MBIA INC
Form 10-K
February 27, 2013
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United States

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2012

or

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission File Number 1-9583

MBIA INC.

(Exact name of registrant as specified in its charter)

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

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

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

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

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

None

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

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

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

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

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

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

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

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

The aggregate market value of the voting stock held by non-affiliates of the Registrant as of June 30, 2012 was $1,530,515,614.

As of February 21, 2013, 192,753,457 shares of Common Stock, par value $1 per share, were outstanding.

Documents incorporated by reference. Portions of the Definitive Proxy Statement of the Registrant, which will be filed on or before March 31, 2013, are incorporated by reference into Parts III of this Form 10-K.

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Note Regarding Forward-Looking Statements

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

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

Note Regarding Reliance on Statements in Our Contracts

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

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

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

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Part I

Item 1. Business

OVERVIEW OF OUR SERVICES

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

Financial Guarantee Business

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

We conduct our financial guarantee business, as well as related reinsurance, advisory and portfolio services, through our subsidiaries National Public Finance Guarantee Corporation (National), our United States (U.S.) public finance-only financial guarantee company, and MBIA Insurance Corporation and its subsidiaries (MBIA Corp.), which write global structured finance and non-U.S. public finance financial guarantee insurance. Related advisory and portfolio services are provided by Optinuity Alliance Resources Corporation (Optinuity), a service company established in 2010, which provides support services such as surveillance, risk management, legal, accounting, treasury and information technology, among others, to our businesses on a fee basis. MBIA Corp. is the successor to the business of the Municipal Bond Insurance Association (the Association), which began writing financial guarantees for municipal bonds in 1974. MBIA Corp. also owns MBIA UK Insurance Limited (MBIA UK), a financial guarantee insurance company that is regulated and supervised by the Financial Services Authority (FSA) in the United Kingdom (U.K.) and is authorized to carry out insurance business in the U.K. and in the European Economic Area on a cross border services basis. MBIA UK s principal line of business is the guarantee of both structured finance and public finance debt obligations in selected international markets. In addition, MBIA Corp. writes financial guarantee insurance in Mexico through MBIA México, S.A. de C.V. (MBIA Mexico). Generally, throughout the text, references to MBIA Corp. include the activities of its subsidiaries.

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

In addition, until February 2009, MBIA Corp. was the parent of National, also a financial guarantee insurance company that had been acquired by MBIA Corp. in 1989. In February 2009, we restructured our business to re-launch National as a U.S. public finance-only financial guarantee company (the Transformation) through several transactions, including the transfer of National (then known as MBIA Insurance Corp. of Illinois) from MBIA Corp. to a newly established holding company, National Public Finance Guarantee Holdings, Inc., that is 100% owned by MBIA Inc., and the reinsurance by National of the U.S. public finance businesses of MBIA Corp. and a third-party financial guarantor, Financial Guaranty Insurance Company (FGIC). Pending litigation challenging the establishment of National has constrained our new business writings since 2009. The Transformation is described more fully under Our Insurance Operations National Insured Portfolio below and the Transformation-related litigation is described more fully under Note 20: Commitments and Contingencies in the Notes to Consolidated Financial Statements of MBIA Inc. and Subsidiaries in Part II, Item 8 of this Form 10-K. After giving effect to the Transformation, MBIA Corp. s remaining portfolio consists of global structured finance and non-U.S. public finance business.

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Item 1. Business (continued)

Asset Management Advisory Services Business

We conduct our asset management advisory services business primarily through wholly-owned subsidiaries of Cutwater Holdings, LLC (together, Cutwater). Cutwater offers advisory services, including cash management, discretionary asset management and structured products on a fee-for-service basis. We offer these services to public, not-for-profit, corporate and financial services clients, including the Company and its subsidiaries. Cutwater also provides services to our asset/liability products and conduit programs, which are being wound down.

Other Advisory Services

We operate a financial advisory and asset management business in Europe through our FSA licensed and regulated subsidiary Trifinium Advisors (UK) Limited (Trifinium). Its activities include among other things managing MBIA UK s investment portfolio. In 2012, we exited the financial advisory services business in Latin America.

OUR BUSINESS STRATEGY

Our ratings downgrades and concerns about the future of monoline insurers have impaired our ability to write new business since late 2007, and pending litigation challenging the establishment of National has further constrained our ability to write new insurance business since 2009. In addition, unprecedented levels of delinquency and loss in our structured finance business, primarily in our residential mortgage-backed securities (RMBS), commercial mortgage-backed securities (CMBS) pools, commercial real estate (CRE) and collateralized debt obligation (CDO) portfolios, continue to place considerable stress on our economic results. The inclusion of ineligible mortgage loans in the transactions we have insured and the failure of sellers/servicers to cure the breaches or repurchase or replace the ineligible collateral has substantially contributed to the total RMBS losses that the Company has incurred to date. If performance deteriorates further and uncertainty increases in these sectors, our future economic results may be adversely impacted. In addition, as a result of these and other factors, MBIA Insurance Corporation faces certain key risks and contingencies as described herein that increase the possibility that it could be placed in a rehabilitation or liquidation proceeding. Refer to Risk Factors in Part I, Item 1A of this Annual Report on Form 10-K for a detailed description of the risks associated with MBIA Insurance Corporation being placed in a rehabilitation proceeding.

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

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

Strategic Transformation

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

The next step in the Transformation, which is unlikely to occur prior to resolution of certain of the Transformation-related litigation and the repayment of a secured loan from National to MBIA Insurance Corporation (the National Secured Loan) described under Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity Key Intercompany Lending Agreements National Secured Loan in Part II, Item 7 of this Form 10-K, will be to further position National to write new U.S. public finance financial guarantee insurance policies through the achievement of high stable ratings.

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Item 1. Business (continued)

It is our intent to capitalize National at a level consistent with the highest achievable credit ratings through internal capital growth at National and potentially by raising third-party capital. However, no assurance can be given that we will be able to achieve such higher ratings. For a complete discussion of our ratings, see Rating Agencies below.

The Company is currently involved in several litigations challenging the Transformation both in a proceeding under Article 78 of New York s Civil Practice Law & Rules and in plenary suits. The hearing for the Article 78 proceeding was concluded during the second quarter of 2012 and a decision is pending. Since the case was filed, 16 of the original 18 plaintiffs have dismissed their claims. For a complete description of the litigation challenging the Transformation see Note 20: Commitments and Contingencies in the Notes to Consolidated Financial Statements of MBIA Inc. and Subsidiaries in Part II, Item 8 of this Form 10-K.

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

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

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

Capital Preservation, Liquidity Management and Deleveraging

We continued taking steps in 2012 to preserve capital, enhance liquidity and deleverage the Company, a process that began with our raising $2.7 billion in new debt and equity capital in 2007 and 2008 and converting our $400 million soft capital facility into cash in 2008.

RMBS Recoveries

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

In September 2008, MBIA initiated litigation against Bank of America Corporation and certain of its subsidiaries including Countrywide Home Loans, Inc. (Countrywide), and subsequently filed complaints against five additional sellers/servicers to enforce its contractual rights under the respective transaction documents. Additionally, in September 2012 the Company filed a complaint against an underwriter of one of our transactions related to its intentional concealment of certain loan breach findings. We have recorded our largest recoveries against Bank of America/Countrywide, and against two wholly-owned subsidiaries of Residential Capital, LLC (ResCap), GMAC Mortgage, LLC (GMAC) and Residential Funding Company, LLC (RFC), whose ultimate parent company is Ally Financial Inc.

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Item 1. Business (continued)

In December 2011, MBIA reached an agreement with one of the six sellers/servicers with whom it had initiated litigation and that litigation has been dismissed. On May 14, 2012, ResCap, RFC and GMAC each filed for bankruptcy protection under Chapter 11 of the United States Bankruptcy Code. Accordingly, MBIA s put-back litigations against these two sellers/servicers are now stayed and subject to the ResCap bankruptcy proceeding.

Given the scope of the remaining litigations, we expect them to be ongoing for several years; however, we anticipate that our first trial will begin in 2013 or early 2014. Additionally, there have been several important rulings in these matters since 2010, including decisions permitting us to present evidence of liability and damage claims through presentation of a statistically valid random sample of loans rather than on a loan-by-loan basis, a decision permitting us to collect rescissory damages; and a decision on the applicable standard for proving causation which rejects a defense to liability raised by many defendants. Appeals of certain, though not all, of these decisions are pending; however, these decisions have been accepted and relied on by judges in other cases and we believe will be affirmed by the relevant appellate courts, although such outcomes cannot be assured. For a complete description of our litigation seeking to enforce our contractual rights with respect to securitizations we insure, see Note 20: Commitments and Contingencies in the Notes to Consolidated Financial Statements of MBIA Inc. and Subsidiaries in Part II, Item 8 of this Form 10-K. We believe that these decisions, combined with a recent groundbreaking decision by federal Judge Jed Rakoff of the Southern District of New York awarding in full a monoline insurance company s damages for paid claims against one of the sellers/servicers with whom MBIA Corp. has also initiated litigation on similar legal grounds to those asserted by MBIA Corp. in its litigations, as well as prior settlements between sellers/servicers and government sponsored entities and private investors, strengthen the Company s ability to record recoveries related to put-backs.

Commutations

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

In 2012, MBIA Corp. commuted $13.4 billion of gross insured exposure primarily comprising structured CMBS pools, CRE CDOs, investment grade corporate CDOs, asset-backed securities (ABS) CDOs, and subprime RMBS transactions. In consideration for the commutation of insured transactions, including the transactions described above, the Company has made and may in the future make payments to counterparties the amounts of which, if any, may be less than or greater than any statutory loss reserves established for the respective transactions. The Company enters into commutations in the ordinary course of its business and does not intend to make contemporaneous disclosures regarding any such transactions regardless of the amounts paid to effect such commutations in relation to the statutory loss reserves established for the respective transactions. In the fourth quarter of 2012, MBIA Insurance Corporation agreed with a credit default swap (CDS) counterparty on a commutation of certain potentially volatile policies insuring ABS CDO, structured CMBS pools and CRE CDO transactions. The agreement was subject to the approval of the New York State Department of Financial Services (the NYSDFS) of a request to draw on the National Secured Loan in order to finance the commutation, as well as the receipt by MBIA Insurance Corporation of confirmation from the NYSDFS of its non-disapproval of the commutation. MBIA Insurance Corporation requested the NYSDFS to confirm its non-disapproval of the commutation and for approval of a loan under the National Secured Loan or for approval of an alternative financing structure to finance the commutation. Subsequent to December 31, 2012, those requests were denied. The Company s ability to commute insured transactions is limited by available liquidity, including the availability of intercompany loans under the National Secured Loan and the use of other available financing structures and liquidity, all of which could be subject to regulatory approval by the NYSDFS. There can be no assurance that the Company will be able to fund further commutations by borrowing from National or otherwise.

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Item 1. Business (continued)

Liquidity Risk Management and Intercompany Lending Agreements

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

If liquidity resources were to fall short of our target liquidity cushions at any time, we could be required to sell or finance assets, including through these intercompany facilities, or raise additional third-party capital. There can be no assurance that we will be successful in drawing on such resources or that they will be adequate to cover a short-fall. Each of these items are discussed further in Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity in Part II, Item 7 of this Form 10-K.

Consent Solicitation

During the fourth quarter of 2012, MBIA successfully completed a consent solicitation pursuant to which it received the consent of its senior noteholders to amend the indentures pursuant to which the senior notes were issued to substitute National Public Finance Guarantee Corporation for MBIA Insurance Corporation in the definition of Restricted Subsidiary and Principal Subsidiaries in the respective indentures, which provide that an insolvency proceeding with respect to a Restricted or Principal Subsidiary, as the case may be, that remains in place for a specified period of time constitutes an event of default, which would likely result in the acceleration of the senior notes. In addition, we repurchased approximately $172 million of the outstanding principal amount of the notes issued under the Senior Indenture, dated as of November 24, 2004, by and between the Company and The Bank of New York (as supplemented by the First Supplemental Indenture, dated as of November 24, 2004, and the Second Supplemental Indenture, dated as of November 21, 2012 (the Second Supplemental Indenture) (collectively, the 2004 Indenture)), governing the Company s $329 million principal amount of the notes (the 2004 Notes), in privately negotiated seller initiated reverse inquiry transactions directly from holders that had consented pursuant to the consent solicitation.

The purpose of the consent solicitation was to avoid the risk of a substantial value erosion of the Company in the event of an MBIA Insurance Corporation rehabilitation or liquidation. In addition, by removing this risk, we believe the consummation of the consent solicitation will improve the Company s credit standing over time and improve its ability to raise capital in the future, each of which we believe would inure to the benefit of shareholders and creditors. See Risk Factors in Part I, Item 1A of this Annual Report on Form 10-K for a detailed description of the risks associated with MBIA Insurance Corporation being placed in a rehabilitation or liquidation proceeding.

On December 13, 2012, the Company received a letter from Blue Ridge Investments, L.L.C., a subsidiary of Bank of America, addressed to the Company and The Bank of New York Mellon (the Trustee) in its capacity as the trustee under the 2004 Indenture. The letter purports to be a Notice of Default under Section 501(3) of the 2004 Indenture (the Purported Notice of Default) and alleges that the Second Supplemental Indenture was executed without the requisite consent of holders of the 2004 Notes required by the 2004 Indenture. Pursuant to the 2004 Indenture, if a default continues for a period of 60 days after notice, then the Trustee or the holders of not less than 25% in aggregate principal amount of the outstanding 2004 Notes may declare the principal amount of the 2004 Notes to be due and payable immediately. As of the date of this report, the Company has not received a notice of acceleration of the 2004 Notes.

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Item 1. Business (continued)

In addition, pursuant to the Indenture, dated as of August 1, 1990 (as supplemented and amended, the 1990 Indenture), governing the Company s 6.40% Senior Notes due 2022, 7.00% Debentures due 2025, 7.15% Debentures due 2027 and 6.625% Debentures due 2028 (collectively, the 1990 Notes), any acceleration of the amount due under the 2004 Indenture that is not discharged or cured, waived, rescinded or annulled within 10 days after notice from the trustee of the 1990 Indenture or holders of not less than 25% aggregate principal amount of the 1990 Notes (treated as one class) would constitute an event of default under the 1990 Indenture and either the trustee of the 1990 Indenture or the holders of not less than 25% in aggregate principal amount of the 1990 Notes then outstanding (treated as one class) may declare the entire principal of the 1990 Notes then outstanding and interest accrued thereon to be due and payable immediately.

On December 17, 2012, the Company sent the Trustee a letter advising the Trustee that the Purported Notice of Default is meritless and has no force and effect under the 2004 Indenture, directing the Trustee to take no action in furtherance of the Purported Notice of Default, and advising the Trustee that the Company intends to take any and all necessary and appropriate actions to enforce the Second Supplemental Indenture. In addition, on February 7, 2013, the Company filed a complaint for declaratory and injunctive relief seeking, among other things, a declaration that the Purported Notice of Default is invalid. While the Company believes the Purported Notice of Default is meritless, there can be no assurances that the Company will successfully contest its validity or the ability of the holders of the 1990 Notes to declare an event of default under the 1990 Indenture on the basis of any purported acceleration of the 2004 Notes. If the Company is unable to repay the 2004 Notes or the 1990 Notes in the event it is not ultimately successful in contesting the validity of the Purported Notice of Default and any subsequent acceleration, the Trustee or holders of the 2004 Notes or the 1990 Notes would likely exercise their rights as creditors to force repayment and the Company would have an immediate need to pursue other alternatives, including, if the Company is not successful in pursuing out-of-court alternatives, the filing for protection under applicable insolvency laws.

On December 13, 2012, Bank of America also filed a complaint alleging that the Company tortiously interfered with Bank of America s tender offer to buy all of the 2004 Notes and seeking a permanent injunction against the implementation of the Second Supplemental Indenture and money damages. Bank of America filed an amended complaint on February 19, 2013. For a complete description of the litigation around the consent solicitation, see Note 20: Commitments and Contingencies in the Notes to Consolidated Financial Statements of MBIA Inc. and Subsidiaries in Part II, Item 8 of this Form 10-K.

OUR INSURANCE OPERATIONS

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

We are compensated for our insurance policies by insurance premiums paid upfront and/or on an installment basis. Historically, our financial guarantee insurance was offered in both the new issue and secondary markets on a global basis. Transactions in the new issue market were sold either through negotiated offerings or competitive bidding. In negotiated transactions, either the issuer or the underwriter purchases the insurance policy directly from an insurer. For municipal bond issues involving competitive bidding, the insurance is offered as an option to the underwriters bidding on the transaction. The successful bidder would then have the option to purchase the insurance, or at times the issuer could purchase the insurance. We also issue insurance policies to guarantee the payment of principal and interest on municipal obligations being traded in the secondary market upon the request of a broker or an existing holder of uninsured bonds, where premium is generally paid by the owner of the obligation. In addition, we have provided financial guarantees to debt service reserve funds. The primary risk in our insurance operations is that of adverse credit performance in the insured portfolio. We seek to maintain a diversified insured portfolio and have insured transactions with the aim of managing and diversifying risk based on a variety of criteria including revenue source, issue size, type of asset, industry concentrations, type of bond and geographic area. Despite this objective, there can be no assurance that we will avoid losses on multiple credits as a result of a single event or series of events.

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Item 1. Business (continued)

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

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

National Insured Portfolio

Through its reinsurance of U.S. public finance financial guarantees from MBIA Corp. and FGIC, National s insurance portfolio consists of municipal bonds, including tax-exempt and taxable indebtedness of U.S. political subdivisions, as well as utility districts, airports, health care institutions, higher educational facilities, student loan issuers, housing authorities and other similar agencies and obligations issued by private entities that finance projects that serve a substantial public purpose. Municipal bonds and privately issued bonds used for the financing of public purpose projects are generally supported by taxes, assessments, user fees or tariffs related to the use of these projects, lease payments or other similar types of revenue streams.

FGIC Transaction

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

On June 11, 2012, the Superintendent of the NYSDFS (the Superintendent) commenced a special proceeding for the rehabilitation of FGIC by filing a petition with the New York Supreme Court. On September 27, 2012, the Superintendent filed a proposed plan of rehabilitation for FGIC, which included a form of novation agreement between FGIC and National whereby FGIC transfers by novation to National all rights and liabilities under each of the policies covered under the FGIC Reinsurance Agreement. Approval of the proposed plan, including the proposed novation agreement, by the court is pending.

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Item 1. Business (continued)

Transformation

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

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

In connection with the reinsurance and assignment transactions, MBIA Corp. paid to National a premium to reinsure the policies covered by the MBIA Corp. Reinsurance Agreement and the assignment agreement, net of a ceding commission on the unearned premium reserve, and National was further capitalized through a dividend and return of capital paid by MBIA Corp. to MBIA Inc., which was contributed to National. MBIA Corp. and National received the required regulatory approvals from the New York and Illinois insurance departments prior to executing the Transformation. National was previously domiciled in Illinois and redomesticated to New York effective December 1, 2009. Litigation challenging the Transformation is still pending and is more fully described under Note 20: Commitments and Contingencies in the Notes to Consolidated Financial Statements of MBIA Inc. and Subsidiaries in Part II, Item 8 of this Form 10-K.

MBIA Corp. continues to insure its remaining book of structured finance and international business, as well as insurance policies outstanding relating to liabilities of the asset/liability products business issued by MBIA Inc. and its subsidiaries. The litigation challenging the Transformation constrained the ability of National and MBIA Corp. to write new business and to pay dividends to MBIA Inc., which affects the holding company s future liquidity. During the second quarter of 2010, National received approval from the NYSDFS to reset its unassigned surplus to zero as of January 1, 2010, which provided National with dividend capacity of $200 million as of December 31, 2012. In October 2010, the plaintiffs in the Transformation litigation initiated a court proceeding challenging the approval of the surplus reset and we have agreed that National will not pay dividends during the current adjournment of the proceeding (currently, through April 19, 2013). In addition, in connection with the approval of a release of excessive contingency reserves as of December 31, 2011 in MBIA Insurance Corporation, the Company has agreed that National will not pay dividends without the prior approval of the NYSDFS prior to July 19, 2013. The impact of the Transformation on the Company s liquidity is described further in Note 14: Insurance Regulations and Dividends in the Notes to Consolidated Financial Statements of MBIA Inc. and Subsidiaries in Part II, Item 8 of this Form 10-K.

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

Portfolio Profile

As of December 31, 2012, National had $337.1 billion of gross par outstanding on insured U.S. public finance obligations covering 16,886 policies and diversified among 7,702 credits, which we define as any group of issues supported by the same revenue source. Insurance in force, which includes all insured debt service, as of December 31, 2012 was $530.9 billion.

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Item 1. Business (continued)

The table below sets forth information with respect to the original gross par amount insured per issue in the National portfolio as of December 31, 2012:

National U.S. Public Finance Original Gross Par Amount Per Issue as of December 31, 2012

Original Gross Par Amount Written Per Issue	Number of Issues Outstanding	% of Total Number of Issues Outstanding	Gross Par Amount Outstanding (in billions)	% of Gross Par Amount Outstanding
Less than $10 million	10,928	64.7 %	$ 32.9	9.7 %
$10-25 million	2,916	17.3 %	46.4	13.8 %
$25-50 million	1,511	9.0 %	53.1	15.8 %
$50-100 million	866	5.1 %	60.4	17.9 %
$100-200 million	425	2.5 %	59.9	17.7 %
$200-300 million	125	0.7 %	30.2	9.0 %
$300-400 million	54	0.3 %	18.6	5.5 %
$400-500 million	30	0.2 %	13.5	4.0 %
Greater than $500 million	31	0.2 %	22.1	6.6 %
Total	16,886	100.0 %	$ 337.1	100.0 %

All of the policies were underwritten on the assumption that the insurance will remain in force until maturity of the insured obligations. National estimates that the average life of its domestic public finance insurance policies in force as of December 31, 2012 was 9.9 years. The average life was determined by applying a weighted average calculation, using the remaining years to contractual maturity and weighting them on the basis of the remaining debt service insured. No assumptions were made for any future refundings, early redemptions or terminations of insured issues. Average annual insured debt service on the portfolio as of December 31, 2012 was $31.7 billion.

The table below shows the diversification by type of U.S. public finance insurance that was outstanding as of December 31, 2012:

National U.S. Public Finance Gross Par Amount Outstanding by Bond Type as of December 31, 2012

In millions	Gross Par Amount
Bond Type	
Public finance: United States	
General fund obligation	$ 125,810
General fund obligation Lease	28,495
Municipal utilities	61,769
Tax backed	44,844
Transportation	30,644
Health care	7,470
Higher education	18,972
Student loans	431
Municipal housing	4,373
Military housing	7,941
Investor-owned utilities	4,987
Other	1,378

Total United States public finance	$	337,114

National s underwriting guidelines limit the insurance in force for any one insured credit. In addition, National is subject to regulatory single-risk limits and its ratings are subject to rating agency single-risk limits with respect to any insured bond issue. See the Insurance Regulation section below for a description of these regulatory requirements. As of December 31, 2012, National s gross par amount outstanding for its ten largest insured U.S. public finance credits totaled $19.8 billion, representing 5.9% of National s total U.S. public finance gross par amount outstanding.

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Item 1. Business (continued)

MBIA Corp. Insured Portfolio

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

- structured finance and asset-backed obligations, including obligations collateralized by diverse pools of loans or secured by or payable from a specific pool of assets having an identified future cash flow, including pools of bonds or other debt obligations;
- payments due under credit and other derivatives, including termination payments that may become due upon the occurrence of certain events, as further described below;
- bonds and loans used for the financing of projects or other entities located outside of the U.S. that include toll roads, bridges, airports, transportation facilities, utilities, hospitals, military housing and other types of infrastructure projects serving a substantial public purpose; and
- obligations of sovereign-related and sub-sovereign issuers, which includes regions, departments or their equivalent in each jurisdiction as well as sovereign owned entities that are generally supported by a sovereign state, region or department.

As of December 31, 2012, MBIA Corp. had 899 policies outstanding in its insured portfolio. In addition, MBIA Corp. had 199 insurance policies outstanding relating to asset/liability products liabilities issued by MBIA Inc. and its subsidiaries, which are described further under the section Our Wind-Down Businesses below. MBIA Corp. s total policies are diversified among 594 credits, which we define as any group of issues supported by the same revenue source.

Structured Finance and Asset-Backed Obligations

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

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

In 2008, the Company announced that it had ceased insuring new credit derivative contracts except in transactions related to the reduction of existing insured credit derivative exposure. In addition, the Company announced that it had suspended the writing of all new structured finance business for approximately six months. Since that temporary suspension, we adjusted target structured finance risk sectors and underwriting criteria in this business and are continuing to track developments in the structured finance industry. Currently, the structured finance industry is generating very few credit enhancement opportunities for the Company, and it is uncertain how or when the Company may re-engage this market.

International Obligations

Outside the U.S., financial guarantee insurance has been used by issuers of sovereign-related and sub-sovereign bonds, structured finance securities, utility debt and financing for public purpose projects, among others. At the current time we do not insure any direct sovereign debt.

Item 1. Business (continued)

We have insured both structured finance and public finance obligations in select international markets. There are unique risk factors related to each country and region that are evaluated at origination and on an ongoing basis. These factors include legal, regulatory, economic and political variables, the sophistication of and trends in local capital markets and currency exchange risks. Ongoing privatization initiatives in some regions have shifted the financing of new projects from the government to the capital markets, where investors have benefited from the default protection provided by financial guarantee insurance. The development of structured finance has varied to date by region depending on the development stage of the local capital markets, the impact of financial regulatory requirements, accounting standards and legal systems.

Portfolio Profile

As of December 31, 2012, the gross par amount outstanding on MBIA Corp. s insured obligations, including insured obligations of MBIA UK and MBIA Mexico (excluding $3.1 billion of MBIA insured investment agreements and medium-term notes (MTNs) for our asset/liability products transactions), was $112.4 billion. Insurance in force for the above portfolio, which includes all insured debt service, as of December 31, 2012 was $148.2 billion.

The table below sets forth information with respect to the original gross par amount insured per issue in MBIA Corp. s insured obligations as of December 31, 2012:

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

Portfolio Per Issue as of December 31, 2012 (1)

Original Gross Par Amount Written Per Issue	Number of Issues Outstanding	% of Total Number of Issues Outstanding	Gross Par Amount Outstanding (In billions)	% of Gross Par Amount Outstanding
Less than $10 million	297	33.0 %	$ 0.9	0.8 %
$10-25 million	169	18.8 %	2.9	2.5 %
$25-50 million	116	12.9 %	4.1	3.7 %
$50-100 million	101	11.2 %	7.4	6.6 %
$100-200 million	73	8.1 %	10.4	9.2 %
$200-300 million	42	4.7 %	10.5	9.3 %
$300-400 million	28	3.1 %	9.9	8.8 %
$400-500 million	15	1.7 %	6.8	6.1 %
Greater than $500 million	58	6.5 %	59.5	53.0 %
Total	899	100.0 %	$ 112.4	100.0 %

(1) Excludes $3.1 billion relating to investment agreements and MTNs issued by affiliates of the Company through our asset/liability products segment and guaranteed by MBIA Corp.

MBIA Corp. underwrites its policies on the assumption that the insurance will remain in force until maturity of the insured obligations. MBIA Corp. estimates that the average life of its structured finance and international insurance policies in force as of December 31, 2012 was 8.7 years. The average life was determined by applying a calculation using the remaining years to contractual maturity for international public finance obligations and estimated maturity for structured finance obligations and weighting them on the basis of the remaining debt service insured. No assumptions were made for any future refundings, early redemptions or terminations of insured issues. Average annual insured debt service on the portfolio as of December 31, 2012 was $12.5 billion.

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Item 1. Business (continued)

The table below shows the diversification by type of insurance that was outstanding as of December 31, 2012:

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

Portfolio by Bond Type as of December 31, 2012 (1)

In millions	Gross Par Amount
Bond Type	
Public finance: non-United States	
Sovereign-related and sub-sovereign	$ 11,493
International utilities	9,816
Transportation	10,069
Local governments (2)	327
Tax backed	80
Health care	41
Total public finance non-United States	31,826
Global structured finance:	
Collateralized debt obligations (3)	51,796
Mortgage-backed residential	12,066
Mortgage-backed commercial	2,838
Consumer asset-backed:	
Student loans	644
Manufactured housing	1,275
Other consumer asset-backed	68
Corporate asset-backed:	
Operating assets:	
Aircraft portfolio lease securitizations	2,277
Secured airline equipment securitizations	2,053
Other operating assets	466
Structured insurance securitizations	3,962
Franchise assets	680
Future flow	237
Other corporate asset-backed	2,185
Total global structured finance	80,547
Total	$ 112,373

(1) Excludes $3.1 billion relating to investment agreements and MTNs issued by affiliates of the Company through our asset/liability products segment and guaranteed by MBIA Corp.

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

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

MBIA Corp. s underwriting guidelines limit the insurance in force for any one insured credit. In addition, MBIA Corp. is subject to regulatory single-risk limits and its ratings are subject to rating agency single-risk limits with respect to any insured bond issue. See the Insurance Regulation section below for a description of these regulatory requirements. As of December 31, 2012, MBIA Corp. s gross par amount outstanding for its ten largest non-U.S. public finance credits insured totaled $14.1 billion, representing 12.5% of MBIA Corp. s total structured finance and international gross par amount outstanding, and the gross par outstanding for its ten largest structured finance credits (without aggregating issues of common issuers), was $20.0 billion, representing 17.8% of the total.

Item 1. Business (continued)

Risk Management

MBIA s risk management is comprised of different units that oversee credit, market and operational risks at transaction origination and in ongoing portfolio monitoring, surveillance and remediation. MBIA s Insured Portfolio Management Division monitors and remediates structured finance and international infrastructure risks while National s surveillance group performs this function with respect to U.S. public finance transactions. A Special Situations Group is involved in certain transactions that require intensive remediation. National, MBIA Insurance Corporation and MBIA UK each have a credit risk committee to review certain prescribed underwriting decisions. On an enterprise-wide basis, executive committees provide risk oversight with the Risk Oversight Committee focused on transactions not otherwise reviewable by credit risk committees, firm-wide risk review, policies and decisions related to credit, market, operational, legal, financial and business risks, the executive Loss Reserve Committee reviewing reserve activity and the Executive Credit and Market Risk/Investment Committees reviewing specific transactions and portfolios.

The Board of Directors and its Committees oversee different risks faced by the Company and its subsidiaries. The Board regularly evaluates and discusses risks associated with strategic initiatives, and the CEO s risk management performance is one of the criteria used by the Board in evaluating the CEO. On an annual basis, the Board also establishes the firm s risk appetite and evaluates and approves the Company s risk tolerance guidelines. The purpose of the risk tolerance guidelines is to delineate the types and amounts of risks the Company can face in light of its stated risk appetite. This policy provides the basis upon which risk criteria and procedures are developed and applied consistently across the Company. The Board s Audit Committee and its Finance and Risk Committee, as well as board committees at National, MBIA Insurance Corporation and MBIA UK, also play an important role in overseeing different types of risks.

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

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

At each regular meeting of the Board, the Chairs of each of these committees report to the full Board regarding the meetings and activities of their respective committees.

Insurance Origination, Monitoring and Remediation

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

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

Item 1. Business (continued)

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

Structured Finance Transactions: For structured transactions, we focus on the historical and projected cash flows generated by the assets, credit and operational strength of the originator, servicer, manager and/or operator of the assets, and the nature of the transaction s structure (including the degree of protection from bankruptcy of the originator or servicer). We may use both probability modeling and cash flow sensitivity analysis (both at the transaction and asset specific levels) to test asset performance assumptions and performance covenants, triggers and remedies. In addition, the Insured Portfolio Management Division may use various quantitative tools and qualitative analyses to test for credit quality, correlation, liquidity and capital sensitivity within the insured portfolio.

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

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

Credit Risk Models

We use credit risk models to test qualitative judgments, to design appropriate structures and to understand sensitivity within transactions and across broader portfolio exposure concentrations. Models are updated to reflect changes in both portfolio and transaction data and also in expectations of stressed future outcomes. For portfolio monitoring we use internal and third-party models based on individual transaction attributes and customized structures and these models are also used to determine case basis loss reserves and, where applicable, to mark-to-market any insured obligations as may be required for financial reporting. When using third-party models, we generally perform the same review and analyses of the collateral, transaction structure, performance triggers and cash flow waterfalls as when using our internal models. See Risk Factors Insured Portfolio Loss Related Risk Factors Financial modeling contains uncertainty over ultimate outcomes which makes it difficult to estimate liquidity, potential paid claims, loss reserves and mark-to-market in Part I, Item 1A of this Form 10-K.

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Item 1. Business (continued)

Market Risk Assessment

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

Operational Risk Assessment

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

Losses and Reserves

Loss and loss adjustment expense (LAE) reserves are established by Loss Reserve Committees in each of our major operating insurance companies (National, MBIA Corp. and MBIA UK) and reviewed by our executive Loss Reserve Committee, which consists of members of senior management. The Company s loss and LAE reserves as of December 31, 2012 represent case basis reserves and accruals for LAE incurred. Case basis reserves represent the Company s estimate of expected losses to be paid under an insurance contract, net of potential recoveries and discounted using a current risk-free interest rate, when this amount exceeds unearned premium revenue on the related insurance contract. We record case basis loss reserves on insured obligations which have defaulted or are expected to default.

For a further discussion of the methodology used by the Company for determining when a case basis reserve is established, see Management s Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Estimates Loss and Loss Adjustment Expense Reserves in Part II, Item 7 of this Form 10-K. Management believes that our reserves are adequate to cover the ultimate net cost of claims. However, because the reserves are based on management s judgment and estimates, there can be no assurance that the ultimate liability will not exceed such estimates or that the timing of claims payments and the realization of recoveries will not create liquidity issues for the insurance companies.

Reinsurance

State insurance laws and regulations, as well as the rating agencies who rate our insurance companies impose minimum capital requirements on financial guarantee companies, limiting the aggregate amount of insurance and the maximum size of any single risk exposure which may be written. Prior to 2008 we decreased the insured exposure in our portfolio and increased our capacity to write new business by reinsuring certain of our gross liabilities with third parties on an aggregate and single risk basis through treaty and facultative reinsurance. In the future, we do not intend to utilize reinsurance to a material degree for these purposes. We may, from time to time, look to reduce risks embedded in our insured portfolio on an individual and portfolio-wide basis by entering into derivative transactions or other types of hedging arrangements.

Since 2008, we have commuted most of the Company s previously outstanding reinsurance. We currently have reinsurance agreements in place with six reinsurers and commuted reinsurance in place with 18 reinsurers between 2008 and 2010, in some cases in exercise of the Company s right to reassume business ceded to reinsurers under certain circumstances, including rating downgrades of the reinsurers. Under its commutation agreements, the Company is generally paid an amount based on estimates of present and future exposures and taking into account the time value of money; this amount generally includes the unearned premium reserves and loss reserves established for the insurance policies associated with the commuted reinsurance.

Item 1. Business (continued)

In exchange for payment of the agreed amount, the reinsurer s exposure to the ceded policies is commuted. Commuted reinsurance includes the termination of reinsurance with Channel Reinsurance Ltd (Channel Re) during the third quarter of 2010. The termination of reinsurance was executed following MBIA Corp. s acquisition of all of the common stock of Channel Re and its parent, ChannelRe Holdings, Ltd., not previously owned by MBIA Corp. Channel Re and its parent were subsequently liquidated. MBIA Corp. previously held a 17.4% ownership interest in Channel Re and Channel Re agreed to provide committed reinsurance capacity to MBIA Corp.

With respect to reinsurance remaining outstanding, our insurance companies, as primary insurers, are required to honor their obligations to their policyholders whether or not our reinsurers and other reimbursement parties perform their agreement obligations to us. We monitor the financial position and financial strength rating of all of our reinsurers on a regular basis. Over the past several years, some of the Company s remaining reinsurers have been downgraded and all are now subject to more frequent rating agency review. A ratings downgrade reduces the overall benefit of the reinsurance to MBIA. When a reinsurer is downgraded by one or more of the rating agencies, less capital credit is given to our insurance companies under rating agency capital adequacy assessment models. Additionally, any significant rating downgrade or financial deterioration of one or more of our reinsurers could require the establishment of reserves against any receivables due from the reinsurer. To offset the counterparty risk, we require certain unauthorized reinsurers to maintain bank letters of credit or establish trust accounts to cover liabilities ceded to such reinsurers under reinsurance contracts. As of December 31, 2012, the amount of funds held for the benefit of MBIA totaled $8 million. The Company remains liable on a primary basis for all reinsured risk, and although MBIA believes that its reinsurers remain capable of meeting their obligations, there can be no assurance of such in the future.

Intercompany Reinsurance Arrangements

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

MBIA Corp. has entered into a reinsurance agreement with MBIA UK providing for MBIA Corp. s reimbursement of the losses incurred by MBIA UK in excess of a specified threshold in each calendar year, subject to certain contract limitations, and a net worth maintenance agreement in which MBIA Corp. agrees to maintain a minimum capital and surplus position at MBIA UK at the greater of a specified amount or the amount required by U.K. regulations, subject to certain New York State regulatory requirements as well as certain contract restrictions. MBIA Corp. has also entered into a reinsurance agreement and net worth maintenance agreement with MBIA Mexico pursuant to which MBIA Corp. reinsures 100% of the business underwritten by MBIA Mexico and agrees to maintain the amount of capital in MBIA Mexico required by applicable law or regulation.

Insurance Regulation

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

The extent of state insurance regulation and supervision varies by jurisdiction, but New York, the U.K., Mexico and most other jurisdictions have laws and regulations prescribing minimum standards of solvency, including minimum capital requirements, and business conduct which must be maintained by insurance companies, and if our insurance companies fail to meet such requirements our regulators may impose certain remedial actions on us. These laws prescribe permitted classes and concentrations of investments. In addition, some state laws and regulations require the approval or filing of policy forms and rates. MBIA Corp. and National each are required to file detailed annual financial statements with the NYSDFS and similar supervisory agencies in each of the other jurisdictions in which it is licensed. MBIA UK makes similar filings with the FSA.

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Item 1. Business (continued)

The operations and accounts of the insurance companies are subject to examination by these regulatory agencies at regular intervals. In addition to being subject to the insurance laws in the jurisdictions in which we operate, as a condition to obtaining required insurance regulatory approvals to enter into certain transactions and take certain other corporate actions, including the release of excessive contingency reserves in MBIA Insurance Corporation described below under Contingency Reserves and entry into the secured loan between MBIA Inc. and MBIA Corp. and the asset swap between MBIA Inc. and National (each described under Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity MBIA Inc. Liquidity in Part II, Item 7 of this Form 10-K), MBIA Inc. and its insurance subsidiaries have and may in the future agree to provide notice to the NYSDFS or other applicable regulators prior to entering into transactions or taking other corporate actions (such as paying dividends when applicable statutory tests are satisfied) that would not otherwise require regulatory approval.

New York Insurance Regulation

Our domestic insurance companies are licensed to provide financial guarantee insurance under Article 69 of the New York Insurance Law (the NYIL). Article 69 defines financial guarantee insurance to include any guarantee under which loss is payable upon proof of occurrence of financial loss to an insured as a result of certain events. These events include the failure of any obligor on or any issuer of any debt instrument or other monetary obligation to pay principal, interest, premium, dividend or purchase price of or on such instrument or obligation when due. Under Article 69, our domestic insurance companies are permitted to transact financial guarantee insurance, surety insurance and credit insurance and such other kinds of business to the extent necessarily or properly incidental to the kinds of insurance which they are authorized to transact. In addition, they are empowered to assume or reinsure the kinds of insurance described above.

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

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

New York State Dividend Limitations

The laws of New York regulate the payment of dividends by National and MBIA Corp. and provide that a New York domestic stock property/casualty insurance company may not declare or distribute dividends except out of statutory earned surplus.

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Item 1. Business (continued)

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

In connection with MBIA Insurance Corporation obtaining approval from the NYSDFS to release excessive contingency reserves as of September 30, 2011, December 31, 2011 and March 31, 2012, MBIA Insurance Corporation agreed that it would not pay any dividends without prior approval from the NYSDFS. Due to its significant negative earned surplus, MBIA Insurance Corporation has not had the statutory capacity to pay dividends since December 31, 2009 and is not expected to have any statutory capacity to pay any dividends in the near term. During the second quarter of 2010, National received approval from the NYSDFS to reset its unassigned surplus to zero as of January 1, 2010. The reset provides National with dividend capacity of $200 million as of December 31, 2012. In October 2010, the plaintiffs in the Transformation litigation initiated a court proceeding challenging the approval of the surplus reset and we have agreed that National will not pay dividends during the current adjournment of the proceeding (currently, through April 19, 2013). In addition, in connection with the approval of the December 31, 2011 MBIA Insurance Corporation contingency reserve release, the Company has agreed that National will not pay dividends without the prior approval of the NYSDFS prior to July 19, 2013. See Note 14: Insurance Regulations and Dividends in the Notes to Consolidated Financial Statements of MBIA Inc. and Subsidiaries in Part II, Item 8 of this Form 10-K.

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

Contingency Reserves

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

Prior to September 30, 2012, MBIA Corp. released to surplus an aggregate of $1.1 billion of contingency reserves pursuant to approvals granted by the NYSDFS in accordance with the NYIL during 2011 and 2012. Absent these releases MBIA Corp. would have had deficits of qualifying assets to meet its contingency reserve requirements. As of December 31, 2012, MBIA Insurance Corporation had a deficit of $140 million of qualifying assets required to support its contingency reserves.

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Item 1. Business (continued)

The deficit was caused by MBIA Insurance Corporation s sale of liquid assets in order to make claim payments and the failure of certain mortgage originators, particularly Bank of America, to honor their contractual obligations to repurchase ineligible mortgage loans from securitizations the Company insured. Absent a resolution of the disputes with these parties, the deficit is expected to grow as additional commutation and claim payments are made in the future. The Company has reported the deficit to the NYSDFS. MBIA Insurance Corporation has requested approval from the NYSDFS to release $97 million of contingency reserves as of September 30, 2012, and $43 million of contingency reserves as of December 31, 2012, but to date has not received approval. For risks associated with MBIA Insurance Corporation s failure to meet its contingency reserve requirement, see Risk Factors Capital, Liquidity and Market Related Risk Factors If the Company s insurance subsidiaries fail to meet regulatory capital requirements they may become subject to regulatory action in Part I, Item 1A of this Form 10-K.

Risk Limits

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

As a result of the Transformation and the reinsurance of the MBIA Corp. and FGIC portfolios by National, National exceeded as of the closing date certain single and aggregate risk limits under the New York laws and regulations, and MBIA Insurance Corporation exceeded as of the closing date certain single risk limits under New York laws and regulations. These insurers obtained waivers from the NYSDFS of those limits. In connection with the waivers, they submitted a plan to the applicable insurance departments to achieve compliance with the applicable regulatory limits. Under the plans, they agreed not to write new financial guarantee insurance for certain issuers, and in MBIA Insurance Corporation s case, in certain categories of business, until they were in compliance with their single risk limits and agreed to take commercially reasonable steps, including considering reinsurance, the addition of capital and other risk mitigation strategies, in order to comply with the regulatory risk limits. As a condition to granting the waiver, the NYSDFS required that, in addition to complying with these plans, upon written notice from the NYSDFS, MBIA Insurance Corporation and National, as applicable, would cease writing new financial guarantee insurance if it were not in compliance with the risk limitation requirements by December 31, 2009. To date, we have not received such a notice from the NYSDFS. National came into compliance with the aggregate risk limits in 2011 and has a *de minimis* number of single risk limit overages remaining. In 2012 and 2011, MBIA Insurance Corporation reported additional overages to the NYSDFS due to changes in its statutory capital. MBIA Insurance Corporation experienced an aggregate risk limit overage as of September 30, 2012, and continued to exceed its aggregate risk limits by $56 million as of December 31, 2012. MBIA Insurance Corporation notified the NYSDFS of the overage and submitted a plan to achieve compliance with the limits in accordance with the NYIL. If MBIA Insurance Corporation is not in compliance with its aggregate risk limits, the NYSDFS may prevent MBIA Insurance Corporation from transacting any new financial guarantee insurance business until it no longer exceeds the limitations.

Holding Company Regulation

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

Change of Control

Prior approval by the NYSDFS is required for any entity seeking to acquire, directly or indirectly, control of National or MBIA Corp.

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Item 1. Business (continued)

In many states, including New York, control is presumed to exist if 10% or more of the voting securities of the insurer are owned or controlled, directly or indirectly, by an entity, although the insurance regulator may find that control in fact does or does not exist when an entity owns or controls either a lesser or greater amount of securities. The FSA also has a requirement for prior approval of any controlling person. MBIA Corp. would require the prior approval of MBIA Mexico s regulator in order to transfer the shares it currently holds in MBIA Mexico. To the Company s knowledge, each MBIA Inc. shareholder which owns 10% or more of MBIA Inc. s outstanding common stock as of December 31, 2012 has received appropriate approvals or determinations of non-control in connection with its investment.

Insurance Guarantee Funds

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

Insured Credit Default Swaps

Certain of our insurance policies guarantee payments due under CDS and other derivatives. In July 2010, the Dodd-Frank Act was signed into law for the purpose of enacting broad financial industry regulatory reform, including enhancing regulation of the over-the-counter derivatives markets. Among other reforms, the Dodd-Frank Act requires swap dealers and major swap participants to register with either or both of the Commodity Futures Trading Commission (CFTC) and the Securities and Exchange Commission (SEC), and to be subject to enhanced regulation, including capital requirements. The CFTC and SEC have promulgated rules to implement this enhanced regulatory framework, including final rules that require the Company to include its legacy insured derivatives in tests used to determine whether it is a major swap participant. MBIA Insurance Corporation will register as a major swap participant and on an ongoing basis will be required to comply with the CFTC s business conduct rules applicable to swap portfolios in place prior to the enactment of the Dodd-Frank Act. As further rules are enacted we expect to seek exemptions from certain of the rules that we do not believe we will be able to comply with, including capital requirements. The SEC has not yet implemented a registration or reporting framework. Depending on the timing of the enactment of the SEC registration and reporting framework, and the enactment of other final SEC rules, MBIA Insurance Corporation may also be required to register with the SEC as a major swap participant. At the present time, we do not believe National will be required to register under either the CFTC or SEC rules.

Because the CFTC and SEC have not yet issued final rules establishing capital requirements for major swap participants, the ultimate impact of such requirements on the Company is not yet clear. However, to the extent that the Company becomes subject to significant additional capital requirements, it is unlikely that the Company will be able to meet those standards.

OUR ADVISORY SERVICES

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

The Company has operated its advisory services segment since 1991 and had $29.8 billion in institutional assets under management as of December 31, 2012, including $12.2 billion from the Company and its subsidiaries. The segment has generally produced strong investment performance for its clients and has focused on providing high quality client support. The Company believes there is strong demand for its services given its track record, recent fixed-income market volatility and growth in fixed-income asset classes due to demographic changes and product innovation. In order to develop and grow our third-party advisory business, in 2010 we renamed our advisory services companies under the Cutwater name and re-branded them to reflect and communicate their organizational separation from the Company s insurance operations and the wind-down businesses.

Item 1. Business (continued)

In particular, the asset management advisory business now operates under a wholly-owned Cutwater branded holding company of MBIA Inc. that no longer owns the wind-down businesses.

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

Cutwater s advisory services are offered through two principal operating subsidiaries: Cutwater Asset Management Corp. (Cutwater-AMC), an SEC-registered investment adviser and Financial Industry Regulatory Authority (FINRA) member firm, and Cutwater Investor Services Corp. (Cutwater-ISC), an SEC-registered investment adviser.

Advisory Services Regulation

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

Other Advisory Services

Trifinium is an FSA regulated advisory and asset management firm based in the U.K.

OUR WIND-DOWN BUSINESSES

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

Asset/Liability Products

The asset/liability products business historically raised funds for investment through two sources: (1) issuance of customized investment agreements by the Company and one of its subsidiaries for bond proceeds and other funds; and (2) issuance of MTNs with varying maturities issued by our subsidiary MBIA Global Funding, LLC (GFL). Each of these products is guaranteed by MBIA Corp. In addition, GFL would lend the proceeds of its GFL MTN issuances to MBIA Inc. (GFL Loans). Under agreements among MBIA Inc., MBIA Corp. and/or GFL, the Company invested the proceeds of the investment agreements and GFL Loans in eligible investments, which consisted of investment grade securities with a minimum average double-A credit quality rating at purchase and which are pledged to MBIA Corp. as security for its guarantees on investment agreements and GFL MTNs. MBIA Inc. primarily purchased domestic securities and lent a portion of the proceeds from investment agreements and GFL MTNs to its subsidiary Euro Asset Acquisition Limited, which primarily purchased foreign assets as permitted under the Company s investment guidelines. Euro Asset Acquisition Limited no longer holds any investments.

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Item 1. Business (continued)

While MBIA Corp. enjoyed triple-A insurer financial strength ratings, the Company generally earned a positive spread between the yields on assets and liabilities in this business, but since the third quarter of 2008, ratings downgrades of MBIA Corp. have resulted in the termination and collateralization of certain investment agreements, and the lower yield earned on greater holdings of cash and cash equivalents coupled with the increased cost of funding liabilities has resulted in a negative spread and we are therefore in the process of winding down this business.

The Company is subject to significant liquidity risks through this business. See Risk Factors Capital, Liquidity and Market Related Risk Factors Adverse developments in the credit markets may materially and adversely affect MBIA Inc. s ability to meet liquidity needs in its asset/liability products segment in Part I, Item 1A of this Form 10-K and Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity MBIA Inc. Liquidity in Part II, Item 7 of this Form 10-K for a discussion of the risks facing this business and the actions the Company has taken to manage this business.

Conduits

Our conduit segment is principally operated through Meridian Funding Company, LLC (Meridian) and, formerly, Triple-A One Funding Corporation (Triple-A One). The conduits were used by banks and other financial institutions to raise funds for their customers in the capital markets. Triple-A One was liquidated during 2012. The conduits provided funding for multiple customers through special purpose vehicles that issued commercial paper and MTNs. The proceeds from these issuances were used to either make loans to customers that are secured by certain assets or to purchase assets from customers. All MTN liabilities issued, and all assets originally purchased, by the conduits were insured by MBIA Corp. and subject to MBIA Corp. s standard underwriting process. The conduits received an administrative fee as compensation for these services. No new MTNs have been issued by the conduits since 2007 and there have been no outstanding issues of commercial paper since 2008. The conduit segment provides liquidity support through a repurchase agreement between the asset/liability products segment (through MBIA Inc.) and the conduit segment (through Meridian), under which $32 million was outstanding as of December 31, 2012. This amount may be increased in the future.

The conduits present immaterial liquidity risk to the Company because the assets of Meridian are structured to mature by or before the maturity date of the liabilities.

INVESTMENTS AND INVESTMENT POLICY

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

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

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

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Item 1. Business (continued)

COMPETITION

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

Our ability to attract and compete for financial guarantee business is largely dependent on the financial strength ratings assigned to our insurance companies by the major rating agencies. The actions by the major rating agencies with respect to the Company s and our insurance companies ratings have adversely affected our ability to attract new financial guarantee business. Furthermore, we are unlikely to achieve our desired credit ratings until we resolve the Transformation litigation and MBIA Insurance Corporation repays the National Secured Loan. As a result, we have written virtually no new business since our ratings downgrades in 2008.

Since 2008, every significant monoline financial guarantee insurer has been downgraded by one or more of the major rating agencies. In 2009, the only two financial guarantee insurers that were underwriting significant new business merged, further reducing competition in the market. While there are currently two bond insurers actively engaged in the market, one of which was established in 2012, we have observed other new competitors indicating an interest in entering the bond insurance market and continue to consider strategies for launch. We will continue to monitor the impact that new market participants may have on our ability to compete in the U.S. public finance insurance market in the future. In the future, recapitalized existing bond insurers and/or newly formed entities may begin underwriting new business. Furthermore, changes to Article 69 of the New York Insurance Law, which regulates New York domiciled financial guarantee companies, could lower the barriers to entry for competitors. Finally, the inability of financial guarantee insurers to maintain or achieve high ratings could diminish acceptance of the product and enhance the appeal of other forms of credit enhancement. Since 2008, the percentage of new public and structured finance issuances with a financial guarantee has decreased significantly. In addition, the structured finance industry is generating very few new business opportunities, and it continues to be uncertain as to how or when the Company may re-engage this market.

Financial guarantee insurance also competes with other forms of credit enhancement. Commercial banks provide letters of credit as a means of credit enhancement for municipal securities. In 2012, the use of letters of credit as an alternative to financial guarantee insurance within the U.S. municipal market was far below its peak in 2009; however, letters of credit have remained a significant presence in the market. Furthermore, during 2012, direct lending by banks to municipal issuers increased substantially. Other forms of credit enhancement include senior-subordinated structures, credit derivatives, letters of credit and alternative guarantees (for example, mortgage guarantees where pools of mortgage loans secure debt service payments) provided by banks and other financial institutions, some of which are governmental agencies. Other highly rated institutions, including pension funds and government sponsored entities, also offer third-party credit enhancement on asset-backed and municipal obligations. Financial guarantee insurance and other forms of credit enhancement also compete in nearly all instances with the issuer s alternative of foregoing credit enhancement and paying a higher interest rate. If the interest savings from insurance or another form of credit enhancement are not greater than the cost of such credit enhancement, the issuer will generally choose to issue bonds without third-party enhancement. All of these alternative forms of credit enhancement or alternative executions could also affect our ability to re-enter the financial guarantee business.

