

MBIA INC  
Form 10-Q  
May 10, 2012  
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**United States**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**Form 10-Q**

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

For the quarterly period ended March 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**  
(State of incorporation)

**06-1185706**  
(I.R.S. Employer

Identification No.)

**113 King Street, Armonk, New York**  
(Address of principal executive offices)

**10504**  
(Zip Code)

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

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  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  No

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. (Check one):

Large accelerated filer  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

As of May 4, 2012, 193,825,621 shares of Common Stock, par value \$1 per share, were outstanding.

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**Table of Contents****PART 1 FINANCIAL INFORMATION****Item 1. Financial Statements****MBIA INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS (Unaudited)**

(In millions except share and per share amounts)

|  | March 31, 2012   | December 31, 2011 |
|--|------------------|-------------------|
| <b>Assets</b>  |                  |                   |
| Investments:   |                  |                   |
| Fixed-maturity securities held as available-for-sale, at fair value (amortized cost \$5,529 and \$6,259) | \$ 5,596         | \$ 6,177          |
| Fixed-maturity securities at fair value  | 226              | 295               |
| Investments pledged as collateral, at fair value (amortized cost \$533 and \$642)                        | 462              | 543               |
| Short-term investments held as available-for-sale, at fair value (amortized cost \$1,711 and \$1,577)    | 1,705            | 1,571             |
| Other investments (includes investments at fair value of \$57 and \$96)                                  | 68               | 107               |
| Total investments  | 8,057            | 8,693             |
| Cash and cash equivalents  | 711              | 473               |
| Premiums receivable  | 1,344            | 1,360             |
| Deferred acquisition costs   | 340              | 351               |
| Prepaid reinsurance premiums   | 86               | 88                |
| Insurance loss recoverable   | 3,137            | 3,046             |
| Reinsurance recoverable on paid and unpaid losses  | 15               | 16                |
| Property and equipment, at cost (less accumulated depreciation of \$141 and \$139)                       | 68               | 69                |
| Receivable for investments sold  | 98               | 32                |
| Derivative assets  | 12               | 2                 |
| Deferred income taxes, net   | 1,635            | 1,745             |
| Other assets   | 101              | 105               |
| Assets of consolidated variable interest entities:   |                  |                   |
| Cash   | 144              | 160               |
| Investments held-to-maturity, at amortized cost (fair value \$2,871 and \$3,489)                         | 3,093            | 3,843             |
| Fixed-maturity securities held as available-for-sale, at fair value (amortized cost \$886 and \$473)     | 856              | 432               |
| Fixed-maturity securities at fair value  | 2,883            | 2,884             |
| Loans receivable at fair value   | 2,025            | 2,046             |
| Loan repurchase commitments  | 1,076            | 1,077             |
| Derivative assets  | 445              | 450               |
| Other assets   | -                | 1                 |
| <b>Total assets</b>  | <b>\$ 26,126</b> | <b>\$ 26,873</b>  |
| <b>Liabilities and Equity</b>  |                  |                   |
| Liabilities:   |                  |                   |
| Unearned premium revenue   | \$ 3,381         | \$ 3,515          |
| Loss and loss adjustment expense reserves  | 867              | 836               |
| Investment agreements  | 1,576            | 1,578             |
| Medium-term notes (includes financial instruments carried at fair value \$174 and \$165)                 | 1,692            | 1,656             |
| Securities sold under agreements to repurchase   | 149              | 287               |
| Long-term debt   | 1,839            | 1,840             |
| Payable for investments purchased  | 35               | 3                 |

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|   |                  |                  |
|---|------------------|------------------|
| Derivative liabilities  | 4,830            | 5,164            |
| Other liabilities   | 368              | 388              |
| Liabilities of consolidated variable interest entities:   |                  |                  |
| Variable interest entity notes (includes financial instruments carried at fair value \$4,761 and \$4,754)       | 8,704            | 8,697            |
| Long-term debt  | -                | 360              |
| Derivative liabilities  | 803              | 825              |
| Other liabilities   | 1                | 1                |
| <b>Total liabilities</b>  | <b>24,245</b>    | <b>25,150</b>    |
| Commitments and contingencies (See Note 13)   |                  |                  |
| 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 275,488,914 and 274,896,162 | 275              | 275              |
| Additional paid-in capital  | 3,070            | 3,072            |
| Retained earnings   | 815              | 805              |
| Accumulated other comprehensive loss, net of deferred tax of \$33 and \$105                                     | (26)             | (176)            |
| Treasury stock, at cost 81,750,127 and 81,752,966 shares  | (2,276)          | (2,276)          |
| Total shareholders equity of MBIA Inc.  | 1,858            | 1,700            |
| Preferred stock of subsidiary and noncontrolling interest   | 23               | 23               |
| <b>Total equity</b>   | <b>1,881</b>     | <b>1,723</b>     |
| <b>Total liabilities and equity</b>   | <b>\$ 26,126</b> | <b>\$ 26,873</b> |

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

**Table of Contents****MBIA INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)**

(In millions except share and per share amounts)

|  | <b>Three Months Ended March 31,</b> |                   |
|--|-------------------------------------|-------------------|
|  | <b>2012</b>                         | <b>2011</b>       |
| <b>Revenues:</b>   |                                     |                   |
| <b>Premiums earned:</b>  |                                     |                   |
| Scheduled premiums earned  | \$ 96                               | \$ 128            |
| Refunding premiums earned  | 41                                  | 9                 |
| Premiums earned (net of ceded premiums of \$3 and \$3)                                       | 137                                 | 137               |
| Net investment income  | 62                                  | 114               |
| Fees and reimbursements  | 7                                   | 14                |
| <b>Change in fair value of insured derivatives:</b>  |                                     |                   |
| Realized gains (losses) and other settlements on insured derivatives                         | (4)                                 | (354)             |
| Unrealized gains (losses) on insured derivatives   | 303                                 | (1,422)           |
| Net change in fair value of insured derivatives  | 299                                 | (1,776)           |
| Net gains (losses) on financial instruments at fair value and foreign exchange               | (19)                                | (24)              |
| <b>Investment losses related to other-than-temporary impairments:</b>                        |                                     |                   |
| Investment losses related to other-than-temporary impairments                                | (53)                                | (7)               |
| Other-than-temporary impairments recognized in accumulated other comprehensive income (loss) | (41)                                | (6)               |
| Net investment losses related to other-than-temporary impairments                            | (94)                                | (13)              |
| Net gains (losses) on extinguishment of debt   | -                                   | 26                |
| Other net realized gains (losses)  | 1                                   | 5                 |
| <b>Revenues of consolidated variable interest entities:</b>                                  |                                     |                   |
| Net investment income  | 17                                  | 17                |
| Net gains (losses) on financial instruments at fair value and foreign exchange               | (27)                                | (107)             |
| <b>Total revenues</b>  | <b>383</b>                          | <b>(1,607)</b>    |
| <b>Expenses:</b>   |                                     |                   |
| Losses and loss adjustment   | 97                                  | (36)              |
| Amortization of deferred acquisition costs   | 13                                  | 17                |
| Operating  | 158                                 | 75                |
| Interest   | 73                                  | 75                |
| <b>Expenses of consolidated variable interest entities:</b>                                  |                                     |                   |
| Operating  | 6                                   | 10                |
| Interest   | 15                                  | 15                |
| <b>Total expenses</b>  | <b>362</b>                          | <b>156</b>        |
| Income (loss) before income taxes  | 21                                  | (1,763)           |
| Provision (benefit) for income taxes   | 11                                  | (489)             |
| <b>Net income (loss)</b>   | <b>\$ 10</b>                        | <b>\$ (1,274)</b> |

**Net income (loss) per common share:**

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|         |    |      |    |        |
|---------|----|------|----|--------|
| Basic   | \$ | 0.05 | \$ | (6.37) |
| Diluted | \$ | 0.05 | \$ | (6.37) |

**Weighted average number of common shares outstanding:**

|         |             |             |
|---------|-------------|-------------|
| Basic   | 193,489,424 | 199,972,759 |
| Diluted | 194,594,974 | 199,972,759 |

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

**Table of Contents****MBIA INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (Unaudited)**

(In millions)

|   | <b>Three Months Ended March 31,</b> |                   |
|---|-------------------------------------|-------------------|
|   | <b>2012</b>                         | <b>2011</b>       |
| Net income (loss)   | \$ 10                               | \$ (1,274)        |
| Other comprehensive income (loss):  |                                     |                   |
| Unrealized gains (losses) on available-for-sale securities:   |                                     |                   |
| Unrealized gains (losses) arising during the period, net of tax of \$8 and \$36   | 44                                  | 109               |
| Less: Reclassification adjustments for (gains) losses included in net income (loss), net of tax of \$39 and \$11                  | 73                                  | (20)              |
| Unrealized gains (losses) on available-for-sale securities, net   | 117                                 | 89                |
| Other-than-temporary impairments on available-for-sale securities:  |                                     |                   |
| Other-than-temporary impairments arising during the period, net of tax of \$4 and \$3   | 7                                   | 5                 |
| Less: Reclassification adjustments for other-than-temporary impairments included in net income (loss), net of tax of \$15 and \$2 | 26                                  | 4                 |
| Other-than-temporary impairments on available-for-sale securities, net  | 33                                  | 9                 |
| Unrealized gains (losses) on derivative instruments:  |                                     |                   |
| Unrealized gains (losses) on derivative instruments arising during the period, net of tax of \$2 and \$4                          | (3)                                 | 2                 |
| Less: Reclassification adjustments for (gains) losses included in net income (loss), net of tax of \$8 and \$1                    | 15                                  | 1                 |
| Unrealized gains (losses) on derivative instruments, net  | 12                                  | 3                 |
| Foreign currency translation, net of tax of \$0 and \$2   | (12)                                | (36)              |
| Total other comprehensive income (loss)   | 150                                 | 65                |
| <b>Comprehensive income (loss)</b>  | <b>\$ 160</b>                       | <b>\$ (1,209)</b> |

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



**Table of Contents****MBIA INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY (Unaudited)****For The Three Months Ended March 31, 2012**

(In millions except share amounts)

|  | Common Stock       |               | Additional<br>Paid-in<br>Capital | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income<br>(Loss) | Treasury Stock      |                   | Total<br>Shareholders<br>Equity<br>of MBIA<br>Inc. | Preferred Stock<br>of Subsidiary and<br>Noncontrolling Interest |              | Total<br>Equity |
|--|--------------------|---------------|----------------------------------|----------------------|---|---------------------|-------------------|--|---|--------------|-----------------|
|  | Shares             | Amount        |                                  |                      |   | Shares              | Amount            |  | Shares  | Amount       |                 |
| <b>Balance,<br/>December 31, 2011</b>            | <b>274,896,162</b> | <b>\$ 275</b> | <b>\$ 3,072</b>                  | <b>\$ 805</b>        | <b>\$ (176)</b>   | <b>(81,752,966)</b> | <b>\$ (2,276)</b> | <b>\$ 1,700</b>                                    | <b>1,315</b>  | <b>\$ 23</b> | <b>\$ 1,723</b> |
| Net income                                       | -                  | -             | -                                | 10                   | -   | -                   | -                 | 10   | -   | -            | 10              |
| Other<br>comprehensive<br>income (loss)          | -                  | -             | -                                | -                    | 150   | -                   | -                 | 150  | -   | -            | 150             |
| Share-based<br>compensation net of<br>tax of \$5 | 592,752            | -             | (2)                              | -                    | -   | 2,839               | -                 | (2)  | -   | -            | (2)             |
| <b>Balance, March 31,<br/>2012</b>               | <b>275,488,914</b> | <b>\$ 275</b> | <b>\$ 3,070</b>                  | <b>\$ 815</b>        | <b>\$ (26)</b>  | <b>(81,750,127)</b> | <b>\$ (2,276)</b> | <b>\$ 1,858</b>                                    | <b>1,315</b>  | <b>\$ 23</b> | <b>\$ 1,881</b> |

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

**Table of Contents****MBIA INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)**

(In millions)

|   | <b>Three Months Ended March 31,</b> |               |
|---|-------------------------------------|---------------|
|   | <b>2012</b>                         | <b>2011</b>   |
| <b>Cash flows from operating activities:</b>                          |                                     |               |
| Premiums, fees and reimbursements received                            | \$ 53                               | \$ 85         |
| Investment income received  | 162                                 | 197           |
| Insured derivative losses and commutations paid                       | (20)                                | (386)         |
| Financial guarantee losses and loss adjustment expenses paid          | (172)                               | (217)         |
| Proceeds from reinsurance and recoveries                              | 16                                  | 28            |
| Operating and employee related expenses paid                          | (120)                               | (110)         |
| Interest paid   | (149)                               | (187)         |
| Income taxes (paid) received  | (3)                                 | 44            |
| <b>Net cash provided (used) by operating activities</b>               | <b>(233)</b>                        | <b>(546)</b>  |
| <b>Cash flows from investing activities:</b>                          |                                     |               |
| Purchase of fixed-maturity securities                                 | (938)                               | (1,743)       |
| Sale and redemption of fixed-maturity securities                      | 1,440                               | 2,690         |
| Proceeds from paydowns on variable interest entity loans              | 60                                  | 84            |
| Redemptions of held-to-maturity investments                           | 750                                 | 51            |
| Sale (purchase) of short-term investments, net                        | (115)                               | (69)          |
| Sale (purchase) of other investments, net                             | 65                                  | 17            |
| (Payments) proceeds for derivative settlements                        | (51)                                | (20)          |
| Capital expenditures  | (1)                                 | (1)           |
| <b>Net cash provided (used) by investing activities</b>               | <b>1,210</b>                        | <b>1,009</b>  |
| <b>Cash flows from financing activities:</b>                          |                                     |               |
| Proceeds from issuance of investment agreements                       | 16                                  | 19            |
| Payments for drawdowns of investment agreements                       | (18)                                | (113)         |
| Issuance of medium-term notes   | 8                                   | 4             |
| Principal paydown of medium-term notes                                | -                                   | (88)          |
| Principal paydown of variable interest entity notes                   | (262)                               | (358)         |
| Increase (decrease) in securities sold under agreements to repurchase | (138)                               | -             |
| Payments for retirement of debt                                       | (361)                               | (69)          |
| Restricted stock awards settlements                                   | -                                   | (1)           |
| <b>Net cash provided (used) by financing activities</b>               | <b>(755)</b>                        | <b>(606)</b>  |
| <b>Net increase (decrease) in cash and cash equivalents</b>           | <b>222</b>                          | <b>(143)</b>  |
| Cash and cash equivalents - beginning of period                       | 633                                 | 1,130         |
| <b>Cash and cash equivalents - end of period</b>                      | <b>\$ 855</b>                       | <b>\$ 987</b> |

Reconciliation of net income (loss) to net cash provided (used) by operating activities:

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|   |          |            |
|---|----------|------------|
| Net income (loss)   | \$ 10    | \$ (1,274) |
| Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities: |          |            |
| Change in:  |          |            |
| Accrued investment income   | 3        | 1          |
| Premiums receivable   | 37       | 25         |
| Deferred acquisition costs  | 11       | 15         |
| Unearned premium revenue  | (149)    | (127)      |
| Prepaid reinsurance premiums  | 3        | 3          |
| Reinsurance premiums payable  | 1        | (2)        |
| Loss and loss adjustment expense reserves   | 31       | (119)      |
| Reinsurance recoverable on paid and unpaid losses   | 2        | -          |
| Insurance loss recoverable  | (91)     | (106)      |
| Accrued interest payable  | (25)     | (22)       |
| Accounts receivable   | 2        | 2          |
| Accrued expenses  | 48       | (26)       |
| Deferred fee revenue  | (1)      | -          |
| Current income taxes  | (24)     | 44         |
| Amortization of bond (premiums) discounts, net  | 4        | (10)       |
| Depreciation  | 2        | 2          |
| Amortization of medium-term notes (premiums) discounts, net                                     | (3)      | (4)        |
| Net investment losses related to other-than-temporary impairments                               | 94       | 13         |
| Unrealized (gains) losses on insured derivatives  | (303)    | 1,422      |
| Net (gains) losses on financial instruments at fair value and foreign exchange                  | 46       | 131        |
| Other net realized (gains) losses   | (1)      | (5)        |
| Deferred income tax provision (benefit)   | 32       | (489)      |
| (Gains) losses on extinguishment of debt  | -        | (26)       |
| Share-based compensation  | 3        | 1          |
| Other operating   | 35       | 5          |
| Total adjustments to net income (loss)  | (243)    | 728        |
| Net cash provided (used) by operating activities  | \$ (233) | \$ (546)   |

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 (Unaudited)**

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

###### ***Summary***

MBIA Inc., together with its consolidated subsidiaries, (collectively, MBIA or the Company) operates one of the largest financial guarantee insurance businesses in the industry and is a provider of asset management advisory services. These activities are managed through three business segments: United States ( U.S. ) public finance insurance, structured finance and international insurance, and advisory services. The Company's U.S. public finance insurance business is primarily operated through National Public Finance Guarantee Corporation and its subsidiaries ( National ), its structured finance and international insurance business is primarily operated through MBIA Insurance Corporation and its subsidiaries ( MBIA Corp. ), and its asset management advisory services business is primarily operated through Cutwater Holdings, LLC and its subsidiaries ( Cutwater ). The holding company, MBIA Inc., and certain of its subsidiaries also manage certain other business activities, the results of which are reported in its corporate, asset/liability products, and conduit segments. The corporate segment includes revenues and expenses that arise from general corporate activities. While the asset/liability products and conduit businesses represent separate business segments, they may be referred to collectively as wind-down operations as the funding programs managed through those businesses are in wind-down. Refer to Note 11: Business Segments for further information about the Company's reporting segments.

###### ***Business Developments***

As a result of insured losses and realized investment losses during the period from 2007 to March 31, 2012, the Company has seen ratings downgrades, a near cessation of new insurance business written by the Company, and increasing liquidity pressure. The Company has been unable to write meaningful amounts of new insurance business since 2008 and does not expect to write significant new insurance business prior to an upgrade of the credit ratings of its insurance subsidiaries. As of March 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 March 31, 2012, MBIA Insurance Corporation was rated B with a negative outlook by S&P and B3 with a review for a possible downgrade by Moody's.

During the quarter ended March 31, 2012, the Company 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 payments to reduce liabilities, claims payments and the failure of certain mortgage originators to honor contractual obligations to repurchase ineligible mortgage loans from securitizations the Company insured has increased liquidity pressure on MBIA Inc. and MBIA Corp. As of March 31, 2012, the liquidity position of MBIA Inc., which consists of the liquidity positions of its corporate and asset/liability products activities, was \$482 million and comprised cash and liquid assets of \$251 million available for general corporate liquidity purposes, excluding the amounts held in escrow under its tax sharing agreement, and \$231 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. The Company believes this liquidity position provides MBIA Inc. with sufficient funds to cover expected obligations at least through the next twelve months.

For MBIA Corp., cash and liquid assets decreased to \$329 million as of March 31, 2012, from \$534 million as of December 31, 2011 principally as a result of claims payments. Claims payments primarily resulted from the failure of certain mortgage-backed securities ( MBS ) sponsors to honor contractual obligations to repurchase ineligible mortgage loans. During the quarter ended March 31, 2012, MBIA Corp. made \$211 million in gross claim payments, and commuted \$4.3 billion of gross insured exposure comprising investment grade corporate collateralized debt obligations ( CDOs ), and commercial real estate ( CRE ) CDOs, all of which were previously disclosed in MBIA Inc.'s Annual Report on Form 10-K for the year ended December 31, 2011. Subsequent to March 31, 2012, MBIA Corp. agreed to commute transactions with additional counterparties. These transactions, primarily comprising commercial mortgage-backed securities ( CMBS ), CRE CDOs, asset-backed securities ( ABS ) CDOs, and subprime residential mortgage-backed securities ( RMBS ) transactions, totaled \$7.2 billion in gross insured exposure. The Company's ability to commute insured transactions may be limited by available liquidity as determined based on management's assessment. The Company currently evaluates different methodologies to mitigate liquidity stress, including intercompany lending arrangements and the monetization of illiquid assets.

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

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

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**Table of Contents****MBIA Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****Note 1: Business Developments, Risks and Uncertainties, and Liquidity (continued)***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:

MBIA Corp.'s efforts to recover losses from the second-lien securitization originators could be delayed, settled at amounts below its contractual claims or potentially settled at amounts below those recorded on its balance sheets prepared under accounting principles generally accepted in the United States of America (GAAP) and statutory accounting principles (U.S. STAT). Contractual claims could become subject to bankruptcy proceedings of the originators. As of March 31, 2012 and December 31, 2011, the Company's estimated recoveries after income taxes calculated at the federal statutory rate of 35%, were \$2.1 billion and \$2.0 billion, respectively, which was 111% and 119% of the consolidated total shareholders' equity of MBIA, excluding preferred stock of subsidiaries and noncontrolling interests. As of March 31, 2012 and December 31, 2011, the related measures calculated under U.S. STAT were 112% and 89%, respectively, of the statutory capital of MBIA Corp. Refer to Note 5: Loss and Loss Adjustment Expense Reserves for information about the Company's second-lien RMBS loss recoveries.

MBIA Inc. may not have sufficient liquidity to make all payments due on its liabilities and to meet other financial requirements, such as posting collateral, primarily as a result of a deficit of invested assets to debt issued to third parties and affiliates. During the quarter ended March 31, 2012, MBIA Inc.'s deficit increased as it realized losses from the sale and impairment of invested assets. In addition, it does not expect to receive dividends from its regulated insurance subsidiaries in the near term. If MBIA Inc. were required to continue to sell invested assets at their current market values in order to settle liabilities or to meet minimum required collateral amounts against liabilities, the deficit would increase further. In order to meet liquidity requirements, MBIA Inc. may also finance unencumbered assets through intercompany or third-party facilities, or use free cash or other assets, in some cases with New York State Department of Financial Services (NYSDFS) approval, 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. Resolving the deficit will depend on the Company's ability to receive distributions from its operating subsidiaries and raise third-party capital, and there can be no assurance that the Company will be successful in eliminating the deficit through these means, or that they will provide adequate liquidity. Refer to the following Liquidity section for additional information about MBIA Inc.'s liquidity position.

MBIA Corp. has commuted most of its higher risk CMBS pool exposures. However, if the U.S. economy weakens, commercial real estate values decline or commercial real estate servicer behavior does not continue to mitigate potential or actual credit losses in line with current trends, MBIA Corp. could incur substantial losses in that sector. As of March 31, 2012, MBIA Corp. had CMBS pool and CRE CDO insured par exposure of approximately \$19.2 billion and \$4.3 billion, respectively, excluding approximately \$3.3 billion of CRE loan pools, primarily comprising European assets. Since the end of 2007 through March 31, 2012, MBIA Corp.'s CMBS pool and CRE CDO gross par exposure has decreased by approximately \$30.5 billion, primarily from negotiated commutations and early settlements. Refer to Note 5: Loss and Loss Adjustment Expense Reserves for information about the

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Company's estimate of CMBS credit impairments.

Incurring losses from insured RMBS have declined from their peaks. However, due to the large percentage of ineligible mortgage loans included within MBIA Corp.'s insured second-lien portfolio, performance remains difficult to predict and losses could ultimately be in excess of MBIA Corp.'s current estimated loss reserves. Refer to Note 5: Loss and Loss Adjustment Expense Reserves for information about MBIA Corp.'s RMBS loss reserves.

While MBIA Corp. has settled a substantial portion of its insured ABS CDO exposure at levels, on average, within MBIA Corp.'s statutory loss reserves related to those exposures, further economic stress might cause increases in MBIA Corp.'s loss estimates on its remaining exposure. As of March 31, 2012, MBIA Corp.'s ABS CDO gross par outstanding was approximately \$6.0 billion, and had decreased approximately \$31.3 billion since 2007.

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**MBIA Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Unaudited)**

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

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

The Company's recent financial results have been volatile, which has impacted management's ability to accurately project future taxable income. Insurance losses incurred beyond those currently projected may cause the Company to record additional allowances against a portion or all of its deferred tax assets. Refer to Note 10: Income Taxes for information about the Company's deferred tax assets.

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

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

In the event the economy and the markets to which MBIA is exposed do not improve, or decline, the unrealized losses on insured credit derivatives could increase, causing additional stress in the Company's reported financial results. In addition, volatility in the relationship between MBIA's credit spreads and those on underlying collateral assets of insured credit derivatives can create significant unrealized gains and losses in the Company's reported results of operations. Refer to Note 6: Fair Value of Financial Instruments for information about the Company's valuation of insured credit derivatives.

As of March 31, 2012, the Company had \$1.9 billion of shareholders' equity and MBIA Insurance Corporation and National had \$1.9 billion and \$2.9 billion, respectively, of statutory capital. Statutory capital, defined as policyholders' surplus and contingency reserves, is a key measure of an insurance company's financial condition under insurance laws and regulations. Failure to maintain adequate levels of statutory surplus and total statutory capital could lead to intervention by the Company's insurance regulators in its operations and constitute an event of default under certain of the Company's contracts, thereby materially and adversely affecting the Company's financial condition and results of operations. Pursuant to approval granted by the NYSDFS in accordance with New York Insurance Law (NYIL), as of March 31, 2012, MBIA Insurance Corporation released to surplus an aggregate of \$196 million of excessive contingency reserves.

***Liquidity***

As a financial services company, MBIA has been materially adversely affected by conditions in global financial markets. Current conditions and events in these markets, in addition to the failure by the originators of RMBS to repurchase the ineligible mortgage loans in securitizations that



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the Company has insured, have put substantial stress on the Company's liquidity resources.

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

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

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

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**Table of Contents****MBIA Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****Note 1: Business Developments, Risks and Uncertainties, and Liquidity (continued)**

The liquidity resources of MBIA Corp. which are subject to payments on insured exposures, and in some cases may be large bullet payments; payments to counterparties in consideration for the commutation of insured transactions; and delays in the collection of contract claim recoveries related to ineligible mortgage loans in certain insured transactions. MBIA Corp. is currently subject to negative cash flow as a result of these payments and delays in collecting recoveries; and

The liquidity resources of National, for which the Company has not observed material liquidity risk to date, but which are exposed to unexpected loss payments on its insured transactions and potential negative cash flow, and liquidity support arrangements with its affiliates.

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

***Key Intercompany Lending Agreements*****National Secured Loan**

National provided a secured loan to MBIA Insurance Corporation ( National Secured Loan ) 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. As of March 31, 2012, the outstanding principal amount under this loan was \$1.1 billion. 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 payment 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 March 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. Since March 31, 2012, MBIA Insurance Corporation has 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. 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.

