

MBIA UK INSURANCE LIMITED

**MBIA UK INSURANCE LIMITED
DIRECTORS' REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

MBIA UK INSURANCE LIMITED

Directors	C E Chaplin W C Fallon R D Wertheim P C Sullivan C E Weeks D M Zurkow K G Cox – non executive director A F Sykes – non executive director G H C Wakefield – non executive director
Company secretaries	R D Wertheim S Biscardi
Company number	04401508
Registered office	1 Great St Helen's London EC3A 6HX
Independent auditors	PricewaterhouseCoopers LLP Chartered Accountants and Statutory Auditors Hay's Galleria 1 Hay's Lane London SE1 2RD
Bankers	The Bank of New York Montoyerstraat 46 Rue Montoyer B-1040 Brussels Lloyds TSB Bank plc 25 Gresham Street London EC2V YHN JP Morgan 125 London Wall London EC2Y 5AJ HSBC Paris Trocadero 112 Avenue Kleber 75016 Paris

MBIA UK INSURANCE LIMITED

TABLE OF CONTENTS

	Page(s)
Directors' report	1-13
Statement of directors' responsibilities	14
Independent auditors' report	15
Profit and loss account	16-17
Statement of total recognised gains and losses	17
Balance sheet	18
Notes to the financial statements	19-31

MBIA UK INSURANCE LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2010

The directors present their report and the audited financial statements for the year ended 31 December 2010.

I. Principal activity

The principal line of business of MBIA UK Insurance Limited ("the Company") is the guarantee of both structured finance and public finance debt obligations in selected international markets.

Public finance obligations ("Public Finance") guaranteed by the Company include bonds or bank loans backed by publicly or privately owned public-purpose infrastructure projects and utilities as well as bonds issued by sub-sovereign and municipal entities. Structured finance obligations ("Structured Finance") include asset-backed securities ("ABS"), residential and commercial mortgage-backed transactions ("MBS") and collateralized debt obligations ("CDOs"). Collateral supporting structured finance securities can include corporate bonds and loans, consumer loans, commercial or residential mortgages, leases, equipment and other operating assets and other contractual undertakings.

The financial guarantees issued by the Company generally provide unconditional and irrevocable guarantees of the payment of the principal of, and interest or other amounts owing on, insured obligations when due. There are two primary types of policy payment requirements in the Company's financial guarantee contracts: (i) timely interest and scheduled or ultimate principal; and (ii) payments upon settlement of individual collateral losses as they occur after parties subordinated to the Company in a transaction have absorbed their share of losses. The obligations are generally not subject to acceleration, except that the Company may have the right, at its discretion, to accelerate insured obligations upon default or otherwise, thereby mitigating liquidity risk.

An affiliate, LaCrosse Financial Products LLC ("LaCrosse"), has historically issued credit default swaps ("CDS"), the obligations of which have been guaranteed by the Company or MBIA Insurance Corp. ("MBIA Corp."). The insured CDS contracts do not contain typical CDS market standard features as they have been designed to replicate the Company's financial guarantee insurance policies. The Company is not required to post collateral in any circumstance and the Company's financial guarantee cannot be accelerated by the counterparty in the ordinary course of business. With respect to the insured CDS contracts, in certain events, including the insolvency or payment default of the insurer or the issuer of the CDS, the CDS contract is subject to termination by the counterparty, triggering a claim for the fair value of the contract.

Regulatory environment

The Company is regulated and supervised by the Financial Services Authority ("FSA") in the UK and is authorised to carry out insurance business in the UK and in the European Economic Area ("EEA") on a cross border services basis in accordance with Section 37 of the Financial Services and Markets Act 2000 ("FSMA") and Part III of Schedule 3 to the FSMA. The Company operates in France through a French branch in accordance with specific provisions of the EC third non-life insurance directive (No. 92/49/EEC). The Company must, under Principle 4 of the FSA's Principles for Business Rules, maintain adequate financial resources, which are assessed by both the FSA and the Company through the Individual Capital Adequacy Standards ("ICAS") framework.

The Company has established a Solvency II Steering Committee to assess the implications of the EU Solvency II directive on its business and manage implementation of the directive. The objective of the project is to ensure that the Company is prepared for the implementation of the directive by the date upon which Solvency II becomes effective. As part of the project, the Company has been monitoring and reviewing emerging guidance, adapting and enhancing as required its risk management framework and its capital modeling approach.

II. Business and Financial Review

Business environment

Credit Ratings

Due to the support agreements with MBIA Corp (as described in the section entitled "**Credit Risk**" under the sub heading "*Support Agreements with MBIA Corp.*"), the ratings of the Company mirror the ratings of MBIA Corp. The deterioration of certain segments of the credit markets beginning in the second half of 2007 and mounting concerns about financial guarantee insurers precipitated a series of ratings downgrades by each of the major ratings agencies that began in June 2008, which were followed by further ratings actions reflecting the impact of certain strategic transactions undertaken by MBIA Corp., among other developments.

MBIA UK INSURANCE LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2010

Furthermore, certain pending litigation in the U.S. against MBIA Corp. has constrained MBIA Corp.'s and the Company's ability to take steps necessary to achieve the highest possible ratings.

The financial strength ratings of the Company, MBIA Corp. and MBIA Inc. as at 31 December 2010 are summarized below:

Agency	Rating / Outlook		
	MBIA UK Insurance Limited	MBIA Corp.	MBIA Inc.
S&P	B/ Negative outlook	B / Negative outlook	B-/ Negative outlook
Moody's	B3 / Negative outlook	B3 / Negative outlook	Ba3 / Negative outlook

Economic and Financial Market Trends

As a financial guarantee insurance company, the Company's business is materially affected by conditions in global financial markets and particularly by the performance of US RMBS and Structured Finance or multi sector CDOs containing collateral that includes US RMBS and tranches of CDOs.

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 the Company may choose to re-engage in this market.

In the international public finance sector demand for financing still exists. However, the Company wrote no new financial guarantee business in this sector during 2010. The lack of new Public Finance business is principally due to the significant decline in demand for insurance by issuers and investors as a result of the insurance financial strength credit ratings downgrades of the Company.

Insured portfolio review

Whole portfolio

The Company's senior management review and monitor the insured portfolio on a regular basis with quarterly reporting to the Company's Board ("the Board") (or more frequently if required). As at 31 December 2010, the Company had guaranteed financial obligations with a gross par outstanding of £17.6 billion (2009: £19.6 billion), of which 0.9% is reinsured to third parties (2009: 10.2%). Net par outstanding is £17.4 billion (2009: £17.6 billion); the decrease in net par is due primarily to maturity and termination of gross insured par. The Company had 127 policies in issue (2009: 139 policies) as at 31 December 2010.

As at 31 December 2010, 68% (2009: 72%) of the Company's outstanding gross par insured was rated A (broad rating category) or above before giving effect to the Company's guarantee. MBIA uses both an internally developed credit rating system as well as third-party rating sources in the analysis of credit quality measures of its insured portfolio. All ratings are as of the year end and represent S&P ratings. If transactions are not rated by S&P, a Moody's equivalent rating is used. If transactions are not rated by either S&P or Moody's, an MBIA equivalent rating is used.

51% of gross par exposure (2009: 49%) is denominated in GBP. Gross par exposures denominated in EUR and USD represented 33% (2009: 37%) and 15% (2009: 13%) respectively. The 10 largest exposures comprise 50% of gross par exposure (2009: 46%).

The total portfolio is diversified across 15 asset classes. The table below sets out a summary of the Company's gross par exposure by country/jurisdiction for the Public Finance, Structured Finance and total portfolio (note that the countries outlined in the table do not represent direct sovereign exposure):

MBIA UK INSURANCE LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2010

Country/jurisdiction exposure - gross par 31 December 2010				
£ billions	PF	STF	Total	% of Gross par
United Kingdom	8.4	0.6	9.0	51%
Germany	0.2	2.5	2.7	15%
France	0.7	0.6	1.3	7%
United States	-	0.7	0.7	4%
Portugal	0.6	-	0.6	3%
Malaysia	0.2	-	0.2	1%
Ireland	0.2	-	0.2	1%
Canada	0.2	-	0.2	1%
Italy	0.2	-	0.2	1%
Hungary	-	0.1	0.1	1%
Other	0.1	-	0.1	1%
	10.8	4.5	15.3	87%
Internationally diversified	-	2.3	2.3	13%
	10.8	6.8	17.6	100%

Public Finance insured portfolio

As at 31 December 2010, the Company had guaranteed Public Finance financial obligations with a gross par outstanding of £10.8 billion (2009: £11.0 billion); net par outstanding is £10.6 billion (2009: £10.0 billion). As at 31 December 2010, 57% (2009: 65%) of the outstanding Public Finance gross par insured was rated A or above before giving effect to the Company's guarantee.

Structured Finance insured portfolio

As at 31 December 2010, the Company had guaranteed Structured Finance financial obligations with a gross par outstanding of £6.8 billion (2009: £8.6 billion); net par outstanding is £6.8 billion (2009: £7.6 billion). As at 31 December 2010, 86% (2009: 82%) of the outstanding Structured Finance gross par insured was rated A or above before giving effect to the Company's guarantee. Since the balance sheet date, gross par outstanding of £0.1 billion (net par outstanding of £0.1 billion) has matured or terminated without any claims payment being made by the Company (see also note 21).