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

Item 1. Business (continued)

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

The Company also competes in the advisory services market outside of the U.S. through Trifinium. Trifinium s ability to compete will depend on its ability to leverage its expertise in credit underwriting and structuring infrastructure assets, and the surveillance, management and valuation thereof, in order to attract new financial advisory services clients in the markets in which it competes. Competition in these markets includes local and international investment banks, other diversified financial services providers and specialist infrastructure funds and advisors.

RATING AGENCIES

Rating agencies perform periodic reviews of our insurance companies and other companies providing financial guarantee insurance. In rating financial guarantee companies, rating agencies focus on qualitative and quantitative characteristics in five key areas. Those are: (1) franchise value and business strategy; (2) insurance portfolio characteristics; (3) capital adequacy; (4) profitability; and (5) financial flexibility. Each agency has its own ratings criteria for financial guarantors and employs proprietary models to assess our risk adjusted leverage, risk concentrations and financial performance relative to the agency s standards. The agencies also assess our corporate governance and factor this into their rating assessment. Currently, Standard & Poor s Financial Services LLC (S&P) and Moody s Investor Service Inc. (Moody s) rate the Company and its insurance companies.

Until June 2008, MBIA Corp. held Triple-A financial strength ratings from S&P, which the Association received in 1974; from Moody s, which the Association received in 1984; from Fitch, Inc. (Fitch), which MBIA Corp. received in 1995; and from Rating and Investment Information, Inc. (RII), which MBIA Corp. received in 1998. The deterioration of certain segments of the credit markets beginning in the second half of 2007 and mounting concerns about monoline insurers precipitated a series of ratings downgrades by each of the major ratings agencies that began in June 2008, which were followed by further ratings actions reflecting the impact of the Transformation, among other developments. Furthermore, the pending litigation challenging the establishment of National has constrained our ability to take steps necessary to achieve the highest possible ratings for National and our other insurers.

Fitch withdrew its insurer financial strength ratings for MBIA Corp. and its insurance affiliates as well as all other related ratings in June 2008. At the Company s request, RII canceled its ratings on MBIA Corp. and CMAC in June 2008.

It is our intent to capitalize National at a level consistent with the highest achievable credit ratings through internal capital growth at National and potentially by raising third-party capital. However, no assurance can be given that we will be able to achieve such higher ratings. In particular, in August 2011, S&P issued new guidelines that reflect significant changes to its rating methodology for financial guarantee insurers. These new guidelines were effective immediately. The changes to S&P s rating methodology substantially increase the amount of capital, among other qualitative factors, required to achieve its highest ratings, implement a new Largest Obligors Test and incorporate additional qualitative considerations into the ratings process. Moody s has not issued new rating criteria for financial guarantee insurers, however, rating actions with respect to other bond insurers and pronouncements by Moody s in January 2013 seem to indicate a change in their rating framework for the financial guarantee industry which could impact National s future potential ratings. The absence of S&P s and Moody s highest ratings could adversely impact our ability to write new insurance business and the premiums we can charge, and could diminish the future acceptance of our financial guarantee insurance products.

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Item 1. Business (continued)

Our current ratings constrain our ability to write new business. National s, MBIA Insurance Corporation s and MBIA Inc. s current financial strength ratings from S&P and Moody s are summarized below:

Agency	Rating / Outlook		
	National	MBIA Insurance Corporation	MBIA Inc.
S&P	BBB / Developing outlook	B / Negative outlook	B- / Negative outlook
Moody s	Baa2 / Negative outlook	Caa2 / Developing outlook	Caa1 / Developing outlook

CAPITAL FACILITIES

The Company does not currently maintain a capital facility. For a discussion of the Company s capital resources see Management s Discussion and Analysis of Financial Condition and Results of Operations Capital Resources in Part II, Item 7 of this Form 10-K.

FINANCIAL INFORMATION

For information on the Company s financial information by segment and premiums earned by geographic location, see Note 12: Business Segments in the Notes to Consolidated Financial Statements of MBIA Inc. and Subsidiaries in Part II, Item 8 of this Form 10-K.

EMPLOYEES

As of December 31, 2012, the Company had 352 employees, including 159 in Optinuity, 29 in National, 32 in MBIA Corp., 113 in Cutwater and 19 in Trifinium Services Limited, our services company in the U.K. None of the Company s domestic employees are covered by a collective bargaining agreement. Certain of the Company s employees outside the U.S. are governed by national collective bargaining or similar agreements. The Company considers its employee relations to be satisfactory.

AVAILABLE INFORMATION

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

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

EXECUTIVE OFFICERS OF THE REGISTRANT

The executive officers of the Company and their present ages and positions with the Company as of February 27, 2013 are set forth below:

Name	Age	Position and Term of Office
Joseph W. Brown	64	Chief Executive Officer and Director (officer since February 2008)
C. Edward Chaplin	56	President, Chief Financial Officer and Chief Administrative Officer (officer since June 2006)
William C. Fallon	53	President and Chief Operating Officer (officer since July 2005)
Clifford D. Corso	51	Executive Vice President and Chief Investment Officer (officer since September 2004)
Ram D. Wertheim	58	Executive Vice President, Chief Legal Officer and Secretary (officer since January 2000)
Anthony McKiernan	43	Executive Vice President and Chief Portfolio Officer (officer since August 2011)

Item 1. Business (continued)

Joseph W. Brown (age 64) is Chief Executive Officer and a director of the Company. Mr. Brown assumed the roles of Chairman, CEO and director in February 2008 after having retired as Executive Chairman of MBIA in May 2007. In May 2009, the Company s Board of Directors accepted Mr. Brown s recommendation to separate the roles of Chairman and CEO and elected Daniel P. Kearney as Non-Executive Chairman, with Mr. Brown continuing in the roles of CEO and director. Mr. Brown also serves as Chairman of MBIA Insurance Corporation. Until May 2004, Mr. Brown had served as Chairman and CEO of MBIA and MBIA Corp. Mr. Brown originally joined the Company as CEO in January 1999 after having been a director since 1986, and became Chairman in May 1999.

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

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

The Board of Directors of MBIA Inc. appointed Messrs. Chaplin, Fallon, Corso and Wertheim to the offices set forth opposite their names above on November 6, 2008 and appointed Mr. McKiernan to the offices set forth opposite his name above on May 1, 2012.

Prior to being named President, Chief Financial Officer and Chief Administrative Officer, C. Edward Chaplin (age 56) was Vice President and Chief Financial Officer of the Company. Mr. Chaplin also serves as Chief Financial Officer of MBIA Insurance Corporation and President, Chief Executive Officer and Chief Administrative Officer of Optinuity. Prior to becoming an officer of the Company in June 2006, Mr. Chaplin had served as a director of the Company from December 2002 to May 2006 and as Senior Vice President and Treasurer of Prudential Financial Inc. since November 2000, responsible for Prudential s capital and liquidity management, corporate finance, and banking and cash management. Mr. Chaplin had been with Prudential since 1983.

Prior to being named President and Chief Operating Officer, William C. Fallon (age 53) was Vice President of the Company and head of the Global Structured Finance Division. Mr. Fallon also serves as President and Chief Executive Officer of National and President and Chief Operating Officer of MBIA Insurance Corporation. From July 2005 to March 1, 2007, Mr. Fallon was Vice President of the Company and head of Corporate and Strategic Planning. Prior to joining the Company in 2005, Mr. Fallon was a partner at McKinsey & Company and co-leader of that firm s Corporate Finance and Strategy Practice.

Prior to being named Executive Vice President and Chief Investment Officer, Clifford D. Corso (age 51) was Vice President of the Company, the Company s Chief Investment Officer and the president of Cutwater-AMC. Mr. Corso is the Chief Executive Officer and Chief Investment Officer of Cutwater-AMC. He joined the Company in 1994 and has served as Chief Investment Officer since 2000.

Prior to being named Executive Vice President, Chief Legal Officer and Secretary, Ram D. Wertheim (age 58) was Vice President, General Counsel and Secretary of the Company. Mr. Wertheim also serves as General Counsel and Secretary of MBIA Insurance Corporation and Optinuity. From February of 1998 until January 2000, he served in various capacities in the Global Structured Finance Division. Mr. Wertheim was, until February of 1998, the General Counsel of CMAC Holdings Inc.

Prior to being named Executive Vice President and Chief Portfolio Officer on May 1, 2012, Anthony McKiernan (age 43) was appointed Vice President and Chief Portfolio Officer of the Company on August 3, 2011. Mr. McKiernan is also the Chief Risk Officer of MBIA Insurance Corporation. Mr. McKiernan joined MBIA in 2000 as a vice president in the Credit Analytics Group, and managed the Corporate Insured Portfolio Management Group prior to becoming the Head of the Structured Finance Insured Portfolio Management Group in 2007. Before working at MBIA, Mr. McKiernan was with Fleet Financial Group where he began his career as a Credit Analyst/ Lender in asset-based lending.

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Item 1A. Risk Factors

References in the risk factors to the Company are to MBIA Inc., together with its domestic and international subsidiaries. References to we, our and us are to MBIA Inc. or the Company, as the context requires. Our risk factors are grouped into categories and are presented in the following order: Insured Portfolio Loss Related Risk Factors , Capital, Liquidity and Market Related Risk Factors , Strategic Plan Related Risk Factors and General Risk Factors .

Insured Portfolio Loss Related Risk Factors

There can be no assurance that we will be successful, or that we will not be delayed, in realizing our estimated loan put-back recoveries of $3.6 billion; the estimated loan put-back recoveries net of reinsurance and income taxes are $2.3 billion, which is 73% of the consolidated total shareholders equity of MBIA Inc., excluding preferred stock of subsidiary and noncontrolling interest.

Based on our forensic reviews and the analysis of RMBS transactions insured by MBIA Corp., we believe that multiple sellers/servicers and counterparties that originated or sponsored such transactions misrepresented the nature and/or quality of the underlying mortgage loans in those transactions, which resulted in the losses we have incurred to date on those transactions and which represent a substantial portion of the total losses we have incurred since the fourth quarter of 2007. We refer to those mortgage loans that the Company believes failed to comply with the representations and warranties made by the sellers/servicers as ineligible mortgage loans. We believe that, on a contractual basis, the sellers/servicers in MBIA Corp.-insured mortgage transactions are obligated to cure, replace or repurchase all the ineligible mortgage loans for which we have recorded potential recoveries. As such, we take into account these expected recoveries from those sellers/servicers arising from our contractual right of put-back of ineligible loans in our assessment and calculation of loss reserves. As of December 31, 2012, we have recognized estimated loan put-back recoveries of $3.6 billion related to our insured transactions. The estimated loan put-back recoveries net of reinsurance and income taxes are $2.3 billion, which is 73% of the consolidated total shareholders equity of MBIA Inc., excluding preferred stock of subsidiary and noncontrolling interest.

A substantial majority of our put-back claims have been disputed by the loan sellers/servicers and are currently subject to litigation. In addition, we have recorded our largest put-back asset against Bank of America and certain of its subsidiaries including Countrywide, and the amount we may ultimately collect from Bank of America/Countrywide on its put-back obligations in any litigation settlement could be impacted by potential commutation payments or offset by MBIA Corp.-insured CMBS exposures held by a subsidiary of Bank of America and developments in the Transformation litigation and the consent solicitation litigation, as described further below under MBIA Insurance Corporation may be placed in a rehabilitation or liquidation proceeding as a result of, among other things, a lack of liquid assets available to pay claims due to the failure by RMBS sellers/servicers to honor their contractual obligation to repurchase ineligible mortgage loans, combined with the substantial RMBS claims payments and other claims and commutation payments to date, as well as the increased probability that MBIA Corp. will experience claims payments on certain of its CMBS exposures in the near future.

We have also recorded substantial recoveries related to put-backs against two wholly-owned subsidiaries of Residential Capital, LLC (ResCap), GMAC Mortgage, LLC (GMAC) and Residential Funding Company, LLC (RFC), whose ultimate parent company is Ally Financial Inc. On May 14, 2012, ResCap, RFC and GMAC each filed for bankruptcy protection under Chapter 11 of the United States Bankruptcy Code. Accordingly, MBIA Inc. s put-back claims are now subject to the ResCap bankruptcy proceeding.

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

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Item 1A. Risk Factors (continued)

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

We are exposed to risk of losses as a result of poor performance of loans included in our insured second-lien RMBS transactions arising from material misrepresentations made by transaction sellers/servicers and the refusal of the sellers/servicers to perform under the related contracts. Based on our forensic reviews and analysis of RMBS we insured, we believe that multiple sellers/servicers that originated or sponsored transactions that we insured misrepresented the nature and/or quality of the residential mortgage loans that back those transactions. We believe that the inclusion of these ineligible mortgage loans has substantially contributed to the RMBS losses that the Company has incurred to date. Since the fourth quarter of 2007, MBIA Corp. has paid $6.7 billion of claims before reinsurance and collections, excluding LAE and including $930 million of claims made on behalf of consolidated variable interest entities (VIEs), on policies insuring second-lien RMBS securitizations. Losses in these transactions and in other transactions due to the inclusion of ineligible loans could continue. In sizing loss reserves relating to these transactions, we take into account expected recoveries from those sellers/servicers arising from our contractual rights of put-back of ineligible loans. As of December 31, 2012, we recorded estimated recoveries of $3.6 billion related to insured transactions. The recovery amount is based upon a number of factors, including an assessment of the financial abilities of the sellers/servicers using external credit ratings. The impact of such factors on cash flows related to expected recoveries is incorporated into the Company s probability-weighted scenarios.

In addition, although we sought to underwrite RMBS and other structured finance transactions with levels of subordination and other credit enhancements designed to protect us from loss in the event of poor performance of the underlying assets collateralizing the securities, the misrepresentations concerning the quality of the collateral backing those transactions has rendered insufficient the original level of subordination and other credit enhancements to prevent losses. No assurance can be given that any remaining credit enhancements will prove to be adequate to protect us from incurring additional material losses.

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

The Company is exposed to credit risks in our portfolio that have arisen from the deterioration and continued poor performance of certain segments of the credit markets, particularly our RMBS, CDOs of ABS and ABS insured credit derivatives portfolios, which has led to the deterioration in the quality of assets and the collection of cash flows from such assets within structured securities and referenced in credit derivatives that we have guaranteed. Beginning in the second half of 2007, deterioration of the global credit markets coupled with the re-pricing of credit risk created extremely difficult market conditions and volatility in the credit markets. The concerns on the part of market participants were initially focused on the subprime segment of the U.S. mortgage-backed securities market and expanded to include a broad range of mortgage and asset-backed and other fixed-income securities, including those rated investment grade, the U.S. and international credit and interbank money markets generally, and a wide range of financial institutions and markets, asset classes and sectors. The deterioration in the credit markets was accompanied by a severe economic recession precipitated, in part, by the collapse of U.S. residential home prices, and the U.S. economy continues to show sluggish growth in the employment, housing and financial sectors. While many segments of the global credit markets and the economy have since recovered, the performance of certain credits we insure, in particular RMBS, CDOs of ABS and ABS insured credit derivatives, and the U.S. housing sector generally, have deteriorated significantly since 2007 and those credits continue to perform poorly.

In 2012, we recorded $632 million of losses and LAE in our structured finance portfolio before the $463 million benefit related to an increase in recoveries of ineligible mortgage loans and before the elimination of a $140 million expense as a result of consolidating VIEs. Furthermore, since the fourth quarter of 2007, we have recorded losses and LAE of $2.1 billion, before the elimination of a $29 million benefit of losses and LAE incurred on behalf of consolidated VIEs, (including losses and LAE expense of $13 million in 2012 before the elimination of a $164 million expense as a result of consolidating VIEs) related to insured second-lien RMBS exposures.

Item 1A. Risk Factors (continued)

We have made $6.7 billion of claims payments before reinsurance and collections, excluding LAE and including $930 million of claims on behalf of consolidated VIEs. In addition, to date, we have recorded losses and LAE expense of $466 million, before the elimination of a $92 million expense as a result of consolidating VIEs (including a $45 million benefit in 2012 before the elimination of a $24 million benefit as a result of consolidating VIEs), on the CDOs of ABS. Since the fourth quarter of 2007, we have recorded $2.0 billion of cumulative credit impairments and LAE (including a $23 million benefit in 2012) related to exposure in ABS insured credit derivatives. Continued poor performance in some of the structured finance securities we insure is generally expected, and we may continue to experience losses on these portions of our insured portfolio.

Finally, as of December 31, 2012, we recorded expected receipts of $906 million (on a present value basis) from excess spread (the difference between interest inflows on assets and interest outflows on liabilities) in our second-lien RMBS transactions, in reimbursement of our past and future expected claims. Of this amount, $780 million is included in Insurance loss recoverable and $126 million is included in Loss and loss adjustment expense reserves . The amount of excess spread depends on future interest rates, borrower refinancing and defaults. There can be no assurance that the $906 million will be received in its entirety.

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

MBIA Corp. has insured a substantial amount of CDS contracts that are backed by structured CMBS pools and CRE CDOs. Through December 31, 2012, we have recorded impairments and LAE of $3.6 billion (including $852 million of impairments and LAE in 2012) related to CMBS and CRE exposure. In addition, for the year ended December 31, 2012, MBIA Corp. incurred $46 million of losses and LAE recorded in earnings related to CRE CDO financial guarantee insurance policies. MBIA Corp. has experienced ratings erosion in the total CMBS collateral underlying our static pools. Whereas approximately 33.6% of the total CMBS collateral underlying the pools outstanding as of December 31, 2012 was originally rated BBB and below and approximately 49.2% was originally rated AAA, 58.5% of the total CMBS collateral underlying these pools as of December 31, 2012 was rated below investment grade. The higher risk of the collateral that was originally rated BBB and below was intended to be offset by the diversification in the collateral pool and the level of the deductible, whereas pools backed by all AAA collateral benefited from diversification and required smaller deductibles. In all cases, regardless of the underlying collateral rating, MBIA Corp. s insured position was rated AAA at origination of the transaction by at least Moody s, S&P or Fitch.

Currently, we insure eight static CMBS pools, having $6.0 billion of gross par outstanding as of December 31, 2012 that were originally insured in 2006 and 2007, and in which substantially all of the underlying collateral comprised CMBS tranches originally rated BBB and lower. The remainder of the collateral in these eight pools consisted of higher rated CMBS bonds, real estate investment trust debt and other securities. The BBB and below rated CMBS bonds underlying these eight pools had an original weighted average credit enhancement level of 2.9%, compared with a weighted average credit enhancement level of 1.9% as of December 31, 2012. MBIA Corp. s original policy level deductibles for these eight insured pools ranged from 23.0% to 82.3% with an original weighted average deductible by gross par outstanding of 37.8%, compared with deductibles that range from 10.5% to 83.6% with a weighted average deductible by gross par outstanding of 24.6% as of December 31, 2012. As of December 31, 2012, most of MBIA Corp. s estimated credit impairments for our static CMBS pools relate to a subset of these eight pools, of which the vast majority relate to a single counterparty, Bank of America and its subsidiary Merrill Lynch, although, we currently estimate that there is a possibility that we may experience our first loss payments on these exposures in transactions with another counterparty. Additionally, we insure two static CMBS pools, totaling $3.0 billion of gross par outstanding as of December 31, 2012, that were originally insured in 2007, and are comprised of CMBS collateral which was originally rated A. Although deductible erosion at the policy level has been minimal to date, we do expect additional erosion. While ultimate loss rates remain uncertain, it is possible that we will experience severe losses, particularly if the underlying loans are unable to pay off at their expected maturity dates.

Although average debt service coverage in transactions in our current aggregate portfolio remains satisfactory, some loans still show signs of significant financial distress. Ultimate loss rates remain uncertain, and we have recorded additional impairments on our insured CMBS portfolio every quarter since the beginning of 2010 as our anticipated economic losses have increased during that time period.

Item 1A. Risk Factors (continued)

It is possible that we will experience severe losses or liquidity needs due to increased deterioration in our insured CMBS portfolio or our failure to commute the policies, primarily on the eight static CMBS pools in which substantially all of the underlying collateral comprised CMBS tranches originally rated BBB and lower, particularly if macroeconomic stress escalates. A new recession may result in increased delinquencies, higher levels of liquidations of delinquent loans, and severities of loss upon liquidation. Although we have also seen stabilization of the delinquency rate over the past several months, loan modifications and extensions granted by the special servicers for these CMBS loans and increased liquidations have contributed to the stabilization. The special servicers are responsible for managing loans that have defaulted and conducting the remediation and foreclosure process. Their objective is to maximize proceeds for all bondholders by avoiding or minimizing loan level losses. While the Company has estimated credit impairments or recorded loss reserves for the CMBS exposures, no material claims have been made to date. It is possible that we will experience severe losses and/or liquidity needs due to increased deterioration on our insured CMBS portfolio or our failure to commute these policies, primarily on exposures with Bank of America/Merrill Lynch, and in particular if macroeconomic stress escalates. Depending on the amount of such claims and the amounts of claims on other policies issued by MBIA Corp., MBIA Corp. may not have sufficient liquid assets to pay such claims in the absence of a settlement with Bank of America/Merrill Lynch and the commutation of the CMBS exposures held by Bank of America/Merrill Lynch or in the absence of the collection of other substantial put-back recoveries.

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

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

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

Our ability to continue to draw on intercompany financing and provide other intercompany liquidity and capital support and the ability of our insurance subsidiaries to pay dividends to MBIA Inc. will in most cases require further approvals from the NYSDFS. There can be no assurance that we will be able to obtain such approvals. In the event that we do not obtain such regulatory approvals, unless and until we collect the amounts that are owed by the RMBS sellers/servicers who have failed to honor their contractual obligation to repurchase or replace ineligible loans included in the RMBS transactions we insured, we do not expect to be able to effect additional commutations of volatile exposures. In particular, during the fourth quarter of 2012, MBIA Insurance Corporation agreed with a CDS counterparty on a commutation of certain potentially volatile policies insuring ABS CDO, structured CMBS pools and CRE CDO transactions. The agreement was subject to the approval of the NYSDFS of a request to draw on the National Secured Loan in order to finance the commutation, as well as the receipt by MBIA Insurance Corporation of confirmation from the NYSDFS of its non-disapproval of the commutation. MBIA Insurance Corporation requested the NYSDFS to confirm its non-disapproval of the commutation and for approval of a loan under the National Secured Loan or for approval of an alternative financing structure to finance the commutation. Subsequent to December 31, 2012, those requests were denied. The Company s ability to commute insured transactions is limited by available liquidity, including the availability of intercompany loans under the National Secured Loan and the use of other available financing structures and liquidity, all of which could be subject to regulatory approval by the NYSDFS. There can be no assurance that the Company will be able to fund further commutations by borrowing from National or otherwise.

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Item 1A. Risk Factors (continued)

In addition, if we do not obtain approvals to draw on intercompany financing, MBIA Inc. may not have sufficient assets to meet its collateral posting requirements and other liquidity needs, as described further under Adverse developments in the credit markets may materially and adversely affect MBIA Inc. s ability to meet liquidity needs. Furthermore, in connection with obtaining required insurance regulatory approvals to enter into certain transactions, MBIA Inc. and its insurance subsidiaries have agreed, and may in the future agree, to comply with certain conditions, including providing notice to the NYSDFS prior to entering into transactions or taking other corporate actions (such as paying dividends when applicable statutory tests are satisfied), that would not otherwise require regulatory approval.

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

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

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

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

Losses on second-lien RMBS caused by the large number of ineligible mortgage loans included in second-lien RMBS securitizations that we insured as well as unprecedented volatility in the credit markets that began in the fourth quarter of 2007 have caused us to increase our loss projections substantially several times especially for second-lien RMBS transactions, where expected losses are significantly greater than originally projected and in many cases exceed the worst historical losses in this category. As a result, historical loss data may have limited value in predicting future second-lien RMBS losses. Moreover, in sizing loss reserves with respect to our insured transactions, we take into account expected recoveries from sellers/servicers of the transactions arising from our contractual rights of put-backs, and these estimated recoveries may differ from realized recoveries due to the outcome of litigation, the cost of litigation, error in determining breach rates, counterparty credit risk, the potential for delay and other sources of uncertainty.

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Item 1A. Risk Factors (continued)

In addition, we recorded our first credit impairments related to CMBS and CRE exposure in 2010, and have increased our credit impairments on these exposures during each subsequent quarter as a result of the deterioration of our CMBS and CRE portfolio and the increased cost of commuting our exposures. While our credit impairments reflect our current estimate of ultimate losses, if the deterioration of the CRE market worsens, we could incur substantial additional losses on our CMBS and CRE portfolio in excess of these estimates.

Future deterioration in the performance of RMBS, CMBS, CDOs of ABS or other obligations we insure or reinsure could lead to the establishment of additional loss reserves or impairments and further losses or reductions in income. There can be no assurance that the estimates of probable and estimable losses are accurate. Actual paid claims could exceed our estimate and could significantly exceed our loss reserves. If our loss reserves are not adequate to cover actual paid claims, our results of operations and financial condition could be materially adversely affected.

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

Our results of operations are materially affected by general economic conditions, both in the U.S. and elsewhere around the world. Beginning in the second half of 2007 and continuing in 2008, global financial, equity and other markets experienced significant stress, which reached unprecedented levels in the fourth quarter of 2008. While the U.S. economy has consistently grown since the fourth quarter of 2009 and many segments of the global capital markets have recovered, markets have continued to experience periods of extreme volatility, including as a result of S&P s downgrade of the U.S. triple-A rating, fears surrounding the Eurozone debt crisis and the risk of a new recession in the U.S. and elsewhere. While we do not insure any direct European sovereign debt, our indirect European sovereign debt exposure totaled $8.4 billion as of December 31, 2012 and included obligations of sovereign-related and sub-sovereign issuers, such as regions, departments, and sovereign-owned entities that are supported by a sovereign state, region or department. Of the $8.4 billion of insured gross par outstanding, $815 million, $692 million, and $256 million related to Spain, Portugal, and Ireland, respectively. The remaining $6.6 billion related to the United Kingdom. A default by one or more sovereigns, or sovereign-related or sub-sovereign entities that rely on sovereign support, could have an adverse effect on our insured and investment portfolios. Moreover, budget deficits at all levels of government in the U.S., continued concerns over the availability and cost of credit for certain borrowers, austerity measures imposed by certain European governments and slowdowns in certain international economies have contributed to diminished expectations for the global economy and certain markets going forward.

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

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

The structured finance and international segment s financial guarantee contracts and CDS contracts generally cannot be accelerated, thereby mitigating liquidity risk. However, with respect to the insurance of CDS contracts, in certain circumstances, including the occurrence of certain insolvency or payment defaults under the CDS contracts, the CDS contracts may be subject to termination by the counterparty, triggering a claim for the fair value of the contract. In addition, credit derivative transactions are governed by International Swaps and Derivatives Association (ISDA) documentation and operate differently from financial guarantee insurance policies. For example, the Company s control rights with respect to a reference obligation under a credit derivative may be more limited than when it issues a financial guarantee insurance policy on a direct primary basis.

Item 1A. Risk Factors (continued)

In addition, a credit derivative may be terminated for a breach of the ISDA documentation or other specific events, unlike financial guarantee insurance policies. If a credit derivative is terminated, the Company could be required to make a mark-to-market payment as determined under the ISDA documentation.

Servicer risk could adversely impact performance of Structured Finance transactions.

Structured finance obligations contain certain risks including servicer risk, which relates to problems with the transaction servicer (the entity which is responsible for collecting the cash flow from the asset pool) that could affect the servicing and performance of the underlying assets. Structural risks primarily involve bankruptcy risks, such as whether the servicer of the assets may be required to delay the remittance of any cash collections held by it or received by it after the time it becomes subject to bankruptcy or insolvency proceedings. Structured finance transactions are usually structured to reduce the risk to the investors from the bankruptcy or insolvency of the servicer. The ability of the servicer to properly service and collect on the underlying assets can contribute to the performance of a transaction. The ability of the servicer to maintain contact with borrowers is especially important in transactions that included improperly originated or ineligible loans. Certain of the lawsuits we have filed allege that the servicer has failed to perform its duties as contractually required.

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

We have historically experienced low levels of defaults in our U.S. public finance insured portfolio, including during the financial crisis that began in mid-2007. However, over the last four years many state and local governments that issue some of the obligations we insure have reported unprecedented fiscal stress that has required them to significantly raise taxes and/or cut spending in order to satisfy their obligations. While there has been some support provided by the U.S. federal government designed to provide aid to state and local governments, certain state and local governments remain under extreme financial stress. If the issuers of the obligations in our public finance portfolio are unable to raise taxes, cut spending, or receive federal assistance, we may experience losses or impairments on those obligations, which could materially and adversely affect our business, financial condition and results of operations.

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

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

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Item 1A. Risk Factors (continued)

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

We assess our risk management policies and procedures on a periodic basis. As a result of such assessment, we may take steps to change our internal risk assessment capabilities and procedures, our portfolio management policies, systems and processes and our policies and procedures for monitoring and assessing the performance of our insured portfolio in changing market conditions. There can be no assurance, however, that these steps will be adequate to avoid future losses. In some cases, losses can be substantial, particularly if a loss occurs on a transaction in which we have a large notional exposure or on a transaction structured with large, bullet-type principal maturities.

Geopolitical conditions may adversely affect our business prospects and insured portfolio.

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

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

Capital, Liquidity and Market Related Risk Factors

MBIA Insurance Corporation may be placed in a rehabilitation or liquidation proceeding as a result of, among other things, a lack of liquid assets available to pay claims due to the failure by RMBS sellers/servicers to honor their contractual obligation to repurchase ineligible mortgage loans, combined with the substantial RMBS claims payments and other claims and commutation payments to date, as well as the increased probability that MBIA Insurance Corporation will experience claims payments on certain of its CMBS exposures in the near future.

The determination to commence an MBIA Insurance Corporation rehabilitation or liquidation proceeding is not within the control of the Company. Article 74 of the NYIL gives the Superintendent exclusive authority to commence rehabilitation or liquidation proceedings against a New York insurer under a variety of circumstances, including if the Superintendent finds the insurer is in such condition that its further transaction of business will be hazardous to policyholders, creditors, or the public, or if the Superintendent finds that the insurer is insolvent. MBIA Insurance Corporation faces certain key risks and contingencies as described herein that increase the possibility that it could be placed in a rehabilitation or liquidation proceeding by the Superintendent.

Item 1A. Risk Factors (continued)

Since the fourth quarter of 2007 through December 31, 2012, MBIA Corp. has made $11.7 billion of cash payments, before reinsurance and collections and excluding loss and LAE (including payments made to debt holders of consolidated VIEs), associated with second-lien RMBS securitizations and with commutations and claim payments relating to CDS contracts. These cash payments include loss payments of $930 million made on behalf of MBIA Corp. s consolidated VIEs. Of the $11.7 billion, MBIA Corp. has paid $6.7 billion of gross claims (before reinsurance and collections and excluding LAE) on policies insuring second-lien RMBS securitizations, driven primarily by an extensive number of ineligible mortgage loans being placed in the securitizations in breach of the representations and warranties of the sellers/servicers. The Company s assessment of the ineligibility of individual mortgage loans is being challenged by the sellers/servicers in litigation and there is no assurance that the Company s determinations will prevail. See Note 20: Commitments and Contingencies in the Notes to Consolidated Financial Statements of MBIA Inc. and Subsidiaries in Part II, Item 8 of this Form 10-K. MBIA Insurance Corporation is seeking to enforce its rights to have Bank of America/Countrywide, and other mortgage sellers/servicers cure, replace or repurchase ineligible mortgage loans from these securitizations and has recorded a total of $3.6 billion of related expected recoveries on its consolidated balance sheets as of December 31, 2012, including expected recoveries recorded in the Company s consolidated VIEs. In addition, the $11.7 billion included $5.0 billion of gross settlement and claim payments (before reinsurance and collections and excluding LAE) on insured credit derivatives comprising CMBS pools, CRE CDOs, CRE loan pools, corporate CDOs, multi-sector CDOs, and multi-sector CDO-squared transactions, among other types of transactions. While MBIA Insurance Corporation has commuted most of its higher risk CMBS pool exposures, a single counterparty Bank of America/Merrill Lynch holds a significant amount of MBIA Insurance Corporation s remaining CMBS pool exposures, including a substantial majority of MBIA Insurance Corporation s CMBS pools originally insured in 2006 and 2007 primarily referencing BBB and lower rated collateral (the BOA CMBS Exposure), although, we currently estimate that there is a possibility that we may experience our first loss payments on these exposures in transactions with another counterparty. MBIA Insurance Corporation has also recorded its largest put-back asset related to ineligible mortgage loans included in insured second-lien RMBS transactions against Bank of America.

The failure by the RMBS sellers/servicers, primarily Bank of America, to honor their contractual obligation to repurchase ineligible mortgage loans combined with the substantial RMBS claims payments and other claims and commutation payments to date have placed substantial stress on MBIA Insurance Corporation s liquidity resources. In addition, due to the deterioration in MBIA Insurance Corporation s CMBS exposures, primarily in the BOA CMBS Exposure and other CMBS pools originally insured in 2006 and 2007 primarily referencing BBB and lower rated collateral, there is an increased possibility that MBIA Insurance Corporation will have claims presented on the BOA CMBS Exposure or other CMBS exposures, which claims are likely to occur in the near term and could ultimately be substantial. Depending on the amount of actual claims on the BOA CMBS Exposure and the amount of claims on other policies issued by MBIA Insurance Corporation, including claims on insured exposures that in some cases may require large bullet payments, MBIA Insurance Corporation may not have sufficient liquid assets to pay such claims in the absence of a settlement of the Bank of America put-back recoverables and the commutation of the BOA CMBS Exposure. While MBIA Insurance Corporation has in the past been, and may from time to time be, in settlement discussions with RMBS sellers/servicers and commutation discussions with insured counterparties, there can be no assurance that any such settlements or commutations will occur or that any such settlement or commutation would be consummated within the estimates of expected recoveries or loss payments associated with the exposures that are recorded in the Company s consolidated financial statements. As described further below, in light of these circumstances and especially in the event of claims under the BOA CMBS Exposure the Superintendent may commence a rehabilitation or liquidation proceeding against MBIA Insurance Corporation.

MBIA Insurance Corporation has recorded loss reserves for the BOA CMBS Exposure that reflect our current estimate of ultimate losses and that are based on various assumptions about potential payments by MBIA Insurance Corporation with respect to the BOA CMBS Exposure, including, among other things, that the BOA CMBS Exposure will likely be commuted. While no claims have been made on the BOA CMBS Exposures to date, given the significant erosion of the deductible in some of the underlying insured CDS, the Company expects that Bank of America /Merrill Lynch will have the ability to make a claim in the near term. If MBIA Insurance Corporation is unable to commute the BOA CMBS Exposure, MBIA Insurance Corporation could incur substantial additional losses in its portfolio in excess of its estimates. In addition, because the reserves are based on management s judgment and estimates, there can be no assurance that the ultimate liability will not exceed such estimates, that the BOA CMBS Exposure will be commuted, or that the timing of claims payments and the realization of recoveries will not create liquidity issues.

Item 1A. Risk Factors (continued)

The amount MBIA Insurance Corporation may ultimately collect from Bank of America on its put-back obligations in any litigation settlement could be impacted by potential commutation payments or offset on the BOA CMBS Exposure and developments in the Transformation litigation and the consent solicitation litigation. For discussion of the Transformation litigation and the consent solicitation litigation, see Note 20: Commitments and Contingencies in the Notes to Consolidated Financial Statements of MBIA Inc. and Subsidiaries in Part II, Item 8 of this Form 10-K. Likewise, MBIA Insurance Corporation s ability to commute the BOA CMBS Exposure may be impacted by developments in the put-back litigation with Bank of America, the Transformation litigation and the consent solicitation litigation. There can be no assurance that MBIA Insurance Corporation will have adequate resources to meet its obligations even if it enters into any such settlement or commutation, or wins a judgment in its favor in its actions against Bank of America.

As of December 31, 2012, MBIA Corp. s statutory capital was $1.5 billion under U.S. STAT. In addition, as of December 31, 2012, MBIA Corp. held cash and available-for-sale investments of $1.3 billion, of which $345 million comprised cash and highly liquid assets. As of December 31, 2011, MBIA Corp. held cash and available-for-sale investments of $1.5 billion, of which $534 million comprised cash and highly liquid assets. However, due to liquidity constraints caused by the factors described above or if future claims exceed expectations due to an unexpected deterioration in economic conditions or due to other unanticipated factors, MBIA Insurance Corporation may not be able to pay claims on a timely basis in the future, in particular if Bank of America and other sellers/servicers continue their strategy of refusing to honor put-back claims or disputing and delaying their put-back obligations and MBIA Insurance Corporation receives claims on the BOA CMBS Exposure before recovery of the Bank of America or other significant put-back recoverables, if any. Furthermore, MBIA Insurance Corporation may have insufficient resources to meet its obligations if it fails to collect expected put-back recoveries, is unable to commute its most volatile exposures or experiences higher than expected claims payments on its insured obligations. In these potential circumstances, among others, the Superintendent may commence a proceeding against MBIA Insurance Corporation under Article 74 as described above. Given the Superintendent s authority to find that MBIA Insurance Corporation s continued transaction of business will be hazardous to policyholders, creditors or the public, and the lack of any clear standards on what would constitute such a hazard, the Superintendent generally has broad discretion to put MBIA Insurance Corporation into a rehabilitation or liquidation proceeding.

In addition to the Superintendent s authority to commence a rehabilitation or liquidation proceeding, the Superintendent could, should he find that the liabilities of MBIA Insurance Corporation exceed its admitted assets, use its authority under Section 1310 of the NYIL to order MBIA Insurance Corporation to cease making claims payments (a 1310 Order). The issuance of a 1310 Order could result in material adverse consequences for MBIA Insurance Corporation, including that holders of some or all of the CDS insured by MBIA Insurance Corporation may potentially seek to terminate one or more of such swaps on the basis of such order (or the findings by the Superintendent underlying such order s issuance) and assert claims for market-based termination payments with respect to such terminations (which claims MBIA Insurance Corporation may not be able to pay).

An MBIA Insurance Corporation rehabilitation or liquidation proceeding could accelerate certain of the Company s other obligations and have other adverse consequences.

MBIA Insurance Corporation faces a number of significant risks and contingencies, which could, if realized, result in MBIA Insurance Corporation being placed into a rehabilitation or liquidation proceeding by the NYSDFS. In the event of an MBIA Insurance Corporation rehabilitation or liquidation proceeding, the Company may be subject to, among other things, the following:

- MTNs issued by GFL and Meridian, which are insured by MBIA Insurance Corporation, would accelerate. To the extent GFL failed to pay the accelerated amounts under the GFL MTNs or the collateral securing the Meridian MTNs was deemed insufficient to pay the accelerated amounts under the Meridian MTNs, the MTN holders would have policy claims against MBIA Insurance Corporation for scheduled payments of interest and principal;

- An MBIA Insurance Corporation proceeding may accelerate certain investment agreements issued by MBIA Inc., including, in some cases, with make-whole payments. While the investment agreements are fully collateralized with high quality collateral, the settlements of these amounts could reduce MBIA Inc. s liquidity resources, and to the extent MBIA fails to pay the accelerated amounts under these investment agreements or the collateral securing these investment agreements is deemed insufficient to pay the accelerated amounts due, the holders of the investment agreements would have policy claims against MBIA Insurance Corporation;

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Item 1A. Risk Factors (continued)

CDS counterparties may seek to terminate CDS contracts insured by MBIA Insurance Corporation and make market-based damage claims (irrespective of whether actual credit-related losses are expected under the underlying exposure), which claims could aggregate to $7.0 billion or more. The Company believes that such an acceleration would likely eliminate any residual value in MBIA Insurance Corporation;

The Company may be unable to carry out its tax planning strategies as a result of an MBIA Insurance Corporation proceeding. This may cause the Company to record additional allowances against a portion or all of its deferred tax assets. Refer to Note 11: Income Taxes in the Notes to Consolidated Financial Statements of MBIA Inc. and Subsidiaries in Part II, Item 8 of this Form 10-K for information about the Company s deferred tax assets. In addition, the Company currently files a consolidated tax return. An MBIA Insurance Corporation proceeding could result in challenges to the tax sharing arrangement among the MBIA affiliates that might adversely affect the Company s ability to manage taxes efficiently;

The rehabilitator or liquidator would replace the Board of Directors of MBIA Insurance Corporation and take control of the operations and assets of MBIA Insurance Corporation, which would result in MBIA Inc. losing control of MBIA Insurance Corporation and possible changes to MBIA Insurance Corporation s strategies and management;

An MBIA Insurance Corporation proceeding would be an event of default under the National Secured Loan. While National has a perfected interest in the assets pledged to secure the loan and the Company expects that National will be repaid in full from the assets pledged to secure the loan, an MBIA Insurance Corporation proceeding could result in challenges to National s ability to collect amounts due under the loan and in a delay in National s ability to realize on the collateral securing the loan. Impairment of the National Secured Loan could materially adversely affect National s capital position and results of operations, its ratings, and its plan to re-enter the municipal bond insurance business;

An MBIA Insurance Corporation proceeding may impose unplanned costs on MBIA Inc. In addition, MBIA Insurance Corporation would be subject to significant additional expenses arising from the appointment of a rehabilitator or liquidator, as receiver, and payment of the fees and expenses of the advisors to such rehabilitator or liquidator; and

While MBIA Inc. s senior note indentures were amended in November 2012 such that an MBIA Insurance Corporation proceeding would not constitute an event of default, Bank of America has initiated pending litigation regarding the validity of those amendments, and there can be no assurance that the validity of those amendments would be upheld. If the amendments were to be overturned, MBIA Inc. s senior debt may be accelerated if an MBIA Insurance Corporation proceeding were to occur.

Continuing elevated loss payments and ongoing delays in our ability to realize expected recoveries on insured RMBS transactions as well as certain other factors may materially and adversely affect our ability to meet liquidity needs.

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

The effects of the credit crisis which began in the subprime segment of the U.S. mortgage-backed securities market and spread to a wide range of financial institutions and markets, asset classes, sectors and countries, have caused the Company to experience material increased liquidity risk pressures. In particular, since the fourth quarter of 2007, MBIA Corp. has paid $6.7 billion of claims before reinsurance and collections, excluding LAE and including $930 million of claims made on behalf of consolidated VIEs, on policies insuring second-lien RMBS securitizations, which we believe were driven by a substantial number of ineligible mortgage loans being placed in the securitizations in breach of the representations and warranties of the sellers/servicers. Furthermore, since the fourth quarter of 2007, total credit impairments on insured derivatives were estimated at $5.6 billion across 71 CDO insured issues, inclusive of 65 insured issues for which we made settlement and claim payments of $4.2 billion, net of reinsurance and collections. Accordingly, we expect to realize additional net losses of $1.4 billion.

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Item 1A. Risk Factors (continued)

If current trends worsen and result in substantial defaults and losses on the underlying loans, we could incur substantial additional losses on our insured exposures in the future. In addition, portions of MBIA Corp. s outstanding insured portfolio have exhibited high degrees of payment volatility and continue to pose material liquidity risk to MBIA Corp.

Our strategy includes reducing future potential economic losses by commuting policies and purchasing instruments issued or guaranteed by us, which strategy has been constrained by a lack of available liquidity due to the failure of RMBS sellers/servicers to honor their contractual obligation to repurchase or replace ineligible loans included in the RMBS transactions we insured. As a result, National made, and the NYSDFS approved, the $1.1 billion National Secured Loan to MBIA Insurance Corporation in the fourth quarter of 2011, and additional loans of $443 million during 2012, in order to enable MBIA Corp. to fund settlements and commutations of its insurance policies. There can be no assurance that further intercompany borrowing will be available to fund future commutations and settlements. Furthermore, if MBIA Insurance Corporation does not realize, or is delayed in realizing, the expected recoveries it may have insufficient liquidity to commute additional exposures and repayment of the secured loan to National could be delayed, which could adversely impact National s financial condition and its ability to achieve the ratings necessary to write new business.

These factors, combined with a negative earned surplus, have for the time being eliminated MBIA Corp. s ability to pay dividends to the holding company, if needed, to enable the holding company to meet its debt service and other operating expense needs. In connection with MBIA Insurance Corporation obtaining approval from the NYSDFS to release excessive contingency reserves as of September 30, 2011, December 31, 2011 and March 31, 2012, MBIA Insurance Corporation agreed that it would not pay any dividends without prior approval from the NYSDFS. In addition, the plaintiffs in the litigation challenging the establishment of National have initiated a court proceeding challenging the NYSDFS s approval of National s surplus reset which facilitated its ability to pay dividends and we have agreed that National will not pay dividends during the current adjournment of the proceeding (currently, through April 19, 2013). In connection with the approval of the December 31, 2011 MBIA Insurance Corporation contingency reserve release, the Company has agreed that National will not pay dividends without the prior approval of the NYSDFS prior to July 19, 2013. Furthermore, it is unclear whether the Company or its subsidiaries will be able to access the capital markets, particularly before the Transformation litigation is resolved. See Note 20: Commitments and Contingencies in the Notes to Consolidated Financial Statements of MBIA Inc. and Subsidiaries in Part II, Item 8 of this Form 10-K.

If losses on the Company s RMBS, CDO and CMBS transactions rise, market and economic conditions worsen, and the Company is not successful or is delayed in realizing expected loss recoveries, the Company could face additional liquidity pressure. Further stress could increase liquidity demands on the Company or decrease its liquidity supply through additional defaulted insured exposures or devaluations and/or impairments of its invested assets. For further discussion on the Company s liquidity risk, see Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity in Part II, Item 7 of this Form 10-K.

The Company has received a Purported Notice of Default under the 2004 Indenture. Though the Company believes there is no merit to the notice, if the Company were found to be in default, and had not cured the default within 60 days after notice, it could lead to an acceleration of the maturity of the Company s 2004 Notes and a cross-default of certain of its other indebtedness, which could be materially adverse to our business prospects, and results of operations and financial condition in the future.

On December 13, 2012, the Company received a letter from Blue Ridge Investments, L.L.C., addressed to the Company and the Trustee under the 2004 Indenture governing the Company s $329 million principal amount of the 2004 Notes. The letter purports to be a Notice of Default under Section 501(3) of the 2004 Indenture and alleges that the Second Supplemental Indenture was executed without the requisite consent of holders of the 2004 Notes required by the 2004 Indenture. Pursuant to the 2004 Indenture, if a default continues for a period of 60 days after notice, then the Trustee or the holders of not less than 25% in aggregate principal amount of the outstanding 2004 Notes may declare the principal amount of the 2004 Notes to be due and payable immediately. As of the date of this report, the Company has not received a notice of acceleration of the 2004 Notes.

Item 1A. Risk Factors (continued)

In addition, pursuant to the 1990 Indenture, any acceleration of the amount due under the 2004 Indenture that is not discharged or cured, waived, rescinded or annulled within 10 days after notice from the trustee of the 1990 Indenture or holders of not less than 25% aggregate principal amount of the 1990 Notes (treated as one class) would constitute an Event of Default under the 1990 Indenture and either the trustee of the 1990 Indenture or the holders of not less than 25% in aggregate principal amount of the 1990 Notes then outstanding (treated as one class) may declare the entire principal of the 1990 Notes then outstanding and interest accrued thereon to be due and payable immediately. Furthermore, it is possible that holders of not less than 25% in aggregate principal amount of the outstanding 1990 Notes would issue a notice of default similar to the Purported Notice of Default that alleges that the second supplemental indenture to the 1990 Indenture was executed without the requisite consent of holders of the 1990 Notes required by the 1990 Indenture.

On December 17, 2012, the Company sent the Trustee a letter advising the Trustee that the Purported Notice of Default is meritless and has no force and effect under the 2004 Indenture, directing the Trustee to take no action in furtherance of the Purported Notice of Default, and advising the Trustee that the Company intends to take any and all necessary and appropriate actions to enforce the Second Supplemental Indenture. In addition, on February 7, 2013, the Company filed a complaint for declaratory and injunctive relief seeking, among other things, a declaration that the Purported Notice of Default is invalid. While the Company believes the Purported Notice of Default is meritless, there can be no assurances that the Company will successfully contest its validity or the ability of the holders of the 1990 Notes to declare an event of default under the 1990 Indenture on the basis of any purported acceleration of the 2004 Notes. If the Company is unable to repay the 2004 Notes or the 1990 Notes in the event it is not ultimately successful in contesting the validity of the Purported Notice of Default and any subsequent acceleration, the Trustee or holders of the 2004 Notes or the 1990 Notes would likely exercise their rights as creditors to force repayment and the Company would have an immediate need to pursue other alternatives, including, if the Company is not successful in pursuing out-of-court alternatives, the filing for protection under applicable insolvency laws.

On December 13, 2012, Bank of America filed an action alleging that MBIA Inc. tortiously interfered with Bank of America s tender offer to buy all of the 2004 Notes and seeking a permanent injunction against the implementation of the Second Supplemental Indenture and money damages. Bank of America filed an amended complaint on February 19, 2013. If Bank of America prevails and the Second Supplemental Indenture is deemed by a court to not have been effective, then an MBIA Insurance Corporation rehabilitation or liquidation proceeding would constitute an event of default under the 2004 Indenture, which, unless remedied, could result in a notice of default and possible acceleration under the 1990 Indenture. The Company believes it has strong defenses and intends to defend against this lawsuit vigorously, but the outcome of this matter is inherently uncertain and may be materially adverse to our business prospects, and results of operations and financial condition in the future.

Adverse developments in the credit markets may materially and adversely affect MBIA Inc. s ability to meet liquidity needs.

MBIA Inc. is subject to material liquidity risks and uncertainty. To mitigate these risks, we seek to maintain cash and liquidity resources that we believe will be sufficient to make all payments due on our obligations and to meet other financial requirements, such as posting collateral, at least through the next twelve months.

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

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

- The timing and amount of cash inflows from dividends paid by MBIA s principal operating subsidiaries is uncertain. See Our holding company structure and certain regulatory and other constraints could affect our ability to pay dividends and make other payments below.

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Item 1A. Risk Factors (continued)

Certain investment agreements issued by MBIA Inc. may accelerate (including, in some cases, with make-whole payments), in the event of the commencement of a rehabilitation or liquidation proceeding against MBIA Insurance Corporation. The settlement of these amounts could further reduce MBIA Inc. s liquidity resources.

Stressed credit market conditions could cause MBIA Inc. to have insufficient resources to cover collateral and/or other liquidity requirements. Management has identified certain actions to mitigate this risk. These contingent actions include: (1) additional sales of invested assets exposed to credit spread stress risk, which may occur at losses and increase the deficit of invested assets to liabilities; (2) termination and settlement of interest rate swap agreements; and (3) other available advances from subsidiaries. These actions, if taken, are expected to result in either additional liquidity or reduced exposure to adverse credit spread movements. There can be no assurance that these actions will be sufficient to fully mitigate this risk. In the event that we cannot implement the contingent actions identified above to raise liquidity, or eliminate the deficit, we may have insufficient assets to make all payments on our obligations as they come due, which could result in a default by MBIA Inc. on its obligations and the potential for MBIA Corp., as guarantor of the investment agreements and GFL MTNs, to be called upon to satisfy obligations on those instruments as they come due.

A significant portion of MBIA Inc. s assets that are pledged against investment agreement liabilities are structured finance securities which have been particularly susceptible to price fluctuations during periods of market volatility. During 2011, MBIA experienced deterioration in the market values of some of its assets in the asset/liability products segment, resulting in increased collateral requirements, as a consequence of market volatility caused by S&P s downgrade of the U.S. triple-A rating, fears surrounding the Eurozone debt crisis and the risk of a new recession in the U.S. Consequently, following the third quarter of 2011, the Company extended the maturity date of the secured loan from MBIA Insurance Corporation to MBIA Inc., with NYSDFS approval, to May 2012 (and subsequently to May 2013) for a maximum outstanding amount of $450 million, to provide additional liquidity in the event of future declines in asset values, and the Company s corporate segment contributed $50 million of capital to support the asset/liability products segment s liquidity and capital needs. Because of this experience the Company undertook an asset sale program during 2012 to reduce the amount of volatile assets in the portfolio. Nonetheless, there can be no assurance that these adverse market conditions will not cause MBIA Inc. to experience increased collateral requirements in the future or that MBIA Inc. will be able to draw on these or other resources in order to meet these requirements.

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

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

Beginning in the second half of 2008, volatility and disruption in the global credit markets exerted downward pressure on the availability of liquidity and credit capacity for certain issuers, including MBIA, with credit spreads widening considerably. As a result of the cost and limited availability of third-party financing, we implemented intercompany agreements to provide additional liquidity from MBIA Inc., MBIA Insurance Corporation, National and Meridian to the asset/liability products business, and this has reduced the liquidity resources available to MBIA Inc., MBIA Insurance Corporation, National and Meridian for other purposes. In addition, National made the National Secured Loan to MBIA Insurance Corporation to finance commutations and settlements of Transformation litigation, which has further reduced National s liquidity. Furthermore, the Company no longer maintains credit facilities with third-party providers. There can be no assurance that replacement facilities will be available in the future, in particular prior to the resolution of the Transformation litigation. See Failure to obtain regulatory approval to implement our risk reduction and liquidity strategies could have a material adverse effect on our business operations, financial condition and liquidity above. The inability to obtain adequate replacement capital on favorable terms or at all could have an adverse impact on the Company s business and financial condition.

