIA INSURANCE CORPORATION**  
**NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS**  
**As of and for the years ended December 31, 2010 and 2009**

---

**13. Retirement Plans and Deferred Compensation**

MBIA Corp. participates in its parent company's pension plan, which covers substantially all employees. The pension plan is a qualified non-contributory defined contribution plan to which MBIA Corp. 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. Gross pension expense related to the qualified pension plan for the years ended December 31, 2010 and 2009 was \$0.7 million and \$2 million, respectively.

MBIA Corp.'s parent company has a qualified profit sharing/401(k) plan in which it participates. The plan is a voluntary contributory plan that allows eligible employees to defer compensation for federal income tax purposes under Section 401(k) of the Internal Revenue Code of 1986, as amended. Employees may contribute, through payroll deductions, up to 25% of eligible compensation. MBIA Corp. matches employee contributions up to the first 5% of such compensation and are made in the form of cash, whereby participants may direct the match to an investment of their choice. The benefit of MBIA Corp.'s contributions vest over a five-year period with 20% vested after two years, 60% vested after three years, 80% vested after four years and 100% vested after five years. Generally, a participating employee is entitled to distributions from the plan upon termination of employment, retirement, death or disability. Participants who qualify for distribution may receive a single lump sum, transfer assets to another qualified plan or individual retirement account, or receive a series of specified installment payments. Profit sharing/401(k) expense related to the qualified profit-sharing/401(k) plan for the years ended December 31, 2010 and 2009 was \$0.3 million and \$2 million, respectively.

In addition to the above two plans, MBIA Corp. also participates in its parent company's non-qualified deferred compensation plan. Contributions to the above plans that exceed limitations established by federal regulations are then contributed to the non-qualified deferred compensation plan. The non-qualified pension expense for the years ended December 31, 2010 and 2009 was \$0.6 million and \$1 million, respectively. The non-qualified profit-sharing/401(k) expense for the years ended December 31, 2010 and 2009 was \$0.1 million and \$0.5 million, respectively. In addition, the interest credited to the non-qualified deferred compensation plan totaled \$0.1 million and \$0.6 million for the years ended December 31, 2010 and 2009, respectively.

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

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

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

In May 2008, the shareholders of MBIA Inc. approved two restricted stock grants for the CEO, the first granted in May 2008 and the second in February 2009. These two grants did not reduce the shares available for grant under the Omnibus Plan, as these grants were a separate approval by the shareholders of MBIA Inc. In addition, the vesting schedules of these grants are linked to MBIA Inc.'s market value performance.

MBIA Inc. maintains voluntary retirement benefits, which provide certain benefits to all of MBIA Corp.'s eligible employees upon retirement. A description of these benefits is included in MBIA Inc.'s proxy statement. One of the

**MBIA INSURANCE CORPORATION**  
**NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS**  
**As of and for the years ended December 31, 2010 and 2009**

---

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.

MBIA Corp.'s proportionate share of compensation cost for its participation in its parent company's stock option program for the years ended December 31, 2010 and 2009 totaled \$1 million and \$5 million, respectively. MBIA Corp.'s proportionate share of compensation cost related to the restricted stock program for the year ended December 31, 2010 and 2009 was \$5 and \$7 million, respectively.

During 2010 and 2009, MBIA Corp. 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 upon the employee's continuous employment with MBIA Corp. 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 \$2 million and \$3 million for the years ended December 31, 2010 and 2009, respectively.

#### **14. Derivatives**

During 2004, MBIA Corp. sought and received approval from the NYSID for an Insured Portfolio Hedge Derivative Use Plan (the "Plan"). The Plan allows for the Company to enter into derivative instruments for the limited purpose of hedging and offsetting, either partially or completely (but not over-hedging), risks assumed in its financial guarantee portfolio (each such instrument, a "Hedge Derivative"). MBIA Corp.'s obligations under any Hedge Derivative entered into in accordance with this Plan will be limited to the payment of a fee to the counterparty to such instruments, and, in limited circumstances, termination payments upon the occurrence of certain events. The type of the Hedge Derivative purchased could be credit derivatives, interest rate derivatives, foreign exchange derivatives or "over the counter" diversified credit portfolios or indices or tranches of such indices. The tenor of any Hedge Derivative so purchased will not exceed the tenor of the risk position being hedged.

The purpose of this Plan is to allow MBIA Corp. to use additional and alternative means of risk transfer and portfolio management to supplement and diversify its traditional reinsurance. The Company intends to achieve these objectives through managing aggregate risk concentrations to individual users, managing overall portfolio exposures and correlations and managing concentrations in certain countries, sectors or geographical regions.