Capital resources review

The Company manages its capital resources to minimize its cost of capital while maintaining appropriate claims paying resources. The net assets of the Company are £243.9 million as at 31 December 2010 (2009 restated: £267.6 million) while it had claims paying resources of £733.5 million as at 31 December 2010 (2009 restated: £722.5 million). Claims paying resources reflects shareholder's funds, net unearned premium reserves and ceding commission with net future instalment premiums and ceding commission receivable discounted at 3.0% (2009: 4.5%).

During 2010, the Company continued to strengthen its capital position with near-term objectives that included deleveraging the insured portfolio and maximizing its liquidity position to maintain appropriate claims paying resources.

In 2010, the Company made a change in its accounting policy for investments to reflect investments at fair value rather than amortised cost. Certain comparative information for 2009 has been restated. The impact of the change in accounting policy and restatement of 2009 comparatives is set out in notes 1.3 and 19. This increased net assets and claims paying resources as at 31 December 2009 by £9.3 million.

MBIA UK INSURANCE LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2010

The investment portfolio comprises high-quality fixed income securities (UK and French government gilts) and selected short-term investments. As at 31 December 2010, the Company had unencumbered cash and investments of £448.0 million valued at fair value (2009: fair value £408.2 million), of which £212.8 million (2009: £162.4 million) comprised cash and cash equivalents and short-term investments i.e. those investment maturing within 12 months (see note 12). The purchase price of unencumbered cash and investments is £440.8 million as at 31 December 2010.

As outlined in detail in the section "Insurance Risk Management, claims reserving", in the event that the Company determines that it must pay a claim or that a claim is probable and estimable with respect to an insured issue, it places the transaction on its "Classified List" and establishes a reserve (whether in the form of a provision for claims outstanding or unexpired risks provision) for that insured issue. As at 31 December 2010, the Company had eight financial guarantees on the Classified List and the Company had established technical provisions of £47.0 million in respect of these guarantees (2009: three financial guarantees, £2.4 million).

Key performance indicators 'KPIs'

The Board monitors the progress of the Company by reference to the following KPIs:

KPI	2010	2009 restated	Commentary
Net premiums written (£million)	63.4	81.1	Gross premiums written less outward reinsurance
Earned premiums, net of reinsurance (£million)	30.2	52.2	2009 earned premium included termination of Eurotunnel exposure. See note 1.2 for accounting policy on basis for recognition of earned premium
Underwriting profit/(loss) (£million)	(22.4)	45.4	Balance on technical account for general business
Claims paying resources (£million)	733.5	722.5	Shareholder's funds, net unearned premium reserve and unearned ceding commission (discounted)
Regulatory solvency margin (%)	1033%	1174%	The Company's capital resources as a percentage of its capital resources requirement under FSA return rules

Results, performance and dividends

Due to the adverse market conditions outlined above, the Company did not issue any new policies in 2010. Revisions to estimates of future premium primarily resulted in positive gross written premium of £11.3 million for 2010 (2009: positive £31.7 million). The decrease in net premium earned from £52.2 million to £30.2 million resulted primarily from earned premium related to the termination of the Eurotunnel exposure in 2009. Reinsurance commutations in both 2009 and 2010 contributed to net premium earned. The Company paid one claim in the year which was subsequently fully recovered but incurred expenses in settling the matter of £0.5 million (2009: no claims paid) and increased the unexpired risk provision by £44.7 million to £47.0 million as at 31 December 2010 – see note 16.

Administration and acquisition expenses, excluding change in deferred acquisition costs, (as set out in note 5 to the financial statements) amounted to £10.1 million (2009: £8.2 million). The increase is due to increased staff costs (see note 7) and the release of prior year provisions in 2009. The Company continued to focus on expense savings during the year reflecting the reduction in new business activity.

There were no costs deferred in the year as there were no new policies issued. Ceding commission earned in the year was reduced compared to 2009 due to ceding commission earned following the termination of the Eurotunnel exposure in 2009. Revisions to estimates of future ceding commission reflect reinsurance commutations in 2009 and 2010.

Sterling strengthened against the other two main currencies (the Euro and U.S. dollar) in which the Company operates, resulting in a foreign exchange loss of £18.3 million (2009: loss of £34.0 million) being recognised for the year. This loss arises from the retranslation of the Company's investments which are denominated in Euro and U.S. dollar and also from the retranslation of future premium receivables denominated in foreign currency. As outlined in note 1.5, investments, premium receivable and unexpired risk provisions are considered to be monetary assets and liabilities and amounts denominated in foreign currency are retranslated at the rates of exchange prevailing at each balance sheet date. Unearned premium reserves are considered to be non-monetary liabilities and are not subject to retranslation.

Investment income increased to £10.7 million during the year (2009 restated: £10.4 million) due to increased portfolio size.

MBIA UK INSURANCE LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2010

A tax credit of £7.5 million (2009 restated: tax credit of £5.8 million) has been recorded in the profit and loss account. The 2010 credit reflects the increase in the deferred tax asset due to tax losses carried forward and the 2009 credit reflected tax relief claimed on losses surrendered by other entities in the MBIA UK tax group, including adjustments in respect of prior years. The directors consider that the tax provisions contained within these accounts are adequate both in respect of group relief claims and the Company's tax affairs. However, since the possibility of enquiry remains open to the tax authorities, within this Company and other group companies, there can be no guarantee that liabilities will not ultimately exceed management's estimations.

The results of the Company for the year, as set out on page 17, show a loss on ordinary activities after tax of £23.2 million (2009 restated: profit of £27.2 million). The directors recommended and approved the payment of dividends of £0.5 million during the year (2009: nil) as set out in note 10.

III. Strategy and future outlook

As outlined in detail in the section "**Business Environment, credit ratings**", adverse rating actions by S&P and Moody's since 2008 have impeded the Company's ability to attract new financial guarantee business. The Company does not expect to write significant new business prior to an upgrade of its insurance financial strength ratings and market acceptance that such ratings will be stable in the future. The timing of any such upgrade is uncertain and will depend on a variety of quantitative and qualitative factors used by the ratings agencies in their evaluation, including the resolution of pending litigation in the United States against MBIA Corp.

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

The Company's success is dependent on the proper selection, pricing and ongoing management of the risks it guarantees. The Company remains committed to pursuing only those business opportunities that meet its strict underwriting, pricing and capital utilisation standards over the full life of the transaction.

The Company believes that the long term growth prospects for Public Finance are strong. Multi-annual infrastructure development programs continue to be announced across Europe as infrastructure is widely viewed as an important foundation to economic growth and job creation. Although fiscal austerity plans have slowed the near-term pace of government financed infrastructure in a number of countries, the longer term requirements for both new infrastructure and the upgrade of existing assets remain a priority. In the interim, governments at all levels continue to proceed with privatisations as a means to both raising additional revenues and expanding further private investment sources for upgrades and maintenance. On the funding side, whilst banks have more recently returned to the infrastructure market, maturities are generally expected to remain shorter than most project concession lives. Additionally, capital market demand is developing as growing pools of pension funds and other institutional monies seek longer dated assets to better match their liabilities. The Company expects these combined dynamics to lead to a medium term shift of the financing sources for new projects to the capital markets where investors can benefit from the expertise of, and participation by, financial guarantee insurers.

As outlined in "**Business Environment, Economic and Financial Market Trends**", while the Company expects that the Structured Finance market will eventually recover, there is a high degree of uncertainty as to the timing and scope of such recovery and whether the Company will opt to re-enter that market.

The Company continually aims to improve efficiency in all areas of its operations through cost reduction; focused and intelligent investment in technological solutions and human resources. In addition, the Company will continue to manage actively its insured portfolio through individual transaction monitoring and by executing portfolio management actions to de-lever risk exposure and improve the Company's overall capital adequacy.

MBIA UK INSURANCE LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2010

IV. Corporate Governance and Risk Management Framework

The Company's approach to corporate governance is based upon five guiding principles:

1. Risk must be appropriately identified, measured, monitored, managed and reported;
2. There must be transparent disclosure of facts and rationale for decision making;
3. An effective decision making structure utilizes checks and balances to ensure that decisions achieve appropriate scrutiny;
4. The Board, executive management and operational personnel all play key roles:
 - a. The Board provides oversight. To that effect, material changes to the Company's Core Principles, Risk Governance Framework, Risk Appetite and Tolerance or Risk Strategy would require Board approval.
 - b. Executive management is responsible for the implementation and management of an enterprise-wide risk framework that sets forth the Company's Core Principles, Risk Governance Framework, Risk Appetite and Tolerance, and Risk Strategy. Executive management also makes key, centralized decisions and reviews the decisions of the decentralized committees.
 - c. Operational personnel are responsible for the execution of the Risk Strategy, which is generally done in the decentralized committees.
5. The maintenance of clear, concise records of the Company's decisions.

Risk management policies and procedures

The process of governance and risk management is addressed through a framework of policies, procedures and internal controls. In general, risk management policies are developed by the Company, taking into account MBIA Inc group policies. Compliance with regulation, legal and ethical standards is a high priority for the Company and the legal compliance team and finance department take an important oversight role in this regard. The Audit Committee of the Board is responsible for satisfying itself that a proper internal control framework exists within the Company to manage financial risks and that controls operate effectively.