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Item 1A. Risk Factors (continued)

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

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

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

Under New York law, National and MBIA Corp. may generally pay stockholder dividends only out of statutory earned surplus and subject to additional limits, as described in Business Insurance Regulation in Part I, Item 1 and Note 14: Insurance Regulations and Dividends in the Notes to Consolidated Financial Statements of MBIA Inc. and Subsidiaries in Part II, Item 8 of this Form 10-K. In connection with MBIA Insurance Corporation obtaining approval from the NYSDFS to release excessive contingency reserves as of September 30, 2011, December 31, 2011 and March 31, 2012, MBIA Insurance Corporation agreed that it would not pay any dividends without prior approval from the NYSDFS. Due to its significant negative earned surplus, MBIA Insurance Corporation has not had the statutory capacity to pay dividends since December 31, 2009 and is not expected to have any statutory capacity to pay any dividends in the near term. While National had dividend capacity as of December 31, 2012, in October 2010, the plaintiffs in the litigation challenging the establishment of National initiated a court proceeding challenging the NYSDFS s approval of National s surplus reset which facilitated its ability to pay dividends and we have agreed that National will not pay dividends during the current adjournment of the proceeding (currently, through April 19, 2013). In addition, in connection with the approval of the December 31, 2011 MBIA Insurance Corporation contingency reserve release, the Company has agreed that National will not pay dividends without the prior approval of the NYSDFS prior to July 19, 2013. Dividend payments by MBIA UK and MBIA Mexico to MBIA Insurance Corporation are also limited by the laws of their respective jurisdictions. The inability of our insurance companies to pay dividends in an amount sufficient to enable us to meet our cash requirements at the holding company level could affect our ability to repay our debt and have a material adverse effect on our operations.

MBIA Inc. has long-term debt, MTN, investment agreement and derivative liabilities in excess of its cash, investments at amortized cost and tax receivables.

As of December 31, 2012 and 2011, the combined net debt of MBIA Inc. s corporate segment and asset/liability products segment, which primarily comprised long-term debt, MTNs, investment agreements and derivative liabilities net of cash and investments at amortized cost and a tax receivable from subsidiaries, totaled $1.2 billion and $1.1 billion, respectively. The Company expects that MBIA Inc. will generate sufficient cash to satisfy its net debt over time from distributions from its operating subsidiaries and by raising third-party capital, although there can be no assurance that such factors will generate sufficient cash to satisfy its net debt.

We have substantial indebtedness and may incur substantial additional indebtedness, which could adversely affect our financial health and our ability to obtain financing in the future, react to changes in our business and satisfy our obligations.

As of December 31, 2012 we had $1.7 billion of consolidated long-term debt, $1.6 billion of consolidated medium-term note liabilities and $944 million of consolidated investment agreement liabilities. Our substantial indebtedness and other liabilities could have important consequences, including:

our ability to obtain additional financing for working capital, capital expenditures, acquisitions, debt service requirements or general corporate purposes and our ability to satisfy our obligations with respect to our debt may be impaired in the future;

Item 1A. Risk Factors (continued)

- a large portion of MBIA Inc. s financial resources must be dedicated to the payment of principal and interest on our debt, thereby reducing the funds available to us for other purposes;

- it may be more difficult for us to satisfy our obligations to our creditors, resulting in possible defaults on, and acceleration of, such debt;

- we may be more vulnerable to general adverse economic and industry conditions;

- our ability to refinance debt may be limited or the associated costs may increase;

- our flexibility to adjust to changing market conditions could be limited, or we may be prevented from carrying out capital spending that is necessary or important to our growth strategy and efforts to improve operating margins of our businesses; and

- we are exposed to the risk of fluctuations in interest rates and foreign currency exchange rates because a portion of our liabilities are at variable rates of interest or denominated in foreign currencies.

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

Our insurance companies are subject to various statutory and regulatory restrictions that require them to maintain qualifying investments to support their reserves and minimum surplus. Furthermore, our insurance companies may be restricted from making commutation or other payments if doing so would cause them to fail to meet such requirements, and the NYSDFS may impose other remedial actions on us as described further below to the extent the Company does not meet such requirements. While National currently satisfies its statutory capital requirements, as of December 31, 2012, MBIA Corp. had a deficit of $140 million of qualifying assets required to support its contingency reserves. The deficit was caused by MBIA Corp. s sale of liquid assets in order to make claim payments and the failure of certain RMBS sellers/servicers, particularly Bank of America, to honor their contractual obligations to repurchase ineligible mortgage loans from securitizations the Company insured. The deficit is expected to grow as additional commutation and claim payments are made in the future. The Company has reported the deficit to the NYSDFS. MBIA Corp. has requested approval from the NYSDFS to release $97 million of contingency reserves as of September 30, 2012 and $43 million as of December 31, 2012, but to date has not received approval. Prior to September 30, 2012, MBIA Corp. released to surplus an aggregate of $1.1 billion of contingency reserves pursuant to approvals granted by the NYSDFS in accordance with NYIL during 2011 and 2012. Absent these releases MBIA Corp. would have had deficits of qualifying assets to meet its contingency reserve requirements.

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

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

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

Item 1A. Risk Factors (continued)

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

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

Revenues and liquidity would be adversely impacted by a decline in realization of installment premiums.

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

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

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

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

The global re-pricing of credit risk beginning in the fourth quarter of 2007 caused unprecedented volatility and markdowns in the valuation of these credit derivatives. In addition, due to the complexity of fair value accounting and the application of the accounting guidance for derivative instruments and the accounting guidance for fair value measurement, future amendments or interpretations of derivative and fair value accounting may cause us to modify our accounting methodology in a manner which may have an adverse impact on our financial results. See Management s Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Estimates in Part II, Item 7 of this Form 10-K for additional information on the valuation of derivatives.

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Item 1A. Risk Factors (continued)

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

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

Strategic Plan Related Risk Factors

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

We are a defendant in several actions in which the plaintiffs seek to unwind Transformation or otherwise declare National responsible for the insured obligations of MBIA Corp. Our success in defending Transformation is an integral part of our strategic plan. In particular, we hope to achieve a high rating for National as quickly as possible in order to take advantage of opportunities in the public finance market. Transformation-related litigation has created uncertainty around the legal separation of the liabilities of National and MBIA Corp., which has in turn hindered our ability to raise capital and achieve the desired ratings and adversely impacted the prospect of writing new business. The Company is vigorously defending Transformation in the subject litigations and expects ultimately to prevail on the merits. However, the Company cannot provide assurance that it will prevail in this litigation and the failure by the Company ultimately to prevail in this litigation could have a material adverse effect on its ability to implement its strategy and on its business, results of operations or financial condition. In addition, the Company can provide no assurance as to the timing of resolving this litigation, which has been ongoing since the second quarter of 2009 and may continue for the foreseeable future. Moreover, the Company is defending multiple lawsuits seeking to overturn Transformation, and a successful resolution of any one matter does not assure that each matter will be resolved favorably or in a timely manner.

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

National s and our other insurance companies ability to write new business and to compete with other financial guarantors is currently largely dependent on the financial strength ratings assigned to them by the major rating agencies and the financial enhancement rating also assigned by S&P, as well as the financial strength of our insurance companies and investors perceptions of their financial strength. As a result of downgrades of our insurance companies financial strength ratings and poor investor perception of their financial strength, we are currently not originating new financial guarantee business. Many requirements imposed by the rating agencies in order for our insurance companies to achieve and maintain high insurer financial strength ratings are outside of our control, and such requirements may necessitate that we raise additional capital or take other remedial actions in a relatively short time frame in order to achieve or maintain the ratings necessary to attract new business and compete with other financial guarantee insurers and could make the conduct of the business uneconomical. Our inability to raise capital on favorable terms could therefore materially adversely affect the business prospects of our insurance companies. Furthermore, no assurance can be given that we will successfully comply with rating agency requirements, that these requirements or the related models and methodologies will not change or that, even if we comply with these requirements, one or more rating agency will not lower or withdraw its financial strength ratings with respect to any of our insurance companies. The absence of S&P s and Moody s highest ratings, which have typically been required to write financial guarantee insurance, could adversely impact the premiums our insurers can charge and could diminish the acceptance of our financial guarantee insurance products.

Item 1A. Risk Factors (continued)

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

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

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

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

Competition may have an adverse effect on our businesses.

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

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Item 1A. Risk Factors (continued)

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

In addition, Trifinium provides financial advisory and asset management services to European clients and the Company has sought to grow this business. Trifinium is subject to competition, and expansion of this business may require expenditures of capital, and management s and employees time and there can be no assurance that this business will ultimately be successful.

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

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

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

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

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

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

Item 1A. Risk Factors (continued)

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

In addition, future legislative, regulatory or judicial changes could adversely affect our insurance companies ability to pursue business, materially impacting our financial results. The NYSDFS has issued best practices regarding the laws and regulations that are applicable to our insurance companies and to other monoline financial guarantee insurance companies and has indicated that it expects to propose legislative and regulatory changes to codify these best practices. Furthermore, in 2009 and 2010, new bills were introduced into the New York legislature to amend the NYIL to enhance the regulation of financial guarantee insurers which would impose limits on the manner and amount of business written by the Company. See Business Our Insurance Operations Insurance Regulation New York Insurance Regulation In Part I, Item 1 of this Form 10-K. On the U.S. federal level, members of the U.S. Congress and federal regulatory bodies have suggested federal oversight and regulation of insurance, including bond insurance. In addition, the Financial Stability Oversight Council created by the Dodd-Frank Reform and Consumer Protection Act (the Dodd-Frank Act) is currently evaluating whether non-bank financial institutions, including insurance companies, should be deemed systemically important under the Dodd-Frank Act, and any determination that we are systemically important could subject us to federal regulatory oversight and increased capital requirements. Internationally, as a result of the Solvency II Directive (the Directive) passed by the European Parliament, insurance regulators in the European Union are revising the capital adequacy requirements and risk governance procedures applicable to insurers in the European Union, including MBIA UK, in anticipation of establishing legislation being passed to bring the Directive into effect. Additionally, the European Parliament is contemplating another directive that would increase regulation of derivative instruments that could impact MBIA Corp. s insured derivatives. Furthermore, the Financial Stability Board, a coordinating body of national financial authorities, is currently evaluating whether MBIA should be designated a global systemically important financial institution , which designation would also subject us to increased capital requirements, and the International Association of Insurance Supervisors, a coordinating body of national insurance regulators, is currently evaluating whether the Company or any of its insurance subsidiaries should be designated a global systemically important insurer , which designation would also subject us to increased capital requirements.

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

Developments in the regulation of derivatives may create additional burdens on the Company.

In July 2010, the Dodd-Frank Act was signed into law for the purpose of enacting broad financial industry regulatory reform, including by enhancing regulation of the over-the-counter derivatives markets. Among other reforms, the Dodd-Frank Act requires swap dealers and major swap participants to register with either or both of the Commodity Futures Trading Commission (CFTC) and the SEC, and to be subject to enhanced regulation, including capital requirements. The CFTC and SEC have promulgated rules to implement this enhanced regulatory framework, including final rules that require the Company to include its legacy insured derivatives in tests used to determine whether it is a major swap participant.

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Item 1A. Risk Factors (continued)

MBIA Insurance Corporation expects to register with the CFTC as a major swap participant and on an ongoing basis will be required to comply with the CFTC s business conduct rules as applied to portfolios in place prior to the enactment of the Dodd-Frank Act. As further rules are enacted we expect to seek exemptions from certain of the rules that we do not believe we will be able to comply with, including capital requirements. Depending on the timing of the enactment of the SEC registration and reporting framework, and the enactment of other final SEC rules, MBIA Insurance Corporation may also be required to register with the SEC as a major swap participant.

Because the CFTC and SEC have not yet issued final rules establishing capital requirements for major swap participants, the ultimate impact of such requirements on the Company is not yet clear. However, to the extent that the Company becomes subject to significant additional capital requirements, it is unlikely that the Company will be able to meet those standards.

General Risk Factors

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

As further set forth in Note 20: Commitments and Contingencies in the Notes to Consolidated Financial Statements of MBIA Inc. and Subsidiaries in Part II, Item 8 of this Form 10-K, the Company is named as a defendant in a number of litigations. In the ordinary course of business, the Company and its subsidiaries are routinely defendants in or parties to pending and threatened legal actions and proceedings brought on behalf of various classes of claimants, including counterparties in various transactions. Although the Company intends to vigorously defend against the aforementioned actions and against other potential actions, an adverse ultimate outcome in these actions could result in a loss and have a material adverse effect on our reputation, business, results of operations or financial condition.

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

In connection with transactions in our shares from time to time, we may in the future experience an ownership change within the meaning of Section 382 of the Internal Revenue Code. In general terms, an ownership change may result from transactions increasing the aggregate ownership of certain stockholders in our stock by more than 50 percentage points over a testing period (generally three years). If an ownership change were to occur, our ability to use certain tax attributes, including certain losses, credits, deductions or tax basis, may be limited. Calculating whether a Section 382 ownership change has occurred is subject to uncertainties, including the complexity and ambiguity of Section 382 and limitations on a publicly traded company s knowledge as to the ownership of, and transactions in, its securities. The Company performs detailed calculations during each quarter to determine if an ownership change has occurred and, based on the Company s current methodology of calculation, a Section 382 ownership change has not taken place.

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

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

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

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

Item 1A. Risk Factors (continued)

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

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

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

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

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

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

Item 1B. Unresolved Staff Comments

The Company from time to time receives written comments from the staff of the SEC regarding its periodic or current reports under the Securities Exchange Act of 1934, as amended. There are no comments that remain unresolved that the Company received more than 180 days before the end of the year to which this report relates.

Item 2. Properties

A wholly-owned subsidiary of National owns the 280,729 square foot office building on approximately 38 acres of property in Armonk, New York, in which the Company, National, MBIA Corp., Cutwater and Optinuity have their headquarters. The Company also has offices with approximately 25,500 square feet of rental space in New York, New York; San Francisco, California; Paris, France; Madrid, Spain; Mexico City, Mexico; and London, England. Cutwater has 10,383 square feet of office space in Denver, Colorado. The Company generally believes that these facilities are adequate and suitable for its current needs.

Item 3. Legal Proceedings

For a discussion of the Company s litigation and related matters, see Note 20: Commitments and Contingencies in the Notes to Consolidated Financial Statements of MBIA Inc. and Subsidiaries in Part II, Item 8. In the normal course of operating its businesses, MBIA Inc. may be involved in various legal proceedings. As a courtesy, the Company posts on its website under the section Legal Proceedings, selected information and documents in reference to selected legal proceedings in which the Company is the plaintiff or the defendant. The Company will not necessarily post all documents for each proceeding and undertakes no obligation to revise or update them to reflect changes in events or expectations. The complete official court docket can be publicly accessed by contacting the clerk s office of the respective court where each litigation is pending.

Item 4. Mine Safety Disclosures

Not applicable.

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Part II

Item 5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities
The Company s common stock is listed on the New York Stock Exchange under the symbol MBI. As of February 21, 2013 there were 762 shareholders of record of the Company s common stock. The Company did not pay cash dividends on its common stock during 2012 or 2011. For information on the ability for certain subsidiaries of the Company to transfer funds to the Company in the form of cash dividends or otherwise, see Item 1. Business Insurance Regulation in this annual report.

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

	2012 Stock Price		2011 Stock Price	
Quarter Ended	**High**	**Low**	**High**	**Low**
March 31	$ 13.50	$ 9.26	$ 14.96	$ 9.64
June 30	10.83	8.04	10.98	7.57
September 30	12.00	8.67	10.36	5.99
December 31	11.16	6.78	12.65	6.47

On February 1, 2007, the Company s Board of Directors authorized the repurchase of common stock up to $1 billion under a new share repurchase program, which superseded the previously authorized program.

Repurchases of common stock may be made from time to time in the open market or in private transactions as permitted by securities laws and other legal requirements. We believe that share repurchases can be an appropriate deployment of capital in excess of amounts needed to support our liquidity and maintain the claims-paying ratings of MBIA Corp. and National as well as other business needs. As of December 31, 2012, the Company repurchased 56.7 million shares under the program at an average price of $17.24 per share and $23 million remained available under the $1 billion share buyback program.

The table below presents repurchases made by the Company in each month during the fourth quarter of 2012. See Note 16: Long-term Incentive Plans in the Notes to Consolidated Financial Statements of MBIA Inc. and Subsidiaries in Part II, Item 8 for a further discussion on long-term incentive plans.

Month	Total Number of Shares Purchased (1)	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan	Maximum Amount That May Be Purchased Under the Plan (in millions) (2)
October	758	$ 10.22		$ 23
November	7,053	7.25		23
December	3,209	8.19		23

(1) 868 shares were repurchased by the Company in open market transactions for settling awards under the Company s long-term incentive plans and 10,152 shares were purchased in open market transactions as an investment in the Company s non-qualified deferred compensation plan.

(2) On February 1, 2007, the Company s Board of Directors authorized the repurchase of common stock up to $1 billion under a new share repurchase program, which superseded the previously authorized program.

As of December 31, 2012, 277,405,039 shares of Common Stock of the Company, par value $1 per share, were issued and 195,671,509 shares were outstanding.

Stock Performance Graph The following graph compares the cumulative total shareholder return (rounded to the nearest whole dollar) of our common stock, the S&P 500 Index (S&P 500 Index) and the S&P 500 Financials Sector Index (S&P Financials Index) for the last five fiscal years. The graph assumes a $100 investment at the closing price on December 31, 2007 and reinvestment of dividends in the security/index on the respective dividend payment dates without commissions. This graph does not forecast future performance of our common stock.

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

	2007	2008	2009	2010	2011	2012
MBIA Inc. Common Stock	100.00	21.85	21.36	64.36	62.21	41.87
S&P 500 Index	100.00	63.00	79.68	91.68	93.61	106.79
S&P Financials Index	100.00	44.73	52.44	58.82	48.81	62.06

Source: Bloomberg Finance L.P.

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Item 6. Selected Financial Data

In millions except per share amounts	2012	2011	2010	2009	2008
Summary Statement of Operations Data:					
Premiums earned	$ 605	$ 605	$ 594	$ 746	$ 850
Net investment income	214	383	457	568	1,381
Net change in fair value of insured derivatives	1,464	(2,812)	(769)	1,484	(2,220)
Net gains (losses) on financial instruments at fair value and foreign exchange	55	(99)	88	225	(517)
Net investment losses related to other-than- temporary impairments	(105)	(101)	(64)	(361)	(959)
Revenues of consolidated variable interest entities	134	392	364	(19)	157
Total revenues	2,435	(1,557)	894	2,954	(857)
Losses and loss adjustment expenses	50	(80)	232	864	1,318
Operating expenses	381	308	290	315	304
Interest expense	284	300	325	374	1,017
Expenses of consolidated variable interest entities	72	91	83	102	157
Total expenses	837	682	989	1,737	2,871
Income (loss) before income taxes	1,598	(2,239)	(95)	1,217	(3,727)
Net income (loss)	1,234	(1,319)	53	634	(2,673)
Net income (loss) available to common shareholders	1,234	(1,319)	53	623	(2,673)
Net income (loss) per common share:					
Basic	$ 6.36	$ (6.69)	$ 0.26	$ 2.99	$ (12.11)
Diluted	$ 6.33	$ (6.69)	$ 0.26	$ 2.99	$ (12.11)
Summary Balance Sheet Data:					
Fixed-maturity investments	$ 5,172	$ 7,015	$ 9,669	$ 9,888	$ 11,438
Short-term investments	669	1,571	2,070	2,688	4,693
Other investments	21	107	188	255	220
Derivative assets	4	2	4	866	911
Total assets of consolidated variable interest entities	8,334	10,893	14,138	4,312	4,800
Total assets	21,724	26,873	32,279	25,701	29,030
Unearned premium revenue	2,938	3,515	4,145	4,955	3,424
Loss and loss adjustment expense reserve	853	836	1,129	1,580	1,558
Investment agreements	944	1,578	2,005	2,726	4,667
Medium-term notes	1,598	1,656	1,740	2,285	4,198
Long-term debt	1,662	1,840	1,851	2,224	2,051
Derivative liabilities	2,934	5,164	4,617	4,594	6,471
Total liabilities of consolidated variable interest entities	7,286	9,883	13,055	3,640	4,785
Total equity	3,194	1,723	2,846	2,607	1,022
Book value per share	$ 16.22	$ 8.80	$ 14.18	$ 12.66	$ 4.78
Insurance Statistical Data:					
Debt service outstanding	$ 679,074	$ 840,078	$ 1,025,031	$ 1,166,193	$ 1,274,531
Gross par amount outstanding	449,487	551,721	672,878	767,232	841,480

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Item 6. Selected Financial Data (continued)

Quarterly Financial Information (unaudited):

In millions except per share amounts	2012 First	Second	Third	Fourth	Full Year (1)
Premiums earned	$ 137	$ 171	$ 155	$ 142	$ 605
Net investment income	62	60	50	42	214
Net change in fair value of insured derivatives	299	775	(21)	411	1,464
Net gains (losses) on financial instruments at fair value and foreign exchange	(19)	(6)	7	73	55
Net investment losses related to other-than-temporary impairments	(94)	(3)	(8)		(105)
Revenues of consolidated variable interest entities	(10)	16	77	51	134
Total revenues	383	1,039	281	732	2,435
Losses and loss adjustment expense	97	62	171	(280)	50
Operating expenses	158	78	72	73	381
Interest expense	73	71	69	71	284
Expenses of consolidated variable interest entities	21	18	18	15	72
Total expenses	362	244	338	(107)	837
Income (loss) before income taxes	21	795	(57)	839	1,598
Net income (loss)	10	581	7	636	1,234
Net income (loss) per common share:					
Basic	$ 0.05	$ 2.99	$ 0.04	$ 3.27	$ 6.36
Diluted	$ 0.05	$ 2.98	$ 0.04	$ 3.26	$ 6.33

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

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

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

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

FORWARD-LOOKING AND CAUTIONARY STATEMENTS

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

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

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

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

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

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

- the risk that MBIA Insurance Corporation will be placed in a rehabilitation or liquidation proceeding by the New York State Department of Financial Services (NYSDFS);

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

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

- the resolution of litigation claims against the Company;

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

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

changes in the Company s credit ratings;

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

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

uncertainties that have not been identified at this time.

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

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

EXECUTIVE OVERVIEW

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

During 2012, our businesses continued to maintain adequate liquidity to meet their payment obligations despite minimal collections of recoveries in connection with ineligible mortgage loans in our insured RMBS securitizations. As of December 31, 2012, National and MBIA Corp. had $419 million and $345 million, respectively, of total liquidity without regard to investments in their subsidiaries. Total liquidity within our insurance businesses includes cash and short-term investments, as well as other assets that are readily available for liquidity purposes. Liquidity of MBIA consists of the liquidity positions of the Company s corporate segment and asset/liability products segment. As of December 31, 2012, MBIA had liquidity of $239 million comprising cash and liquid assets of $170 million available for general corporate liquidity purposes, excluding the amounts held in escrow under its tax sharing agreement, and $69 million not pledged directly as collateral for its asset/liability products segment. As of December 31, 2011, MBIA had $386 million of cash and liquid assets comprising $226 million available for general corporate liquidity purposes, excluding the amounts held in escrow under its tax sharing agreement, and $160 million not pledged directly as collateral for its asset/liability products segment. A detailed discussion of the Company s liquidity position is presented within the Liquidity section herein.

The absence of Standard & Poor s Financial Services LLC (S&P) and Moody s Investors Service, Inc. (Moody s) highest ratings has adversely impacted our ability to write new insurance business and the premiums we can charge, and could diminish the future acceptance of our financial guarantee insurance products. As of December 31, 2012, National was rated BBB with a developing outlook by S&P and Baa2 with a negative outlook by Moody s.

Economic and Financial Market Trends

We believe economic conditions during 2012 improved in the U.S. despite uncertainty over the outcomes of the Presidential election and the fiscal cliff . Although the U.S. Gross Domestic Product contracted in the fourth quarter of 2012, it grew faster in 2012 compared with 2011 bolstered by an improving job market, rising housing prices and lower fuel costs. The Federal Reserve s fourth quantitative easing announced in December should help to keep interest and mortgage rates low, which should help to extend the momentum in the housing market and lend a boost to the consumer market in 2013. While Washington has recently addressed the income and payroll tax rate issues, the outcome on spending cuts, the debt ceiling and the federal budget will undoubtedly cause uncertainty in the business and consumer segments of our economy. Europe enters 2013 in a recession; however, financial conditions there have begun to stabilize. All considered, we believe the U.S. is in a better position than a year ago, but global growth remains sluggish and Congress must address an unclear fiscal policy. MBIA s business outlook should be viewed against this backdrop since these are some of the key economic conditions which, together with the ineligibility of mortgage loans supporting our insured RMBS transactions, realized losses on insured credit derivatives and the volatility of unrealized gains and losses on our insured credit derivatives, significantly impact our financial results.

MBIA s Business Outlook

Our financial results, prepared in accordance with accounting principles generally accepted in the United States of America (GAAP), have been extremely volatile since the fourth quarter of 2007 primarily as a result of unrealized gains and losses from fair valuing our insured credit derivatives.

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

EXECUTIVE OVERVIEW (continued)

We do not believe that the volatility caused by these unrealized gains and losses on our insured derivatives reflects the underlying economics of our business, and we fully expect that our reported financial results will remain volatile and uncertain during 2013 as a result of actual and perceived future performance of our insured credit derivatives and the perception of MBIA s credit risk. Our economic performance may also be volatile depending on changes in our loss estimates based on changes in macroeconomic conditions in the U.S. and abroad and deviations in collateral performance from our expectations.

The reference herein to ineligible mortgage loans refers to those mortgage loans that the Company believes failed to comply with the representations and warranties made by the sellers/servicers of the securitizations to which those mortgage loans were sold (including mortgage loans that failed to comply with the related underwriting criteria), based on the Company s assessment of such mortgage loans compliance with such representations and warranties, which included information provided by third-party review firms. The sellers/servicers have contractual obligations to cure, repurchase or replace such ineligible mortgage loans. These expected recoveries are generally referred to as put-backs , and are calculated based on the Company s assessment of a range of possible collection outcomes. The Company s assessment of the ineligibility of individual mortgage loans has been challenged by the sellers/servicers of the securitizations in litigation and there is no assurance that the Company s determinations will prevail.

Our business and financial results have been significantly influenced by a number of factors including, but not limited to, the following. Refer to Note 1: Business Developments and Risks and Uncertainties in the Notes to Consolidated Financial Statements for a discussion of significant risks and uncertainties that could affect amounts reported in the Company s financial statements in future periods.

Our expected liquidity and capital forecast for MBIA Corp. for 2013 reflects adequate resources to pay expected claims. However, there is a significant risk to this forecast as our forecast assumes a settlement with Bank of America including a commutation of insured CMBS exposure, as well as a collection of a substantial portion of MBIA s RMBS recovery recorded against Bank of America and its subsidiary Countrywide Home Loans, Inc. (Countrywide). We believe that a settlement will occur timely because we believe a comprehensive settlement is in the best interests of MBIA Corp. and Bank of America. If, however, MBIA Corp. is not able to reach a comprehensive settlement with Bank of America and Bank of America s subsidiary, Merrill Lynch, presents substantial claims on its policies covering CMBS pools, MBIA Corp. may have insufficient resources to cover Bank of America s claims. While no claims have been made on these CMBS exposures to date, given the significant erosion of the deductible in some of the underlying insured credit default swaps (CDS), we expect that Bank of America and its subsidiary Merrill Lynch will have the ability to make a claim in the near term. Refer to RMBS Recoveries and Insured CMBS Portfolio below for additional information. In addition, Bank of America/Merrill Lynch, is also one of two remaining plaintiffs in the litigation challenging the establishment of National (Transformation Litigation), and developments in this litigation may impact the amount MBIA ultimately collects in a comprehensive settlement. While we believe it is more likely than not that a settlement will be reached, which would alleviate its liquidity risk, there can be no assurance such a settlement will be reached timely on mutually acceptable terms. As a result of the risk that MBIA may not reach a settlement with Bank of America within a reasonable period of time, MBIA Corp. could be placed in a rehabilitation or liquidation proceeding by the NYSDFS (an MBIA Corp. Proceeding). Refer to Note 1: Business Developments and Risks and Uncertainties in the Notes to Consolidated Financial Statements for information about the impact of an MBIA Corp. Proceeding.

For 2012, we estimated an additional $898 million of credit losses and loss adjustment expense (LAE) related to our insured CMBS exposure. This additional amount reflects the deterioration within some transactions. While aggregate average debt service coverage in transactions in our aggregate current portfolio remains satisfactory, some loans show signs of significant financial distress. Ultimate loss rates remain uncertain, and we have recorded additional impairments on our insured CMBS portfolio every quarter since the beginning of 2010 as our anticipated economic losses have increased during that time period. It is possible that we will experience severe losses or liquidity needs due to increased deterioration in our insured CMBS portfolio or our failure to commute these policies, primarily on the Bank of America/Merrill Lynch CMBS pools originally insured in 2006 and 2007 primarily referencing BBB and lower rated collateral described below under RMBS Recoveries and Insured CMBS Portfolio .

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

EXECUTIVE OVERVIEW (continued)

In 2012, MBIA Corp. commuted $13.4 billion of gross insured exposure, primarily comprising structured CMBS pools, CRE CDOs, investment grade corporate CDOs, ABS CDOs, and subprime RMBS transactions. In consideration for the commutation of insured transactions, the Company has made and may in the future make payments to the counterparties, the amounts of which, if any, may be less than or greater than any statutory loss reserves established for the respective transactions. The Company enters into commutations in the ordinary course of its business and generally does not intend to make contemporaneous disclosures regarding any such transactions regardless of the amounts paid to effect such commutations in relation to the statutory loss reserves established for the respective transactions. In the fourth quarter of 2012, MBIA Corp. agreed with a credit default swap (CDS) counterparty on a commutation of certain potentially volatile policies insuring ABS CDO, structured CMBS pools and CRE CDO transactions. The agreement was subject to the approval by the NYSDFS of a request to draw on a secured loan from National to MBIA Insurance Corporation (National Secured Loan), in order to finance the commutation, as well as the receipt by MBIA Corp. of confirmation from the NYSDFS of its non-disapproval of the commutation. MBIA Corp. requested the NYSDFS to confirm its non-disapproval of the commutation and for approval of a loan under the National Secured Loan or for approval of an alternative financing structure to finance the commutation. Subsequent to December 31, 2012, those requests were denied. The Company s ability to commute insured transactions is limited by available liquidity, including the availability of intercompany loans under the National Secured Loan and the use of other available financing structures and liquidity, all of which could be subject to regulatory approval by the NYSDFS. There can be no assurance that the Company will be able to fund further commutations by borrowing from National or otherwise.

The pending litigation challenging the establishment of National has constrained our ability to establish high stable ratings and generate new U.S. public finance financial guarantee insurance business. We do not expect to write significant new financial guarantee insurance business prior to an upgrade of National s insurance financial strength ratings. We expect that once the pending litigation is resolved and MBIA Insurance Corporation repays the National Secured Loan, we will seek to obtain higher ratings for National. Our ability to achieve these ratings is subject to rating agency criteria in effect at that time, including qualitative and quantitative factors, and the timing of any such upgrade is uncertain. There is no assurance that we will prevail in the pending litigation or be able to achieve such ratings. While there are currently two bond insurers actively engaged in the market, one of which was recently established, we have observed other new competitors indicating an interest in entering the bond insurance market and continue to consider strategies for launch. We will continue to monitor the impact that new market participants may have on our ability to compete in the U.S. public finance insurance market in the future. Failure by the Company to favorably resolve this litigation could have a material adverse effect on its future business, results of operations, financial condition or cash flows. Refer to Note 20: Commitments and Contingencies in the Notes to Consolidated Financial Statements for a detailed discussion of the lawsuits filed by and against the Company.

Our U.S. public finance insured portfolio, in National, continues to perform as expected. We did experience increased stress in this portfolio in 2012 as a portion of the obligations that we insure were issued by some of the state and local governments that continue to remain under extreme financial and budgetary stress. This financial stress on such states and municipalities could lead to an increase in defaults on the payment of their obligations and losses or impairments on a greater number of insured transactions in the future.

RMBS Recoveries and Insured CMBS Portfolio

MBIA Corp. has repurchase claims against sellers/servicers of RMBS securitizations related to sellers /servicers improper inclusion of ineligible mortgage loans in MBIA-insured securitizations.

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

EXECUTIVE OVERVIEW (continued)

We believe that, based on the strength of our contract claims, multiple positive court rulings in our favor, and the exceptionally high level of ineligible mortgage loans in our insured transactions, we are entitled to collect and/or assert a claim for the full amount of our incurred loss related to these ineligible mortgage loans and interest. However, our financial statements reflect that we may ultimately collect less than our cumulative incurred loss due to a variety of factors including the risks inherent in litigation, the possibility of legal settlements with some or all of the sellers/servicers, and the risk that one or more of the sellers/servicers will not be able to honor any claims or judgments that we secure against them. As of December 31, 2012, we recorded $3.6 billion of put-back recoveries related to sellers /servicers contractual obligations to cure, repurchase or replace ineligible mortgage loans. Our cumulative incurred loss related to ineligible mortgage loans totaled $5.1 billion as of December 31, 2012. We are entitled to collect interest on amounts paid. We may further discount our expected put-back recoveries in the future based on a review of the creditworthiness of the sellers/servicers. We have recorded our largest repurchase claims related to liabilities of Bank of America as a result of its acquisition of Countrywide.

Bank of America and its subsidiary Merrill Lynch also hold a significant amount of our remaining insured CMBS exposures, including the majority of the $6.0 billion of pools originally insured in 2006 and 2007 primarily referencing BBB and lower rated collateral (for a discussion of our insured CMBS pool exposure, see Results of Operations Commercial Real Estate Pool and CRE CDOs). A new recession may result in increased delinquencies, higher levels of liquidations of delinquent loans and/or severities of loss upon liquidation. Although we have also seen stabilization in the delinquency rate over the past several months, loan modifications and extensions granted by the special servicers for these CMBS loans and increased liquidations have contributed to the stabilization. The special servicers are responsible for managing loans that have defaulted and for conducting the remediation and foreclosure process with the objective of maximizing proceeds for all bondholders by avoiding or minimizing loan level losses. While the Company has estimated credit impairments or recorded loss reserves for the CMBS exposures, no material claims have been made to date. It is possible that we will experience severe losses and/or liquidity needs due to increased deterioration on our insured CMBS portfolio or our failure to commute these policies, primarily on exposures with Bank of America/Merrill Lynch, and in particular if macroeconomic stress escalates. Depending on the amount of such claims and the amounts of claims on other policies issued by MBIA Corp., MBIA Corp. may not have sufficient liquid assets to pay such claims in the absence of a settlement with Bank of America/Merrill Lynch and the commutation of the CMBS exposures held by Bank of America/Merrill Lynch or in the absence of the collection of other substantial put-back recoveries.

Bank of America/Merrill Lynch is also one of the two remaining plaintiffs in the Transformation Litigation. Furthermore, Bank of America and MBIA are also involved in the Consent Solicitation Litigation described below under The Consent Solicitation . As a result, the amount we may ultimately collect from Bank of America/Countrywide on their RMBS put-back obligations in any litigation settlement could be impacted by potential commutation payments on their CMBS exposures and developments in the Transformation Litigation and the Consent Solicitation Litigation. Likewise, our ability to commute the Bank of America CMBS exposures may be impacted by developments in the put-back litigation with these entities, the Transformation Litigation and the Consent Solicitation. There can be no assurance that any such settlement or commutation will occur or that any such settlement or commutation, if it occurred, would be consummated within the estimates of expected recoveries or loss payments associated with these exposures that are recorded in our consolidated financial statements. Refer to Note 20: Commitments and Contingencies in the Notes to Consolidated Financial Statements for a detailed discussion of the lawsuits filed by and against the Company.

We have also recorded substantial recoveries related to put-backs against two wholly-owned subsidiaries of Residential Capital, LLC (ResCap), GMAC Mortgage, LLC (GMAC) and Residential Funding Company, LLC (RFC), whose ultimate parent company is Ally Financial Inc. On May 14, 2012, ResCap, RFC and GMAC each filed for bankruptcy protection under Chapter 11 of the United States Bankruptcy Code. In the second quarter of 2012, as a result of the bankruptcy filings, MBIA reassessed its expected recoveries from GMAC and RFC and developed new probability-weighted scenarios. The revised scenarios are based on the following facts: a) we have a direct contractual relationship with GMAC and RFC related to our put-back claims; b) our claims against GMAC and RFC are based on a breach of contract and fraud which have withstood motions to dismiss; and c) we submitted expert reports in the RFC litigation which confirm a substantial degree of ineligible mortgage loans in MBIA insured securitizations and damages as a result thereof.

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

EXECUTIVE OVERVIEW (continued)

Accordingly, the Company has modeled scenario-based recoveries which are founded upon the strength of these claims as well as a range of estimated assets available to ResCap unsecured creditors, and as a result, our expected recoveries from GMAC and RFC have been reduced by approximately 5% since December 31, 2011. These outcomes are based upon information that was available to the Company as of the filing date. A more detailed discussion of potential recoveries is presented within Note 6: Loss and Loss Adjustment Expense Reserves in the Notes to Consolidated Financial Statements.

Additionally, as of December 31, 2012, we recorded expected receipts of $906 million (on a present value basis) from excess spread (the difference between interest inflows on assets and interest outflows on liabilities) in our second-lien RMBS transactions, in reimbursement of our past and future expected claims. Of this amount, $780 million is included in Insurance loss recoverable and $126 million is included in Loss and loss adjustment expense reserves . The amount of excess spread depends on future interest rates, borrower refinancing and defaults. There can be no assurance that the $906 million will be received in its entirety.

The Consent Solicitation

As a result of the risks facing MBIA Corp., during the fourth quarter of 2012, MBIA successfully completed a consent solicitation pursuant to which we received the consent of MBIA Inc. senior noteholders to amend the indentures pursuant to which the senior notes were issued to substitute National Public Finance Guarantee Corporation for MBIA Insurance Corporation in the definition of Restricted Subsidiary and Principal Subsidiaries in the respective indentures, which provide that an insolvency proceeding with respect to a Restricted or Principal Subsidiary, as the case may be, that remains in place for a specified period of time constitutes an event of default, which would likely result in the acceleration of the senior notes. In addition, we repurchased approximately $172 million of the outstanding principal amount of the notes issued under the Senior Indenture, dated as of November 24, 2004, by and between the Company and the Bank of New York (as supplemented by the first Supplemental Indenture, dated as of November 24, 2004, and the Second Supplemental Indenture, dated as of November 21, 2012 (the Second Supplemental Indenture) (collectively, the 2004 Indenture)), governing the Company s $329 million principal amount of notes (the 2004 Notes), in privately negotiated seller initiated reverse inquiry transactions directly from holders that had consented pursuant to the consent solicitation.

The purpose of the consent solicitation was to avoid the risk of a substantial value erosion of the Company in the event of an MBIA Insurance Corporation rehabilitation or liquidation. In addition, by removing this risk, we believe the Company s credit standing should improve over time and improve its ability to raise capital in the future, each of which we believe would inure to the benefit of shareholders and creditors. See Risk Factors in Part I, Item 1A of this annual report on Form 10-K for a detailed description of the risks associated with MBIA Insurance Corporation being placed in a rehabilitation or liquidation proceeding.

On December 13, 2012, the Company received a letter from Blue Ridge Investments, L.L.C., a subsidiary of Bank of America, addressed to the Company and The Bank of New York Mellon (the Trustee) in its capacity as the trustee under the 2004 Indenture. The letter purports to be a Notice of Default under Section 501(3) of the 2004 Indenture (Purported Notice of Default) and alleges that the Second Supplemental Indenture was executed without the requisite consent of holders of the 5.70% Notes required by the 2004 Indenture. Pursuant to the 2004 Indenture, if a default continues for a period of 60 days after notice, then the Trustee or the holders of not less than 25% in aggregate principal amount of the outstanding 5.70% Notes may declare the principal amount of the 5.70% Notes to be due and payable immediately.

In addition, pursuant to the Indenture, dated as of August 1, 1990 (as supplemented and amended, the 1990 Indenture), governing the Company s 6.40% Senior Notes due 2022, 7.00% Debentures due 2025, 7.15% Debentures due 2027 and 6.625% Debentures due 2028 (collectively, the 1990 Notes), any acceleration of the amount due under the 2004 Indenture that is not discharged or cured, waived, rescinded or annulled within ten days after notice from the trustee of the 1990 Indenture or holders of not less than 25% aggregate principal amount of the 1990 Notes (treated as one class) would constitute an event of default under the 1990 Indenture and either the trustee of the 1990 Indenture or the holders of not less than 25% in aggregate principal amount of the 1990 Notes then outstanding (treated as one class) may declare the entire principal of the 1990 Notes then outstanding and interest accrued thereon to be due and payable immediately.

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

EXECUTIVE OVERVIEW (continued)

On December 17, 2012, the Company sent the Trustee a letter advising the Trustee that the Purported Notice of Default is meritless and has no force or effect under the 2004 Indenture, directing the Trustee to take no action in furtherance of the Purported Notice of Default, and advising the Trustee that the Company intends to take any and all necessary and appropriate actions to enforce the Second Supplemental Indenture. In addition, on February 7, 2013, the Company filed a complaint for declaratory and injunctive relief seeking, among other things, a declaration that the Purported Notice of Default is invalid. While the Company believes the Purported Notice of Default is meritless, there can be no assurances that the Company will successfully contest its validity, or that the holders of the 1990 Notes will not declare an event of default under the 1990 Indenture on the basis of any purported acceleration of the 2004 Notes prior to resolution of the Company s action for declaratory and injunctive relief. If the Company is unable to repay the 2004 Notes or the 1990 Notes in the event it is not ultimately successful in contesting the validity of the Purported Notice of Default and any subsequent acceleration, the Trustee or holders of the 2004 Notes or the 1990 Notes would likely exercise their rights as creditors to force repayment and the Company would have an immediate need to pursue other alternatives, including, if the Company is not successful in pursuing out-of-court alternatives, the filing for protection under applicable insolvency laws. For a complete description of the litigation around the Consent Solicitation, see Note 20: Commitments and Contingencies in the Notes to Consolidated Financial Statements.

On December 13, 2012, Bank of America Corporation filed suit against the Company and the Trustee alleging that the Company tortiously interfered with Bank of America Corporation s tender offer to buy all of the 2004 Notes and seeking a permanent injunction against the implementation of the Second Supplemental Indenture and money damages. Bank of America filed an amended complaint on February 19, 2013. The Company believes it has strong defenses and intends to defend against this lawsuit vigorously, but the outcome of this matter is inherently uncertain. If Bank of America Corporation prevails and the Second Supplemental Indenture is deemed by a court to not have been effective, then an MBIA Insurance Corporation rehabilitation or liquidation proceeding would constitute an event of default under the 2004 Indenture, which, unless remedied, could result in the acceleration under the 1990 Indenture. See Risk Factors Capital, Liquidity and Market Related Factors The Company has received a Purported Notice of Default under the 2004 Indenture in Part 1A of this annual report on Form 10-K for a detailed discussion of the risks associated with this lawsuit. Though the Company believes there is no merit to the aforementioned Notice of Default, if the Company were found to be in default, and not cure the default within 60 days after notice, it could lead to an acceleration of the maturity of the Company s 2004 Notes and a cross-default of its other indebtedness, which could be materially adverse to our business prospects, and results of operations and financial condition in the future. As of the date of this report, the Company has not received a notice of acceleration of the 2004 Notes.

Financial Highlights

For the year ended December 31, 2012, we recorded consolidated net income of $1.2 billion or $6.33 per diluted share compared with a consolidated net loss of $1.3 billion or $6.69 per diluted share, for 2011 and consolidated net income of $53 million or $0.26 per diluted share for 2010.

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

For the year ended December 31, 2012, consolidated adjusted pre-tax loss was $708 million compared with adjusted pre-tax losses of $497 million and $377 million for 2011 and 2010, respectively.

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

EXECUTIVE OVERVIEW (continued)

Our consolidated shareholders equity was $3.2 billion as of December 31, 2012 compared with $1.7 billion as of December 31, 2011. The increase was primarily the result of unrealized gains on insured derivatives driven by commuting derivative liabilities at prices below their fair values, the effects of MBIA s nonperformance risk on its derivative liabilities and the result of favorable movements in spreads and pricing on collateral. Our consolidated book value per share as of December 31, 2012 was $16.22 compared with $8.80 as of December 31, 2011.

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

As of December 31, 2012, ABV per share was $30.68, down from $34.50 as of December 31, 2011.

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

CRITICAL ACCOUNTING ESTIMATES

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

Loss and Loss Adjustment Expense Reserves

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

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

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

CRITICAL ACCOUNTING ESTIMATES (continued)

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

Since 2007, the majority of our case basis reserves and insurance loss recoveries were related to insured second-lien RMBS transactions. Refer to Note 6: Loss and Loss Adjustment Expense Reserves in the Notes to Consolidated Financial Statements for a comprehensive discussion of our RMBS loss reserves and recoveries, including critical accounting estimates used in the determination of these amounts.

Valuation of Financial Instruments

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

The fair value measurements of financial instruments held or issued by the Company are determined through the use of observable market data when available. Market data is obtained from a variety of third-party sources, including dealer quotes. If dealer quotes are not available for an instrument that is infrequently traded, we use alternate valuation methods, including either dealer quotes for similar contracts or modeling using market data inputs. The use of alternate valuation methods generally requires considerable judgment in the application of estimates and assumptions and changes to these variables may produce materially different values.

The fair value pricing of assets and liabilities is a function of many components which include interest rate risk, market risk, liquidity risk and credit risk. For financial instruments that are internally valued by the Company, as well as those for which the Company uses broker quotes or pricing services, credit risk is typically incorporated by using appropriate credit spreads or discount rates as inputs. Substantially all of the Company s investments carried and reported at fair value are priced by independent third parties, including pricing services and brokers.

Refer to Note 7: Fair Value of Financial Instruments in the Notes to Consolidated Financial Statements for further information about the Company s financial assets and liabilities that are accounted for at fair value, including valuation techniques and significant inputs.

Fair Value Hierarchy Level 3

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

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CRITICAL ACCOUNTING ESTIMATES (continued)

The following table presents the fair values of assets and liabilities recorded on our consolidated balance sheets that are classified as Level 3 within the fair value hierarchy as of December 31, 2012 and 2011:

In millions	As of December 31, 2012	As of December 31, 2011
Investments:		
State and municipal bonds	$ 103	$ 28
Foreign governments	3	11
Corporate obligations	76	207
Mortgage-backed securities:		
Residential mortgage-backed non-agency	4	17
Commercial mortgage-backed	28	32
Asset-backed securities:		
Collateralized debt obligations	31	60
Other asset-backed	26	317
Equity securities	14	11
Derivative assets:		
Interest rate derivatives	5	3
Assets of consolidated VIEs:		
Corporate obligations	78	69
Mortgage-backed securities:		
Residential mortgage-backed non-agency	6	21
Commercial mortgage-backed	7	22
Asset-backed securities:		
Collateralized debt obligations	125	203
Other asset-backed	64	67
Loans receivable	1,881	2,046
Loan repurchase commitments	1,086	1,077
Derivative assets:		
Credit derivatives		447
Total Level 3 assets at fair value	$ 3,537	$ 4,638
Medium-term notes	165	165
Derivative liabilities:		
Credit derivatives	2,921	4,790
Interest rate derivatives	4	
Currency derivatives	1	
Liabilities of consolidated VIEs:		
VIE notes	1,932	2,889
Derivative liabilities:		
Credit derivatives		527
Currency derivatives	21	17
Total Level 3 liabilities at fair value	$ 5,044	$ 8,388

Level 3 assets represented approximately 29% of total assets measured at fair value on a recurring basis as of December 31, 2012 and 2011. Level 3 liabilities represented approximately 73% and 77% of total liabilities measured at fair value on a recurring basis as of December 31, 2012 and 2011, respectively. Refer to Note 7: Fair Value of Financial Instruments in the Notes to Consolidated Financial Statements for additional information about assets and liabilities classified as Level 3.

Deferred Income Taxes

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

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

CRITICAL ACCOUNTING ESTIMATES (continued)

Valuation allowances are established to reduce deferred tax assets to an amount that more likely than not will be realized. Changes in the amount of a valuation allowance are reflected within our provision for income taxes in our consolidated statements of operations. Determining whether to establish a valuation allowance and, if so, the amount of the valuation allowance requires management to exercise judgment and make assumptions regarding whether such tax benefits will be realized in future periods. All evidence, both positive and negative, needs to be identified and considered in making this determination. Future realization of the existing deferred tax asset ultimately depends on management s estimate of the future profitability and existence of sufficient taxable income of appropriate character (for example, ordinary income versus capital gain) within the carry-forward period available under the tax law. Different estimates than those used by management could result in an increase or decrease of the valuation allowance. In the event that the Company s estimate of taxable income is less than that required to utilize the full amount of any deferred tax asset, a valuation allowance is established. As of December 31, 2012 and 2011, the Company s valuation allowance was $146 million and $236 million, respectively, and relates to realized losses on sales of investments being carried forward as capital losses and impairments of certain assets also characterized as capital losses. Capital losses may only be offset by capital gains and any capital loss not utilized in the year generated can only be carried forward five years. The change in the valuation allowance for the year ended December 31, 2012 was primarily due to realized and unrealized capital gains on investments.

Refer to Note 11: Income Taxes in the Notes to Consolidated Financial Statements for additional information about the Company s deferred income taxes.

RECENT ACCOUNTING PRONOUNCEMENTS

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

RESULTS OF OPERATIONS

Summary of Consolidated Results

The following table presents a summary of our consolidated financial results for the years ended December 31, 2012, 2011 and 2010:

	Years Ended December 31,		
In millions except for per share amounts	**2012**	**2011**	**2010**
Total revenues (losses)	$ 2,435	$ (1,557)	$ 894
Total expenses	837	682	989
Pre-tax income (loss)	1,598	(2,239)	(95)
Provision (benefit) for income taxes	364	(920)	(148)
Net income (loss)	$ 1,234	$ (1,319)	$ 53
Net income (loss) per common share:			
Basic	$ 6.36	$ (6.69)	$ 0.26
Diluted	$ 6.33	$ (6.69)	$ 0.26

For the year ended December 31, 2012, we recorded consolidated net income of $1.2 billion, or $6.33 per diluted common share, compared with a consolidated net loss of $1.3 billion, or $6.69 per diluted common share, for 2011. Weighted average diluted common shares outstanding totaled 195 million and 197 million for the years ended December 31, 2012 and 2011, respectively. Consolidated total revenues for the year ended December 31, 2012 included $1.5 billion of net gains on insured derivatives compared with $2.8 billion of net losses for 2011. The net gains on insured derivatives in 2012 were principally associated with the reversal of unrealized losses from commutations, the effects of MBIA s nonperformance risk on its derivative liabilities and the result of favorable movements in spreads and pricing on collateral, partially offset by settlements and claim payments.

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

RESULTS OF OPERATIONS (continued)

The net losses on insured derivatives in 2011 principally resulted from favorable changes in the market perception of MBIA Corp. s credit risk on its derivative liabilities, reduced collateral pricing and collateral erosion, partially offset by the reversal of unrealized losses from settlements prior to maturity and terminations. Consolidated total expenses for the year ended December 31, 2012 included $50 million of net insurance loss and LAE compared with a benefit of $80 million for 2011. The net insurance loss and LAE in 2012 and benefit in 2011 were principally related to our insured RMBS and CMBS exposures.

During the fourth quarter of 2012, we completed an analysis of our deferred income tax balances, and as a result, identified errors to the current and deferred income tax balances. Accordingly, we recorded the impact of these errors, representing a net benefit for income taxes, of approximately $60 million in the fourth quarter of 2012. Refer to Note 11: Income Taxes in the Notes to Consolidated Financial Statements for a discussion of this adjustment.

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

Included in our consolidated net income for the year ended December 31, 2012 was $62 million of income before income taxes related to consolidated VIEs, after the elimination of intercompany revenues and expenses, compared with income before income taxes of $301 million and $281 million for 2011 and 2010, respectively. The net effect of consolidated VIEs on our financial results will vary over time as VIEs are consolidated or deconsolidated by the Company, and as the values of consolidated VIE assets and liabilities change.

European Sovereign Debt Exposure

Uncertainties regarding the European sovereign debt crisis have affected the global economy. Outside the U.S., financial guarantee insurance has been used by issuers of sovereign-related and sub-sovereign bonds, structured finance securities, utility debt and financing for public purpose projects, among others. MBIA does not insure any direct European sovereign debt. However, we do insure both structured finance and public finance obligations in select international markets. MBIA s indirect European sovereign insured debt exposure totaled $8.4 billion as of December 31, 2012 and included obligations of sovereign-related and sub-sovereign issuers, such as regions, departments, and sovereign-owned entities that are supported by a sovereign state, region or department. Of the $8.4 billion of insured gross par outstanding, $815 million, $692 million, and $256 million related to Spain, Portugal, and Ireland, respectively. The remaining $6.6 billion related to the United Kingdom. We closely monitor our existing insured European portfolios on an ongoing basis. We consider country risk, including economic and political factors, the type and quality of local regulatory oversight, the strength of the legal framework in each country and the stability of the local institutional framework. We also monitor local accounting, regulatory and legal requirements, local financial market developments, the impact of exchange rates and local demand dynamics. The Company has an immaterial amount of direct and indirect European sovereign debt holdings included in its investment portfolios. A default by one or more sovereign issuers could have an adverse effect on our insured debt exposures.

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

RESULTS OF OPERATIONS (continued)

Adjusted Pre-Tax Income

The following table presents our consolidated adjusted pre-tax income (loss) (a non-GAAP measure) and provides a reconciliation of adjusted pre-tax income (loss) to GAAP pre-tax income (loss) for the years ended December 31, 2012, 2011 and 2010:

In millions	Years Ended December 31, 2012	2011	2010
Adjusted pre-tax income (loss)	$ (708)	$ (497)	$ (377)
Additions to adjusted pre-tax income (loss):			
Impact of consolidating certain VIEs	79	(49)	243
Mark-to-market gains (losses) on insured credit derivatives	1,870	(310)	(679)
Subtractions from adjusted pre-tax income (loss):			
Impairments on insured credit derivatives	(357)	1,383	(718)
Pre-tax income (loss)	$ 1,598	$ (2,239)	$ (95)

For the year ended December 31, 2012, our consolidated adjusted pre-tax loss increased compared with 2011 primarily as a result of an increase in insurance losses and LAE, lower net investment income and an increase in legal and litigation related costs, partially offset by a decrease in impairments on insured credit derivatives.