**Asset Swap**

National maintained simultaneous repurchase and reverse repurchase agreements ( Asset Swap ) with MBIA Inc. for up to \$2.0 billion based on the fair value of securities borrowed. The Asset Swap provides MBIA Inc. with eligible assets to pledge under investment agreement and derivative contracts in the asset/liability products business. As of March 31, 2012, the notional amount utilized under each of these agreements was \$1.0 billion and the fair value of collateral pledged by National and MBIA Inc. under these agreements was \$1.0 billion and \$1.1 billion, respectively. The net average interest rate on these transactions was 0.88% and 0.23% for the three months ended March 31, 2012 and 2011, 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**

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MBIA Corp., as lender, maintained a master repurchase agreement with MBIA Inc. ( MBIA Corp. Secured Loan ) for the benefit of MBIA Inc.'s asset/liability products business, which totaled \$2.0 billion at inception and was scheduled to mature in May 2012, as amended. The average interest rate on the MBIA Corp. Secured Loan was 2.53% for the three months ended March 31, 2012. As of March 31, 2012, the amount outstanding under the MBIA Corp. Secured Loan was \$300 million and the fair value of the collateral pledged by MBIA Inc. to MBIA Corp. under this agreement was \$166 million. In May 2012, the outstanding balance of the MBIA Corp. Secured Loan was repaid in full. 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 approval from the NYSDFS for any draws under the facility.

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**Table of Contents****MBIA Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****Note 1: Business Developments, Risks and Uncertainties, and Liquidity (continued)****Conduit Repurchase Agreement**

MBIA Inc. maintained a repurchase agreement with Meridian Funding Company, LLC ( *Conduit Repurchase Agreement* ), under which \$1.0 billion notional amount may be utilized, subject to a pledge of collateral. The *Conduit Repurchase Agreement* had an average interest rate during the three months ended March 31, 2012 of 2.51%. As of March 31, 2012, the notional amount utilized by MBIA Inc. under this agreement and the fair value of the collateral pledged by MBIA Inc. were \$55 million and \$63 million, respectively.

***MBIA Inc. Liquidity***

MBIA Inc.'s liquidity resources support the Company's 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 medium-term notes ( *MTNs* ) issued by the asset/liability products and conduits segments, posting collateral under financing and hedging arrangements and investment agreements, making payments and collateral postings related to interest rate and foreign exchange swaps, and paying operating expenses. The primary sources of cash within MBIA Inc. used to meet its liquidity needs include available cash and liquid assets not subject to collateral posting requirements, scheduled principal and interest on assets held in its investment portfolio, dividends from subsidiaries, payments under tax sharing agreements with these subsidiaries (once the payments become unrestricted) and the ability to issue debt and equity. There can be no assurance as to the amount and timing of any such dividends or payments under the tax sharing agreements. MBIA Inc.'s corporate debt, investment agreements, *MTNs*, and derivatives may be accelerated by the holders of such instruments upon the occurrence of certain events, such as a breach of covenant or representation, a bankruptcy of MBIA Inc. or the filing of an insolvency proceeding with respect to MBIA Corp. MBIA Inc.'s obligations under its loans from MBIA Global Funding, LLC ( *GFL* ) may be accelerated only upon the occurrence of a bankruptcy or liquidation of MBIA Inc. Refer to *Note 11: Business Segments* for a description of the *GFL* loans. In the event of any acceleration of the Company's obligations, including under its corporate debt, investment agreements, *MTNs*, or derivatives, the Company likely would not have sufficient liquid resources to pay amounts due with respect to its corporate debt and other obligations that are not already collateralized.

During the three months ended March 31, 2012, pursuant to the tax sharing agreement, National settled with MBIA Inc. its taxes related to the 2010 and 2011 tax years of \$1 million and \$11 million, respectively. In addition, National paid to MBIA Inc. estimated 2012 taxes of \$23 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 March 31, 2012, \$293 million remained in escrow for the 2010 through 2012 tax years.

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

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

Currently, the majority of the assets of MBIA Inc. are pledged against investment agreement liabilities, intercompany and third-party financing arrangements and derivatives, which 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, the Company would be required to pledge additional eligible assets in order to meet minimum required collateral amounts against these liabilities. In such event, the Company may sell additional assets, potentially with substantial losses, finance unencumbered assets through intercompany or third-party facilities, or use free cash or other assets, in some cases with NYSDFS approval, although there can be no assurance that these

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strategies will be available or adequate to meet liquidity requirements.

There is a deficit of invested assets to liabilities issued to third parties and affiliates of \$783 million as of March 31, 2012, which increased from \$591 million as of December 31, 2011. This deficit is a result of selling investments at losses, and may further increase as a result from selling investments and terminating interest rates swaps at losses in the future. In addition, this deficit is expected to increase as a result of on-going expected operating losses. This deficit will need to be reversed prior to the maturity of the liabilities in order to ensure that there are sufficient funds available to fully retire the liabilities. The Company expects that MBIA Inc. will be able to eliminate the deficit prior to the maturity of the related liabilities from distributions from its operating subsidiaries and by raising third-party capital, although there can be no assurance that MBIA Inc. will be able to eliminate the deficit through such means.

**Table of Contents****MBIA Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****Note 1: Business Developments, Risks and Uncertainties, and Liquidity (continued)**

Because the majority of MBIA Inc.'s assets are pledged against the obligations described above, the widening of credit spreads would have an adverse impact on the market value of these assets and increase collateralization requirements for the portfolio. The following table presents the estimated pre-tax change in fair value of the asset/liability products business' assets as of March 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.

| In millions                    | Change in Credit Spreads<br>(Asset/Liability Products Business) |                            |                            |                             |
|--------------------------------|---|----------------------------|----------------------------|-----------------------------|
|                                | 200 Basis Point<br>Decrease                                     | 50 Basis Point<br>Decrease | 50 Basis Point<br>Increase | 200 Basis Point<br>Increase |
| Estimated change in fair value | \$ 210  | \$ 67                      | \$ (64)                    | \$ (233)                    |

In the three months ended March 31, 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.

Stressed credit market conditions for the remainder of 2012 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 actions include: (1) additional sales of encumbered and other 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 the Company cannot implement the actions identified above to raise liquidity, or eliminate the deficit, it may have insufficient assets to make all payments on its obligations as they come due, which could result in a default by MBIA Inc. on its obligations and the potential for MBIA Corp., as guarantor of the investment agreements and GFL MTNs, to be called upon to satisfy obligations on those instruments as they come due.

As of March 31, 2012, the liquidity position of MBIA Inc., which consists of the liquidity positions of its corporate and asset/liability products activities, was \$482 million and comprised cash and liquid assets of \$251 million available for general corporate liquidity purposes, excluding the amounts held in escrow under its tax sharing agreement, and \$231 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. The Company believes 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 the Company's ability to collect on receivables associated with loss payments, the payment of claims on insured exposures, payments made to commute insured exposure, 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. The Company may also experience liquidity constraints as a result of NYIL requirements that the Company maintains specified, high quality assets to back the Company's reserves and surplus.

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

**Table of Contents****MBIA Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****Note 1: Business Developments, Risks and Uncertainties, and Liquidity (continued)**

Payment requirements for the structured finance and international financial guarantee contracts fall into three categories: (i) timely interest and ultimate principal; (ii) ultimate principal only at final maturity; and (iii) payments upon settlement of individual collateral losses as they occur after any deductible or subordination has been exhausted, which payments are unscheduled and therefore more difficult to predict, and which category applies to most of the transactions on which the Company has 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. has insured transactions with substantial principal amounts due at maturity that are scheduled to mature in the near term. While MBIA Corp. expects the transactions to be refinanced on or prior to the maturity date, there is no assurance that such refinancing will occur. In the event that the refinancing does not occur, MBIA Corp. will be required to pay the full insured principal amount at maturity. MBIA Corp. is generally required to satisfy claims within one to three business days, and as a result seeks to identify potential claims in advance through the Company's monitoring process. While MBIA Corp.'s financial guarantee policies generally cannot be accelerated, thereby mitigating liquidity risk, the insurance of CDS contracts may, in certain events, including the insolvency or payment default of the insurer or the issuer of the CDS, be subject to termination by the counterparty, triggering a claim for the fair value of the contract. In order to monitor liquidity risk and maintain appropriate liquidity resources, the Company uses the same methodology as it uses to monitor credit quality and losses within its insured portfolio, including stress scenarios. Refer to Note 5: Loss and Loss Adjustment Expense Reserves for a discussion of the Company's loss process. Additionally, the Company's structured finance and international insurance segment requires cash for the payment of operating expenses, as well as principal and interest related to its surplus notes.

Since the fourth quarter of 2007 through March 31, 2012, MBIA Corp. has made \$10.9 billion of cash payments, before reinsurance and collections and excluding loss adjustment expense (LAE) (including payments made to debt holders of consolidated variable interest entities (VIEs)), associated with second-lien RMBS securitizations and with commutations and claim payments relating to CDS contracts. These cash payments include loss payments of \$785 million made on behalf of MBIA Corp.'s consolidated VIEs. Of the \$10.9 billion, MBIA Corp. has paid \$6.4 billion of gross claims (before reinsurance and collections and excluding LAE) on policies insuring second-lien RMBS securitizations, driven primarily by an extensive number of ineligible mortgage loans being placed in the securitizations in breach of the representations and warranties of the sellers/servicers.

MBIA Corp. is seeking to enforce its rights to have mortgage sellers/servicers cure, replace or repurchase ineligible mortgage loans from securitizations and has recorded a total of \$3.2 billion of related expected recoveries on its consolidated balance sheets as of March 31, 2012, including expected recoveries recorded in the Company's consolidated VIEs. The Company's put-back claims have been disputed by the loan sellers/servicers and are the subject of certain litigations discussed more fully in Note 13: Commitments and Contingencies. There is some risk that the sellers/servicers or other responsible parties might not be able to fully satisfy any judgment the Company secures in litigation. Further, there can be no assurance that the Company will be successful or that the Company will not be delayed in realizing these recoveries. Such risks are contemplated in the scenarios the Company utilizes to calculate these recoveries, which are recognized on the Company's balance sheets. The Company believes that it has adequate liquidity resources to provide for anticipated cash outflows; however, if the Company does not realize or is delayed in realizing these expected recoveries, the Company may not have adequate liquidity to fully execute the strategy to reduce future potential economic losses by commuting policies and purchasing instruments issued or guaranteed by the Company, or to repay any intercompany borrowings.

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 mortgage sellers/servicers cure, replace or repurchase ineligible mortgage loans from insured securitizations.

MBIA Corp. also insures third-party holders of the Company's asset/liability products segment's obligations. If the Company was unable to meet payment or collateral requirements associated with these obligations, the holders thereof could make claims under the MBIA Corp. insurance policies. In 2008, to provide additional liquidity to the asset/liability products business, MBIA Corp. lent \$2.0 billion to the segment on a secured basis under the MBIA Corp. Secured Loan, the outstanding balance of which loan was \$300 million as of March 31, 2012. In May 2012, the outstanding balance of the MBIA Corp. Secured Loan was repaid in full. Also in May 2012, the NYSDFS approved the maturity extension



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of the MBIA Corp. Secured Loan to May 2013 with a maximum outstanding amount of \$450 million, subject to MBIA Corp. obtaining prior approval from the NYSDFS for any draws under the facility.

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**MBIA Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Unaudited)**

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

As of March 31, 2012, MBIA Corp. held cash and available-for-sale investments of \$1.3 billion, of which \$329 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. The Company believes that MBIA Corp.'s liquidity resources, including expected cash inflows, will adequately provide for anticipated cash outflows. In the event of unexpected liquidity requirements, the Company may have insufficient resources to meet its obligations or insufficient qualifying assets to support its surplus and reserves, and may seek to increase its cash holdings position by selling or financing assets, or raising external capital, and there can be no assurance that the Company will be able to draw on these additional sources of liquidity.

***National Liquidity***

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

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

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

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 provides liquid assets to the Company's asset/liability products business. 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. 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 the asset/liability business were unable to pledge additional eligible assets in order to meet minimum required collateral amounts.

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

National held cash and short-term investments of \$780 million as of March 31, 2012, of which \$690 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

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corporate bonds. With the exception of its loan to MBIA Insurance Corporation, most of National's investments, including those encumbered by the Asset Swap, are liquid and highly rated.

### **Note 2: Significant Accounting Policies**

The Company has disclosed its significant accounting policies in Note 2: Significant Accounting Policies in the Notes to Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2011. The following significant accounting policies provide an update to those included in the Company's Annual Report on Form 10-K.

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**Table of Contents****MBIA Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****Note 2: Significant Accounting Policies (continued)*****Basis of Presentation***

The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X and, accordingly, do not include all of the information and disclosures required by GAAP for annual periods. These statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Annual Report on Form 10-K for the year ended December 31, 2011. The accompanying consolidated financial statements have not been audited by an independent registered public accounting firm in accordance with the standards of the Public Company Accounting Oversight Board (U.S.), but in the opinion of management such financial statements include all adjustments, consisting only of normal recurring adjustments, necessary for the fair statement of the Company's consolidated financial position and results of operations. All material intercompany balances and transactions have been eliminated.

The preparation of financial statements 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.

The results of operations for the three months ended March 31, 2012 may not be indicative of the results that may be expected for the year ending December 31, 2012. The December 31, 2011 consolidated balance sheet was derived from audited financial statements, but does not include all disclosures required by GAAP for annual periods. Certain amounts have been reclassified in prior years' financial statements to conform to the current presentation. Such reclassifications had no impact on total revenues, expenses, assets, liabilities, or shareholders' equity for all periods presented.

During the second quarter of 2011, the Company identified a model input error related to the measurement of fair value and associated unrealized losses on certain insured derivatives. This error related to the quarter ended March 31, 2011 and had understated pre-tax mark-to-market loss by \$207 million. The Company assessed the materiality of the error in accordance with Securities and Exchange Commission (SEC) Staff Accounting Bulletin No. 99, *Materiality*, and concluded that this error was not material to the consolidated financial statements as of and for the three months ended March 31, 2011 and did not affect any prior consolidated financial statements. However, the cumulative effect of the error was determined to be material if the correction was recorded in the consolidated financial statements as of and for the three months ended June 30, 2011. In accordance with SEC Staff Accounting Bulletin No. 108, *Considering the Effects of Prior Year Misstatements When Quantifying Misstatements in Current Year Financial Statements*, the consolidated financial statements as of and for the three months ended March 31, 2011 were revised in the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2011 and are reflected in the prior years' financial statements included in the Quarterly Report on Form 10-Q for the period ended March 31, 2012.

***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. As of March 31, 2012, the Company elected to present its 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 the same. In addition, the presentation of cash flows from investing and financing activities using either the direct or indirect method are the same. 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.



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**Table of Contents****MBIA Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****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 amendment eliminates the current option to report other comprehensive income and its components in the statements of changes in equity except for the presentation of reclassification adjustments for which adoption has been deferred by the FASB. The amendment does not change what currently constitutes net income and other comprehensive income. The new guidance is effective for the Company beginning January 1, 2012. In December 2011, the FASB issued ASU 2011-12 Comprehensive Income (Topic 220) Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05, which defers certain aspects of ASU 2011-05 related to the presentation of reclassification adjustments. The Company adopted this standard in the first quarter of 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 in the first quarter of 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 in the first quarter of 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 amount of acquisition costs capitalized during the first quarter of 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 the first quarter of 2012.

***Recent Accounting Developments******Disclosures about Offsetting Assets and Liabilities (ASU 2011-11)***

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

Refer to the Notes to Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2011 for further information regarding the effects of recently adopted accounting standards on prior year financial statements.



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**Table of Contents****MBIA Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****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 available-for-sale. The Company evaluates issuer-sponsored SPEs to determine if the entity is a VIE. For all entities determined to be VIEs, the Company evaluates whether its investment is determined to have both of the characteristics of a controlling financial interest in the VIE. The Company performs an ongoing reassessment of controlling financial interests in issuer-sponsored VIEs based on investments held. MBIA's wind-down operations do not have a controlling financial interest in any issuer-sponsored VIEs and are not the primary beneficiary of any issuer-sponsored VIEs.

In the conduit segment, the Company manages and administers two multi-seller conduit SPEs (Conduits). The Conduits invest primarily in debt securities and fund the investments through the issuance of VIE notes and long-term debt. The liabilities and certain of the assets of the Conduits are supported by credit enhancement provided through MBIA Corp. The Conduits were designed to provide issuers an efficient source of funding for issued obligations, and to provide an opportunity for MBIA Corp. to issue financial guarantee insurance policies. The Conduits are VIEs and are consolidated by the Company as primary beneficiary. During the three months ended March 31, 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 no longer provides credit protection to this conduit.





**Table of Contents****MBIA Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****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 March 31, 2012 and December 31, 2011. The following tables also present the Company's maximum exposure to loss for nonconsolidated VIEs as well as the value of the assets and liabilities the Company has recorded for its interest in these VIEs as of March 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.

| In millions                       | March 31, 2012 |                          |             |                     | March 31, 2011        |        |                          |   |                        |
|-----------------------------------|----------------|--------------------------|-------------|---------------------|-----------------------|--------|--------------------------|---|------------------------|
|                                   | VIE Assets     | Maximum Exposure to Loss | Investments | Premiums Receivable | Insurance Recoverable | Losses | Unearned Premium Revenue | Loss and Loss Adjustment Expense Reserves | Derivative Liabilities |
|                                   |                |                          | (1)         | (2)                 | (3)                   | (4)    | (5)                      | (6)                                       |                        |
| <b>Insurance:</b>                 |                |                          |             |                     |                       |        |                          |   |                        |
| <b>Global structured finance:</b> |                |                          |             |                     |                       |        |                          |   |                        |
| Collateralized debt obligations   | \$ 25,175      | \$ 13,686                | \$ 39       | \$ 60               | \$ -                  | \$ 52  | \$ 3                     | \$ 175                                    |                        |
| Mortgage-backed residential       | 45,442         | 15,851                   | 11          | 84                  | 2,854                 | 82     | 442                      | 6   |                        |
| Mortgage-backed commercial        | 5,046          | 2,655                    | -           | 2                   | -                     | 2      | -                        | -   |                        |
| Consumer asset-backed             | 7,326          | 4,056                    | 12          | 23                  | -                     | 22     | 20                       | -   |                        |
| Corporate asset-backed            | 27,455         | 13,309                   | 87          | 170                 | 20                    | 185    | -                        | -   |                        |
| Total global structured finance   | 110,444        | 49,557                   | 149         | 339                 | 2,874                 | 343    | 465                      | 181                                       |                        |
| Global public finance             | 42,975         | 22,042                   | -           | 215                 | -                     | 270    | -                        | -   |                        |
| Total insurance                   | \$ 153,419     | \$ 71,599                | \$ 149      | \$ 554              | \$ 2,874              | \$ 613 | \$ 465                   | \$ 181                                    |                        |

(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.



**Table of Contents****MBIA Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****Note 4: Variable Interest Entities (continued)**

| In millions                     | December 31, 2011 |                          |             |                     | December 31, 2011          |                          |   |                        |
|---------------------------------|-------------------|--------------------------|-------------|---------------------|----------------------------|--------------------------|---|------------------------|
|                                 | VIE Assets        | Maximum Exposure to Loss | Investments | Premiums Receivable | Insurance Loss Recoverable | Unearned Premium Revenue | Loss and Loss Adjustment Expense Reserves | Derivative Liabilities |
|                                 |                   |                          | (1)         | (2)                 | (3)                        | (4)                      | (5)                                       | (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.

**Consolidated VIEs**

The carrying amounts of assets and liabilities of consolidated VIEs were \$10.5 billion and \$9.5 billion, respectively, as of March 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 or deconsolidated during the three months ended March 31, 2012 and 2011.

Holders of insured obligations of issuer-sponsored VIEs related to the Company's structured finance and international insurance segment do not have recourse to the general assets of MBIA. In the event of nonpayment of an insured obligation issued by a consolidated VIE, the Company is obligated to pay principal and interest, when due, on the respective insured obligation only. The Company's exposure to consolidated VIEs is

limited to the credit protection provided on insured obligations and any additional variable interests held by MBIA. Creditors of the Conduits do not have recourse to the general assets of MBIA apart from the financial guarantee insurance policies provided by MBIA Corp. on insured obligations issued by the Conduits.

**Note 5: Loss and Loss Adjustment Expense Reserves**

*Loss and Loss Adjustment Expense Process*

As of March 31, 2012, the majority of the Company's case basis reserves and insurance loss recoveries recorded in accordance with GAAP were related to insured first-lien and second-lien RMBS transactions. These reserves and recoveries do not include estimates for policies insuring credit derivatives. Policies insuring credit derivative contracts are accounted for as derivatives and carried at fair value under GAAP. The fair values of insured derivative contracts are influenced by a variety of market and transaction-specific factors that may be unrelated to potential future claim payments under the Company's insurance policies. In the absence of credit impairments on insured derivative contracts or the early termination of such contracts at a loss, the cumulative unrealized losses recorded from fair valuing these contracts should reverse before or at the maturity of the contracts.

**Table of Contents****MBIA Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****Note 5: Loss and Loss Adjustment Expense Reserves (continued)**

Notwithstanding the difference in accounting under GAAP for financial guarantee policies and the Company's insured derivatives, insured derivatives have similar terms, conditions, risks, and economic profiles to financial guarantee insurance policies, and, therefore, are evaluated by the Company for loss (referred to as credit impairment herein) and LAE periodically in the same way that loss and LAE reserves are estimated for financial guarantee insurance policies. Credit impairments represent actual payments and collections plus the present value of estimated expected future claim payments, net of recoveries. MBIA Insurance Corporation's expected future claim payments were discounted using a rate of 5.59%, the same rate it used to calculate its statutory loss reserves as of March 31, 2012. These credit impairments, calculated in accordance with U.S. STAT, differ from the fair values recorded in the Company's consolidated financial statements. The Company regards its credit impairment estimates as critical information for investors as it provides information about loss payments the Company expects to make on insured derivative contracts. As a result, the following loss and LAE process discussion includes information about loss and LAE activity recorded in accordance with GAAP for financial guarantee insurance policies and credit impairments estimated in accordance with U.S. STAT for insured derivative contracts. Refer to Note 6: Loss and Loss Adjustment Expense Reserves in the Notes to Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2011 for information about the Company's monitoring of outstanding insured obligations and for additional information about its loss reserving process. Refer to Note 6: Fair Value of Financial Instruments included herein for additional information about the Company's insured credit derivative contracts.

*RMBS Case Basis Reserves and Recoveries*

The Company's RMBS reserves and recoveries relate to financial guarantee insurance policies. The Company calculated RMBS case basis reserves as of March 31, 2012 for both first-lien and second-lien RMBS transactions using a process called the Roll Rate Methodology. The Roll Rate Methodology is a multi-step process using a database of loan level information, a proprietary internal cash flow model, and a commercially available model to estimate expected ultimate cumulative losses on insured bonds. Roll Rate is defined as the probability that current loans become delinquent and that loans in the delinquent pipeline are charged-off or liquidated. Generally, Roll Rates are calculated for the previous three months and averaged. The loss reserve estimates are based on a probability-weighted average of three scenarios of loan losses (base case, stress case, and an additional stress case).

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

First-lien RMBS Reserves

The Company's first-lien RMBS case basis reserves as of March 31, 2012, which primarily relate to RMBS backed by alternative A-paper and subprime mortgage loans were determined using the Roll Rate Methodology. The Company assumes that the Roll Rate for loans in foreclosure, Real Estate Owned (REO) and bankruptcy are 90%, 90% and 75%, respectively. Roll Rates for current, 30-59 day delinquent loans, 60-89 day delinquent loans and 90+ day delinquent loans are calculated on a transaction-specific basis. Roll Rates for loans that are current as of February 29, 2012 (Current Roll to Loss) stay at the February 29, 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 February 29, 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 calculate losses at loan liquidation. The loss severities are reduced over time to account for reduction in the amount of foreclosure inventory, future increases in home prices, and principal amortization of the loan.

Second-lien RMBS Reserves

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The Company's second-lien RMBS case basis reserves as of March 31, 2012 relate to RMBS backed by home equity lines of credit ( HELOCs ) and closed-end second mortgages ( CES ).

The Roll Rates for 30-59 day delinquent loans and 60-89 day delinquent loans are calculated on a transaction-specific basis. The Company assumes that the Roll Rate for 90+ day delinquent loans, excluding foreclosures, REO and bankruptcies, is 95%. The Roll Rates are applied to the amounts in the respective delinquency buckets based on delinquencies as of February 29, 2012 to estimate future losses from loans that are delinquent as of the current reporting period.

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**Table of Contents****MBIA Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****Note 5: Loss and Loss Adjustment Expense Reserves (continued)**

Current Roll to Loss is calculated on a transaction-specific basis. A proportion of loans reported current as of February 29, 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 February 29, 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 mid-2013, after which time they will revert to the base case. For example, in the base case, as of February 29, 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 March 2012 to August 2012). After that six-month period, the Company further reduces the Current Roll to Loss to 0% by early 2014 with the expectation that the performing seasoned loans will eventually result in loan performance reverting to historically low levels of default. In the model, the Company assumes that all current loans that become delinquent are charged-off.

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 case basis reserves before considering potential recoveries would be approximately \$160 million.

**Second-lien RMBS Recoveries**

As of March 31, 2012, the Company recorded estimated recoveries of \$3.2 billion, gross of income taxes, related to second-lien RMBS put-back claims on ineligible loans, consisting of \$2.1 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 March 31, 2012 and December 31, 2011, the Company's estimated recoveries after income taxes calculated at the federal statutory rate of 35%, were \$2.1 billion and \$2.0 billion, respectively, which was 111% 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 loans, which have been disputed by the loan sellers/servicers and are currently subject to litigation initiated by the Company to pursue recovery. While the Company believes that it will prevail in enforcing its contractual rights, there is uncertainty with respect to the ultimate outcome. Furthermore, there is a risk that sellers/servicers or other responsible parties might not be able to satisfy their put-back obligations. Such risks are contemplated in the scenarios the Company utilizes to calculate recoveries.





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**Table of Contents****MBIA Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****Note 5: Loss and Loss Adjustment Expense Reserves (continued)**

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

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

The above-referenced developments have led the Company to utilize probability-weighted scenarios primarily based on the percentage of incurred losses the Company would collect as opposed to recoveries based primarily on loan file reviews. The Company's recovery estimates incorporate five scenarios that include full recovery of its incurred losses and limited/reduced recoveries due to litigation delays and risks and/or potential financial distress of the sellers/servicers. Probabilities were assigned across these scenarios, with most of the probability weight on partial recovery scenarios. However, based on the Company's assessment of the strength of its contract claims, the Company believes it is entitled to collect the full amount of its incurred losses on these transactions, which totaled \$4.8 billion through March 31, 2012.

The Company has not recognized potential recoveries related to sellers/servicers that MBIA has determined did not have sufficient capital and resources to honor their obligations. The Company's expected recoveries may be discounted in the future based on a review of the creditworthiness of the sellers/servicers. In particular, the Company believes it is now more likely that GMAC Mortgage, LLC and Residential Funding Company, LLC will file for bankruptcy in light of their reported financial condition and public comments made by Ally Financial Inc. In the event of a bankruptcy filing by GMAC Mortgage, LLC and Residential Funding Company, LLC, the Company will re-assess the value of its expected recoveries against GMAC Mortgage, LLC and Residential Funding Company, LLC and may have to substantially reduce the value of such recoveries depending on the Company's assessment of its likely recovery in the bankruptcy proceeding based on the information available in connection with the bankruptcy. At this time the Company cannot reasonably estimate the amount of the change, if any, in the value of the recoveries, which will depend on whether there is a bankruptcy filing and on other facts and circumstances that are unknown at this time. The Company assesses the financial abilities of the sellers/servicers using external credit ratings and other factors. The impact of such factors on cash flows related to expected recoveries is incorporated into the Company's probability-weighted scenarios. The indicative scenarios and related probabilities assigned to each scenario based on the Company's judgment about their relative likelihoods of being realized are used to develop a distribution of possible outcomes. The sum of the probabilities assigned to all scenarios is 100%. Expected cash inflows from recoveries are discounted using the current risk-free rate associated with the underlying transaction, which ranged from 1.0% to 2.2%, depending upon the transaction's expected average life.