The Company has developed a framework for identifying the risks that each business sector, and the Company as a whole, is exposed to and their impact on business operations, economic and regulatory capital. This process is risk based and uses Individual Capital Assessment principles to manage the Company's capital requirements and to best ensure that it has the financial strength and capital adequacy to meet the requirements of policyholders.

The Company has identified those risks which it considers to have the greatest potential of having a material negative impact on its business. These principal risks include fluctuations in the timing, frequency and severity of financial guarantee claims compared with the Company's expectations, losses from the investment portfolio, failure to assess and manage operational risk (including inadequate controls and procedures over outsourced functions), reliance on other group companies in terms of systems and support and failure to retain key personnel.

V. Insurance Risk management

The financial guarantees issued by the Company generally provide unconditional and irrevocable guarantees of the payment of the principal of, and interest or other amounts owing on, insured obligations when due. The obligations are generally not subject to acceleration, except that the Company may have the right, at its discretion, to accelerate insured obligations upon default. This form of payment obligation serves to reduce liquidity risk (see "*Liquidity Risk*" below). The Company provides financial guarantees on credit risks principally located in the EEA but also in other select international markets. The Company recognises that there are particular risks related to each country and region and that credit risks in some countries and regions are correlated to varying degrees. These risks include the legal, economic and political factors, the varying levels of sophistication of the local capital markets and currency exchange risks. The Company manages the resulting

MBIA UK INSURANCE LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2010

insurance risk in five ways: risk management framework (see section "*Risk management policies and procedures*" above), underwriting standards, risk transfer, subsequent monitoring by the Insured Portfolio Management ("IPM") Group and claims reserving.

Underwriting standards

The creditworthiness of each guaranteed issue is evaluated prior to the issuance of a financial guarantee, and each guaranteed issue must comply with the Company's underwriting guidelines. 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 the Company's upon the payment of a claim by the Company.

For Public Finance transactions, the risk selection criteria used to underwrite transactions may include economic and social trends, debt management, financial management, adequacy of anticipated cash flows, satisfactory legal and regulatory structures and other security provisions, viable tax and economic bases and/or project feasibility, including a satisfactory consulting engineer's report, if applicable. Some risk types within Public Finance also require cash flow sensitivity testing to analyse cash flow coverage under various scenarios.

For Structured Finance transactions, the risk selection criteria, analysis and due diligence focus on counterparty credit and operational quality, the historical and projected performance of the collateral and the strength of the structure, including legal segregation of the assets, the size and source of first loss protection, asset performance triggers and financial covenants. Cash flow analysis of the underlying collateral and sensitivity testing using a scenario-based analysis, "Monte Carlo" probability analysis, or both, to examine the impact of remote events on credit performance form a key part of the analysis.

Financial guarantors use a variety of approaches to assess the underlying credit risk profile of their guaranteed portfolios. The Company utilises certain systems within the MBIA Inc group, including both an internally developed credit rating system and third-party rating sources in the analysis of credit quality measures of its guaranteed portfolio. In evaluating credit risk, the Company obtains, when available, the underlying rating of the guaranteed obligation before the benefit of its financial guarantee from nationally recognised ratings agencies (most typically Moody's and S&P).

Risk transfer

The Company has utilised reinsurance to manage its exposure to its insurance portfolio further. Reinsurance enables the Company to cede exposure for purposes of increasing its capacity to write new business while complying with portfolio limit guidelines. The ratings agencies and the Company's credit analysts continuously review the reinsurers providing coverage to the financial guarantee industry. The Company monitors the results of these reviews and adjusts its exposure to its reinsurers accordingly. In addition, the Company has entered into an excess of loss reinsurance arrangement with MBIA Corp., whereby MBIA Corp. undertakes to reimburse the Company for losses incurred in each calendar year which exceed in aggregate U.S.\$100,000,000 (£63,870,000 at 31 December 2010 rates) (see "*Credit Risk, Support agreements with MBIA Corp.*" below). As outlined in the section headed "**Business Environment, Credit Ratings**" above, the rating of MBIA Corp. is B negative outlook /B3 negative outlook by S&P and Moody's, respectively. The directors of the Company review the creditworthiness of MBIA Corp., at least annually or as circumstances require.

Subsequent monitoring

The Company has its own IPM staff and also utilises IPM expertise in other group entities as and when required. The directors of the Company, in turn, monitor IPM's performance. The level and frequency of the Company's monitoring of any guaranteed issue depends on the type, size, rating and performance of the guaranteed issue.

The IPM Division's primary function is to detect any deterioration in credit quality or changes in the economic, regulatory or political environment which could adversely affect a guaranteed obligation, including interrupting the timely payment of debt service. If a problem is detected, the IPM Division works, as appropriate, with the relevant transaction parties in an attempt to alleviate or remedy the problem in order to minimise potential defaults. The IPM Division works closely with Risk Management and the applicable business unit to analyse guaranteed obligation performance and credit risk parameters, both before and after an obligation is guaranteed.

Once an obligation is guaranteed, the Company typically requires the issuer, servicer and/or trustee to furnish periodic financial and asset related information, including audited financial statements, to IPM for review. Potential problems uncovered through this review, such as poor financial results, low fund balances, covenant or trigger violations, trustee or servicer problems or excessive litigation, could result in an immediate

MBIA UK INSURANCE LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2010

surveillance review and an evaluation of possible remedial actions. The IPM Division also monitors general economic and regulatory conditions and evaluates their impact on issuers.

During the underwriting process, each guaranteed transaction is assigned an internal credit rating. Credits are monitored according to a frequency of review schedule that is based on risk type, internal rating, performance and credit quality. Issues that experience financial difficulties, deteriorating economic conditions, excessive litigation or covenant or trigger violations are placed on the appropriate review list and are subject to surveillance reviews at intervals commensurate with the problem which has been detected. If the IPM Division identifies concerns with respect to the performance of a guaranteed issue it may designate such guaranteed issue as "Caution List-Low", "Caution List-Medium", "Caution List-High" or "Classified List" based on the nature and extent of these concerns. It may also require increased monitoring and, if needed, a remediation plan be implemented for the related guaranteed issue. The Company does not establish any case basis reserves for insured obligations that are assigned to "Caution List – Low," "Caution List – Medium," or "Caution List – High." In the event the Company expects to pay a claim in excess of the unearned premium revenue with respect to an insured transaction, it places the insured transaction on its "Classified List" and establishes a case basis reserve for that policy. 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 the Company has paid a claim or where a claim payment is expected to exceed its provision for unearned premium. Generally, IPM is actively remediating these credits where possible, including restructurings through legal proceedings, usually with the assistance of specialist counsel and advisors.

Claims reserving

Technical provisions are established by the Company's Loss Reserve Committee and the need for any such provisions is monitored on a quarterly basis. Technical provisions (whether in the form of provision for claims outstanding or unexpired risks provision) are established in accordance with the accounting policy set out in note 1.2 to the financial statements. As at 31 December 2010, the Company had eight financial guarantees on the "Classified List" and no financial guarantees on "Caution List-High" (2009: three financial guarantees on the "Classified List" and two financial guarantee on "Caution List-High").

Technical provisions require the use of judgement and estimates with respect to the occurrence, timing and amount of claims payments and, if appropriate, any salvage recoveries on insured obligations. As outlined in note 16, the technical provisions are based on a probability-weighted average of multiple scenarios. The assumptions used in each scenario require considerable judgment by the Company and are subject to change. The future loss severities projected by these scenarios can vary considerably, from no loss to moderate and/or substantial losses. In the event of a material deviation in actual performance from projected performance, the Company would increase or decrease the technical provisions accordingly. The Company believes that there is a range of possible outcomes on the transactions it has guaranteed and that a material increase in future losses could have a material adverse effect on the Company's financial condition, reported profit after tax and/or shareholders' funds.

MBIA UK INSURANCE LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2010

The Directors believe that the Company's technical provisions are adequate to cover the ultimate net cost of claims including on a portfolio basis. However, because the technical provisions are based on management's judgement and estimates, there can be no assurance that the ultimate liability will not exceed such estimates.

VI. Financial Risk Management

A key financial management goal is to ensure that the proceeds from financial assets are sufficient to fund the obligations arising from financial guarantees as they fall due and to be able to make such payments without incurring losses on the investment portfolio. Thus, in the first instance, achieving this objective requires managing risk within the insurance portfolio (see **Insurance Risk Management**, above). Sources of claims payments include the investment portfolio, reinsurance assets, MBIA Corp. support agreements and policyholder liabilities (meaning future premium obligations). All of these are subject to **Credit risk** (see below). In addition, the investment portfolio is subject to credit and market risk, particularly **Interest rate risk** and **Currency risk** (see below). The three primary goals of the Company's investment guidelines are the preservation of capital, the maintenance of reasonable liquidity and optimisation of after-tax investment income and long term total returns (see **Liquidity risk** below).