MBIA Corp. accounts for derivative transactions at fair value with changes in fair value recorded each period in current earnings. Hedge accounting is not applied. Put option and forward contracts are recognized and measured at fair value in the financial statements. These were previously reported on the balance sheet as a component of "Derivatives" and the changes in the fair value are reported as a component of "Aggregate write-ins for miscellaneous income" in the statement of income. The net unrealized loss recorded on the income statement was \$10 million and \$2 million for the years ended December 31, 2010 and 2009, respectively. As of December 31, 2010, MBIA Corp. has no derivative transactions outstanding.

In 2009, MBIA Corp. entered into a foreign exchange hedge which was sold in the third quarter of 2010 for \$1 million. This transaction was entered into to mitigate the risk of an unfavorable change in the Australian Dollar ("AUD") to U.S. Dollar ("USD") foreign exchange rate on an underlying AUD bond. Prior to 2010, MBIA Corp. took remediation action on an international infrastructure financing transaction and purchased a significant amount of the outstanding debt of the issuer at a discount to par. In 2010, receivers appointed by the Company entered into a commitment to purchase the infrastructure asset. This transaction closed during the third quarter of 2010 following receipt of regulatory approval. Proceeds from the transaction were used to pay-down the securities of the issuer. The remaining financial instruments of the issuer, after the pay-down, are not significant.

**MBIA INSURANCE CORPORATION**  
**NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS**  
**As of and for the years ended December 31, 2010 and 2009**

**15. Premium Revenue**

MBIA Corp. has not recorded unearned premium related to future installment payments nor has it recorded premiums receivable on installment contracts at December 31, 2010. The following table presents a roll forward of MBIA Corp.'s undiscounted premiums receivable for the year ended December 31, 2010 as if all installment premium contracts were received on an upfront basis.

In thousands			Adjustments			Reinsurance Premiums Payable as of December 31, 2010
Premiums Receivable as of December 31, 2009	Premium Payments Received	Premiums from New Business Written	Changes in Expected Term of Policies	Other	Premiums Receivable as of December 31, 2010	
\$ 2,792,317	\$ (350,762)	\$ 16,735	\$ (130,344)	\$ (21,685)	\$ 2,306,261	\$ 531,170

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 thousands	Expected Collection of Premiums
Three months ended:	
March 31, 2011	\$ 75,058
June 30, 2011	80,021
September 30, 2011	65,555
December 31, 2011	77,304
Twelve months ended:	
December 31, 2012	258,730
December 31, 2013	222,250
December 31, 2014	198,866
December 31, 2015	177,317
Five years ended:	
December 31, 2020	491,089
December 31, 2025	246,564
December 31, 2030 and thereafter	413,507
Total	<u>\$ 2,306,261</u>

**MBIA INSURANCE CORPORATION**  
**NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS**  
**As of and for the years ended December 31, 2010 and 2009**

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

<u>In thousands</u>	<u>Unearned Premium Revenue</u>	<u>Expected Future Premium Earnings</u>		<u>Estimated Earnings of Future Premium Collections</u>	<u>Total Expected Future Premium Earnings</u>
		<u>Upfront</u>	<u>Installments</u>		
December 31, 2010	2,725,191				
Three months ended:					
March 31, 2011	2,654,173	33,146	37,872	39,661	110,679
June 30, 2011	2,597,182	45,281	11,710	63,767	120,758
September 30, 2011	2,535,452	57,687	4,043	69,803	131,533
December 31, 2011	2,488,564	35,548	11,340	70,406	117,294
Twelve months ended:					
December 31, 2012	2,323,569	155,365	9,630	260,193	425,188
December 31, 2013	2,171,233	140,558	11,778	225,649	377,985
December 31, 2014	2,020,353	141,054	9,826	201,639	352,519
December 31, 2015	1,863,752	145,201	11,400	182,376	338,977
Five years ended:					
December 31, 2020	1,205,156	602,265	56,331	503,655	1,162,251
December 31, 2025	668,667	472,018	64,471	252,875	789,364
December 31, 2030 and thereafter	-	601,248	67,419	426,987	1,095,654
Total		<u>\$ 2,429,371</u>	<u>\$ 295,820</u>	<u>\$ 2,297,011</u>	<u>\$ 5,022,202</u>