For the year ended December 31, 2011, our consolidated adjusted pre-tax loss increased compared with 2010 primarily due to an increase in net losses from fair valuing financial instruments within our wind-down operations, lower premiums on insured derivatives as a result of policy commutations and early settlements and lower net investment income, partially offset by a decrease in insurance losses and LAE.

Adjusted Book Value

As of December 31, 2012, ABV per share (a non-GAAP measure) was $30.68, down from $34.50 as of December 31, 2011. The decrease in ABV per share was primarily driven by insurance losses and a significant increase in legal and litigation related costs.

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

In millions except share and per share amounts	As of December 31, 2012	2011
Total shareholders equity of MBIA Inc.	$3,173	$ 1,700
Common shares outstanding	195,671,508	193,143,196
Book value per share	$16.22	$ 8.80
Adjustments for items included in book value per share (after-tax):		
Cumulative net loss from consolidating certain VIEs (1)	0.59	0.82
Cumulative unrealized loss on insured credit derivatives	9.70	16.12
Net unrealized (gains) losses included in other comprehensive income	(0.47)	0.85
Adjustments for items not included in book value per share (after-tax):		
Net unearned premium revenue (2)(3)	9.92	12.00
Present value of insured derivative installment revenue (4)	0.60	0.86

Cumulative impairments on insured credit derivatives [4]	(4.85)	(3.74)
Deferred acquisition costs	(1.03)	(1.21)
Total adjustments per share	14.46	25.70
Adjusted book value per share	$30.68	$ 34.50

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

(2) Consists of financial guarantee premiums and fees.

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

(4) The discount rate on insured derivative installment revenue and impairments was 5% as of December 31, 2012 and 2011.

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

RESULTS OF OPERATIONS (continued)

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

U.S. Public Finance Insurance

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

A proposed novation agreement between Financial Guaranty Insurance Company (FGIC) and National, whereby FGIC transfers by novation to National all rights and liabilities under each of the policies covered under the FGIC Reinsurance Agreement, is currently pending, see Part 1, Item 1 Business Our Insurance Operations in this annual report on Form 10-K for a detailed description of the approval of this novation.

The following table presents our U.S. public finance insurance segment results for the years ended December 31, 2012, 2011 and 2010:

	Years Ended December 31,			Percent Change	
In millions	**2012**	**2011**	**2010**	**2012 vs. 2011**	**2011 vs. 2010**
Net premiums earned	$ 492	$ 454	$ 442	8%	3%
Net investment income	218	216	230	1%	-6%
Fees and reimbursements	6	8	22	-25%	-64%
Realized gains (losses) and other settlements on insured derivatives	1	2	1	-50%	100%
Net gains (losses) on financial instruments at fair value and foreign exchange	121	96	55	26%	75%
Other net realized gains (losses)		(31)		-100%	n/m
Total revenues	838	745	750	12%	-1%
Losses and loss adjustment	21	4	73	n/m	-95%
Amortization of deferred acquisition costs	103	89	83	16%	7%
Operating	145	77	64	88%	20%
Total expenses	269	170	220	58%	-23%
Pre-tax income	$ 569	$ 575	$ 530	-1%	8%

n/m Percent change not meaningful.

For the years ended December 31, 2012, 2011 and 2010, we did not write a meaningful amount of U.S. public finance insurance. The lack of insurance writings in our U.S. public finance segment reflects the insurance financial strength credit ratings assigned to National by major ratings agencies and the impact of litigation over the formation of National in 2009. We do not expect to write a material amount of new business prior to an upgrade of our insurance financial strength ratings and market acceptance that such ratings will be stable in the future.

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

RESULTS OF OPERATIONS (continued)

The timing of any such upgrade is uncertain and will depend on a variety of quantitative and qualitative factors used by the rating agencies in their evaluation, including the resolution of pending litigation. We believe that we will resume writing business in the U.S. public finance market before actively re-engaging in the structured finance and international markets.

NET PREMIUMS EARNED Net premiums earned on non-derivative financial guarantees represent gross premiums earned net of premiums ceded to reinsurers, and include scheduled premium earnings and premium earnings from refunded issues. The increase in net premiums earned for the year ended December 31, 2012 compared with 2011 resulted from an increase in refunded premiums earned of $99 million, partially offset by a decrease in scheduled premiums earned of $61 million. The increase in net premiums earned for the year ended December 31, 2011 compared with 2010 resulted from an increase in refunded premiums earned of $64 million, partially offset by a decrease in scheduled premiums earned of $52 million. Scheduled premium earnings decreased in 2012 and 2011 due to the maturity of insured issues within our U.S. public finance portfolio with no material new insurance writings. Additionally, refunding activity over the past several years has accelerated premium earnings in prior periods and reduced the amount of premiums that would have been earned in recent periods.

NET INVESTMENT INCOME The increase in net investment income for 2012 from 2011 was primarily due to interest on the National Secured Loan discussed below. The decrease in net investment income for 2011 from 2010 was primarily due to lower yields on new investment purchases and declining average interest rates on repurchase and reverse repurchase transactions with our asset/liability products segment.

National maintains simultaneous repurchase and reverse repurchase agreements (Asset Swap) with our asset/liability products segment, which provides yield enhancement to our U.S. public finance insurance investment portfolio as a result of increased net interest earnings from these collective agreements. In addition, the interest income on the National Secured Loan, established in December of 2011, was included in our U.S. public finance net investment income and totaled $103 million for 2012 compared with $4 million for 2011. The National Secured Loan enhances the overall yield of our U.S. public finance insurance investment portfolio as lower yielding investments were sold to fund the amount loaned under this agreement. While interest due on the National Secured Loan is recorded in the period during which it accrues, the payment of interest is currently being deferred. Refer to the Liquidity section included herein for additional information about these agreements.

Investment asset balances at amortized cost as of December 31, 2012 and 2011 are presented in the following table:

In millions	**December 31, 2012** Investments at Amortized Cost	**December 31, 2012** Pre-tax yield[(1)]	**December 31, 2011** Investments at Amortized Cost	**December 31, 2011** Pre-tax yield[(1)]
Fixed-income securities:				
Tax-exempt	$ 417	3.98%	$ 1,067	4.06%
Taxable	2,378	2.98%	2,073	3.89%
Short-term	204	1.17%	641	0.70%
Total fixed-income	2,999	2.99%	3,781	3.40%
Secured loan to an affiliate	1,652		1,130	
Other	16		16	
Total	$ 4,667		$4,927	

(1) Estimated yield-to-maturity.

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RESULTS OF OPERATIONS (continued)

NET GAINS (LOSSES) ON FINANCIAL INSTRUMENTS AT FAIR VALUE AND FOREIGN EXCHANGE The increase in net gains on financial instruments at fair value and foreign exchange for 2012 from 2011 was principally due to realized gains from sales of securities to fund loss payments and from the ongoing management of our U.S. public finance insurance investment portfolio. The increase in 2011 from 2010 was principally due to net gains on sales of investments to fund the National Secured Loan and to re-position National s investment portfolio.

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

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

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

The following table presents information about our U.S. public finance insurance loss and LAE reserves and recoverables as of December 31, 2012 and 2011:

	December 31,		
In millions	**2012**	**2011**	**Percent Change**
Gross loss and LAE reserves	$ 267	$ 369	-28%
Expected recoveries on unpaid losses	(108)	(200)	-46%
Loss and LAE reserves	$159	$ 169	-6%
Insurance loss recoverable	$256	$ 155	65%
Insurance loss recoverable ceded[1]	$7	$ 4	75%
Reinsurance recoverable on paid and unpaid losses	$8	$ 8	

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

Included in our U.S. public finance loss and LAE reserves are both reserves for insured obligations for which a payment default has occurred and National has already paid a claim and also for which a payment default has not yet occurred but a claim is expected in the future. The following table includes LAE reserves as of December 31, 2011 for one issue that had no expected future claim payments or par outstanding but for which the Company is obligated to pay LAE incurred in prior periods. As of December 31, 2012 and 2011, loss and LAE reserves comprised the following:

$ in millions	**Number of Issues[1]**		**Loss and LAE Reserve**		**Par Outstanding**	
	2012	**2011**	**2012**	**2011**	**2012**	**2011**
Gross of reinsurance:						
Issues with defaults	9	11	$141	$ 163	$ 749	$ 797

Issues without defaults	9	5	18	6	113	26
Total gross of reinsurance	18	16	$159	$ 169	$ 862	$ 823

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

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RESULTS OF OPERATIONS (continued)

The following table presents information about our U.S. public finance insurance loss and LAE expenses for the years ended December 31, 2012, 2011 and 2010:

In millions	Years Ended December 31, 2012	2011	2010	Percent Change 2012 vs. 2011	2011 vs. 2010
Loss and LAE related to actual and expected payments	$ 67	$ (93)	$ 555	n/m	-117%
Recoveries of actual and expected payments	(46)	97	(481)	-147%	-120%
Gross losses incurred	21	4	74	n/m	-95%
Reinsurance			(1)	n/m	-100%
Losses and loss adjustment expenses	$ 21	$ 4	$ 73	n/m	-95%

n/m Percent change not meaningful.

For 2012, losses and LAE primarily related to multiple lease transactions. For 2011, losses and LAE primarily related to two tax-backed transactions, a toll road transaction and a housing transaction. For 2010, losses and LAE primarily related to three housing transactions, two student loan transactions, a not-for profit transaction and a health care transaction. Additionally, increases in losses and LAE related to actual and expected payments related to a gaming revenue transaction were offset by expected recovery of the full amount of such losses.

POLICY ACQUISITION COSTS AND OPERATING EXPENSES U.S. public finance insurance segment expenses for the years ended December 31, 2012, 2011 and 2010 are presented in the following table:

In millions	Years Ended December 31, 2012	2011	2010	Percent Change 2012 vs. 2011	2011 vs. 2010
Gross expenses	$ 145	$ 77	$ 64	88%	20%
Amortization of deferred acquisition costs	$ 103	$ 89	$ 83	16%	7%
Operating	145	77	64	88%	20%
Total insurance operating expenses	$ 248	$ 166	$ 147	49%	13%

Gross expenses represent total insurance expenses before the deferral of any policy acquisition costs. Gross expenses increased for the year ended December 31, 2012 compared with 2011 primarily due to increases in legal and litigation related costs. Gross expenses increased for the year ended December 31, 2011 compared with 2010 primarily due to increases in legal and litigation related costs and higher expenses related to support services provided by Optinuity Alliances Resources Corp. (Optinuity).

Amortization of deferred acquisition costs increased for the year ended December 31, 2012 compared with 2011 and 2010. These variances were consistent with the amortization of the related unearned premium revenue. Operating expenses increased for the year ended December 31, 2012 compared with 2011 and 2010. These increases were a result of the increases in gross expenses as we did not defer a material amount of policy acquisition costs during 2012, 2011 or 2010.

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

The following table presents the credit quality distribution of MBIA s U.S. public finance outstanding gross par insured as of December 31, 2012 and 2011. All ratings are as of the period presented and represent S&P ratings. If transactions are not rated by S&P, a Moody s equivalent rating is used. If transactions are not rated by either S&P or Moody s, an MBIA equivalent rating is used.

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In millions	Gross Par Outstanding as of December 31, 2012		2011	
Rating	Amount	%	Amount	%
AAA	$ 18,518	5.5%	$ 22,593	5.5%
AA	162,504	48.2%	187,036	45.6%
A	122,743	36.4%	158,958	38.7%
BBB	30,496	9.0%	38,949	9.5%
Below investment grade	2,853	0.9%	2,824	0.7%
Total	$ 337,114	100.0%	$ 410,360	100.0%

The credit quality distribution of our U.S. public finance insurance exposure as of December 31, 2012 remained relatively consistent with December 31, 2011. Total U.S. public finance insurance gross par outstanding rated A or above, before giving effect to National s guarantee, was approximately 90% and gross par outstanding rated below investment grade, before giving effect to National s guarantee, was less than 1% as of December 31, 2012 and 2011.

Structured Finance and International Insurance

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

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

In certain cases, we may be required to consolidate entities established by issuers of insured obligations as part of securitizations when we insure the assets or liabilities of those entities and in connection with remediations under our insurance policies. These entities typically meet the definition of a VIE under accounting principles for the consolidation of VIEs. We do not believe there is any difference in the risks and profitability of financial guarantees provided to VIEs compared with other financial guarantees written by us.

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RESULTS OF OPERATIONS (continued)

The following table presents our structured finance and international insurance segment results for the years ended December 31, 2012, 2011 and 2010:

In millions	Years Ended December 31, 2012	2011	2010	Percent Change 2012 vs. 2011	2011 vs. 2010
Net premiums earned	$ 179	$ 230	$ 251	-22%	-8%
Net investment income	28	77	125	-64%	-38%
Fees and reimbursements	146	116	200	26%	-42%
Change in fair value of insured derivatives:					
Realized gains (losses) and other settlements on insured derivatives	(407)	(2,373)	(163)	-83%	n/m
Unrealized gains (losses) on insured derivatives	1,870	(441)	(607)	n/m	-27%
Net change in fair value of insured derivatives	1,463	(2,814)	(770)	n/m	n/m
Net gains (losses) on financial instruments at fair value and foreign exchange	38	69	135	-45%	-49%
Net investment losses related to other-than-temporary impairments	(45)	(62)	(5)	-27%	n/m
Other net realized gains (losses)	1	1	29		-97%
Revenues of consolidated VIEs:					
Net investment income	53	52	53	2%	-2%
Net gains (losses) on financial instruments at fair value and foreign exchange	8	30	269	-73%	-89%
Other net realized gains (losses)		255	(76)	-100%	n/m
Total revenues	1,871	(2,046)	211	n/m	n/m
Losses and loss adjustment	29	(84)	159	-135%	n/m
Amortization of deferred acquisition costs	112	136	145	-18%	-6%
Operating	135	145	133	-7%	9%
Interest	237	138	136	72%	1%
Expenses of consolidated VIEs:					
Operating	20	31	27	-35%	15%
Interest	42	43	42	-2%	2%
Total expenses	575	409	642	41%	-36%
Pre-tax income (loss)	$ 1,296	$ (2,455)	$ (431)	n/m	n/m

n/m Percent change not meaningful.

For the years ended December 31, 2012, 2011 and 2010, we did not write a meaningful amount of structured finance and international insurance. In 2012, activity was largely limited to our reinsurance of a financing transaction for a Turkish bank, which closed in the third quarter of 2012. The lack of insurance writings in our structured finance and international insurance segment reflects the impact of the downgrades of MBIA Corp. s insurance financial strength ratings by the major rating agencies, which occurred in 2008, 2009 and in the fourth quarter of 2012. The

Company does not expect to write a material amount of new business prior to an upgrade of the insurance financial strength ratings of MBIA Corp. and market acceptance that such ratings will be stable in the future. The timing of any such upgrade is uncertain and will depend on a variety of quantitative and qualitative factors used by the rating agencies in their evaluation, including the resolution of pending litigation. Pre-tax income (loss) in each of the periods included in the preceding table was primarily driven by changes in the fair value of our insured credit derivatives, which reflects changes in the market perception of MBIA Corp. s credit risk.

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

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RESULTS OF OPERATIONS (continued)

The following table presents the adjusted pre-tax income (loss) of our structured finance and international insurance segment, and a reconciliation of adjusted pre-tax income (loss) to GAAP pre-tax income (loss) for the years ended December 31, 2012, 2011 and 2010:

In millions	Years Ended December 31, 2012	2011	2010	Percent Change 2012 vs. 2011	2011 vs. 2010
Adjusted pre-tax income (loss)	$ (983)	$ (688)	$ (692)	43%	-1%
Additions to adjusted pre-tax income (loss):					
Impact of consolidating certain VIEs	52	(74)	222	n/m	-133%
Mark-to-market gain (loss) on insured credit derivatives	1,870	(310)	(679)	n/m	-54%
Subtractions from adjusted pre-tax income (loss):					
Impairments on insured credit derivatives	(357)	1,383	(718)	-126%	n/m
Pre-tax income (loss)	$ 1,296	$ (2,455)	$ (431)	n/m	n/m

n/m Percent change not meaningful.

Adjusted pre-tax loss for the year ended December 31, 2012 increased compared with 2011 principally due to a decrease in premiums earned, an increase in insurance losses and LAE, an increase in interest expense from the National Secured Loan that was established in December of 2011 and a decrease on net gains from asset sales, partially offset by decreased impairments on insured credit derivatives.

Adjusted pre-tax loss for the year ended December 31, 2011 decreased compared with 2010 principally due to lower financial guarantee insurance losses, gains from sales of investments, partially offset by lower fee revenue and, to a lesser extent, lower premiums earned and net investment income.

NET PREMIUMS EARNED Our structured finance and international insurance segment generates net premiums from insurance policies accounted for as financial guarantee contracts and insured derivative contracts, and certain of those premiums may be eliminated in our consolidated financial statements as a result of the Company consolidating VIEs. The following table provides net premiums earned by type of insurance contract for the years ended December 31, 2012, 2011 and 2010:

In millions	Years Ended December 31, 2012	2011	2010
Net premiums earned:			
Financial guarantee contracts	$ 179	$ 230	$ 251
Insured derivative contracts [(1)]	55	101	119
VIEs (eliminated in consolidation)	15	17	41
Total net premiums earned	$ 249	$ 348	$ 411

(1) Premiums related to insured derivatives are included in Realized gains (losses) and other settlements on insured derivatives

on our consolidated statements of operations.

Net premiums earned on non-derivative financial guarantee contracts for the years ended December 31, 2012, 2011 and 2010 are presented in the following table. Net premiums earned represent gross premiums earned net of premiums ceded to reinsurers, and include scheduled premium earnings and premium earnings from refunded issues.

	Years Ended December 31,			Percent Change	
In millions	**2012**	**2011**	**2010**	**2012 vs.2011**	**2011 vs. 2010**
Net premiums earned:					
U.S.	$ 62	$ 98	$ 129	-37%	-24%
Non-U.S.	117	132	122	-11%	8%
Total net premiums earned	$ 179	$ 230	$ 251	-22%	-8%

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RESULTS OF OPERATIONS (continued)

Structured finance and international net premiums earned decreased in 2012 and 2011 due to the maturity and early settlement of insured transactions with no new material insurance writings.

NET INVESTMENT INCOME The decreases in net investment income for 2012 compared with 2011 and 2011 compared with 2010 were primarily due to declining average asset balances in 2012 and 2011 as a result of claim and commutation payments.

MBIA Corp., as lender, maintained a secured lending agreement with our asset/liability products segment (MBIA Corp. Secured Loan), which was fully repaid in May 2012. Interest income on this arrangement for the years ended December 31, 2012, 2011 and 2010 was approximately $3 million, $14 million and $30 million, respectively. The decreases in interest income under this facility resulted from lower loan balances in 2012 and 2011 and the repayment of the facility in May 2012. Refer to the Liquidity section included herein for additional information about this agreement.

Investment asset balances at amortized cost as of December 31, 2012 and 2011 are presented in the following table:

In millions	December 31, 2012 Investments at Amortized Cost	 Pre-tax yield (1)	December 31, 2011 Investments at Amortized Cost	 Pre-tax yield (1)
Fixed-income securities:				
Tax-exempt	$		$ 1	5.79%
Taxable	725	1.60%	1,131	3.38%
Short-term	160	1.38%	222	1.46%
Total fixed-income	885	1.56%	1,354	3.07%
Secured loan to an affiliate			300	
Other	1		7	
Total	$ 886		$ 1,661	

(1) Estimated yield-to-maturity.

FEES AND REIMBURSEMENTS The increase in fees and reimbursements in 2012 compared with 2011 was primarily due to an increase in waiver and consent fees related to the ongoing management of our structured finance and international insurance business. The decrease in fees and reimbursements in 2011 compared with 2010 was primarily due to the receipt in 2010 of amounts in excess of those which were contractually due to MBIA Corp. upon the termination of a reinsurance agreement as compensation for potential future performance volatility related to reassumed exposures. Due to the transaction-specific nature inherent in fees and reimbursements, these revenues can vary significantly period to period.

NET CHANGE IN FAIR VALUE OF INSURED DERIVATIVES The following table presents the net premiums and fees earned related to derivatives and the components of the net change in fair value of insured derivatives for the years ended December 31, 2012, 2011 and 2010:

In millions	Years Ended December 31, 2012	2011	2010	Percent Change 2012 vs. 2011	2011 vs. 2010
Net premiums and fees earned on insured derivatives	$ 57	$ 104	$ 119	-45%	-13%
Realized gains (losses) on insured derivatives	(464)	(2,477)	(282)	-81%	n/m
Realized gains (losses) and other settlements on insured derivatives	(407)	(2,373)	(163)	-83%	n/m
Unrealized gains (losses) on insured derivatives	1,870	(441)	(607)	n/m	-27%
Net change in fair value of insured derivatives	$ 1,463	$ (2,814)	$ (770)	n/m	n/m

n/m Percent change not meaningful.

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RESULTS OF OPERATIONS (continued)

The Company no longer insures new credit derivative contracts except in transactions related to the restructuring or reduction of existing derivative exposure. Premiums earned related to insured credit derivatives will decrease over time as a result of settlements prior to maturity and scheduled amortizations. For the year ended December 31, 2012, realized losses on insured derivatives of $464 million resulted primarily from settlements and claim payments on CMBS and ABS transactions. For the years ended 2011 and 2010, realized losses on insured derivatives of $2.5 billion and $889 million, respectively, resulted primarily from settlements and claim payments on multi-sector CDOs and CMBS transactions. The $889 million of payments for the year ended December 31, 2010 was partially offset by $607 million of collections from Channel Re in connection with the commutation of ceded derivative exposure.

For the year ended December 31, 2012, unrealized gains on insured derivatives were principally associated with the reversal of unrealized losses from commutations, the effects of MBIA s nonperformance risk on its derivative liabilities and the result of favorable movements in spreads and pricing on collateral within transactions, partially offset by collateral erosion. For the year ended December 31, 2011, unrealized losses on insured derivatives were principally the result of favorable changes in the market perception of MBIA Corp. s credit risk on its derivative liability, reduced collateral pricing and collateral erosion, partially offset by the reversal of unrealized losses from settlements of contracts prior to maturity and terminations. For the year ended December 31, 2010, unrealized losses on insured derivatives were principally the result of the effect of MBIA s nonperformance risk on its derivative liability, which resulted from a tightening of its own credit spreads and an improvement in the Company s recovery rate, the reversal of unrealized gains in connection with the commutation of derivative exposure from Channel Re, and subordination erosion. This was partially offset by the reversal of unrealized losses primarily from the settlements on multi-sector CDO and CMBS transactions and improved collateral pricing.

As of December 31, 2012, MBIA Corp. s five year CDS cost was 48.75% upfront plus 5% per annum compared with 31.50% upfront plus 5% per annum and 56.25% upfront plus 5% per annum as of December 31, 2011 and 2010, respectively. Our mark-to-market on insured credit derivatives uses the most appropriate of the one to ten year CDS cost for each transaction, and those costs ranged from 37.50% upfront plus 5% per annum to 50.50% upfront plus 5% per annum as of December 31, 2012. Those costs ranged from 13.50% upfront plus 5% per annum to 33.50% upfront plus 5% per annum as of December 31, 2011 and ranged from 15.75% upfront plus 5% per annum to 57.50% upfront plus 5% per annum as of December 31, 2010.

As of December 31, 2012, we had $47.5 billion of gross par outstanding on insured credit derivatives compared with $67.0 billion as of December 31, 2011. The decrease in gross par outstanding was primarily due to contractual terminations, amortizations and maturities. During the year ended December 31, 2012, 34 insured issues, representing $18.5 billion in gross par outstanding, either matured or were contractually settled prior to maturity.

Since our insured credit derivatives have similar terms, conditions, risks, and economic profiles as our financial guarantee insurance policies, we evaluate them for impairment periodically in the same way that we estimate loss and LAE for our financial guarantee policies. Credit impairments on insured derivatives represent actual payments plus the present values of our estimates of expected future claim payments, net of expected future recoveries. MBIA Insurance Corporation s expected future claim payments were discounted using a rate of 5.72%, the same rate used to calculate its statutory loss reserves as of December 31, 2012. We estimated that additional credit impairments on insured derivatives (excluding LAE) for the year ended December 31, 2012 were $824 million across 19 CDO insured issues. Beginning with the fourth quarter of 2007 through December 31, 2012, total credit impairments on insured derivatives were estimated at $5.6 billion across 71 CDO insured issues, inclusive of 65 insured issues for which we made settlement and claim payments of $4.2 billion, net of reinsurance and collections. Accordingly, we expect to realize additional net losses of $1.4 billion. Refer to the following Loss and Loss Adjustment Expenses section for additional information about credit impairments on insured derivatives.

Our estimate of credit impairments, a non-GAAP measure, may differ from the fair values recorded in our consolidated financial statements. The Company believes its disclosure of credit impairments on insured derivatives provides additional meaningful information about potential realized losses on these contracts.

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RESULTS OF OPERATIONS (continued)

The fair value of an insured derivative contract will be influenced by a variety of market and transaction-specific factors that may be unrelated to potential future claim payments. In the absence of credit impairments or the termination of derivatives at losses, the cumulative unrealized losses recorded from fair valuing insured derivatives should reverse before or at the maturity of the contracts. Contracts also may be settled prior to maturity at amounts that may be more or less than their recorded fair values. Those settlements can result in realized gains or losses, and will result in the reversal of unrealized gains or losses. The Company is not required to post collateral to counterparties of these contracts. Refer to Risk Factors in Part I, Item 1A of this annual report on Form 10-K for information on legislative changes that could require collateral posting by MBIA Corp. notwithstanding the contract terms.

Costs associated with mitigating credit impairments on insured derivatives are expensed as incurred and included within Operating expenses in our consolidated statements of operations. Such costs totaled $7 million, $12 million and $13 million for the years ended December 31, 2012, 2011 and 2010, respectively.

REVENUES OF CONSOLIDATED VIEs For the year ended December 31, 2012, total revenues of consolidated VIEs were $61 million compared with total revenues of $337 million for the year ended December 31, 2011 and $246 million for the year ended December 31, 2010. The decrease in revenues of consolidated VIEs for the year ended December 31, 2012 compared with 2011 was primarily related to other net realized gains as a result of the consolidation and deconsolidation of VIEs in 2011. The increase in revenues of consolidated VIEs for the year ended December 31, 2011 compared with 2010 was primarily related to an increase in net gains as a result of the consolidation and deconsolidation of VIEs, partially offset by a decline in the extrapolation of RMBS put-back recoveries and the tightening of MBIA s credit spreads.

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

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

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

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

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RESULTS OF OPERATIONS (continued)

The following tables present the aggregate loss and LAE reserves and insurance loss recoverables as of December 31, 2012 and 2011, and the aggregate change in the discounted values of net payments expected to be made on all insurance contracts for the years ended December 31, 2012, 2011 and 2010:

Aggregate Losses and LAE Roll Forward

In millions	Financial Guarantee Insurance(1)	Financial Guarantee Insurance Related to VIEs(2)	Insurance Credit Derivative Impairments and LAE(3)	Reinsurance(4)	Total(5)
Gross loss and LAE reserves as of December 31, 2011	$ 667	$ 353	$ 1,103	$ (7)	$ 2,116
Gross insurance loss recoverable as of December 31, 2011	(2,891)	(1,365)	(70)	8	(4,318)
Total reserves (recoverable) as of December 31, 2011	(2,224)	(1,012)	1,033	1	(2,202)
Ceded reserves			1	(1)	
Net reserves as of December 31, 2011	(2,224)	(1,012)	1,034		(2,202)
Total aggregate losses and LAE incurred	29	140	829		998
(Payments) collections and other	(504)	(173)	(436)		(1,113)
Net reserves as of December 31, 2012	(2,699)	(1,045)	1,427		(2,317)
Ceded reserves	1			(1)	
Total reserves (recoverable) as of December 31, 2012	$ (2,698)	$ (1,045)	$ 1,427	$ (1)	$ (2,317)
Gross loss and LAE reserves as of December 31, 2012	$ 694	$ 293	$ 1,458	$ (7)	$ 2,438
Gross insurance loss recoverable as of December 31, 2012	(3,392)	(1,338)	(31)	6	(4,755)
Total reserves (recoverable) as of December 31, 2012	$ (2,698)	$ (1,045)	$ 1,427	$ (1)	$ (2,317)

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

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

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

(4) Represents Losses and loss adjustment, Loss and loss adjustment expense reserves and Insurance loss recoverable on the Company s consolidated financial statements and are ceded to third-party reinsurers under insurance contracts. As of December 31, 2012 and 2011, there was a $1 million receivable and $1 million payable, respectively, related to insured credit derivative impairments and LAE reinsurance.

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

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

	For the Year Ended December 31, 2012					
In millions	**Second-lien RMBS(1)**	**First-lien RMBS**	**ABS CDO**	**CMBS**	**Other**	**Total**
Change in actual and expected payments	$ 346	$ 146	$ (108)	$ 912	$ 10	$ 1,306
Change in actual and expected salvage	(333)	1	40	(14)	(2)	(308)
Total aggregate losses and LAE	$ 13	$ 147	$ (68)	$ 898	$ 8	$ 998

(1) Includes HELOC loans and CES.

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RESULTS OF OPERATIONS (continued)

In millions	For the Year Ended December 31, 2011 Second-lien RMBS(1)	First-lien RMBS	ABS CDO	CMBS	Other	Total
Change in actual and expected payments	$ 372	$ 94	$ (551)	$ 1,648	$ 38	$ 1,601
Change in actual and expected salvage	(723)		76		(18)	(665)
Total aggregate losses and LAE	$ (351)	$ 94	$ (475)	$ 1,648	$ 20	$ 936

(1) Includes HELOC loans and CES.

In millions	For the Year Ended December 31, 2010 Second-lien RMBS(1)	First-lien RMBS	ABS CDO	CMBS	Other	Total
Change in actual and expected payments	$ 741	$ 294	$ 381	$ 1,132	$ (217)	$ 2,331
Change in actual and expected salvage	(978)	(106)	(130)		314	(900)
Gain on foreign exchange					(121)	(121)
Total aggregate losses and LAE	$ (237)	$ 188	$ 251	$ 1,132	$ (24)	$ 1,310

(1) Includes HELOC loans and CES.

The increase in total aggregate losses and LAE for 2012 compared with 2011 was primarily due to reduced future expected recoveries on second-lien RMBS exposures. In addition, during the year ended December 31, 2011, commutation settlements of ABS policies below established reserves were partially offset by commutation settlements for CMBS policies in excess of established reserves.

The decrease in total aggregate losses and LAE for 2011 compared with 2010 was primarily due to commutation settlements in 2011 and lower expected payments on second-lien RMBS exposures.

In addition to the information presented above, the following tables present aggregate losses and LAE for the years ended December 31, 2012, 2011 and 2010 by insurance type:

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

In millions	For the Year Ended December 31, 2012 Second-lien RMBS (1)	First-lien RMBS	ABS CDO	CMBS	Other	Total
Financial guarantee insurance (2)	$ (151)	$ 147	$ (21)	$ 46	$ 8	$ 29
	164		(24)			140

Financial guarantee insurance related to consolidated VIEs (eliminated in consolidation) [3]						
Insured credit derivatives (statutory basis) [4]			(23)	852		829
Total aggregate losses and LAE	$ 13	$ 147	$ (68)	$ 898	$ 8	$ 998

(1) Includes HELOC loans and CES.

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

(3) Represents losses eliminated upon the consolidation of insured VIEs.

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

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	For the Year Ended December 31, 2011					
In millions	**Second-lien RMBS (1)**	**First-lien RMBS**	**ABS CDO**	**CMBS**	**Other**	**Total**
Financial guarantee insurance (2)	$ (217)	$ 94	$ 32	$ 3	$ 4	$ (84)
Financial guarantee insurance related to consolidated VIEs (eliminated in consolidation) (3)	(134)		44			(90)
Insured credit derivatives (statutory basis) (4)			(551)	1,645	16	1,110
Total aggregate losses and LAE	$ (351)	$ 94	$ (475)	$ 1,648	$ 20	$ 936

(1) Includes HELOC loans and CES.

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

(3) Represents losses eliminated upon the consolidation of insured VIEs.

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

	For the Year Ended December 31, 2010					
In millions	**Second-lien RMBS(1)**	**First-lien RMBS**	**ABS CDO**	**CMBS**	**Other**	**Total**
Financial guarantee insurance(2)	$ (177)	$ 188	$ 118	$	$ 30	$ 159
Financial guarantee insurance related to consolidated VIEs (eliminated in consolidation)(3)	(60)		72		67	79
Insured credit derivatives (statutory basis)(4)			61	1,132		1,193
Gain on foreign exchange					(121)	(121)
Total aggregate losses and LAE	$ (237)	$ 188	$ 251	$ 1,132	$ (24)	$ 1,310

(1) Includes HELOC loans and CES.

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

(3) Represents losses eliminated upon the consolidation of insured VIEs.

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

Summary of Financial Guarantee Insurance Losses and LAE

The following information relates to financial guarantee insurance losses and LAE recorded in accordance with GAAP. Refer to Note 6: Loss and Loss Adjustment Expense Reserves in the Notes to Consolidated Financial Statements for a description of the Company s loss and LAE reserving policy and additional information related to its loss reserves.

The following table presents information about our insurance reserves and recoverable as of December 31, 2012 and 2011. The Company s insurance loss recoverable represents expected potential recoveries of paid claims based on probability-weighted net cash inflows discounted at applicable risk-free rates as of the measurement date. Our insurance loss recoverable includes expected recoveries related to put-backs of ineligible mortgage loans within second-lien RMBS transactions and other amounts due to MBIA under the terms and conditions of the respective transaction documents (inclusive of subrogation rights).

	December 31,		
In millions	**2012**	**2011**	**Percent Change**
Gross loss and LAE reserves	$ 918	$ 1,029	-11%
Expected recoveries on unpaid losses	(224)	(362)	-38%
Loss and LAE reserves	$ 694	$ 667	4%
Insurance loss recoverable	$ 3,392	$ 2,891	17%
Insurance loss recoverable ceded[(1)]	$ 6	$ 7	-14%
Reinsurance recoverable on paid and unpaid losses	$ 7	$ 8	-13%

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

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Included in the Company s loss and LAE reserves are both reserves for insured obligations for which a payment default has occurred and MBIA Corp. has already paid a claim and also for which a payment default has not yet occurred but a claim is expected in the future. The following table includes LAE reserves as of December 31, 2012 and 2011 for four and three issues, respectively, that had no expected future claim payments or par outstanding, but for which the Company is obligated to pay LAE incurred in prior periods. As of December 31, 2012 and 2011, loss and LAE reserves comprised the following:

$ in millions	Number of Issues(1)		Loss and LAE Reserve		Par Outstanding	
	2012	2011	2012	2011	2012	2011
Gross of reinsurance:						
Issues with defaults	97	92	$ 448	$ 447	$ 7,194	$ 7,863
Issues without defaults	25	26	246	220	1,402	1,734
Total gross of reinsurance	122	118	$ 694	$ 667	$ 8,596	$ 9,597

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

MBIA reports expected potential recoveries of certain paid claims within Insurance loss recoverable and the corresponding estimated recovery amounts due to reinsurers within Other liabilities on the Company s consolidated balance sheets. As of December 31, 2012 and 2011, our insurance loss recoverable in our structured finance and international insurance segment was $3.4 billion and $2.9 billion, respectively. The increase in our insurance loss recoverable principally resulted from an increase in expected potential recoveries related to certain sellers /servicers obligation to repurchase ineligible mortgage loans related to insured second-lien transactions. As of December 31, 2012 and 2011, our insurance loss recoverable also included estimated recoveries of approximately $780 million and $731 million, respectively, from excess spread (the difference between interest inflows on assets and interest outflows on liabilities) within insured second-lien RMBS securitizations. Insurance loss recoverables due to reinsurers totaled $6 million and $7 million as of December 31, 2012 and 2011, respectively. Insurance loss recoverables are only paid to reinsurers upon receipt of such amounts by MBIA.

The following table presents information about our loss and LAE incurred for the years ended December 31, 2012, 2011 and 2010:

In millions	Years Ended December 31, 2012	2011	2010	Percent Change 2012 vs. 2011	2011 vs. 2010
Loss and LAE related to actual and expected payments	$ 412	$ 323	$ 883	28%	-63%
Recoveries of actual and expected payments	(382)	(405)	(712)	-6%	-43%
Gross losses incurred	30	(82)	171	-137%	-148%
Reinsurance	(1)	(2)	(12)	-50%	-83%
Losses and loss adjustment expenses	$ 29	$ (84)	$ 159	-135%	n/m

n/m Percent change not meaningful

Losses and LAE incurred in our structured finance and international insurance segment totaled $29 million in 2012. Included in the $29 million were gross losses related to actual and expected future payments of $412 million, of which $220 million related to insured second-lien RMBS transactions, $147 million related to first-lien RMBS transactions and $45 million related to other activity. Partially offsetting these losses were recoveries of actual and expected payments of $382 million, including $371 million related to insured second-lien RMBS transactions. The $371 million of recoveries related to insured second-lien RMBS transactions included $454 million of recoveries resulting from ineligible mortgage loans included in insured exposures that are subject to contractual obligations by sellers/servicers to repurchase or replace such mortgage loans offset by an $83 million reduction in excess spread within the securitizations.

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

Losses and LAE incurred in our structured finance and international insurance segment totaled $159 million in 2010. Included in the $159 million was $883 million of gross losses related to actual and expected future payments, of which $487 million related to insured second-lien RMBS transactions and $396 million related to other activity. Partially offsetting these losses were increases in recoveries of actual and expected payments of $712 million, of which $658 million related to insured second-lien RMBS transactions and reinsurance of $12 million. The $658 million of recoveries related to second-lien RMBS transactions included $682 million of recoveries resulting from ineligible mortgage loans included in insured exposures that are subject to contractual obligations by sellers/servicers to repurchase or replace such mortgage loans, partially offset by a $24 million reduction in excess spread within the securitizations.

For the years ended December 31, 2012, 2011 and 2010, losses and LAE incurred included the elimination of a $140 million expense, a $90 million benefit and a $79 million expense, respectively, as a result of the consolidation of VIEs. The $140 million elimination for the year ended December 31, 2012 included gross losses related to actual and expected future payments of $100 million and recoveries of actual and expected payments of $40 million. The $90 million elimination for the year ended December 31, 2011 included recoveries of actual and expected payments of $351 million, partially offset by gross losses related to actual and expected future payments of $261 million. The $79 million elimination for the year ended December 31, 2010 included gross losses related to actual and expected future payments of $1.1 billion, partially offset by recoveries of actual and expected payments of $1.0 billion.

Residential Mortgage Exposure

MBIA Corp. insures mortgage-backed securities (MBS) backed by residential mortgage loans, including second-lien residential mortgage securitizations (revolving HELOC loans and CES). For the year ended December 31, 2012, we recorded losses and LAE of $13 million related to insured second-lien RMBS transactions, before the elimination of $164 million of losses incurred as a result of consolidating VIEs. The $151 million benefit was due to gross recoveries of actual and expected payments of $371 million offset by gross losses and LAE related to actual and expected payments of $220 million.

MBIA Corp. also insures MBS backed by first-lien subprime mortgage loans directly through RMBS securitizations. There has been considerable stress and continued deterioration in the subprime mortgage market since 2008 reflected by increased delinquencies and losses, particularly related to subprime mortgage loans originated during 2005, 2006 and 2007. As of December 31, 2012, the Company had $2.2 billion of gross par outstanding from direct exposure to subprime mortgage loans compared with $3.3 billion as of December 31, 2011. While subprime transactions directly guaranteed by MBIA Corp. include collateral comprising mortgage loans that originated during 2005, 2006, and 2007, we currently do not expect ultimate material losses on these transactions given the amount of subordination below MBIA Corp. s insured portion of such transactions available to absorb losses from collateral defaults. As of December 31, 2012, the Company had $287 million of gross par outstanding in five insured direct subprime mortgage transactions with 2005 or 2006 subprime mortgage collateral appearing on the Company s Classified or Caution Lists.

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The following table presents the gross par outstanding of MBIA Corp. s total direct RMBS insured exposure as of December 31, 2012 by S&P credit rating category. Amounts include the gross par outstanding related to transactions that the Company consolidates under accounting guidance for VIEs.

	Gross Par Outstanding					
In millions	Prime First-lien	Alternative A-paper First-lien	Subprime First-lien	HELOC Second-lien	CES Second-lien	Total
AAA	$ 172	$ 1,245	$ 1,242	$	$ 9	$ 2,668
AA	16	301	101	9		427
A	16	151	308		18	493
BBB	2	301	134	1,575	1,718	3,730
Below investment grade		1,097	430	1,660	1,561	4,748
Total gross par	$ 206	$ 3,095 (1)	$ 2,215 (2)	$ 3,244	$ 3,306	$ 12,066

(1) Includes international exposure of $744 million.

(2) Includes international exposure of $11 million.

The following table presents the gross par outstanding by vintage year of MBIA Corp. s total insured second-lien residential mortgage loan securitizations insured exposure as of December 31, 2012. Amounts include the gross par outstanding related to transactions that the Company consolidates under accounting guidance for VIEs.

	Gross Par Outstanding			
In millions	HELOC	% of Total HELOC	CES	% of Total CES
2007	$ 439	14%	$ 2,180	66%
2006	1,168	36%	1,061	32%
2005	992	31%		0%
2004	569	17%	38	1%
2003 and prior	76	2%	27	1%
Total gross par	$ 3,244	100%	$ 3,306	100%

As of December 31, 2012, total gross par outstanding for HELOC and CES was $3.2 billion and $3.3 billion, respectively, compared with HELOC and CES gross par outstanding of $4.0 billion and $4.1 billion, respectively, as of December 31, 2011.

During the year ended December 31, 2012, we paid approximately $595 million, net of reinsurance and collections, on insured second-lien RMBS transactions, or $421 million after eliminating $174 million of net payments made on behalf of consolidated VIEs. Through December 31, 2012, we paid a cumulative total of $6.6 billion, net of reinsurance and collections, or $4.3 billion after eliminating $2.3 billion of net payments on insured second-lien RMBS transactions that are currently consolidated as VIEs. As of December 31, 2012, we had loss and LAE reserves related to our remaining insured second-lien RMBS exposure of $178 million before eliminating $57 million of loss and LAE reserves related to our consolidated VIEs. The loss and LAE reserves represent the present value of the difference between cash payments we expect to make on the insured transactions and the cash receipts we expect from the performing mortgage loans in the securitizations. As payments are made, a portion of those expected future receipts is recorded within Insurance loss recoverable in our consolidated balance sheets. The payments that we make virtually all go to reduce the principal balances of the securitizations.

RESULTS OF OPERATIONS (continued)

The following table provides information about insured second-lien RMBS transactions included in MBIA Corp. s insured portfolio for which it has made claim and LAE payments, net of collections, as of December 31, 2012 and for which it does not consolidate under accounting guidance for VIEs:

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

$ in millions	Number of Issues	Original Par Insured	Gross Par Outstanding	Claim Payments and LAE Net of Collections Since Inception
HELOC	13	$ 14,253	$ 1,972	$ 2,260
CES	9	8,198	2,063	2,119
Total	22	$ 22,451	$ 4,035	$ 4,379
Total net of reinsurance				$ 4,267

As of December 31, 2012, the gross par outstanding on insured second-lien RMBS transactions included in the preceding table was $4.0 billion compared with $4.9 billion as of December 31, 2011. As of December 31, 2012, we expect to pay an additional $249 million (on a present value basis) on these transactions and expect to receive a total of $906 million (on a present value basis) in reimbursement of past and future expected claims through excess spread in these transactions. Of our expected reimbursement from excess spread, $780 million is included in Insurance loss recoverable and $126 million is included in Loss and loss adjustment expense reserves. In addition, we expect to receive $2.5 billion (on a present value basis) in respect of the sellers /servicers obligation to repurchase ineligible mortgage loans, which is included in Insurance loss recoverable.

Since September 2008, MBIA Corp. initiated litigation against multiple mortgage loan sellers/servicers alleging, among other things, that such sellers/servicers made material misrepresentations concerning the quality of loans made by these sellers/servicers, which were included in a number of MBIA Corp.-insured second-lien residential mortgage securitizations. In particular, complaints in these actions allege that a significant percentage of the defaulted loans in these securitizations were ineligible for inclusion and thus reflect breaches of the originators representations with respect to such loans. In addition, the complaints allege that the sellers/servicers have failed to honor their contractual obligations regarding loan repurchases and ongoing servicing practices. For more information on these and other lawsuits commenced by MBIA Corp., as well as information related to the May 14, 2012 bankruptcy filing by ResCap, refer to Note 20: Commitments and Contingencies in the Notes to Consolidated Financial Statements.

The following table provides information about insured second-lien RMBS transactions included in MBIA Corp. s insured portfolio for which it has made claim payments and LAE, net of collections, as of December 31, 2012 and for which it consolidates under accounting guidance for VIEs. As such, these payments are not reflected as insurance losses in our consolidated financial statements subsequent to consolidation. Of the $2.4 billion of total payments before reinsurance, $829 million was eliminated subsequent to consolidation. As of December 31, 2012, the Company has recorded actual or expected put-back recoveries for amounts paid on all insured second-lien RMBS transactions included in the following table:

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

$ in millions	Number of Issues	Original Par Insured	Gross Par Outstanding	Claim Payments and LAE Net of Collections Since Inception
HELOC	6	$ 3,657	$ 960	$ 678
CES	7	5,068	1,216	1,681
Total	13	$ 8,725	$ 2,176	$ 2,359
Total net of reinsurance				$ 2,289

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As of December 31, 2012, we expect to pay an additional $95 million (on a present value basis) on these transactions and expect to receive a total of $290 million (on a present value basis) in reimbursement of past and future expected claims through excess spread in these transactions. In addition, we expect to receive $1.1 billion (on a present value basis) as of December 31, 2012 from the contractual obligation of the sellers/servicers to repurchase ineligible mortgage loans, which is reported in Loan repurchase commitments under Assets of consolidated variable interest entities on the consolidated balance sheets.

Refer to Note 6: Loss and Loss Adjustment Expense Reserves in the Notes to Consolidated Financial Statements for additional information about assumptions used to estimate recoveries on our RMBS exposure.

Other

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

POLICY ACQUISITION COSTS AND OPERATING EXPENSES Structured finance and international insurance segment expenses for the years ended December 31, 2012, 2011 and 2010 are presented in the following table:

	Years Ended December 31,			Percent Change	
In millions	**2012**	**2011**	**2010**	**2012 vs. 2011**	**2011 vs. 2010**
Gross expenses	$ 140	$ 149	$ 140	-6%	6%
Amortization of deferred acquisition costs	$ 112	$ 136	$ 145	-18%	-6%
Operating	135	145	133	-7%	9%
Total insurance operating expenses	$ 247	$ 281	$ 278	-12%	1%

Gross expenses represent total insurance expenses before the deferral of any policy acquisition costs. Gross expenses decreased for the year ended December 31, 2012 compared with 2011 due to reductions in compensation and other administrative expenses, partially offset by an increase in legal and litigation related costs. Gross expenses increased for the year ended December 31, 2011 compared with 2010 due to an increase in compensation as a result of a reversal of accrued bonus expense in 2010.

The decreases in the amortization of deferred acquisition costs for the year ended December 31, 2012 compared with 2011 and 2010 principally reflect the acceleration of deferred costs into earnings in prior periods as policies were terminated. Operating expenses decreased for the year ended December 31, 2012 compared with 2011 due to a decrease in gross expenses. Operating expenses increased for the year ended 2011 compared with 2010 as a result of increases in gross expenses. We did not defer a material amount of policy acquisition costs during 2012, 2011 or 2010. Policy acquisition costs in these periods were primarily related to ceding commission income and premium taxes on installment policies written in prior periods.

INTEREST EXPENSE Interest expense incurred by our structured finance and international insurance segment primarily consisted of interest related to MBIA Corp. s surplus notes and the National Secured Loan. For the years ended December 31, 2012, 2011 and 2010, interest expense related to MBIA Corp. s surplus notes was $134 million. For the years ended December 31, 2012 and 2011, interest expense related to the National Secured Loan was $103 million and $4 million, respectively.

INSURED PORTFOLIO EXPOSURE The credit quality of our structured finance and international insured portfolio is assessed in the same manner as our U.S. public finance insured portfolio. As of December 31, 2012 and 2011, 26% and 24%, respectively, of our structured finance and international insured portfolio, was rated below investment grade, before giving effect to MBIA s guarantees, based on MBIA s internal ratings, which are more current than the underlying ratings provided by S&P and Moody s for this subset of our insured portfolio.

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Structured Finance and International Insurance Selected Portfolio Exposures

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

Collateralized Debt Obligations and Related Instruments

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

MBIA Corp. s $51.8 billion CDO portfolio represented 46% of its total insured gross par outstanding of $112.4 billion as of December 31, 2012. The distribution of the Company s insured CDO and related instruments portfolio by collateral type is presented in the following table:

In billions

Collateral Type	**Gross Par Outstanding as of December 31, 2012**
Multi-sector CDOs [1]	$ 4.3
Investment grade CDOs and structured corporate credit pools	24.1
High yield corporate CDOs	5.7
Commercial real estate pools and CRE CDOs	17.7
Total	$ 51.8

(1) Includes one multi-sector CDO-squared transaction with gross par of $87 million as of December 31, 2012

Multi-Sector CDOs

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

Generally, we are subject to a claim on a multi-sector CDO when the insured tranche incurs an interest or principal shortfall. Such shortfalls result once the underlying collateral supporting the transaction experiences losses beyond MBIA Corp. s subordination in the CDO transaction (Insured Tranche Subordination). MBIA Corp. s payment obligation after a default generally insures current interest and ultimate principal.

Total gross par exposure in our multi-sector CDO portfolio was $37.3 billion as of December 31, 2007. Since the end of 2007 through December 31, 2012, our multi-sector CDO gross par exposure has decreased by approximately $33.0 billion primarily from negotiated commutations of $21.2 billion and contractual terminations without any payment from MBIA Corp. of $5.4 billion. The remaining reduction in gross par was due to the amortizations and maturities of transactions. As of December 31, 2012, our gross par exposure to multi-sector CDOs of $4.3 billion represented 8% of MBIA Corp. s CDO exposure and 4% of MBIA Corp. s total gross par insured.

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

$ in millions			Collateral as a % of Performing Pool Balance as of December 31, 2012					
Year Insured	**# of CDOs**	**Gross Par Outstanding**	**Other Collateral**	**RMBS**	**Total**	**Current Insured Tranche Subordination Range Below MBIA**	**Original Insured Tranche Subordination Range Below MBIA**	**Net Derivative / Asset (Liability)**
CDOs of High-Grade U.S. ABS								
2003-2004	2	$ 166[1]	100%	0%	100%	9.4-43.6%	10.0%	$ (9)
2005-2007	3	2,222	60%	40%	100%	0.0%	13.0-20.0%	(505)
Subtotal	5	2,388						(514)
CDOs of Mezzanine U.S. ABS								
2002-2004	11	1,111	66%	34%	100%	0.0-71.3%	13.8-30.5%	(20)
Total	16	3,499						(534)
		317	Multi-Sector CDO European Mezzanine and Other Collateral (1 CDO)					(7)
		477	Multi-Sector CDO insured in the Secondary Market prior to 2005 (27 CDOs)					
Grand Total		$ 4,293						$ (541)

(1) Includes one multi-sector CDO-squared transaction with gross par of $87 million as of December 31, 2012.

The significant erosion of Insured Tranche Subordination in our multi-sector CDO transactions principally resulted from the underperformance of RMBS and CDO collateral. As discussed above, the erosion of Insured Tranche Subordination in these transactions increases the likelihood that MBIA Corp. will pay claims. As of December 31, 2012, there were credit impairment estimates for 26 classified multi-sector CDO transactions for which MBIA Corp. expects to incur actual net claims in the future (16 of which are insured in the secondary market), representing 59% of all MBIA Corp.-insured multi-sector CDO transactions (including both CDS and non-CDS contracts). Of the remaining transactions, 18% are on our Caution List and 23% continue to perform at or close to our original expectations. In the event of further performance deterioration of the collateral referenced or held in our multi-sector CDO transactions, the amount of credit impairments could increase materially.

As of December 31, 2012, the ratings distribution of our insured multi-sector CDO transactions is presented in the following table. These ratings are intended to reflect the past and expected future performance of the underlying collateral within each transaction.

Insured Exposure Rating [1]	**Original**	**Current**
AAA	100%	0%
AA	0%	2%

A	0%	0%
BBB	0%	8%
Below investment grade	0%	90%
Total	100%	100%

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

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Investment Grade Corporate CDOs and Structured Corporate Credit Pools

Our investment grade corporate CDO exposure references pools of predominantly investment grade corporate credits. Additionally, some of these pools may include limited exposure to other asset classes, including structured finance securities (such as RMBS and CDOs). Most of our investment grade corporate CDO policies guarantee coverage of losses on collateral assets once Insured Tranche Subordination in the form of a deductible has been eroded, and are generally highly customized structures. Our gross par exposure to investment grade corporate CDOs of $24.1 billion represents 47% of MBIA Corp. s CDO exposure and 21% of MBIA Corp. s total gross par insured. The Company s insured investment grade corporate CDOs have experienced Insured Tranche Subordination erosion due to the default of underlying referenced corporate obligors, as well as certain structured finance securities, but we currently do not expect losses on MBIA Corp. s insured tranches. As of December 31, 2012, the collateral amount in the portfolio exceeds the gross par outstanding as a result of credit enhancement (such as over-collateralization and Insured Tranche Subordination).