Interest rate risk

Interest rate risk arises primarily from investments in fixed income securities. In formulating the investment strategy for the Company's asset portfolio, the directors lay out a target band for the duration of the asset portfolio which requires the Company's investment advisers to maintain the asset portfolio's interest rate sensitivity within acceptable risk limits. In years of rising and/or volatile interest rates and credit spreads, profitability could be adversely affected should the Company have to liquidate these securities. The Company seeks to minimise its exposure to interest rate risk through active portfolio management to ensure a proper mix of the types of securities held and to stagger the maturities of its fixed-income securities.

Currency risk

The Company is exposed to currency risk in respect of assets and liabilities under financial guarantees denominated in currencies other than Sterling. The significant currencies to which the Company is exposed are the U.S. Dollar and the Euro. The Company seeks to mitigate the risk by matching the estimated foreign currency denominated capital requirements and liabilities with assets denominated in the same currency.

Credit risk

Credit risk is the risk that an obligor or counterparty will be unable to pay amounts in full when due. Key areas where the Company is exposed to credit risk are:

- risks embedded in the insured portfolio of Public Finance and Structured Finance transactions which the Company guarantees;
- fixed income investments in the Company's portfolio of financial assets;
- third party re-insurers' share of insurance liabilities described in the section headed "*Third party Reinsurance*" below;
- amounts due from MBIA Corp. under the Excess of Loss Reinsurance Agreement and the Net Worth Maintenance Agreement described in the section headed "*Support Agreements with MBIA Corp.*"; and
- amounts due from insurance policyholders.

Insured portfolio

The Company is exposed to credit risks in its portfolio that may arise from deterioration in the credit worthiness of an individual issuer or a more general deterioration in the credit markets. At present, such deterioration in credit performance is being observed in certain Structured Finance sectors, notably the US RMBS and Structured Finance CDOs (referred to as CDOs of ABS or Multi-Sector CDOs) sectors. The Company has no direct exposure to US RMBS in its Structured Finance insured portfolio. It does have indirect exposure to US RMBS through certain Structured Finance CDOs that it has guaranteed. While the Company had sought to underwrite CDOs of ABS with levels of subordination and other credit enhancements designed to protect it from loss in the event of poor performance of the underlying assets, no assurance can be given that such credit enhancements will prove to be adequate to protect the Company from incurring future losses in view of the current significantly higher rates of delinquency, foreclosure and losses being observed among US residential mortgages. The Company is also exposed to European structured finance risk, principally in the form of RMBS, Commercial Real Estate, Collateralised Loan Obligations and Consumer and other ABS, either directly or through CDOs. Thus far, the Company's European Structured Finance transactions have not shown the deterioration seen in the US structured finance market. Nonetheless, this is being monitored carefully.

MBIA UK INSURANCE LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2010

As at the date of this report, the Company believes that its Public Finance insured portfolio is largely performing satisfactorily although the Company notes that it has exposures in certain countries/jurisdictions that may be impacted by sovereign credit considerations. See summary of the Company's gross par exposure by country/jurisdiction for the Public Finance, Structured Finance and total portfolio in "Insured Portfolio Review".

As outlined in "Insurance Risk Management, subsequent monitoring", individual credits are monitored and reviewed on a regular basis, and any individual credit may, from time-to-time, be subject to stress or other volatility. The potential for such volatility can increase during times of economic stress.

Investment portfolio

The Company manages the investment portfolio in a conservative manner to maintain cash and liquid securities. The Company values its investments at fair value which is a change compared to prior years. The fair value of unencumbered cash and investments as at 31 December 2010 was £448.0 million based on quoted market values. 95.5% of the Company's fixed-income portfolio (by fair value) is either rated triple-A or in cash and money market funds. 86% of the portfolio pays fixed coupons, with minimal floating rate coupons, and the remainder is in cash and money market funds. An analysis of the investment portfolio as at 31 December 2010 is set out below:

<u>Investment type</u>	<u>Rating</u>	<u>Percentage of portfolio</u>
Sovereign (Zone A) bonds	AAA	57.5%
Sovereign (Zone A) guaranteed entity bonds	AAA	21.3%
Supra/Sovereign agency (non-guaranteed) bonds	AAA	8.5%
Corporate bonds	A to AAA	4.9%
Cash and money market funds	N/a	4.6%
Sub-sovereign/regional government (Zone A) bonds	AA to AAA	2.5%
Structured Finance RMBS bonds	AAA	0.5%
Sovereign (Zone A) guaranteed RMBS bond	AAA	0.2%
Total		<u>100.0%</u>

Zone A comprises all the EC Member States and all other countries which are full members of the Organisation for Economic Cooperation and Development (OECD) and those countries which have concluded special lending arrangements with the International Monetary Fund.

62% of the investment portfolio and cash is denominated in GBP while 26% is in Euro and 12% is in USD. 79% of the portfolio comprises sovereign or sovereign guaranteed bonds. The sovereign issuers are UK (51.1%), France (18.5%), Germany (4.2%), USA (3.9%), Sweden (0.7%) and Australia (0.6%). The Company does not have any exposure to other sovereign issuers in its investment portfolio. The portfolio has a weighted average life of 2.1 years.

The Company reviews the investment portfolio regularly in consultation with its investment manager, Cutwater Asset Management UK Limited. Given the nature and quality of the investment portfolio as at 31 December 2010, no impairments were deemed to be required.

Third party Reinsurance

Reinsurance enabled the Company to cede exposure for purposes of syndicating risk and increasing its capacity to write new business while complying with portfolio limits guidelines. When a reinsurer is downgraded by one or more of the ratings agencies, less capital credit is given to the reinsurer by the Company under its own internal capital models and by the ratings agencies in the rating agency models and the overall value of the reinsurance to the Company is reduced. The Company generally retains the right to reassume the business ceded to reinsurers under certain circumstances, including a reinsurer's rating downgrade below specified thresholds. In 2010, the Company recaptured business from two reinsurers equating to par of £1.8 billion. The Company will continue to evaluate its use of reinsurance during 2011, which may result in future commutations with reinsurers.

As a primary insurer, the Company is required to honour its obligations to its policyholders whether or not MBIA Corp. or third party re-insurers perform their obligations to the Company. The financial position and financial strength of all the Company's third party reinsurers are monitored by the Company on a regular basis. The downgrade or default of one or more of the Company's third party reinsurers is not expected to have a material adverse impact on the Company's ratings, financial condition or results of operations. Additionally, losses incurred as a result of lack of performance by third party reinsurers are covered by the Excess of Loss Reinsurance Agreement and the Net Worth Maintenance Agreement described in the section headed "Support Agreements with MBIA Corp." below (subject to the terms of such agreements). The aggregate amount of

MBIA UK INSURANCE LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2010

insured par ceded by the Company to third party reinsurers under reinsurance agreements was £157 million (2009: £2.0 billion). The decrease from 2009 is due to the maturity and termination of insured par and the reinsurance commutations executed during 2010. The following table presents the credit ratings, ratings status and outstanding par ceded by reinsurer as at 31 December 2010.

<u>Reinsurers</u>	<u>Standard & Poor's Rating (Status)</u>	<u>Moody's Rating (Status)</u>	<u>Par reinsured £million</u>
Assured Guaranty Corp.	AA+ (Stable)	Aa3 (Negative Outlook)	118
Assured Guaranty Re Ltd.	AA (Stable)	A1 (Negative Outlook)	39
Total			157

There were no significant receivables due from any of the third party reinsurers as at 31 December 2010. Although there was no material impact on the Company arising from the ratings agency actions related to its third party reinsurers up to 31 December 2010, a further material downgrade of one or more of these reinsurers could require the establishment of reserves against any receivables due from the reinsurers.

Support Agreements with MBIA Corp.

MBIA Corp. has entered into two support agreements with the Company: The Excess of Loss Reinsurance Agreement and the Net Worth Maintenance Agreement. These are the key support agreements that determine the ratings of the Company. The purpose of these agreements is to provide the Company with additional capital and reinsurance support in the event of unexpected losses in addition to its own available capital and third party reinsurance.

The creditworthiness of MBIA Corp. is impacted by many of the same factors that impact the Company, especially with respect to credit risks embedded in transactions which MBIA Corp. has guaranteed. Similar to the Company, MBIA Corp. seeks to underwrite Structured Finance transactions with levels of subordination and other credit enhancements designed to protect it from loss in the event of poor performance of the underlying assets collateralising the securities in its insured portfolio. In light of the inclusion of ineligible loans in MBIA Corp.'s insured transactions and the failure of responsible parties to cure the breaches or repurchase or replace the ineligible loans, and the current high rates of delinquency, foreclosure and losses being observed among U.S. residential mortgages (second lien and alternative-A loans in particular), MBIA Corp. has paid substantial claims and made case loss reserves for certain second lien and alternative-A RMBS transactions. Additionally, it has recognised credit impairment estimates on certain Multi-Sector CDOs and CMBS. While further deterioration in these sectors is generally viewed as possible and deterioration in other structured finance and international public finance sectors could occur, the probability, extent and duration of any future deterioration, its impact on MBIA Corp. and the magnitude of additional claims it might have to pay are unknown. If MBIA Corp. recovers the expected damages for the losses resulting from ineligible loans in its insured transactions from the responsible parties, of which only a portion have been reflected in its loss reserves to date, and MBIA Corp. receives other recoveries associated with defaulted RMBS transactions, such recoveries will substantially enhance MBIA Corp.'s capital position. There can be no assurance, however, that MBIA Corp. will recover these damages or expected recoveries in full or in a time frame necessary to meet liquidity requirements.