**16. Contingencies and Commitments**

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

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

On July 23, 2008, the City of Los Angeles filed a complaint in the Superior Court of the State of California, County of Los Angeles, against a number of financial guarantee insurers, including MBIA Inc. At the same time and subsequently, additional complaints against MBIA Inc. and nearly all of the same co-defendants were filed by the City of Stockton, the City of Oakland, the City and County of San Francisco, the County of San Mateo, the County of Alameda, the City of Los Angeles Department of Water and Power, the Sacramento Municipal Utility District, the City of Sacramento, the City of Riverside, the Los Angeles World Airports, the City of Richmond, Redwood City, the East Bay Municipal Utility District, the Sacramento Suburban Water District, the City of San Jose, the County of Tulare, the Regents of the University of California, Contra Costa County, the Redevelopment Agency of the City of Riverside, and the Public Financing Authority of the City of Riverside, The Olympic Club, the Jewish Community Center of San Francisco and the Redevelopment Agency of San Jose. These cases are, or are expected to become, part of a coordination proceeding in Superior Court, San Francisco County, before Judge Richard A.

**MBIA INSURANCE CORPORATION**  
**NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS**  
**As of and for the years ended December 31, 2010 and 2009**

---

Kramer, referred to as the Ambac Bond Insurance Cases, which name as defendants MBIA Inc., 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 Financial Services LLC.

The claims as they now stand allege participation by all defendants in a conspiracy in violation of California's antitrust laws to maintain a dual credit rating scale that misstated the credit default risk of municipal bond issuers and not-for-profit issuers and thus created market demand for bond insurance. Plaintiffs also allege that the individual bond insurers participated in risky financial transactions in other lines of business that damaged each bond insurer's financial condition (thereby undermining the value of each of their 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 theories in breach of contract, breach of the covenant of good faith and fair dealing, fraud, negligent misrepresentation, negligence, and unjust enrichment. The non-municipal plaintiffs also allege a California unfair competition cause of action. Defendants' demurrers were filed on September 17, 2010 and plaintiffs' opposition to demurrers were filed on October 22, 2010. On November 30, 2010, prior to the hearing on the demurrers, the credit rating agency defendants removed the seven actions in which they were named to the United States District Court for the Northern District of California. On December 8, 2010, defendant Ambac Assurance Corp. removed the remaining actions. On January 31, 2011, the district court granted plaintiffs motion to remand the cases back to San Francisco Superior Court.

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

On March 12, 2010, the City of Phoenix, Arizona filed a complaint in the 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 Inc., MBIA Corp., National, certain MBIA Corp. 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 Inc. 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

**MBIA INSURANCE CORPORATION**  
**NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS**  
**As of and for the years ended December 31, 2010 and 2009**

---

Claims Act arising from Tri-City Healthcare District's investment in auction rate securities. On February 17, 2010, MBIA filed its demurrer to the Third Amended Complaint.

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

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

On October 15, 2008, MBIA Corp. commenced an action in the 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 Corp.'s complaint with respect to MBIA Corp.'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

**MBIA INSURANCE CORPORATION**  
**NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS**  
**As of and for the years ended December 31, 2010 and 2009**

---

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 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 Inc. the requisite access to all records and documents regarding the securitized loans. On August 9, 2010, the court denied Credit Suisse's motion to dismiss in part. On January 27, 2011, the court issued a ruling allowing MBIA Corp. a jury trial on its fraudulent inducement cause of action.

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

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

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

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

**MBIA INSURANCE CORPORATION**  
**NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS**  
**As of and for the years ended December 31, 2010 and 2009**

---

prejudice was filed. This settlement also included commutation of certain CDS contracts between RBC and Lacrosse.

On October 14, 2008, June 17, 2009 and August 25, 2009, MBIA Corp. submitted proofs of claim to the Federal Deposit Insurance Corporation (“FDIC”) with respect to the resolution of IndyMac Bank, F.S.B. for both pre- and 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 May 21, 2010, the FDIC filed separate motions to dismiss both in its capacity as a corporate entity and as receiver/conservator. MBIA Corp. filed its opposition to the FDIC’s motions to dismiss on July 1, 2010. The FDIC’s replies were filed on July 30, 2010.