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

claim payments, but is recorded as a salvage asset. The amount of recoveries recorded by the Company is limited to paid claims plus the present value of projected future claim payments. As claim payments are made, the recorded amount of potential recoveries may exceed the remaining amount of the claim liability for a given policy.

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**Table of Contents****MBIA Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****Note 5: Loss and Loss Adjustment Expense Reserves (continued)**

To date, sellers/servicers have not substituted loans which MBIA has put-back, and the amount of loans repurchased has been insignificant. The unsatisfactory resolution of these put-backs led MBIA to initiate litigation against five of the sellers/servicers to enforce their obligations. The Company has alleged several causes of action in its complaints, including breach of contract, fraudulent inducement and indemnification. MBIA's aggregate \$3.2 billion of estimated potential recoveries do not include damages from causes of action other than breach of contract. Irrespective of amounts recorded in its financial statements, MBIA is seeking to recover the full amount of its incurred losses and other damages on these transactions. MBIA has not collected any material amounts of cash related to these recoveries. Additional information on the status of these litigations can be found in the Recovery Litigation discussion within Note 13: Commitments and Contingencies.

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

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

1. the strength of the Company's existing contract claims related to ineligible loan substitution/repurchase obligations;
2. the settlement for \$1.1 billion of Assured Guaranty's put-back related claims with Bank of America in April 2011;
3. the improvement in the financial strength of the sellers/servicers due to mergers and acquisitions and/or government assistance, which should facilitate their ability to comply with required loan repurchase/substitution obligations. The Company is not aware of any provisions that explicitly preclude or limit the successors' obligations to honor the obligations of the original sponsor. The Company's assessment of any credit risk associated with these sponsors (or their successors) is reflected in the Company's probability-weighted potential recovery scenarios;
4. evidence of loan repurchase/substitution compliance by sellers/servicers for put-back requests made by other harmed parties with respect to ineligible loans; this factor is further enhanced by (i) Bank of America's disclosure that it has resolved \$8.0 billion of repurchase requests in the fourth quarter of 2010; (ii) the Fannie Mae settlements with Ally Bank announced on December 23, 2010 and with Bank of America (which also involved Freddie Mac) announced on December 31, 2010, and (iii) the Company's settlement agreements entered into on July 16, 2010 and December 13, 2011 respectively, between MBIA Corp. and sponsors of certain MBIA Corp.-insured mortgage loan securitizations in which the Company received consideration in exchange for a release relating to its representation and warranty claims against the sponsor. These settlements resolved all of MBIA's representation and warranty claims against the sponsors on mutually beneficial terms and in aggregate were slightly more than the recoveries previously recorded by the Company related to these exposures;
5. the favorable outcome for MBIA on defendants' motions to dismiss in the litigations discussed above, where the respective courts allowed MBIA's contract and fraud claims against the defendants to proceed;

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6. the favorable outcome in the Countrywide litigation on MBIA's motion to present evidence of liability and damages through the introduction of statistically valid random samples of loans rather than on a loan-by-loan basis;
7. the favorable outcome in the Countrywide litigation denying Bank of America's motion to dismiss MBIA's claims for successor liability as well as a decision from the New York Supreme Court Appellate Division, First Department, which lifted the stay on discovery related to successor liability claims at Bank of America;
8. the favorable outcome in the Countrywide litigation on MBIA's motion regarding causation and MBIA's right to rescissory damages;
9. the unanimous ruling from the New York Supreme Court Appellate Division, First Department, in the Countrywide litigation allowing MBIA to pursue its fraud claims; and
10. loan repurchase reserves and/or settlements which have been publicly disclosed by certain sellers/servicers to cover such obligations. The Company continues to consider all relevant facts and circumstances, including the factors described above, in developing its assumptions on expected cash inflows, probability of potential recoveries (including the outcome of litigation) and recovery period. The estimated amount and likelihood of potential recoveries are expected to be revised and supplemented 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.

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**Table of Contents****MBIA Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****Note 5: Loss and Loss Adjustment Expense Reserves (continued)**

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

*ABS CDOs (Financial Guarantees and Insured Derivatives)*

MBIA's insured ABS CDOs are transactions that include a variety of collateral ranging from corporate bonds to structured finance assets (which includes but are not limited to RMBS related collateral, CDOs of ABS, corporate CDOs and collateralized loan obligations). These transactions were insured as either financial guarantee insurance policies or credit derivatives with the majority insured in the form of credit derivatives. Since the fourth quarter of 2007, MBIA's insured par exposure within the ABS CDO portfolio has been substantially reduced through a combination of terminations and commutations. Accordingly, as of March 31, 2012, the insured par exposure of the ABS CDO financial guarantee insurance policies and credit derivatives portfolio has declined by approximately 84% of the insured amount as of December 31, 2007.

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

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

As of March 31, 2012, the Company had loss and LAE reserves totaling \$168 million related to ABS CDO financial guarantee insurance policies. For the three months ended March 31, 2012, the Company had a benefit of \$2 million of losses and LAE recorded in earnings related to ABS CDO financial guarantee insurance policies after the elimination of a \$16 million benefit as a result of consolidating VIEs. In addition, as of March 31, 2012, the Company estimated insured ABS CDO credit derivative impairments and LAE reserves, net of reinsurance and recoveries, totaling \$432 million. For the three months ended March 31, 2012, the change in estimated impairments and LAE related to insured ABS CDO credit derivatives were a benefit of \$12 million, which was primarily due to agreed upon commutations of credit derivative exposures at less than previously estimated impairments. In the event of further deteriorating performance of the collateral referenced or held in ABS CDO transactions, the amount of losses estimated by the Company could increase materially.

*Credit Impairments Related to Structured CMBS Pools, CRE CDOs and CRE Loan Pools (Accounted for as 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. 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. For the three months ended March 31, 2012, additional credit impairments and LAE on structured CMBS pools, CRE CDOs and CRE loan pools were estimated to be \$295 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 cumulative credit impairments and LAE on structured CMBS pools, CRE CDOs and CRE loan pools were estimated to be \$3.1 billion through March 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. However, some of the transactions reference similar rated subordinate tranches of CMBS bonds.

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When there are broad-based declines in property performance, this leverage can result in rapid deterioration in pool performance.

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

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**Table of Contents****MBIA Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****Note 5: Loss and Loss Adjustment Expense Reserves (continued)**

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 65 structured CMBS pools, CRE CDOs and CRE loan pool policies totaling \$32.9 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. These scenarios project different levels of additional defaults with respect to loans that are current. This approach relies heavily on year-end financial statements at the property level. In modeling these scenarios, the Company has received financial statements for year-end 2011 for 31% of the properties in the pools and statements from year-end 2010 on another 53% of the properties in the pool.

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

The fourth approach stratifies loans into buckets based on delinquency status (including a current bucket) and utilizes recent Roll Rates actually experienced within each of the commercial mortgage-backed index ( CMBX ) series in order to formulate an assumption to predict future delinquencies. Ultimately, this generates losses over a projected time horizon based on the assumption that loss severities will begin to decline from the high levels seen in 2010 and 2011. The Company further examines those loans referenced in the CMBX indices which were categorized as 90+ days delinquent or in the process of foreclosure and determined the monthly ratio of such loans which were cured versus those which were liquidated or still delinquent over the past 37 months. The Company then applies the most recent rolling six-month average of this cure ratio to all loans in the 90+ day delinquent bucket or in the foreclosure process (and those projected to roll into late stage delinquency from the current and lesser stage levels of delinquency) and assumes all other loans are liquidated. The Company assumes all loans in the REO category liquidate over the next twelve months.



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The fifth 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.

Based on a review of the data, the Company found property type and DSCR to be the most significant determinants of a loan's default probability. Other credit characteristics were 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 loan level analysis (which may incorporate additional assumptions regarding modifications and/or extensions in a few select cases) were incorporated as described in the second approach.

**Table of Contents****MBIA Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****Note 5: Loss and Loss Adjustment Expense Reserves (continued)**

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

***Loss and LAE Activity*****Financial Guarantee Insurance Losses (Non-Derivative)**

The Company's financial guarantee insurance losses and LAE for the three months ended March 31, 2012 are presented in the following table:

| <b>Losses and LAE</b>                                  | <b>Three Months Ended March 31, 2012</b> |              |              |
|--|--|--------------|--------------|
|  | <b>Second-lien<br/>RMBS</b>              | <b>Other</b> | <b>Total</b> |
| <b>In millions</b>                                     |  |              |              |
| Losses and LAE related to actual and expected payments | \$ 129                                   | \$ 18        | \$ 147       |
| Recoveries of actual and expected payments             | (48)                                     | (2)          | (50)         |
| Gross losses incurred                                  | 81                                       | 16           | 97           |
| Reinsurance  | 0  | 0            | 0            |
| Losses and LAE   | \$ 81                                    | \$ 16        | \$ 97        |

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 \$49 million in recoveries resulting from ineligible mortgage loans included in insured exposures that are subject to contractual obligations by sellers/servicers to repurchase or replace such mortgages, offset by a \$1 million reduction in excess spread.

Current period changes in the Company's estimate of potential recoveries may impact the amount recorded as an insurance loss recoverable asset, the amount of expected recoveries on unpaid losses netted against the gross loss and LAE reserve liability, or both. Total paid losses and LAE, net of reinsurance and collections, for the three months ended March 31, 2012 was \$156 million, including \$128 million related to insured second-lien RMBS transactions. For the three months ended March 31, 2012, the increase in insurance loss recoverable related to paid losses totaled \$91 million, and primarily related to insured second-lien RMBS transactions.



**Table of Contents****MBIA Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****Note 5: 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 March 31, 2012:

| \$ in millions  | Surveillance Categories |                           |                         |                    | Total            |
|---|-------------------------|---------------------------|-------------------------|--------------------|------------------|
|   | Caution<br>List<br>Low  | Caution<br>List<br>Medium | Caution<br>List<br>High | Classified<br>List |                  |
| Number of policies  | 54                      | 33                        | 13                      | 204                | 304              |
| Number of issues <sup>(1)</sup>                                 | 31                      | 20                        | 12                      | 132                | 195              |
| Remaining weighted average contract period (in years)           | 8.6                     | 4.4                       | 6.6                     | 9.5                | 8.6              |
| Gross insured contractual payments outstanding <sup>(2)</sup> : |                         |                           |                         |                    |                  |
| Principal   | \$ 3,929                | \$ 2,005                  | \$ 524                  | \$ 10,281          | \$ 16,739        |
| Interest  | 2,752                   | 452                       | 148                     | 5,762              | 9,114            |
| <b>Total</b>  | <b>\$ 6,681</b>         | <b>\$ 2,457</b>           | <b>\$ 672</b>           | <b>\$ 16,043</b>   | <b>\$ 25,853</b> |
| Gross claim liability   | \$ -                    | \$ -                      | \$ -                    | \$ 1,782           | \$ 1,782         |
| Less:   |                         |                           |                         |                    |                  |
| Gross potential recoveries                                      | -                       | -                         | -                       | 3,882              | 3,882            |
| Discount, net   | -                       | -                         | -                       | 184                | 184              |
| Net claim liability (recoverable)                               | \$ -                    | \$ -                      | \$ -                    | \$ (2,284)         | \$ (2,284)       |
| Unearned premium revenue  | \$ 149                  | \$ 21                     | \$ 4                    | \$ 129             | \$ 303           |

(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 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:

| \$ in millions                  | Surveillance Categories |                           |                         |                    | Total |
|---------------------------------|-------------------------|---------------------------|-------------------------|--------------------|-------|
|                                 | Caution<br>List<br>Low  | Caution<br>List<br>Medium | Caution<br>List<br>High | Classified<br>List |       |
| Number of policies              | 54                      | 28                        | 14                      | 200                | 296   |
| Number of issues <sup>(1)</sup> | 32                      | 18                        | 11                      | 130                | 191   |

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|   |                 |                 |               |                  |                  |
|---|-----------------|-----------------|---------------|------------------|------------------|
| Remaining weighted average contract period (in years)           | 8.2             | 5.6             | 6.0           | 9.6              | 8.8              |
| Gross insured contractual payments outstanding <sup>(2)</sup> : |                 |                 |               |                  |                  |
| Principal   | \$ 4,310        | \$ 1,213        | \$ 561        | \$ 10,420        | \$ 16,504        |
| Interest  | 2,653           | 351             | 144           | 5,836            | 8,984            |
| <b>Total</b>  | <b>\$ 6,963</b> | <b>\$ 1,564</b> | <b>\$ 705</b> | <b>\$ 16,256</b> | <b>\$ 25,488</b> |
| 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.

**Table of Contents****MBIA Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****Note 5: Loss and Loss Adjustment Expense Reserves (continued)**

The gross claim liability as of March 31, 2012 and December 31, 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 March 31, 2012 and December 31, 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.

| <b>In millions</b>                                       | <b>As of<br/>March 31, 2012</b> | <b>As of<br/>December 31, 2011</b> |
|--|---------------------------------|------------------------------------|
| Loss reserves (claim liability)                          | \$ 755                          | \$ 781                             |
| LAE reserves   | 112                             | 55                                 |
| <b>Loss and LAE reserves</b>                             | <b>\$ 867</b>                   | <b>\$ 836</b>                      |
| Insurance claim loss recoverable                         | \$ (3,116)                      | \$ (3,032)                         |
| LAE insurance loss recoverable                           | (21)                            | (14)                               |
| <b>Insurance loss recoverable</b>                        | <b>\$ (3,137)</b>               | <b>\$ (3,046)</b>                  |
| Reinsurance recoverable on unpaid losses                 | \$ 14                           | \$ 15                              |
| Reinsurance recoverable on LAE reserves                  | 0                               | 0                                  |
| Reinsurance recoverable on paid losses                   | 1                               | 1                                  |
| <b>Reinsurance recoverable on paid and unpaid losses</b> | <b>\$ 15</b>                    | <b>\$ 16</b>                       |

As of March 31, 2012, loss and LAE reserves include \$1.4 billion of reserves for expected future payments offset by expected recoveries of such future payments of \$518 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 March 31, 2012 and December 31, 2011, the insurance loss recoverable primarily related to estimated recoveries of payments made by the Company resulting from ineligible mortgage loans in certain insured second-lien residential mortgage loan securitizations that are subject to a contractual obligation by the sellers/servicers to repurchase or replace the ineligible mortgage loans and expected future recoveries on second-lien RMBS transactions resulting from expected excess spread generated by performing loans in such transactions. The Company expects to be reimbursed for the majority of its potential recoveries related to ineligible mortgage loans by the second quarter of 2013.

The following table presents the Company's second-lien RMBS exposure, gross undiscounted claim liability and potential recoveries, before the elimination of amounts related to consolidated VIEs, as of March 31, 2012. All loan files reviewed with potential recoveries are included within the Classified List.

**Second-lien RMBS Exposure**

| \$ in billions                                | Issues | Outstanding     |                | Gross Undiscounted |                      |
|---|--------|-----------------|----------------|--------------------|----------------------|
|   |        | Gross Principal | Gross Interest | Claim Liability    | Potential Recoveries |
| Insured issues designated as Classified List  | 34     | \$ 7.2          | \$ 2.7         | \$ 0.6             | \$ 4.7               |
| Loan files reviewed with potential recoveries | 26     | \$ 6.7          | \$ 2.6         | \$ 0.5             | \$ 4.6               |

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

**Table of Contents****MBIA Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****Note 5: Loss and Loss Adjustment Expense Reserves (continued)**

The following table presents changes in the Company's loss and LAE reserves for the three months ended March 31, 2012. Changes in the loss and LAE reserves attributable to the accretion of the claim liability discount, changes in discount rates, changes in the timing and amounts of estimated payments and recoveries, changes in assumptions and changes in LAE reserves are recorded in Losses and loss adjustment expenses in the Company's consolidated statements of operations. As of March 31, 2012, the weighted average risk-free rate used to discount the Company's loss reserves (claim liability) was 1.73%. 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 Three Months Ended March 31, 2012****Gross Loss****and LAE**

| Reserves as of<br>December 31,<br>2011 | Loss Payments<br>for<br>Cases<br>with<br>Reserves | Accretion of<br>Claim<br>Liability<br>Discount | Changes in<br>Discount<br>Rates | Changes in<br>Timing<br>of<br>Payments | Changes in<br>Amount<br>of<br>Net Payments | Changes<br>in<br>Assumptions | Changes in<br>Unearned<br>Premium<br>Revenue | Changes in<br>LAE<br>Reserves | Gross Loss<br>and LAE<br>Reserves as<br>of March 31,<br>2012 |
|--|---|--|---------------------------------|--|--|------------------------------|--|-------------------------------|--|
| \$ 836                                 | \$ (114)  | \$ 3   | \$ (22)                         | \$ 34                                  | \$ (1)                                     | \$ 78                        | \$ (4)                                       | \$ 57                         | \$ 867   |

The increase in the Company's gross loss and LAE reserves reflected in the preceding table was primarily due to changes in assumptions and changes in LAE reserves on insured second-lien RMBS issues outstanding as of December 31, 2011. Offsetting these increases were decreases in reserves related to loss payments.

The following table presents changes in the Company's insurance loss recoverable and changes in recoveries on unpaid losses reported within the Company's claim liability for the three months ended March 31, 2012. Changes in insurance loss recoverable attributable to the accretion of the discount on the recoverable, changes in discount rates, changes in the timing and amounts of estimated collections, changes in assumptions and changes in LAE recoveries are recorded in Losses and loss adjustment expenses in the Company's consolidated statements of operations.

**Changes in Insurance Loss Recoverable and Recoveries on Unpaid Losses  
for the Three Months Ended March 31, 2012**

| In millions                 | Gross<br>Reserve<br>as of<br>December 31,<br>2011 | Collections<br>for<br>Cases<br>with<br>Recoveries | Accretion<br>of<br>Recoveries | Changes<br>in<br>Discount<br>Rates | Changes<br>in<br>Timing<br>of<br>Collections | Changes<br>in<br>Amount<br>of<br>Collections | Changes<br>in<br>Assumptions | Changes<br>in<br>LAE<br>Recoveries | Gross<br>Reserve<br>as of<br>March 31,<br>2012 |
|-----------------------------|---|---|-------------------------------|------------------------------------|--|--|------------------------------|------------------------------------|--|
| Insurance loss recoverable  | \$ 3,046  | \$ (2)  | \$ 9                          | \$ (12)                            | \$ -   | \$ (63)                                      | \$ 152                       | \$ 7                               | \$ 3,137                                       |
| Recoveries on unpaid losses | 562   | -   | 2                             | (15)                               | -  | -  | (30)                         | (1)                                | 518  |
| Total                       | \$ 3,608  | \$ (2)  | \$ 11                         | \$ (27)                            | \$ -   | \$ (63)                                      | \$ 122                       | \$ 6                               | \$ 3,655                                       |

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



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result of a reduction of excess spread related to first-lien and second-lien RMBS transactions and changes in discount rates.

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 March 31, 2012. The total estimated recoveries from ineligible loans of \$3.2 billion include \$2.1 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**

| <b>Total Estimated Recoveries from Ineligible Loans as of December 31, 2011</b> | <b>Accretion of Future Collections</b> | <b>Changes in Discount Rates</b> | <b>Recoveries (Collections)</b> | <b>Changes in Amount of Collections</b> | <b>Changes in Assumptions</b> | <b>Total Estimated Recoveries from Ineligible Loans as of March 31, 2012</b> |
|---|--|----------------------------------|---------------------------------|---|-------------------------------|--|
| \$ 3,119  | \$ 11                                  | \$ (6)                           | \$ -                            | \$ -                                    | \$ 44                         | \$ 3,168   |

The Company's total estimated recoveries from ineligible 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.

**Table of Contents****MBIA Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****Note 5: Loss and Loss Adjustment Expense Reserves (continued)**

Remediation actions may involve, among other things, waivers or renegotiations of financial covenants or triggers, waivers of contractual provisions, the granting of consents, transfer of servicing, consideration of restructuring plans, acceleration, security or collateral enforcement, actions in bankruptcy or receivership, litigation and similar actions. The types of remedial actions pursued are based on the insured obligation's risk type and the nature and scope of the event giving rise to the remediation. As part of any such remedial actions, MBIA seeks to improve its security position and to obtain concessions from the issuer of the insured obligation. From time to time, the issuer of an MBIA-insured obligation may, with the consent of MBIA, restructure the insured obligation by extending the term, increasing or decreasing the par amount or decreasing the related interest rate, with MBIA insuring the restructured obligation.

Costs associated with remediating insured obligations assigned to the Company's Caution List Low, Caution List Medium, Caution List High and 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 expenses (gross and net of reinsurance) related to remedial actions for insured obligations:

| <b>In millions</b>                      | <b>Three Months Ended March 31,</b> |             |
|---|-------------------------------------|-------------|
|   | <b>2012</b>                         | <b>2011</b> |
| Loss adjustment expense incurred, gross | \$ 75                               | \$ 15       |
| Loss adjustment expense incurred, net   | \$ 75                               | \$ 15       |

**Table of Contents****MBIA Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****Note 6: Fair Value of Financial Instruments***Financial Instruments*

The following table presents the carrying value and fair value of financial instruments reported on the Company's consolidated balance sheets as of March 31, 2012 and December 31, 2011:

| In millions   | As of March 31, 2012 |                      | As of December 31, 2011 |                      |
|---|----------------------|----------------------|-------------------------|----------------------|
|   | Carrying Value       | Estimated Fair Value | Carrying Value          | Estimated Fair Value |
| <b>Assets:</b>  |                      |                      |                         |                      |
| Investments held as available-for-sale and held at fair value | \$ 7,989             | \$ 7,989             | \$ 8,586                | \$ 8,586             |
| Other investments   | 68                   | 68                   | 107                     | 107                  |
| Cash and cash equivalents                                     | 711                  | 711                  | 473                     | 473                  |
| Receivable for investments sold                               | 98                   | 98                   | 32                      | 32                   |
| <b>Derivative assets:</b>                                     |                      |                      |                         |                      |
| Insured derivatives   | 10                   | 10                   | -                       | -                    |
| Non-insured derivatives                                       | 2                    | 2                    | 2                       | 2                    |
| <b>Total derivative assets</b>                                | <b>12</b>            | <b>12</b>            | <b>2</b>                | <b>2</b>             |
| <b>Assets of consolidated VIEs:</b>                           |                      |                      |                         |                      |
| Cash  | 144                  | 144                  | 160                     | 160                  |
| Investments held-to-maturity                                  | 3,093                | 2,871                | 3,843                   | 3,489                |
| Fixed-maturity securities held as available-for-sale          | 856                  | 856                  | 432                     | 432                  |
| Fixed-maturity securities held as trading                     | 2,883                | 2,883                | 2,884                   | 2,884                |
| Loans receivable  | 2,025                | 2,025                | 2,046                   | 2,046                |
| Loan repurchase commitments                                   | 1,076                | 1,076                | 1,077                   | 1,077                |
| Derivative assets   | 445                  | 445                  | 450                     | 450                  |
| <b>Liabilities:</b>   |                      |                      |                         |                      |
| Investment agreements   | 1,576                | 1,809                | 1,578                   | 1,853                |
| Medium-term notes   | 1,692                | 1,164                | 1,656                   | 1,187                |
| Securities sold under agreements to repurchase                | 149                  | 149                  | 287                     | 286                  |
| Long-term debt  | 1,839                | 1,168                | 1,840                   | 1,117                |
| Payable for investments purchased                             | 35                   | 35                   | 3                       | 3                    |
| <b>Derivative liabilities:</b>                                |                      |                      |                         |                      |
| Insured derivatives   | 4,513                | 4,513                | 4,808                   | 4,808                |
| Non-insured derivatives                                       | 317                  | 317                  | 356                     | 356                  |
| <b>Total derivative liabilities</b>                           | <b>4,830</b>         | <b>4,830</b>         | <b>5,164</b>            | <b>5,164</b>         |
| Warrants  | 22                   | 22                   | 38                      | 38                   |
| <b>Liabilities of consolidated VIEs:</b>                      |                      |                      |                         |                      |
| Variable interest entity notes                                | 8,704                | 8,183                | 8,697                   | 8,051                |
| Long-term debt  | -                    | -                    | 360                     | 368                  |
| Derivative liabilities  | 803                  | 803                  | 825                     | 825                  |
| <b>Financial Guarantees:</b>                                  |                      |                      |                         |                      |
| Gross   | 1,111                | 1,436                | 1,305                   | 1,451                |
| Ceded   | 101                  | 99                   | 104                     | 94                   |

*Valuation Techniques*

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Valuation techniques for financial instruments measured at fair value and included in the preceding table are described below. The Company's assets and liabilities measured at fair value have been categorized according to the fair value hierarchy based on the lowest level input that is significant to the fair value measurement in its entirety.

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**MBIA Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****Note 6: Fair Value of Financial Instruments (continued)***Fixed-Maturity Securities (including short-term investments) Held as Available-For-Sale and Fixed-Maturity Securities Held at Fair Value*

**U.S. Treasury and government agency** U.S. Treasury securities are valued based on quoted market prices in active markets. The fair value of U.S. Treasuries is based on live trading feeds. U.S. Treasury securities are categorized in Level 1 of the fair value hierarchy. Government agency securities include debentures and other agency mortgage pass-through certificates as well as to-be-announced ( TBA ) securities. TBA securities are liquid and have quoted market prices based on live data feeds. Fair value of mortgage pass-through certificates is obtained via a simulation model, which considers different rate scenarios and historical activity to calculate a spread to the comparable TBA security. Government agency securities generally use market-based and observable inputs. As such, these securities are classified as Level 2 of the fair value hierarchy.

**Foreign governments** Foreign government obligations are generally valued based on quoted market prices in active markets, and are categorized in Level 1 of the fair value hierarchy. When quoted market prices are not available, fair value is determined using a valuation model based on observable inputs including interest rate yield curves, cross-currency basis index spreads, and country credit spreads for structures similar to the financial instrument in terms of issuer, maturity and seniority. These financial instruments are generally categorized in Level 2 of the fair value hierarchy. Bonds that contain significant inputs that are not observable are categorized as Level 3.

**Corporate obligations** Corporate obligations are valued using recently executed transaction prices or quoted market prices where observable. When observable price quotations are not available, fair value is determined using a valuation model based on observable inputs including interest rate yield curves, CDS spreads for similar instruments, and diversity scores. Corporate obligations are generally categorized in Level 2 of the fair value hierarchy or categorized in Level 3 when significant inputs are unobservable. Corporate obligations are classified as Level 1 of the fair value hierarchy when quoted market prices in an active market for identical financial instruments are available.