As at 31 December 2010, the Company had guaranteed financial obligations with a gross par outstanding of £17.6 billion, before allowance for third party reinsurance and support agreements with MBIA Corp. Given the importance of these agreements, their key features are highlighted below:

1. The Excess of Loss Reinsurance Agreement provides coverage for losses in any one calendar year above \$100 million in aggregate. Losses are defined as losses and expenses incurred in settling the claim after deduction of any salvage, other recoveries and all other third party reinsurance, but only to the extent that such third party reinsurances receivables are collectible as determined by the Company. The limit under this agreement is 20% of the Company's retained liability at the previous year end plus the principal sum outstanding under the Company's two largest financial guarantees and equates to an annual limit of approximately £6.2 billion as at 31 December 2010 (2009: £6.1 billion).
2. The Net Worth Maintenance Agreement restores the Company's net worth on an annual basis (if required) to an amount equal to the higher of the amount required by UK regulators or \$100 million. This agreement has a limit of 35% of MBIA Corp.'s policyholder surplus. As of December 31, 2010, MBIA Corp.'s consolidated statutory capital, surplus, and contingency reserves (collectively, "Total Capital") was \$2.7 billion, consisting of US statutory capital and surplus of \$1.0 billion and contingency reserves of \$1.7

MBIA UK INSURANCE LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2010

billion. The limit is estimated at £240 million based on the US statutory capital and surplus position of MBIA Corp. at 31 December 2010 (2009 restated: £409 million).

The Company has not incurred losses which have required it to action either the Excess of Loss Reinsurance Agreement or Net Worth Maintenance Agreement to date. The Company remains liable on a primary basis for all reinsured risk whether to third party reinsurers and/or MBIA Corp., and although the Company believes that its reinsurers remain capable of meeting their obligations, there can be no assurance of such in the future.

Liquidity risk

As a financial services company, the Company carefully manages liquidity risk, which is the risk that an enterprise will not have sufficient resources to meet contractual payment obligations when due. Management of liquidity risk is of critical importance to financial services companies, and most failures of financial institutions have occurred in large part due to their inability to maintain sufficient liquidity resources under adverse circumstances. Generally, failure to maintain an appropriate liquidity position results from an enterprise's inability to access the capital markets, a lack of adequate cash flow from operations or investing activities, inability to liquidate assets and/or an unexpected acceleration of payments to settle liabilities.

The Company's financial guarantee insurance business model is built upon the premise of "pay-as-you-go" cash flows. Its financial guarantee contracts generally cannot be accelerated by a third party (absent an insolvency or payment default of the Company) in the ordinary course of business, 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 is subject to termination and the counterparty can make a claim for the amount due on termination. See "**Principal Activity**" for more detail on the operation of the Company's financial guarantee contracts.

Obligor defaults, credit impairments and adverse capital markets conditions can create payment requirements and hence liquidity risk as the Company has made irrevocable pledges to pay principal and interest, or other amounts owing on insured obligations, when due. Additionally, the Company encounters liquidity risk in its insurance operations associated with the payment of operating expenses.

Liquidity risk can arise in its insurance operations if claims on insured exposures result in payment obligations or if operating cash inflows fall due primarily to depressed writings of new insurance or lower investment income at a time when they are needed for liquidity purposes, or when assets experience credit defaults or significant declines in fair value. The Company made loss and loss expense payments after reinsurance and salvage recovery in 2008 and 2010 totalling £24.9 million (2008: £24.6 million; 2010: £0.3 million) but has not made loss or loss expense payments in any other years. The Company has assessed the need for any future claims. Appropriate assets in terms of currency, liquidity and duration will be maintained to cover the technical provisions.

The Company's liquidity risk management framework monitors cash and liquid asset resources. Members of the Company's senior management undertake regular reviews, at least quarterly, which consider the financial position of the Company, the profile and liquidity of the investment portfolio, results of stress scenarios and potential contingency plans with the aim of anticipating the liquidity needs of the Company. It is an objective of the Company's investment guidelines to maintain reasonable liquidity in the Company's investment portfolio. As at 31 December 2010, the Company has determined that the liquidity position of the Company was sufficient to meet its expected cash requirements.

In addition, the Company has support arrangements in place, through its Net Worth Maintenance and Excess of Loss Reinsurance Agreements with MBIA Corp. (described under the section headed "*Support Agreements with MBIA Corp.*" above) to cover unexpected levels of claims.

In summary, the Directors believe that the Company has adequate resources to meet its ongoing liquidity needs in both the short-term and the long-term. However, if the current market dislocation and economic conditions persist for an extended period of time or worsen, the Company's liquidity resources could experience further stress.

MBIA UK INSURANCE LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2010

Directors

The following directors held office in 2010:

C E Chaplin
W C Fallon
R D Wertheim
P C Sullivan
C E Weeks

D M Zurkow
G H C Wakefield
K G Cox
A F Sykes

Independent auditors

The Company's auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office. On 29 October 2003, the Company passed an elective resolution to dispense with the obligation to appoint auditors annually.

Charitable donations

The Company made a charitable donation of £2,500 to a homeless charity during the year.

Statement of disclosure of information to auditors

Each director in office at the date of the directors' report is approved confirms that:

- 1) so far as the director is aware, there is no relevant audit information of which the Company's auditors are not aware; and
- 2) the director has taken all steps that he/she ought to have taken as a director in order to make him/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

On behalf of the board



C E Weeks
Director

Dated: 9 March 2011

MBIA UK INSURANCE LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR THE YEAR ENDED 31 DECEMBER 2010

Statement of directors' responsibilities

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that year. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going-concern basis, unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

MBIA UK INSURANCE LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF MBIA UK INSURANCE LIMITED

We have audited the financial statements of MBIA UK Insurance Limited for the year ended 31 December 2010 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

As explained more fully in the Statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2010 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

J. RICHARD

James Bichard (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
9 March 2011

MBIA UK INSURANCE LIMITED

**PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2010**

Technical account - general business	Notes	2010	2010	2009	2009
		£'000	£'000	restated £'000	restated £'000
Gross premiums written		11,338		31,715	
Outward reinsurance premiums		<u>52,111</u>		<u>49,339</u>	
Net premiums written			63,449		81,054
Change in gross provision for unearned premiums		15,541		20,495	
Change in provision for unearned premiums, reinsurers' share		<u>(48,763)</u>		<u>(49,340)</u>	
			<u>(33,222)</u>		<u>(28,845)</u>
Earned premiums net of reinsurance			30,227		52,209
Other technical income			2,824		752
Total technical income			33,051		52,961
Claims paid, net of salvage recovery					
- gross amount		(522)		-	
- reinsurers' share		<u>237</u>		<u>-</u>	
Claims incurred, net of reinsurance			(285)		-
Changes in other technical provisions, net of reinsurance	16		(44,654)		(2,402)
Net operating expenses	5		(10,558)		(5,125)
Total technical charges			(55,497)		(7,527)
Balance on the general business technical account			(22,446)		45,434

MBIA UK INSURANCE LIMITED

PROFIT AND LOSS ACCOUNT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2010

Non-technical account	Notes	2010 £'000	2009 restated £'000
Balance on the general business technical account		(22,446)	45,434
Other expenses	3	(18,260)	(34,016)
Investment income	6	10,713	10,438
Investment expenses and charges		<u>(767)</u>	<u>(404)</u>
(Loss)/Profit on ordinary activities before taxation	3	(30,760)	21,452
Tax on (loss)/profit on ordinary activities	9	<u>7,548</u>	<u>5,759</u>
(Loss)/Profit on ordinary activities after taxation		(23,212)	27,211
Dividends paid	10	<u>(500)</u>	-
(Loss)/profit for the financial year		<u>(23,712)</u>	<u>27,211</u>
<u>Statement of Total Recognised Gains and Losses</u>		£'000	
Loss for the financial year		(23,712)	
Impact of restatement	19	9,346	
		<u>(14,366)</u>	
Total recognised gains and losses since last financial statements			

All of the above results derive from continuing operations. There is no difference between the profits/(losses) on ordinary activities before taxation and the profits/(losses) for the financial years stated above and their historical cost equivalents.

Comparative information has been restated as set out in note 1.3.