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

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

On March 11, 2009, a complaint was filed in the United States District Court of the Southern District of New York against MBIA Inc., 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

**MBIA INSURANCE CORPORATION**  
**NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS**  
**As of and for the years ended December 31, 2010 and 2009**

---

Department of Insurance, constituted fraudulent conveyances under §§ 273, 274 and 276 of New York Debtor and Creditor Law and a breach of the implied covenant of good faith and fair dealing under New York common law. The Complaint seeks, inter alia, (a) a declaration that the alleged fraudulent conveyances are null and void and set aside, (b) a declaration that National is responsible for the insurance policies issued by MBIA Corp. up to February 17, 2009, and (c) an award of damages in an unspecified amount together with costs, expenses and attorneys' fees in connection with the action. On February 11, 2010, Judge Sullivan entered an order denying MBIA Inc.'s motion to dismiss. On January 20, 2011, in light of the Appellate Division of the New York State Supreme Court's order dismissing the ABN AMRO Bank N.V. et al. v. MBIA Inc. et al. discussed below, Judge Sullivan stayed this action pending plaintiffs appeal to the New York State Court of Appeals.

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

On May 13, 2009, a complaint was filed in the New York State Supreme Court against MBIA Inc., 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 Inc., 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 Corp. and National are jointly and severally liable for the insurance policies issued by MBIA Corp., and (d) ordering damages in an unspecified amount. On February 17, 2010, the court denied defendants' motion to dismiss. On January 11, 2011, the Appellate Division of the New York State Supreme Court reversed the lower court's ruling and dismissed the complaint. On January 20, 2011, plaintiffs filed a Notice of Appeal to the New York State Court of Appeals. Argument has been scheduled for May 31, 2011. On February 10, 2011, the New York County Commercial Division announced that Hon. O. Peter Sherwood has been assigned to the case to replace Justice Yates, who has resigned. Seven of the original nineteen plaintiffs have dismissed their claims, several of which were dismissals were related to the commutation of certain of their MBIA Corp. insured exposures.

On June 15, 2009, the same group of nineteen 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 Inc. argued that an Article 78 proceeding is the exclusive forum in which a plaintiff may raise any challenge to the Transformation approved by the Superintendent of the Department of Insurance. The petition seeks a judgment (a) declaring void and to annul the approval letter of the Superintendent of the Department of Insurance, (b) to recover dividends paid in connection with the Transactions, (c) declaring that the approval letter does not extinguish plaintiffs' direct claims against MBIA Inc. in the plenary action described above. MBIA Inc. and the New York State Insurance Department filed their answering papers to the Article 78 Petition on November 24, 2009 and argued that based on the record and facts, approval of Transformation and its constituent transactions was neither arbitrary nor capricious nor in violation of New York Insurance Law. As described above, seven of the nineteen plaintiffs have dismissed their claims. Submission of all papers relating to the original petition are scheduled to be completed

**MBIA INSURANCE CORPORATION**  
**NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS**  
**As of and for the years ended December 31, 2010 and 2009**

by May 30, 2011. On February 10, 2011, the New York County Commercial Division announced that Hon. O. Peter Sherwood has been assigned to the case to replace Justice Yates, who has resigned.

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. On February 10, 2011, the New York County Commercial Division announced that Hon. O. Peter Sherwood has been assigned to the case to replace Justice Yates, who has resigned. The proceeding is currently stayed.

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

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

**17. Subsequent Events**

Subsequent events have been considered through March 1, 2011, the date upon which the audited statutory financial statements were available to be issued.

Refer to "Note 16: Contingencies and Commitments" for information about legal proceedings that commenced after December 31, 2010.

**18. Reconciliation to Previously Reported Amounts**

For the year ending December 31, 2010, the Company did not have any adjustments to amounts previously reported in the Company's Annual Statement.

The accompanying financial statements reflects updates to amounts previously reported in MBIA Corp.'s unaudited Annual Statement as of and for the year ended December 31, 2009 filed with the NYSID. This schedule reconciles the audited financial statement to Annual Statement filed with the NYSID related to adjustment to special surplus related to SSAP 10R and a de minimus adjustment to intercompany balances with affiliates. The impact to these adjustments is presented in the following table:

<b>In thousands</b>	<b>As Reported in the 2009 Annual Statement</b>	<b>As Reported in the 2009 Audited Financial Statements</b>
<b>Statement of Admitted Assets, Liabilities and Capital and Surplus:</b>		
Deferred tax asset	\$ 242,900	\$ 83,300
Other assets	32,500	27,412
Total admitted assets	5,031,794	4,867,106
Other liabilities	119,716	122,983
Total liabilities	2,978,751	2,982,018
Special surplus	159,600	-
Unassigned surplus	(127,340)	(135,695)
Total capital and surplus	2,053,043	1,885,088
Total liabilities capital and surplus	5,031,794	4,867,106