Our gross par of insured investment grade corporate CDOs includes $13.0 billion that was typically structured to include buckets (typically 30% to 35% of the overall CDO) of references to specific tranches of other investment grade corporate CDOs (monotranches). In such transactions, MBIA Corp. s insured investment grade corporate CDOs include, among direct corporate or structured credit reference risks, a monotranche or single layer of credit risk referencing a diverse pool of corporate assets or obligors with a specific attachment and a specific detachment point. The referenced monotranches in such CDOs were typically rated double-A and sized to approximately 3% of the overall reference risk pool. The inner referenced monotranches are not typically subject to acceleration and do not give control rights to a senior investor. The inner referenced monotranches have experienced Insured Tranche Subordination erosion due to the default of their referenced corporate assets.

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

$ in millions								**As of December 31, 2012**	
Year Insured	**# of CDOs**		**Gross Par Outstanding**	**Corporate Collateral**	**Other Collateral**	**Total**	**Current Insured Tranche Subordination Range Below MBIA**	**Original Insured Tranche Subordination Range Below MBIA**	**Net Derivative / Asset (Liability)**
2005	3	$	4,801	86%	14%	100%	20.0-23.7%	25.0-27.5%	$ (174)
2006	4		6,885	94%	6%	100%	11.4-18.9%	16.0-25.0%	(311)
2007	10		12,373	98%	2%	100%	11.1-27.9%	15.0-30.0%	(294)
Subtotal	17		24,059						(779)
			4	Investment Grade Corporate CDOs insured in the Secondary Market prior to 2003 (1 CDO)					
Grand Total		$	24,063						$ (779)

High Yield Corporate CDOs

Our high yield corporate CDO portfolio, totaling $5.7 billion of gross par exposure, largely comprises middle-market/special-opportunity corporate loan transactions and broadly syndicated CLOs. Our gross par exposure to high yield corporate CDOs represents 11% of MBIA Corp. s CDO exposure and 5% of MBIA Corp. s total gross par insured as of December 31, 2012.

There have been some declines in Insured Tranche Subordination levels as a result of defaults in underlying collateral, as well as sales of underlying collateral at discounted prices. Insured Tranche Subordination within CDOs may decline over time as a result of collateral deterioration. There are no losses on MBIA Corp. s insured high yield corporate CDO tranches at this time. However, there can be no assurance that the Company will not incur significant losses as a result of deterioration in Insured Tranche Subordination.

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

$ in millions				As of December 31, 2012		
Year Insured	# of CDOs	Gross Par Outstanding	Corporate Collateral	Current Insured Tranche Subordination Range Below MBIA	Original Insured Tranche Subordination Range Below MBIA	Net Derivative / Asset (Liability)(1)
2003-2007	6	$ 5,637	100%	18.6-47.0%	21.8-33.3%	$
		49	High Yield Corporate CDO insured in the Secondary Market prior to 2003 (3 CDOs)			
Total		$ 5,686				$

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

Commercial Real Estate Pools and CRE CDOs

As of December 31, 2012, we had $17.7 billion of gross par exposure to the CRE sector through insured structured transactions primarily comprising CRE collateral. Our CRE portfolio can be largely sub-divided into two distinct categories: structured CMBS pools and CRE CDOs. In addition, MBIA Corp. insures approximately $2.8 billion in CRE loan pools, primarily comprising European assets, some of which are subject to commutation agreements. These CRE loans are not included in the following Structured CMBS Pools and CRE CDOs sections.

During the year ended December 31, 2012, the Company agreed to early settlements which totaled $5.0 billion related to CRE exposure in all three categories of the CRE sector.

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

Structured CMBS Pools

As of December 31, 2012, our gross par exposure to structured CMBS pools totaled $15.6 billion and represented approximately 14% of MBIA Corp. s total gross par insured. Since the end of 2007 through December 31, 2012, our structured CMBS pools gross par exposure has decreased by approximately $25.0 billion, primarily from negotiated commutations and early settlements. Our structured CMBS pool insured transactions are pools of CMBS bonds, Real Estate Investment Trust (REIT) debt and other CRE CDOs structured with first loss deductibles such that MBIA Corp. s obligation attached at a minimum of a triple-A level when the policies were issued. The deductible sizing was a function of the underlying collateral ratings and certain structural attributes. MBIA Corp. s guarantees for most structured CMBS pool transactions cover losses on collateral assets once the deductibles have been eroded. These deductibles provide credit enhancement and subordination to MBIA s insured position.

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

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The following table presents the collateral as a percentage of the pool balances, as well as the current deductible, as of December 31, 2012 for all MBIA Corp.-insured structured CMBS pool transactions:

$ in millions										
	As of December 31, 2012									
Year Insured	**# of Pools**	**Gross Par Outstanding**	**CMBS**	**REIT Debt**	**Other**	**Total**	**Current Deductible**	**Original Deductible**	**Net Derivative / Asset (Liability)**
2003	1	$ 71	68%	15%	17%	100%	61.6%	26.0%	$
2006	5	1,697	97%	0%	3%	100%	9.3-45.9%	10.0-54.2%	(68)
2007	15	13,836	98%	0%	2%	100%	5.0-83.6%	5.0-82.3%	(1,409)
Subtotal	21	15,604							(1,477)
		41	Structured CMBS Pools insured in the Secondary Market prior to 2005 (3 pools)						
Grand Total		$ 15,645							$ (1,477)

While on an aggregate basis the deductible levels in the above table show little erosion, certain policies reflected in the table have experienced significant deductible erosion. This significant deductible erosion was largely due to liquidations of underlying loan collateral in those transactions over the past two years.

In addition, we have experienced ratings erosion in the total CMBS collateral underlying our insured static pools. Whereas approximately 33.6% of the total CMBS collateral underlying the pools outstanding as of December 31, 2012 was originally rated BBB and below and approximately 49.2% was originally rated AAA, 58.5% of the total CMBS collateral underlying these pools as of December 31, 2012 was rated below investment grade. The higher risk of the collateral that was originally rated BBB and below was intended to be offset by the diversification in the collateral pool and the level of the deductible, whereas pools backed by all AAA collateral benefited from diversification, as well as higher credit quality, and required smaller deductibles. In all cases, regardless of the underlying collateral rating, MBIA Corp. s insured position was rated AAA at origination of the transaction by at least one of the Moody s, S&P or Fitch ratings companies.

Currently, we insure eight static CMBS pools, having $6.0 billion of gross par outstanding as of December 31, 2012, that were originally insured in 2006 and 2007, and in which substantially all of the underlying collateral comprised CMBS tranches originally rated BBB and lower. The remainder of the collateral in these eight pools consisted of higher rated CMBS bonds, REIT debt and other securities. The BBB and below rated CMBS bonds underlying these eight pools had an original weighted average credit enhancement level of 2.9%, compared with a weighted average credit enhancement level of 1.9% as of December 31, 2012. MBIA Corp. s original policy level deductibles for these eight insured pools ranged from 23.0% to 82.3% with an original weighted average deductible by gross par outstanding of 37.8%, compared with deductibles that range from 10.5% to 83.6% with a weighted average deductible by gross par outstanding of 24.6% as of December 31, 2012. As of December 31, 2012, most of MBIA Corp. s estimated credit impairments for our static CMBS pools relate to a subset of these eight pools, of which the vast majority relate to a single counterparty, Bank of America and its subsidiary Merrill Lynch.

Additionally, we insure two static CMBS pools, totaling $3.0 billion of gross par outstanding as of December 31, 2012, that were originally insured in 2007, and are comprised of CMBS collateral which was originally rated A. Although deductible erosion at the policy level has been minimal to date, we do expect additional erosion. While ultimate loss rates remain uncertain and if the economy does not improve, it is possible that we will experience severe losses, particularly if the underlying loans are unable to pay off at their expected maturity dates.

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

	CMBS Collateral Vintage				
Original Rating	**2004 and Prior**	**2005**	**2006**	**2007**	**Total**
AAA	8.0%	4.4%	23.1%	13.7%	49.2%
AA	0.0%	0.0%	1.0%	3.2%	4.2%
A	0.0%	2.4%	9.0%	1.7%	13.1%
BBB	1.8%	4.6%	17.3%	4.6%	28.3%
Below investment grade or not rated	2.3%	1.3%	0.6%	1.0%	5.2%
Total	12.1%	12.7%	51.0%	24.2%	100.0%

As of December 31, 2012, our structured CMBS pool portfolio comprised approximately 36,800 loans. The current weighted average debt service coverage ratio (DSCR) of underlying mortgage loans in the CMBS pools was 1.45 based on net operating income derived from the most recent property level financial statements. As of December 31, 2012, some properties still show signs of significant financial distress as evidenced by the fact that 16.9% of the properties have reported a DSCR less than 1.0. The majority of the loans are long-term and fixed-rate in nature. Approximately 32.5% of the loans will mature within the next three years. The weighted average DSCR of those loans was 1.62 based on the latest available financial statements. Approximately eight percent of the loans mature in the next twelve months and these loans have a weighted average DSCR of 1.71. The large shifts in the Company s structured CMBS pool portfolio due to early settlements reached over the past several months render comparison to previous periods less meaningful.

Delinquencies have increased markedly in the CRE market over the last three years given the economic climate and the shortage of financing. As of December 31, 2012, 30-day and over delinquencies increased in the fixed-rate conduit CMBS market to 9.0% and increased in MBIA Corp. s insured static pooled CMBS portfolio to 11.4%. The higher delinquency rate in MBIA Corp. s portfolio was primarily due to a concentration in the 2006 and early 2007 vintages. Additionally, the market includes newer vintage transactions from 2010 to 2012, which have virtually no delinquencies. Although we have also seen stabilization in the pace of increases in the delinquency rate over the past several months, some of the deceleration is attributable to the loan modifications and extensions granted by the special servicers for these CMBS loans as well as increased liquidations. The special servicers are responsible for managing loans that have defaulted and for conducting the remediation and foreclosure process with the objective of maximizing proceeds for all bondholders by avoiding or minimizing loan level losses.

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

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CRE CDOs

As of December 31, 2012, our gross par exposure to CRE CDOs totaled $2.1 billion and represented approximately 2% of MBIA Corp. s total gross par insured. CRE CDOs are managed pools of CMBS, CRE whole loans, B-Notes, mezzanine loans, REIT debt, and other securities (including, in some instances, buckets for RMBS and CRE CDOs) that allow for reinvestment during a defined time period. Most of these transactions benefit from typical CDO structural features such as cash diversion triggers, collateral quality tests, and manager replacement provisions. Typically, MBIA Corp. guarantees timely interest and ultimate principal of these CDOs. As with our other insured CDOs, these transactions were generally structured with credit protection originally rated triple-A, or a multiple of triple-A, below our guarantee. As of December 31, 2012, our CRE CDO insured portfolio did not contain any CDOs of ABS exposures. Some of the CRE CDO transactions do contain some RMBS collateral, but overall this comprises 1% of the collateral in the CRE CDO portfolio.

Within our CRE CDO portfolio, we had one transaction with 2005, 2006, and 2007 vintage collateral totaling $344 million of gross par outstanding as of December 31, 2012 in which substantially all of the collateral originally comprised BBB or BBB-rated tranches of CMBS. Although the transaction originally allowed for some manager flexibility, no underlying securities were ever traded, nor will they be going forward.

The following table presents the collateral as a percentage of the performing pool balances as of December 31, 2012 for all MBIA Corp.-insured CRE CDO transactions:

$ in millions											
	As of December 31, 2012										
Year Insured	**# of CRE CDOs**	**Gross Par Outstanding**	**CMBS**	**Whole Loans**	**REIT Debt**	**Other**	**Total**	**Current Enhancement**	**Original Enhancement**	**Net Derivative / Asset (Liability)**
2004	2	$ 34	60%	0%	23%	17%	100%	14.2-43.4%	22.0-22.4%	$
2005	1	61	88%	0%	2%	10%	100%	28.7%	22.7%	(2)
2006	7	445	26%	67%	1%	6%	100%	0.0-89.8%	24.0-50.0%	
2007	6	1,569	68%	25%	1%	6%	100%	10.6-34.4%	21.7-50.0%	(111)
Total	16	$ 2,109								$ (113)

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

Reinsurance enables the Company to cede exposure for purposes of syndicating risk and increasing its capacity to write new business while complying with its single risk and credit guidelines. When a reinsurer is downgraded by one or more of the rating agencies, less capital credit is given to MBIA under rating agency models and the overall value of the reinsurance to MBIA is reduced. The Company generally retains the right to reassume the business ceded to reinsurers under certain circumstances, including a reinsurer s rating downgrade below specified thresholds. The following table presents information about our reinsurance agreements as of December 31, 2012 for our U.S. public finance and structured finance and international insurance operations:

In millions

Reinsurers	**Standard & Poor s Rating (Status)**	**Moody s Rating (Status)**	**Ceded Par Outstanding**	**Letters of Credit/ Trust Accounts**	**Reinsurance Recoverable (1)**

Assured Guaranty Corp.	AA- (Stable Outlook)	Aa3 (Ratings Under Review)	$ 2,437	$	$ 14
Assured Guaranty Re Ltd.	AA- (Stable Outlook)	A1 (Ratings Under Review)	506	5	
Overseas Private Investment Corporation	AA+ (Negative Outlook)	Aaa (Negative Outlook)	353		
Export Development Canada	AAA (Stable Outlook)	Aaa (Stable Outlook)	59	1	
Others	A+ or above	A2 or above	65	2	
Total			$ 3,420	$ 8	$ 14

(1) Total reinsurance recoverable of $14 million comprised recoverables on paid and unpaid losses of $1 million and $13 million, respectively.

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MBIA requires certain unauthorized reinsurers to maintain bank letters of credit or establish trust accounts to cover liabilities ceded to such reinsurers under reinsurance contracts. As of December 31, 2012, the total amount available under these letters of credit and trust accounts was $8 million. The Company remains liable on a primary basis for all reinsured risk, and although MBIA believes that its reinsurers remain capable of meeting their obligations, there can be no assurance of such in the future.

As of December 31, 2012, the aggregate amount of insured par outstanding ceded by MBIA to reinsurers under reinsurance agreements was $3.4 billion compared with $4.3 billion as of December 31, 2011. Of the $3.4 billion of ceded par outstanding as of December 31, 2012, $1.9 billion was ceded from our U.S. public finance insurance segment and $1.5 billion was ceded from our structured finance and international insurance segment. Under National s reinsurance agreement with MBIA Corp., if a reinsurer of MBIA Corp. is unable to pay claims ceded by MBIA Corp. on U.S. public finance exposure, National will assume liability for such ceded claim payments. As of December 31, 2012, the total amount for which National would be liable in the event that the reinsurers of MBIA Corp. were unable to meet their obligations is $1.9 billion. For FGIC policies assigned to National from MBIA Insurance Corporation, National maintains the right to receive third-party reinsurance totaling $4.4 billion.

Advisory Services

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

The following table summarizes the results and assets under management of our advisory services segment for the years ended December 31, 2012, 2011 and 2010. These results include revenues and expenses from transactions with the Company s insurance, corporate, and wind-down operations.

	Years Ended December 31,			Percent Change	
In millions	**2012**	**2011**	**2010**	**2012 vs. 2011**	**2011 vs. 2010**
Fees	$ 55	$ 67	$ 68	-18%	-1%
Net gains (losses) on financial instruments at fair value and foreign exchange	(1)		2	n/m	-100%
Total revenues	54	67	70	-19%	-4%
Operating expenses	59	64	71	-8%	-10%
Pre-tax income (loss)	$ (5)	$ 3	$ (1)	n/m	n/m
Ending assets under management:					
Third-party	$ 17,599	$ 22,284	$ 25,321	-21%	-12%
Insurance and corporate	7,294	7,722	9,541	-6%	-19%
Asset/liability products and conduits	4,887	4,454	5,868	10%	-24%
Total ending assets under management	$ 29,780	$ 34,460	$ 40,730	-14%	-15%

n/m Percent change not meaningful.

For the year ended December 31, 2012, the decrease in pre-tax income (loss) compared with 2011 was primarily driven by a decrease in fees due to declines in third-party managed asset balances. In addition, operating expenses for the year ended December 31, 2012 decreased compared with 2011 principally due to lower legal, auditing and consulting expenses.

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

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Average third-party assets under management for the years ended December 31, 2012, 2011 and 2010 were $19.1 billion, $24.9 billion and $26.0 billion, respectively. These decreases were principally due to declines in our pool products and CDO management business.

Corporate

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

The following table summarizes the consolidated results of our corporate segment for the years ended December 31, 2012, 2011 and 2010. These results include revenues and expenses that arise from general corporate activities and from providing support to our other segments.

	Years Ended December 31,			Percent Change	
In millions	**2012**	**2011**	**2010**	**2012 vs. 2011**	**2011 vs. 2010**
Net investment income	$ 14	$ 2	$ 15	n/m	-87%
Fees	177	154	83	15%	86%
Net gains (losses) on financial instruments at fair value and foreign exchange	18	23	(28)	-22%	n/m
Net investment losses related to other-than-temporary impairments	(4)	(8)		-50%	n/m
Net gains (losses) on extinguishment of debt	(2)			n/m	
Other net realized gains (losses)	5	25		-80%	n/m
Total revenues	208	196	70	6%	n/m
Operating	123	114	102	8%	12%
Interest	57	58	66	-2%	-12%
Total expenses	180	172	168	5%	2%
Pre-tax income (loss)	$ 28	$ 24	$ (98)	17%	-124%

n/m Percent change not meaningful.

NET INVESTMENT INCOME The increase in net investment income for the year ended December 31, 2012 compared with 2011 was principally due to an increase in average asset balances and average yields. Net investment income for the year ended December 31, 2011 decreased compared with 2010 primarily as a result of the settlement of a loan with our asset/liability products segment in December 2010 whereby the corporate segment made a capital contribution to the asset/liability products segment in settlement of the full outstanding principal balance of the loan. Interest income on the loan, included in net investment income, was $14 million for the year ended December 31, 2010.

FEES Fees are generated from support services provided to business units within the Company on a fee-for-service basis. Fees for the year ended December 31, 2012 increased compared with 2011 and 2010 primarily due to fees paid by our conduit segment for administrative and other services. The amount of these fees for the years ended December 31, 2012, 2011 and 2010 were $95 million, $66 million and $1 million, respectively. Such fees may vary significantly from period to period.

NET GAINS (LOSSES) ON FINANCIAL INSTRUMENTS AT FAIR VALUE AND FOREIGN EXCHANGE Net gains (losses) on financial instruments at fair value and foreign exchange for the periods presented are primarily related to changes in the fair value of outstanding warrants issued on MBIA Inc. common stock. These changes were attributable to fluctuations in MBIA Inc. s stock price and volatility, which are used in the valuation of the warrants. In addition to the fluctuations in the value of the outstanding warrants issued on MBIA Inc. common stock, the year ended December 31, 2012 was impacted by losses on the sale of investments.

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OTHER NET REALIZED GAINS (LOSSES) Other net realized gains (losses) for the years ended December 31, 2012 and 2011 relate to insurance recoveries received from our directors and officers insurance policy. These insurance recoveries reimbursed the Company for a portion of the expenses incurred by the Company related to private securities litigation. No recoveries were received in 2010.

Wind-down Operations

We operate an asset/liability products business in which we historically issued debt and investment agreements insured by MBIA Corp. to capital markets and municipal investors. The proceeds of the debt and investment agreements were used initially to purchase assets that largely matched the duration of those liabilities. We also operate a conduit business in which we historically funded transactions by issuing debt insured by MBIA Corp. The rating downgrades of MBIA Corp. caused the Company to liquidate a significant portion of the asset/liability products investment portfolio in order to generate the liquidity necessary to satisfy the contractual termination and collateralization requirements of its investment agreements and derivatives. The liquidation of the portfolio into what were then highly illiquid and volatile capital markets resulted in significant realized losses. Since the downgrade of MBIA Corp. in 2008, the Company has not accessed the capital markets and therefore has had to generate the liquidity necessary to satisfy its collateralization and debt service needs through further investment portfolio sales and the use of the intercompany arrangements. The asset/liability products and conduits businesses are currently in the process of winding down.

Asset/Liability Products

The following table presents the results of our asset/liability products segment for the years ended December 31, 2012, 2011 and 2010. These results include revenues and expenses from transactions with the Company s insurance and corporate operations.

	Years Ended December 31,			Percent Change	
In millions	**2012**	**2011**	**2010**	**2012 vs. 2011**	**2011 vs. 2010**
Net investment income	$ 43	$ 85	$ 105	-49%	-19%
Net gains (losses) on financial instruments at fair value and foreign exchange	(176)	(284)	(76)	-38%	n/m
Net investment losses related to other-than-temporary impairments	(56)	(31)	(59)	81%	-47%
Net gains (losses) on extinguishment of debt	2	24	35	-92%	-31%
Other net realized gains (losses)	1	(36)		-103%	n/m
Revenues of consolidated VIEs:					
Net investment income		(7)	(7)	-100%	
Net gains (losses) on financial instruments at fair value and foreign exchange		12	42	-100%	-71%
Other net realized gains (losses)		40		-100%	n/m
Total revenues	(186)	(197)	40	-6%	n/m
Operating	16	12	13	33%	-8%
Interest expense	103	131	175	-21%	-25%
Total expenses	119	143	188	-17%	-24%
Pre-tax income (loss)	$ (305)	$ (340)	$ (148)	-10%	130%

n/m Percent change not meaningful.

NET INVESTMENT INCOME The decreases in net investment income for the year ended December 31, 2012 compared with 2011 and for the year ended December 31, 2011 compared with 2010 were primarily due to lower average asset balances as investments were sold to generate liquidity and repay liabilities.

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NET GAINS (LOSSES) ON FINANCIAL INSTRUMENTS AT FAIR VALUE AND FOREIGN EXCHANGE The favorable change in net gains (losses) on financial instruments at fair value and foreign exchange for the year ended December 31, 2012 compared with 2011 was primarily due to a decline in losses on derivatives and financial instruments, partially offset by adverse foreign currency exchange rates on the U.S. dollar. The unfavorable change in net gains (losses) on financial instruments at fair value and foreign exchange for the year ended December 31, 2011 compared with 2010 was primarily due to net losses from fair valuing financial instruments, mostly a result of adverse movements in interest rates, and realized losses from asset sales.

NET INVESTMENT LOSSES RELATED TO OTHER-THAN-TEMPORARY IMPAIRMENTS The Company has an ongoing review process for all securities to assess whether a decline in value is related to a credit loss. The Company utilizes cash flow modeling for purposes of assessing other-than-temporary impairments. Net investment losses related to other-than-temporary impairments occur when we impair certain securities to their fair values, as we intended to sell these securities before a recovery of their value to amortized cost. Refer to the Liquidity-Impaired Investments section included herein for additional information about impaired investments.

NET GAINS (LOSSES) ON EXTINGUISHMENT OF DEBT For the years ended December 31, 2012, 2011 and 2010, net gains (losses) on extinguishment of debt included gains from the repurchases of medium-term notes (MTNs) issued by the Company.

INTEREST EXPENSE The decreases in interest expense for the year ended December 31, 2012 compared with 2011 and for 2011 compared with 2010 were primarily due to the continued maturity and repurchases of liabilities by the Company.

Conduits

The following table presents the results of our conduit segment for the years ended December 31, 2012, 2011 and 2010. These results include revenues and expenses from transactions with the Company s insurance and corporate operations.

	Years Ended December 31,			Percent Change	
In millions	**2012**	**2011**	**2010**	**2012 vs. 2011**	**2011 vs. 2010**
Revenues of consolidated VIEs:					
Net investment income	$ 12	$ 16	$ 18	-25%	-11%
Net gains (losses) on financial instruments at fair value and foreign exchange			9	n/m	-100%
Net gains (losses) on extinguishment of debt	49		25	n/m	-100%
Total revenues	61	16	52	n/m	-69%
Expenses of consolidated VIEs:					
Operating	98	68	3	44%	n/m
Interest	12	17	18	-29%	-6%
Total expenses	110	85	21	29%	n/m
Pre-tax income (loss)	$ (49)	$ (69)	$ 31	-29%	n/m

n/m Percent change not meaningful.

Our conduit segment is principally operated through Meridian. Certain of MBIA s consolidated subsidiaries have invested in our conduit debt obligations or have received compensation for services provided to our conduits.

For the year ended December 31, 2012, total revenues increased compared with 2011 as a result of net gains on the repurchase of debt issued by Meridian, and total expenses increased compared with 2011 as a result of $95 million in fees paid to our corporate segment for administrative and other services compared with $65 million paid during 2011.

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

As of December 31, 2012 and 2011, our conduit segment s investments (including cash) totaled $645 million and $1.5 billion, respectively, and our conduit segment s debt obligations totaled $636 million and $1.5 billion, respectively.

Taxes

Provision for Income Taxes

The Company s income taxes and the related effective tax rates for the years ended December 31, 2012, 2011 and 2010 are presented in the following table:

	Years Ended December 31,		
In millions	**2012**	**2011**	**2010**
Pre-tax income (loss)	$ 1,598	$ (2,239)	$ (95)
Provision (benefit) for income taxes	$ 364	$ (920)	$ (148)
Effective tax rate	22.8%	41.1%	155.8%

For the year ended December 31, 2012, the Company s effective tax rate applied to our pre-tax income was lower than the U.S. statutory tax rate of 35% primarily due to a reversal of a portion of the Company s valuation allowance against its deferred tax asset and a net tax benefit related to an out-of-period adjustment. Refer to Note 11: Income Taxes in the Notes to Consolidated Financial Statements for a discussion of the out-of-period adjustment.

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

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

Refer to Note 11: Income Taxes in the Notes to Consolidated Financial Statements for a further discussion of income taxes, including the Company s valuation allowance against deferred tax assets and its accounting for tax uncertainties.

CAPITAL RESOURCES

The Company manages its capital resources to minimize its cost of capital while maintaining appropriate claims-paying resources (CPR) for National and MBIA Corp. The Company s capital resources consist of total shareholders equity, total debt issued by MBIA Inc. for general corporate purposes, and surplus notes issued by MBIA Insurance Corporation. Total capital resources were $4.8 billion and $3.5 billion as of December 31, 2012 and 2011, respectively. MBIA Inc. utilizes its capital resources to support the business activities of its subsidiaries. As of December 31, 2012, MBIA Inc. s investments in subsidiaries totaled $4.1 billion.

In addition to managing the capital resources of MBIA Inc s subsidiaries, we also manage the capital resources of MBIA Inc. supporting our corporate and asset/liability products segments. This includes our corporate unsecured debt issued for general corporate purposes and debt and investment agreements for operating leverage purposes in support of our asset/liability products business. MBIA Inc. seeks to maintain sufficient liquidity and capital resources to meet its general corporate needs as well as the needs of the asset/liability products business. As of December 31, 2012 and 2011, the combined net debt of MBIA Inc. s corporate segment and asset/liability products segment, which primarily comprised long-term debt, MTNs, investment agreements and derivative liabilities net of cash and investments at amortized cost and a tax receivable from subsidiaries, totaled $1.2 billion and $1.1 billion, respectively. The Company expects that MBIA Inc. will generate sufficient cash to satisfy its net debt over time from distributions from its operating subsidiaries and by raising third-party capital, although there can be no assurance that such factors will generate sufficient cash to satisfy its net debt. Refer to the following Liquidity MBIA Inc. Liquidity section for additional information about MBIA Inc. s liquidity.

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

CAPITAL RESOURCES (continued)

Securities Repurchases

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

Equity securities

During 2011, we repurchased 6.5 million of common shares of MBIA Inc. under our share repurchase program at a cost of $50 million and an average price of $7.64 per share. As of December 31, 2012, $23 million was available for future repurchases under the program.

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

Debt securities

In addition to equity repurchases, MBIA Inc. or its subsidiaries may repurchase their outstanding debt securities at prices that we deem to be economically advantageous. During 2012, we repurchased approximately $172 million of our 5.700% Senior Notes due 2034 in privately negotiated reverse inquiry transactions at a weighted average cost of approximately 100% of par value.

During 2012, we repurchased $468 million par value outstanding of MTNs issued by our conduit segment at a weighted average cost of approximately 89% of par value.

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

Insurance Statutory Capital

National and MBIA Insurance Corporation are incorporated and licensed in, and are subject to primary insurance regulation and supervision by, the State of New York. National and MBIA Insurance Corporation each are required to file detailed annual financial statements, as well as interim financial statements, with the NYSDFS and similar supervisory agencies in each of the other jurisdictions in which it is licensed. These financial statements are prepared in accordance with New York State and the National Association of Insurance Commissioners statements of U.S. STAT and assist our regulators in evaluating minimum standards of solvency, including minimum capital requirements, and business conduct. U.S. STAT differs from GAAP in a number of ways. For an explanation of the differences between U.S. STAT and GAAP see the statutory accounting practices note to consolidated financial statements of National and MBIA Corp. within exhibits 99.1 and 99.2, respectively, of this annual report on Form 10-K.

National

Capital and Surplus

National reported total statutory capital of $3.2 billion as of December 31, 2012 compared with $2.8 billion as of December 31, 2011. As of December 31, 2012, statutory capital comprised $1.2 billion of contingency reserves and $2.0 billion of policyholders surplus. The increase in National s statutory capital is primarily due to statutory net income of $416 million for the year ended December 31, 2012. Consistent with our plan to transform our insurance business, the Company received approval from the NYSDFS to reset National s unassigned surplus to zero, which was effective January 1, 2010. As of December 31, 2012, National s unassigned surplus was $1.4 billion. In October 2010, the plaintiffs in the litigation challenging the establishment of National initiated a court proceeding challenging the approval of the surplus reset. Refer to "Note 20: Commitments and Contingencies" in the Notes to Consolidated Financial Statements for a discussion of this action.

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

CAPITAL RESOURCES (continued)

In order to maintain its New York State financial guarantee insurance license, National is required to maintain a minimum of $65 million of policyholders surplus. National is also required to maintain contingency reserves to provide protection to policyholders in the event of extreme losses in adverse economic events. Refer to the following MBIA Insurance Corporation Capital and Surplus section for additional information about contingency reserves under the New York Insurance Law (NYIL). National s policyholders surplus will grow over time from the recognition of unearned premiums and investment income and the expected release of the contingency reserves. Conversely, incurred losses would reduce policyholders surplus.

NYIL regulates the payment of dividends by financial guarantee insurance companies and provides that such companies may not declare or distribute dividends except out of statutory earned surplus. Under NYIL, the sum of (i) the amount of dividends declared or distributed during the preceding 12-month period and (ii) the dividend to be declared may not exceed the lesser of (a) 10% of policyholders surplus, as reported in the latest statutory financial statements or (b) 100% of adjusted net investment income for such 12-month period (the net investment income for such 12-month period plus the excess, if any, of net investment income over dividends declared or distributed during the two-year period preceding such 12-month period), unless the Superintendent of the NYSDFS approves a greater dividend distribution based upon a finding that the insurer will retain sufficient surplus to support its obligations. As of December 31, 2012 and 2011, National was not in compliance with its single risk limits requirements but was in compliance with its aggregate risk limits.

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

National s statutory policyholders surplus was lower than its GAAP shareholder s equity by $1.9 billion as of December 31, 2012. U.S. STAT differs from GAAP in certain respects. For an explanation of the differences between U.S. STAT and GAAP see the statutory accounting practices note to consolidated financial statements of National within exhibit 99.1 of this annual report on Form 10-K.

Claims-Paying Resources (Statutory Basis)

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

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

CAPITAL RESOURCES (continued)

National s CPR and components thereto, as of December 31, 2012 and 2011 are presented in the following table:

In millions	As of December 31, 2012	2011
Policyholders surplus	$ 1,999	$ 1,424
Contingency reserves	1,249	1,385
Statutory capital	3,248	2,809
Unearned premium reserve	2,041	2,485
Present value of installment premiums (1)	217	239
Premium resources (2)	2,258	2,724
Net loss and LAE reserves (1)	(109)	(3)
Salvage reserves	262	161
Gross loss and LAE reserve	153	158
Total claims-paying resources	$ 5,659	$ 5,691

(1) Calculated using a discount rate of 4.54% and 4.77% as of December 31, 2012 and 2011, respectively.
(2) Includes financial guarantee and insured credit derivative related premiums.

MBIA Insurance Corporation

Capital and Surplus

MBIA Insurance Corporation reported total statutory capital of $1.5 billion as of December 31, 2012 compared with $2.3 billion as of December 31, 2011. As of December 31, 2012, statutory capital comprised $493 million of contingency reserves and $965 million of policyholders surplus. For the year ended December 31, 2012, MBIA Insurance Corporation had a statutory net loss of $843 million, primarily due to losses and LAE incurred and interest expense recorded on its surplus notes and the National Secured Loan, partially offset by net premiums earned. MBIA Insurance Corporation s policyholders surplus as of December 31, 2012 included a negative unassigned surplus of $1.1 billion.

As of December 31, 2012, MBIA Insurance Corporation recognized estimated recoveries of $2.4 billion, net of reinsurance and income taxes at a rate of 35%, on a statutory basis related to put-backs of ineligible mortgage loans in its insured transactions. These expected insurance recoveries represented 162% of MBIA Insurance Corporation s statutory capital as of December 31, 2012. There can be no assurance that we will be successful or that we will not be delayed in realizing these recoveries. Refer to Executive Overview MBIA s Business Outlook included herein for factors that may influence MBIA Corp. s ability to realize these recoveries.

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

Under NYIL, MBIA Insurance Corporation is also required to establish a contingency reserve to provide protection to policyholders in the event of extreme losses in adverse economic events. The amount of the reserve is based on the percentage of principal insured or premiums earned, depending on the type of obligation (net of collateral, reinsurance, refunding, refinancings and certain insured securities). Under NYIL, MBIA Insurance Corporation is required to invest its minimum surplus and contingency reserves, and 50% of its loss reserves and unearned premium reserves, in certain qualifying assets.

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

CAPITAL RESOURCES (continued)

Reductions in the contingency reserve may be recognized based on excessive reserves and under certain stipulated conditions, subject to the approval of the Superintendent of the NYSDFS. As of December 31, 2012, MBIA Insurance Corporation had a deficit of $140 million of qualifying assets required to support its contingency reserves. The deficit was caused by the failure of certain mortgage originators, particularly Bank of America, to honor their contractual obligations to repurchase ineligible mortgage loans from securitizations we insured thus requiring MBIA Insurance Corporation to sell liquid assets in order to make claim payments. Absent a resolution of the disputes with these parties, the deficit is expected to grow as additional commutation and claim payments are made in the future. The Company has reported the deficit and has requested approval from the NYSDFS as of September 30, 2012 and December 31, 2012, but to date has not received approval. For risks associated with MBIA Insurance Corporation s failure to meet its contingency reserve requirement, see Risk Factors Capital, Liquidity and Market Related Risk Factors If our insurance companies fail to meet regulatory capital requirements they may become subject to regulatory action in Part I, Item 1A of this Form 10-K.

As of December 31, 2012, MBIA Insurance Corporation exceeded its aggregate risk limits under the NYIL by $56 million. The overage was caused by the decrease in statutory capital described above. MBIA Insurance Corporation notified the NYSDFS of the overage and submitted a plan to achieve compliance with the limits in accordance with the NYIL. If MBIA Insurance Corporation is not in compliance with its aggregate risk limits, the NYSDFS may prevent MBIA Insurance Corporation from transacting any new financial guarantee insurance business until it no longer exceeds the limitations. In 2012 and 2011, MBIA Corp. reported additional disclosures to the NYSDFS with respect to its single risk limits due to changes in its statutory capital.

In connection with MBIA Insurance Corporation obtaining approval from the NYSDFS to release excessive contingency reserves as discussed above, MBIA Corp. agreed that it would not pay any dividends without prior approval from the NYSDFS. Due to its significant negative earned surplus, MBIA Corp. has not had the statutory capacity to pay dividends since December 31, 2009 and is not expected to have any statutory capacity to pay any dividends in the near term.

MBIA Insurance Corporation s statutory policyholders surplus is higher than its GAAP shareholders equity by $426 million as of December 31, 2012. U.S. STAT differs from GAAP in certain respects. For an explanation of the differences between U.S. STAT and GAAP see the statutory accounting practices note to consolidated financial statements of MBIA Corp. within exhibit 99.2 of this annual report on Form 10-K.

Claims-Paying Resources (Statutory Basis)

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

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

CAPITAL RESOURCES (continued)

MBIA Insurance Corporation s CPR and components thereto, as of December 31, 2012 and 2011 are presented in the following table:

In millions	As of December 31, 2012	2011
Policyholders surplus	$ 965	$ 1,597
Contingency reserves	493	706
Statutory capital	1,458	2,303
Unearned premium reserve	600	607
Present value of installment premiums (1)	1,035	1,226
Premium resources (2)	1,635	1,833
Net loss and LAE reserves (1)	(2,448)	(2,266)
Salvage reserves (3)	4,628	4,249
Gross loss and LAE reserve	2,180	1,983
Total claims-paying resources	$ 5,273	$ 6,119

(1) Calculated using a discount rate of 5.72% and 5.59% as of December 31, 2012 and 2011, respectively.
(2) Includes financial guarantee and insured credit derivative related premiums.
(3) This amount primarily consists of expected recoveries related to the Company s put-back claims.

MBIA Insurance Corporation s total CPR as of December 31, 2012 was $5.3 billion compared with $6.1 billion as of December 31, 2011. The decrease in CPR is primarily due to loss payments associated with insured RMBS securitizations.

LIQUIDITY

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

We have utilized a liquidity risk management framework, the primary objectives of which are to monitor liquidity positions and projections in our legal entities and guide the matching of liquidity resources to needs. We monitor our cash and liquid asset resources using stress-scenario testing. Members of MBIA s senior management meet regularly to review liquidity metrics, discuss contingency plans and establish target liquidity cushions on an enterprise-wide basis. As part of our liquidity risk management framework, we evaluate and manage liquidity on a legal-entity basis to take into account the legal, regulatory and other limitations on available liquidity resources within the enterprise.

The majority of our liquidity management efforts focus on:

The liquidity resources of MBIA Inc., which are subject to: uncertainty in the timing and amount of cash inflows from dividends paid by National and MBIA Corp.; the necessity of having to meet the scheduled principal and interest on its corporate debt and investment agreements issued by the asset/liability products business; payments on derivative contracts related to the asset/liability products business; and ongoing operating expense needs. The asset/liability products business of MBIA Inc. is subject to ongoing negative cash flow and has a deficit of invested assets to liabilities. In addition, the liquidity resources of MBIA Inc. are subject to collateralization requirements in connection with the liabilities it has issued to third parties and affiliates and in connection with third-party derivative contracts.

The liquidity resources of MBIA Corp., which are subject to: an increased likelihood that MBIA Corp. will experience claims on its CMBS exposures, primarily in those exposures held by Bank of America/Merrill Lynch, due to the deterioration in such exposures; delays in the collection of recoveries related to ineligible mortgage loans in certain insured RMBS transactions; payments to counterparties in consideration for the commutation of insured transactions; and payments on insured exposures that in some cases may be large bullet payments. MBIA Corp. is currently subject to negative cash flow as a result of these payments and delays in collecting recoveries.

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

LIQUIDITY (continued)

We also monitor the liquidity resources of National, for which we have not observed material liquidity risk to date, in order to ensure it maintains sufficient liquidity to pay claims and satisfy its other obligations. National s liquidity resources are subject to loss payments on its insured transactions, negative cash flow, and liquidity support arrangements with its affiliates.

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

Key Intercompany Lending Agreements

National Secured Loan

In 2011, National provided a $1.1 billion National Secured Loan to MBIA Insurance Corporation in order to enable MBIA Insurance Corporation to fund settlements and commutations of its insurance policies. This loan was approved by the NYSDFS as well as by the boards of directors of MBIA Inc., MBIA Insurance Corporation and National. The National Secured Loan has a fixed annual interest rate of 7% and a maturity date of December 2016. MBIA Insurance Corporation has the option to defer payments of interest when due by capitalizing interest amounts to the loan balance, subject to the collateral value exceeding certain thresholds. MBIA Insurance Corporation has elected to defer the interest payments due under the loan. MBIA Insurance Corporation s obligation to repay the loan is secured by a pledge of collateral having an estimated value in excess of the notional amount of the loan as of December 31, 2012, which collateral comprised the following future receivables of MBIA Corp.: (i) its right to receive put-back recoveries related to ineligible mortgage loans included in its insured second-lien RMBS transactions; (ii) future recoveries on defaulted insured second-lien RMBS transactions resulting from expected excess spread generated by performing loans in such transactions; and (iii) future installment premiums. During 2012, MBIA Insurance Corporation borrowed an additional $443 million under the National Secured Loan with the approval of the NYSDFS at the same terms as the original loan to fund additional commutations of its insurance policies. As of December 31, 2012 the outstanding principal amount, which includes capitalized interest, was $1.7 billion. MBIA Insurance Corporation may seek to borrow additional amounts under the loan in the future. Any such increase or other amendment to the terms of the loan would be subject to regulatory approval by the NYSDFS. We believe there may be limited ability for MBIA Insurance Corporation to obtain approvals for additional increases to this loan.

Asset Swap

National maintains the Asset Swap (simultaneous repurchase and reverse repurchase agreements) with MBIA Inc. for up to $2.0 billion based on the fair value of securities borrowed. The Asset Swap provides MBIA Inc. with eligible assets to pledge under investment agreements and derivative contracts in the asset/liability products business. As of December 31, 2012, the notional amount utilized under each of these agreements was $481 million and the fair value of collateral pledged by National and MBIA Inc. under these agreements was $502 million and $529 million, respectively. The net average interest rate on these transactions was 0.44%, 0.34% and 0.35% for the years ended December 31, 2012, 2011 and 2010, respectively. The NYSDFS approved the Asset Swap in connection with the re-domestication of National to New York. National has committed to the NYSDFS to use commercially reasonable efforts to reduce the amount of the Asset Swap over time.

MBIA Corp. Secured Loan

MBIA Corp., as lender, maintains a master repurchase agreement, the MBIA Corp. Secured Loan, with MBIA Inc. for the benefit of MBIA Inc. s asset/liability products business, which totaled $2.0 billion at inception and was scheduled to mature in May 2012, as amended. This loan was repaid in May 2012 and there have been no further draws. During 2012, the average interest rate on the MBIA Corp. Secured Loan was 2.51% through the repayment in May 2012. Also in May 2012, the NYSDFS approved the maturity extension of the MBIA Corp. Secured Loan to May 2013 with a maximum outstanding amount of $450 million, subject to MBIA Corp. obtaining prior regulatory approval from the NYSDFS for any draws under the facility.

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LIQUIDITY (continued)

Conduit Repurchase Agreement

MBIA Inc. maintains a repurchase agreement with Meridian (Conduit Repurchase Agreement), with a maximum funded amount of $1.0 billion, subject to a pledge of collateral. The Conduit Repurchase Agreement had an average interest rate during the years ended December 31, 2012 and 2011 of 2.46% and 2.41%, respectively. As of December 31, 2012, the amount drawn by MBIA Inc. under this agreement and the fair value of the collateral pledged by MBIA Inc. were $32 million and $40 million, respectively.

MBIA Inc. Liquidity

MBIA Inc. s liquidity resources support our corporate and asset/liability products segments. The activities of MBIA Inc. consist of holding and managing investments, servicing outstanding corporate debt instruments, investment agreements and MTNs issued by the asset/liability products and conduit segments, posting collateral under financing and hedging arrangements and investment agreements, making payments and collateral postings related to interest rate and foreign exchange swaps, and paying operating expenses. The primary sources of cash within MBIA Inc. used to meet its liquidity needs include available cash and liquid assets not subject to collateral posting requirements, scheduled principal and interest on assets held in its investment portfolio, dividends from subsidiaries, payments under tax sharing agreements with these subsidiaries (once the payments become unrestricted) and the ability to issue debt and equity. There can be no assurance as to the amount and timing of any such dividends or payments under the tax sharing agreements. MBIA s corporate debt, investment agreements, MTNs, and derivatives may be accelerated by the holders of such instruments upon the occurrence of certain events, such as a breach of covenant or representation, a bankruptcy of MBIA Inc. or the filing of an insolvency proceeding with respect to National, in the case of the corporate debt, or MBIA Insurance Corporation, in the cases of the obligations it insures. MBIA Inc. s obligations under its loans from GFL may be accelerated only upon the occurrence of a bankruptcy or liquidation of MBIA Inc. Refer to Note 12: Business Segments in the Notes to Consolidated Financial Statements for a description of the GFL loans. In the event of any acceleration of our obligations, including under our corporate debt, investment agreements, MTNs, or derivatives, we likely would not have sufficient liquid resources to pay amounts due with respect to our corporate debt and other obligations. During the fourth quarter of 2012, MBIA successfully completed a consent solicitation pursuant to which we received the consent of MBIA Inc. senior noteholders to amend the indentures pursuant to which the senior notes were issued to substitute National Public Finance Guarantee Corporation for MBIA Insurance Corporation in the definition of Restricted Subsidiary and Principal Subsidiaries in the respective indentures, which provide that an insolvency proceeding with respect to a Restricted or Principal Subsidiary, as the case may be, that remains in place for a specified period of time constitutes an event of default, which would likely result in the acceleration of the senior notes. See Executive Overview The Consent Solicitation and Risk Factors in Part I, Item 1A of this annual report.

During the year ended December 31, 2012, pursuant to the tax sharing agreement, National settled its taxes related to the 2010 and 2011 tax years of $1 million and $16 million, respectively, with MBIA Inc. In addition, National paid to MBIA Inc. estimated 2012 taxes of $170 million. Consistent with the tax sharing agreement, these amounts were placed in an escrow account until the expiration of National s two-year net operating loss (NOL) carry-back period under U.S. tax rules. At the expiration of National s carry-back period, any funds remaining after any reimbursement to National in respect of any NOL carry-backs would be available for general corporate purposes, including to satisfy any other obligations under the tax sharing agreement. As of December 31, 2012, $445 million remained in escrow for the 2010 through 2012 tax years. During the first quarter of 2013, MBIA Inc. received $115 million that was previously held in escrow under the MBIA group tax sharing agreement. The amount represents National s liability under the tax sharing agreement for the 2010 tax year, and was released pursuant to the terms of the agreement following the expiration of National s two-year NOL carry-back period under U.S. tax rules.

MBIA Inc. is subject to material liquidity risks and uncertainty. To mitigate these risks, we seek to maintain cash and liquidity resources that we believe will be sufficient to make all payments due on our obligations and to meet other financial requirements, such as posting collateral, at least through the next twelve months.

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

LIQUIDITY (continued)

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

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

- Uncertainty of the timing and amount of cash inflows from dividends paid by MBIA s principal operating subsidiaries. Refer to the Capital Resources-Insurance Statutory Capital section for a discussion on our insurance subsidiaries dividend restrictions.

- Certain investment agreements issued by MBIA Inc. may accelerate (including, in some cases, with make-whole payments), in the unlikely event of the commencement of a rehabilitation or liquidation proceedings against MBIA Insurance Corporation. The settlement of these amounts due in such a circumstance could further reduce MBIA Inc. s liquidity resources.

Because most of MBIA Inc. s assets are pledged against the obligations described above, the widening of credit spreads would have an adverse impact on the market value of these assets and increase collateralization requirements for the portfolio. The following table presents the estimated pre-tax change in the aggregate fair value of the asset/liability products business assets as of December 31, 2012 from instantaneous shifts in credit spread curves. This table assumes that all credit spreads move by the same amount; however, it is more likely that the actual changes in credit spreads will vary by investment sector and individual security. The table presents hypothetical increases and decreases in credit spreads of 50 and 200 basis points. Because downward movements of these amounts in some cases would result in negative spreads, a floor was assumed for minimum spreads.

	Change in Credit Spreads (Asset/Liability Products Business)			
In millions	**200 Basis Point Decrease**	**50 Basis Point Decrease**	**50 Basis Point Increase**	**200 Basis Point Increase**
Estimated change in fair value	$ 144	$ 40	$ (35)	$ (125)

During 2012, MBIA Inc. maintained three intercompany financing facilities to provide it with additional resources to meet its liquidity requirements within the asset/liability products business: the Asset Swap, the MBIA Corp. Secured Loan and the Conduit Repurchase Agreement. Refer to the preceding Key Intercompany Lending Agreements section for a description of these facilities.

We believe that asset sales undertaken during 2012 have reduced volatility in MBIA Inc. s portfolio in the event of stressed market conditions. However, stressed credit market conditions could cause MBIA Inc. to have insufficient resources to cover collateral and/or other liquidity requirements. Management has identified certain actions to mitigate this risk. These contingent actions include: (1) additional sales of invested assets exposed to credit spread stress risk, which may occur at losses and increase the deficit of invested assets to liabilities; (2) termination and settlement of interest rate swap agreements; and (3) other available advances from subsidiaries. These actions, if taken, are expected to result in either additional liquidity or reduced exposure to adverse credit spread movements. There can be no assurance that these actions will be sufficient to fully mitigate this risk. In the event that we cannot implement the contingent actions identified above to raise liquidity, or eliminate the deficit, we may have insufficient assets to make all payments on our obligations as they come due, which could result in a default by MBIA Inc. on its obligations and the potential for MBIA Corp., as guarantor of the investment agreements and GFL MTNs, to be called upon to satisfy obligations on those instruments as they come due.

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

LIQUIDITY (continued)

As of December 31, 2012, the liquidity position of MBIA Inc., which consists of the liquidity positions of its corporate and asset/liability products activities, was $239 million and comprised cash and liquid assets of $170 million available for general corporate liquidity purposes, excluding the amounts held in escrow under its tax sharing agreement, and $69 million not pledged directly as collateral for its asset/liability products activities. As of December 31, 2011, MBIA Inc. had $386 million of cash and liquid assets comprising $226 million available for general corporate liquidity purposes, excluding the amounts held in escrow under its tax sharing agreement, and $160 million not pledged directly as collateral for its asset/liability products activities. We believe this liquidity position provides MBIA Inc. with sufficient funds to cover expected obligations at least through the next twelve months.

MBIA Corp. Liquidity

Liquidity available in the structured finance and international insurance segment is affected by our ability to collect on recoveries associated with loss payments, the payment of claims on insured exposures, payments made to commute insured exposures, the repayment of the National Secured Loan, a reduction in investment income, any unanticipated expenses, or the impairment or a significant decline in the fair value of invested assets. We may also experience liquidity constraints as a result of NYIL requirements that we maintain specified, high quality assets to back our reserves and surplus.

We believe the current liquidity position of MBIA Corp. is adequate to make expected future claims payments. Our expectation assumes payments on insured CMBS exposures held by Bank of America/Merrill Lynch are non-cash settled. However, the liquidity position of MBIA Corp. has been stressed due to the failure of the sellers/servicers of RMBS transactions insured by MBIA Corp. to repurchase ineligible mortgage loans in certain insured transactions and payments to counterparties in consideration for the commutation of insured transactions, which have resulted in a substantial reduction of exposure and potential loss volatility. While MBIA Corp. has made and may in the future make payments to counterparties in consideration for the commutation of insured transactions, MBIA Corp. s ability to commute insured transactions will depend on management s assessment of available liquidity and MBIA Corp. s ability to borrow under the National Secured Loan with the approval of the Superintendent or secure other sources of financing. In addition, due to the deterioration in MBIA Corp. s CMBS exposures, primarily in those exposures held by Bank of America/Merrill Lynch, there is an increased likelihood that MBIA Corp. will experience claims on those exposures, which could be substantial. Depending on the amount of such claims and the amounts of claims on other policies issued by MBIA Corp., MBIA Corp. may not have sufficient liquid assets to pay such claims in the absence of a settlement with Bank of America/Merrill Lynch and the commutation of the CMBS exposures held by Bank of America/Merrill Lynch or in the absence of the collection of other substantial put-back recoveries.

Payment requirements for the structured finance and international financial guarantee contracts fall into three categories: (i) timely interest and ultimate principal; (ii) ultimate principal only at final maturity; and (iii) payments upon settlement of individual collateral losses as they occur after any deductible or subordination has been exhausted, which payments are unscheduled and therefore more difficult to predict, and which category applies to most of the transactions on which we have recorded loss reserves. Insured transactions that require payment in full of the principal insured at maturity could present liquidity risks for MBIA Corp. since payment of the principal is due at maturity but any salvage could be recovered over time after payment of the principal amount. MBIA Corp. is generally required to satisfy claims within one to three business days, and as a result seeks to identify potential claims in advance through our monitoring process. While our financial guarantee policies generally cannot be accelerated, thereby helping to mitigate liquidity risk, the insurance of CDS contracts may, in certain circumstances, including the occurrence of certain insolvency or payment defaults under the CDS contracts, be subject to termination by the counterparty, triggering a claim for the fair value of the contract. In order to monitor liquidity risk and maintain appropriate liquidity resources, we use the same methodology as we use to monitor credit quality and losses within our insured portfolio, including stress scenarios. Refer to Note 6: Loss and Loss Adjustment Expense Reserves in the Notes to Consolidated Financial Statements for a discussion of our loss process.