MBIA UK INSURANCE LIMITED

BALANCE SHEET AS AT 31 DECEMBER 2010

	Notes	2010	2010	2009	2009
		£'000	£'000	restated £'000	restated £'000
Assets					
Investments	12		435,461		375,820
Reinsurers' share of technical provisions					
Provision for unearned premiums			10,816		59,579
Debtors arising out of direct insurance operations:					
- policyholders			414,813		435,695
- reinsurers			-		10,314
Other debtors	13		21,852		23,320
Other assets					
- Cash and cash equivalents			12,499		32,360
- Tangible fixed assets	11		45		5
Prepayments and accrued income	14		17,430		27,202
Total assets			912,916		964,295
Liabilities					
Capital and reserves					
Called up share capital	18	69,000		69,000	
Share premium account	19	17,038		17,038	
Capital reserve	19	5,000		5,000	
Profit and loss account	19	152,839		176,551	
Total shareholder's funds			243,877		267,589
Technical provisions					
Provision for unearned premiums			597,048		612,590
Other technical provisions	16		46,982		2,402
Creditors - amounts falling due within one year					
Creditors arising out of reinsurance operations			7,381		44,255
Other creditors including taxation and social security	15		6,538		17,074
Deferred commission income			11,090		20,385
Total liabilities			912,916		964,295

The financial statements on pages 16 to 31 were approved by the Board on 9 March 2011 and were signed on its behalf by:


C E Weeks
Director
Company Registration number 04401508 (England and Wales)

MBIA UK INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

1 Accounting policies

1.1 Basis of preparation

The financial statements have been prepared in accordance with the provisions of "The Large and Medium sized Companies (Accounts and Reports) Regulations 2008 (SI 2008/410) ('the Act'), and in accordance with the Statement of Recommended Practice on Accounting for Insurance Business issued by the Association of British Insurers (the 'ABI SORP') as amended in December 2006 and applicable accounting standards in the United Kingdom.

The Company has availed itself of the exemption in Financial Reporting Standard (FRS) No 1 (revised) from the requirement to produce a cash flow statement on the grounds that it is a subsidiary undertaking where 100 percent of the voting rights are controlled within the group.

The Company has availed itself of the exemption in FRS 8 from the requirement to disclose transactions with MBIA group entities as the consolidated group financial statements are publicly available.

Details of the parent undertakings of the Company are given in note 20 to the accounts.

Apart from a change in accounting policy concerning valuation of investments, as described in note 1.3, the Company did not fall within the scope of any new accounting standards having a material impact in the year ended 31 December 2010.

1.2 Basis of accounting for underwriting activities

All classes of business written are accounted for on an annual basis whereby the incurred costs of claims, commission and related expenses are charged against the earned proportion of premiums, net of reinsurance as follows:

Premium income and unearned premiums

Premiums written, which are stated gross of acquisition costs but exclusive of premium taxes, relate to business incepted during the year, together with any differences between booked premiums for prior years and those previously accrued.

Unearned premiums represent the proportion of premiums written in the year that relate to unexpired terms of policies in force at the balance sheet date, calculated on an outstanding risk basis as detailed below.

Where the premium on a policy is received up front, the premium is recognised as written at the date of inception. When the premium on a policy is received in instalments, an assessment is made of the anticipated total billing stream and this amount is recognised as written at inception. Both types of premium are earned in the technical account, having regard to the incidence of risk, on a basis proportionate to the remaining scheduled periodic maturity of principal and payment of interest to the original total principal and interest insured. When an issue insured by the Company has been refunded or called, the remaining unrecognised premium is recognised at that time. If the Company changes its estimate of total expected written premium during a year, it recognises the change in the year it arises.

MBIA UK INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) AS AT 31 DECEMBER 2010

Other technical income

Other technical income represents advisory or surveillance fees, which are recognised as earned over the year of the agreement.

Acquisition costs and ceding commission income

Certain incurred costs which are primarily related to the production of business are deferred over the year in which the related premiums are earned. These costs include direct expenses related to underwriting and policy issuance. Acquisition costs and ceding commission income which relate to a subsequent financial year are deferred and charged or credited to the accounting years in which the related premiums are earned. Deferred acquisition costs included as balance sheet assets represent the proportion of acquisition costs incurred that corresponds to the proportion of premiums written which are unearned at the balance sheet date. Provision has been made for any deficiencies arising when unearned premiums are insufficient to cover deferred acquisition costs.

Future ceding commission receivable is included as a debtor in the balance sheet. Deferred ceding commission income included as balance sheet liabilities represent the proportion of ceding commission received and future ceding commission receivable that corresponds to the proportion of reinsurance premiums which are unearned at the balance sheet date.

Claims

The financial guarantees issued by the Company insure the financial performance of the obligations guaranteed over an extended year of time, in some cases over 50 years, under policies that the Company has, in most circumstances, no right to cancel. As a result of the lack of statistical paid loss data due to the low level of paid claims in the Company's financial guarantee business and in the financial guarantee industry in general, particularly, until recently, in the structured asset-backed area, the Company does not use traditional actuarial approaches to determine its loss reserves. The establishment of the appropriate level of loss reserves is an inherently uncertain process involving numerous estimates and subjective judgements by management and therefore, there can be no assurance that actual paid claims in the Company's insured portfolio will not exceed its loss reserves.

A number of variables are taken into account in establishing claims 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 realised losses for any policy include the state of the economy, changes in interest rates, rates of inflation and the salvage values of specific collateral.

Provision for claims outstanding

A loss provision is established for insured obligations when, in the judgement of the directors, there has been a monetary default as at the balance sheet date in the timely payment of debt service as to interest and/or principal, which will result in the Company incurring a loss. A loss provision is established in an amount that is sufficient to cover the present value of the anticipated debt service payments due up to the balance sheet date, as to both interest and principal. Any loss provision is calculated gross of any reinsurance recoveries.

Unexpired risks provision

An unexpired risk provision is established where the estimated value of claims and expenses attributable to the unexpired years of policies in force at the balance sheet date exceeds the unearned

MBIA UK INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) AS AT 31 DECEMBER 2010

premiums provision in relation to such policies after deduction of any deferred acquisition costs. An unexpired risks provision is established for insured obligations when, in the judgement of the directors, it is more likely than not that a monetary default in the timely payment of debt service as to interest and/or principal, will result in the Company incurring a loss during the unexpired periods of risk after the balance sheet date. For the purposes of establishing an unexpired risk provision, unexpired risks surpluses and deficits are only offset for individual policies related to the same insured credit exposure as these are considered to be "managed together".

A provision is established in an amount that is sufficient to cover (i) the present value of the anticipated debt service payments, as to both interest and principal, over the expected year of default and (ii) estimated expenses associated with settling the claims less estimated recoveries where the estimated value of claims and expenses less estimated recoveries attributable to the unexpired years of policies in force at the balance sheet date exceeds the unearned premiums provision in relation to such policies after deduction of any deferred acquisition costs. The present value of the anticipated debt service payments takes account of the expected investment income receivable between inception and settlement on the assets held to cover the provisions. Any loss provision is calculated gross of any reinsurance recoveries.

Claims incurred

Claims incurred comprise claims and related expenses paid in the year and changes in the provisions for outstanding claims, including provisions for claims incurred but not reported and related expenses, together with any other adjustments to claims from previous years. Where applicable, deductions are made for salvage and other recoveries.

Salvage and subrogation

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 probable and reasonably estimable, it records salvage and subrogation as an asset. Such amounts are included within "Other assets" and corresponding salvage and subrogation amounts due to reinsurers are included within "Other liabilities" in the Company's balance sheet. Any salvage and other recoveries are calculated based on the present value of the anticipated cash inflows over the expected year of recovery less any estimated expenses associated with collecting the estimated recoveries. The amount the Company records as salvage and subrogation may be influenced by several factors during any year, such as the level of claim payments made for which the Company is entitled to reimbursements, amounts collected and impairment write-downs.

The directors believe that the Company's technical provisions are adequate to cover the ultimate net cost of claims including on a portfolio basis. However, because the technical provisions are based on management's judgement and estimates, there can be no assurance that the ultimate liability will not exceed such estimates.

Reinsurance

Contracts entered into by the Company with reinsurers, under which the Company is compensated for losses on one or more contracts issued by the Company and that meet the classification requirements for insurance contracts are classified as reinsurance contracts. Contracts that do not meet these classification requirements are classified as financial instruments. The Company does not have any contracts that do not meet the classification requirements for insurance contracts. Insurance contracts entered into by the Company under which the contract holder is another insurer (inwards reinsurance) are included with insurance contracts, provided there is significant transfer of insurance risk.

MBIA UK INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) AS AT 31 DECEMBER 2010

The amounts that will be recoverable from reinsurers are estimated based upon the gross provisions, having due regard to collectability. Reinsurance recoveries in respect of estimated claims incurred but not reported are assumed to be consistent with the historical pattern of such recoveries, adjusted to reflect changes in the nature and extent of the Company's reinsurance programme over time. The recoverability of reinsurance recoveries is assessed having regard to market data on the financial strength of each of the reinsurance companies. The reinsurers' share of claims incurred, in the profit and loss account, reflects the amounts received or receivable from reinsurers in respect of those claims incurred during the year. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are accounted in the profit and loss account as 'Outward reinsurance premiums' in the same accounting year as the premiums for the related insurance business.

1.3 Investments

Bonds and other redeemable fixed income securities are stated at market value at the end of the period. Market value is determined using the closing bid price for each investment on the last trading date before the balance sheet date.

Valuation at market value represents a change in accounting policy for the Company during the year. The previous policy had been to value investments at amortised cost. In this respect, the balance sheet comparative balances have been restated to value investments at market value, and notes 12 'Investments' and 19 'Reconciliation of movements in shareholder's funds' explain the impact upon profits and reserves of this change in accounting policy.

It is the Company's policy not to hold derivatives for investment purposes. The Company may use derivatives for the purpose of managing risk and/or facilitating efficient portfolio management. The Company remains exempt from FRS 26 and associated standards FRS 23, FRS 25 and FRS 29.