## SUMMARY INVESTMENT SCHEDULE

Investment Categories	Gross Investment Holdings		Admitted Assets as Reported in the Annual Statement	
	1 Amount	2 Percentage	3 Amount	4 Percentage
1. Bonds:				
1.1 U.S. treasury securities	399,366,369	12.103	399,366,369	12.105
1.2 U.S. government agency obligations (excluding mortgage-backed securities):				
1.21 Issued by U.S. government agencies	23,546,873	0.714	23,546,873	0.714
1.22 Issued by U.S. government sponsored agencies	0	0.000	0	0.000
1.3 Non-U.S. government (including Canada, excluding mortgage-backed securities)	22,321,670	0.676	22,321,670	0.677
1.4 Securities issued by states, territories, and possessions and political subdivisions in the U.S.:				
1.41 States, territories and possessions general obligations	14,759,819	0.447	14,759,819	0.447
1.42 Political subdivisions of states, territories and possessions and political subdivisions general obligations	12,977,371	0.393	12,977,371	0.393
1.43 Revenue and assessment obligations	32,866,778	0.996	32,866,778	0.996
1.44 Industrial development and similar obligations	0	0.000	0	0.000
1.5 Mortgage-backed securities (includes residential and commercial MBS):				
1.51 Pass-through securities:				
1.511 Issued or guaranteed by GNMA	8,730,094	0.265	8,730,094	0.265
1.512 Issued or guaranteed by FNMA and FHLMC	74,016,030	2.243	74,016,030	2.243
1.513 All other	0	0.000	0	0.000
1.52 CMOs and REMICs:				
1.521 Issued or guaranteed by GNMA, FNMA, FHLMC or VA	0	0.000	0	0.000
1.522 Issued by non-U.S. Government issuers and collateralized by mortgage-backed securities issued or guaranteed by agencies shown in Line 1.521	0	0.000	0	0.000
1.523 All other	228,341,024	6.920	228,341,024	6.921
2. Other debt and other fixed income securities (excluding short term):				
2.1 Unaffiliated domestic securities (includes credit tenant loans and hybrid securities)	325,724,578	9.872	325,724,578	9.873
2.2 Unaffiliated non-U.S. securities (including Canada)	68,738,262	2.083	68,738,262	2.083
2.3 Affiliated securities	0	0.000	0	0.000
3. Equity interests:				
3.1 Investments in mutual funds	150,513,455	4.562	150,513,455	4.562
3.2 Preferred stocks:				
3.21 Affiliated	0	0.000	0	0.000
3.22 Unaffiliated	2,118,680	0.064	2,118,680	0.064
3.3 Publicly traded equity securities (excluding preferred stocks):				
3.31 Affiliated	0	0.000	0	0.000
3.32 Unaffiliated	0	0.000	0	0.000
3.4 Other equity securities:				
3.41 Affiliated	432,110,678	13.096	432,110,678	13.097
3.42 Unaffiliated	0	0.000	0	0.000
3.5 Other equity interests including tangible personal property under lease:				
3.51 Affiliated	0	0.000	0	0.000
3.52 Unaffiliated	0	0.000	0	0.000
4. Mortgage loans:				
4.1 Construction and land development	0	0.000	0	0.000
4.2 Agricultural	0	0.000	0	0.000
4.3 Single family residential properties	0	0.000	0	0.000
4.4 Multifamily residential properties	0	0.000	0	0.000
4.5 Commercial loans	0	0.000	0	0.000
4.6 Mezzanine real estate loans	0	0.000	0	0.000
5. Real estate investments:				
5.1 Property occupied by company	0	0.000	0	0.000
5.2 Property held for production of income (including \$ 0 of property acquired in satisfaction of debt)	0	0.000	0	0.000
5.3 Property held for sale (including \$ 0 property acquired in satisfaction of debt)	0	0.000	0	0.000
6. Contract loans	0	0.000	0	0.000
7. Receivables for securities	1,627,027	0.049	1,216,191	0.037
8. Cash, cash equivalents and short-term investments	524,477,555	15.895	524,477,555	15.897
9. Other invested assets	977,404,137	29.622	977,404,137	29.625
10. Total invested assets	3,299,640,400	100.000	3,299,229,564	100.000



SUPPLEMENT FOR THE YEAR 2010 OF THE MBIA Insurance Corporation

SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES

For The Year Ended December 31, 2010

(To Be Filed by April 1)

Of The MBIA Insurance Corporation
Address (City, State and Zip Code) Armonk, NY 10504-1610
NAIC Group Code 00528 NAIC Company Code 12041 Employer's ID Number 43-0899449

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

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

- 1. Reporting entity's total admitted assets as reported on Page 2 of this annual statement. \$ 3,458,449,732
2. Ten largest exposures to a single issuer/borrower/investment.