**Mortgage-backed securities and asset-backed securities** MBS and ABS are valued using recently executed transaction prices. When position-specific quoted prices are not available, MBS and ABS are valued based on quoted prices for similar securities. If quoted prices are not available, MBS and ABS are valued using a valuation model based on observable inputs including interest rate yield curves, spreads, prepayments and volatilities, and categorized in Level 2 of the fair value hierarchy. MBS and ABS are categorized in Level 3 of the fair value hierarchy when significant inputs are unobservable.

**State and municipal bonds** State and municipal bonds are valued using recently executed transaction prices, quoted prices or valuation models based on observable inputs including interest rate yield curves, bond or CDS spreads, and volatility. State and municipal bonds are generally categorized in Level 2 of the fair value hierarchy, or categorized in Level 3 when significant inputs are unobservable.

*Investments Held-To-Maturity*

The fair values of investments held-to-maturity are determined using recently executed transaction prices or quoted prices when available. When position-specific quoted prices are not available, fair values of investments held-to-maturity are based on quoted prices of similar securities. When quoted prices for similar investments are not available, fair values are based on valuation models using observable inputs including interest rate yield curves, and bond spreads of similar securities.

*Other Investments*

Other investments are categorized in Level 1, Level 2, or Level 3 of the fair value hierarchy. Other investments include the Company's interest in equity securities. Fair values of other investments are determined by using quoted prices, or valuation models that use observable inputs. For other investments where there are no observable inputs, inputs of similar investments are used in the cash flow modeling to derive a fair value.

*Cash and Cash Equivalents, Receivable for Investments Sold and Payable for Investments Purchased*

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The carrying amounts of cash and cash equivalents, receivable for investments sold and payable for investments purchased approximates fair values due to the short-term nature of these instruments.

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**MBIA Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Unaudited)**

**Note 6: Fair Value of Financial Instruments (continued)**

*Loans Receivable at Fair Value*

Loans receivable at fair value comprise loans held by consolidated VIEs consisting of residential mortgage loans, commercial mortgage loans and other whole business loans. Fair values of residential mortgage loans are determined using quoted prices for MBS with similar characteristics and adjusted for the fair values of the financial guarantee obligations provided by MBIA Corp. on the related MBS. Fair values of commercial mortgage loans and other whole business loans are valued based on quoted prices of similar collateralized MBS. Loans receivable at fair value are categorized in Level 3 of the fair value hierarchy.

*Loan Repurchase Commitments*

Loan repurchase commitments are obligations owed by the sellers/servicers of mortgage loans to either MBIA as reimbursement of paid claims or to the RMBS trusts as defined in the transaction documents. Loan repurchase commitments are consolidated under the amended accounting principles for the consolidation of VIEs. This asset represents the rights of MBIA against the sellers/servicers for breaches of representations and warranties that the securitized residential mortgage loans sold to the trust comply with stated underwriting guidelines and for the sellers/servicers to cure, replace, or repurchase mortgage loans. 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 unobservable 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;

time value of money, represented by the rate on risk-free monetary assets;

the price for bearing the uncertainty inherent in the cash flows (risk premium); and

other case-specific factors that would be considered by market participants.

*Investment Agreements*

The fair values of investment agreements are determined using discounted cash flow techniques based on observable interest rates currently being offered for similar agreements with comparable maturity dates. Investment agreements contain collateralization and termination agreements that substantially mitigate the nonperformance risk of the Company.

*Medium-Term Notes*

The fair values of MTNs are determined using discounted cash flow techniques based on inputs including observable interest rates currently being offered for similar notes with comparable maturity dates, and nonperformance risk. Nonperformance risk is determined using the Company's own credit spreads.

The Company has elected to record three MTNs at fair value. Fair values of such notes are determined using quoted market prices or discounted cash flow techniques. Significant inputs into the valuation include yield curves and spreads to the swap curve. As these notes are not actively traded, certain significant inputs (e.g., spreads to the swap curve) are unobservable. MTNs are categorized as Level 3 of the fair value hierarchy.

*Variable Interest Entity Notes*

The fair values of VIE notes are determined based on recently executed transaction prices or quoted prices where observable. When position-specific quoted prices are not observable, fair values are based on quoted prices of similar securities. Fair values based on quoted prices of similar securities may be adjusted for factors unique to the securities, including any credit enhancement. When observable quoted prices are not available, fair value is determined based on discounted cash flow techniques of the underlying collateral using observable inputs including interest rate yield curves and bond spreads of similar securities. VIE notes are categorized in Level 2 or Level 3 of the fair value hierarchy based on the lowest level input that is significant to the fair value measurement in its entirety.



**Table of Contents****MBIA Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****Note 6: Fair Value of Financial Instruments (continued)***Securities Sold Under Agreements to Repurchase*

The fair values of securities sold under agreements to repurchase are determined using discounted cash flow techniques based on observable inputs including interest rates on similar repurchase agreements. Securities sold under agreements to repurchase include term reverse repurchase agreements that contain credit enhancement provisions including over-collateralization agreements to sufficiently mitigate the nonperformance risk of the Company.

*Long-term Debt*

Long-term debt consists of notes, debentures, surplus notes and floating rate liquidity loans. The fair value of long-term notes, debentures and surplus notes are estimated based on quoted prices for the identical or similar securities. The fair value for floating rate liquidity loans are determined using discounted cash flow techniques of the underlying collateral pledged to the specific loans, as these loans are non-recourse and fully backed by a pool of underlying assets.

*Derivatives Asset/Liability Products*

The asset/liability products business has entered into derivative transactions primarily consisting of interest rate swaps, cross currency swaps, and CDS contracts. Fair values of OTC derivatives are determined using valuation models based on observable inputs, nonperformance risk of the Company's own credit and nonperformance risk of the counterparties. Observable and market-based inputs include interest rate yields, credit spreads and volatilities. These derivatives are categorized in Level 2 or Level 3 of the fair value hierarchy based on the lowest level input that is significant to the fair value measurement in its entirety.

The Company has policies and procedures in place regarding counterparties, including review and approval of the counterparty and the Company's exposure limit, collateral posting requirements, collateral monitoring and margin calls on collateral. The Company manages counterparty credit risk on an individual counterparty basis through master netting arrangements covering derivative transactions in the asset/liability products and corporate segments. These agreements allow the Company to contractually net amounts due from a counterparty with those amounts due to such counterparty when certain triggering events occur. The Company only executes swaps under master netting agreements, which typically contain mutual credit downgrade provisions that generally provide the ability to require assignment or termination in the event either the Company or the counterparty is downgraded below a specified credit rating. The netting agreements minimize the potential for losses related to credit exposure and thus serve to mitigate the Company's nonperformance risk under these derivatives.

In certain cases, the Company also manages credit risk through collateral agreements that give the Company the right to hold or the obligation to provide collateral when the current market value of derivative contracts exceeds an exposure threshold. Under these arrangements, the Company may receive or provide U.S. Treasury and other highly rated securities or cash to secure the derivative. The delivery of high-quality collateral can minimize credit exposure and mitigate the potential for nonperformance risk impacting the fair values of the derivatives.

*Derivatives Insurance*

The derivative contracts insured by MBIA cannot be legally traded and generally do not have observable market prices. MBIA Corp. determines the fair values of insured credit derivatives using valuation models. These models include the Binomial Expansion Technique ( BET ) Model and an internally developed model referred to as the Direct Price Model. For a limited number of other insured credit derivatives, fair values are determined using a dual-default model. The valuation of insured derivatives includes the impact of its own credit standing. All of these derivatives are categorized as Level 3 of the fair value hierarchy as their fair value is derived using significant unobservable inputs.

Description of MBIA's Insured Derivatives

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As of March 31, 2012, the Company had \$67.4 billion of gross par outstanding on insured derivatives. The majority of MBIA's insured derivatives are credit derivatives that reference structured pools of cash securities and CDS. The Company generally insured the most senior liabilities of such transactions and, at transaction closing, the Company's exposure generally had more subordination than needed to achieve triple-A ratings from credit rating agencies (referred to as Super Triple-A exposure). The collateral underlying the Company's insured derivatives consists of cash securities and CDS referencing primarily corporate, asset-backed, residential mortgage-backed, commercial mortgage-backed, CRE loans, and CDO securities. As of March 31, 2012, the gross par outstanding of the Company's insured credit derivatives totaled \$60.6 billion. The remaining \$6.8 billion of gross par outstanding on insured derivatives as of March 31, 2012 primarily related to insured interest rate and inflation-linked swaps for which the Company has insured counterparty credit risk.

**Table of Contents****MBIA Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****Note 6: Fair Value of Financial Instruments (continued)**

MBIA insures CDS contracts requiring either payments for losses of the principal outstanding under the contracts when losses on the underlying referenced collateral exceed a predetermined deductible ( deductible ) or payments of timely interest and ultimate principal ( P&I ). MBIA's gross par outstanding and maximum payment obligation under deductible contracts as of March 31, 2012 was \$45.9 billion. The underlying referenced collateral for contracts executed in this manner largely consists of investment grade corporate debt, structured CMBS pools and, to a lesser extent, other corporate credit and multi-sector CDOs. MBIA had \$14.7 billion of gross par outstanding on insured P&I CDS contracts.

**Valuation Models Used**

Approximately 79% of the balance sheet fair value of insured credit derivatives as of March 31, 2012 was valued using the BET Model. Approximately 21% of the balance sheet fair value of insured credit derivatives as of March 31, 2012 was valued using the internally developed Direct Price Model. An immaterial amount of insured credit derivatives were valued using the dual-default model.

**A. Description of the BET Model****1. Valuation Model Overview**

The BET Model was originally developed by Moody's to estimate the loss distribution on a diverse pool of assets. The Company has modified this technique in an effort to incorporate more market information and provide more flexibility in handling pools of non-homogeneous assets. The modifications are (a) the Company uses market credit spreads to determine default probability instead of using historical loss experience, and (b) for collateral pools where the spread distribution is characterized by extremes, the Company models each segment of the pool individually instead of using an overall pool average.

The BET Model estimates what a bond insurer would charge to guarantee a transaction at the measurement date, based on the market-implied default risk of the underlying collateral and the remaining structural protection in a deductible or subordination. This approach assumes that bond insurers would be willing to accept these contracts from the Company at a price equal to what the Company could issue them for in the current market. While the premium charged by financial guarantors is not a direct input into the Company's model, the model estimates such premium, and this premium increases as the probability of loss increases, driven by various factors including rising credit spreads, negative credit migration, lower recovery rates, lower diversity score and erosion of deductible or subordination.

Inputs to the process of determining fair value for structured transactions using the BET Model include estimates of collateral loss, allocation of loss to separate tranches of the capital structure, and calculation of the change in value.

Estimates of aggregated collateral losses are calculated by reference to the following (described in further detail under BET Model Inputs below):

credit spreads of underlying collateral based on actual spreads or spreads on similar collateral with similar ratings, or in some cases is benchmarked; for collateral pools where the spread distribution is characterized by extremes, each segment of the pool is modeled separately instead of using an overall pool average;

diversity score of the collateral pool as an indication of correlation of collateral defaults; and

recovery rate for all defaulted collateral.

Allocation of losses to separate tranches of the capital structure according to priority of payments in a transaction.

The unrealized gain or loss on a transaction inception-to-date is the difference between the original price of the risk (the original market-implied expected loss) and the current price of the risk based on the assumed market-implied expected losses derived from the model.

Additional structural assumptions of the BET Model are:

Default probabilities are determined by three factors: credit spread, recovery rate after default, and the time period under risk.

Frequencies of defaults are modeled evenly over time.

Collateral assets are generally considered on an average basis rather than being modeled on an individual basis.

Collateral asset correlation is modeled using a diversity score which is calculated based on industry or sector concentrations. Recovery rates are based on historical averages and updated based on market evidence.

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**Table of Contents****MBIA Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****Note 6: Fair Value of Financial Instruments (continued)**

## 2. 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. Cash security spreads reflect trading activity in funded fixed-income instruments while CDS spreads reflect trading levels for non-funded derivative instruments. While both markets are driven partly by an assessment of the credit quality of the referenced security, there are factors which create significant differences. These factors include CDS spreads driven by speculative activity as the CDS market facilitates both long and short positions without ownership of the underlying security, allowing for significant leverage.

## Spread Hierarchy:

Collateral-specific credit spreads when observable.

Sector-specific spread tables by asset class and rating.

Corporate spreads, including Bloomberg and Risk Metrics spread tables based on rating.

Benchmark from most relevant market source when corporate spreads are not directly relevant.

If current market-based spreads are not available, the Company applies either sector-specific spreads from spread tables provided by dealers or corporate spread tables. The sector-specific spread applied depends on the nature of the underlying collateral. Transactions with corporate collateral use the corporate spread table. Transactions with asset-backed collateral use one or more of the dealer asset-backed tables. If there are no observable market spreads for the specific collateral, and sector-specific and corporate spread tables are not appropriate to estimate the spread for a specific type of collateral, the Company uses the fourth alternative in its hierarchy. This includes using tranching corporate collateral, where the Company applies corporate spreads as an input with an adjustment for its tranching exposure.

As of March 31, 2012, sector-specific spreads were used in 8% of the transactions valued using the BET Model. Corporate spreads were used in 47% of the transactions and spreads benchmarked from the most relevant spread source were used for 45% of the transactions. When determining the percentages above, there were some transactions where MBIA incorporated multiple levels within the hierarchy, including using actual collateral-specific credit spreads in combination with a calculated spread based on an assumed relationship. In those cases, MBIA

classified the transaction as being benchmarked from the most relevant spread source even though the majority of the average spread was from actual collateral-specific spreads. The spread source can also be identified by whether or not it is based on collateral 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 78% of the transactions.

Over time, the data inputs change as new sources become available, existing sources are discontinued or are no longer considered to be reliable or the most appropriate. It is always the Company's objective to move to higher levels on the spread hierarchy table defined above. However, the Company may on occasion move to lower priority inputs due to the discontinuation of data sources or due to the Company considering higher priority inputs no longer representative of market spreads.

b. Diversity Scores

Diversity scores are a means of estimating the diversification in a portfolio. The diversity score estimates the number of uncorrelated assets that are assumed to have the same loss distribution as the actual portfolio of correlated assets. A lower diversity score represents higher assumed correlation, increasing the chances of a large number of defaults, and thereby increasing the risk of loss in the senior tranche. A lower diversity score will generally have a negative impact on the valuation for the Company's senior tranche. The calculation methodology for a diversity score includes the extent to which a portfolio is diversified by industry or asset class, which is either calculated internally or reported by the trustee on a regular basis. Diversity scores are calculated at transaction origination, and adjusted as the collateral pool changes over time. MBIA's internal modeling of the diversity score is based on Moody's methodology.

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**MBIA Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Unaudited)**

**Note 6: Fair Value of Financial Instruments (continued)**

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. Input Adjustments for Insured CMBS Derivatives in the Current Market

Approximately \$21.5 billion gross par of MBIA's insured derivative transactions as of March 31, 2012 includes substantial amounts of CMBS and commercial mortgage collateral. Since the CMBX is now quoted in price terms and the BET Model requires a spread input, it is necessary to convert CMBX prices to spreads. Through the third quarter of 2010, the Company assumed that a portion of the CMBX price reflected market illiquidity. The Company assumed this illiquidity component was the difference between par and the price of the highest priced CMBX triple-A series. The Company assumed that the price of each CMBX index has two components: an illiquidity component and a loss component. The market implied losses were assumed to be the difference of par less the liquidity adjusted price. These loss estimates were converted to spreads using an internal estimate of duration. Beginning in the fourth quarter of 2010, the Company determined that it would not be appropriate to continue to use a CMBS illiquidity component in the models due to increased liquidity in the marketplace.

e. Nonperformance Risk

The Company's valuation methodology for insured credit derivative liabilities incorporates the Company's own nonperformance risk. The Company calculates the fair value by discounting the market value loss estimated through the BET Model at discount rates which include MBIA CDS spreads as of March 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 was developed internally to address weaknesses in the Company's BET Model specific to valuing insured multi-sector CDOs, as previously discussed. There are three significant model inputs used in determining fair value using the Direct Price Model. Significant inputs include market prices obtained or estimated for all collateral within a transaction, the present value of the market-implied potential losses calculated for the transaction, and the impact of nonperformance risk.

2. Model 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.



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**Table of Contents****MBIA Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****Note 6: Fair Value of Financial Instruments (continued)***Overall Model Results*

As of March 31, 2012 and December 31, 2011, the Company's net insured derivative liability was \$4.5 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 March 31, 2012 and December 31, 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.

The Company reviews the model results on a quarterly basis to assess the appropriateness of the assumptions and results in light of current market activity and conditions. This review is performed by internal staff with relevant expertise. If live market spreads are observable for similar transactions, those spreads are an integral part of the analysis. For example, new insured transactions that resemble existing (previously insured) transactions are considered, as well as negotiated settlements of existing transactions. MBIA Corp. negotiated settlements of insured CDS transactions in 2011 and 2012. In assessing the reasonableness of the fair value estimate for insured CDS, the Company considered the executed prices for those transactions as well as a review of internal consistency with MBIA's methodology.

*Warrants*

Stock warrants issued by the Company are recorded at fair value based on a modified Black-Scholes model. Inputs into the warrant valuation include interest rates, stock volatilities and dividend data. As all significant inputs are market-based and observable, warrants are categorized in Level 2 of the fair value hierarchy.

*Financial Guarantees*

**Gross Financial Guarantees** The fair value of gross financial guarantees is determined using discounted cash flow techniques based on inputs that include (i) assumptions of expected losses on financial guarantee policies where loss reserves have not been recognized, (ii) amount of losses expected on financial guarantee policies where loss reserves have been established, net of expected recoveries (iii) the cost of capital reserves required to support the financial guarantee liability, (iv) operating expenses, and (v) discount rates. The MBIA Corp. CDS spread and recovery rate are used as the discount rate for MBIA Corp., while the Assured Guaranty Corp. CDS spread and recovery rate are used as the discount rate for National. Discount rates are adjusted to reflect nonperformance risk of the Company.

The carrying value of MBIA's gross financial guarantees consists of unearned premium revenue and loss and LAE reserves, net of the insurance loss recoverable as reported on MBIA's consolidated balance sheets.

**Ceded Financial Guarantees** The fair value of ceded financial guarantees is determined by applying the percentage ceded to reinsurers to the related fair value of the gross financial guarantees. The carrying value of ceded financial guarantees consists of prepaid reinsurance premiums and reinsurance recoverable on paid and unpaid losses as reported on MBIA's consolidated balance sheets.

*Valuation of Financial Instruments*

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 contracts or modeling using market data inputs. The use of alternate valuation methods generally requires considerable judgment in the application of

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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.

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**Table of Contents****MBIA Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****Note 6: Fair Value of Financial Instruments (continued)***1. Financial Assets*

Substantially all of the Company's investments are priced by independent third parties, including pricing services and brokers. The fair values of investments for which internal prices were used were not significant to the aggregate fair value of its investment portfolio as of March 31, 2012 or December 31, 2011. Typically the Company receives one pricing service value or broker quote for each instrument, which represents a non-binding indication of value. When a price is received from more than one source, the Company uses the lower of the prices provided. 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 internal 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. All challenges to third-party prices are reviewed by staff of the Company with relevant expertise to ensure reasonableness of assumptions and compliance with internal control and documentation procedures.

In addition to challenging pricing assumptions, the Company obtains independent auditor reports from significant third-party pricing services regarding their key 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 MBIA to ensure proper measurement of the fair values of its investments. In the event that any controls are identified by independent auditors in these reports as insufficient, the Company will take the necessary actions to ensure that internal user controls are in place to mitigate the control risks. No significant control deficiencies were noted for significant third-party pricing services used.

*2. Financial Liabilities*

The Company's financial instruments categorized as liabilities primarily consist of insured derivatives within its insurance operations, derivatives used in its wind-down operations, investment agreements and MTNs within its wind-down operations, and debt issued for general corporate purposes. Investment agreements, MTNs, and corporate debt are typically recorded at face value adjusted for premiums or discounts. 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 flows, or quoted market values for similar transactions.

*3. Derivatives*

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. 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 are 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.

**Table of Contents****MBIA Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****Note 6: Fair Value of Financial Instruments (continued)****Significant Unobservable Inputs**

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 unobservable inputs deemed significant to the instruments' overall fair value. The following table provides quantitative information regarding the significant unobservable inputs for assets and liabilities measured at fair value on a recurring basis as of March 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 provided. These primarily relate to fixed-maturity investments with significant unobservable inputs (Level 3 of the fair value hierarchy).

| In millions                                | Fair Value<br>as of<br>March<br>31, 2012 | Valuation Techniques   | Unobservable Input   | Range<br>(Weighted Average)  |
|--|--|--|--|--|
| <b>Assets of consolidated VIEs:</b>        |  |  |  |  |
| Loans receivable                           | \$ 2,025                                 | Quoted market prices adjusted for financial guarantees provided to VIE obligations | Impact of financial guarantee  | 0% - 114% (7%)   |
| Loan repurchase commitments                | 1,076                                    | Discounted cash flow   | Recovery rates<br>Breach rates   | 25% - 75% (71%)<br>65% - 94% (76%)                                     |
| <b>Liabilities of consolidated VIEs:</b>   |  |  |  |  |
| Variable interest entity notes             | 2,864                                    | Quoted market prices of VIE assets adjusted for financial guarantees provided      | Impact of financial guarantee  | 0% - 26% (3%)  |
| <b>Credit derivative liabilities, net:</b> |  |  |  |  |
| CMBS                                       | 2,183                                    | BET Model  | Recovery rates<br>Nonperformance risk<br>Weighted average life<br>(in years)<br>CMBS spreads | 22% - 90% (50%)<br>4% - 57% (49%)<br>0.2 - 6.4 (4.7)<br>1% - 23% (12%) |
| Multi-sector CDO                           | 928                                      | Direct Price Model   | Nonperformance risk  | 57% - 57% (57%)  |
| Other                                      | 1,376                                    | BET Model  | Recovery rates<br>Nonperformance risk<br>Weighted average<br>life (in years)                 | 42% - 75% (47%)<br>10% - 57% (44%)<br>0.2 - 13.4 (3.1)                 |

**Sensitivity of Significant Unobservable Inputs**

The significant unobservable input used in the fair value measurement of the Company's assets of consolidated VIEs: loans receivable is the impact of the financial guarantee. As the perception of the benefit provided by the Company to the obligations issued by the VIE improves, the credit support of the financial guarantee provides more of the expected future cash flow of the VIE, and 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 assets of consolidated VIEs: loan repurchase commitments are the recovery rates and the breach rates. Significant increases or decreases in the recovery rate and the breach rate would result in significantly higher or lower, respectively, fair values of the loan repurchase commitments. Additionally, changes in the legal environment

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and the ability of the counterparties to pay would impact the recovery rate assumption, which could significantly impact the fair value measurement. Breach rates are determined by the Company. Any significant challenges by the counterparties to the Company's determination of breach of contracts could significantly adversely impact the fair value measurement.

The significant unobservable input used in the fair value measurement of the Company's liabilities of consolidated VIEs: variable interest entity notes is the impact of the financial guarantee. 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.

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**MBIA Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Unaudited)**

**Note 6: Fair Value of Financial Instruments (continued)**

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. A significant increase or decrease in CMBS spreads or weighted average life would result in an increase or decrease, respectively, in the fair value of the derivative liabilities. 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.

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. Any significant increase or decrease in the Company's nonperformance risk would result in a decrease or increase, respectively, in the fair value of the derivative liabilities.

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. Any significant increase or decrease in weighted average life would result in an increase or decrease, respectively, in the fair value of the derivatives. 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.

**Table of Contents****MBIA Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****Note 6: Fair Value of Financial Instruments (continued)***Fair Value Measurements*

The following fair value hierarchy tables present information about the Company's assets (including short-term investments) and liabilities measured at fair value on a recurring basis as of March 31, 2012 and December 31, 2011:

| In millions                            | Fair Value Measurements at Reporting Date Using                            |   |  |   | Balance as of<br>March 31, 2012 |
|--|--|---|--|---|---------------------------------|
|  | Quoted Prices in<br>Active Markets for<br>Identical<br>Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) | Counterparty<br>and Cash<br>Collateral<br>Netting |                                 |
| Assets:                                |  |   |  |   |                                 |
| Investments:                           |  |   |  |   |                                 |
| Fixed-maturity investments:            |  |   |  |   |                                 |
| Taxable bonds:                         |  |   |  |   |                                 |
| U.S. Treasury and government agency    | \$ 888   | \$ 197  | \$ -   | \$ -  | \$ 1,085                        |
| Foreign governments                    | 263  | 94  | 12 <sup>(1)</sup>                                  | -   | 369                             |
| Corporate obligations                  | -  | 1,487   | 185 <sup>(1)</sup>                                 | -   | 1,672                           |
| Mortgage-backed securities:            |  |   |  |   |                                 |
| Residential mortgage-backed agency     | -  | 1,201   | 9 <sup>(1)</sup>                                   | -   | 1,210                           |
| Residential mortgage-backed non-agency | -  | 219   | 14 <sup>(1)</sup>                                  | -   | 233                             |
| Commercial mortgage-backed             | -  | 27  | 25 <sup>(1)</sup>                                  | -   | 52                              |
| Asset-backed securities:               |  |   |  |   |                                 |
| Collateralized debt obligations        | -  | 71  | 35 <sup>(1)</sup>                                  | -   | 106                             |
| Other asset-backed                     | -  | 118   | 115 <sup>(1)</sup>                                 | -   | 233                             |
| State and municipal bonds              | -  | 952   | -  | -   | 952                             |
| Total taxable bonds                    | 1,151  | 4,366   | 395  | -   | 5,912                           |
| Tax exempt bonds:                      |  |   |  |   |                                 |
| State and municipal bonds              | -  | 1,053   | 27 <sup>(1)</sup>                                  | -   | 1,080                           |
| Other fixed-maturity investments       | -  | 13  | -  | -   | 13                              |
| Total fixed-maturity investments       | 1,151  | 5,432   | 422  | -   | 7,005                           |
| Money market securities                | 953  | -   | -  | -   | 953                             |
| Perpetual preferred securities         | -  | 49  | -  | -   | 49                              |
| Other                                  | 29   | -   | 10 <sup>(1)</sup>                                  | -   | 39                              |
| Total                                  | 2,133  | 5,481   | 432  | -   | 8,046                           |
| Derivative assets:                     |  |   |  |   |                                 |
| Insured derivative assets:             |  |   |  |   |                                 |
| Credit derivatives                     | -  | -   | 10   | -   | 10                              |
| Non-insured derivative assets:         |  |   |  |   |                                 |
| Interest rate derivatives              | -  | 74  | 4 <sup>(1)</sup>                                   | -   | 78                              |
| Other                                  | -  | -   | -  | (76)  | (76)                            |



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|                         |   |    |    |      |    |
|-------------------------|---|----|----|------|----|
| Total derivative assets | - | 74 | 14 | (76) | 12 |
|-------------------------|---|----|----|------|----|

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**Table of Contents****MBIA Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****Note 6: Fair Value of Financial Instruments (continued)**

| In millions                                   | Fair Value Measurements at Reporting Date Using                            |   |  |   | Balance as of<br>March 31,<br>2012 |
|---|--|---|--|---|------------------------------------|
|   | Quoted Prices in<br>Active Markets for<br>Identical<br>Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) | Counterparty<br>and Cash<br>Collateral<br>Netting |                                    |
| Assets of consolidated VIEs:                  |  |   |  |   |                                    |
| Corporate obligations                         | -  | 165   | 75 <sup>(1)</sup>                                  | -   | 240                                |
| Mortgage-backed securities:                   |  |   |  |   |                                    |
| Residential mortgage-backed agency            | -  | 3   | -  | -   | 3                                  |
| Residential mortgage-backed non-agency        | -  | 1,444   | 25 <sup>(1)</sup>                                  | -   | 1,469                              |
| Commercial mortgage-backed                    | -  | 559   | 15 <sup>(1)</sup>                                  | -   | 574                                |
| Asset-backed securities:                      |  |   |  |   |                                    |
| Collateralized debt obligations               | -  | 331   | 218 <sup>(1)</sup>                                 | -   | 549                                |
| Other asset-backed                            | -  | 211   | 71 <sup>(1)</sup>                                  | -   | 282                                |
| Total fixed-maturity securities at fair value | -  | 2,713   | 404  | -   | 3,117                              |
| Money market securities                       | 622  | -   | -  | -   | 622                                |
| Loans receivable                              | -  | -   | 2,025  | -   | 2,025                              |
| Loan repurchase commitments                   | -  | -   | 1,076  | -   | 1,076                              |
| Derivative assets:                            |  |   |  |   |                                    |
| Credit derivatives                            | -  | -   | 443 <sup>(1)</sup>                                 | -   | 443                                |
| Interest rate derivatives                     | -  | 2   | -  | -   | 2                                  |
| Total assets                                  | \$ 2,755   | \$ 8,270  | \$ 4,394   | \$ (76)   | \$ 15,343                          |
| Liabilities:                                  |  |   |  |   |                                    |
| Medium-term notes                             | \$ -   | \$ -  | \$174 <sup>(1)</sup>                               | \$ -  | \$ 174                             |
| Derivative liabilities:                       |  |   |  |   |                                    |
| Insured derivatives:                          |  |   |  |   |                                    |
| Credit derivatives                            | -  | 16  | 4,497  | -   | 4,513                              |
| Non-insured derivatives:                      |  |   |  |   |                                    |
| Interest rate derivatives                     | -  | 390   | -  | -   | 390                                |
| Currency derivatives                          | -  | 3   | -  | -   | 3                                  |
| Other   | -  | -   | -  | (76)  | (76)                               |
| Other liabilities:                            |  |   |  |   |                                    |
| Warrants                                      | -  | 22  | -  | -   | 22                                 |
| Liabilities of consolidated VIEs:             |  |   |  |   |                                    |
| Variable interest entity notes                | -  | 1,897   | 2,864  | -   | 4,761                              |
| Derivative liabilities:                       |  |   |  |   |                                    |
| Credit derivatives                            | -  | -   | 525 <sup>(1)</sup>                                 | -   | 525                                |
| Interest rate derivatives                     | -  | 259   | -  | -   | 259                                |
| Currency derivatives                          | -  | -   | 19 <sup>(1)</sup>                                  | -   | 19                                 |
| Total liabilities                             | \$ -   | \$ 2,587  | \$ 8,079   | \$ (76)   | \$ 10,590                          |

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(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.