Investment return comprises all investment income, which includes the realised gains and losses from investments disposed of during the year and unrealised gains or losses for investments carried at market value.

1.4 Fixed assets

Fixed assets are recognised at cost and depreciated over their useful economic lives. The depreciation rates applied are:

Leasehold improvements	straight line over the remaining term of the lease
Office equipment	25% straight line
Computer equipment	50% straight line
Office furniture	20% straight line

1.5 Foreign Currency

Monetary assets and liabilities held in foreign currency are translated into sterling at the rates of exchange ruling at the balance sheet date and the exchange differences are taken to the profit and loss non-technical account. Non-monetary assets and liabilities are translated into sterling using the rate of exchange prevailing at the time of the transaction. Foreign currency transactions during the year are translated into sterling using the rates of exchange applicable at the transaction date, with the exchange gains and losses included in the profit and loss non-technical account in "Other income/(expenses)".

MBIA UK INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) AS AT 31 DECEMBER 2010

1.6 Deferred taxation

Deferred taxation is provided in full in respect of taxation deferred by timing differences between the treatment of certain items for taxation and accounting purposes. Deferred tax is calculated at the tax rates which are expected to apply in the years when the timing differences will reverse. The deferred tax balance has not been discounted.

1.7 Accounting for share based payments

The group issues equity-settled payments to certain employees. The group has a scheme whereby certain employees of the Company are granted restricted shares in the ultimate parent company. These awards have a restriction year lasting three, four or five years depending on the type of award, after which time the awards fully vest. During the vesting year these shares may not be sold. If the employee leaves the group before the awards vest then the awards are forfeited.

Restricted Stock equity-settled share-based payments are originally measured at fair value which is based on the market price of the shares as at the date of the grant. The fair value determined at the grant date of the restricted stock grants is expensed on a straight-line basis over the vesting year, based on the group's estimate of shares that will eventually vest and adjusted for the effect of non market-based vesting conditions if applicable.

The group has a share option scheme which applies to some employees of the Company. Options are exercisable at a price equal to the closing quoted market price of the ultimate parent company's shares on the date of grant. The vesting year is four or five years. If the options remain unexercised after a year of ten years from the date of grant, the options expire. Options are forfeited if the employee leaves the group before the options vest. No options have been issued to UK employees since the Company commenced operations.

1.8 Operating leases

Rentals payable under operating leases are charged to the profit and loss account as incurred over the lease term.

1.9 Dividends

Interim dividends are recognised when paid and final dividends are booked as a liability when they are approved by the members passing a written resolution.

1.10 Pension scheme

The Company operates a group personal defined contribution pension scheme. A defined contribution plan is a pension plan under which the employee and employer pays contributions into the employee's personal pension plan. The company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The contributions are recognised as employee benefit expense when they are due.

2 Segmental information

The Company writes only one class of business, namely suretyship insurance from the United Kingdom. The Company did not write any new business and a combination of policy terminations, commutations and revisions to estimates of future premium resulted in positive gross written premium of £11.3 million (2009: positive £31.7 million) for the year. Gross written premiums by destination were UK: £12.7 million positive; other European Monetary Economic Area (EMEA) £0.9 million negative; and US and Asia Pacific £0.5 million negative (2009: UK: £29.7 million positive; other European

MBIA UK INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) AS AT 31 DECEMBER 2010

Monetary Economic Area (EMEA) £1.2 million positive; and US and Asia Pacific £0.8 million positive).
The Company has a branch in France.

3	(Loss)/Profit on ordinary activities before taxation	2010	2009
		£'000	£'000
	(Loss)/Profit on ordinary activities before tax is stated after charging:		
	Depreciation	10	24
	Foreign currency exchange loss	18,260	34,016
	Auditors' remuneration (note 4)	458	645
	Directors' remuneration (note 7)	1,694	1,243
		<u>1,694</u>	<u>1,243</u>
4	Auditors' remuneration	2010	2009
		£'000	£'000
	Fees payable to the Company's auditor for the audit of the Company's annual accounts	260	359
	Fees for other services supplied pursuant to legislation	102	147
	Other services relating to taxation	96	139
		<u>458</u>	<u>645</u>
5	Net operating expenses	2010	2009
		£'000	£'000
	Acquisition costs	-	-
	Change in deferred acquisition costs	736	608
		<u>736</u>	<u>608</u>
	Administrative expenses	10,057	8,186
	Gross operating expenses	<u>10,793</u>	<u>8,794</u>
	Reinsurance commissions (after deferral)	(235)	(3,669)
	Net operating expenses	<u>10,558</u>	<u>5,125</u>

MBIA UK INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) AS AT 31 DECEMBER 2010

6	Investment income - non-technical account	2010	2009 restated
		£'000	£'000
	Income from investments	15,865	14,091
	Realised (losses)/gains on investments	(1,401)	681
	Unrealised losses on investments	(3,751)	(4,565)
	Bank and other interest	-	231
		<u>10,713</u>	<u>10,438</u>

7 Staff costs

For the year ended 31 December 2010, the average number of employees (including the French branch) was 24.0 (2009: 23.1) of which 7 were in the new business function and 14 in the portfolio management and administration functions. Portfolio management and administration includes the IPM, risk, legal and finance functions. These employee numbers exclude directors employed by other MBIA entities.

	2010	2009
	£'000	£'000
Wages and salaries	5,274	4,264
Social security costs	744	676
Other pension costs and long-term incentives	794	658
	<u>6,812</u>	<u>5,598</u>

The directors received total remuneration of £1,693,515 (2009: £1,243,477). The highest-paid director received total remuneration of £902,022 (2009: £452,619).

The highest paid director did not exercise any share options during the year. 6 directors participate in long term incentive plans in the group.

8 Share based payments

The group has a scheme whereby certain employees of the Company are granted restricted shares in the ultimate parent company. Details of the number of share awards granted during the year are as follows:

	2010	2009
Number of restricted shares granted		
Employees	7,200	40,673
Total	<u>7,200</u>	<u>40,673</u>

As at 31 December 2010, there were 121,758 restricted shares outstanding (2009: 129,074).

The Company recognised expenses of £290,749 (2009: £230,241) relating to the above equity-settled share based payment transactions.

No options have been issued to employees of the Company in respect of the group share option scheme.

MBIA UK INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) AS AT 31 DECEMBER 2010

9	Tax on (loss)/profit on ordinary activities	2010	2009 restated
		£'000	£'000
	UK corporation tax at 28.0% (2009: 28.0%)		
	Current tax on income for the period	-	-
	Taxation in respect of prior years	(725)	(16,047)
	Foreign tax - current tax on income for the period	1,500	4,256
	Current tax charge/(credit)	<u>775</u>	<u>(11,791)</u>
	Deferred tax		
	Deferred tax (credit)/charge - current year	(8,513)	6,033
	Remeasurement of deferred tax - change in UK tax rate	190	-
	Tax on (loss)/profit on ordinary activities	<u>(7,548)</u>	<u>(5,759)</u>
	Factors affecting the tax charge/(credit) for the year		
	(Loss)/profit on ordinary activities before taxation	<u>(30,760)</u>	<u>21,452</u>
	 (Loss)/profit on ordinary activities before taxation multiplied by standard rate of UK corporation tax of 28.0% (2009: 28.0%)	<u>(8,613)</u>	<u>6,007</u>
	Effects of:		
	Permanent differences	1,590	(2,582)
	Tax losses not utilised in the year	4,888	-
	Impact of change in investment accounting policy	3,635	831
	Taxation in respect of prior years	(725)	(16,047)
	Current tax charge/(credit)	<u>775</u>	<u>(11,791)</u>

As explained in note 1.3 and note 19 the accounting policy for valuation of investments was changed during the year. The associated deferred tax impacts of this change have been reflected above.

The prior period tax credit was primarily a result of tax relief claimed on losses surrendered by other entities in the MBIA UK tax group, including adjustments in respect of earlier years.

The directors consider that the tax provisions contained within these accounts are adequate both in respect of group relief claims and the Company's tax affairs. However, since the possibility of adjustment remains open to the tax authorities, within this Company and other group companies, there can be no guarantee that liabilities will not ultimately exceed management's estimations.

10	Dividends	2010	2009
		£'000	£'000
	Equity - Ordinary		
	Interim paid	500	-
		<u>500</u>	<u>-</u>

MBIA UK INSURANCE LIMITED

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
AS AT 31 DECEMBER 2010**

11 Tangible fixed assets

	Leasehold Improvements	Office Furniture & Equipment	Computer Equipment	Total
	£'000	£'000	£'000	£'000
Cost or valuation				
At 1 January 2010	1,608	459	183	2,250
Additions	39	7	4	50
At 31 December 2010	<u>1,647</u>	<u>466</u>	<u>187</u>	<u>2,300</u>
Accumulated depreciation				
At 1 January 2010	1,608	454	183	2,245
Charge for the year	8	2	-	10
At 31 December 2010	<u>1,616</u>	<u>456</u>	<u>183</u>	<u>2,255</u>
Net book value				
At 31 December 2010	<u>31</u>	<u>10</u>	<u>4</u>	<u>45</u>
At 31 December 2009	<u>-</u>	<u>5</u>	<u>-</u>	<u>5</u>

12 Investments

	Carrying Value		Purchase Price	
	2010	2009	2010	2009
	£'000	£'000	£'000	£'000
Debt securities and other fixed-income securities (listed)	426,658	316,863	419,507	306,074
Deposits with credit institutions	8,803	58,957	8,803	58,957
Total financial assets	<u>435,461</u>	<u>375,820</u>	<u>428,310</u>	<u>365,031</u>
Maturing within one year	200,357	129,975	202,899	129,554
Maturing in greater than one year	235,104	245,845	225,411	235,477
	<u>435,461</u>	<u>375,820</u>	<u>428,310</u>	<u>365,031</u>

Investments maturing in greater than one year comprise UK and French government bonds and other investments maturing between 2012 and 2042, of which 83% will mature by 2015.