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LIQUIDITY (continued)

Our structured finance and international insurance segment also requires cash for the payment of operating expenses, as well as principal and interest related to its surplus notes. Pursuant to Section 1307 of the NYIL and the Fiscal Agency Agreement governing MBIA Corp. s surplus notes, any payment on the notes may be made only with the prior approval of the Superintendent of the NYSDFS whenever, in his judgment, the financial condition of [MBIA Corp.] warrants and payment may be made only out of MBIA Corp. s free and divisible surplus . If these conditions are not met, MBIA Corp. is not be permitted to make any applicable interest payment and no default or event of default would occur under the Fiscal Agency Agreement or any of the Company s other agreements. MBIA Corp. s request for approval of the January 15, 2013, note interest payment was denied by the NYSDFS. In accordance with the terms of the Fiscal Agency Agreement, MBIA Corp. is required to provide, and has provided, notice to the Fiscal Agent if it has not made a scheduled interest payment. The deferred interest payment will become due on the first business day on or after which MBIA Corp. obtains approval to make such payment. No interest will accrue on the deferred interest. There can be no assurance that the NYSDFS will approve this or any subsequent payments, or that it will approve any payment by the scheduled interest payment date or by the date on which the notice is required to be delivered to the registered holders and the Fiscal Agent, nor can there be any assurance that the NYSDFS will approve any optional redemption payment that MBIA Corp. may seek to make.

Since the fourth quarter of 2007 through December 31, 2012, MBIA Corp. has made $11.7 billion of cash payments, before reinsurance and collections and excluding LAE (including payments made to debt holders of consolidated VIEs), associated with second-lien RMBS securitizations and with commutations and claim payments primarily relating to CDS contracts. These cash payments include loss payments of $930 million made on behalf of MBIA Corp. s consolidated VIEs. Of the $11.7 billion, MBIA Corp. has paid $6.7 billion of gross claims (before reinsurance and collections and excluding LAE) on policies insuring second-lien RMBS securitizations, driven primarily by an extensive number of ineligible mortgage loans being placed in the securitizations in breach of the representations and warranties of the sellers/servicers. In addition, MBIA Corp. has paid $5.0 billion of gross settlement and claim payments (before reinsurance and collections and excluding LAE) on insured credit derivatives. Also, since the fourth quarter of 2007 through December 31, 2012, MBIA Corp. has collected $193 million of excess spread before reinsurance.

MBIA Corp. is seeking to enforce its rights to have mortgage sellers/servicers cure, replace or repurchase ineligible mortgage loans from securitizations and has recorded a total of $3.6 billion of related expected recoveries on our consolidated balance sheets as of December 31, 2012, including expected recoveries recorded in our consolidated VIEs. These put-back claims have been disputed by the loan sellers/servicers and MBIA Corp. is seeking to enforce its rights through litigations with Bank of America/Countrywide, Ally Financial, RFC, GMAC (which is currently stayed subject to the ResCap Chapter 11 bankruptcy), Credit Suisse Securities (USA) LLC and certain other parties, Federal Deposit Insurance Corporation (in its capacity as conservator and receiver for IndyMac Federal Bank, F.S.B.), and Flagstar Bank, FSB and certain related parties, as discussed more fully in Note 20: Commitments and Contingencies in the Notes to Consolidated Financial Statements. On May 14, 2012, ResCap and its wholly-owned subsidiary companies, RFC and GMAC each filed for bankruptcy protection under Chapter 11 of the United States Bankruptcy Code; the Company is a member of the Unsecured Creditor s Committee. Additionally, there is some risk that the sellers/servicers or other responsible parties might not be able to fully satisfy any judgment we secure in litigation and/or through resolution of the ResCap s bankruptcy. Further, there can be no assurance that we will be successful or that we will not be delayed in realizing these recoveries. Such risks are contemplated in the scenarios we utilize to calculate these recoveries, which are recognized on our consolidated balance sheets.

A portion of the commutation payments made since the fourth quarter of 2011 were financed through the National Secured Loan. MBIA Insurance Corporation s ability to repay the loan and any accrued interest will be primarily predicated on MBIA Corp. s ability to collect on its future receivables, including its ability to successfully enforce its rights to have the mortgage sellers/servicers cure, replace or repurchase ineligible mortgage loans from insured securitizations.

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LIQUIDITY (continued)

MBIA Corp. also insures third-party holders of our asset/liability products segment s obligations. If we were unable to meet payment or collateral requirements associated with these obligations, the holders thereof could make claims under the MBIA Corp. insurance policies. In 2008, to provide additional liquidity to the asset/liability products business, MBIA Corp. lent $2.0 billion to the segment on a secured basis under the MBIA Corp. Secured Loan. As of December 31, 2012, the outstanding balance of the MBIA Corp. Secured Loan was repaid in full. In May 2012, the NYSDFS approved the maturity extension of the MBIA Corp. Secured Loan to May 2013 with a maximum outstanding amount of $450 million, subject to MBIA Corp. obtaining prior regulatory approval from the NYSDFS for any draws under the facility.

As of December 31, 2012, MBIA Corp. held cash and available-for-sale investments of $1.3 billion, of which $345 million comprised cash and highly liquid assets. As of December 31, 2011, MBIA Corp. held cash and available-for-sale investments of $1.5 billion, of which $534 million comprised cash and highly liquid assets. We believe that MBIA Corp. s liquidity resources, including expected cash inflows, will adequately provide for anticipated cash outflows. However, our liquidity projections assume a non-cash settlement of the Bank of America/Merrill Lynch CMBS Exposure (the BOA CMBS Exposure). Depending on the amount of actual claims on the BOA CMBS Exposure and the amount of claims on other policies issued by MBIA Corp., including claims on incurred exposures that in some cases may require large bullet payments, MBIA Corp. may not have sufficient liquid assets to pay such claims in the absence of a settlement of the Bank of America/Countrywide put-back recoveries and the commutation of the BOA CMBS Exposure. In the event of unexpected liquidity requirements, we may have insufficient resources to meet our obligations or insufficient qualifying assets to support our surplus and reserves, and may seek to increase our cash holdings position by selling or financing assets, or raising external capital, and there can be no assurance that we will be able to draw on these additional sources of liquidity. See Item 1A, Risk Factors Capital, Liquidity and Market Related Risk Factors MBIA Insurance Corporation may be placed in a rehabilitation or liquidation proceeding as a result of, among other things, a lack of liquid assets available to pay claims due to the failure by RMBS sellers/servicers to honor their contractual obligation to repurchase ineligible mortgage loans, combined with the substantial RMBS claims payments and other claims and commutation payments to date, as well as the increased probability that MBIA Corp. will experience claims payments on certain of its CMBS exposures in the future .

National Liquidity

Despite continued adverse macroeconomic conditions in the U.S., the incidence of default among U.S. public finance issuers remains extremely low and we believe that the liquidity position of our U.S. public finance insurance segment is sufficient to meet cash requirements in the ordinary course of business.

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

- The insurance policies issued or reinsured by National, the entity from which we conduct our U.S. public finance insurance business, provide unconditional and irrevocable guarantees of payments of the principal of, and interest or other amounts owing on, insured obligations when due or, in the event that the insurance company has the right, at its discretion, to accelerate insured obligations upon default or otherwise, upon the insurance company s election to accelerate. In the event of a default in payment of principal, interest or other insured amounts by an issuer, National generally promises to make funds available in the insured amount within one to three business days following notification. In some cases, the amount due can be substantial, particularly if the default occurs on a transaction to which National has a large notional exposure or on a transaction structured with large, bullet-type principal maturities. The fact that the U.S. public finance insurance segment s financial guarantee contracts generally cannot be accelerated by a party other than the insurer helps to mitigate liquidity risk in this segment.

- National has entered into certain intercompany transactions to support the liquidity needs of its affiliates. These transactions include the National Secured Loan to MBIA Insurance Corporation and the Asset Swap through which National exchanges liquid assets with MBIA Inc. As a result of these transactions, National is subject to repayment risk, which may adversely affect its liquidity. The repayment of the National Secured Loan will primarily be predicated on MBIA Corp. s ability to successfully enforce its rights to have mortgage sellers/servicers cure, replace or repurchase ineligible mortgage loans from securitizations it insured.

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LIQUIDITY (continued)

In addition, changes in the market value of securities sold to National under its Asset Swap with the asset/liability products business may adversely affect its liquidity position if MBIA Inc. were unable to pledge additional eligible assets in order to meet minimum required collateral amounts.

National held cash and short-term investments of $470 million as of December 31, 2012, of which $419 million was highly liquid and consisted predominantly of highly rated municipal, U.S. agency and corporate bonds. As of December 31, 2011, National held cash and short-term investments of $771 million, of which $703 million was highly liquid and consisted predominantly of highly rated municipal, U.S. agency and corporate bonds. With the exception of its loan to MBIA Insurance Corporation, most of National s investments, including those encumbered by the Asset Swap, are liquid and highly rated.

Consolidated Cash Flows

Information about our consolidated cash flows by category is presented on our consolidated statements of cash flows. The following table summarizes our consolidated cash flows for the years ended December 31, 2012, 2011 and 2010:

	Years Ended December 31,			Percent Change	
In millions	**2012**	**2011**	**2010**	**2012 vs. 2011**	**2011 vs. 2010**
Net cash provided (used) by:					
Operating activities	$ (1,027)	$ (2,627)	$ (946)	-61%	n/m
Investing activities	4,195	4,007	4,778	5%	-16%
Financing activities	(2,811)	(1,877)	(3,505)	50%	-46%

n/m Percent change not meaningful.

Operating activities

Net cash used by operating activities decreased in 2012 compared with 2011, primarily from a decrease in commutation and loss payments for insured credit derivative contracts and financial guarantee insurance policies. Partially offsetting this decrease were reductions in cash received for net investment income due to lower average asset balances and premiums due to the run-off of our insured portfolio, including from terminations of policies, with no significant business written. Net cash used by operating activities increased in 2011 compared with 2010, primarily from an increase in commutation and loss payments for insured credit derivative contracts and reductions in tax refunds collected, partially offset by a decrease in loss payments on financial guarantee insurance policies.

Investing activities

Net cash provided by investing activities increased in 2012 compared with 2011 primarily due to a decline of cash outflows from deconsolidating VIEs. This increase was partially offset by an increase in collateral postings. Net cash provided by investing activities decreased in 2011 compared with 2010 primarily due to the reduction of cash recognized in consolidating VIEs. This decrease was partially offset by an increase in proceeds from net sales and redemptions of securities for purposes of funding commutation and loss payments in 2011.

Financing activities

Net cash used by financing activities increased in 2012 compared with 2011 primarily due to the paydown of long-term debt related to our conduit segment, debt related to financial guarantee VIEs and other debt obligations. Net cash used by financing activities decreased in 2011 compared with 2010 primarily due to a decrease in principal payments on VIE notes and other debt obligations. Refer to Note 10: Debt in the Notes to Consolidated Financial Statements for a detailed discussion about our debt obligations.

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Investments

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

Our available-for-sale investments comprise high-quality fixed-income securities and short-term investments. As of December 31, 2012 and 2011, the fair values of our consolidated available-for-sale investments were $5.6 billion and $8.4 billion, respectively, as presented in the following table. Additionally, consolidated cash and cash equivalents as of December 31, 2012 and 2011 were $814 million and $473 million, respectively.

	As of December 31,		
In millions	**2012**	**2011**	**Percent Change**
Available-for-sale investments:			
U.S. public finance insurance			
Amortized cost	$ 3,006	$ 3,787	-21%
Unrealized net gain (loss)	105	108	-3%
Fair value	3,111	3,895	-20%
Structured finance and international insurance			
Amortized cost	886	1,361	-35%
Unrealized net gain (loss)	22	(15)	n/m
Fair value	908	1,346	-33%
Corporate			
Amortized cost	543	448	21%
Unrealized net gain (loss)	(36)	(61)	-41%
Fair value	507	387	31%
Advisory services			
Amortized cost	11	17	-35%
Unrealized net gain (loss)			
Fair value	11	17	-35%
Wind-down operations			
Amortized cost	1,039	2,939	-65%
Unrealized net gain (loss)	20	(206)	-110%
Fair value	1,059	2,733	-61%

Total available-for-sale investments:			
Amortized cost	5,485	8,552	-36%
Unrealized net gain (loss)	111	(174)	n/m
Total available-for-sale investments at fair value	5,596	8,378	-33%

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LIQUIDITY (continued)

In millions	As of December 31, 2012	2011	Percent Change
Investments carried at fair value:			
U.S. public finance insurance			
Amortized cost	190	165	15%
Unrealized net gain (loss)		(1)	-100%
Fair value	190	164	16%
Structured finance and international insurance			
Amortized cost	27	25	8%
Unrealized net gain (loss)	3		n/m
Fair value	30	25	20%
Corporate			
Amortized cost	38	41	-7%
Unrealized net gain (loss)	(10)	(19)	-47%
Fair value	28	22	27%
Advisory services			
Amortized cost	4	3	33%
Unrealized net gain (loss)			
Fair value	4	3	33%
Wind-down operations			
Amortized cost	5	102	-95%
Unrealized net gain (loss)		(12)	-100%
Fair value	5	90	-94%
Total investments carried at fair value:			
Amortized cost	264	336	-21%
Unrealized net gain (loss)	(7)	(32)	-78%
Total investments carried at fair value	257	304	-15%
Held-to-maturity investments:			
Structured finance and international insurance operations amortized cost		1	(100)%
Total held-to-maturity investments at amortized cost		1	(100)%
Other investments at amortized cost:			
U.S. public finance insurance operations segment	9	9	
Advisory services		1	(100)%

Total other investments at amortized cost	9	10	(10)%
Consolidated investments at carrying value	$ 5,862	$ 8,693	-33%

n/m Percent change not meaningful.

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

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Credit Quality

The credit quality distribution of the Company s fixed-income investment portfolios, excluding short-term investments, based on ratings from Moody s as of December 31, 2012 is presented in the following table. Alternate ratings sources, such as S&P or the best estimate of the ratings assigned by the Company, have been used for a small percentage of securities that are not rated by Moody s.

	U.S. Public Finance		Structured Finance and International		Advisory Services		Corporate		Wind-down Operations		Total	
In millions	**Fair Value**	**% of Fixed-Income Investments**	**Fair Value**	**% of Fixed-Income Investments**	**Fair Value**	**% of Fixed-Income Investments**	**Fair Value**	**% of Fixed-Income Investments**	**Fair Value**	**% of Fixed-Income Investments**	**Fair Value**	**% of Fixed-Income Investments**
Available-for-sale:												
Aaa	$ 1,494	52%	$ 637	86%	$ 1	50%	$	0%	$ 246	29%	$ 2,378	51%
Aa	872	30%	26	3%		0%		0%	188	22%	1,086	22%
A	377	13%	20	3%	1	50%	36	18%	125	15%	559	12%
Baa	127	4%	13	2%		0%	42	21%	237	28%	419	9%
Below investment grade	26	1%	41	6%		0%	102	51%	47	6%	216	5%
Not rated	3	0%	4	0%		0%	20	10%		0%	27	1%
Total	$ 2,899	100%	$ 741	100%	$ 2	100%	$ 200	100%	$ 843	100%	$ 4,685	100%
Short-term investments	205		167		9		296		213		890	
Investments held-to-maturity												
Investments held at fair value	190		30		4		28		5		257	
Other investments	16						11		3		30	
Consolidated investments at carrying value	$ 3,310		$ 938		$ 15		$ 535		$ 1,064		$ 5,862	

As of December 31, 2012, the weighted average credit quality of the Company s available-for-sale investment portfolios, excluding short-term and other investments, as presented in the preceding table are as follows:

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

Insured Investments

MBIA s consolidated investment portfolio includes investments that are insured by various financial guarantee insurers (Insured Investments), including investments insured by MBIA Corp. and National (Company-Insured Investments). As of December 31, 2012, Insured Investments at fair value represented $671 million or 11% of consolidated investments, of which $404 million or 7% of consolidated investments were Company-Insured Investments.

As of December 31, 2012, based on the actual or estimated underlying ratings of our consolidated investment portfolio, without giving effect to financial guarantees, the weighted average rating of the consolidated investment portfolio would be in the Aa range, the weighted average rating of only the Insured Investments in the investment portfolio would be in the Baa range, and 4% of the total investment portfolio would be rated below investment grade in the Insured Investments.

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LIQUIDITY (continued)

The distribution of the Company s Insured Investments by financial guarantee insurer as of December 31, 2012 is presented in the following table:

	U.S. Public Finance		Structured Finance and International		Corporate		Wind-Down Operations		Total	
In millions	Fair Value	% of Total Investments	Fair Value	% of Total Investments	Fair Value	% of Total Investments	Fair Value	% of Total Investments	Fair Value	% of Total Investments
MBIA Corp.	$	0%	$ 21	0%	$ 68	1%	$ 141	3%	$ 230	4%
National	95	2%		0%	22	0%	57	1%	174	3%
Assured Guaranty Municipal Corp.	48	1%		0%		0%	130	2%	178	3%
Ambac Financial Group, Inc.	10	0%		0%	1	0%	46	1%	57	1%
FGIC	3	0%	2	0%	13	0%	8	0%	26	0%
Other	2	0%		0%	4	0%		0%	6	0%
Total	$ 158	3%	$ 23	0%	$ 108	1%	$ 382	7%	$ 671	11%

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

The underlying ratings of the Company-Insured Investments as of December 31, 2012 are reflected in the following table. Amounts represent the fair value of such investments including the benefit of the MBIA guarantee. The ratings in the following table are based on ratings from Moody s. Alternate ratings sources, such as S&P, have been used for a small percentage of securities that are not rated by Moody s.

In millions

Underlying Ratings Scale	U.S. Public Finance Insurance	Structured Finance and International Insurance	Corporate	Wind-down Operations	Total
National:					
Aaa	$	$	$	$	$
Aa	34			16	50
A	40			15	55
Baa	21		22	26	69

Below investment grade										
Total National	$	95	$		$	22	$	57	$	174
MBIA Corp.:										
Aaa	$		$		$		$		$	
Aa										
A								14		14
Baa								113		113
Below investment grade				21		68		14		103
Total MBIA Corp.	$		$	21	$	68	$	141	$	230
Total MBIA Insured Investments	$	95	$	21	$	90	$	198	$	404

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LIQUIDITY (continued)

Without giving effect to the MBIA guarantee of the Company-Insured Investments in the consolidated investment portfolio, as of December 31, 2012, based on actual or estimated underlying ratings, the weighted average rating of the consolidated investment portfolio was in the Aa range, the weighted average rating of only the Company-Insured Investments was in the Baa range, and investments rated as below investment grade in the Company-Insured Investments were 3% of the total consolidated investment portfolio.

Impaired Investments

As of December 31, 2012 and 2011, we held impaired available-for-sale investments (investments for which fair value was less than amortized cost) with a fair value of $1.3 billion and $2.4 billion, respectively.

We analyze impaired investments within our investment portfolio for other-than-temporary impairments on a quarterly basis. Key factors considered when assessing other-than-temporary impairments include but are not limited to: (a) structural and economic factors among security types that represent our largest exposure to credit impairment losses; (b) the duration and severity of the unrealized losses (i.e., a decline in the market value of a security by 20% or more at the time of the review, or 5% impaired at the time of review with a fair value below amortized cost for a consecutive 12-month period); and (c) the results of various cash flow modeling techniques. Our cash flow analysis considers all sources of cash, including credit enhancement, that support the payment of amounts owed by an issuer of a security. This includes the consideration of cash expected to be provided by financial guarantors, including MBIA Corp., resulting from an actual or potential insurance policy claim.

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

Contractual Obligations

The following table summarizes the Company s future estimated cash payments relating to contractual obligations as of December 31, 2012. Estimating these payments requires management to make estimates and assumptions regarding these obligations. The estimates and assumptions used by management are described below. Since these estimates and assumptions are subjective, actual payments in future periods may vary from those reported in the following table. Refer to Note 13: Insurance in Force in the Notes to Consolidated Financial Statements for information about the Company s exposure under insurance contracts.

	As of December 31, 2012						
In millions	**2013**	**2014**	**2015**	**2016**	**2017**	**Thereafter**	**Total**
U.S. public finance insurance segment:							
Gross insurance claim obligations	$ 119	$ 11	$ 9	$ 9	$ 8	$ 163	$ 319
Lease liability	1						1
Structured finance and international insurance segment:							
Surplus notes	149	109	109	109	109	967	1,552
Gross insurance claim obligations	1,273	325	112	94	101	1,559	3,464
Lease liability	1	1	1	1			4
Advisory segment:							
Lease liability				1	1	2	4
Corporate segment:							
Long-term debt	46	46	46	46	46	1,162	1,392
Lease liability	1	1	1	1	1	2	7
Asset/liability products segment:							
Investment agreements	209	166	69	68	73	804	1,389
Medium-term notes	64	69	274	146	75	2,021	2,649
Conduit segment:							

Medium-term notes		9		159		9		346		4		208		735
Total	$	1,872	$	887	$	630	$	821	$	418	$	6,888	$	11,516

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LIQUIDITY (continued)

Gross insurance claim obligations represent the future value of probability-weighted payments MBIA expects to make (before estimated recoveries, reinsurance and the consolidation of VIEs) under insurance policies for which the Company has recorded loss reserves (financial guarantees) or has estimated credit impairments (insured derivatives). The discounted value of estimated payments included in the table, along with probability-weighted estimated recoveries and estimated negotiated early settlements, on policies accounted for as financial guarantee insurance contracts is reported as case basis reserves within Loss and loss adjustment expense reserves on the Company s consolidated balance sheets. Insured derivatives are recorded at fair value and reported within Derivative liabilities on the Company s consolidated balance sheets. Estimated potential claim payments on obligations issued by VIEs consolidated in our structured finance and international insurance segment are included within Gross insurance claim obligations in the preceding table. Obligations of these VIEs are collateralized by assets held by the VIEs, and investors in such obligations do not have recourse to the general credit of MBIA. As of December 31, 2012, VIE notes issued by issuer-sponsored consolidated VIEs totaled $6.5 billion, including $3.7 billion recorded at fair value, and are not considered contractual obligations of MBIA beyond MBIA s insurance claim obligation. The Company s involvement with VIEs is continually reassessed as required by consolidation guidance, and may result in consolidation or deconsolidation of VIEs in future periods. As the Company consolidates and deconsolidates VIEs, the amount of VIE debt obligations recorded on its balance sheet may change significantly.

Surplus notes, investment agreements, MTNs, and long-term debt include principal and interest and exclude premiums or discounts. Liabilities issued at discounts reflect principal due at maturity. Interest payments on floating rate obligations are estimated using applicable forward rates. Principal and interest on callable obligations or obligations that allow investors to withdraw funds prior to legal maturity are based on the expected call or withdrawal dates of such obligations. Liabilities denominated in foreign currencies are presented in U.S. dollars using applicable exchange rates as of December 31, 2012.

Included in structured finance and international insurance segment s surplus notes is interest related to the January 15, 2013 interest payment in which MBIA Corp. s request for approval to pay was denied by the NYSDFS. This deferred interest payment will be due on the first business day on or after which MBIA Corp. obtains approval to make such payment. No interest will accrue on the deferred interest. There can be no assurance that the NYSDFS will approve any subsequent payments, or that it will approve any payment by the scheduled interest payment date.

The repayment of principal on our surplus notes is reflected in 2018, which is the next call date. Principal payments under investment agreements are based on expected withdrawal dates. All other principal payments are based on contractual maturity dates.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

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

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

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Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Sensitivity

Interest rate sensitivity can be estimated by projecting a hypothetical instantaneous increase or decrease in interest rates. The following table presents the estimated pre-tax change in fair value of the Company s financial instruments as of December 31, 2012 from instantaneous shifts in interest rates:

	Change in Interest Rates					
In millions	300 Basis Point Decrease	200 Basis Point Decrease	100 Basis Point Decrease	100 Basis Point Increase	200 Basis Point Increase	300 Basis Point Increase
Estimated change in fair value	$ (62)	$ (15)	$ 8	$ (35)	$ (77)	$ (121)

Foreign Exchange Sensitivity

Foreign exchange rate sensitivity can be estimated by projecting a hypothetical instantaneous increase or decrease in foreign exchange rates. The following table presents the estimated pre-tax change in fair value of the Company s financial instruments as of December 31, 2012 from instantaneous shifts in foreign exchange rates:

	Change in Foreign Exchange Rates			
	Dollar Weakens		Dollar Strengthens	
In millions	20%	10%	10%	20%
Estimated change in fair value	$ (65)	$ (32)	$ 32	$ 65

Credit Spread Sensitivity

Credit spread sensitivity can be estimated by projecting a hypothetical instantaneous increase or decrease in credit spreads. The following table presents the estimated pre-tax change in fair value of the Company s financial instruments as of December 31, 2012 from instantaneous shifts in credit spread curves. For this table it was assumed that all credit spreads move by the same amount. It is more likely that the actual changes in credit spreads will vary by security. National s investment portfolio would generally be expected to experience lower credit spread volatility than the investment portfolio of the asset/liability products segment because of higher credit quality and portfolio composition in sectors that have been less volatile historically. The table shows hypothetical increases and decreases in credit spreads of 50 and 200 basis points. Because downward movements of these amounts in some cases would result in negative spreads, a floor was assumed for minimum spreads. The changes in fair value reflect partially offsetting effects as the value of the investment portfolios generally changes in an opposite direction from the liability portfolio.

	Change in Credit Spreads			
In millions	200 Basis Point Decrease	50 Basis Point Decrease	50 Basis Point Increase	200 Basis Point Increase
Estimated change in fair value	$ 2	$ 21	$ (38)	$ (152)

Credit Derivatives Sensitivity

MBIA issued insurance policies insuring payments due on structured credit derivative contracts and directly entered into credit derivative contracts, which are marked-to-market through earnings under the accounting principles for derivatives and hedging activities. All these transactions were insured by the Company s structured finance and international insurance operations. The majority of these structured CDSs related to structured finance transactions with underlying reference obligations of cash securities and CDSs referencing liabilities of corporations or of other structured finance securitizations. The asset classes of the underlying reference obligations included corporate, asset-backed, residential mortgage-backed and commercial mortgage-backed securities. These transactions were usually underwritten at or above a triple-A credit rating level. As of December 31, 2012, approximately 22% of the tranches insured by the Company were rated triple-A. Additionally, MBIA s wind-down operations entered into single-name CDSs as part of its asset management activities. In 2012, the value of the Company s credit derivative contracts was principally affected by commutations, the movements of MBIA s nonperformance risk on its derivative liabilities which resulted from a widening of its own credit spreads and a reduction in the Company s recovery rate and favorable movements in spreads and pricing on collateral within transactions partially offset by collateral erosion. As risk factors change, the values of credit derivative contracts will change and the resulting gains or losses will be recorded within net income.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

In 2012, the Company has observed a widening of its own credit spreads. As changes in fair value can be caused by factors unrelated to the performance of MBIA s business and credit portfolio, including general market conditions and perceptions of credit risk, as well as market use of credit derivatives for hedging purposes unrelated to the specific referenced credits in addition to events that affect particular credit derivative exposures, the application of fair value accounting will cause the Company s earnings to be more volatile than would be suggested by the underlying performance of MBIA s business operations and credit portfolio.

The following tables reflect sensitivities to changes in credit spreads, collateral prices, rating migrations, recovery rates and the Company s own credit spreads and recovery rates. Each table stands on its own and should be read independently of each other. Refer to Note 7: Fair Value of Financial Instruments in the Notes to Consolidated Financial Statements for further information about the Company s financial assets and liabilities that are accounted for at fair value, including valuation techniques and disclosures required by GAAP.

Sensitivity to changes in credit spreads can be estimated by projecting a hypothetical instantaneous shift in credit spread curves. The following table presents the estimated pre-tax change in fair value and the cumulative estimated net fair value of the Company s credit derivatives portfolio of instantaneous shifts in credit spreads as of December 31, 2012. In scenarios where credit spreads decreased, a floor of zero was used.

	Change in Credit Spreads						
In millions	**600 Basis Point Decrease**	**200 Basis Point Decrease**	**50 Basis Point Decrease**	**0 Basis Point Change**	**50 Basis Point Increase**	**200 Basis Point Increase**	**600 Basis Point Increase**
Estimated pre-tax net gains (losses)	$ 1,181	$ 378	$ 94	$	$ (97)	$ (407)	$ (1,262)
Estimated net fair value	$ (1,745)	$ (2,548)	$ (2,832)	$ (2,926)	$ (3,023)	$ (3,333)	$ (4,188)

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

Since the Company is now using collateral prices as an input into the Direct Price Model for certain multi-sector insured CDOs, a sensitivity analysis below shows the estimated pre-tax change in fair value and the cumulative estimated net fair value of the Company s insured credit derivatives portfolio of a 10% and 20% change in collateral prices as of December 31, 2012.

	Change in Collateral Prices (Structured Finance and International Insurance)				
In millions	**20% Increase**	**10% Increase**	**No Change**	**10% Decrease**	**20% Decrease**
Estimated pre-tax net gains (losses)	$ 36	$ 18	$	$ (18)	$ (36)
Estimated net fair value	$ (2,890)	$ (2,908)	$ (2,926)	$ (2,944)	$ (2,962)

Sensitivity to changes in the collateral portfolio credit quality can be estimated by projecting a hypothetical change in rating migrations. The following table presents the estimated pre-tax change in fair value and the cumulative estimated net fair value of the Company s insured credit derivatives portfolio of a one and three notch rating change in the credit quality as of December 31, 2012. A notch represents a one step movement up or down in the credit rating.

	Change in Credit Ratings (Structured Finance and International Insurance)				
In millions	**Three Notch Increase**	**One Notch Increase**	**No Change**	**One Notch Decrease**	**Three Notch Decrease**

Estimated pre-tax net gains (losses)	$ 1,113	$ 182	$	$ (228)	$ (531)
Estimated net fair value	$ (1,813)	$ (2,744)	$ (2,926)	$ (3,154)	$ (3,457)

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Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Recovery rates on defaulted collateral are an input into the Company s valuation model. Sensitivity to changes in the recovery rate assumptions used by the Company can be estimated by projecting a hypothetical change in these assumptions. The following table presents the estimated pre-tax change in fair value and the cumulative estimated net fair value of the Company s insured credit derivatives portfolio of a 10% and 20% change in the recovery rate assumptions as of December 31, 2012.

	Change in Recovery Rates (Structured Finance and International Insurance)				
In millions	**20% Increase**	**10% Increase**	**No Change**	**10% Decrease**	**20% Decrease**
Estimated pre-tax net gains (losses)	$ 238	$ 114	$	$ (105)	$ (203)
Estimated net fair value	$ (2,688)	$ (2,812)	$ (2,926)	$ (3,031)	$ (3,129)

Accounting principles for fair value measurements require the Company to incorporate its own nonperformance risk in its valuation methodology. Sensitivity to changes in the Company s credit spreads can be estimated by projecting a hypothetical change in this assumption. The following table presents the estimated pre-tax change in fair value and the cumulative estimated net fair value of the Company s insured credit derivative portfolio using upfront credit spreads of 0%, an increase of 50%, and a decrease of 50%. The actual upfront spread used in the valuation as of December 31, 2012 ranged from 37.50% to 50.50% based on the tenor of each transaction. The below amounts include an additional annual running credit spread of 5%.

	MBIA Upfront Credit Spread (Structured Finance and International Insurance)			
In millions	**Increase by 50 Percent**	**No Change**	**Decrease by 50 Percent**	**Decrease to 0 Percentage Points**
Estimated pre-tax net gains (losses)	$ 25	$	$ (804)	$ (2,160)
Estimated net fair value	$ (2,901)	$ (2,926)	$ (3,730)	$ (5,086)

With the inclusion of the MBIA recovery rate in the calculation of nonperformance risk for the Company s insured credit derivatives portfolio, the following sensitivity table presents the estimated pre-tax change in fair value of insured credit derivatives due to changes in that recovery rate. The values shown below reflect an approximate trading range of the MBIA recovery rate.

	MBIA s Recovery Rate (Structured Finance and International Insurance)		
In millions	**Decrease to 25 Percentage Points**	**No Change**	**Increase to 50 Percentage Points**
Estimated pre-tax net gains (losses)	$ 693	$	$ (533)
Estimated net fair value	$ (2,233)	$ (2,926)	$ (3,459)

MBIA Corp. s insurance of structured credit derivatives typically remain in place until the maturity of the derivative. With respect to MBIA Corp. s insured structured credit derivatives, in the absence of credit impairments or the termination of derivatives at losses, the cumulative unrealized losses should reverse before or at maturity of the contracts. Additionally, in the event of the termination and settlement of a contract prior to maturity, any resulting gain or loss upon settlement will be recorded in our consolidated financial statements. In February 2008, the Company announced its intention not to insure credit derivatives in the future, except in transactions that are intended to reduce its overall exposure to insured derivatives.

Item 8. Financial Statements and Supplementary Data

MBIA INC. AND SUBSIDIARIES

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

See Item 6. Selected Financial Data for Supplementary Financial Information

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of MBIA Inc.:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, of comprehensive income (loss), of changes in shareholders equity and of cash flows present fairly, in all material respects, the financial position of MBIA Inc. and its subsidiaries (the Company) as of December 31, 2012 and 2011, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2012 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedules listed in the index appearing under Item 15(a)(2), present fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company s management is responsible for these financial statements and financial statement schedules, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management s Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements, on the financial statement schedules and on the Company s internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

As discussed in Note 1 to the consolidated financial statements, as a result of insured losses and realized investment losses during the period from 2007 to 2012, the Company has seen ratings downgrades, a near cessation of new insurance business written by the Company, and increasing liquidity pressure and faces significant risks and uncertainties that could affect amounts reported in the Company s financial statements in future periods.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

New York, NY

February 27, 2013

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MBIA INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In millions except share and per share amounts)

	December 31, 2012	December 31, 2011
Assets		
Investments:		
Fixed-maturity securities held as available-for-sale, at fair value (amortized cost $4,347 and $6,259)	$ 4,485	$ 6,177
Fixed-maturity securities at fair value	244	295
Investments pledged as collateral, at fair value (amortized cost $489 and $642)	443	543
Short-term investments held as available-for-sale, at fair value (amortized cost $662 and $1,577)	669	1,571
Other investments (includes investments at fair value of $12 and $96)	21	107
Total investments	5,862	8,693
Cash and cash equivalents	814	473
Premiums receivable	1,228	1,360
Deferred acquisition costs	302	351
Insurance loss recoverable	3,648	3,046
Property and equipment, at cost (less accumulated depreciation of $146 and $139)	69	69
Deferred income taxes, net	1,199	1,745
Other assets	268	243
Assets of consolidated variable interest entities:		
Cash	176	160
Investments held-to-maturity, at amortized cost (fair value $2,674 and $3,489)	2,829	3,843
Fixed-maturity securities held as available-for-sale, at fair value (amortized cost $637 and $473)	625	432
Fixed-maturity securities at fair value	1,735	2,884
Loans receivable at fair value	1,881	2,046
Loan repurchase commitments	1,086	1,077
Derivative assets		450
Other assets	2	1
Total assets	**$ 21,724**	**$ 26,873**
Liabilities and Equity		
Liabilities:		
Unearned premium revenue	$ 2,938	$ 3,515
Loss and loss adjustment expense reserves	853	836
Investment agreements	944	1,578
Medium-term notes (includes financial instruments carried at fair value of $165 and $165)	1,598	1,656
Securities sold under agreements to repurchase		287
Long-term debt	1,662	1,840
Derivative liabilities	2,934	5,164
Other liabilities	315	391
Liabilities of consolidated variable interest entities:		
Variable interest entity notes (includes financial instruments carried at fair value of $3,659 and $4,754)	7,124	8,697
Long-term debt		360
Derivative liabilities	162	825
Other liabilities		1
Total liabilities	**18,530**	**25,150**
Commitments and contingencies (See Note 20)		
Equity:		
Preferred stock, par value $1 per share; authorized shares 10,000,000; issued and outstanding none		
Common stock, par value $1 per share; authorized shares 400,000,000; issued shares 277,405,039 and 274,896,162	277	275

Additional paid-in capital	3,076	3,072
Retained earnings	2,039	805
Accumulated other comprehensive income (loss), net of tax of $21 and $105	56	(176)
Treasury stock, at cost 81,733,530 and 81,752,966 shares	(2,275)	(2,276)
Total shareholders equity of MBIA Inc.	3,173	1,700
Preferred stock of subsidiary and noncontrolling interest	21	23
Total equity	**3,194**	**1,723**
Total liabilities and equity	**$ 21,724**	**$ 26,873**

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

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MBIA INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(In millions except share and per share amounts)

	Years Ended December 31, 2012	2011	2010
Revenues:			
Premiums earned:			
Scheduled premiums earned	$ 372	$ 456	$ 504
Refunding premiums earned	233	149	90
Premiums earned (net of ceded premiums of $14, $12 and $28)	605	605	594
Net investment income	214	383	457
Fees and reimbursements	61	50	160
Change in fair value of insured derivatives:			
Realized gains (losses) and other settlements on insured derivatives	(406)	(2,371)	(162)
Unrealized gains (losses) on insured derivatives	1,870	(441)	(607)
Net change in fair value of insured derivatives	1,464	(2,812)	(769)
Net gains (losses) on financial instruments at fair value and foreign exchange	55	(99)	88
Investment losses related to other-than-temporary impairments:			
Investment losses related to other-than-temporary impairments	(58)	(125)	(206)
Other-than-temporary impairments recognized in accumulated other comprehensive income (loss)	(47)	24	142
Net investment losses related to other-than-temporary impairments	(105)	(101)	(64)
Net gains (losses) on extinguishment of debt		26	35
Other net realized gains (losses)	7	(1)	29
Revenues of consolidated variable interest entities:			
Net investment income	67	70	73
Net gains (losses) on financial instruments at fair value and foreign exchange	18	59	342
Net gains (losses) on extinguishment of debt	49		25
Other net realized gains (losses)		263	(76)
Total revenues	2,435	(1,557)	894
Expenses:			
Losses and loss adjustment	50	(80)	232
Amortization of deferred acquisition costs	50	63	59
Operating	381	308	290
Interest	284	300	325
Expenses of consolidated variable interest entities:			
Operating	17	29	24
Interest	55	62	59
Total expenses	837	682	989
Income (loss) before income taxes	1,598	(2,239)	(95)
Provision (benefit) for income taxes	364	(920)	(148)
Net income (loss)	$ 1,234	$ (1,319)	$ 53

Net income (loss) per common share:			
Basic	$ 6.36	$ (6.69)	$ 0.26
Diluted	$ 6.33	$ (6.69)	$ 0.26
Weighted average number of common shares outstanding:			
Basic	193,842,435	197,019,968	202,421,433
Diluted	194,904,830	197,019,968	203,021,134

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

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MBIA INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(In millions)

	Years Ended December 31,		
	2012	2011	2010
Net income (loss)	$ 1,234	$ (1,319)	$ 53
Other comprehensive income (loss):			
Unrealized gains (losses) on available-for-sale securities:			
Unrealized gains (losses) arising during the period, net of tax of $71, $96 and $10	143	209	134
Less: Reclassification adjustments for (gains) losses included in net income (loss), net of tax of $4, $17 and $82	7	32	152
Unrealized gains (losses) on available-for-sale securities, net	150	241	286
Other-than-temporary impairments on available-for-sale securities:			
Other-than-temporary impairments arising during the period, net of tax of $18, $3 and $14	32	(5)	(26)
Less: Reclassification adjustments for other-than-temporary impairments included in net income (loss), net of tax of $24, $12 and $30	45	22	55
Other-than-temporary impairments on available-for-sale securities, net	77	17	29
Unrealized gains (losses) on derivative instruments:			
Unrealized gains (losses) on derivative instruments arising during the period, net of tax of $1, $2 and $2	2	(5)	(3)
Less: Reclassification adjustments for (gains) losses included in net income (loss), net of tax of $10, $5 and $9	18	10	17
Unrealized gains (losses) on derivative instruments, net	20	5	14
Foreign currency translation, net of tax of $2, $1 and $2	(15)	(33)	(143)
Total other comprehensive income (loss)	232	230	186
Comprehensive income (loss)	**$ 1,466**	**$ (1,089)**	**$ 239**

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

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MBIA INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY

For The Years Ended December 31, 2012, 2011 and 2010

(In millions except share amounts)

	Common Stock		Additional		Accumulated Other Comprehensive	Treasury Stock		Total Shareholders Equity	Preferred Stock of Subsidiary and Noncontrolling Interest		
	Shares	Amount	Paid-in Capital	Retained Earnings	Income (Loss)	Shares	Amount	of MBIA Inc.	Shares	Amount	Total Equity
Balance, January 1, 2010	**274,826,872**	**$ 275**	**$ 3,058**	**$ 2,393**	**$ (941)**	**(70,159,024)**	**$ (2,195)**	**$ 2,590**	**1,677**	**$ 17**	**$ 2,607**
ASU 2009-17 transition adjustment:											
Consolidated variable interest entities, net of tax of $23				(319)	264			(55)			(55)
Deconsolidated variable interest entities, net of tax of $2				(3)	85			82			82
Total ASU 2009-17 transition adjustment				(322)	349			27			27
Net income				53				53			53
Other comprehensive income					186			186			186
Share-based compensation, net of tax of $3	(107,294)		6			(78,654)	1	7			7
Treasury shares acquired under share repurchase program						(4,736,300)	(31)	(31)			(31)
Preferred shares of subsidiary acquired									(251)	(3)	(3)
Balance, December 31, 2010	**274,719,578**	**$ 275**	**$ 3,064**	**$ 2,124**	**$ (406)**	**(74,973,978)**	**$ (2,225)**	**$ 2,832**	**1,426**	**$ 14**	**$ 2,846**
Net income				(1,319)				(1,319)			(1,319)
Other comprehensive income					230			230			230
Share-based compensation, net of tax of $4	176,584		8			(237,912)	(1)	7			7
Treasury shares acquired under share repurchase program						(6,541,076)	(50)	(50)			(50)
Preferred shares of subsidiary acquired									(111)	(2)	(2)
Change in noncontrolling interest in subsidiary										11	11
Balance, December 31, 2011	**274,896,162**	**$ 275**	**$ 3,072**	**$ 805**	**$ (176)**	**(81,752,966)**	**$ (2,276)**	**$ 1,700**	**1,315**	**$ 23**	**$ 1,723**

Net income				1,234				1,234			1,234
Other comprehensive income					232			232			232
Share-based compensation, net of tax of $7	2,508,877	2	4			19,436	1	7			7
Change in noncontrolling interest in subsidiary										(2)	(2)
Balance, December 31, 2012	**277,405,039**	**$ 277**	**$ 3,076**	**$ 2,039**	**$ 56**	**(81,733,530)**	**$ (2,275)**	**$ 3,173**	**1,315**	**$ 21**	**$ 3,194**

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

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MBIA INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions)

	Years Ended December 31, 2012	2011	2010
Cash flows from operating activities:			
Premiums, fees and reimbursements received	$ 281	$ 397	$ 533
Investment income received	594	898	997
Insured derivative losses and commutations paid	(464)	(2,476)	(895)
Financial guarantee losses and loss adjustment expenses paid	(895)	(1,029)	(1,545)
Proceeds from reinsurance and recoveries	263	300	398
Operating and employee related expenses paid	(400)	(312)	(274)
Interest paid, net of interest converted to principal	(400)	(479)	(574)
Income taxes (paid) received	(6)	74	414
Net cash provided (used) by operating activities	(1,027)	(2,627)	(946)
Cash flows from investing activities:			
Purchase of fixed-maturity securities	(4,463)	(7,744)	(9,967)
Sale and redemption of fixed-maturity securities	6,873	11,321	11,896
Proceeds from paydowns on variable interest entity loans	276	291	860
Purchase of held-to-maturity investments			(157)
Redemptions of held-to-maturity investments	1,014	196	756
Sale (purchase) of short-term investments, net	1,012	680	662
Sale (purchase) of other investments, net	114	73	53
Purchase of non-controlling interest in an affiliate, net of cash received			(27)
Consolidation (deconsolidation) of variable interest entities, net	(51)	(432)	754
(Payments) proceeds for derivative settlements	(288)	(373)	(216)
Collateral (to) from swap counterparty	(285)		166
Capital expenditures	(7)	(5)	(5)
Disposal of capital assets			3
Net cash provided (used) by investing activities	4,195	4,007	4,778
Cash flows from financing activities:			
Proceeds from investment agreements	36	71	45
Payments for drawdowns of investment agreements	(688)	(524)	(767)
Principal paydowns of medium-term notes	(102)	(137)	(507)
Principal paydowns of variable interest entity notes	(1,229)	(1,100)	(1,793)
Payments for securities sold under agreements to repurchase	(287)	(184)	(31)
Dividends paid			(1)
Net proceeds from issuance of debt		105	
Payments for retirement of debt	(540)	(65)	(393)
Purchase of treasury stock		(50)	(31)
Change in noncontrolling interest and redemption of subsidiary preferred stock, net	(2)	9	(29)
Restricted stock awards settlements, net	1	(2)	2
Net cash provided (used) by financing activities	(2,811)	(1,877)	(3,505)
Net increase (decrease) in cash and cash equivalents	357	(497)	327
Cash and cash equivalents beginning of period	633	1,130	803

Cash and cash equivalents end of period	$ 990	$ 633	$ 1,130
Reconciliation of net income (loss) to net cash provided (used) by operating activities:			
Net income (loss)	$ 1,234	$ (1,319)	$ 53
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:			
Change in:			
Premiums receivable	152	209	259
Deferred acquisition costs	49	61	61
Unearned premium revenue	(600)	(624)	(635)
Loss and loss adjustment expense reserves	17	(293)	(81)
Insurance loss recoverable	(602)	(514)	(769)
Current income taxes	(5)	86	501
Net investment losses related to other-than-temporary impairments	105	101	64
Realized losses and other settlements on insured derivatives			(607)
Unrealized (gains) losses on insured derivatives	(1,870)	441	607
Net (gains) losses on financial instruments at fair value and foreign exchange	(73)	40	(430)
Other net realized (gains) losses	(7)	(262)	47
Deferred income tax provision (benefit)	365	(935)	(221)
(Gains) losses on extinguishment of debt	(49)	(26)	(60)
Other operating	257	408	265
Total adjustments to net income (loss)	(2,261)	(1,308)	(999)
Net cash provided (used) by operating activities	$ (1,027)	$ (2,627)	$ (946)

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

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 1: Business Developments and Risks and Uncertainties

Summary

MBIA Inc., together with its consolidated subsidiaries, (collectively, MBIA or the Company) operates one of the largest financial guarantee insurance businesses in the industry and is a provider of asset management advisory services. These activities are managed through three business segments: United States (U.S.) public finance insurance; structured finance and international insurance; and advisory services. The Company s U.S. public finance insurance business is primarily operated through National Public Finance Guarantee Corporation and its subsidiaries (National), its structured finance and international insurance business is primarily operated through MBIA Insurance Corporation and its subsidiaries (MBIA Corp.), and its asset management advisory services business is primarily operated through Cutwater Holdings, LLC and its subsidiaries (Cutwater). The holding company, MBIA, and certain of its subsidiaries also manage certain other business activities, the results of which are reported in its corporate, asset/liability products, and conduit segments. The corporate segment includes revenues and expenses that arise from general corporate activities. While the asset/liability products and conduit businesses represent separate business segments, they may be referred to collectively as wind-down operations as the funding programs managed through those businesses are in wind-down. Refer to Note 12: Business Segments for further information about the Company s reporting segments.

Business Developments

As a result of insured losses and realized investment losses during the period from 2007 through December 31, 2012, the Company has seen ratings downgrades, a near cessation of new insurance business, and increasing liquidity pressure. The Company has been unable to write meaningful amounts of new insurance business since 2008 and does not expect to write significant new insurance business prior to an upgrade of the credit ratings of National. As of December 31, 2012, National was rated BBB with a developing outlook by Standard & Poor s Financial Services LLC (S&P) and Baa2 with a negative outlook by Moody s Investors Service, Inc. (Moody s).

As of December 31, 2012, the liquidity position of MBIA, which consists of the liquidity positions of the Company s corporate segment and asset/liability products segment, was $239 million compared with $386 million as of December 31, 2011. In the fourth quarter of 2012, the Company repurchased approximately $172 million of its unsecured senior debt on a reverse inquiry basis. Subsequent to December 31, 2012, $115 million was released from an escrow account under the MBIA group s tax sharing agreement (the Tax Escrow Account), which is an increase to MBIA s liquidity position. Management believes that MBIA can support its operating needs for the foreseeable future primarily from anticipated releases of assets from the Tax Escrow Account, which releases are subject to the risk of National incurring tax losses in the future and declines in the value of the assets held in the Tax Escrow Account.

During the fourth quarter of 2012, MBIA successfully completed a consent solicitation pursuant to which it received the consent of MBIA Inc. senior noteholders to amend the indentures pursuant to which its senior notes were issued. Refer to Note 10: Debt for information about these amendments. The purpose of the consent solicitation was to avoid the risk of a substantial value erosion of the Company in the event of the initiation of an MBIA Insurance Corporation rehabilitation or liquidation by the New York State Department of Financial Services (NYSDFS) (an MBIA Corp. Proceeding). There is pending litigation challenging the validity of the aforementioned amendments. Refer to Note 20: Commitments and Contingencies for a description of this litigation.

During the year ended December 31, 2012, MBIA Corp. continued to seek to reduce both the absolute amount and the volatility of its obligations and potential future claim payments through the execution of commutations of insurance policies. The combination of the failure of certain mortgage originators to honor contractual obligations to repurchase ineligible mortgage loans from securitizations the Company insured, commutation payments to reduce liabilities and claim payments has increased liquidity pressure on MBIA Corp. The failure of certain mortgage originators, primarily Bank of America/Countrywide, to repurchase ineligible mortgages from securitizations the Company insured represents significant breaches of their contractual obligations. As of December 31, 2012 and 2011, MBIA Corp. s cash and liquid assets were $345 million and $534 million, respectively.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

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

The Company believes MBIA Corp. s current liquidity position is adequate to make expected future claim payments assuming its insured commercial mortgage-backed securities (CMBS) exposures held by Bank of America/Merrill Lynch are commuted as part of a settlement of MBIA s put-back claims against Bank of America. No assurance can be given as to whether such a settlement can be timely reached. In the absence of collecting a substantial amount of its put-back recoverables and in light of the potential for substantial claims in the near-term on its insured CMBS exposure, the related liquidity stress to MBIA Corp. could result in an MBIA Corp. Proceeding.

During the year ended December 31, 2012, MBIA Corp. made $1.2 billion in gross claim payments, and commuted $13.4 billion of gross insured exposure, primarily comprising structured CMBS pools, commercial real estate (CRE) collateralized debt obligations (CDOs), investment grade corporate CDOs, asset-backed securities (ABS) CDOs, and subprime residential mortgage-backed securities (RMBS) transactions.

The reference herein to ineligible mortgage loans refers to those mortgage loans that the Company believes failed to comply with the representations and warranties made by the sellers/servicers of the securitizations to which those mortgage loans were sold (including mortgage loans that failed to comply with the related underwriting criteria), based on the Company s assessment of such mortgage loans compliance with such representations and warranties, which included information provided by third-party review firms. The sellers/servicers have contractual obligations to cure, repurchase or replace such ineligible mortgage loans. These expected recoveries are generally referred to as put-backs , and are calculated based on the Company s assessment of a range of possible collection outcomes. The Company s assessment of the ineligibility of individual mortgage loans has been challenged by the sellers/servicers of the securitizations in litigation and there is no assurance that the Company s determinations will prevail.

Risks and Uncertainties

The Company s financial statements include estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. The outcome of certain significant risks and uncertainties could cause the Company to revise its estimates and assumptions or could cause actual results to differ from the Company s estimates. While the Company believes it continues to have sufficient capital and liquidity to meet all of its expected obligations, if one or more possible adverse outcomes were to be realized, its statutory capital, financial position, results of operations and cash flows could be materially and adversely affected. Significant risks and uncertainties that could affect amounts reported in the Company s financial statements in future periods include, but are not limited to, the following:

Management s expected liquidity and capital forecast for MBIA Corp. for 2013 reflects adequate resources to pay expected claims. However, there is a significant risk to this forecast as the Company s forecast assumes a settlement with Bank of America including a commutation of insured CMBS exposure, as well as a collection of a substantial portion of MBIA s put-back recoverable recorded against Bank of America/Countrywide. The Company believes that a timely settlement will occur because it believes a comprehensive settlement is in the best interests of MBIA Corp. and Bank of America. If, however, MBIA Corp. is not able to reach a comprehensive settlement with Bank of America and Bank of America s subsidiary, Merrill Lynch, presents substantial claims on its policies covering CMBS pools, MBIA Corp. may have insufficient resources to cover Bank of America s claims. While no claims have been made on these CMBS exposures to date, given the significant erosion of the deductible in some of the underlying insured credit default swaps (CDS), the Company expects that Bank of America /Merrill Lynch will have the ability to make a claim in the near term. In addition, Bank of America/Merrill Lynch is also one of two remaining plaintiffs in the litigation challenging the establishment of National (Transformation Litigation), and developments in this litigation may impact the amount MBIA ultimately collects in a comprehensive settlement. While management believes it is more likely than not that a settlement will be reached, which would alleviate its liquidity risk, there can be no assurance such a settlement will be reached timely on mutually acceptable terms.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

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

As a result of the risk that MBIA may not reach a settlement with Bank of America within a reasonable period of time, management has concluded that there is a significant risk of an MBIA Corp. Proceeding. In the event of an MBIA Corp. Proceeding, the Company may be subject to, among other things, the following:

Medium-term notes (MTNs) issued by MBIA s subsidiaries MBIA Global Funding, LLC (GFL) and Meridian Global Funding, LLC (Meridian), which are insured by MBIA Corp., would accelerate. To the extent GFL failed to pay the accelerated amounts under the GFL MTNs or the collateral securing the Meridian MTNs was deemed insufficient to pay the accelerated amounts under the Meridian MTNs, the MTN holders would have policy claims against MBIA Corp. for scheduled payments of interest and principal;

An MBIA Corp. Proceeding may accelerate certain investment agreements issued by MBIA Inc., including, in some cases, with make-whole payments. While the investment agreements are fully collateralized with high quality collateral, the settlements of these amounts could reduce MBIA Inc. s liquidity resources, and to the extent MBIA fails to pay the accelerated amounts under these investment agreements or the collateral securing these investment agreements is deemed insufficient to pay the accelerated amounts due, the holders of the investment agreements would have policy claims against MBIA Corp.;

CDS counterparties may seek to terminate CDS contracts insured by MBIA Corp. and make market-based damage claims (irrespective of whether actual credit-related losses are expected under the underlying exposure), which claims could aggregate $7.0 billion or more. The Company believes that such an acceleration would likely eliminate any residual value in MBIA Corp.;

The Company may be unable to carry out its tax planning strategies as a result of an MBIA Corp. Proceeding. This may cause the Company to record additional allowances against a portion or all of its deferred tax assets. Refer to Note 11: Income Taxes for information about the Company s deferred tax assets. In addition, the Company currently files a consolidated tax return. An MBIA Corp. Proceeding could result in challenges to the tax sharing arrangement among the MBIA affiliates that might adversely affect the Company s ability to manage taxes efficiently;

The rehabilitator or liquidator would replace the Board of Directors of MBIA Corp. and take control of the operations and assets of MBIA Corp., which would result in MBIA Inc. losing control of MBIA Corp. and possible changes to MBIA Corp. s strategies and management;

An MBIA Corp. Proceeding would be an event of default under the secured loan from National to MBIA Corp. (National Secured Loan). While National has a perfected interest in the assets pledged to secure the loan and the Company expects that National will be repaid in full from the assets pledged to secure the loan, an MBIA Corp. Proceeding could result in challenges to National s ability to collect amounts due under the loan and in a delay in National s ability to realize on the collateral securing the loan. Impairment of the National Secured Loan could materially adversely affect National s capital position and results of operations, its ratings, its plan to re-enter the municipal bond insurance business;

An MBIA Corp. Proceeding may impose unplanned costs on MBIA Inc. In addition, MBIA Corp. would be subject to significant additional expenses arising from the appointment of a rehabilitator or liquidator, as receiver, and payment of the fees and expenses of the advisors to such rehabilitator or liquidator; and

While MBIA Inc. s senior note indentures were amended in November 2012 such that an MBIA Corp. Proceeding would not constitute an event of default, Bank of America has initiated pending litigation regarding the validity of those amendments, and there can be no assurance that the validity of those amendments would be upheld. If the amendments were to be overturned, MBIA Inc. s senior debt may be accelerated if an MBIA Corp. Proceeding were to occur.