**Table of Contents****MBIA Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****Note 6: Fair Value of Financial Instruments (continued)**

| In millions                            | Fair Value Measurements at Reporting Date Using                |   |   |  | Balance as of December 31, 2011 |
|--|--|---|---|--|---------------------------------|
|  | 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 |                                 |
| Assets:                                |  |   |   |  |                                 |
| Investments:                           |  |   |   |  |                                 |
| Fixed-maturity investments:            |  |   |   |  |                                 |
| Taxable bonds:                         |  |   |   |  |                                 |
| U.S. Treasury and government agency    | \$ 1,038   | \$ 103  | \$ -                                      | \$ -                                     | \$ 1,141                        |
| Foreign governments                    | 277  | 62  | 11  | -  | 350                             |
| Corporate obligations                  | 1  | 1,531   | 206                                       | -  | 1,738                           |
| Mortgage-backed securities:            |  |   |   |  |                                 |
| Residential mortgage-backed agency     | -  | 1,276   | 8   | -  | 1,284                           |
| Residential mortgage-backed non-agency | -  | 350   | 17  | -  | 367                             |
| Commercial mortgage-backed             | -  | 34  | 24  | -  | 58                              |
| Asset-backed securities:               |  |   |   |  |                                 |
| Collateralized debt obligations        | -  | 78  | 60  | -  | 138                             |
| Other asset-backed                     | -  | 130   | 318                                       | -  | 448                             |
| State and municipal bonds              | -  | 924   | -   | -  | 924                             |
| Total taxable bonds                    | 1,316  | 4,488   | 644                                       | -  | 6,448                           |
| Tax exempt bonds:                      |  |   |   |  |                                 |
| State and municipal bonds              | -  | 1,137   | 28  | -  | 1,165                           |
| Other fixed-maturity investments       | -  | 15  | -   | -  | 15                              |
| Total fixed-maturity investments       | 1,316  | 5,640   | 672                                       | -  | 7,628                           |
| Money market securities                | 912  | -   | -   | -  | 912                             |
| Perpetual preferred securities         | -  | 106   | 1   | -  | 107                             |
| Other                                  | 25   | -   | 10  | -  | 35                              |
| Total                                  | 2,253  | 5,746   | 683                                       | -  | 8,682                           |
| Derivative assets:                     |  |   |   |  |                                 |
| Non-insured derivative assets:         |  |   |   |  |                                 |
| Credit derivatives                     | -  | 1   | -   | -  | 1                               |
| Interest rate derivatives              | -  | 91  | 3   | -  | 94                              |
| Other                                  | -  | -   | -   | (93)                                     | (93)                            |
| Total derivative assets                | -  | 92  | 3   | (93)                                     | 2                               |

**Table of Contents****MBIA Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****Note 6: Fair Value of Financial Instruments (continued)**

| In millions                                   | Fair Value Measurements at Reporting Date Using                |   |   |  | Balance as of December 31, 2011 |
|---|--|---|---|--|---------------------------------|
|   | 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 |                                 |
| <b>Assets of consolidated VIEs:</b>           |  |   |   |  |                                 |
| Corporate obligations                         | -  | 170   | 69  | -  | 239                             |
| <b>Mortgage-backed securities:</b>            |  |   |   |  |                                 |
| Residential mortgage-backed agency            | -  | 3   | -   | -  | 3                               |
| Residential mortgage-backed non-agency        | -  | 1,437   | 21  | -  | 1,458                           |
| Commercial mortgage-backed                    | -  | 559   | 22  | -  | 581                             |
| <b>Asset-backed securities:</b>               |  |   |   |  |                                 |
| Collateralized debt obligations               | -  | 330   | 203                                       | -  | 533                             |
| Other asset-backed                            | -  | 236   | 67  | -  | 303                             |
| Total fixed-maturity securities at fair value | -  | 2,735   | 382                                       | -  | 3,117                           |
| Money market securities                       | 199  | -   | -   | -  | 199                             |
| Loans receivable                              | -  | -   | 2,046                                     | -  | 2,046                           |
| Loan repurchase commitments                   | -  | -   | 1,077                                     | -  | 1,077                           |
| <b>Derivative assets:</b>                     |  |   |   |  |                                 |
| Credit derivatives                            | -  | -   | 447                                       | -  | 447                             |
| Interest rate derivatives                     | -  | 3   | -   | -  | 3                               |
| <b>Total assets</b>                           | <b>\$ 2,452</b>  | <b>\$ 8,576</b>                               | <b>\$ 4,638</b>                           | <b>\$ (93)</b>                           | <b>\$ 15,573</b>                |
| <b>Liabilities:</b>                           |  |   |   |  |                                 |
| Medium-term notes                             | \$ -   | \$ -  | \$ 165                                    | \$ -                                     | \$ 165                          |
| <b>Derivative liabilities:</b>                |  |   |   |  |                                 |
| <b>Insured derivatives:</b>                   |  |   |   |  |                                 |
| Credit derivatives                            | -  | 18  | 4,790                                     | -  | 4,808                           |
| <b>Non-insured derivatives:</b>               |  |   |   |  |                                 |
| Interest rate derivatives                     | -  | 445   | -   | -  | 445                             |
| Currency derivatives                          | -  | 4   | -   | -  | 4                               |
| Other   | -  | -   | -   | (93)                                     | (93)                            |
| <b>Other liabilities:</b>                     |  |   |   |  |                                 |
| Warrants                                      | -  | 38  | -   | -  | 38                              |
| <b>Liabilities of consolidated VIEs:</b>      |  |   |   |  |                                 |
| Variable interest entity notes                | -  | 1,865   | 2,889                                     | -  | 4,754                           |
| <b>Derivative liabilities:</b>                |  |   |   |  |                                 |
| Credit derivatives                            | -  | -   | 527                                       | -  | 527                             |
| Interest rate derivatives                     | -  | 281   | -   | -  | 281                             |
| Currency derivatives                          | -  | -   | 17  | -  | 17                              |
| <b>Total liabilities</b>                      | <b>\$ -</b>  | <b>\$ 2,651</b>                               | <b>\$ 8,388</b>                           | <b>\$ (93)</b>                           | <b>\$ 10,946</b>                |

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Level 3 assets at fair value, as of March 31, 2012 and December 31, 2011 represented approximately 29% and 30% of total assets measured at fair value, respectively. Level 3 liabilities at fair value, as of March 31, 2012 and December 31, 2011, represented approximately 76% and 77% of total liabilities measured at fair value, respectively.

**Table of Contents****MBIA Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****Note 6: Fair Value of Financial Instruments (continued)**

The following fair value hierarchy table presents information about the Company's assets and liabilities that are disclosed at fair value but not recorded at fair value on the Company's consolidated balance sheet as of March 31, 2012:

| In millions                                    | Fair Value Measurements at Reporting Date Using                                     |   |  | Balance as of<br>March 31,<br>2012 |
|--|---|---|--|------------------------------------|
|  | Quoted<br>Prices<br>in<br>Active Markets for<br>Identical<br>Assets<br>(Level<br>1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |                                    |
| <b>Assets:</b>                                 |   |   |  |                                    |
| Other investments                              | \$ -  | \$ 11   | \$ -   | \$ 11                              |
| Receivable for investments sold                | 98  | -   | -  | 98                                 |
| <b>Assets of consolidated VIEs:</b>            |   |   |  |                                    |
| Investments held-to-maturity                   | -   | -   | 2,871  | 2,871                              |
| <b>Total assets</b>                            | <b>98</b>   | <b>11</b>   | <b>2,871</b>                                       | <b>2,980</b>                       |
| <b>Liabilities:</b>                            |   |   |  |                                    |
| Investment agreements                          | -   | -   | 1,809  | 1,809                              |
| Medium-term notes                              | -   | -   | 990  | 990                                |
| Securities sold under agreements to repurchase | -   | 149   | -  | 149                                |
| Long-term debt                                 | -   | 1,168   | -  | 1,168                              |
| Payable for investments purchased              | 35  | -   | -  | 35                                 |
| <b>Liabilities of consolidated VIEs:</b>       |   |   |  |                                    |
| Variable interest entity notes                 | -   | -   | 3,422  | 3,422                              |
| <b>Total liabilities</b>                       | <b>35</b>   | <b>1,317</b>  | <b>6,221</b>                                       | <b>7,573</b>                       |
| <b>Financial Guarantees:</b>                   |   |   |  |                                    |
| Gross  | -   | -   | 1,436  | 1,436                              |
| Ceded  | -   | -   | 99   | 99                                 |

**Table of Contents****MBIA Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****Note 6: 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 three months ended March 31, 2012 and 2011:

**Changes in Level 3 Assets and Liabilities Measured at Fair Value on a Recurring Basis for the Three Months Ended March 31, 2012**

| In millions                                  | Balance,<br>Beginning<br>of Year | Realized<br>Gains/<br>(Losses) | Unrealized<br>Gains<br>(Losses)<br>Included<br>in<br>Earnings | Foreign<br>Exchange<br>Gains<br>(Losses)<br>Included<br>in<br>OCI<br>Earnings | Purchases | Issuances | Settlements | Sales   | Transfers<br>into<br>Level 3<br>(1) | Transfers<br>out of<br>Level 3<br>(1) | Ending<br>Balance | Change<br>in<br>Unrealized<br>Gains (Losses)<br>for the Period<br>Included in<br>Earnings for<br>Assets still held<br>as of March 31, |       |
|--|----------------------------------|--------------------------------|---|---|-----------|-----------|-------------|---------|-------------------------------------|---------------------------------------|-------------------|---|-------|
|  |                                  |                                |   |   |           |           |             |         |                                     |                                       |                   | 2012  |       |
| Assets:                                      |                                  |                                |   |   |           |           |             |         |                                     |                                       |                   |   |       |
| Foreign governments                          | \$ 11                            | \$ -                           | \$ -  | \$ -  | \$ 1      | \$ 6      | \$ -        | \$ (6)  | \$ -                                | \$ -                                  | \$ -              | \$ 12   | \$ -  |
| Corporate obligations                        | 206                              | (13)                           | -   | 17  | -         | -         | (1)         | (24)    | -                                   | -                                     | 185               | -   |       |
| Residential<br>mortgage-backed agency        | 8                                | -                              | -   | 1   | -         | -         | -           | -       | -                                   | -                                     | 9                 | -   |       |
| Residential<br>mortgage-backed<br>non-agency | 17                               | -                              | -   | 1   | -         | -         | (1)         | -       | -                                   | (3)                                   | 14                | -   |       |
| Commercial<br>mortgage-backed                | 24                               | -                              | -   | 2   | -         | -         | -           | -       | -                                   | (1)                                   | 25                | -   |       |
| Collateralized debt<br>obligations           | 60                               | (3)                            | -   | 6   | -         | -         | (5)         | (2)     | 6                                   | (27)                                  | 35                | -   |       |
| Other asset-backed                           | 318                              | (116)                          | -   | 121   | -         | 1         | (7)         | (202)   | 2                                   | (2)                                   | 115               | -   |       |
| State and municipal<br>tax-exempt bonds      | 28                               | -                              | -   | -   | -         | -         | (1)         | -       | -                                   | -                                     | 27                | -   |       |
| Perpetual preferred<br>securities            | 1                                | -                              | -   | 1   | -         | -         | -           | -       | -                                   | (2)                                   | -                 | -   |       |
| Other investments                            | 10                               | -                              | -   | -   | -         | -         | -           | -       | -                                   | -                                     | 10                | -   |       |
| Assets of consolidated<br>VIEs:              |                                  |                                |   |   |           |           |             |         |                                     |                                       |                   |   |       |
| Corporate obligations                        | 69                               | -                              | 1   | -   | -         | -         | (1)         | -       | 6                                   | -                                     | 75                | 2   |       |
| Residential<br>mortgage-backed<br>non-agency | 21                               | -                              | 5   | -   | -         | -         | (2)         | -       | 2                                   | (1)                                   | 25                | 4   |       |
| Commercial<br>mortgage-backed                | 22                               | -                              | 1   | -   | -         | -         | (2)         | -       | -                                   | (6)                                   | 15                | -   |       |
| Collateralized debt<br>obligations           | 203                              | -                              | 3   | 1   | -         | -         | -           | -       | 11                                  | -                                     | 218               | 2   |       |
| Other asset-backed                           | 67                               | -                              | 3   | -   | -         | -         | -           | -       | 1                                   | -                                     | 71                | 3   |       |
| Loans receivable                             | 2,046                            | -                              | 39  | -   | -         | -         | (60)        | -       | -                                   | -                                     | 2,025             | 39  |       |
| Loan repurchase<br>commitments               | 1,077                            | -                              | (1)   | -   | -         | -         | -           | -       | -                                   | -                                     | 1,076             | (1)   |       |
| Total assets                                 | \$ 4,188                         | \$ (132)                       | \$ 51   | \$ 150  | \$ 1      | \$ 7      | \$ -        | \$ (86) | \$ (228)                            | \$ 28                                 | \$ (42)           | \$ 3,937  | \$ 49 |





**Table of Contents****MBIA Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****Note 6: Fair Value of Financial Instruments (continued)**

| In millions                              | Balance,<br>Beginning<br>of Year | Realized<br>(Gains)<br>/ Losses | (Gains)<br>/ Losses<br>Included in<br>Earnings | Unrealized<br>(Gains)<br>/ Losses<br>Included in<br>OCI | Foreign<br>Exchange<br>Unrealized<br>(Gains)<br>/ Losses<br>Recognized<br>in<br>OCI | Purchases   | Issuances   | Settlements     | Sales       | Transfers              |                      | Ending<br>Balance | Change<br>in<br>Unrealized<br>(Gains) Losses<br>for the<br>Period<br>Included<br>in<br>Earnings<br>for<br>Liabilities<br>still<br>held as of<br>March 31,<br>2012 |
|--|----------------------------------|---------------------------------|--|---|---|-------------|-------------|-----------------|-------------|------------------------|----------------------|-------------------|---|
|  |                                  |                                 |  |   |   |             |             |                 |             | into<br>Level<br>3 (1) | of<br>Level<br>3 (1) |                   |   |
| <b>Liabilities:</b>                      |                                  |                                 |  |   |   |             |             |                 |             |                        |                      |                   |   |
| Medium-term notes                        | \$ 165                           | \$ -                            | \$ 5   | \$ -  | \$ 4  | \$ -        | \$ -        | \$ -            | \$ -        | \$ -                   | \$ -                 | \$ 174            | \$ 5  |
| Credit derivatives, net                  | 4,790                            | 20                              | (303)  | -   | -   | -           | -           | (20)            | -           | -                      | -                    | 4,487             | (286)   |
| Interest rate derivatives, net           | (3)                              | -                               | (1)  | -   | -   | -           | -           | -               | -           | -                      | -                    | (4)               | 7   |
| <b>Liabilities of consolidated VIEs:</b> |                                  |                                 |  |   |   |             |             |                 |             |                        |                      |                   |   |
| VIE notes                                | 2,889                            | -                               | 158  | -   | -   | -           | -           | (183)           | -           | -                      | -                    | 2,864             | 158   |
| Credit derivatives, net                  | 80                               | -                               | 2  | -   | -   | -           | -           | -               | -           | -                      | -                    | 82                | 2   |
| Currency derivatives, net                | 17                               | -                               | 2  | -   | -   | -           | -           | -               | -           | -                      | -                    | 19                | 2   |
| <b>Total liabilities</b>                 | <b>\$ 7,938</b>                  | <b>\$ 20</b>                    | <b>\$ (137)</b>                                | <b>\$ -</b>   | <b>\$ 4</b>   | <b>\$ -</b> | <b>\$ -</b> | <b>\$ (203)</b> | <b>\$ -</b> | <b>\$ -</b>            | <b>\$ -</b>          | <b>\$ 7,622</b>   | <b>\$ (112)</b>   |

(1) - Transferred in and out at the end of the period.

**Table of Contents****MBIA Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****Note 6: Fair Value of Financial Instruments (continued)****Changes in Level 3 Assets and Liabilities Measured at Fair Value on a Recurring Basis for the Three Months Ended March 31, 2011**

| In millions                               | Balance,<br>Beginning<br>of Year | Realized<br>Gains<br>(Losses) | Unrealized<br>Gains<br>(Losses)<br>Included<br>in or | Foreign<br>Unrealized<br>Gains<br>(Losses)<br>OCI<br>Earnings | Exchange<br>Recognized<br>in | Purchases    | Issuance     | Settlements     | Sales          | Transfers<br>into<br>Level<br>3 (1) | Transfers<br>out of<br>Level 3<br>(1) | Ending<br>Balance | Change<br>in<br>Unrealized<br>Gains (Losses)<br>for the<br>Period<br>Included<br>in<br>Earnings<br>for<br>Assets<br>still<br>held<br>as of<br>March<br>31,<br>2011 |
|---|----------------------------------|-------------------------------|--|---|------------------------------|--------------|--------------|-----------------|----------------|-------------------------------------|---------------------------------------|-------------------|--|
|   |                                  |                               |  |   |                              |              |              |                 |                |                                     |                                       |                   |  |
| <b>Assets:</b>                            |                                  |                               |  |   |                              |              |              |                 |                |                                     |                                       |                   |  |
| Foreign governments                       | \$ 11                            | \$ -                          | \$ -   | \$ -  | \$ -                         | \$ 3         | \$ -         | \$ (2)          | \$ -           | \$ 7                                | \$ -                                  | \$ 19             | \$ -   |
| Corporate obligations                     | 246                              | -                             | -  | 7   | 2                            | 10           | -            | (32)            | (12)           | 6                                   | (16)                                  | 211               | -  |
| Residential mortgage-backed<br>agency     | 41                               | -                             | -  | 1   | -                            | 1            | -            | (1)             | (1)            | -                                   | (41)                                  | -                 | -  |
| Residential mortgage-backed<br>non-agency | 48                               | -                             | -  | 5   | -                            | 7            | -            | (5)             | (1)            | 5                                   | (16)                                  | 43                | -  |
| Commercial mortgage-backed                | 41                               | -                             | -  | 2   | 1                            | 8            | -            | -               | -              | -                                   | (1)                                   | 51                | -  |
| Collateralized debt obligations           | 191                              | (1)                           | -  | 20  | -                            | 2            | -            | (29)            | (1)            | 2                                   | (61)                                  | 123               | -  |
| Other asset-backed                        | 350                              | -                             | -  | 8   | -                            | 1            | -            | (9)             | (1)            | 2                                   | (28)                                  | 323               | -  |
| State and municipal taxable<br>bonds      | 14                               | -                             | -  | (2)   | -                            | -            | -            | -               | -              | -                                   | -                                     | 12                | -  |
| State and municipal tax-exempt<br>bonds   | 36                               | -                             | -  | -   | -                            | -            | -            | (2)             | -              | -                                   | -                                     | 34                | -  |
| <b>Assets of consolidated VIEs:</b>       |                                  |                               |  |   |                              |              |              |                 |                |                                     |                                       |                   |  |
| Corporate obligations                     | 82                               | -                             | -  | -   | -                            | -            | -            | (2)             | -              | 4                                   | -                                     | 84                | -  |
| Residential mortgage-backed<br>non-agency | 40                               | -                             | (2)  | 3   | -                            | -            | -            | (3)             | -              | -                                   | (20)                                  | 18                | 1  |
| Commercial mortgage-backed                | 23                               | -                             | 6  | -   | -                            | -            | -            | -               | -              | -                                   | -                                     | 29                | 7  |
| Collateralized debt obligations           | 245                              | -                             | 16   | -   | -                            | -            | -            | (2)             | -              | 14                                  | (54)                                  | 219               | 16   |
| Other asset-backed                        | 81                               | -                             | (2)  | -   | -                            | -            | -            | (1)             | -              | 1                                   | -                                     | 79                | (2)  |
| Loans receivable                          | 2,183                            | -                             | 228  | -   | -                            | -            | -            | (84)            | -              | -                                   | -                                     | 2,327             | 228  |
| Loan repurchase commitments               | 835                              | -                             | 20   | -   | -                            | -            | 12           | -               | -              | -                                   | -                                     | 867               | 20   |
| <b>Total assets</b>                       | <b>\$ 4,467</b>                  | <b>\$ (1)</b>                 | <b>\$ 266</b>  | <b>\$ 44</b>  | <b>\$ 3</b>                  | <b>\$ 32</b> | <b>\$ 12</b> | <b>\$ (172)</b> | <b>\$ (16)</b> | <b>\$ 41</b>                        | <b>\$ (237)</b>                       | <b>\$ 4,439</b>   | <b>\$ 270</b>  |

**Table of Contents****MBIA Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****Note 6: Fair Value of Financial Instruments (continued)**

| In millions                              | Balance,<br>Beginning<br>of Year | Realized<br>(Gains)<br>/ Losses | Unrealized<br>(Gains) /<br>Losses<br>Included in<br>Earnings | Unrealized / Recognized<br>(Gains) Exchange<br>in OCI |             | Purchases   | Issuance    | Settlements     | Sales       | Transfers<br>into of<br>Level 3 (1) |             | Ending<br>Balance | Change<br>in<br>Unrealized<br>(Gains) Losses<br>for the<br>Period<br>Included<br>in<br>Earnings<br>for<br>Liabilities<br>still<br>held as of<br>March 31,<br>2011 |
|--|----------------------------------|---------------------------------|--|---|-------------|-------------|-------------|-----------------|-------------|-------------------------------------|-------------|-------------------|---|
|  |                                  |                                 |  | Level 3 (1)   | Level 3 (1) |             |             |                 |             |                                     |             |                   |   |
| <b>Liabilities:</b>                      |                                  |                                 |  |   |             |             |             |                 |             |                                     |             |                   |   |
| Medium-term notes                        | \$ 116                           | \$ -                            | \$ 39  | \$ -  | \$ 8        | \$ -        | \$ -        | \$ -            | \$ -        | \$ -                                | \$ -        | \$ 163            | \$ 39   |
| Credit derivatives, net                  | 4,350                            | 386                             | 1,421  | -   | -           | -           | -           | (386)           | -           | -                                   | -           | 5,771             | 1,580   |
| Interest rate derivatives, net           | (5)                              | -                               | 1  | -   | -           | -           | -           | -               | -           | -                                   | -           | (4)               | 1   |
| <b>Liabilities of consolidated VIEs:</b> |                                  |                                 |  |   |             |             |             |                 |             |                                     |             |                   |   |
| VIE notes                                | 4,673                            | -                               | 421  | -   | -           | -           | -           | (141)           | -           | -                                   | -           | 4,953             | 421   |
| Credit derivatives, net                  | 768                              | -                               | 158  | -   | -           | -           | -           | -               | -           | -                                   | -           | 926               | 158   |
| Currency derivatives, net                | 14                               | -                               | (2)  | -   | -           | -           | -           | -               | -           | -                                   | -           | 12                | (2)   |
| <b>Total liabilities</b>                 | <b>\$ 9,916</b>                  | <b>\$ 386</b>                   | <b>\$ 2,038</b>  | <b>\$ -</b>   | <b>\$ 8</b> | <b>\$ -</b> | <b>\$ -</b> | <b>\$ (527)</b> | <b>\$ -</b> | <b>\$ -</b>                         | <b>\$ -</b> | <b>\$ 11,821</b>  | <b>\$ 2,197</b>   |

(1) - Transferred in and out at the end of the period.

Transfers into and out of Level 3 were \$28 million and \$42 million, respectively, for the three months ended March 31, 2012. Transfers into and out of Level 2 were \$42 million and \$28 million, respectively, for the three months ended March 31, 2012. These transfers were principally for available-for-sale securities where inputs, which are significant to their valuation, became observable or unobservable during the year. These inputs included spreads, prepayment speeds, default speeds, default severities, yield curves observable at commonly quoted intervals, and market corroborated inputs. Corporate obligations, CDOs and other asset-backed comprised the majority of the transferred instruments. There were no transfers into or out of Level 1. For the three months ended March 31, 2012, net unrealized losses on securities transferred into Level 3 were \$10 million and net unrealized losses on securities transferred out of Level 3 were \$3 million.