The Company did not hold any derivatives during the year or at 31 December 2010.

As explained in note 1.3 the investments accounting policy was changed during the year to value investments at market value. The previous policy had been to value investments at amortised cost. The impact of this change upon profit and balance sheet position is explained in note 19 'Reconciliation of movements in shareholder's funds'.

MBIA UK INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) AS AT 31 DECEMBER 2010

13 Other debtors	2010	2009 restated
	£'000	£'000
Accrued interest receivable	6,464	4,721
Amounts owed by parent and fellow subsidiary undertakings	188	1,648
Deferred tax asset (see below)	9,994	1,671
Other debtors including tax	5,206	15,280
	<u>21,852</u>	<u>23,320</u>

The amounts owed by MBIA group entities to the Company are interest bearing on amounts over six months old and are repayable within 30 days on receipt of a written request from the Company.

	2010	2009 restated
	£'000	£'000
Deferred tax asset		
Balance at 1 January	1,671	7,704
Credit/(charge) to profit and loss account	8,323	(6,033)
Balance at 31 December	<u>9,994</u>	<u>1,671</u>

The deferred tax asset arises due to a) tax losses carried forward and b) timing differences in profit recognition in the French branch between local accounting policy and the related tax method. The deferred tax asset is expected to be realised as profit recognition is aligned in future periods.

14 Prepayments and accrued income	2010	2009
	£'000	£'000
Deferred acquisition costs	14,550	15,286
Other prepayments and accrued income	2,880	11,916
	<u>17,430</u>	<u>27,202</u>

15 Creditors: amounts falling due within one year	2010	2009
	£'000	£'000
Amounts owed to parent and fellow subsidiary undertakings	1,639	12,573
Other creditors including tax and social security	4,899	4,501
	<u>6,538</u>	<u>17,074</u>

The amounts owed to parent and fellow subsidiary undertakings are non-interest bearing current accounts which are repayable on demand.

MBIA UK INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) AS AT 31 DECEMBER 2010

16 Other technical provisions - Unexpired risks provision

Provision has been made for any deficiencies arising when unearned premiums, net of associated acquisition costs, are insufficient to meet expected claims and expenses after taking into account future investment return on the investments supporting the unearned premiums provision and unexpired risks provision. The expected claims are calculated based on information available at the balance sheet date.

Unexpired risk surpluses and deficits are offset where business classes are managed together and a provision is made if an aggregate deficit arises. The unexpired risks provision is included within 'Other technical provisions'. The investment return to be taken into account is that anticipated to be earned by the investments supporting the unearned premiums and unexpired risks provision from the balance sheet date until the settlement of the claims. The Company anticipates an investment return of 3.0% (2009: 4.5%) will be earned by the investments supporting the unearned premiums and unexpired risks provision from the balance sheet date until the settlement of the claims. Due to the long term nature of the potential payment schedule, future investment returns on the assets maintained to cover the unexpired risks provision may not reflect the historical return.

	2010	2009
	£'000	£'000
Balance at start of year	2,402	-
Foreign exchange translation	(74)	-
Increase in provision in year	44,654	2,402
Balance at end of year	<u>46,982</u>	<u>2,402</u>

The impact of discounting is as follows:

Unexpired risks provision before discounting	103,570	8,236
Discounting	<u>(56,588)</u>	<u>(5,834)</u>
Total unexpired risks provision after discounting	<u>46,982</u>	<u>2,402</u>

As set out in the Accounting policies at note 1.2, the establishment of the appropriate level of technical provisions (whether in the form of provision for claims outstanding or unexpired risks provision) is an inherently uncertain process involving numerous estimates and subjective judgments by management. Therefore, there can be no assurance that any future paid claims in the company's insured portfolio will not exceed amounts reserved.

In determining the technical provisions for credits on its Classified List, the Company has performed analysis including cash flow projections, review of external and ratings reports and consideration of other relevant information in order to estimate future performance of such credits. The Company generally evaluates multiple scenarios to consider the range of potential outcomes. The assumptions used in each scenario require considerable judgment by the Company and are subject to change. The future loss severities projected by these scenarios can vary considerably, potentially ranging from no loss to moderate loss to and/or substantial losses. The Company assigns a range of probabilities to these scenarios and the technical provisions are based on a probability-weighted average of such scenarios. In the event of a material deviation in actual performance from projected performance, the Company would increase or decrease the technical provisions accordingly.

Since the economic downturn that began in 2008, some of the Company's insured transactions have experienced diminished value and financial stress. In particular, the Company has indirect exposure to US Residential Mortgage Backed Securities ("RMBS"), including sub-prime collateral, through the Structured Finance CDOs it has guaranteed. US residential mortgage loans are experiencing

MBIA UK INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) AS AT 31 DECEMBER 2010

significantly higher rates of delinquency, foreclosure and losses than had been anticipated. This adverse performance has impacted RMBS and the CDOs that include RMBS. Consequently, certain of the Structured Finance CDOs the Company has guaranteed have experienced deterioration in performance and this deterioration has been factored into the analysis. The analysis has also considered the levels of subordination and other credit enhancements incorporated in the structure of the CDOs. The extent and duration of any future continued deterioration in the US residential mortgage market, and therefore the impact on the specific transactions that the Company has guaranteed, is uncertain.

Although the Company's current technical provisions represent its best estimate of the present value of losses that may occur in the future, there is a range of possible outcomes on the transactions guaranteed by the Company and a reasonable possibility that actual losses could be substantially greater than the technical provisions. A material increase in future losses in the Company's insured portfolio could have a material adverse effect on the Company's financial condition, reported profit after tax and/or, shareholders' funds.

17 Commitments

Annual commitments under non-cancellable operating leases are as follows:

	Land & buildings		Office equipment	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000
Expiring:				
Within one year	86	86	-	-
Between two and five years	527	655	14	8
In more than five years	-	-	-	-
	<u>613</u>	<u>741</u>	<u>14</u>	<u>8</u>

18 Called up share capital

	2010 £'000	2009 £'000
Allotted, called up and fully paid		
69,000,000 Ordinary shares of nominal value of £1 each (2009: 69,000,000)	<u>69,000</u>	<u>69,000</u>

MBIA UK INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) AS AT 31 DECEMBER 2010

19 Reconciliation of movements in shareholder's funds

	Called up share capital £'000	Share premium account £'000	Capital reserve £'000	Other reserves £'000	Profit and loss account £'000	Total £'000
At 1 January 2009 - as restated	69,000	17,038	5,000	7,324	142,016	240,378
Transfer in year	-	-	-	(7,324)	7,324	-
Profit for the year - as restated	-	-	-	-	27,211	27,211
At 31 December 2009 - as restated	69,000	17,038	5,000	-	176,551	267,589
Loss for the year	-	-	-	-	(23,712)	(23,712)
At 31 December 2010	69,000	17,038	5,000	-	152,839	243,877

The opening and closing shareholder's funds represent equity interests only. As explained in note 1.3 and note 12, the Company changed its investment accounting policy during the year to value investments at market value (previously at amortised cost). The impact of this change has been to reduce the comparative figure for investment income by £2,968,000. After allowing for deferred tax the comparative period retained profit was reduced by £2,137,000. The balance sheet investments comparative value has been increased by £12,981,000. The resulting effect upon reserves was an increase of £11,483,000 in the opening profit and loss reserve balance for the comparative year (i.e. at 1 January 2009). The combined impact upon the closing profit and loss reserve balance for the comparative year was an increase of £9,346,000.

20 Immediate parent undertaking and controlling party

The immediate parent undertaking is MBIA UK (Holdings) Limited, a company incorporated and registered in England and Wales. The ultimate parent company and controlling party is MBIA Inc., a company incorporated in the State of Connecticut, United States.

MBIA Inc. is the parent undertaking of the largest group of undertakings to consolidate these financial statements at 31 December 2010. The consolidated financial statements of MBIA Inc. are available from 113 King Street, Armonk, New York, 10504, USA or on the ultimate parents' website www.mbia.com.

MBIA Insurance Corp. is the parent undertaking of the smallest group of undertakings to consolidate these financial statements. The consolidated financial statements of MBIA Insurance Corp. are available from 113 King Street, Armonk, New York, 10504, USA or on the website www.mbia.com.

21 Post balance sheet events

Subsequent to the balance sheet date, certain policies have matured or been terminated earlier than anticipated. Of the net unearned premium reserve at the balance sheet date, £1.0 million relates to policies which have either terminated or matured by the date of approval of these financial statements.