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

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

Management believes that MBIA Inc. has sufficient liquidity resources to meet all of its obligations for the foreseeable future. However, MBIA Inc. may not have sufficient liquidity to make all payments due on its liabilities and to meet other financial requirements, such as posting collateral, primarily as a result of invested asset performance and a potential inadequacy of dividends from its principal operating subsidiaries. In order to meet liquidity requirements, MBIA Inc. may finance unencumbered assets through intercompany or third-party facilities, in some cases with NYSDFS approval, or use free cash or other assets, although there can be no assurance that these strategies will be available or adequate. A failure by MBIA Inc. to settle liabilities that are also insured by MBIA Corp. could result in claims on MBIA Corp.

Incurred losses from insured RMBS have declined from their peaks. However, due to the large percentage of ineligible mortgage loans included within the MBIA Corp. insured second-lien portfolio, performance remains difficult to predict and losses could ultimately be in excess of MBIA Corp. s current estimated loss reserves. In addition, MBIA Corp. s efforts to recover losses from second-lien RMBS originators, including but not limited to Bank of America, could be delayed, settled at amounts below its contractual claims or potentially settled at amounts below those recorded in its financial statements. Refer to Note 6: Loss and Loss Adjustment Expense Reserves for information about MBIA Corp. s RMBS reserves and recoveries.

Further economic stress might cause increases in MBIA Corp. s loss estimates on its remaining exposure, particularly within its higher risk structured CMBS pool and ABS CDO exposures. As of December 31, 2012, MBIA Corp. s CMBS pool gross par outstanding, including exposure held by Bank of America, and ABS CDO gross par outstanding was approximately $15.6 billion and $4.3 billion, respectively. The Company s primary strategy for managing its CMBS pool and ABS CDO exposures has been commutations. Consistent with this strategy, in the fourth quarter of 2012, MBIA Corp. agreed with a CDS counterparty on a commutation of certain potentially volatile policies insuring ABS CDO, structured CMBS pools and CRE CDO transactions. The agreement was subject to the approval by the NYSDFS of a request to draw on the National Secured Loan in order to finance the commutation, as well as the receipt by MBIA Corp. of confirmation from the NYSDFS of its non-disapproval of the commutation. MBIA Corp. requested the NYSDFS to confirm its non-disapproval of the commutation and for approval of a loan under the National Secured Loan or for approval of an alternative financing structure to finance the commutation. Subsequent to December 31, 2012, those requests were denied. The Company s ability to commute insured transactions is limited by available liquidity, including the availability of intercompany loans under the National Secured Loan and the use of other available financing structures and liquidity, all of which could be subject to regulatory approval by the NYSDFS. There can be no assurance that the Company will be able to fund further commutations by borrowing from National or otherwise. Refer to Note 6: Loss and Loss Adjustment Expense Reserves for information about the Company s estimate of losses on its exposures.

As of December 31, 2012, MBIA Corp. was not in compliance with a requirement under New York Insurance Law (NYIL) to hold qualifying assets in an amount at least equal to its insurance liabilities. In order to be in compliance, MBIA Corp. has requested approval from the NYSDFS to release a portion of its contingency reserves but, to date, has not received approval. In addition, as of September 30, 2012 and December 31, 2012, MBIA Corp. exceeded its aggregate risk limits under NYIL. MBIA Corp. has filed a formal notification with the NYSDFS regarding the overage and submitted a plan to achieve compliance with its limits. While the NYSDFS has not taken action against MBIA Corp., the NYSDFS may restrict MBIA Corp. from making commutation or other payments or may impose other remedial actions for failing to meet these requirements.

Litigation over the NYSDFS approval of National s creation or additional hurdles to achieving high stable ratings may continue to impede National s ability to resume writing municipal bond insurance, reducing its long-term ability to generate capital and cash from operations. An adverse result in the litigation could result in a cessation of National s ability to write new business and a material adverse effect on National and the Company.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

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

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

Note 2: Significant Accounting Policies

Basis of Presentation

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

Certain amounts have been reclassified in prior years financial statements to conform to the current presentation. These reclassifications had no impact on total revenues, expenses, assets, liabilities, or shareholders equity for all periods presented.

Consolidation

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

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

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

Statements of Cash Flows

Previously, the Company reported its consolidated statements of cash flows using the indirect method. The indirect method uses accrual accounting information to present the cash flows from operations. Effective January 1, 2012, the Company elected to present its consolidated statements of cash flows using the direct method. The direct method uses actual cash flow information from the Company s operations, rather than using accrual accounting values. Using either the direct or indirect method, total cash flows from operations are consistent. In addition, the presentation of cash flows from investing and financing activities using either the direct or indirect method are consistent. The change to the direct method for calculating and presenting cash flows from operations was implemented retroactively for all statements of cash flows presented herein. Use of the direct method requires a reconciliation of net income to cash flows from operations. This reconciliation is provided as a supplement directly beneath the statements of cash flows.

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 2: Significant Accounting Policies (continued)

Investments

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

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

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

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

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

Fixed-Maturity Securities Held at Fair Value

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

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

Other-Than-Temporary Impairments on Investment Securities

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

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 2: Significant Accounting Policies (continued)

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

Cash, Cash Equivalents and Collateral

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

Under certain non-insurance derivative contracts entered into by the Company, collateral postings are required by either MBIA or the counterparty when the aggregate market value of derivative contracts entered into with the same counterparty exceeds a predefined threshold. Securities pledged in connection with these derivative contracts may not be repledged by the counterparty. The Company reports cash received or posted in its consolidated statements of cash flows as operating, investing or financing, consistent with the classification of the asset or liability that created the posting requirement.

Acquisition Costs

The Company capitalizes and defers acquisition costs that are directly related to the successful acquisition of new or renewal business. Acquisition costs are costs to acquire an insurance contract which result directly from and is essential to the insurance contracts transaction and would not have been incurred by the Company had the contract transaction not occurred. For business produced directly by National or MBIA Corp., such costs include compensation of employees involved in underwriting and deferred issuance functions, certain rating agency fees, state premium taxes and certain other underwriting expenses, reduced by ceding commission income on premiums ceded to reinsurers. Acquisition costs also include ceding commissions paid by the Company in connection with assuming business from other financial guarantors. Acquisition costs, net of ceding commissions received, related to non-derivative insured financial guarantee transactions are deferred and amortized over the period in which the related premiums are earned. Acquisition costs related to insured derivative transactions are expensed as incurred. See Note 3: Recent Accounting Pronouncements for a discussion on the adoption of the new accounting standard on acquisition costs.

Property and Equipment

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

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

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 2: Significant Accounting Policies (continued)

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

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

Derivatives

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

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

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

If circumstances or events arise that require the termination and settlement of a derivative contract prior to maturity, any resulting gain or loss will be recognized immediately in earnings. For qualifying fair value hedges, if the hedge relationship is terminated, the derivative fair value adjustment is reported as part of the basis of the hedged item and is amortized to earnings as a yield adjustment. If the underlying hedged item of a hedge relationship ceases to exist, all changes in the fair value of the derivative are recognized in earnings each period until the derivative matures or terminates. The Company terminated all of its remaining fair value hedges during 2012.

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

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

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

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 2: Significant Accounting Policies (continued)

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

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

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

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

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

Approximately 91% of the Company s financial guarantee contracts qualify for the scope exception defined above and, therefore, are accounted for as financial guarantee insurance contracts. The remaining contracts do not meet the scope exception, primarily because the guaranteed party is not exposed to the risk of nonpayment both at inception of the financial guarantee contract and throughout its term. These contracts are accounted for as derivatives and reported on the Company s balance sheets as either assets or liabilities, depending on the rights or obligations under the contract, at fair value. The Company refers to these contracts as insured CDS contracts. Insured CDS contracts are not designated as hedges and changes in the fair value are reflected in the consolidated statements of operations as Unrealized gains (losses) on insured derivatives .

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

Refer to Note 9: Derivative Instruments for a further discussion of the Company s use of derivatives and their impact on the Company s consolidated financial statements and Note 7: Fair Value of Financial Instruments for derivative valuation techniques and fair value disclosures.

Offsetting of Fair Value Amounts Related to Derivative Instruments

The Company has a policy of presenting the fair value amounts recognized for eligible derivative contracts executed with the same counterparty on a net basis in the consolidated balance sheets. Accrued receivables and accrued payables which meet the offsetting criteria are netted, separately from the derivative values, in other assets/other liabilities. Cash collateral is offset against amounts recognized as derivative liabilities and the related accrued interest for eligible derivative contracts. Refer to Note 9: Derivative Instruments for the impact of netting eligible derivative contracts executed with the same counterparty on the consolidated balance sheets.

Fair Value Measurements Definition and Hierarchy

In determining fair value, the Company uses various valuation approaches, including both market and income approaches. The accounting guidance for fair value measurement establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available and reliable. Observable inputs are those the Company believes that market participants would use in pricing the asset or liability developed based on market data.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 2: Significant Accounting Policies (continued)

Unobservable inputs are those that reflect the Company s beliefs about the assumptions market participants would use in pricing the asset or liability developed based on the best information available. The hierarchy is broken down into three levels based on the observability and reliability of inputs as follows:

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

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

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

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

transactions are frequent and observable;

prices in the market are current;

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

sufficient information relevant to valuation is publicly available.

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

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

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 2: Significant Accounting Policies (continued)

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

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

Loss and Loss Adjustment Expenses

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

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

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

Investment Agreements and Medium-Term Notes

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

Securities Sold Under Agreements to Repurchase

Securities sold under agreements to repurchase represent collateralized transactions and are carried on the Company s consolidated balance sheets at their contractual amounts plus accrued interest. Securities pledged as part of repurchase agreements may be repledged by the counterparty of the contract or by MBIA.

Financial Guarantee Insurance Premiums

Unearned Premium Revenue and Receivable for Future Premiums

The Company recognizes a liability for unearned premium revenue at the inception of financial guarantee insurance and reinsurance contracts on a contract-by-contract basis. Unearned premium revenue recognized at inception of a contract is measured at the present value of the premium due. For most financial guarantee insurance contracts, the Company receives the entire premium due at the inception of the contract, and recognizes unearned premium revenue liability at that time. For certain other financial guarantee contracts, the Company receives premiums in installments over the term of the contract. Unearned premium revenue and a receivable for future premiums are recognized at the inception of an installment contract, and measured at the present value of premiums expected to be collected over the contract period or expected period using a risk-free discount rate. The expected period is used in the present value determination of unearned premium revenue and receivable for future premiums for contracts where (a) the insured obligation is contractually prepayable, (b) prepayments are probable, (c) the amount and timing of prepayments are reasonably estimable, and (d) a homogenous pool of assets is the underlying collateral for the insured obligation.

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 2: Significant Accounting Policies (continued)

The Company has determined that substantially all of its installment contracts meet the conditions required to be treated as expected period contracts. The receivable for future premiums is reduced as installment premiums are collected. The Company reports the accretion of the discount on installment premiums receivable as premium revenue and discloses the amount recognized in Note 5: Insurance Premiums. The Company assesses the receivable for future premiums for collectability each reporting period, adjusts the receivable for uncollectible amounts and recognizes any write-off as operating expense, and discloses the amount recognized in Note 5: Insurance Premiums. As premium revenue is recognized, the unearned premium revenue liability is reduced.

Premium Revenue Recognition

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

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

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

Fee and Reimbursement Revenue Recognition

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

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

Stock-Based Compensation

The Company recognizes in earnings all stock-based payment transactions at the fair value of the stock-based compensation provided. Under the modified prospective transition method selected by the Company, all equity-based awards granted to employees and existing awards modified on or after January 1, 2003 are accounted for at fair value with compensation expense recorded in net income. Refer to Note 16: Long-term Incentive Plans for a further discussion regarding the methodology utilized in recognizing employee stock compensation expense.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 2: Significant Accounting Policies (continued)

Foreign Currency Translation

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

Income Taxes

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

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

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

Refer to Note 11: Income Taxes for additional information about the Company s income taxes.

Note 3: Recent Accounting Pronouncements

Recently Adopted Accounting Standards

Presentation of Comprehensive Income (ASU 2011-05)

In June 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2011-05, Comprehensive Income (Topic 220) Presentation of Comprehensive Income. This ASU amends the presentation of total comprehensive income, and requires the components of net income, and the components of other comprehensive income to be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The amendment does not change what currently constitutes net income and other comprehensive income. The Company elected the two-statement approach that required the presentation of the components of net income and total net income in the statement of operations, and the presentation in a statement immediately following of the components of other comprehensive income, a total for other comprehensive income, and a total for comprehensive income.

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 3: Recent Accounting Pronouncements (continued)

The new guidance was effective for the Company beginning January 1, 2012. In December 2011, the FASB issued ASU 2011-12 Comprehensive Income (Topic 220) Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05, which defers certain aspects of ASU 2011-05 related to the presentation of reclassification adjustments. The Company adopted this standard effective January 1, 2012. The standard only affected the Company s presentation of comprehensive income and did not affect the Company s consolidated balance sheets, results of operations, or cash flows.

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

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

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

In October 2010, the FASB issued ASU 2010-26, Financial Services Insurance (Topic 944) Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts. This amendment specifies which costs incurred in the acquisition of new and renewal insurance contracts should be capitalized. The Company adopted this standard on a prospective basis effective January 1, 2012. As the Company is currently not writing any significant new business, the adoption of this standard did not have a material effect on the Company s consolidated balance sheets, results of operations, or cash flows. The difference between the amount of acquisition costs capitalized during 2012 compared with the amount of acquisition costs that would have been capitalized during the period if the Company s previous policy had been applied during that period is not material because the Company did not write any significant new insurance business during 2012.

Recent Accounting Developments

Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income (ASU 2013-02)

In February 2013, the FASB issued ASU 2013-02, Comprehensive Income (Topic 220) Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income that requires an entity to present information about the amounts reclassified out of accumulated other comprehensive income by component and to present significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income. The amendments will only affect the Company s disclosures and will not affect the consolidated balance sheets, results of operations, or cash flows. This update is effective for interim and annual periods beginning January 1, 2013 and is applied on a prospective basis.

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

In December 2011, the FASB issued ASU 2011-11, Balance Sheet (Topic 210) Disclosures about Offsetting Assets and Liabilities. ASU 2011-11 creates new disclosure requirements about the nature of the Company s rights of setoff and related arrangements associated with its financial instruments and derivative instruments. This amendment does not change the existing offsetting eligibility criteria or the permitted balance sheet presentation for those instruments that meet the eligibility criteria. The disclosure requirements are effective for the Company beginning in the first quarter of 2013. In January 2013, the FASB issued ASU 2013-01, Balance Sheet (Topic 210) Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities. ASU 2013-01 clarifies that ASU 2011-11 applies only to derivatives, repurchase agreements and reverse repurchase agreements, and securities borrowing and securities lending transactions that are either offset in accordance with specific criteria contained in the FASB Accounting Standards Codification or subject to a master netting arrangement or similar agreement. These standards will only affect the Company s disclosures and will not affect the Company s consolidated balance sheets, results of operations, or cash flows.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 4: Variable Interest Entities

Structured Finance and International Insurance

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

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

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

Wind-down Operations

In its asset/liability products segment, the Company invests in obligations issued by issuer-sponsored SPEs which are included in fixed-maturity securities held as AFS. The Company evaluates issuer-sponsored SPEs to determine if the entity is a VIE. For all entities determined to be VIEs, the Company evaluates whether its investment is determined to have both of the characteristics of a controlling financial interest in the VIE. The Company performs an ongoing reassessment of controlling financial interests in issuer-sponsored VIEs based on investments held. MBIA s wind-down operations do not have a controlling financial interest in any issuer-sponsored VIEs and are not the primary beneficiary of any issuer-sponsored VIEs.

In the conduit segment, the Company has managed and administered two conduits that invested primarily in debt securities and were funded through the issuance of VIE notes and long-term debt. MBIA Corp. insures the debt obligations of the conduits, and provides credit protection on certain assets held by the conduits. The conduits are VIEs and are consolidated by the Company as primary beneficiary. In 2012, all debt securities held by one of the conduits were entirely repaid, and the proceeds were used to repay all outstanding long-term debt of this conduit. The Company subsequently dissolved this conduit, and no longer provides any related credit protection.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 4: Variable Interest Entities (continued)

Nonconsolidated VIEs

The following tables present the total assets of nonconsolidated VIEs in which the Company holds a variable interest as of December 31, 2012 and 2011. The following tables also present the Company s maximum exposure to loss for nonconsolidated VIEs and carrying values of the assets and liabilities for its interests in these VIEs as of December 31, 2012 and 2011. The Company has aggregated nonconsolidated VIEs based on the underlying credit exposure of the insured obligation. The nature of the Company s variable interests in nonconsolidated VIEs is related to financial guarantees, insured CDS contracts and any investments in obligations issued by nonconsolidated VIEs.

			December 31, 2012					
			Carrying Value of Assets			Carrying Value of Liabilities		
In millions	VIE Assets	Maximum Exposure to Loss	Investments(1)	Premiums Receivable(2)	Insurance Loss Recoverable(3)	Unearned Premium Revenue(4)	Loss and Loss Adjustment Expense Reserves(5)	Derivative Liabilities(6)
Insurance:								
Global structured finance:								
Collateralized debt obligations	$ 16,925	$ 10,873	$	$ 62	$ 5	$ 55	$ 37	$ 74
Mortgage-backed residential	34,061	13,075	11	77	3,278	75	440	4
Mortgage-backed commercial	4,801	2,432		2		2		
Consumer asset-backed	5,820	3,086	10	19		19	21	
Corporate asset-backed	19,980	9,981		123	13	140		
Total global structured finance	81,587	39,447	21	283	3,296	291	498	78
Global public finance	39,259	21,346		220		267	4	
Total insurance	$ 120,846	$ 60,793	$ 21	$ 503	$ 3,296	$ 558	$ 502	$ 78

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

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

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

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

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

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

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 4: Variable Interest Entities (continued)

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

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

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

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

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

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

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

The maximum exposure to loss as a result of MBIA s variable interests in VIEs is represented by insurance in force. Insurance in force is the maximum future payments of principal and interest, net of cessions to reinsurers, which may be required under commitments to make payments on insured obligations issued by nonconsolidated VIEs.

Consolidated VIEs

The carrying amounts of assets and liabilities of consolidated VIEs were $8.3 billion and $7.3 billion, respectively, as of December 31, 2012, and $10.9 billion and $9.9 billion, respectively, as of December 31, 2011. The carrying amounts of assets and liabilities are presented separately in Assets of consolidated variable interest entities and Liabilities of consolidated variable interest entities on the Company s consolidated balance sheets. Additional VIEs are consolidated or deconsolidated based on an ongoing reassessment of controlling financial interest, when events occur or circumstances arise, and whether the ability to exercise rights that constitute power to direct activities of any VIEs are present according to the design and characteristics of these entities. No additional VIEs were consolidated during the year ended December 31, 2012. Net realized losses related to the initial consolidation of additional VIEs were $16 million and $76 million for the years ended December 31, 2011 and 2010, respectively. No gains or losses were recognized on the VIEs that were deconsolidated during the year ended December 31, 2012 and net realized gains related to the deconsolidation of VIEs were $271 million for the year ended December 31, 2011 and were immaterial for the year ended December 31, 2010.

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

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 5: Insurance Premiums

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

As of December 31, 2012 and 2011, the Company reported premiums receivable of $1.2 billion and $1.4 billion, respectively, primarily related to installment policies for which premiums will be collected over the estimated term of the contracts. Premiums receivable for an installment policy is initially measured at the present value of premiums expected to be collected over the expected period or contract period of the policy using a risk-free discount rate. Premiums receivable for policies that use the expected period of risk due to expected prepayments are adjusted in subsequent measurement periods when prepayment assumptions change using the risk-free discount rate as of the remeasurement date. As of December 31, 2012 and 2011, the weighted average risk-free rate used to discount future installment premiums was 2.6% and 2.8%, respectively, and the weighted average expected collection term of the premiums receivable was 9.13 years as of December 31, 2012 and 2011.

The Company evaluates whether any premiums receivable are uncollectible at each balance sheet date. If the Company determines that premiums are uncollectible, it records a write-off of such amounts in current earnings. The majority of the Company s premiums receivable consists of the present values of future installment premiums that are not yet billed or due primarily from structured finance transactions. Given that premiums due to MBIA typically have priority over most other payment obligations of structured finance transactions, the Company determined that the amount of uncollectible premiums as of December 31, 2012 and 2011 was insignificant.

As of December 31, 2012 and 2011, the Company reported reinsurance premiums payable of $59 million and $64 million, respectively, which represents the portion of the Company s premiums receivable that is due to reinsurers. The reinsurance premiums payable is accreted and paid to reinsurers as premiums due to MBIA are accreted and collected.

The following tables present a roll forward of the Company s premiums receivable for the years ended December 31, 2012 and 2011:

In millions			Adjustments				
Premiums Receivable as of December 31, 2011	Premium Payments Received	Premiums from New Business Written	Changes in Expected Term of Policies	Accretion of Premiums Receivable Discount	Other (1)	Premiums Receivable as of December 31, 2012	Reinsurance Premiums Payable as of December 31, 2012
$ 1,360	$ (182)	$ 5	$ (57)	$ 32	$ 70	$ 1,228	$ 59

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

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

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

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 5: Insurance Premiums (continued)

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

In millions	Expected Collection of Premiums
Three months ended:	
March 31, 2013	$ 30
June 30, 2013	43
September 30, 2013	30
December 31, 2013	36
Twelve months ended:	
December 31, 2014	125
December 31, 2015	117
December 31, 2016	109
December 31, 2017	99
Five years ended:	
December 31, 2022	378
December 31, 2027	264
December 31, 2032 and thereafter	303
Total	$ 1,534

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

		Expected Future Premium Earnings			
In millions	Unearned Premium Revenue	Upfront	Installments	Accretion	Total Expected Future Premium Earnings
December 31, 2012	$ 2,938			.	
Three months ended:					
March 31, 2013	2,860	$ 46	$ 32	$ 7	$ 85
June 30, 2013	2,783	46	31	7	84
September 30, 2013	2,709	44	30	7	81
December 31, 2013	2,637	42	30	7	79
Twelve months ended:					
December 31, 2014	2,368	159	110	27	296
December 31, 2015	2,123	143	102	25	270
December 31, 2016	1,898	130	95	23	248

December 31, 2017	1,693	120	85	21	226
Five years ended:					
December 31, 2022	915	456	322	83	861
December 31, 2027	442	268	205	50	523
December 31, 2032 and thereafter		234	208	51	493
Total		$ 1,688	$ 1,250	$ 308	$ 3,246

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 6: Loss and Loss Adjustment Expense Reserves

Loss and Loss Adjustment Expense Process

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

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

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

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

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

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

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

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

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

In establishing case basis loss reserves, the Company calculates the present value of probability-weighted estimated loss payments, net of estimated recoveries, using a discount rate equal to the risk-free rate applicable to the currency and the weighted average remaining life of the insurance contract as required by accounting principles for financial guarantee contracts. Yields on U.S. Treasury offerings are used to discount loss reserves denominated in U.S. dollars, which represent the majority of the loss reserves. Similarly, yields on foreign government offerings are used to discount loss reserves denominated in currencies other than the U.S. dollar. If the Company were to apply different discount rates, its case basis reserves may have been higher or lower than those established as of December 31, 2012. For example, a higher discount rate applied to expected future payments would have decreased the amount of a case basis reserve established by the Company and a lower rate would have increased the amount of a reserve established by the Company. Similarly, a higher discount rate applied to the potential future recoveries would have decreased the amount of a loss recoverable established by the Company and a lower rate would have increased the amount of a loss recoverable established by the Company.

As of December 31, 2012, the majority of the Company s case basis reserves and insurance loss recoveries recorded in accordance with GAAP were related to insured second-lien and first-lien RMBS transactions. These reserves and recoveries do not include estimates for policies insuring credit derivatives. Policies insuring credit derivative contracts are accounted for as derivatives and carried at fair value under GAAP. The fair values of insured derivative contracts are influenced by a variety of market and transaction-specific factors that may be unrelated to potential future claim payments under the Company s insurance policies. In the absence of credit impairments on insured derivative contracts or the early termination of such contracts at a loss, the cumulative unrealized losses recorded from fair valuing these contracts should reverse before or at the maturity of the contracts.

Notwithstanding the difference in accounting under GAAP for financial guarantee policies and the Company s insured derivatives, insured derivatives have similar terms, conditions, risks, and economic profiles to financial guarantee insurance policies, and, therefore, are evaluated by the Company for loss (referred to as credit impairment herein) and LAE periodically in a manner similar to the way that loss and LAE reserves are estimated for financial guarantee insurance policies. Credit impairments represent actual payments and collections plus the present value of estimated expected future claim payments, net of recoveries. MBIA Insurance Corporation s expected future claim payments for insured derivatives were discounted using a rate of 5.72%, the same rate it used to calculate its statutory loss reserves as of December 31, 2012. These credit impairments, calculated in accordance with statutory accounting principles (U.S. STAT), differ from the fair values recorded in the Company s consolidated financial statements. The Company considers its credit impairment estimates as critical information for investors as it provides information about loss payments the Company expects to make on insured derivative contracts. As a result, the following loss and LAE process discussion includes information about loss and LAE activity recorded in accordance with GAAP for financial guarantee insurance policies and credit impairments estimated in accordance with U.S. STAT for insured derivative contracts. Refer to Note 7: Fair Value of Financial Instruments included herein for additional information about the Company s insured credit derivative contracts.

RMBS Case Basis Reserves and Recoveries (Financial Guarantees)

The Company s RMBS reserves and recoveries relate to financial guarantee insurance policies. The Company calculated RMBS case basis reserves as of December 31, 2012 for both second-lien and first-lien RMBS transactions using a process called the Roll Rate Methodology. The Roll Rate Methodology is a multi-step process using a database of loan level information, a proprietary internal cash flow model, and a commercially available model to estimate expected ultimate cumulative losses on insured bonds. Roll Rate is defined as the probability that current loans become delinquent and that loans in the delinquent pipeline are charged-off or liquidated. Generally, Roll Rates are calculated for the previous three months and averaged. The loss reserve estimates are based on a probability-weighted average of three scenarios of loan losses (base case, stress case, and an additional stress case).

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

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

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

Second-lien RMBS Reserves

The Company s second-lien RMBS case basis reserves as of December 31, 2012 relate to RMBS backed by home equity lines of credit (HELOC) and closed-end second mortgages (CES).

The Roll Rates for 30-59 day delinquent loans and 60-89 day delinquent loans are calculated on a transaction-specific basis. The Company assumes that the Roll Rate for 90+ day delinquent loans, excluding foreclosures and Real Estate Owned (REO) is 95%. The Roll Rates are applied to the amounts in the respective delinquency buckets based on delinquencies as of November 30, 2012 to estimate future losses from loans that are delinquent as of the current reporting period.

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

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

The Company monitors portfolio performance on a monthly basis against projected performance, reviewing delinquencies, Roll Rates, and prepayment rates (including voluntary and involuntary). However, given the large percentage of mortgage loans that were not underwritten by the sellers/servicers in accordance with applicable underwriting guidelines, performance remains difficult to predict and losses may exceed expectations. In the event of a material deviation in actual performance from projected performance, the Company would increase or decrease the case basis reserves accordingly. If actual performance were to remain at the peak levels the Company is modeling for six months longer than in the probability-weighted outcome, the addition to the Company s second-lien RMBS case basis reserves before considering potential recoveries would be approximately $110 million.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

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

Second-lien RMBS Recoveries

As of December 31, 2012, the Company recorded estimated recoveries of $3.6 billion, gross of income taxes, related to second-lien RMBS put-back claims on ineligible mortgage loans, consisting of $2.5 billion included in Insurance loss recoverable and $1.1 billion included in Loan repurchase commitments presented under the heading Assets of consolidated variable interest entities on the Company s consolidated balance sheets. As of December 31, 2012 and 2011, the Company s estimated recoveries after income taxes calculated at the federal statutory rate of 35%, were $2.3 billion and $2.0 billion, respectively, which was 73% and 119% of the consolidated total shareholders equity of MBIA, excluding preferred stock of subsidiaries and noncontrolling interests. These estimated recoveries relate to the Company s put-back claims of ineligible mortgage loans, which have been disputed by the loan sellers/servicers and are currently subject to litigation initiated by the Company to pursue recoveries. While the Company believes that it will prevail in enforcing its contractual rights, there is uncertainty with respect to the ultimate outcome. Furthermore, there is a risk that sellers/servicers or other responsible parties might not be able to satisfy their put-back obligations. Such risks are contemplated in the scenarios the Company utilizes to calculate recoveries.

The Company assesses the financial abilities of the sellers/servicers using external credit ratings and other factors. The impact of such factors on cash flows related to expected recoveries is incorporated into the Company s probability-weighted scenarios. Accordingly, the Company has not recognized any recoveries related to its IndyMac Bank, F.S.B. insured exposures and has subsequent to the Residential Capital, LLC (ResCap) bankruptcy filing reviewed the indicative scenarios and related probabilities assigned to each scenario to develop a distribution of possible outcomes. The Company s expected recoveries may be discounted in the future based on additional reviews of the creditworthiness of other sellers/servicers.

As of December 31, 2011, the Company utilized five probability-weighted scenarios primarily based on the percentage of incurred losses for all sellers/servicers where estimated recoveries of ineligible mortgage loans were recorded.

On May 14, 2012, ResCap, and its wholly-owned subsidiary companies, Residential Funding Company, LLC (RFC) and GMAC Mortgage, LLC (GMAC), each filed for bankruptcy protection under Chapter 11 of the United States Bankruptcy Code. The Company believes that the claims against RFC and GMAC are stronger and better defined than most other unsecured creditor claims due to the following reasons:

- the direct contractual relationship between MBIA, GMAC and RFC related to the Company s second-lien RMBS put-back claims on ineligible mortgage loans that were improperly included in the MBIA-insured transactions;
- MBIA s legal claims against RFC and GMAC based on breach of contract and fraud have withstood motions to dismiss; and
- expert reports submitted in the RFC litigation which established a substantial breach rate in MBIA insured securitizations, and MBIA s damages as a result thereof.

The Company has now modeled scenario-based recoveries which are founded upon the strength of these claims as well as a range of estimated assets available to unsecured creditors of the ResCap companies. As of December 31, 2012, the auction of the servicing platform and specific loans of the ResCap bankruptcy estate have concluded. However, an actual distribution of proceeds will not occur until a plan detailing the distribution of assets has been approved by the bankruptcy court. Consequently, the outcomes utilized by the Company continue to be based upon information that was available to the Company as of the filing date.

As of December 31, 2012, the Company continues to maintain the same probability-weighted scenarios for its non-GMAC and non-RFC exposures (non-ResCap exposures), which are primarily based on the percentage of incurred losses the Company would collect. The non-ResCap recovery estimates incorporate five scenarios that include full recovery of its incurred losses and limited/reduced recoveries due to litigation delays and risks and/or potential financial distress of the sellers/servicers. Probabilities were assigned across these scenarios, with most of the probability weight on partial recovery scenarios. The sum of the probabilities assigned to all scenarios is 100%.

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

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

Expected cash inflows from recoveries are discounted using the current risk-free discount rates associated with the underlying transaction s cash flows, which ranged from 0.9% to 1.7%, depending upon the transaction s expected average life, which ranged from 5.6 years to 10.2 years. However, based on the Company s assessment of the strength of its contract claims, the Company believes it is entitled to collect and/or assert a claim for the full amount of its incurred losses on these transactions, which totaled $5.1 billion through December 31, 2012. The Company is entitled to collect interest on amounts paid.

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

To date, sellers/servicers have not substituted loans which MBIA has put-back, and the amount of loans repurchased has been insignificant. The unsatisfactory resolution of these put-backs led MBIA to initiate litigation against six of the sellers/servicers to enforce their obligations. The Company has alleged several causes of action in its complaints, including breach of contract, fraudulent inducement and indemnification. MBIA s aggregate $3.6 billion of estimated potential recoveries do not include damages from causes of action other than breach of contract. Irrespective of amounts recorded in its financial statements, MBIA is seeking to recover and/or assert claims for the full amount of its incurred losses and other damages on these transactions. MBIA has not collected any material amounts of cash related to these recoveries. Additional information on the status of these litigations can be found in the Recovery Litigation discussion within Note 20: Commitments and Contingencies.

MBIA has initiated litigation against six sellers/servicers (most recent filing was January 11, 2013) related to loan put-backs. MBIA has received five decisions with regard to the respective defendants motions to dismiss the Company s claims. In each instance, the respective court denied the motion, allowing MBIA to proceed on, at minimum, its fraud and breach of contract claims. In December 2011, MBIA reached an agreement with one of the six sellers/servicers with whom it had initiated litigation and that litigation has been dismissed.

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

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

2. the settlement of Assured Guaranty s and Syncora s put-back related claims with Bank of America;

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

4. evidence of ineligible mortgage loan repurchase/substitution by sellers/servicers for put-back requests made by other harmed parties; this factor is further enhanced by (i) Bank of America s disclosure that it has resolved $8.0 billion of repurchase requests in the fourth quarter of 2010; (ii) the Fannie Mae settlements with Ally Bank announced on December 23, 2010 and with Bank of America (which also involved Freddie Mac) announced on December 31, 2010; (iii) the Bank of America $10.3 billion settlement with Fannie Mae announced on January 7, 2013.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

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

The settlement substantially resolves Countrywide repurchase related claims between Bank of America and Fannie Mae, and (iv) the Company s settlement agreements entered into on July 16, 2010 and December 13, 2011 respectively, between MBIA Corp. and sponsors of certain MBIA Corp.-insured mortgage loan securitizations in which the Company received consideration in exchange for a release relating to its representation and warranty claims against the sponsors. These settlements resolved all of MBIA s representation and warranty claims against the sponsors on mutually beneficial terms and in aggregate were slightly more than the recoveries previously recorded by the Company related to these exposures;

5. Assured Guaranty s favorable court ruling of $90 million (plus interest, fees and expenses) regarding Flagstar Bank s pervasive breach of mortgage representations and warranties;

6. the defendants failure to win dismissals of MBIA s put-back litigations discussed above, allowing MBIA to continue to pursue its contract and fraud claims;

7. Countrywide s unsuccessful appeal of its failure to win dismissal of MBIA s fraud claims in the Countrywide litigation, allowing MBIA to pursue its fraud claims;

8. MBIA s successful motion in the Countrywide litigation allowing MBIA to present evidence of liability and damages through the introduction of statistically valid random samples of loans rather than on a loan-by-loan basis and subsequent decisions consistent with that ruling;

9. Bank of America s failure to win dismissal of MBIA s claims for successor liability in the Countrywide litigation, as well as the completion of discovery relating to MBIA s successor liability claims against Bank of America;

10. MBIA s successful motion regarding causation and the right to rescissory damages in the Countrywide litigation, which provides that MBIA is not required to establish a direct causal link between Countrywide s misrepresentations and MBIA s claims payments made pursuant to the insurance policies at issue, and that MBIA may seek damages equal to the amount that it has been and will be required to pay under the relevant policies, less premiums received;

11. Syncora s and Assured Guaranty s successful motions regarding causation in their Federal court put-back litigations with JP Morgan Chase and Flagstar Bank, respectively, which support the ruling on causation in MBIA s litigation against Countrywide; and

12. other loan repurchase reserves and/or settlements which have been publicly disclosed by certain sellers/servicers.

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

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

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

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

First-lien RMBS Reserves

The Company s first-lien RMBS case basis reserves as of December 31, 2012, which primarily relate to RMBS backed by alternative A-paper (Alt-A) and subprime mortgage loans were determined using the Roll Rate Methodology. The Company assumes that the Roll Rate for loans in foreclosure, REO and bankruptcy are 90%, 90% and 75%, respectively. Roll Rates for current, 30-59 day delinquent loans, 60-89 day delinquent loans and 90+ day delinquent loans are calculated on a transaction-specific basis. The Current Roll to Loss rates stay at the November 30, 2012 level for two months before declining to 25% of this level over a 24-month period. Additionally, the Company runs scenarios where the 90+ day roll rate to loss is set at 90%. The Roll Rates are applied to the amounts in the respective delinquency buckets based on delinquencies as of November 30, 2012 to estimate future losses from loans that are delinquent as of the current reporting period.

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

ABS CDOs (Financial Guarantees and Insured Derivatives)

MBIA s insured ABS CDOs are transactions that include a variety of collateral ranging from corporate bonds to structured finance assets (which includes but are not limited to RMBS related collateral, ABS CDOs, corporate CDOs and collateralized loan obligations). These transactions were insured as either financial guarantee insurance policies or credit derivatives with the majority insured in the form of credit derivatives. Since the fourth quarter of 2007, MBIA s insured par exposure within the ABS CDO portfolio has been substantially reduced through a combination of terminations and commutations. Accordingly, as of December 31, 2012, the insured par exposure of the ABS CDO financial guarantee insurance policies and credit derivatives portfolio has declined by approximately 88% of the insured amount as of December 31, 2007.

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

The primary factor in estimating reserves on insured ABS CDO policies written as financial guarantee insurance policies and in estimating impairments on insured ABS CDO credit derivatives is the losses associated with the underlying collateral in the transactions. MBIA s approach to establishing reserves or impairments in this portfolio employs a methodology which is similar to other structured finance asset classes insured by MBIA. The Company uses up to a total of four probability-weighted scenarios in order to estimate its reserves or impairments for ABS CDOs.

As of December 31, 2012, the Company established loss and LAE reserves totaling $143 million related to ABS CDO financial guarantee insurance policies after the elimination of $236 million as a result of consolidating VIEs. For the year ended December 31, 2012, the Company had a benefit of $21 million of losses and LAE recorded in earnings related to ABS CDO financial guarantee insurance policies after the elimination of a $24 million benefit as a result of consolidating VIEs. In the event of further deteriorating performance of the collateral referenced or held in ABS CDO transactions, the amount of losses estimated by the Company could increase materially.

Credit Impairments Related to Structured CMBS Pools, CRE CDOs and CRE Loan Pools (Financial Guarantees and Insured Derivatives)

Most of the structured CMBS pools, CRE CDOs and CRE loan pools insured by MBIA are accounted for as insured credit derivatives and are carried at fair value in the Company s consolidated financial statements. Since the Company s insured credit derivatives have similar terms, conditions, risks, and economic profiles to its financial guarantee insurance policies, the Company evaluates them for impairment in the same way that it estimates loss and LAE for its financial guarantee policies.

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Notes to Consolidated Financial Statements

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

The following discussion provides information about the Company s process for estimating credit impairments on these contracts using its statutory loss reserve methodology, determined as the present value of the probability-weighted potential future losses, net of estimated recoveries, across multiple scenarios, plus actual payments and collections.

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

The first approach considers the range of commutation agreements achieved and agreed to since 2010, which included 66 structured CMBS pools, CRE CDOs and CRE loan pool policies totaling $33.1 billion of gross insured exposure. The Company considers the range of commutations achieved over the past several years with multiple counterparties. This approach results in an estimated price to commute the remaining policies with price estimates, based on this experience. It is customized by counterparty and is dependent on the level of dialogue with the counterparty and the credit quality and payment profile of the underlying exposure.

The second approach considers current delinquency rates and uses current and projected net operating income (NOI) and capitalization rates (Cap Rates) to project losses under two scenarios. Loans are stratified by size with larger loans being valued utilizing lower Cap Rates than for smaller loans. These scenarios also assume that Cap Rates and NOIs remain flat for the near term and then begin to improve gradually. Additionally, in these scenarios, any loan with a balance greater than $75 million with a debt service coverage ratio (DSCR) less than 1.0x or that was reported as being in any stage of delinquency, was reviewed individually so that performance and loss severity could be more accurately determined. Specific loan level assumptions for this large loan subset were then incorporated into these scenarios, as well as specific assumptions regarding certain smaller loans when there appeared to be a material change in the asset s financial or delinquency performance over the preceding six months. As the Company continues to increase the level of granularity in its individual loan assessments, it analyzes and adjusts assumptions for loans with certain mitigating attributes, such as no lifetime delinquency, recent appraisals indicating sufficient value and large capital reserve levels. These scenarios project different levels of additional defaults with respect to loans that are current. This approach makes use of the most recent financial statements available at the property level.

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

The fourth approach is based on a proprietary model developed by reviewing performance data on over 80,000 securitized CRE loans originated between 1992 and 2011. The time period covered during the performance review includes the years 2006 through 2011. The Company believes that these five years represent an appropriate time period in which to conduct a performance review because they encompass a period of extreme stress in the economy and the CRE market.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

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

Based on a review of the data, the Company found property type and the DSCR to be the most significant determinants of a loan s default probability, with other credit characteristics less influential. As a result, the Company developed a model in which the loans were divided into 168 representative cohorts based on their DSCR and property type. For each of these cohorts, the Company calculated the average annual probability of default, and then ran Monte Carlo simulations to estimate the timing of defaults. In addition, the model incorporated the following logic:

- NOI and Cap Rates were assumed to remain at current levels for loans in the Company s classified portfolio, resulting in no modifications or extensions under the model, other than as described in the next bullet point, to reflect the possibility that the U.S. economy and CRE market could experience no growth for the foreseeable future.

- Any valuation estimates obtained by special servicers since a loan s origination as well as the Company s individual large loan level analysis for loans with balances greater than $75 million were incorporated as described in the second approach. However, in the fourth approach no adjustments were made for loans lower than $75 million regardless of any mitigating factors.

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

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

For the year ended December 31, 2012, the Company incurred $46 million of losses and LAE recorded in earnings related to CRE CDO financial guarantee insurance policies. For the year ended December 31, 2012, additional credit impairments and LAE on structured CMBS pools, CRE CDOs and CRE loan pools were estimated to be $852 million as a result of additional delinquencies and loan level liquidations, as well as continued refinements of MBIA s assessment of various commutation possibilities. The majority of the increase relates to a subset of transactions with a single counterparty. The cumulative credit impairments and LAE on structured CMBS pools, CRE CDOs and CRE loan pools were estimated to be $3.6 billion through December 31, 2012. Although the pace of increases in the delinquency rate has slowed and many loans are being modified, liquidations have taken place. Some loans were liquidated with minimal losses of 1% to 2%, others experienced near complete losses, and in some cases severities exceeded 100%. These liquidations have led to losses in the CMBS market, and in many cases, have resulted in reductions of enhancement to the individual CMBS bonds referenced by the insured structured CMBS pools. In certain insured transactions, these losses have resulted in deductible erosion. Bond level enhancement and pool level deductibles are structural features intended to mitigate losses to the Company.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

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

However, some of the transactions reference similar rated subordinate tranches of CMBS bonds. When there are broad-based declines in property performance, this leverage can result in rapid deterioration in pool performance.

Loss and LAE Activity

Financial Guarantee Insurance Losses (Non-Derivative)

The Company s financial guarantee insurance losses and LAE for the year ended December 31, 2012 are presented in the following table:

Losses and LAE

In millions	Year Ended December 31, 2012 Second-lien RMBS	First-lien RMBS	Other[1]	Total
Losses and LAE related to actual and expected payments	$ 220	$ 147	$ 112	$ 479
Recoveries of actual and expected payments	(371)	1	(58)	(428)
Gross losses incurred	(151)	148	54	51
Reinsurance		(1)		(1)
Losses and LAE	$ (151)	$ 147	$ 54	$ 50

(1) Primarily financial guarantee CMBS.

The second-lien RMBS losses and LAE related to actual and expected payments included in the preceding table comprise net increases of previously established reserves. The second-lien RMBS recoveries of actual and expected payments comprise $454 million in recoveries resulting from ineligible mortgage loans included in insured exposures that are subject to contractual obligations by sellers/servicers to repurchase or replace such mortgages, partially offset by an $83 million reduction in excess spread. The first-lien losses and LAE expense primarily resulted from credit deterioration.

The following table provides information about the financial guarantees and related claim liability included in each of MBIA s surveillance categories as of December 31, 2012:

$ in millions	Surveillance Categories Caution List Low	Caution List Medium	Caution List High	Classified List	Total
Number of policies	54	25	10	206	295
Number of issues[1]	29	15	10	136	190
Remaining weighted average contract period (in years)	8.1	4.0	7.6	9.5	8.7

Gross insured contractual payments outstanding[(2)]:					
Principal	$ 4,250	$ 1,176	$ 373	$ 9,458	$ 15,257
Interest	2,721	256	120	5,264	8,361
Total	$ 6,971	$ 1,432	$ 493	$ 14,722	$ 23,618
Gross claim liability	$	$	$	$ 1,589	$ 1,589
Less:					
Gross potential recoveries				4,109	4,109
Discount, net				229	229
Net claim liability (recoverable)	$	$	$	$ (2,749)	$ (2,749)
Unearned premium revenue	$ 142	$ 11	$ 3	$ 122	$ 278

(1) An issue represents the aggregate of financial guarantee policies that share the same revenue source for purposes of making debt service payments.
(2) Represents contractual principal and interest payments due by the issuer of the obligations insured by MBIA.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

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

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

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

(1) An issue represents the aggregate of financial guarantee policies that share the same revenue source for purposes of making debt service payments.
(2) Represents contractual principal and interest payments due by the issuer of the obligations insured by MBIA.

The gross claim liability as of December 31, 2012 and 2011 in the preceding tables represents the Company s estimate of undiscounted probability-weighted future claim payments, which principally relate to insured first-lien and second-lien RMBS transactions and U.S. public finance transactions. The gross potential recoveries represent the Company s estimate of undiscounted probability-weighted recoveries of actual claim payments and recoveries of estimated future claim payments, and principally relate to insured second-lien RMBS transactions. Both amounts reflect the elimination of claim liabilities and potential recoveries related to VIEs consolidated by the Company.

The following table presents the components of the Company s loss and LAE reserves and insurance loss recoverable as reported on the Company s consolidated balance sheets as of December 31, 2012 and 2011 for insured obligations within MBIA s Classified List. The loss reserves (claim liability) and insurance claim loss recoverable included in the following table represent the present value of the probability-weighted future claim payments and recoveries reported in the preceding tables.

	As of December 31,	
In millions	**2012**	**2011**

Loss reserves (claim liability)	$ 790	$ 781
LAE reserves	63	55
Loss and LAE reserves	$ 853	$ 836
Insurance claim loss recoverable	$ (3,610)	$ (3,032)
LAE insurance loss recoverable	(38)	(14)
Insurance loss recoverable	$ (3,648)	$ (3,046)
Reinsurance recoverable on unpaid losses	$ 14	$ 15
Reinsurance recoverable on paid losses	1	1
Reinsurance recoverable on paid and unpaid losses	$ 15	$ 16

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

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

As of December 31, 2012, loss and LAE reserves include $1.2 billion of reserves for expected future payments offset by expected recoveries of such future payments of $332 million. As of December 31, 2011, loss and LAE reserves included $1.4 billion of reserves for expected future payments offset by expected recoveries of such future payments of $562 million. As of December 31, 2012 and 2011, the insurance loss recoverable principally related to estimated recoveries of payments made by the Company resulting from ineligible mortgage loans in certain insured second-lien residential mortgage loan securitizations that are subject to a contractual obligation by the sellers/servicers to repurchase or replace the ineligible mortgage loans and expected future recoveries on second-lien RMBS transactions resulting from expected excess spread generated by performing loans in such transactions. The Company expects to be reimbursed for the majority of its potential recoveries related to ineligible mortgage loans by the second half of 2013.

Total paid losses and LAE, net of reinsurance and collections, for the year ended December 31, 2012 was $631 million, including $421 million related to insured second-lien RMBS transactions. For the year ended December 31, 2012, the increase in insurance loss recoverable related to paid losses totaled $602 million, and principally related to insured second-lien RMBS transactions.

The following table presents the Company s second-lien RMBS exposure, gross undiscounted claim liability and potential recoveries for amounts excluding consolidated VIEs and amounts related to consolidated VIEs, as of December 31, 2012. All insured transactions reviewed with potential recoveries are included within the Classified List.

Second-lien RMBS Exposure		**Outstanding**		**Gross Undiscounted**	
$ in billions	**Issues**	**Gross Principal**	**Gross Interest**	**Claim Liability**	**Potential Recoveries**
Excluding Consolidated VIEs:					
Insured issues designated as Classified List	22	$ 4.0	$ 1.6	$ 0.2	$ 3.5
Insured issues reviewed with potential recoveries	15	$ 3.7	$ 1.5	$ 0.2	$ 3.4
Consolidated VIEs:					
Insured issues designated as Classified List	12	$ 2.2	$ 0.8	$ 0.1	$ 1.4
Insured issues reviewed with potential recoveries	11	$ 2.1	$ 0.8	$ 0.1	$ 1.4

The Company has performed reviews on 29 of the 34 total insured issues designated as Classified List and recorded potential recoveries on 26 of those 29 issues, primarily related to four issuers (Countrywide, RFC, GMAC and Credit Suisse). In addition, the Company has received consideration on two transactions, including one Alt-A transaction, which have been excluded in the preceding table.

The following tables present changes in the Company s loss and LAE reserves for the years ended December 31, 2012 and 2011. Changes in the loss and LAE reserves attributable to the accretion of the claim liability discount, changes in discount rates, changes in the timing and amounts of estimated payments and recoveries, changes in assumptions and changes in LAE reserves are recorded within Losses and loss adjustment expenses in the Company s consolidated statements of operations. As of December 31, 2012 and 2011, the weighted average risk-free rate used to discount the Company s loss reserves (claim liability) was 1.38% and 1.53%, respectively. LAE reserves are expected to be settled within a one-year period and are not discounted.

In millions	**Changes in Loss and LAE Reserves for the Year Ended December 31, 2012**								
Gross Loss and LAE Reserves as of	**Loss Payments for Cases with**	**Accretion of Claim Liability Discount**	**Changes in Discount Rates**	**Changes in Timing of Payments**	**Changes in Amount of Net Payments**	**Changes in Assumptions**	**Changes in Unearned Premium Revenue**	**Changes in LAE Reserves**	**Gross Loss and LAE Reserves as of December 31, 2012**

December 31, 2011	Reserves								
$ 836	$ (395)	$ 11	$ (26)	$ 52	$ 46	$ 319	$ 2	$ 8	$ 853

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

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

The increase in the Company s gross loss and LAE reserves reflected in the preceding table was primarily due to changes in assumptions on insured first-lien and second-lien RMBS issues and changes in timing and the amount of payments. These were offset by decreases in reserves related to loss payments on insured first-lien and second-lien RMBS issues outstanding as of December 31, 2011.

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

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

Current period changes in the Company s estimate of potential recoveries may be recorded as an insurance loss recoverable asset, netted against the gross loss and LAE reserve liability, or both. The following tables present changes in the Company s insurance loss recoverable and changes in recoveries on unpaid losses reported within the Company s claim liability for the years ended December 31, 2012 and 2011. Changes in insurance loss recoverable attributable to the accretion of the discount on the recoverable, changes in discount rates, changes in the timing and amounts of estimated collections, changes in assumptions and changes in LAE recoveries are recorded within Losses and loss adjustment expenses in the Company s consolidated statements of operations.