Transfers into and out of Level 3 were \$41 million and \$237 million, respectively, for the three months ended March 31, 2011. Transfers into and out of Level 2 were \$237 million and \$41 million, respectively, for the three months ended March 31, 2011. These transfers were principally for available-for-sale securities where inputs, which are significant to their valuation, became observable or unobservable during the year. These inputs included spreads, prepayment speeds, default speeds, default severities, yield curves observable at commonly quoted intervals, and market corroborated inputs. CDOs, corporate obligations, RMBS non-agency and other asset-backed comprised the majority of the transferred instruments. There were no transfers into or out of Level 1. For the three months ended March 31, 2011, net unrealized losses on securities transferred into Level 3 were \$1 million and net unrealized losses on securities transferred out of Level 3 were \$1 million.

All Level 1, 2 and 3 designations are made at the end of each accounting period.



**Table of Contents****MBIA Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****Note 6: Fair Value of Financial Instruments (continued)**

Gains and losses (realized and unrealized) included in earnings pertaining to Level 3 assets and liabilities for the three months ended March 31, 2012 and 2011 are reported on the consolidated statements of operations as follows:

| In millions  | March 31, 2012                                   |                             |  |                             |  |
|--|--|-----------------------------|--|-----------------------------|--|
|  | Unrealized Gains (Losses) on Insured Derivatives | Net Realized Gains (Losses) | Net Gains (Losses) on Financial Instruments at Fair Value and Foreign Exchange | Net Realized Gains (Losses) | Consolidated VIEs Net Gains (Losses) on Financial Instruments at Fair Value and Foreign Exchange |
| Total gains (losses) included in earnings  | \$ 303   | \$ (152)                    | \$ (4)   | \$ -                        | \$ (111)   |
| Change in unrealized gains (losses) for the period included in earnings for assets and liabilities still held as of March 31, 2012 | \$ 286   | \$ -                        | \$ (12)  | \$ -                        | \$ (113)   |

  

| In millions  | March 31, 2011                                   |                             |  |                             |  |
|--|--|-----------------------------|--|-----------------------------|--|
|  | Unrealized Gains (Losses) on Insured Derivatives | Net Realized Gains (Losses) | Net Gains (Losses) on Financial Instruments at Fair Value and Foreign Exchange | Net Realized Gains (Losses) | Consolidated VIEs Net Gains (Losses) on Financial Instruments at Fair Value and Foreign Exchange |
| Total gains (losses) included in earnings  | \$ (1,421)                                       | \$ (387)                    | \$ (48)  | \$ -                        | \$ (311)   |
| Change in unrealized gains (losses) for the period included in earnings for assets and liabilities still held as of March 31, 2011 | \$ (1,580)                                       | \$ -                        | \$ (48)  | \$ -                        | \$ (307)   |

**Fair Value Option**

The Company elected to record at fair value certain financial instruments of the VIEs that have been consolidated in connection with the adoption of the accounting guidance for consolidation of VIEs, among others.

The following table presents the changes in fair value included in the Company's consolidated statements of operations for the three months ended March 31, 2012 and 2011 for all financial instruments for which the fair value option was elected:

**Net Gains (Losses) on Financial Instruments at Fair Value and**

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| <b>In millions</b>                           | <b>Foreign<br/>Exchange</b>         |             |
|--|-------------------------------------|-------------|
|  | <b>Three Months Ended March 31,</b> |             |
|  | <b>2012</b>                         | <b>2011</b> |
| Fixed-maturity securities held at fair value | \$ (1)                              | \$ 213      |
| Loans receivable at fair value:              |                                     |             |
| Residential mortgage loans                   | 18                                  | 101         |
| Other loans                                  | (39)                                | 43          |
| Loan repurchase commitments                  | -                                   | 32          |
| Other assets                                 | -                                   | (40)        |
| Long-term debt                               | (7)                                 | (367)       |

**Table of Contents****MBIA Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****Note 6: Fair Value of Financial Instruments (continued)**

The following table reflects the difference between the aggregate fair value and the aggregate remaining contractual principal balance outstanding as of March 31, 2012 and December 31, 2011 for loans and variable interest entity notes for which the fair value option was elected:

| In millions   | As of March 31, 2012                    |            |            | As of December 31, 2011                 |            |            |
|---|---|------------|------------|---|------------|------------|
|   | Contractual<br>Outstanding<br>Principal | Fair Value | Difference | Contractual<br>Outstanding<br>Principal | Fair Value | Difference |
| Loans receivable at fair value:                       |   |            |            |   |            |            |
| Residential mortgage loans                            | \$ 2,659                                | \$ 1,850   | \$ 809     | \$ 2,769                                | \$ 1,895   | \$ 874     |
| Residential mortgage loans (90 days or more past due) | 274                                     | 63         | 211        | 259                                     | -          | 259        |
| Other loans   | 138                                     | 46         | 92         | 129                                     | 43         | 86         |
| Other loans (90 days or more past due)                | 201                                     | 66         | 135        | 324                                     | 108        | 216        |
| Total loans receivable at fair value                  | \$ 3,272                                | \$ 2,025   | \$ 1,247   | \$ 3,481                                | \$ 2,046   | \$ 1,435   |
| Variable interest entity notes                        | \$ 13,361                               | \$ 4,761   | \$ 8,600   | \$ 13,583                               | \$ 4,754   | \$ 8,829   |

Substantially all gains and losses included in earnings during the three months ended March 31, 2012 on loans receivable and variable interest entity notes reported in the preceding table are attributable to credit risk. This is primarily due to the high rate of defaults on loans and the collateral supporting the variable interest entity notes, resulting in depressed pricing of the financial instruments.



**Table of Contents****MBIA Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****Note 7: Investments**

The Company's fixed-maturity portfolio consists of high-quality (average rating Aa) taxable and tax-exempt investments of diversified maturities. Other investments primarily comprise equity investments, including those accounted for under the equity method, highly rated perpetual securities and loan receivables that bear interest.

The following tables present the amortized cost, fair value and other-than-temporary impairments of fixed-maturity investments and other investments designated as available-for-sale in the consolidated investment portfolio of the Company as of March 31, 2012 and December 31, 2011:

| In millions                             | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | March 31, 2012<br>Gross<br>Unrealized<br>Losses | Fair Value   | Other-Than-<br>Temporary<br>Impairments <sup>(1)</sup> |
|---|-------------------|------------------------------|---|--------------|--|
| <b>Fixed-maturity investments:</b>      |                   |                              |   |              |  |
| <b>Taxable bonds:</b>                   |                   |                              |   |              |  |
| U.S. Treasury and government agency     | \$ 1,039          | \$ 30                        | \$ (4)  | \$ 1,065     | \$ -   |
| Foreign governments                     | 344               | 23                           | -   | 367          | -  |
| Corporate obligations                   | 1,558             | 45                           | (37)  | 1,566        | (2)  |
| <b>Mortgage-backed securities:</b>      |                   |                              |   |              |  |
| Residential mortgage-backed agency      | 1,126             | 47                           | -   | 1,173        | -  |
| Residential mortgage-backed non-agency  | 267               | 13                           | (65)  | 215          | (119)  |
| Commercial mortgage-backed              | 51                | -                            | (7)   | 44           | -  |
| <b>Asset-backed securities:</b>         |                   |                              |   |              |  |
| Collateralized debt obligations         | 200               | -                            | (94)  | 106          | (59)   |
| Other asset-backed                      | 243               | 2                            | (19)  | 226          | -  |
| State and municipal bonds               | 924               | 46                           | (20)  | 950          | -  |
| <b>Total taxable bonds</b>              | <b>5,752</b>      | <b>206</b>                   | <b>(246)</b>                                    | <b>5,712</b> | <b>(180)</b>   |
| <b>Tax-exempt bonds:</b>                |                   |                              |   |              |  |
| State and municipal bonds               | 1,035             | 46                           | (1)   | 1,080        | -  |
| <b>Total fixed-maturity investments</b> | <b>6,787</b>      | <b>252</b>                   | <b>(247)</b>                                    | <b>6,792</b> | <b>(180)</b>   |
| <b>Other investments:</b>               |                   |                              |   |              |  |
| Perpetual preferred securities          | 49                | -                            | -   | 49           | -  |
| Other investments                       | 19                | 2                            | -   | 21           | -  |
| Money market securities                 | 951               | -                            | -   | 951          | -  |
| <b>Total other investments</b>          | <b>1,019</b>      | <b>2</b>                     | <b>-</b>  | <b>1,021</b> | <b>-</b>   |
| <b>Assets of consolidated VIEs:</b>     |                   |                              |   |              |  |
| Corporate obligations                   | 2                 | -                            | -   | 2            | -  |
| <b>Mortgage-backed securities:</b>      |                   |                              |   |              |  |
| Residential mortgage-backed non-agency  | 114               | -                            | (19)  | 95           | -  |
| <b>Asset-backed securities:</b>         |                   |                              |   |              |  |
| Collateralized debt obligations         | 112               | -                            | (12)  | 100          | -  |
| Other asset-backed                      | 36                | 1                            | -   | 37           | -  |
| <b>Other investments:</b>               |                   |                              |   |              |  |
| Money market securities                 | 622               | -                            | -   | 622          | -  |

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|                                      |          |        |          |          |          |
|--------------------------------------|----------|--------|----------|----------|----------|
| Total available-for-sale investments | \$ 8,692 | \$ 255 | \$ (278) | \$ 8,669 | \$ (180) |
|--------------------------------------|----------|--------|----------|----------|----------|

(1) - Represents the amount of other-than-temporary losses recognized in accumulated other comprehensive income (loss) since the adoption of the accounting guidance for other-than-temporary impairments.

**Table of Contents****MBIA Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****Note 7: Investments (continued)**

| In millions                            | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | December 31, 2011<br>Gross<br>Unrealized<br>Losses | Fair Value | Other-Than-<br>Temporary<br>Impairments <sup>(1)</sup> |
|--|-------------------|------------------------------|--|------------|--|
| Fixed-maturity investments:            |                   |                              |  |            |  |
| Taxable bonds:                         |                   |                              |  |            |  |
| U.S. Treasury and government agency    | \$ 1,091          | \$ 39                        | \$ -   | \$ 1,130   | \$ -   |
| Foreign governments                    | 326               | 23                           | -  | 349        | -  |
| Corporate obligations                  | 1,698             | 43                           | (106)  | 1,635      | (2)  |
| Mortgage-backed securities:            |                   |                              |  |            |  |
| Residential mortgage-backed agency     | 1,198             | 47                           | -  | 1,245      | -  |
| Residential mortgage-backed non-agency | 325               | 31                           | (83)   | 273        | (125)  |
| Commercial mortgage-backed             | 58                | 1                            | (10)   | 49         | -  |
| Asset-backed securities:               |                   |                              |  |            |  |
| Collateralized debt obligations        | 251               | -                            | (118)  | 133        | (69)   |
| Other asset-backed                     | 520               | 2                            | (82)   | 440        | (37)   |
| State and municipal bonds              | 903               | 35                           | (17)   | 921        | -  |
| Total taxable bonds                    | 6,370             | 221                          | (416)  | 6,175      | (233)  |
| Tax-exempt bonds:                      |                   |                              |  |            |  |
| State and municipal bonds              | 1,122             | 41                           | (2)  | 1,161      | -  |
| Total fixed-maturity investments       | 7,492             | 262                          | (418)  | 7,336      | (233)  |
| Other investments:                     |                   |                              |  |            |  |
| Perpetual preferred securities         | 127               | -                            | (19)   | 108        | -  |
| Other investments                      | 22                | 1                            | -  | 23         | -  |
| Money market securities                | 911               | -                            | -  | 911        | -  |
| Total other investments                | 1,060             | 1                            | (19)   | 1,042      | -  |
| Assets of consolidated VIEs:           |                   |                              |  |            |  |
| Corporate obligations                  | 2                 | -                            | -  | 2          | -  |
| Mortgage-backed securities:            |                   |                              |  |            |  |
| Residential mortgage-backed non-agency | 119               | -                            | (26)   | 93         | -  |
| Asset-backed securities:               |                   |                              |  |            |  |
| Collateralized debt obligations        | 112               | -                            | (15)   | 97         | -  |
| Other asset-backed                     | 41                | -                            | -  | 41         | -  |
| Other investments:                     |                   |                              |  |            |  |
| Money market securities                | 199               | -                            | -  | 199        | -  |
| Total available-for-sale investments   | \$ 9,025          | \$ 263                       | \$ (478)   | \$ 8,810   | \$ (233)   |

(1) - Represents the amount of other-than-temporary losses recognized in accumulated other comprehensive income (loss) since the adoption of the accounting guidance for other-than-temporary impairments.

The fair value of securities on deposit with various regulatory authorities was \$11 million as of March 31, 2012 and December 31, 2011. These deposits are required to comply with state insurance laws.

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Substantially all of the obligations under investment agreements require the Company to pledge securities as collateral. As of March 31, 2012 and December 31, 2011, the fair value of securities pledged as collateral with respect to these investment agreements approximated \$1.6 billion and \$1.9 billion, respectively. The Company's collateral as of March 31, 2012, consisted principally of MBS, state and municipal bonds, and U.S. Treasury and government agency bonds, and was primarily held with major U.S. banks. Additionally, the Company pledged cash and money market securities as collateral under investment agreements in the amount of \$487 million and \$224 million as of March 31, 2012 and December 31, 2011, respectively.

**Table of Contents****MBIA Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****Note 7: Investments (continued)**

The following table presents the distribution by contractual maturity of available-for-sale fixed-maturity investments at amortized cost and fair value as of March 31, 2012. Contractual maturity may differ from expected maturity as borrowers may have the right to call or prepay obligations.

| In millions                               | Amortized Cost | Fair Value | Consolidated VIEs |            |
|---|----------------|------------|-------------------|------------|
|   |                |            | Amortized Cost    | Fair Value |
| Due in one year or less                   | \$ 842         | \$ 844     | \$ -              | \$ -       |
| Due after one year through five years     | 1,131          | 1,166      | 2                 | 2          |
| Due after five years through ten years    | 719            | 746        | -                 | -          |
| Due after ten years through fifteen years | 572            | 590        | -                 | -          |
| Due after fifteen years                   | 1,636          | 1,682      | -                 | -          |
| Mortgage-backed                           | 1,444          | 1,432      | 114               | 95         |
| Asset-backed                              | 443            | 332        | 148               | 137        |
| Total fixed-maturity investments          | \$ 6,787       | \$ 6,792   | \$ 264            | \$ 234     |

Investments that are held-to-maturity are reported on the Company's consolidated balance sheets at amortized cost. These investments, which primarily relate to the Company's consolidated VIEs, principally consist of ABS and loans issued by major national and international corporations and other structured finance clients. As of March 31, 2012, unrecognized gross gains were immaterial and unrecognized gross losses were \$222 million. As of December 31, 2011, unrecognized gross gains were \$17 million and unrecognized gross losses were \$371 million. The following table presents the distribution of held-to-maturity investments by contractual maturity at amortized cost and fair value as of March 31, 2012:

| In millions  | Amortized Cost | Fair Value | Consolidated VIEs |            |
|--|----------------|------------|-------------------|------------|
|  |                |            | Amortized Cost    | Fair Value |
| Due in one year or less                              | \$ -           | \$ -       | \$ -              | \$ -       |
| Due after one year through five years <sup>(1)</sup> | 1              | 1          | -                 | -          |
| Due after five years through ten years               | -              | -          | -                 | -          |
| Due after ten years through fifteen years            | -              | -          | -                 | -          |
| Due after fifteen years                              | -              | -          | -                 | -          |
| Mortgage-backed                                      | -              | -          | -                 | -          |
| Asset-backed   | -              | -          | 3,093             | 2,871      |
| Total held-to-maturity investments                   | \$ 1           | \$ 1       | \$ 3,093          | \$ 2,871   |

(1) - Relates to tax credit investments reported in Other investments on the Company's consolidated balance sheets.

**Table of Contents****MBIA Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****Note 7: Investments (continued)*****Impaired Investments***

The following tables present the gross unrealized losses included in accumulated other comprehensive income (loss) as of March 31, 2012 and December 31, 2011 related to available-for-sale fixed-maturity and other investments. These tables segregate investments that have been in a continuous unrealized loss position for less than twelve months from those that have been in a continuous unrealized loss position for twelve months or longer.

| In millions                             | Less than 12 Months |                   | March 31, 2012<br>12 Months or Longer |                   | Total           |                   |
|---|---------------------|-------------------|---------------------------------------|-------------------|-----------------|-------------------|
|   | Fair Value          | Unrealized Losses | Fair Value                            | Unrealized Losses | Fair Value      | Unrealized Losses |
| <b>Fixed-maturity investments:</b>      |                     |                   |                                       |                   |                 |                   |
| <b>Taxable bonds:</b>                   |                     |                   |                                       |                   |                 |                   |
| U.S. Treasury and government agency     | \$ 587              | \$ (4)            | \$ -                                  | \$ -              | \$ 587          | \$ (4)            |
| Foreign governments                     | 22                  | -                 | 1                                     | -                 | 23              | -                 |
| Corporate obligations                   | 300                 | (9)               | 195                                   | (28)              | 495             | (37)              |
| <b>Mortgage-backed securities:</b>      |                     |                   |                                       |                   |                 |                   |
| Residential mortgage-backed agency      | 13                  | -                 | 46                                    | -                 | 59              | -                 |
| Residential mortgage-backed non-agency  | 22                  | (4)               | 148                                   | (61)              | 170             | (65)              |
| Commercial mortgage-backed              | 12                  | -                 | 24                                    | (7)               | 36              | (7)               |
| <b>Asset-backed securities:</b>         |                     |                   |                                       |                   |                 |                   |
| Collateralized debt obligations         | 8                   | -                 | 93                                    | (94)              | 101             | (94)              |
| Other asset-backed                      | 6                   | -                 | 124                                   | (19)              | 130             | (19)              |
| State and municipal bonds               | 145                 | (4)               | 70                                    | (16)              | 215             | (20)              |
| <b>Total taxable bonds</b>              | <b>1,115</b>        | <b>(21)</b>       | <b>701</b>                            | <b>(225)</b>      | <b>1,816</b>    | <b>(246)</b>      |
| <b>Tax-exempt bonds:</b>                |                     |                   |                                       |                   |                 |                   |
| State and municipal bonds               | 13                  | -                 | 24                                    | (1)               | 37              | (1)               |
| <b>Total fixed-maturity investments</b> | <b>1,128</b>        | <b>(21)</b>       | <b>725</b>                            | <b>(226)</b>      | <b>1,853</b>    | <b>(247)</b>      |
| <b>Other investments:</b>               |                     |                   |                                       |                   |                 |                   |
| Perpetual preferred securities          | 45                  | -                 | -                                     | -                 | 45              | -                 |
| <b>Total other investments</b>          | <b>45</b>           | <b>-</b>          | <b>-</b>                              | <b>-</b>          | <b>45</b>       | <b>-</b>          |
| <b>Assets of consolidated VIEs:</b>     |                     |                   |                                       |                   |                 |                   |
| <b>Mortgage-backed securities:</b>      |                     |                   |                                       |                   |                 |                   |
| Residential mortgage-backed non-agency  | 3                   | -                 | 92                                    | (19)              | 95              | (19)              |
| <b>Asset-backed securities:</b>         |                     |                   |                                       |                   |                 |                   |
| Collateralized debt obligations         | 9                   | -                 | 90                                    | (12)              | 99              | (12)              |
| <b>Total</b>                            | <b>\$ 1,185</b>     | <b>\$ (21)</b>    | <b>\$ 907</b>                         | <b>\$ (257)</b>   | <b>\$ 2,092</b> | <b>\$ (278)</b>   |



**Table of Contents****MBIA Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****Note 7: Investments (continued)**

| In millions                            | Less than 12 Months |                   | December 31, 2011 |                   | Total      |                   |
|--|---------------------|-------------------|-------------------|-------------------|------------|-------------------|
|  | Fair Value          | Unrealized Losses | Fair Value        | Unrealized Losses | Fair Value | Unrealized Losses |
| Fixed-maturity investments:            |                     |                   |                   |                   |            |                   |
| Taxable bonds:                         |                     |                   |                   |                   |            |                   |
| U.S. Treasury and government agency    | \$ 200              | \$ -              | \$ -              | \$ -              | \$ 200     | \$ -              |
| Foreign governments                    | 20                  | -                 | -                 | -                 | 20         | -                 |
| Corporate obligations                  | 297                 | (15)              | 418               | (91)              | 715        | (106)             |
| Mortgage-backed securities:            |                     |                   |                   |                   |            |                   |
| Residential mortgage-backed agency     | 20                  | -                 | 49                | -                 | 69         | -                 |
| Residential mortgage-backed non-agency | 34                  | (5)               | 167               | (78)              | 201        | (83)              |
| Commercial mortgage-backed             | 17                  | (2)               | 22                | (8)               | 39         | (10)              |
| Asset-backed securities:               |                     |                   |                   |                   |            |                   |
| Collateralized debt obligations        | 13                  | (2)               | 117               | (116)             | 130        | (118)             |
| Other asset-backed                     | 53                  | (7)               | 328               | (75)              | 381        | (82)              |
| State and municipal bonds              | 152                 | (2)               | 76                | (15)              | 228        | (17)              |
| Total taxable bonds                    | 806                 | (33)              | 1,177             | (383)             | 1,983      | (416)             |
| Tax-exempt bonds:                      |                     |                   |                   |                   |            |                   |
| State and municipal bonds              | 14                  | -                 | 75                | (2)               | 89         | (2)               |
| Total fixed-maturity investments       | 820                 | (33)              | 1,252             | (385)             | 2,072      | (418)             |
| Other investments:                     |                     |                   |                   |                   |            |                   |
| Perpetual preferred securities         | 47                  | (3)               | 45                | (16)              | 92         | (19)              |
| Total other investments                | 47                  | (3)               | 45                | (16)              | 92         | (19)              |
| Assets of consolidated VIEs:           |                     |                   |                   |                   |            |                   |
| Corporate obligations                  | 2                   | -                 | -                 | -                 | 2          | -                 |
| Mortgage-backed securities:            |                     |                   |                   |                   |            |                   |
| Residential mortgage-backed non-agency | 3                   | -                 | 90                | (26)              | 93         | (26)              |
| Asset-backed securities:               |                     |                   |                   |                   |            |                   |
| Collateralized debt obligations        | 9                   | -                 | 88                | (15)              | 97         | (15)              |
| Other asset-backed                     | 31                  | -                 | -                 | -                 | 31         | -                 |
| Total                                  | \$ 912              | \$ (36)           | \$ 1,475          | \$ (442)          | \$ 2,387   | \$ (478)          |

Gross unrealized losses on available-for-sale securities presented in the preceding tables decreased as of March 31, 2012 compared with December 31, 2011 primarily due to the sale of several impaired securities included in the Company's asset/liability products investment portfolio and the other-than-temporary impairment to fair value of several other impaired securities since there was an intent to sell them. Investments with unrealized losses that met the criteria described in the Other-Than-Temporary Impairments section below were tested for other-than-temporary impairments and principally related to ABS, MBS, and corporate obligations.



**Table of Contents****MBIA Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****Note 7: Investments (continued)**

The following table presents the fair values and gross unrealized losses by credit rating category of ABS included in the Company's consolidated investment portfolio as of March 31, 2012 for which fair value was less than amortized cost. Of the total fair value and unrealized losses of ABS, \$154 million of fair value and \$77 million of unrealized losses are included in the Company's asset/liability products investment portfolio. Fair values include the benefit of guarantees provided by financial guarantors, including MBIA. The credit ratings are based on ratings from Moody's as of March 31, 2012 or an alternate ratings source, such as S&P, when a security is not rated by Moody's. For investments that are insured by various third-party guarantee insurers, the credit rating reflects the higher of the insurer's rating or the underlying bond's rating.

| In millions                   | Aaa        |                 | Aa         |                 | A          |                 | Baa        |                 | Below Investment Grade |                 | Not Rated  |                 | Total      |                 |
|-------------------------------|------------|-----------------|------------|-----------------|------------|-----------------|------------|-----------------|------------------------|-----------------|------------|-----------------|------------|-----------------|
|                               | Fair Value | Unrealized Loss | Fair Value | Unrealized Loss | Fair Value | Unrealized Loss | Fair Value | Unrealized Loss | Fair Value             | Unrealized Loss | Fair Value | Unrealized Loss | Fair Value | Unrealized Loss |
| Asset-backed Sector           | \$ 5       | \$ -            | \$ 5       | \$ -            | \$ 7       | \$ (1)          | \$ 1       | \$ (3)          | \$ 16                  | \$ (53)         | \$ -       | \$ -            | \$ 34      | \$ (57)         |
| ABS CDO                       |            |                 |            |                 |            |                 |            |                 |                        |                 |            |                 |            |                 |
| Corporate CDO                 | 42         | (4)             | 65         | (8)             | 13         | (6)             | 1          | -               | 87                     | (43)            | 1          | (1)             | 209        | (62)            |
| Auto loans                    | -          | -               | 1          | -               | -          | -               | 9          | -               | -                      | -               | -          | -               | 10         | -               |
| Equipment leases              | -          | -               | -          | -               | -          | -               | 6          | -               | -                      | -               | -          | -               | 6          | -               |
| Small business/ student loans | 16         | -               | -          | -               | -          | -               | -          | -               | 11                     | (1)             | -          | -               | 27         | (1)             |
| Other ABS                     | 2          | -               | 3          | -               | 9          | -               | 13         | -               | 17                     | (5)             | -          | -               | 44         | (5)             |
| Total                         | \$ 65      | \$ (4)          | \$ 74      | \$ (8)          | \$ 29      | \$ (7)          | \$ 30      | \$ (3)          | \$ 131                 | \$ (102)        | \$ 1       | \$ (1)          | \$ 330     | \$ (125)        |

Sixty percent of the Company's investments in ABS reported in the preceding table were rated investment grade with 20% rated Aaa. Of the total ABS investments reported in the preceding table, \$149 million include the benefit of guarantees provided by MBIA Corp. and \$58 million include the benefit of guarantees provided by third-party financial guarantors. The average credit rating of all guaranteed ABS investments using the higher of the guarantors' ratings or the underlying bond ratings was Baa and the average underlying credit rating of guaranteed ABS investments, without giving effect to the guarantees was below investment grade. Without giving effect to the benefit of guarantees provided by financial guarantors, including MBIA Corp., \$149 million or 45% of the securities included in the preceding table were rated below investment grade.