Table with 4 columns: Issuer, Description of Exposure, Amount, Percentage of Total Admitted Assets. Rows include MBIA Inc., MBIA UK (Holdings) Ltd., MBIA Core Funds, etc.

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

Table with 6 columns: Bonds (NAIC-1 to NAIC-6), Preferred Stocks (P/RP-1 to P/RP-6), Amount, Percentage. Rows show NAIC-1 with \$1,294,409,603 and 37.4%.

- 4. Assets held in foreign investments:

- 4.01 Are assets held in foreign investments less than 2.5% of the reporting entity's total admitted assets? Yes [ ] No [X]
4.02 Total admitted assets held in foreign investments \$ 546,641,059 15.8 %
4.03 Foreign-currency-denominated investments \$ 61,895,256 1.8 %
4.04 Insurance liabilities denominated in that same foreign currency \$ 0 0.0 %

**SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES (cont.)**

5. Aggregate foreign investment exposure categorized by NAIC sovereign rating:

	1	2
5.01 Countries rated NAIC-1	\$ 534,702,076	15.5 %
5.02 Countries rated NAIC-2	\$ 11,938,983	0.3 %
5.03 Countries rated NAIC-3 or below	\$ 0	0.0 %

6. Largest foreign investment exposures by country, categorized by the country's NAIC sovereign rating:

	1	2
Countries rated NAIC-1:		
6.01 Country 1: Great Britain	\$ 424,193,561	12.3 %
6.02 Country 2: Cayman Islands	\$ 47,434,595	1.4 %
Countries rated NAIC-2:		
6.03 Country 1: Mexico	\$ 10,857,714	0.3 %
6.04 Country 2: Ireland	\$ 1,081,269	0.0 %
Countries rated NAIC-3 or below:		
6.05 Country 1:	\$ 0	0.0 %
6.06 Country 2:	\$ 0	0.0 %

	1	2
7. Aggregate unhedged foreign currency exposure	\$ 61,895,256	1.8 %

8. Aggregate unhedged foreign currency exposure categorized by NAIC sovereign rating:

	1	2
8.01 Countries rated NAIC - 1	\$ 61,895,256	1.8 %
8.02 Countries rated NAIC - 2	\$ 0	0.0 %
8.03 Countries rated NAIC - 3 or below	\$ 0	0.0 %

9. Largest unhedged foreign currency exposures by country, categorized by the country's NAIC sovereign rating:

	1	2
Countries rated NAIC - 1:		
9.01 Country 1: Germany	\$ 39,861,027	1.2 %
9.02 Country 2: United States	\$ 10,855,900	0.3 %
Countries rated NAIC - 2:		
9.03 Country 1:	\$ 0	0.0 %
9.04 Country 2:	\$ 0	0.0 %
Countries rated NAIC - 3 or below:		
9.05 Country 1:	\$ 0	0.0 %
9.06 Country 2:	\$ 0	0.0 %

10. Ten largest non-sovereign (i.e. non-governmental) foreign issues:

	1 Issuer	2 NAIC Rating	3	4
10.01 MBIA UK (Holdings) Ltd		4	\$ 421,252,964	12.2 %
10.02 New World Funding Ltd Series 2008-1A C1a		6FE	\$ 45,000,000	1.3 %
10.03 Commerzbank AG		1FE	\$ 13,448,233	0.4 %
10.04 MBIA Mexico S.A. de C.V.		4	\$ 10,857,714	0.3 %
10.05 BOREAL FR MKKT FD		1	\$ 7,618,916	0.2 %
10.06 Goldman Sachs Group Inc FDIC Guaranteed		1	\$ 7,422,213	0.2 %
10.07 HSH Nordbank AG		1FE	\$ 5,599,557	0.2 %
10.08 J.P. Morgan & Co. FDIC Guaranteed		1	\$ 3,433,687	0.1 %
10.09 Societe Financement de l'Econo		1FE	\$ 1,508,433	0.0 %
10.10 Bank of Scotland PLC		1	\$ 1,367,408	0.0 %

**SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES (cont.)**

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

	<u>1</u> Issuer	<u>2</u>	<u>3</u>
13.02 MBIA UK (Holdings) Ltd .....	\$	421,252,964	12.2 %
13.03 MBIA Core Bond Fund .....	\$	70,119,416	2.0 %
13.04 MBIA High Yield Fund .....	\$	39,057,475	1.1 %
13.05 MBIA Core Plus Fund .....	\$	33,717,647	1.0 %
13.06 MBIA Mexico S.A de C.V .....	\$	10,857,714	0.3 %
13.07 Boreal FR MKT FO .....	\$	7,618,916	0.2 %
13.08 Wells Fargo Capital PFD PERP .....	\$	1,118,680	0.0 %
13.09 Citigroup Capital XII .....	\$	1,000,000	0.0 %
13.10 .....	\$	0	0.0 %
13.11 .....	\$	0	0.0 %

**SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES (cont.)**

14. Amounts and percentages of the reporting entity's total admitted assets held in nonaffiliated, privately placed equities:

14.01 Are assets held in nonaffiliated, privately placed equities less than 2.5% of the reporting entity's total admitted assets? Yes  No

If response to 14.01 above is yes, responses are not required for the remainder of Interrogatory 14.

15. Amounts and percentages of the reporting entity's total admitted assets held in general partnership interests:

15.01 Are assets held in general partnership interests less than 2.5% of the reporting entity's total admitted assets? Yes  No

If response to 15.01 is yes, responses are not required for the remainder of Interrogatory 15.

16. Amounts and percentages of the reporting entity's total admitted assets held in mortgage loans:

16.01 Are mortgage loans reported in Schedule B less than 2.5% of the reporting entity's total admitted assets? Yes  No

If response to 16.01 above is yes, responses are not required for the remainder of Interrogatory 16 and Interrogatory 17.

## SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES (cont.)

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

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

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

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

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

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

**SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES (cont.)**

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

	<u>At Year-end</u>				<u>At End of Each Quarter</u>		
	<u>1</u>	<u>2</u>			<u>1st Qtr</u> <u>3</u>	<u>2nd Qtr</u> <u>4</u>	<u>3rd Qtr</u> <u>5</u>
20.01 Securities lending agreements (do not include assets held as collateral for such transactions)	\$ 0	0.0 %	\$	0	\$ 0	\$ 0	\$ 0
20.02 Repurchase agreements	\$ 0	0.0 %	\$	0	\$ 0	\$ 0	\$ 0
20.03 Reverse repurchase agreements	\$ 0	0.0 %	\$	0	\$ 0	\$ 0	\$ 0
20.04 Dollar repurchase agreements	\$ 0	0.0 %	\$	0	\$ 0	\$ 0	\$ 0
20.05 Dollar reverse repurchase agreements	\$ 0	0.0 %	\$	0	\$ 0	\$ 0	\$ 0

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

	<u>Owned</u>				<u>Written</u>	
	<u>1</u>	<u>2</u>			<u>3</u>	<u>4</u>
21.01 Hedging	\$ 0	0.0 %	\$	0	\$ 0	0.0 %
21.02 Income generation	\$ 0	0.0 %	\$	0	\$ 0	0.0 %
21.03 Other	\$ 0	0.0 %	\$	0	\$ 0	0.0 %

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

	<u>At Year-end</u>				<u>At End of Each Quarter</u>		
	<u>1</u>	<u>2</u>			<u>1st Qtr</u> <u>3</u>	<u>2nd Qtr</u> <u>4</u>	<u>3rd Qtr</u> <u>5</u>
22.01 Hedging	\$ 0	0.0 %	\$	0	\$ 0	\$ 0	\$ 0
22.02 Income generation	\$ 0	0.0 %	\$	0	\$ 0	\$ 0	\$ 0
22.03 Replications	\$ 0	0.0 %	\$	0	\$ 0	\$ 0	\$ 0
22.04 Other	\$ 0	0.0 %	\$	0	\$ 0	\$ 0	\$ 0

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

	<u>At Year-end</u>				<u>At End of Each Quarter</u>		
	<u>1</u>	<u>2</u>			<u>1st Qtr</u> <u>3</u>	<u>2nd Qtr</u> <u>4</u>	<u>3rd Qtr</u> <u>5</u>
23.01 Hedging	\$ 0	0.0 %	\$	0	\$ 0	\$ 0	\$ 0
23.02 Income generation	\$ 0	0.0 %	\$	0	\$ 0	\$ 0	\$ 0
23.03 Replications	\$ 0	0.0 %	\$	0	\$ 0	\$ 0	\$ 0
23.04 Other	\$ 0	0.0 %	\$	0	\$ 0	\$ 0	\$ 0

**MBIA INSURANCE CORPORATION**  
**SUPPLEMENTAL SCHEDULE OF REINSURANCE DISCLOSURES**  
**As of and for the year ended December 31, 2010**

---

1. MBIA Insurance Corporation (MBIA Corp.) has not reinsured any risk with any other entity under a quota share reinsurance contract that includes a provision, such as a deductible, a loss ratio corridor, a loss cap, an aggregate limit, or any similar provision, that would limit the reinsurer's losses below the stated quota share percentage.