	Changes in Insurance Loss Recoverable and Recoveries on Unpaid Losses for the Year Ended December 31, 2012								
In millions	**Gross Reserve as of December 31, 2011**	**Collections for Cases with Recoveries**	**Accretion of Recoveries**	**Changes in Discount Rates**	**Changes in Timing of Collections**	**Changes in Amount of Collections**	**Changes in Assumptions**	**Changes in LAE Recoveries**	**Gross Reserve as of December 31, 2012**
Insurance loss recoverable	$ 3,046	$ (13)	$ 32	$ 4	$	$ (145)	$ 700	$ 24	$ 3,648
Recoveries on unpaid losses	562		7	12			(238)	(11)	332
Total	$ 3,608	$ (13)	$ 39	$ 16	$	$ (145)	$ 462	$ 13	$ 3,980

The Company s insurance loss recoverable increased during 2012 primarily due to changes in assumptions associated with issues outstanding as of December 31, 2011, which related to increases in excess spread and ineligible mortgage loans included in insured second-lien residential mortgage securitization exposures that are subject to contractual obligations by sellers/servicers to repurchase or replace such mortgages, partially offset by changes in the amount of collections. Recoveries on unpaid losses decreased primarily due to changes in assumptions as a result of a reduction of excess spread related to first-lien and second-lien RMBS transactions offset by changes in discount rates.

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

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

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

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

The following table presents the Company s total estimated recoveries from ineligible mortgage loans included in certain insured second-lien mortgage loan securitizations as of December 31, 2012. The total estimated recoveries from ineligible mortgage loans of $3.6 billion include $2.5 billion recorded as Insurance loss recoverable and $1.1 billion recorded as Loan repurchase commitments presented under the heading Assets of consolidated variable interest entities on the Company s consolidated balance sheets.

In millions

Total Estimated Recoveries from Ineligible Mortgage Loans as of December 31, 2011	Accretion of Future Collections	Changes in Discount Rates	Recoveries (Collections)	Changes in Amount of Collections	Changes in Assumptions	Total Estimated Recoveries from Ineligible Mortgage Loans as of December 31, 2012
$ 3,119	$ 36	$ 2	$	$	$ 426	$ 3,583

The Company s total estimated recoveries from ineligible mortgage loans in the preceding table increased primarily as a result of the probability-weighted scenarios as described within the preceding Second-lien RMBS Recoveries section.

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

In millions

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

The Company s total estimated recoveries from ineligible mortgage loans in the preceding table increased primarily as a result of the probability-weighted scenarios as described within the preceding Second-lien RMBS Recoveries section.

Remediation actions may involve, among other things, waivers or renegotiations of financial covenants or triggers, waivers of contractual provisions, the granting of consents, transfer of servicing, consideration of restructuring plans, acceleration, security or collateral enforcement, actions in bankruptcy or receivership, litigation and similar actions. The types of remedial actions pursued are based on the insured obligation s risk type and the nature and scope of the event giving rise to the remediation. As part of any such remedial actions, MBIA seeks to improve its security position and to obtain concessions from the issuer of the insured obligation. From time to time, the issuer of an MBIA-insured obligation may, with the consent of MBIA, restructure the insured obligation by extending the term, increasing or decreasing the par amount or decreasing the related interest rate, with MBIA insuring the restructured obligation.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

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

Costs associated with remediating insured obligations assigned to the Company s Caution List Low, Caution List Medium, Caution List High a Classified List are recorded as LAE. LAE is primarily recorded as part of the Company s provision for its loss reserves and included in Losses and loss adjustment on the Company s consolidated statements of operations. The following table presents the gross expenses related to remedial actions for insured obligations:

	Years Ended December 31,		
In millions	**2012**	**2011**	**2010**
Loss adjustment expense incurred, gross	$ 137	$ 120	$ 91

Note 7: Fair Value of Financial Instruments

Fair Value Measurement

Fair value is a market-based measure considered from the perspective of a market participant. Therefore, even when market assumptions are not readily available, the Company s own assumptions are set to reflect those which it believes market participants would use in pricing an asset or liability at the measurement date. The fair value measurements of financial instruments held or issued by the Company are determined through the use of observable market data when available. Market data is obtained from a variety of third-party sources, including dealer quotes. If dealer quotes are not available for an instrument that is infrequently traded, the Company uses alternate valuation methods, including either dealer quotes for similar instruments or modeling using market data inputs. The use of alternate valuation methods generally requires considerable judgment in the application of estimates and assumptions and changes to such estimates and assumptions may produce materially different fair values.

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

Level 1 Valuations based on quoted prices in active markets for identical assets or liabilities that the Company can access. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail any degree of judgment.

Level 2 Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly. Level 2 assets include debt securities with quoted prices that are traded less frequently than exchange-traded instruments, securities which are priced using observable inputs and derivative contracts whose values are determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data.

Level 3 Valuations based on inputs that are unobservable and supported by little or no market activity and that are significant to the overall fair value measurement. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques where significant inputs are unobservable, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

The availability of observable inputs can vary from product to product and period to period and is affected by a wide variety of factors, including, for example, the type of product, whether the product is new and not yet established in the marketplace, and other characteristics particular to the product. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy.

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 7: Fair Value of Financial Instruments (continued)

In such cases, the Company assigns the level in the fair value hierarchy for which the fair value measurement in its entirety falls, based on the least observable input that is significant to the fair value measurement.

1. Financial Assets (excluding derivative assets)

Financial assets, excluding derivative assets, held by the Company primarily consist of investments in debt securities. Substantially all of the Company s investments are priced by independent third parties, including pricing services and brokers. Typically the Company receives one pricing service value or broker quote for each instrument, which represents a non-binding indication of value. The Company reviews the assumptions, inputs and methodologies used by pricing services to obtain reasonable assurance that the prices used in its valuations reflect fair value. When the Company believes a third-party quotation differs significantly from its internally developed expectation of fair value, whether higher or lower, the Company reviews its data or assumptions with the provider. This review includes comparing significant assumptions such as prepayment speeds, default ratios, forward yield curves, credit spreads and other significant quantitative inputs to internal assumptions, and working with the price provider to reconcile the differences. The price provider may subsequently provide an updated price. In the event that the price provider does not update their price, and the Company still does not agree with the price provided, the Company will try to obtain a price from another third-party provider, such as a broker, or use an internally developed price which it believes represents the fair value of the investment. The fair values of investments for which internal prices were used were not significant to the aggregate fair value of the Company s investment portfolio as of December 31, 2012 or 2011. All challenges to third-party prices are reviewed by staff of the Company with relevant expertise to ensure reasonableness of assumptions.

In addition to challenging pricing assumptions, the Company obtains reports from the independent accountants for significant third-party pricing services attesting to the effectiveness of the controls over data provided to the Company. These reports are obtained annually and are reviewed by the Company to ensure key controls are applied by the pricing services, and that appropriate user controls are in place at the third-party pricing services organization to ensure proper measurement of the fair values of its investments. In the event that any controls in these reports are deemed as ineffective by independent accountants, the Company will take the necessary actions to ensure that internal user controls are in place to mitigate the control risks. No deficiencies were noted for significant third-party pricing services used.

2. Financial Liabilities (excluding derivative liabilities)

Financial liabilities, excluding derivative liabilities, issued by the Company primarily consist of investment agreements and MTNs within its wind-down operations, debt issued for general corporate purposes and debt in variable interest entities. Investment agreements, MTNs, and corporate debt are typically recorded at face value adjusted for premiums or discounts. Financial liabilities that the Company has elected to fair value or that require fair value reporting or disclosures are valued based on the estimated value of the underlying collateral, the Company s or a third-party s estimate of discounted cash flow model estimates, or quoted market values for similar products. These valuations include adjustments for expected nonperformance risk of the Company.

3. Derivative Liabilities

The Company s derivative liabilities are primarily insured credit derivatives that reference structured pools of cash securities and CDSs. The Company generally insured the most senior liabilities of such transactions, and at the inception of transactions its exposure generally had more subordination than needed to achieve triple-A ratings from credit rating agencies. The types of collateral underlying its insured derivatives consist of cash securities and CDSs referencing primarily corporate, asset-backed, residential mortgage-backed, commercial mortgage-backed, CRE loans, and CDO securities.

The Company s insured credit derivative contracts are non-traded structured credit derivative transactions. Since insured derivatives are highly customized and there is generally no observable market for these derivatives, the Company estimates their fair values in a hypothetical market based on internal and third-party models simulating what a similar company would charge to assume the Company s position in the transaction at the measurement date.

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 7: Fair Value of Financial Instruments (continued)

This pricing would be based on the expected loss of the exposure. The Company reviews its valuation model results on a quarterly basis to assess the appropriateness of the assumptions and results in light of current market activity and conditions. This review is performed by internal staff with relevant expertise. If live market spreads or securities prices are observable for similar transactions, those spreads are an integral part of the analysis. New insured transactions that resemble existing (previously insured) transactions, if any, would be considered, as well as negotiated settlements of existing transactions.

The Company may from time to time make changes in its valuation techniques if the change results in a measurement that it believes is equally or more representative of fair value under current circumstances.

4. Internal Review Process

All significant financial assets and liabilities, including derivative assets and liabilities, are reviewed by committees created by the Company to ensure compliance with the Company s policies and risk procedures in the development of fair values of financial assets and liabilities. These valuation committees review, among other things, key assumptions used for internally developed prices, significant changes in sources and uses of inputs, including changes in model approaches, and any adjustments from third-party inputs or prices to internally developed inputs or prices. The committees also review any significant impairment or improvements in fair values of the financial instruments from prior periods. From time to time, these committees will reach out to the Company s valuation experts to better understand key methods and assumptions used for the determination of fair value, including understanding significant changes in fair values. These committees are comprised of senior finance team members with the relevant experience in the financial instruments their committee is responsible for. For each quarter, these committees document their agreement with the fair values developed by management of the Company as reported in the quarterly and annual financial statements.

Valuation Techniques

Valuation techniques for financial instruments measured at fair value and included in the tables that follow are described below.

Fixed-Maturity Securities (including short-term investments) Held as Available-For-Sale, Fixed-Maturity Securities at Fair Value, Investments Pledged as Collateral, Investments Held-to-Maturity, and Other Investments

Fixed-maturity securities (including short-term investments) held as AFS, fixed-maturity securities at fair value, investments pledged as collateral, and other investments include investments in U.S. Treasury and government agencies, foreign governments, corporate obligations, MBS and ABS (including CMBS and CDOs), state and municipal bonds and equity securities (including perpetual preferred securities and money market mutual funds).

These investments are generally valued based on recently executed transaction prices or quoted market prices. When quoted market prices are not available, fair value is generally determined using quoted prices of similar investments or a valuation model based on observable and unobservable inputs. Inputs vary depending on the type of investment. Observable inputs include contractual cash flows, interest rate yield curves, CDS spreads, prepayment and volatility scores, diversity scores, cross-currency basis index spreads, and credit spreads for structures similar to the financial instrument in terms of issuer, maturity and seniority. Unobservable inputs include cash flow projections and the value of any credit enhancement.

The fair value of the HTM investments is determined using discounted cash flow models. Key inputs include unobservable cash flows projected over the expected term of the investment discounted using observable interest rate yield curves of similar securities.

Investments based on quoted market prices of identical investments in active markets are classified as Level 1 of the fair value hierarchy. Level 1 investments generally consist of U.S. Treasury and foreign government and agency investments. Quoted market prices of investments in less active markets, as well as investments which are valued based on other than quoted prices for which the inputs are observable, such as interest rate yield curves, are categorized in Level 2 of the fair value hierarchy. Investments that contain significant inputs that are not observable are categorized as Level 3.

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 7: Fair Value of Financial Instruments (continued)

Cash and Cash Equivalents, Receivable for Investments Sold, Net Cash Collateral Pledged to Swap Counterparties and Accrued Investment Income

The carrying amounts of cash and cash equivalents, receivable for investments sold, net cash collateral pledged to swap counterparties and accrued investment income approximate fair values due to the short-term nature and credit worthiness of these instruments.

Loans Receivable at Fair Value

Loans receivable at fair value are comprised of loans held by consolidated VIEs consisting of residential mortgage loans, commercial mortgage loans and other whole business loans. Fair values of residential mortgage loans are determined using quoted prices for MBS issued by the respective VIE and adjustments for the fair values of the financial guarantees provided by MBIA Corp. on the related MBS. Fair values of commercial mortgage loans and other whole business loans are valued based on quoted prices of similar collateralized MBS. Loans receivable at fair value are categorized in Level 3 of the fair value hierarchy.

Loan Repurchase Commitments

Loan repurchase commitments are obligations owed by the sellers/servicers of mortgage loans to either MBIA as reimbursement of paid claims or to the RMBS trusts as defined in the transaction documents. Loan repurchase commitments are assets of the consolidated VIEs. This asset represents the rights of MBIA against the sellers/servicers for breaches of representations and warranties that the securitized residential mortgage loans sold to the trust to comply with stated underwriting guidelines and for the sellers/servicers to cure, replace, or repurchase mortgage loans. Fair value measurements of loan repurchase commitments represent the amounts owed by the sellers/servicers to either MBIA as reimbursement of paid claims or to the RMBS trusts as defined in the transaction documents. Loan repurchase commitments are not securities and no quoted prices or comparable market transaction information are observable or available. Loan repurchase commitments at fair value are categorized in Level 3 of the fair value hierarchy. Fair values of loan repurchase commitments are determined using discounted cash flow techniques based on inputs including:

- breach rates representing the rate at which the sellers/servicers failed to comply with stated representations and warranties;
- recovery rates representing the estimates of future cash flows for the asset, including estimates about possible variations in the amount of cash flows expected to be collected;
- expectations about possible variations in the timing of collections of the cash flows; and
- time value of money, represented by the rate on risk-free monetary assets.

Investment Agreements

The fair values of investment agreements are determined using discounted cash flow techniques based on contractual cash flows and observable interest rates currently being offered for similar agreements with comparable maturity dates. Investment agreements contain collateralization and termination agreements that substantially mitigate the nonperformance risk of the Company. As the terms of the notes are private, and the contract cash flows are not observable, these investment agreements are categorized as Level 3 of the fair value hierarchy.

Medium-Term Notes

The fair values of MTNs are based on quoted market prices provided by third-party sources, where available. When quoted market prices are not available, the Company applies a matrix pricing grid based on the quoted market prices received and the MTNs stated maturity and interest rate to determine fair value. Nonperformance risk is included in the quoted market prices and the matrix pricing grid.

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 7: Fair Value of Financial Instruments (continued)

The Company has elected to record three MTNs at fair value as they contain embedded derivatives which cannot accurately be separated from the host debt instrument and fair valued separately, therefore, these three MTNs are carried at fair value with changes in fair value reflected in earnings. The remaining MTNs, which are not carried at fair value, do not contain embedded derivatives.

As these MTNs are illiquid and the prices reflect significant unobservable inputs, they are categorized as Level 3 of the fair value hierarchy.

Variable Interest Entity Notes

The fair values of VIE notes are determined based on recently executed transaction prices or quoted prices where observable. When position-specific quoted prices are not observable, fair values are based on quoted prices of similar securities. Fair values based on quoted prices of similar securities may be adjusted for factors unique to the securities, including any credit enhancement. When observable quoted prices are not available, fair value is determined based on discounted cash flow techniques of the underlying collateral using observable and unobservable inputs. Observable inputs include interest rate yield curves and bond spreads of similar securities. Unobservable inputs include the value of any credit enhancement. VIE notes are categorized in Level 2 or Level 3 of the fair value hierarchy based on the lowest level input that is significant to the fair value measurement in its entirety.

Long-term Debt

Long-term debt consists of notes, debentures, surplus notes and floating rate liquidity loans. The fair value of long-term notes, debentures and surplus notes are estimated based on quoted prices for the identical or similar securities. The fair value for floating rate liquidity loans are determined using discounted cash flow techniques of the underlying collateral pledged to the specific loans, as these loans are non-recourse and fully backed by a pool of underlying assets. Long-term debt is categorized as Level 2 of the fair value hierarchy.

Derivatives Asset/Liability Products

The asset/liability products business has entered into derivative transactions primarily consisting of interest rate swaps, cross currency swaps, and CDS contracts. Fair values of OTC derivatives are determined using valuation models based on observable inputs, nonperformance risk of the Company s own credit and nonperformance risk of the counterparties. Observable and market-based inputs include interest rate yields, credit spreads and volatilities. These derivatives are categorized in Level 2 or Level 3 of the fair value hierarchy based on the input that is significant to the fair value measurement in its entirety.

The Company has policies and procedures in place regarding counterparties, including review and approval of the counterparty and the Company s exposure limit, collateral posting requirements, collateral monitoring and margin calls on collateral. The Company manages counterparty credit risk on an individual counterparty basis through master netting arrangements covering derivative transactions in the asset/liability products and corporate segments. These agreements allow the Company to contractually net amounts due from a counterparty with those amounts due to such counterparty when certain triggering events occur. The Company only executes swaps under master netting agreements, which typically contain mutual credit downgrade provisions that generally provide the ability to require assignment or termination in the event either the Company or the counterparty is downgraded below a specified credit rating. The netting agreements minimize the potential for losses related to credit exposure and thus serve to mitigate the Company s nonperformance risk under these derivatives.

In certain cases, the Company also manages credit risk through collateral agreements that give the Company the right to hold or the obligation to provide collateral when the current market value of derivative contracts exceeds an exposure threshold. Under these arrangements, the Company may provide U.S. Treasury and other highly rated securities or cash to secure the derivative. The delivery of high-quality collateral can minimize credit exposure and mitigate the potential for nonperformance risk impacting the fair values of the derivatives.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 7: Fair Value of Financial Instruments (continued)

Derivatives Insurance

The derivative contracts insured by the Company cannot be legally traded and generally do not have observable market prices. The Company determines the fair values of insured credit derivatives using valuation models. The fair valuation models are consistently applied from period to period, with refinements to the fair value estimation approach being applied as and when the information becomes available. Negotiated settlements are also considered when determining fair value to provide the best estimate of how another market participant would evaluate fair value.

Approximately 82% of the balance sheet fair value of insured credit derivatives as of December 31, 2012 was valued primarily based on the Binomial Expansion Technique (BET) Model. Approximately 18% of the balance sheet fair value of insured credit derivatives as of December 31, 2012 was valued primarily based on the internally developed Direct Price Model. An immaterial amount of insured credit derivatives were valued using the dual-default model. The valuation of insured derivatives includes the impact of its credit standing. All of these derivatives are categorized as Level 3 of the fair value hierarchy as their fair value is derived using significant unobservable inputs.

A. Description of the BET Model

1. Valuation Model Overview

The BET Model estimates what a bond insurer would charge to guarantee a transaction at the measurement date, based on the market-implied default risk of the underlying collateral and the remaining structural protection in a deductible or subordination.

Inputs to the process of determining fair value for structured transactions using the BET Model include estimates of collateral loss, allocation of loss to separate tranches of the capital structure, and calculation of the change in value.

Estimates of aggregated collateral losses are calculated by reference to the following (described in further detail under BET Model Inputs below):

credit spreads of underlying collateral based on actual spreads or spreads on similar collateral with similar ratings, or in some cases, are benchmarked; for collateral pools where the spread distribution is characterized by extremes, each segment of the pool is modeled separately instead of using an overall pool average;

diversity score of the collateral pool as an indication of correlation of collateral defaults; and

recovery rate for all defaulted collateral.

Allocation of losses to separate tranches of the capital structure according to priority of payments in a transaction.

The inception-to-date unrealized gain or loss on a transaction is the difference between the original price of the risk (the original market-implied expected loss) and the current price of the risk based on the assumed market-implied expected losses derived from the model.

Additional structural assumptions of the BET Model are:

Default probabilities are determined by three factors: credit spread, recovery rate after default, and the time period under risk.

Frequencies of defaults are modeled evenly over time.

Collateral assets are generally considered on an average basis rather than being modeled on an individual basis.

Collateral asset correlation is modeled using a diversity score which is calculated based on industry or sector concentrations. Recovery rates are based on historical averages and updated based on market evidence.

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Notes to Consolidated Financial Statements

Note 7: Fair Value of Financial Instruments (continued)

2. Model Strengths and Weaknesses

The primary strengths of the BET Model:

- The model takes account of transaction structure and key drivers of fair value. Transaction structure includes par insured, weighted average life, level of deductible or subordination (if any), and composition of collateral.
- The model is a consistent approach to marking positions that minimizes the level of subjectivity. The Company has also developed a hierarchy for usage of various market-based spread inputs that reduces the level of subjectivity, especially during periods of high illiquidity.
- The model uses market-based inputs including credit spreads for underlying reference collateral, recovery rates specific to the type and credit rating of reference collateral, diversity score of the entire collateral pool, and MBIA s CDS and derivative recovery rate level.

The primary weaknesses of the BET Model:

- As of December 31, 2012, some of the model inputs were either unobservable or derived from illiquid markets which might adversely impact the model s reliability.
- The BET Model requires an input for collateral spreads. However, some securities are quoted only in price terms. For securities that trade substantially below par, the calculation of spreads from price to spread can be subjective.
- Results may be affected by using average spreads and a single diversity factor, rather than using specific spreads for each piece of underlying collateral and collateral-specific correlations.

3. BET Model Inputs

a. Credit spreads

The average spread of collateral is a key input as the Company assumes credit spreads reflect the market s assessment of default probability for each piece of collateral. Spreads are obtained from market data sources published by third parties (e.g., dealer spread tables for assets most closely resembling collateral within the Company s transactions) as well as collateral-specific spreads on the underlying reference obligations provided by trustees or market sources. Also, when these sources are not available, the Company benchmarks spreads for collateral against market spreads or prices. This data is reviewed on an ongoing basis for reasonableness and applicability to the Company s derivative portfolio. The Company also calculates spreads based on quoted prices and on internal assumptions about expected life, when pricing information is available and spread information is not.

The Company uses the spread hierarchy listed below in determining which source of spread information to use, with the rule being to use CDS spreads where available and cash security spreads as the next alternative.

Spread Hierarchy:

- Collateral-specific credit spreads when observable.
- Sector-specific spread tables by asset class and rating.
- Corporate spreads, including Bloomberg spread tables based on rating.
- Benchmark from most relevant market source when corporate spreads are not directly relevant.

There were some transactions where the Company incorporated multiple levels within the hierarchy, including using actual collateral-specific credit spreads in combination with a calculated spread based on an assumed relationship. In those cases, MBIA classified the transaction as being benchmarked from the most relevant spread source even though the majority of the average spread was from actual collateral-specific spreads. As of December 31, 2012, sector-specific spreads were used in 9% of the transactions valued using the BET Model. Corporate spreads were used in 46% of the transactions and spreads benchmarked from the most relevant spread source were used for 45% of the transactions.

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 7: Fair Value of Financial Instruments (continued)

The spread source can also be identified by whether or not it is based on collateral weighted average rating factor (WARF). No collateral-specific spreads are based on WARF, sector-specific and corporate spreads are based on WARF, and some benchmarked spreads are based on WARF. WARF-sourced and/or ratings-sourced credit spreads were used for 79% of the transactions.

Over time, the data inputs change as new sources become available, existing sources are discontinued or are no longer considered to be reliable or the most appropriate. It is always the Company s objective to use more observable spread hierarchies defined above. However, the Company may on occasion move to less observable spread inputs due to the discontinuation of data sources or due to the Company considering certain spread inputs no longer representative of market spreads.

b. Diversity Scores

Diversity scores are a means of estimating the diversification in a portfolio. The diversity score estimates the number of uncorrelated assets that are assumed to have the same loss distribution as the actual portfolio of correlated assets. While diversity score is a required input into the BET model, due to current high levels of default within the collateral of the structures, diversity score does not have a significant impact on valuation.

c. Recovery Rate

The recovery rate represents the percentage of par expected to be recovered after an asset defaults, indicating the severity of a potential loss. MBIA generally uses rating agency recovery assumptions which may be adjusted to account for differences between the characteristics and performance of the collateral used by the rating agencies and the actual collateral in MBIA-insured transactions. The Company may also adjust rating agency assumptions based on the performance of the collateral manager and on empirical market data.

d. Nonperformance Risk

The Company s valuation methodology for insured credit derivative liabilities incorporates the Company s own nonperformance risk. The Company calculates the fair value by discounting the market value loss estimated through the BET Model at discount rates which include MBIA CDS spreads as of December 31, 2012. The CDS spreads assigned to each deal are based on the weighted average life of the deal. The Company limits the nonperformance impact so that the derivative liability could not be lower than the Company s recovery derivative price multiplied by the unadjusted derivative liability.

B. Description of Direct Price Model

1. Valuation Model Overview

The Direct Price Model uses quoted market prices of financial assets correlated to the underlying collateral of the pool of assets backing the liabilities guaranteed by certain insured derivative liabilities. These quoted market prices are adjusted to reflect the unique characteristics of the liabilities of the entities backed by the correlated assets and unique terms of the insured derivative contracts.

2. Model Strengths and Weaknesses

The primary strengths of the Direct Price Model:

The model takes account of transaction structure and key drivers of market value. The transaction structure includes par insured, legal final maturity, level of deductible or subordination (if any) and composition of collateral.

The model is a consistent approach to marking positions that minimizes the level of subjectivity. Model structure, inputs and operation are well documented by MBIA s internal controls, creating a strong controls process in execution of the model.

The model uses market inputs for each transaction with the most relevant being market prices for collateral, MBIA s CDS and derivative recovery rate level and interest rates. Most of the market inputs are observable.

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Notes to Consolidated Financial Statements

Note 7: Fair Value of Financial Instruments (continued)

The primary weaknesses of the Direct Price Model:

- There is no market in which to test and verify the fair values generated by the Company s model.
- The model does not take into account potential future volatility of collateral prices. When the market value of collateral is substantially lower than insured par and there is no or little subordination left in a transaction, which is the case for most of the transactions marked with this model, the Company believes this assumption still allows a reasonable estimate of fair value.

3. Model Inputs

- Collateral prices

Fair value of collateral is based on quoted prices when available. When quoted prices are not available, a matrix pricing grid is used based on security type and rating to determine fair value of collateral which applies an average based on securities with the same rating and security type categories.

- Interest rates

The present value of the market-implied potential losses was calculated assuming that MBIA deferred all principal losses to the legal final maturity. This was done through a cash flow model that calculated potential interest payments in each period and the potential principal loss at the legal final maturity. These cash flows were discounted using the LIBOR flat swap curve.

- Nonperformance risk

The methodology for calculating MBIA s nonperformance risk is the same as used for the BET Model. Due to the current level of MBIA CDS spread rates and the long tenure of these transactions, the derivative recovery rate was used to estimate nonperformance risk for all transactions marked by this model.

Overall Model Results

As of December 31, 2012 and 2011, the Company s net insured derivative liability was $2.9 billion and $4.8 billion, respectively, and was primarily related to the fair values of insured credit derivatives, based on the results of the aforementioned pricing models. In the current environment, the most significant driver of changes in fair value is nonperformance risk. In aggregate, the nonperformance calculation resulted in a pre-tax net insured derivative liability that was $4.4 billion and $5.7 billion lower than the net liability that would have been estimated if the Company excluded nonperformance risk in its valuation as of December 31, 2012 and 2011, respectively. Nonperformance risk is a fair value concept and does not contradict the Company s internal view, based on fundamental credit analysis of the Company s economic condition, that the Company will be able to pay all claims when due.

Warrants

Stock warrants issued by the Company are recorded at fair value based on a modified Black-Scholes model. Inputs into the warrant valuation include interest rates, stock volatilities and dividend data. As all significant inputs are market-based and observable, warrants are categorized in Level 2 of the fair value hierarchy.

Accrued Interest Expense

The fair value of the accrued interest expense on the 14% surplus notes due 2033 is determined based on the scheduled interest payments discounted by the market s perception of the credit risk related to the repayment of the surplus notes. The credit risk related to the repayment of the surplus notes is based on recent trades of the surplus notes. The deferred interest payment will be due on the first business day on or after which the Company obtains approval to make such payment.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 7: Fair Value of Financial Instruments (continued)

The carrying amounts of accrued interest expense on all other long-term debt approximate fair value due to the short-term nature of these instruments.

Financial Guarantees

Gross Financial Guarantees   The fair value of gross financial guarantees is determined using discounted cash flow techniques based on inputs that include (i) assumptions of expected losses on financial guarantee policies where loss reserves have not been recognized, (ii) amount of losses expected on financial guarantee policies where loss reserves have been established, net of expected recoveries, (iii) the cost of capital reserves required to support the financial guarantee liability, (iv) operating expenses, and (v) discount rates. The MBIA Corp. CDS spread and recovery rate are used as the discount rate for MBIA Corp., while the CDS spread and recovery rate of a similar municipal insurance company are used as the discount rate for National, as National does not have a published CDS spread and recovery rate.

The carrying value of the Company s gross financial guarantees consists of unearned premium revenue and loss and LAE reserves, net of the insurance loss recoverable as reported on MBIA s consolidated balance sheets.

Ceded Financial Guarantees   The fair value of ceded financial guarantees is determined by applying the percentage ceded to reinsurers to the related fair value of the gross financial guarantees. The carrying value of ceded financial guarantees consists of prepaid reinsurance premiums and reinsurance recoverable on paid and unpaid losses as reported within Other assets on the Company s consolidated balance sheets.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 7: Fair Value of Financial Instruments (continued)

Significant Unobservable Inputs

The following table provides quantitative information regarding the significant unobservable inputs used by the Company for assets and liabilities measured at fair value on a recurring basis as of December 31, 2012. This table excludes inputs used to measure fair value that are not developed by the Company, such as broker prices and other third-party pricing service valuations.

In millions	Fair Value as of December 31, 2012	Valuation Techniques	Unobservable Input	Range (Weighted Average)
Assets of consolidated VIEs:				
Loans receivable at fair value	$ 1,881	Quoted market prices adjusted for financial guarantees provided to VIE obligations	Impact of financial guarantee	0% 14%(3%)
Loan repurchase commitments	1,086	Discounted cash flow	Recovery rates	10% 75%(47%)
			Breach rates	66% 94%(78%)
Liabilities of consolidated VIEs:				
Variable interest entity notes	1,932	Quoted market prices of VIE assets adjusted for financial guarantees provided	Impact of financial guarantee	0% 23%(6%)
Credit derivative liabilities, net:				
CMBS	1,590	BET Model	Recovery rates	21% 90%(51%)
			Nonperformance risk	19% 59%(58%)
			Weighted average life (in years)	0.1 5.6(4.4)
			CMBS spreads	1% 23%(13%)
Multi-sector CDO	525	Direct Price Model	Nonperformance risk	59% 59%(59%)
Other	806	BET Model	Recovery rates	42% 75%(47%)
			Nonperformance risk	42% 59%(58%)
			Weighted average life (in years)	0.1 19.6(3.0)

Sensitivity of Significant Unobservable Inputs

The significant unobservable input used in the fair value measurement of the Company s loans receivable at fair value of consolidated VIEs is the impact of the financial guarantee. The fair value of loans receivable is calculated by subtracting the value of the financial guarantee from the market value of VIE liabilities. The value of a financial guarantee is estimated by the Company as the present value of expected cash payments under the policy. As expected cash payments provided by the Company under the insurance policy increase, there is a lower expected cash flow on the underlying loans receivable of the VIE. This results in a lower fair value of the loans receivable in relation to the obligations of the VIE.

The significant unobservable inputs used in the fair value measurement of the Company s loan repurchase commitments of consolidated VIEs are the recovery rates and the breach rates. Recovery rates reflect the estimates of future cash flows reduced for litigation delays and risks and/or potential financial distress of the sellers/servicers. The estimated recoveries of the loan repurchase commitments may differ from the actual recoveries that may be received in the future. Breach rates represent the rate at which the mortgages fail to comply with stated representations and warranties of the sellers/servicers. Significant increases or decreases in the recovery rates and the breach rates would result in significantly higher or lower fair values of the loan repurchase commitments, respectively. Additionally, changes in the legal environment and the ability of the counterparties to pay would impact the recovery rate assumptions, which could significantly impact the fair value measurement. Any significant challenges by the counterparties to the Company s determination of breaches of representations and warranties could significantly adversely impact the fair value measurement.

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 7: Fair Value of Financial Instruments (continued)

Recovery rates and breach rates are determined independently. Changes in one input will not necessarily have any impact on the other input.

The significant unobservable input used in the fair value measurement of the Company s variable interest entity notes of consolidated VIEs is the impact of the financial guarantee. The fair value of VIE notes is calculated by adding the value of the financial guarantee to the market value of VIE assets. The value of a financial guarantee is estimated by the Company as the present value of expected cash payments under the policy. As the value of the guarantee provided by the Company to the obligations issued by the VIE increases, the credit support adds value to the liabilities of the VIE. This results in an increase in the fair value of the liabilities of the VIE.

The significant unobservable inputs used in the fair value measurement of the Company s CMBS credit derivatives, which are valued using the BET Model, are CMBS spreads, recovery rates, nonperformance risk and weighted average life. The CMBS spread is an indicator of credit risk of the collateral securities. The recovery rate represents the percentage of notional expected to be recovered after an asset defaults, indicating the severity of a potential loss. The nonperformance risk is an assumption of the Company s own ability to pay and whether the Company will have the necessary resources to pay the obligations as they come due. Weighted average life is based on the Company s estimate of when the principal of the underlying collateral of the CMBS structure will be repaid. A significant increase or decrease in CMBS spreads or weighted average life would result in an increase or decrease in the fair value of the derivative liabilities, respectively. Any significant increase or decrease in recovery rates or the Company s nonperformance risk would result in a decrease or increase in the fair value of the derivative liabilities, respectively. CMBS spreads, recovery rates, nonperformance risk and weighted average lives are determined independently. Changes in one input will not necessarily have any impact on the other inputs.

The significant unobservable input used in the fair value measurement of the Company s multi-sector CDO credit derivatives, which are valued using the Direct Price Model, is nonperformance risk. The nonperformance risk is an assumption of the Company s own ability to pay and whether the Company will have the necessary resources to pay the obligations as they come due. Any significant increase or decrease in the Company s nonperformance risk would result in a decrease or increase in the fair value of the derivative liabilities, respectively.

The significant unobservable inputs used in the fair value measurement of the Company s other credit derivatives, which are valued using the BET Model, are recovery rates, nonperformance risk and weighted average life. The recovery rate represents the percentage of notional expected to be recovered after an asset defaults, indicating the severity of a potential loss. The nonperformance risk is an assumption of the Company s own ability to pay and whether the Company will have the necessary resources to pay the obligations as they come due. Weighted average life is based on the Company s estimate of when the principal of the underlying collateral will be repaid. Any significant increase or decrease in weighted average life would result in an increase or decrease in the fair value of the derivative liabilities, respectively. Any significant increase or decrease in recovery rates or the Company s nonperformance risk would result in a decrease or increase in the fair value of the derivative liabilities, respectively. Recovery rates, nonperformance risk and weighted average lives are determined independently. Changes in one input will not necessarily have any impact on the other inputs.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 7: Fair Value of Financial Instruments (continued)

Fair Value Measurements

The following tables present the fair value of the Company s assets (including short-term investments) and liabilities measured and reported at fair value on a recurring basis as of December 31, 2012 and 2011:

	Fair Value Measurements at Reporting Date Using				
In millions	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Counterparty and Cash Collateral Netting**	**Balance as of December 31, 2012**
Assets:					
Fixed-maturity investments:					
U.S. Treasury and government agency	$ 784	$ 100	$	$	$ 884
State and municipal bonds		1,429	103(1)		1,532
Foreign governments	86	107	3(1)		196
Corporate obligations		1,140	76(1)		1,216
Mortgage-backed securities:					
Residential mortgage-backed agency		988			988
Residential mortgage-backed non-agency		94	4(1)		98
Commercial mortgage-backed		20	28(1)		48
Asset-backed securities:					
Collateralized debt obligations		65	31(1)		96
Other asset-backed		119	26(1)		145
Total fixed-maturity investments	870	4,062	271		5,203
Money market securities	585	8			593
Equity securities	23	20	14(1)		57
Cash and cash equivalents	814				814
Derivative assets:					
Non-insured derivative assets:					
Interest rate derivatives		89	5(1)	(90)	4
Total derivative assets		89	5	(90)	4

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 7: Fair Value of Financial Instruments (continued)

	Fair Value Measurements at Reporting Date Using				
In millions	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Counterparty and Cash Collateral Netting**	**Balance as of December 31, 2012**
Assets of consolidated VIEs:					
State and municipal bonds		41			41
Corporate obligations		215	78[1]		293
Mortgage-backed securities:					
Residential mortgage-backed non-agency		869	6[1]		875
Commercial mortgage-backed		410	7[1]		417
Asset-backed securities:					
Collateralized debt obligations		215	125[1]		340
Other asset-backed		120	64[1]		184
Money market securities	210				210
Cash	176				176
Loans receivable			1,881		1,881
Loan repurchase commitments			1,086		1,086
Total assets	$ 2,678	$ 6,049	$ 3,537	$ (90)	$ 12,174
Liabilities:					
Medium-term notes	$	$	$ 165[1]	$	$ 165
Derivative liabilities:					
Insured derivatives:					
Credit derivatives		13	2,921		2,934
Non-insured derivatives:					
Interest rate derivatives		287	4[1]	(293)	(2)
Currency derivatives		1	1[1]		2
Other liabilities:					
Warrants		6			6
Liabilities of consolidated VIEs:					
Variable interest entity notes		1,727	1,932		3,659
Derivative liabilities:					
Interest rate derivatives		141			141
Currency derivatives			21[1]		21
Total liabilities	$	$ 2,175	$ 5,044	$ (293)	$ 6,926

(1) Unobservable inputs are either not developed by the Company or do not significantly impact the overall fair values of the aggregate financial assets and liabilities.

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Notes to Consolidated Financial Statements

Note 7: Fair Value of Financial Instruments (continued)

In millions	Fair Value Measurements at Reporting Date Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Counterparty and Cash Collateral Netting	Balance as of December 31, 2011
Assets:					
Fixed-maturity investments:					
U.S. Treasury and government agency	$ 1,038	$ 103	$	$	$ 1,141
State and municipal bonds		2,061	28		2,089
Foreign governments	277	62	11		350
Corporate obligations	1	1,531	207		1,739
Mortgage-backed securities:					
Residential mortgage-backed agency		1,276			1,276
Residential mortgage-backed non-agency		350	17		367
Commercial mortgage-backed		34	32		66
Asset-backed securities:					
Collateralized debt obligations		78	60		138
Other asset-backed		130	317		447
Total fixed-maturity investments	1,316	5,625	672		7,613
Money market securities	912				912
Equity securities	25	121	11		157
Cash and cash equivalents	473				473
Derivative assets:					
Non-insured derivative assets:					
Credit derivatives		1			1
Interest rate derivatives		91	3		94
Other				(93)	(93)
Total derivative assets		92	3	(93)	2

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 7: Fair Value of Financial Instruments (continued)

In millions	Fair Value Measurements at Reporting Date Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Counterparty and Cash Collateral Netting	Balance as of December 31, 2011
Assets of consolidated VIEs:					
Corporate obligations		170	69		239
Mortgage-backed securities:					
Residential mortgage-backed agency		3			3
Residential mortgage-backed non-agency		1,437	21		1,458
Commercial mortgage-backed		559	22		581
Asset-backed securities:					
Collateralized debt obligations		330	203		533
Other asset-backed		236	67		303
Money market securities	199				199
Cash	160				160
Loans receivable			2,046		2,046
Loan repurchase commitments			1,077		1,077
Derivative assets:					
Credit derivatives			447		447
Interest rate derivatives		3			3
Total assets	$ 3,085	$ 8,576	$ 4,638	$ (93)	$ 16,206
Liabilities:					
Medium-term notes	$	$	$ 165	$	$ 165
Derivative liabilities:					
Insured derivatives:					
Credit derivatives		18	4,790		4,808
Non-insured derivatives:					
Interest rate derivatives		445			445
Currency derivatives		4			4
Other				(93)	(93)
Other liabilities:					
Warrants		38			38
Liabilities of consolidated VIEs:					
Variable interest entity notes		1,865	2,889		4,754
Derivative liabilities:					
Credit derivatives			527		527
Interest rate derivatives		281			281
Currency derivatives			17		17
Total liabilities	$	$ 2,651	$ 8,388	$ (93)	$ 10,946

Level 3 assets at fair value, as of December 31, 2012 and 2011 represented approximately 29% of total assets measured at fair value. Level 3 liabilities at fair value, as of December 31, 2012 and 2011 represented approximately 73% and 77%, respectively, of total liabilities measured at fair value.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 7: Fair Value of Financial Instruments (continued)

The following tables present the fair values and carrying values of the Company s assets and liabilities that are disclosed at fair value but not reported at fair value on the Company s consolidated balance sheets as of December 31, 2012 and 2011:

	Fair Value Measurements at Reporting Date Using				
In millions	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Fair Value Balance as of December 31, 2012**	**Carry Value Balance as of December 31, 2012**
Assets:					
Other investments	$	$	$ 9	$ 9	$ 9
Accrued investment income[1]	43			43	43
Receivable for investments sold[1]	17			17	17
Net cash collateral pledged[1]	66			66	66
Assets of consolidated VIEs:					
Investments held-to-maturity			2,674	2,674	2,829
Total assets	$ 126	$	$ 2,683	$ 2,809	$ 2,964
Liabilities:					
Investment agreements	$	$	$ 1,175	$ 1,175	$ 944
Medium-term notes			1,026	1,026	1,598
Long-term debt		692		692	1,662
Payable for investments purchased[2]	50			50	50
Accrued interest expense[2]	9	10		19	70
Liabilities of consolidated VIEs:					
Variable interest entity notes			3,147	3,147	3,465
Total liabilities	$ 59	$ 702	$ 5,348	$ 6,109	$ 7,789
Financial Guarantees:					
Gross	$	$	$ 650	$ 650	$ 143
Ceded			97	97	91

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

(2) Reported within Other liabilities on MBIA s consolidated balance sheets.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 7: Fair Value of Financial Instruments (continued)

	Fair Value Measurements at Reporting Date Using				
In millions	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Fair Value Balance as of December 31, 2011**	**Carry Value Balance as of December 31, 2011**
Assets:					
Other investments	$	$	$ 11	$ 11	$ 11
Accrued investment income[1]	63			63	63
Receivable for investments sold[1]	32			32	32
Assets of consolidated VIEs:					
Investments held-to-maturity			3,489	3,489	3,843
Total assets	$ 95	$	$ 3,500	$ 3,595	$ 3,949
Liabilities:					
Investment agreements	$	$	$ 1,853	$ 1,853	$ 1,578
Medium-term notes			1,187	1,187	1,491
Securities sold under agreements to repurchase		286		286	287
Long-term debt		1,117		1,117	1,840
Payable for investments purchased[2]	3			3	3
Accrued interest payable[2]	10	61		71	71
Liabilities of consolidated VIEs:					
Variable interest entity notes			3,297	3,297	3,943
Long-term debt			368	368	360
Total liabilities	$ 13	$ 1,464	$ 6,705	$ 8,182	$ 9,573
Financial Guarantees:					
Gross	$	$	$ 1,451	$ 1,451	$ 1,305
Ceded			94	94	104

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

(2) Reported within Other liabilities on MBIA s consolidated balance sheets.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 7: Fair Value of Financial Instruments (continued)

The following tables present information about changes in Level 3 assets (including short-term investments) and liabilities measured at fair value on a recurring basis for the years ended December 31, 2012 and 2011:

Changes in Level 3 Assets and Liabilities Measured at Fair Value on a Recurring Basis for the Year Ended December 31, 2012

In millions	Balance, Beginning of Year	Realized Gains / (Losses)	Unrealized Gains / (Losses) Included in Earnings	Unrealized Gains / (Losses) Included in OCI	Foreign Exchange Recognized in OCI or Earnings	Purchases	Issuances	Settlements	Sales	Transfers into Level 3(1)	Transfers out of Level 3(1)	Ending Balance	Change in Unrealized Gains (Losses) for the Period Included in Earnings for Assets still held as of December 31, 2012
Assets:													
Foreign governments	$ 11	$	$	$	$ 1	$ 21	$	$ (29)	$ (4)	$ 3	$	$ 3	$
Corporate obligations	207	(15)	10	27		17		(29)	(141)	25	(25)	76	9
Residential mortgage backed agency										4	(4)		
Residential mortgage backed non-agency	17	(1)						(13)	(5)	31	(25)	4	
Commercial mortgage-backed	32			6		1				1	(12)	28	
Collateralized debt obligations	60	(9)		20		1		(15)	(10)	18	(34)	31	
Other asset-backed	317	(46)		73		3		(29)	(285)	4	(11)	26	
State and municipal bonds	28			(1)				(7)		83		103	
Equity securities	11		1	2						3	(3)	14	
Assets of consolidated VIEs:													
Corporate obligations	69		(19)	(6)		27		(5)		15	(3)	78	3
Residential mortgage backed non-agency	21		6					(7)	(16)	6	(4)	6	3
Commercial mortgage-backed	22		4					(4)	(9)	5	(11)	7	1
Collateralized debt obligations	203		(25)	2				(12)	(74)	56	(25)	125	5
Other asset-backed	67		6			4		(11)	(36)	34		64	7

Loans receivable	2,046		114					(277)	(2)			1,881	114
Loan repurchase commitments	1,077		9									1,086	9
Total assets	$ 4,188	$ (71)	$ 106	$ 123	$ 1	$ 74	$	$ (438)	$ (582)	$ 288	$ (157)	$ 3,532	$ 151

In millions	Balance, Beginning of Year	Realized (Gains) / Losses	Unrealized (Gains) / Losses Included in Earnings	Unrealized (Gains) / Losses Included in OCI	Foreign Exchange Recognized in OCI or Earnings	Purchases	Issuances	Settlements	Sales	Transfers into Level 3(1)	Transfers out of Level 3(1)	Ending Balance	Change in Unrealized (Gains) Losses for the Period Included in Earnings for Liabilities still held as of December 31, 2012
Liabilities:													
Medium-term notes	$ 165	$	$ (3)	$	$ 3	$	$	$	$	$	$	$ 165	$ (3)
Credit derivatives, net	4,790	464	(1,869)					(464)				2,921	(927)
Interest rate derivatives, net	(3)		(2)							4		(1)	18
Currency derivatives, net										1		1	
Liabilities of consolidated VIEs:													
VIE notes	2,889		465					(439)	(983)			1,932	409
Credit derivatives, net	80		2						(82)				
Currency derivatives, net	17		4									21	4
Total liabilities	$ 7,938	$ 464	$ (1,403)	$	$ 3	$	$	$ (903)	$ (1,065)	$ 5	$	$ 5,039	$ (499)

(1) Transferred in and out at the end of the period.

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 7: Fair Value of Financial Instruments (continued)

Changes in Level 3 Assets and Liabilities Measured at Fair Value on a Recurring Basis for the Year Ended December 31, 2011

In millions	Balance, Beginning of Year	Realized Gains / (Losses)	Unrealized Gains / (Losses) Included in Earnings	Unrealized Gains / (Losses) Included in OCI	Foreign Exchange Recognized in OCI or Earnings	Purchases	Issuances	Settlements	Sales	Transfers into Level 3(1)	Transfers out of Level 3(1)	Ending Balance	Change in Unrealized Gains (Losses) for the Period Included in Earnings for Assets still held as of December 31, 2011
Assets:													
Foreign governments	$ 11	$	$	$	$ (7)	$ 13	$	$ (5)	$ (1)	$ 7	$ (7)	$ 11	$
Corporate obligations	246	(4)		(8)	7	20		(127)	(61)	166	(32)	207	
Residential mortgage backed agency	41			1		2		(1)	(2)		(41)		
Residential mortgage backed non-agency	48	(2)		10	2	12		(22)	(18)	10	(23)	17	
Commercial mortgage-backed	41	(2)			1	9		(3)	(21)	8	(1)	32	
Collateralized debt obligations	192	(4)		25	2	6	3	(114)	(4)	50	(96)	60	
Other asset-backed	349	(62)		32		9		(22)	(2)	78	(65)	317	
State and municipal bonds	50	1				2		(24)	(1)			28	
Equity securities						10				1		11	
Assets of consolidated VIEs:													
Corporate obligations	82		(17)					(6)		17	(7)	69	(2)
Residential mortgage backed non-agency	40		(3)	3				(6)	(6)	13	(20)	21	
Commercial mortgage-backed	23		9					(2)	(13)	7	(2)	22	3
Collateralized debt obligations	245		(25)	(7)		60		(7)	(39)	71	(95)	203	5
Other asset-backed	81		(10)					(2)	(19)	19	(2)	67	(4)
Loans receivable	2,183		132			24		(291)	(2)			2,046	132
Loan repurchase commitments	835		230				12					1,077	230
Total assets	$ 4,467	$ (73)	$ 316	$ 56	$ 5	$ 167	$ 15	$ (632)	$ (189)	$ 447	$ (391)	$ 4,188	$ 364

In millions	Balance, Beginning of Year	Realized (Gains) / Losses	Unrealized (Gains) / Losses Included in Earnings	Unrealized (Gains) / Losses Included in OCI	Foreign Exchange Recognized in OCI or Earnings	Purchases	Issuances	Settlements	Sales	Transfers into Level 3[(1)]	Transfers out of Level 3[(1)]	Ending Balance	Change in Unrealized (Gains) Losses for the Period Included in Earnings for Liabilities still held as of December 31, 2011
Liabilities:													
Medium-term notes	$ 116	$	$ 78	$	$ (4)	$	$	$ (25)	$	$	$	$ 165	$ 78
Credit derivatives, net	4,350	2,477	440			(8)		(2,477)		8		4,790	2,702
Interest rate derivatives, net	(5)		1							1		(3)	12
Liabilities of consolidated VIEs:													
VIE notes	4,673		94					(554)	(1,324)			2,889	94
Credit derivatives, net	768		(11)						(677)			80	(80)
Currency derivatives, net	14		3									17	3
Total liabilities	$ 9,916	$ 2,477	$ 605	$	$ (4)	$ (8)	$	$ (3,056)	$ (2,001)	$ 9	$	$ 7,938	$ 2,809

(1) Transferred in and out at the end of the period.

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 7: Fair Value of Financial Instruments (continued)

Transfers into and out of Level 3 were $293 million and $157 million, respectively, for the year ended December 31, 2012. Transfers into and out of Level 2 were $157 million and $293 million, respectively, for the year ended December 31, 2012. Transfers into Level 3 were principally related to state and municipal taxable bonds, CDOs, other asset-backed, residential mortgage-backed non-agency and corporate obligations where inputs, which are significant to their valuation, became unobservable during the year. These inputs included spreads, prepayment speeds, default speeds, default severities, yield curves observable at commonly quoted intervals, and market corroborated inputs. CDOs, residential mortgage-backed non-agency, corporate obligations and other asset-backed comprised the majority of the transferred instruments out of Level 3. There were no transfers into or out of Level 1.

Transfers into and out of Level 3 were $456 million and $391 million, respectively, for the year ended December 31, 2011. Transfers into and out of Level 2 were $391 million and $456 million, respectively, for the year ended December 31, 2011. These transfers were principally related to AFS securities where inputs, which are significant to their valuation, became observable or unobservable during the quarter. These inputs included spreads, prepayment speeds, default speeds, default severities, yield curves observable at commonly quoted intervals, and market corroborated inputs. Corporate obligations, CDOs, residential mortgage-backed non-agency and other asset-backed comprised the majority of the transferred instruments. There were no transfers into or out of Level 1.

All Level 1, 2 and 3 designations are made at the end of each accounting period.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 7: Fair Value of Financial Instruments (continued)

Gains and losses (realized and unrealized) included in earnings relating to Level 3 assets and liabilities for the years ended December 31, 2012, 2011 and 2010 are reported on the Company s consolidated statements of operations as follows:

	Year Ended December 31, 2012			
				Consolidated VIEs
In millions	Unrealized Gains (Losses) on Insured Derivatives	Net Realized Gains (Losses)	Net Gains (Losses) on Financial Instruments at Fair Value and Foreign Exchange	Net Gains (Losses) on Financial Instruments at Fair Value and Foreign Exchange
Total gains (losses) included in earnings	$ 1,869	$ (547)	$ 28	$ (376)
Change in unrealized gains (losses) for the period included in earnings for assets and liabilities still held as of December 31, 2012	$ 927	$	$ (6)	$ (271)

	Year Ended December 31, 2011			
In millions	Unrealized Gains (Losses) on Insured Derivatives	Net Realized Gains (Losses)	Net Gains (Losses) on Financial Instruments at Fair Value and Foreign Exchange	Consolidated VIEs Net Gains (Losses) on Financial Instruments at Fair Value and Foreign Exchange
Total gains (losses) included in earnings	$ (440)	$ (2,550)	$ (79)	$ 230
Change in unrealized gains (losses) for the period included in earnings for assets and liabilities still held as of December 31, 2011	$ (2,702)	$	$ (90)	$ 347

	Year Ended December 31, 2010			
In millions	Unrealized Gains (Losses) on Insured Derivatives	Net Realized Gains (Losses)	Net Gains (Losses) on Financial Instruments at Fair Value and Foreign Exchange	Consolidated VIEs Net Gains (Losses) on Financial Instruments at Fair Value and Foreign Exchange

Total gains (losses) included in earnings	$ (609)	$ (282)	$ (11)	$ (340)
Change in unrealized gains (losses) for the period included in earnings for assets and liabilities still held as of December 31, 2010	$ (1,338)	$	$ (3)	$ (395)

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 7: Fair Value of Financial Instruments (continued)

Fair Value Option

The Company elected to record at fair value certain financial instruments of VIEs that have been consolidated in connection with the adoption of the accounting guidance for consolidation of VIEs, among others.

The following table presents the changes in fair value included in the Company s consolidated statements of operations for the years ended December 31, 2012, 2011 and 2010 for all financial instruments for which the fair value option was elected:

	Net Gains (Losses) on Financial Instruments at Fair Value and Foreign Exchange		
In millions	**2012**	**2011**	**2010**
Fixed-maturity securities held at fair value	$ (55)	$ (484)	$