The following table presents the fair values and gross unrealized losses by credit rating category of MBS included in the Company's consolidated investment portfolio as of March 31, 2012 for which fair value was less than amortized cost. Fair values include the benefit of guarantees provided by financial guarantors, including MBIA. The credit ratings are based on ratings from Moody's as of March 31, 2012 or an alternate ratings source, such as S&P, when a security is not rated by Moody's. For investments that are insured by various third-party guarantee insurers, the credit rating reflects the higher of the insurer's rating or the underlying bond's rating.

| In millions                | Aaa        |                 | Aa         |                 | A          |                 | Baa        |                 | Below Investment Grade |                 | Not Rated  |                 | Total      |                 |
|----------------------------|------------|-----------------|------------|-----------------|------------|-----------------|------------|-----------------|------------------------|-----------------|------------|-----------------|------------|-----------------|
|                            | Fair Value | Unrealized Loss | Fair Value | Unrealized Loss | Fair Value | Unrealized Loss | Fair Value | Unrealized Loss | Fair Value             | Unrealized Loss | Fair Value | Unrealized Loss | Fair Value | Unrealized Loss |
| Mortgage-backed Securities |            |                 |            |                 |            |                 |            |                 |                        |                 |            |                 |            |                 |

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| RMBS:                   |              |             |               |                |             |             |              |               |               |                |              |               |               |                |
|-------------------------|--------------|-------------|---------------|----------------|-------------|-------------|--------------|---------------|---------------|----------------|--------------|---------------|---------------|----------------|
| Collateralized          | \$ 62        | \$ -        | \$ 27         | \$ (3)         | \$ 8        | \$ -        | \$ 1         | \$ -          | \$ 34         | \$ (17)        | \$ 13        | \$ (9)        | \$ 145        | \$ (29)        |
| Home equity             | 2            | -           | 80            | (14)           | 1           | -           | -            | -             | 75            | (34)           | -            | -             | 158           | (48)           |
| Pass-through securities | 13           | -           | -             | -              | -           | -           | -            | -             | -             | -              | -            | -             | 13            | -              |
| Other                   | -            | -           | 9             | (3)            | -           | -           | -            | -             | 7             | (4)            | -            | -             | 16            | (7)            |
| CMBS                    | -            | -           | -             | -              | -           | -           | 24           | (6)           | 4             | (1)            | -            | -             | 28            | (7)            |
| <b>Total</b>            | <b>\$ 77</b> | <b>\$ -</b> | <b>\$ 116</b> | <b>\$ (20)</b> | <b>\$ 9</b> | <b>\$ -</b> | <b>\$ 25</b> | <b>\$ (6)</b> | <b>\$ 120</b> | <b>\$ (56)</b> | <b>\$ 13</b> | <b>\$ (9)</b> | <b>\$ 360</b> | <b>\$ (91)</b> |

Sixty-three percent of the Company's investments in MBS reported in the preceding table were rated investment grade with 21% rated Aaa. Of the total MBS investments reported in the preceding table, \$11 million include the benefit of guarantees provided by MBIA Corp. and \$230 million include the benefit of guarantees provided by third-party financial guarantors. The average credit rating of all guaranteed MBS investments using the higher of the guarantors' ratings or the underlying bond ratings was below investment grade and the average underlying credit rating of guaranteed MBS investments, without giving effect to the guarantees, was below investment grade. Without giving effect to the benefit of guarantees provided by financial guarantors, including MBIA Corp., \$250 million or 69% of the securities included in the preceding table were rated below investment grade.

**Table of Contents****MBIA Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****Note 7: Investments (continued)**

The following table presents the fair values and gross unrealized losses by credit rating category of direct corporate obligations included in the Company's consolidated investment portfolio as of March 31, 2012 for which fair value was less than amortized cost. Fair values include the benefit of guarantees provided by financial guarantors, including MBIA. The credit ratings are based on ratings from Moody's as of March 31, 2012 or an alternate ratings source, such as S&P, when a security is not rated by Moody's. For investments that are insured by various third-party guarantee insurers, the credit rating reflects the higher of the insurer's rating or the underlying bond's rating.

| In millions           | Aaa        |                 | Aa         |                 | A          |                 | Baa        |                 | Below Investment Grade |                 | Not Rated  |                 | Total      |                 |
|-----------------------|------------|-----------------|------------|-----------------|------------|-----------------|------------|-----------------|------------------------|-----------------|------------|-----------------|------------|-----------------|
|                       | Fair Value | Unrealized Loss | Fair Value | Unrealized Loss | Fair Value | Unrealized Loss | Fair Value | Unrealized Loss | Fair Value             | Unrealized Loss | Fair Value | Unrealized Loss | Fair Value | Unrealized Loss |
| Corporate Obligations | \$ 68      | \$ -            | \$ 57      | \$ (1)          | \$ 267     | \$ (12)         | \$ 80      | \$ (22)         | \$ 21                  | \$ -            | \$ 2       | \$ (2)          | \$ 495     | \$ (37)         |

Ninety-five percent of the Company's investments in corporate obligations reported in the preceding table were rated investment grade with 14% rated Aaa. Of the total corporate obligations reported in the preceding table, \$4 million include the benefit of guarantees provided by MBIA Corp., and \$24 million include the benefit of guarantees provided by third-party financial guarantors. The average credit rating of all guaranteed corporate obligations included in the preceding table using the higher of the guarantors' ratings or the underlying bond ratings was A and the average underlying credit rating of these guaranteed corporate obligations without giving effect to the guarantees was A. Without giving effect to the benefit of guarantees provided by financial guarantors, including MBIA Corp., \$21 million or 4% of the securities included in the preceding table were rated below investment grade.

The following tables present the gross unrealized losses of held-to-maturity investments as of March 31, 2012 and December 31, 2012. Held-to-maturity investments are reported at amortized cost on the Company's consolidated balance sheets. The tables segregate investments that have been in a continuous unrealized loss position for less than twelve months from those that have been in a continuous unrealized loss position for twelve months or longer.

| In millions                   | Less than 12 Months |                   | March 31, 2012<br>12 Months or Longer |                   | Total      |                   |
|-------------------------------|---------------------|-------------------|---------------------------------------|-------------------|------------|-------------------|
|                               | Fair Value          | Unrealized Losses | Fair Value                            | Unrealized Losses | Fair Value | Unrealized Losses |
| Assets of consolidated VIEs:  |                     |                   |                                       |                   |            |                   |
| Other asset-backed securities | \$ 303              | \$ (12)           | \$ 2,315                              | \$ (210)          | \$ 2,618   | \$ (222)          |
| Total                         | \$ 303              | \$ (12)           | \$ 2,315                              | \$ (210)          | \$ 2,618   | \$ (222)          |

| In millions                   | Less than 12 Months |                   | December 31, 2011<br>12 Months or Longer |                   | Total      |                   |
|-------------------------------|---------------------|-------------------|--|-------------------|------------|-------------------|
|                               | Fair Value          | Unrealized Losses | Fair Value                               | Unrealized Losses | Fair Value | Unrealized Losses |
| Assets of consolidated VIEs:  |                     |                   |  |                   |            |                   |
| Other asset-backed securities | \$ 284              | \$ (31)           | \$ 2,185                                 | \$ (340)          | \$ 2,469   | \$ (371)          |

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|       |        |         |          |          |          |          |
|-------|--------|---------|----------|----------|----------|----------|
| Total | \$ 284 | \$ (31) | \$ 2,185 | \$ (340) | \$ 2,469 | \$ (371) |
|-------|--------|---------|----------|----------|----------|----------|

**Table of Contents****MBIA Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****Note 7: Investments (continued)**

As of March 31, 2012 and December 31, 2011, the Company's available-for-sale fixed-maturity investment, other investment and held-to-maturity investment portfolios' gross unrealized losses totaled \$500 million and \$849 million, respectively. The weighted average contractual maturity of securities in an unrealized loss position as of March 31, 2012 and December 31, 2011 was 21 years for both periods. As of March 31, 2012, there were 240 securities that were in an unrealized loss position for a continuous twelve-month period or longer with aggregate unrealized losses of \$467 million. Within these securities, the book value of 149 securities exceeded market value by more than 5% as presented in the following table:

| Percentage Book Value Exceeded Market Value | Number of Securities | Book Value (in millions) | Fair Value (in millions) |
|---|----------------------|--------------------------|--------------------------|
| Greater than 5% to less than 16%            | 23                   | \$ 1,073                 | \$ 974                   |
| 16% to less than 26%                        | 26                   | 796                      | 656                      |
| 26% to 50%                                  | 64                   | 275                      | 175                      |
| Greater than 50%                            | 36                   | 107                      | 23                       |
| <b>Total</b>                                | <b>149</b>           | <b>\$ 2,251</b>          | <b>\$ 1,828</b>          |

As of December 31, 2011, there were 290 securities that were in an unrealized loss position for a continuous twelve-month period or longer with aggregate unrealized losses of \$782 million. Within these securities, the book value of 218 securities exceeded market value by more than 5%. The decrease in the number of securities in an unrealized loss position as of March 31, 2012 compared with December 31, 2011 resulted from the sales and impairments of securities during the first quarter of 2012.

**Other-Than-Temporary Impairments**

The Company has an ongoing review process for all securities in its investment portfolio, including a quarterly assessment of other-than-temporary impairments. This evaluation includes both qualitative and quantitative considerations. In assessing whether a decline in value is related to a credit loss, the Company considers several factors, including but not limited to (i) the magnitude and duration of declines in fair value; (ii) the reasons for the declines in fair value, such as general credit spread movements in each asset-backed sector, transaction-specific changes in credit spreads, credit rating downgrades, modeled defaults, and principal and interest payment priorities within each investment structure; and (iii) any guarantees associated with a security such as those provided by financial guarantee insurance companies, including MBIA Corp. and National.

In calculating credit-related losses, the Company utilizes cash flow modeling based on the type of security. The Company's cash flow analysis considers all sources of cash, including credit enhancement, that support the payment of amounts owed by an issuer of a security. This includes the consideration of cash expected to be provided by financial guarantors, including MBIA Corp., resulting from an actual or potential insurance policy claim. In general, any change in the amount and/or timing of cash flows received or expected to be received, whether or not such cash flows are contractually defined, is reflected in the Company's cash flow analysis for purposes of assessing an other-than-temporary impairment loss on an impaired security.

ABS investments are evaluated for other-than-temporary impairments using historical collateral performance, deal waterfall and structural protections, credit ratings, and forward looking projections of collateral performance based on business and economic conditions specific to each collateral type and risk. The underlying collateral is evaluated to identify any specific performance concerns, and stress scenarios are considered in forecasting ultimate returns of principal. Based on this evaluation, if a principal default is projected for a security, estimated future cash flows are discounted at the security's purchase yield. If the present value of cash flows is less than the Company's amortized cost for the security, the difference is recorded as an other-than-temporary impairment loss.

RMBS investments are evaluated for other-than-temporary impairments using industry-standard quantitative tools. Loan level data is obtained and analyzed in a model that produces prepayment, default, and severity vectors. The model utilizes macro inputs, including housing price assumptions and interest rates, which are consistent with industry views. The vector outputs are used as inputs to a third-party cash flow model, which considers deal waterfall dynamics and structural features, to generate cash flows for an RMBS investment. These cash flows are then discounted at the security's purchase yield. If the present value of the cash flows is less than the Company's amortized cost for the investment, the difference is recorded as an other-than-temporary impairment loss. For CDO investments, the Company utilizes the same tools as for RMBS securities, aggregating the bond level cash flows to the CDO investment level.

**Table of Contents****MBIA Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****Note 7: Investments (continued)**

Corporate obligation investments are evaluated for other-than-temporary impairments using industry-standard credit analysis techniques. The Company's analysis includes a detailed review of a number of quantitative and qualitative factors impacting the value of an individual security. These factors include the interest rate of the security (fixed or floating), the security's current market spread, any collateral supporting the security, the security's position in the issuer's capital structure, and credit rating upgrades or downgrades. Additionally, these factors include an assessment of various issuer-related credit metrics including market capitalization, earnings, cash flow, capitalization, interest coverage, leverage, liquidity, management and a third-party quantitative default probability model. The Company's analysis is augmented by comparing market prices for similar securities of other issuers in the same sector, as well as any recent corporate or government actions that may impact the ultimate return of principal. If the Company determines that, after considering these factors, a principal default is projected, a recovery analysis is performed using the above data. If the Company's estimated recovery value for the security is less than its amortized cost, the difference is recorded as an other-than-temporary impairment loss.

The Company does not record other-than-temporary impairments related to credit concerns about issuers of securities insured by MBIA Corp. and National since investors in these securities, including MBIA, are guaranteed payment of principal and interest when due by MBIA. Securities insured by the Company, whether or not owned by the Company, are evaluated for impairment as part of its insurance surveillance process and, therefore, losses on securities insured by the Company are recorded in accordance with its loss reserving policy. Refer to Note 2: Significant Accounting Policies in the Notes to Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2011 for information about the Company's loss reserving policy and Note 5: Loss and Loss Adjustment Expense Reserves for information about loss reserves.

In considering cash expected to be provided from other third-party financial guarantors, the Company assesses the financial guarantor's ability to make claim payments under a variety of scenarios that test the guarantor's ultimate claims paying ability. The weighted average outcome of these scenarios, combined with the cash flows provided by the insured security, are used to determine the recoverability of the Company's amortized cost.

The following table provides information about securities held by the Company as of March 31, 2012 that were in an unrealized loss position and insured by a financial guarantor, along with the amount of insurance loss reserves corresponding to the par amount owned by the Company:

| In millions                   | Fair Value | Unrealized Loss | Insurance Loss Reserve <sup>(2)</sup> |
|-------------------------------|------------|-----------------|---------------------------------------|
| <b>Asset-backed:</b>          |            |                 |                                       |
| MBIA <sup>(1)</sup>           | \$ 149     | \$ (64)         | \$ 16                                 |
| Other                         | 58         | (12)            | -                                     |
| Total asset-backed            | 207        | (76)            | 16                                    |
| <b>Mortgage-backed:</b>       |            |                 |                                       |
| MBIA <sup>(1)</sup>           | 11         | (1)             | -                                     |
| Other                         | 230        | (76)            | -                                     |
| Total mortgage-backed         | 241        | (77)            | -                                     |
| <b>Corporate obligations:</b> |            |                 |                                       |
| MBIA <sup>(1)</sup>           | 4          | -               | -                                     |
| Other                         | 24         | (11)            | -                                     |

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|                             |        |          |       |
|-----------------------------|--------|----------|-------|
| Total corporate obligations | 28     | (11)     | -     |
| Other:                      |        |          |       |
| MBIA <sup>(1)</sup>         | 134    | (19)     | -     |
| Other                       | 8      | -        | -     |
| Total other                 | 142    | (19)     | -     |
| Total                       | \$ 618 | \$ (183) | \$ 16 |

(1) - Includes investments insured by MBIA Corp. and National.

(2) - Insurance loss reserve estimates are based on the proportion of par value owned to the total amount of par value insured.



**Table of Contents****MBIA Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****Note 7: Investments (continued)**

The Company concluded that it does not have the intent to sell securities in an unrealized loss position and it is more likely than not, that it will not have to sell these securities before recovery of their cost basis. In making this conclusion, the Company examined the cash flow projections for its investment portfolios, the potential sources and uses of cash in its businesses, and the cash resources available to its business other than sales of securities. It also considered the existence of any risk management or other plans as of March 31, 2012 that would require the sale of impaired securities. Impaired securities that the Company intends to sell before the expected recovery of such securities' fair values have been written down to their fair values.

Each quarter, an internal committee, comprising staff that is independent of the Company's evaluation process for determining other-than-temporary impairments of securities, reviews and approves the valuation of investments. Among other responsibilities, this committee ensures that the Company's process for identifying and calculating other-than-temporary impairments, including the use of models and assumptions, is reasonable and complies with the Company's internal policy.

Refer to Note 8: Investment Income and Gains and Losses for information on realized losses due to other-than-temporary impairments.

**Note 8: Investment Income and Gains and Losses**

The following table includes total investment income from all operations:

| In millions                                      | Three Months Ended March 31, |        |
|--|------------------------------|--------|
|  | 2012                         | 2011   |
| Net investment income:                           |                              |        |
| Fixed-maturity                                   | \$ 58                        | \$ 107 |
| Held-to-maturity                                 | 1                            | 2      |
| Short-term investments                           | 1                            | -      |
| Other investments                                | 2                            | 5      |
| Consolidated VIEs                                | 17                           | 17     |
| Net investment income                            | 79                           | 131    |
| Realized gains and losses:                       |                              |        |
| Fixed-maturity:                                  |                              |        |
| Gains <sup>(1)</sup>                             | 39                           | 54     |
| Losses   | (157)                        | (40)   |
| Net  | (118)                        | 14     |
| Other investments:                               |                              |        |
| Gains  | 1                            | 9      |
| Losses   | (14)                         | -      |
| Net  | (13)                         | 9      |
| Total net realized gains (losses) <sup>(2)</sup> | (131)                        | 23     |
| Total investment income                          | \$ (52)                      | \$ 154 |

(1) - Includes net trading gains of \$4 million for the three months ended March 31, 2012.

(2) - These balances are included in the Net gains (losses) on financial instruments at fair value and foreign exchange and Net investment losses related to other-than-temporary impairments line items on MBIA's consolidated statements of operations.

Total investment income is generated as a result of the ongoing management of the Company's investment portfolios. For the three months ended March 31, 2012, total investment income decreased compared to the same period of 2011 due to a lower asset base.

Net realized losses were \$131 million for the period ended March 31, 2012, compared to the net realized gains of \$23 million for the same period of 2011, resulting in a decrease of \$154 million. The decrease was primarily driven by other-than-temporary impairment losses that were recognized on securities impaired to fair value as there is an intent to sell these securities, and losses on sales of securities in the Company's asset/liability products investment portfolio.

**Table of Contents****MBIA Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****Note 8: Investment Income and Gains and Losses (continued)**

The portion of certain other-than-temporary impairment losses on fixed-maturity securities that does not represent credit losses is recognized in accumulated other comprehensive income (loss). For these impairments, the net amount recognized in earnings represents the difference between the amortized cost of the security and the net present value of its projected future discounted cash flows prior to impairment. Any remaining difference between the fair value and amortized cost is recognized in accumulated other comprehensive income (loss). The following table presents the amount of credit loss impairments recognized in earnings on fixed-maturity securities held by MBIA as of the dates indicated, for which a portion of the other-than-temporary impairment losses was recognized in accumulated other comprehensive income (loss), and the corresponding changes in such amounts:

| In millions  | Three Months Ended March 31, |        |
|--|------------------------------|--------|
| Credit Losses Recognized in Earnings Related to Other-Than-Temporary Impairments   | 2012                         | 2011   |
| Beginning balance  | \$ 341                       | \$ 262 |
| Additions for credit loss impairments recognized in the current period on securities previously impaired                           | 2                            | 7      |
| Reductions for credit loss impairments previously recognized on securities sold during the period                                  | (7)                          | (3)    |
| Reductions for credit loss impairments previously recognized on securities impaired to fair value during the period <sup>(1)</sup> | (59)                         | -      |
| Ending balance   | \$ 277                       | \$ 266 |

(1) - Represents circumstances where the Company determined in the current period that it intends to sell the security or it is more likely than not that it will be required to sell the security before recovery of the security's amortized cost.

For ABS (e.g., RMBS and CDOs), the Company estimated expected future cash flows of each security by estimating the expected future cash flows of the underlying collateral and applying those collateral cash flows, together with any credit enhancements such as subordination interests owned by third parties, to the security. The expected future cash flows of the underlying collateral are determined using the remaining contractual cash flows adjusted for future expected credit losses (which consider current delinquencies and nonperforming assets, future expected default rates and collateral value by vintage and geographic region) and prepayments. The expected cash flows of the security are then discounted at the interest rate used to recognize interest income on the security to arrive at a present value amount. The following table presents a summary of the significant inputs considered in determining the measurement of the credit loss component recognized in earnings for each significant class of ABS for the three months ended March 31, 2012 and 2011:

| Asset-backed Securities                        | Three Months Ended March 31, |                  |
|--|------------------------------|------------------|
|  | 2012                         | 2011             |
| Expected size of losses <sup>(1)</sup> :       |                              |                  |
| Range <sup>(2)</sup>                           | 12.13% to 100.00%            | 6.04% to 100.00% |
| Weighted average <sup>(3)</sup>                | 90.60%                       | 85.75%           |
| Current subordination levels <sup>(4)</sup> :  |                              |                  |
| Range <sup>(2)</sup>                           | 0.00% to 0.00%               | 0.00% to 6.24%   |
| Weighted average <sup>(3)</sup>                | 0.00%                        | 0.09%            |
| Prepayment speed (annual CPR) <sup>(5)</sup> : |                              |                  |
| Range <sup>(2)</sup>                           | 0.00 to 22.68                | 0.00 to 68.89    |

|                                 |       |       |
|---------------------------------|-------|-------|
| Weighted average <sup>(3)</sup> | 10.21 | 20.70 |
|---------------------------------|-------|-------|

(1) - Represents future expected credit losses on impaired assets expressed as a percentage of total outstanding balance.

(2) - Represents the range of inputs/assumptions based upon the individual securities within each category.

(3) - Calculated by weighting the relevant input/assumption for each individual security by the outstanding notional of the security.

(4) - Represents current level of credit protection (subordination) for the securities, expressed as a percentage of the balance of the collateral group backing the bond.

(5) - Values represent high and low points of lifetime vectors of constant prepayment rates.

**Table of Contents****MBIA Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****Note 8: Investment Income and Gains and Losses (continued)**

Net unrealized gains (losses), including the portion of other-than-temporary impairments included in accumulated other comprehensive income (loss), reported within shareholders' equity consisted of:

| In millions                             | As of March 31,<br>2012 | As of December 31,<br>2011 |
|---|-------------------------|----------------------------|
| Fixed-maturity:                         |                         |                            |
| Gains                                   | \$ 252                  | \$ 262                     |
| Losses                                  | (278)                   | (459)                      |
| Foreign exchange                        | 21                      | (5)                        |
| Net                                     | (5)                     | (202)                      |
| Other investments:                      |                         |                            |
| Gains                                   | 2                       | 1                          |
| Losses                                  | -                       | (19)                       |
| Net                                     | 2                       | (18)                       |
| Total                                   | (3)                     | (220)                      |
| Deferred income tax provision (benefit) | (20)                    | (86)                       |
| Unrealized gains (losses), net          | \$ 17                   | \$ (134)                   |

The change in net unrealized gains (losses), including the portion of other-than-temporary impairments, presented in the table above consisted of:

| In millions                              | As of March 31,<br>2012 | As of December 31,<br>2011 |
|--|-------------------------|----------------------------|
| Fixed-maturity                           | \$ 197                  | \$ 386                     |
| Other investments                        | 20                      | (6)                        |
| Total                                    | 217                     | 380                        |
| Deferred income tax charged (credited)   | 66                      | 122                        |
| Change in unrealized gains (losses), net | \$ 151                  | \$ 258                     |

**Note 9: Derivative Instruments***Overview*

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MBIA has entered into derivative transactions through its financial guarantee of CDS and for purposes of hedging risks associated with existing assets and liabilities and forecasted transactions. CDS are also entered into in the asset/liability products business to replicate investments in cash assets consistent with the Company's risk objectives and credit guidelines for its asset management business. The Company accounts for derivative transactions in accordance with the accounting principles for derivative and hedging activities, which requires that all such transactions be recorded on the balance sheet at fair value. Refer to Note 6: Fair Value of Financial Instruments for the definition of fair value of derivative instruments.

Changes in the fair value of derivatives, excluding insured derivatives, are recorded each period in current earnings within Net gains (losses) on financial instruments at fair value and foreign exchange. Changes in the fair value of insured derivatives are recorded each period in current earnings within Net change in fair value of insured derivatives. The net change in the fair value of the Company's insured derivatives has two primary components: (i) realized gains (losses) and other settlements on insured derivatives and (ii) unrealized gains (losses) on insured derivatives. Realized gains (losses) and other settlements on insured derivatives include (i) premiums received and receivable on written CDS contracts, (ii) premiums paid and payable to reinsurers in respect to CDS contracts, (iii) net amounts received or paid on reinsurance commutations, (iv) losses paid and payable to CDS contract counterparties due to the occurrence of a credit event or settlement agreement, (v) losses recovered and recoverable on purchased CDS contracts due to the occurrence of a credit event or settlement agreement and (vi) fees relating to CDS contracts. The Unrealized gains (losses) on insured derivatives include all other changes in fair value of the insured derivative contracts.

**Table of Contents****MBIA Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****Note 9: Derivative Instruments (continued)***U.S. Public Finance Insurance*

The Company's derivative exposure within its U.S. public finance insurance operations primarily consists of insured interest rate and inflation-linked swaps related to insured U.S. public finance debt issues. These derivatives do not qualify for the financial guarantee scope exception. The Company has also purchased certain investments containing embedded derivatives. All derivatives are recorded at fair value on the Company's balance sheet with the changes in fair value recorded in current earnings within Unrealized gains (losses) on insured derivatives, for the insured derivatives, or Net gains (losses) on financial instruments at fair value and foreign exchange for the embedded derivatives.

*Structured Finance and International Insurance*

The Company entered into derivative transactions that it viewed as an extension of its core financial guarantee business but which do not qualify for the financial guarantee scope exception and, therefore, must be recorded at fair value on the balance sheet. The Company's structured finance and international insurance operations, which insured the majority of the Company's notional derivative exposure, have insured CDS contracts, primarily referencing corporate, asset-backed, residential mortgage-backed, commercial mortgage-backed, CRE loans, and CDO securities that the Company intends to hold for the entire term of the contract absent a negotiated settlement with the counterparty.

*Variable Interest Entities*

VIEs consolidated by the Company have entered into derivative transactions primarily consisting of interest rate swaps and CDS contracts. Interest rate swaps are entered into to hedge the risks associated with fluctuations in interest rates or fair values of certain contracts. CDS contracts are entered into to hedge credit risk or to replicate investments in cash assets.

*Asset/Liability Products*

The Company's asset/liability products business has entered into derivative transactions primarily consisting of interest rate swaps, cross currency swaps, and CDS contracts. Interest rate swaps are entered into to hedge the risks associated with fluctuations in interest rates or fair values of certain contracts. Cross currency swaps are entered into to hedge the variability in cash flows resulting from fluctuations in foreign currency rates. CDS contracts are entered into to hedge credit risk or to replicate investments in cash assets consistent with the Company's risk objectives and credit guidelines for its asset management business.

Certain interest rate swaps qualify as fair value hedges. The fair value hedges are used to protect against changes in the market value of the hedged assets or liabilities. The gains and losses relating to the fair value hedges are recorded directly in earnings. Fair value hedges are hedging existing assets, liabilities or forecasted transactions.