2. MBIA Corp. has not ceded any risk under any reinsurance contract other than to National (or under multiple contracts with the same reinsurer or its affiliates) for which during the period covered by this statement: (i) it recorded a positive or negative underwriting result greater than 5% of prior year-end surplus as regards policyholders or it reported calendar year written premium ceded or year-end loss and loss expense reserves ceded greater than 5% of prior year-end surplus as regards policyholders; (ii) it accounted for that contract as reinsurance and not as a deposit; (iii) the contract(s) contain one or more of the following features or other features that would have similar results:

- (a) a contract term longer than two years and the contract is noncancellable by the reporting entity during the contract term.
- (b) a limited or conditional cancellation provision under which cancellation triggers an obligation by the reporting entity, or an affiliate of the reporting entity, to enter into a new reinsurance contract with the reinsurer, or an affiliate of the reinsurer.
- (c) aggregate stop loss reinsurance coverage.
- (d) an unconditional or unilateral right by either party to commute the reinsurance contract except for such provisions which are only triggered by a decline in the credit status of the other party.
- (e) a provision permitting reporting of losses, or payment of losses, less frequently than on a quarterly basis, unless there is no activity during the period.
- (f) payment schedule, accumulating retentions from multiple years or any features inherently designed to delay timing of the reimbursement to the ceding entity.

3. During the period covered by this statement, MBIA Corp. has not ceded any risk under any reinsurance contract, other than to National, (or under multiple contracts with the same reinsurer or its affiliates), excluding cessions to approved pooling agreements or to captive insurance companies that are directly or indirectly controlling, controlled by, or under common control with (i) one or more unaffiliated policyholders of the reporting entity, or (ii) an association of which one or more unaffiliated policyholders of the reporting entity is a member where:

- (a) The written premium ceded to the reinsurer by the reporting entity or its affiliates represents fifty percent (50%) or more of the entire direct and assumed premium written by the reinsurer, other than National based on its most recently available financial statements; or
- (b) Twenty five percent (25%) or more of the written premium ceded to the reinsurer has been retroceded back to the reporting entity or its affiliates.

4. (a) The financial statement impact on MBIA Corp. related to the ceded reinsurance contracts to National is presented in the following table:

In thousands	As Reported	Impact of Ceded Reinsurance Contract	Gross Financial Statement Impact without Reinsurance
Total Admitted Assets	\$3,458,450	\$7,102,544	\$10,560,994
Total Liabilities	2,383,748	6,379,962	8,763,710
Total Capital and surplus	1,074,702	722,582	1,797,284
Net Income (loss) before taxes (2010)	(410,297)	505,214	94,917

MBIA Corp. entered into a quota share reinsurance agreement effective January 1, 2009 pursuant to which MBIA Corp. ceded all of its United States (U.S.) public finance exposure to National. The reinsurance agreement enables covered policyholders and certain ceding reinsurers to make claims for payment directly against National in accordance with the terms of these agreements. In connection with the reinsurance agreement MBIA Corp. paid to

**MBIA INSURANCE CORPORATION**  
**SUPPLEMENTAL SCHEDULE OF REINSURANCE DISCLOSURES**  
**As of and for the year ended December 31, 2010**

---

National a premium to reinsure the policies covered by the reinsurance agreement net of a ceding commission on the unearned premium reserve.

Management's Objectives:

Management announced a plan to restructure the business in part by creating separate legal operating entities for the public finance, structured finance and international financial guarantee businesses as well as the asset management 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. The first step in the plan was the establishment of National as a U.S. public finance-only financial guarantee company.

5. MBIA Corp. has not ceded any risk under any reinsurance contract, (or multiple contracts with the same reinsurer or its affiliates) that:

(a) during the period covered by this statement, MBIA Corp. accounted for any contract as reinsurance (either prospective or retroactive) under statutory accounting principles ("SAP") and as a deposit under generally accepted accounting principles ("GAAP").

MBIA Corp. had ceded risk under a reinsurance contract (or multiple contracts with the same reinsurer or its affiliates) that:

(b) during the period covered by this statement, MBIA Corp. accounted for one contract as reinsurance under GAAP and as a deposit under SAP.