*Credit Derivatives Sold*

The following table presents information about credit derivatives sold by the Company's insurance operations that were outstanding as of March 31, 2012. Credit ratings represent the lower of underlying ratings currently assigned by Moody's, S&P or MBIA.

| In millions<br>Credit Derivatives Sold | Weighted<br>Average<br>Remaining | AAA |  |  | AA  |           | A |  | Notional Value |  | Total<br>Notional | Fair Value<br>Asset<br>(Liability) |
|--|----------------------------------|-----|--|--|-----|-----------|---|--|----------------|--|-------------------|------------------------------------|
|  |                                  |     |  |  | BBB | Below BBB |   |  |                |  |                   |                                    |
|  |                                  |     |  |  |     |           |   |  |                |  |                   |                                    |

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|   | <b>Expected<br/>Maturity</b> |                  |                  |                 |                   |                   |                  |                   |
|---|------------------------------|------------------|------------------|-----------------|-------------------|-------------------|------------------|-------------------|
| Insured credit default swaps            | 5.7 Years                    | \$ 11,017        | \$ 9,545         | \$ 5,363        | \$ 12,606         | \$ 21,244         | \$ 59,775        | \$ (4,416)        |
| Non-insured credit default<br>swaps-VIE | 3.4 Years                    | -                | -                | -               | -                 | 643               | 643              | (525)             |
| Insured swaps                           | 20.6 Years                   | -                | 664              | 3,966           | 2,023             | 93                | 6,746            | (9)               |
| All others                              | 2.6 Years                    | -                | -                | -               | -                 | 195               | 195              | (88)              |
| <b>Total notional</b>                   |                              | <b>\$ 11,017</b> | <b>\$ 10,209</b> | <b>\$ 9,329</b> | <b>\$ 14,629</b>  | <b>\$ 22,175</b>  | <b>\$ 67,359</b> |                   |
| <b>Total fair value</b>                 |                              | <b>\$ (74)</b>   | <b>\$ (91)</b>   | <b>\$ (206)</b> | <b>\$ (1,172)</b> | <b>\$ (3,495)</b> |                  | <b>\$ (5,038)</b> |



**Table of Contents****MBIA Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****Note 9: Derivative Instruments (continued)**

The following table presents information about credit derivatives sold by the Company's insurance operations that were outstanding as of December 31, 2011. Credit ratings represent the lower of underlying ratings currently assigned by Moody's, S&P or MBIA.

| In millions                          | Weighted<br>Average<br>Remaining<br>Expected<br>Maturity | Notional Value   |                  |                  |                   |                   | Total<br>Notional | Fair Value<br>Asset<br>(Liability) |
|--------------------------------------|--|------------------|------------------|------------------|-------------------|-------------------|-------------------|------------------------------------|
|                                      |  | AAA              | AA               | A                | BBB               | Below BBB         |                   |                                    |
| <b>Credit Derivatives Sold</b>       |  |                  |                  |                  |                   |                   |                   |                                    |
| Insured credit default swaps         | 5.6 Years  | \$ 15,475        | \$ 12,065        | \$ 6,336         | \$ 14,042         | \$ 17,639         | \$ 65,557         | \$ (4,716)                         |
| Non-insured credit default swaps-VIE | 3.6 Years  | -                | -                | -                | -                 | 643               | 643               | (527)                              |
| Insured swaps                        | 19.7 Years   | -                | 164              | 4,270            | 2,589             | 133               | 7,156             | (9)                                |
| All others                           | 2.8 Years  | -                | -                | -                | -                 | 195               | 195               | (91)                               |
| <b>Total notional</b>                |  | <b>\$ 15,475</b> | <b>\$ 12,229</b> | <b>\$ 10,606</b> | <b>\$ 16,631</b>  | <b>\$ 18,610</b>  | <b>\$ 73,551</b>  |                                    |
| <b>Total fair value</b>              |  | <b>\$ (114)</b>  | <b>\$ (116)</b>  | <b>\$ (205)</b>  | <b>\$ (1,355)</b> | <b>\$ (3,553)</b> |                   | <b>\$ (5,343)</b>                  |

Referenced credit ratings assigned by MBIA to insured credit derivatives are derived by the Company's surveillance group. In assigning an internal rating, current status reports from issuers and trustees, as well as publicly available transaction-specific information, are reviewed. Also, where appropriate, cash flow analyses and collateral valuations are considered. The maximum potential amount of future payments (undiscounted) on CDS contracts are estimated as the notional value plus any additional debt service costs, such as interest or other amounts owing on CDS contracts. The maximum amount of future payments that MBIA may be required to make under these guarantees is \$65.5 billion. This amount is net of \$713 million of insured derivatives ceded under reinsurance agreements in which MBIA economically hedges a portion of the credit and market risk associated with its insured derivatives and offsetting agreements with a counterparty. The maximum potential amount of future payments (undiscounted) on insured swaps are estimated as the notional value of such contracts.

MBIA may hold recourse provisions with third parties in derivative transactions through both reinsurance and subrogation rights. MBIA's reinsurance arrangements provide that in the event MBIA pays a claim under a guarantee of a derivative contract, MBIA has the right to collect amounts from any reinsurers that have reinsured the guarantee on either a proportional or non-proportional basis, depending upon the underlying reinsurance agreement. MBIA may also have recourse through subrogation rights whereby if MBIA makes a claim payment, it is entitled to any rights of the insured counterparty, including the right to any assets held as collateral.

**Financial Statement Impact**

The fair value of amounts recognized for eligible derivative contracts executed with the same counterparty under a master netting agreement, including any cash collateral that may have been received or posted by the Company, is presented on a net basis in accordance with accounting guidance for the offsetting of fair value amounts related to derivative instruments.

As of March 31, 2012, the total fair value of the Company's derivative assets, after counterparty netting, was \$463 million, of which \$457 million was reported within Derivative assets and Derivative assets-VIEs on the Company's consolidated balance sheets, and the total fair value of the Company's derivative liabilities, after counterparty netting, was \$5.7 billion, of which \$5.6 billion was reported within Derivative liabilities and Derivative liabilities-VIEs on the Company's consolidated balance sheets.



**Table of Contents****MBIA Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****Note 9: Derivative Instruments (continued)**

As of March 31, 2012, the total fair value of the Company's derivative assets, before counterparty netting, was \$539 million and the total fair value of the Company's derivative liabilities, before counterparty netting, was \$5.7 billion. The following table presents the total fair value of the Company's derivative assets and liabilities by instrument and balance sheet location, before counterparty netting, as of March 31, 2012:

| In millions                            | Notional<br>Amount<br>Outstanding | Derivative Assets <sup>(1)</sup> |               | Derivative Liabilities <sup>(1)</sup> |                   |
|--|-----------------------------------|----------------------------------|---------------|---------------------------------------|-------------------|
|  |                                   | Balance Sheet Location           | Fair Value    | Balance Sheet Location                | Fair Value        |
| <b>Derivative Instruments</b>          |                                   |                                  |               |                                       |                   |
| Designated as hedging instruments:     |                                   |                                  |               |                                       |                   |
| Interest rate swaps                    | \$ 149                            | Derivative assets                | \$ 8          | Derivative liabilities                | \$ (15)           |
| <b>Total designated</b>                | <b>\$ 149</b>                     |                                  | <b>\$ 8</b>   |                                       | <b>\$ (15)</b>    |
| Not designated as hedging instruments: |                                   |                                  |               |                                       |                   |
| Insured credit default swaps           | \$ 60,412                         | Derivative assets                | \$ 10         | Derivative liabilities                | \$ (4,416)        |
| Insured swaps                          | 6,746                             | Derivative assets                | -             | Derivative liabilities                | (9)               |
| Non-insured credit default swaps       | 30                                | Derivative assets                | -             | Derivative liabilities                | -                 |
| Non-insured credit default swaps-VIE   | 1,272                             | Derivative assets-VIE            | 443           | Derivative liabilities-VIE            | (525)             |
| Interest rate swaps                    | 2,649                             | Derivative assets                | 70            | Derivative liabilities                | (375)             |
| Interest rate swaps-VIE                | 4,791                             | Derivative assets-VIE            | -             | Derivative liabilities-VIE            | (259)             |
| Interest rate swaps - embedded         | 489                               | Medium-term notes                | 6             | Medium-term notes                     | (22)              |
| Currency swaps                         | 40                                | Derivative assets                | -             | Derivative liabilities                | (3)               |
| Currency swaps-VIE                     | 119                               | Derivative assets-VIE            | -             | Derivative liabilities-VIE            | (19)              |
| All other                              | 195                               | Derivative assets                | -             | Derivative liabilities                | (88)              |
| All other-VIE                          | 460                               | Derivative assets-VIE            | 2             | Derivative liabilities-VIE            | -                 |
| All other - embedded                   | 121                               | Other investments                | -             | Other investments                     | (1)               |
| <b>Total non-designated</b>            | <b>\$ 77,324</b>                  |                                  | <b>\$ 531</b> |                                       | <b>\$ (5,717)</b> |
| <b>Total derivatives</b>               | <b>\$ 77,473</b>                  |                                  | <b>\$ 539</b> |                                       | <b>\$ (5,732)</b> |

(1) - In accordance with the accounting guidance for derivative instruments and hedging activities, the balance sheet location of the Company's embedded derivative instruments is determined by the location of the related host contract.

As of December 31, 2011, the total fair value of the Company's derivative assets, after counterparty netting, was \$459 million, of which \$452 million was reported within Derivative assets and Derivative assets-VIEs on the Company's consolidated balance sheets, and the total fair value of the Company's derivative liabilities, after counterparty netting, was \$6.0 billion which was reported within Derivative liabilities and Derivative liabilities-VIEs on the Company's consolidated balance sheets.



**Table of Contents****MBIA Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****Note 9: Derivative Instruments (continued)**

As of December 31, 2011, the total fair value of the Company's derivative assets, before counterparty netting, was \$552 million and the total fair value of the Company's derivative liabilities, before counterparty netting was \$6.1 billion. The following table presents the total fair value of the Company's derivative assets and liabilities by instrument and balance sheet location, before counterparty netting, as of December 31, 2011:

| In millions                            | Notional<br>Amount<br>Outstanding | Derivative Assets <sup>(1)</sup> |               | Derivative Liabilities <sup>(1)</sup> |                   |
|--|-----------------------------------|----------------------------------|---------------|---------------------------------------|-------------------|
|  |                                   | Balance Sheet Location           | Fair Value    | Balance Sheet Location                | Fair Value        |
| <b>Derivative Instruments</b>          |                                   |                                  |               |                                       |                   |
| Designated as hedging instruments:     |                                   |                                  |               |                                       |                   |
| Interest rate swaps                    | \$ 241                            | Derivative assets                | \$ 10         | Derivative liabilities                | \$ (44)           |
| <b>Total designated</b>                | <b>\$ 241</b>                     |                                  | <b>\$ 10</b>  |                                       | <b>\$ (44)</b>    |
| Not designated as hedging instruments: |                                   |                                  |               |                                       |                   |
| Insured credit default swaps           | \$ 66,851                         | Derivative assets                | \$ -          | Derivative liabilities                | \$ (4,708)        |
| Insured swaps                          | 7,156                             | Derivative assets                | -             | Derivative liabilities                | (9)               |
| Non-insured credit default swaps       | 30                                | Derivative assets                | 1             | Derivative liabilities                | -                 |
| Non-insured credit default swaps-VIE   | 1,272                             | Derivative assets-VIE            | 447           | Derivative liabilities-VIE            | (527)             |
| Interest rate swaps                    | 2,706                             | Derivative assets                | 84            | Derivative liabilities                | (401)             |
| Interest rate swaps-VIE                | 4,878                             | Derivative assets-VIE            | -             | Derivative liabilities-VIE            | (281)             |
| Interest rate swaps - embedded         | 480                               | Medium-term notes                | 7             | Medium-term notes                     | (14)              |
| Currency swaps                         | 62                                | Derivative assets                | -             | Derivative liabilities                | (4)               |
| Currency swaps-VIE                     | 123                               | Derivative assets-VIE            | -             | Derivative liabilities-VIE            | (17)              |
| All other                              | 3,465                             | Derivative assets                | -             | Derivative liabilities                | (91)              |
| All other-VIE                          | 472                               | Derivative assets-VIE            | 3             | Derivative liabilities-VIE            | -                 |
| All other - embedded                   | 121                               | Other investments                | -             | Other investments                     | (12)              |
| <b>Total non-designated</b>            | <b>\$ 87,616</b>                  |                                  | <b>\$ 542</b> |                                       | <b>\$ (6,064)</b> |
| <b>Total derivatives</b>               | <b>\$ 87,857</b>                  |                                  | <b>\$ 552</b> |                                       | <b>\$ (6,108)</b> |

(1) - In accordance with the accounting guidance for derivative instruments and hedging activities, the balance sheet location of the Company's embedded derivative instruments is determined by the location of the related host contract.

**Table of Contents****MBIA Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****Note 9: Derivative Instruments (continued)**

The following tables present the effect of derivative instruments on the consolidated statements of operations for the three months ended March 31, 2012:

**In millions**

| Derivatives in Fair Value Hedging Relationships | Location of Gain (Loss)<br>Recognized in Income on<br>Derivative               | Gain   | Gain   |                            |
|---|--|--|--|----------------------------|
|   |  | (Loss)<br>Recognized in<br>Income on<br>Derivative | (Loss)<br>Recognized in Net Gain (Loss)<br>Income on<br>Hedged<br>Item | Recognized<br>in<br>Income |
| Interest rate swaps                             | Net gains (losses) on financial instruments at fair value and foreign exchange | \$ 27  | \$ (27)  | \$ -                       |
| Interest rate swaps                             | Interest income (expense)  | -  | -  | (2)                        |
| <b>Total</b>                                    |  | <b>\$ 27</b>                                       | <b>\$ (27)</b>   | <b>\$ (2)</b>              |

**In millions**

| Derivatives Not Designated as Hedging Instruments | Location of Gain (Loss) Recognized in Income on Derivative                         | Net Gain (Loss) Recognized in Income |
|---|--|--------------------------------------|
| Insured credit default swaps                      | Unrealized gains (losses) on insured derivatives                                   | \$ 301                               |
| Insured credit default swaps                      | Realized gains (losses) and other settlements on insured derivatives               | (4)                                  |
| Non-insured credit default swaps                  | Net gains (losses) on financial instruments at fair value and foreign exchange     | (1)                                  |
| Non-insured credit default swaps-VIE              | Net gains (losses) on financial instruments at fair value and foreign exchange-VIE | (1)                                  |
| Interest rate swaps                               | Net gains (losses) on financial instruments at fair value and foreign exchange     | 10                                   |
| Interest rate swaps-VIE                           | Net gains (losses) on financial instruments at fair value and foreign exchange-VIE | 21                                   |
| Currency swaps                                    | Net gains (losses) on financial instruments at fair value and foreign exchange     | (2)                                  |
| Currency swaps-VIE                                | Net gains (losses) on financial instruments at fair value and foreign exchange-VIE | (2)                                  |
| All other   | Unrealized gains (losses) on insured derivatives                                   | 2                                    |
| All other   | Net gains (losses) on financial instruments at fair value and foreign exchange     | 11                                   |
| All other-VIE                                     | Net gains (losses) on financial instruments at fair value and foreign exchange-VIE | (1)                                  |
| <b>Total</b>                                      |  | <b>\$ 334</b>                        |



**Table of Contents****MBIA Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****Note 9: Derivative Instruments (continued)**

The following tables present the effect of derivative instruments on the consolidated statements of operations for the three months ended March 31, 2011:

| In millions  | Location of Gain (Loss)<br>Recognized in Income on                             | Gain   | Gain (Loss)                               | Net Gain (Loss)            |
|--|--|--|---|----------------------------|
|  |  | (Loss)<br>Recognized in<br>Income on<br>Derivative | Recognized in<br>Income on Hedged<br>Item | Recognized<br>in<br>Income |
| <b>Derivatives in Fair Value Hedging Relationships</b> | <b>Derivative</b>  |  |   |                            |
| Interest rate swaps                                    | Net gains (losses) on financial instruments at fair value and foreign exchange | \$ (6)   | \$ 6                                      | \$ -                       |
| Interest rate swaps                                    | Interest income (expense)  | -  | -   | (2)                        |
| <b>Total</b>   |  | <b>\$ (6)</b>                                      | <b>\$ 6</b>                               | <b>\$ (2)</b>              |

| In millions                                       | Location of Gain (Loss) Recognized in Income on                                    | Net Gain (Loss) Recognized in Income |
|---|--|--------------------------------------|
| Derivatives Not Designated as Hedging Instruments | Derivative   |                                      |
| Insured credit default swaps                      | Unrealized gains (losses) on insured derivatives                                   | \$ (1,411)                           |
| Insured credit default swaps                      | Realized gains (losses) and other settlements on insured derivatives               | (354)                                |
| Non-insured credit default swaps                  | Net gains (losses) on financial instruments at fair value and foreign exchange     | (1)                                  |
| Non-insured credit default swaps-VIE              | Net gains (losses) on financial instruments at fair value and foreign exchange-VIE | (158)                                |
| Interest rate swaps                               | Net gains (losses) on financial instruments at fair value and foreign exchange     | 3                                    |
| Interest rate swaps-VIE                           | Net gains (losses) on financial instruments at fair value and foreign exchange-VIE | 69                                   |
| Currency swaps                                    | Net gains (losses) on financial instruments at fair value and foreign exchange     | (5)                                  |
| Currency swaps-VIE                                | Net gains (losses) on financial instruments at fair value and foreign exchange-VIE | 2                                    |
| All other   | Unrealized gains (losses) on insured derivatives                                   | (11)                                 |
| All other   | Net gains (losses) on financial instruments at fair value and foreign exchange     | (1)                                  |
| All other-VIE                                     | Net gains (losses) on financial instruments at fair value and foreign exchange-VIE | (2)                                  |
| <b>Total</b>                                      |  | <b>\$ (1,869)</b>                    |



*Counterparty Credit Risk*

The Company manages counterparty credit risk on an individual counterparty basis through master netting agreements covering derivative transactions in the asset/liability products segment. These agreements allow the Company to contractually net amounts due from a counterparty with those amounts due to such counterparty when certain triggering events occur. The Company only executes swaps under master netting agreements, which typically contain mutual credit downgrade provisions that generally provide the ability to require assignment or termination in the event either MBIA or the counterparty is downgraded below a specified credit rating.

**Table of Contents****MBIA Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****Note 9: Derivative Instruments (continued)**

Under these arrangements, the Company may receive or provide U.S. Treasury and other highly rated securities or cash to secure counterparties exposure to the Company or its exposure to counterparties, respectively. Such collateral is available to the holder to pay for replacing the counterparty in the event that the counterparty defaults. As of March 31, 2012 and 2011, the Company did not hold or post cash collateral from derivative counterparties. As of March 31, 2012 and December 31, 2011, the Company had securities with a fair value of \$435 million and \$470 million, respectively, posted to derivative counterparties.

As of March 31, 2012, the fair value was positive on one Credit Support Annex (CSA) which governs collateral posting requirements between MBIA and its derivative counterparties. The aggregate positive fair value for this one CSA was \$2 million for which the Company did not receive collateral because the Company's credit rating was below the CSA minimum credit ratings level for holding counterparty collateral. The counterparty was rated Aa3 by Moody's and A by S&P.

As of December 31, 2011, the fair value was positive on one CSA which governs collateral posting requirements between MBIA and its derivative counterparties. The positive fair value for this CSA was \$2 million for which the Company did not receive collateral because the Company's credit rating was below the CSA minimum credit ratings level for holding counterparty collateral. The counterparty was rated Aa3 by Moody's and A+ by S&P.

**Note 10: Income Taxes**

The Company's income taxes and the related effective tax rates for the three months ended March 31, 2012 and 2011 are as follows:

| In millions                          | Three Months Ended March 31, |            |
|--------------------------------------|------------------------------|------------|
|                                      | 2012                         | 2011       |
| Income (loss) before income taxes    | \$ 21                        | \$ (1,763) |
| Provision (benefit) for income taxes | \$ 11                        | \$ (489)   |
| Effective tax rate                   | 52.4%                        | 27.7%      |

For the three months ended March 31, 2012, the Company's effective tax rate applied to its pre-tax income was higher than the U.S. statutory tax rate primarily as a result of the Company's increase in the valuation allowance, offset by the release of a portion of the reserve for uncertain tax benefits. For the three months ended March 31, 2011, the Company's effective tax rate applied to its pre-tax loss was lower than the U.S. statutory tax rate as a result of interim tax accounting principles, which treat the tax effect of certain items as discrete to the quarter and which impacted the quarterly rate in the first quarter of 2011 differently than in 2012. This unfavorable impact was offset by the benefit of the reversal of a portion of the Company's valuation allowance, tax-exempt interest income from investments, and income earned in non-U.S. jurisdictions, which is being taxed at less than 35%.

For interim reporting purposes, the Company has calculated its effective tax rate for the full year of 2012 by adjusting annual forecasted pretax income for mark-to-market income, fair value adjustments, capital gains/losses, and other adjustments, including the change in the reserve for uncertain tax benefits as discrete items, when projecting its full year effective tax rate. The Company has accounted for these items at the federal applicable tax rate after applying the projected full year effective tax rate to actual three-month results before discrete items.

***Deferred Tax Asset, Net of Valuation Allowance***

The Company establishes a valuation allowance against its deferred tax asset when it is more likely than not that all or a portion of the deferred tax asset will not be realized. All evidence, both positive and negative, needs to be identified and considered in making the determination. Future realization of the existing deferred tax asset ultimately depends, in part, on the existence of sufficient taxable income of appropriate character (for example, ordinary income versus capital gains) within the carryforward period available under the tax law.

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As of March 31, 2012, the Company reported a net deferred tax asset of \$1.6 billion. The \$1.6 billion net deferred tax asset is after a \$277 million valuation allowance. As of March 31, 2012, the Company had a full valuation allowance against the deferred tax asset related to losses from asset impairments and realized losses from sales of investments as these losses are considered capital losses, have a five year carryforward period, and can only be offset by capital gain income. The March 31, 2012 valuation allowance reflects an increase of \$41 million from the December 31, 2011 valuation allowance of \$236 million. The decrease in the valuation allowance for the three months ended March 31, 2011 was primarily due to realized gains resulting from asset sales.

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**MBIA Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Unaudited)**

**Note 10: Income Taxes (continued)**

The Company has concluded that it is more likely than not that its net deferred tax asset will be realized. In its conclusion, the Company considered the following evidence (both positive and negative):

Due to the long-tail nature of the financial guarantee business, MBIA Inc.'s insurance subsidiaries, without regard to any new business, will have a steady stream of scheduled premium earnings with respect to the existing insured portfolio. Additionally, MBIA Corp.'s announcement in February 2008 of a temporary suspension in writing new structured finance transactions and a permanent cessation with respect to insuring new CDS contracts, except in transactions related to the reduction of existing derivative exposure, would not have an impact on the expected earnings related to the existing insured portfolio.

The Company performed taxable income projections over a fifteen and twenty year period to determine whether it is expected to have sufficient income to offset its deferred tax asset that would generate future ordinary deductions. In this analysis, the Company projected that premium earnings, even without regard to any new business, combined with investment income, less deductible expenses, would be sufficient to recover its net deferred tax asset. The Company's taxable income projections used to assess the recoverability of its deferred tax asset include an estimate of future loss and LAE equal to the present value discount of loss reserves already recognized on the balance sheet and an estimate of loss adjustment expense which is generally insignificant. The Company does not assume additional losses, with the exception of the accretion of its existing present value loss reserves, because the Company establishes case basis reserves on a present value basis based on an estimate of probable losses on specifically identified credits that have defaulted or are expected to default.

While the ratings downgrades by the rating agencies have significantly adversely impacted the Company's ability to write new insurance business, the downgrades did not have a material impact on earnings from the existing insured portfolio, which the Company believes will be sufficient to absorb losses in the event that the cumulative unrealized losses become fully impaired.

With respect to installment policies, the Company generally does not have an automatic cancellation provision solely in connection with ratings downgrades. For purposes of projecting future taxable income, the Company has applied a discount to adjust for the possible cancellation of future installment premiums based on recent data. With regard to upfront policies, to the extent that the issuer chooses to terminate a policy, any unearned premium reserve with respect to that policy will be accelerated into earnings (i.e. refundings).

As of March 31, 2012, the Company had approximately \$20 million of deferred tax assets related to net unrealized losses on investments included in accumulated other comprehensive income (loss). The Company intends to hold these investments until maturity or until such time as the value recovers. As such, the Company expects that the related deferred tax assets will reverse over the life of the securities.

After reviewing all of the evidence available, both positive and negative, MBIA believes that it has appropriately valued the recoverability of its deferred tax assets, net of the valuation allowance, as of March 31, 2012. The Company continues to assess the adequacy of its valuation allowance as additional evidence becomes available. The Company's recent financial results have been volatile which has impacted management's ability to accurately project future taxable income. Continued volatility or losses beyond those projected may cause the Company to conclude that certain of the deferred tax assets within the \$1.6 billion as of March 31, 2012 may not be realizable.

*Accounting for Uncertainty in Income Taxes*

It is the Company's policy to record and disclose any change in unrecognized tax benefits ( UTB ) and related interest and penalties to income tax in the consolidated statements of operations. In the first quarter 2012, the total amount of UTB decreased as a result of settling the 2004-2009 Internal Revenue Service ( IRS ) examination and the 2005-2007 New York State examination.

|  |       |
|--|-------|
| <b>In millions</b>   |       |
| Unrecognized tax benefit as of December 31, 2011   | \$ 47 |
| The gross amount of the increase/(decrease) in the UTB as a result of tax positions taken: |       |
| During a prior year  | 2     |
| During the current year  | -     |
| The amounts of decreases in the UTB related to settlements with taxing authorities         | (26)  |
| The reduction in the UTB as a result of the applicable statute of limitations              | -     |
| Unrecognized tax benefit as of March 31, 2012  | \$ 23 |

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**MBIA Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Unaudited)**

**Note 10: Income Taxes (continued)**

MBIA's major tax jurisdictions include the U.S. and the United Kingdom ( U.K. ). MBIA and its U.S. subsidiaries file a U.S. consolidated federal income tax return. The IRS has concluded its field work with respect to the examination of tax years 2004 through 2009 and on January 12, 2012, the Joint Committee on Taxation notified the Company that the results of the IRS field examination were reviewed and accepted.

The U.K. tax authorities are currently auditing tax years 2005 through 2009.

As of December 31, 2011, the Company had a 2008 capital loss carryforward of \$155 million which will expire in 2013. The Company also had a cumulative NOL carryforward of \$943 million, which will expire from tax years 2029 through 2031, and a minimum tax credit carryforward of \$22 million, which has an unlimited carryforward period.

**Note 11: Business Segments**

MBIA manages its activities through three principal business operations: U.S. public finance insurance, structured finance and international insurance, and advisory services. The Company's U.S. public finance insurance business is operated through National, its structured finance and international insurance business is operated through MBIA Corp., and its advisory services business is operated through Cutwater. MBIA Inc. and certain of its subsidiaries also manage certain other business activities, the results of which are reported in its corporate, asset/liability products, and conduit segments. The corporate segment includes revenues and expenses that arise from general corporate activities. While the asset/liability products and conduit businesses represent separate business segments, they may be referred to collectively as "wind-down operations" as the funding programs managed through those businesses are in wind-down.

The following sections provide a description of each of the Company's reportable operating segments:

*U.S. Public Finance Insurance*

The Company's U.S. public finance insurance segment is principally conducted through National. The financial guarantees issued by National provide unconditional and irrevocable guarantees of the payment of principal of, and interest or other amounts owing on, U.S. public finance insured obligations when due. The obligations are generally not subject to acceleration, except that National may have the right, at its discretion, to accelerate insured obligations upon default or otherwise. National issues financial guarantees for municipal bonds, including tax-exempt and taxable indebtedness of U.S. political subdivisions, as well as utility districts, airports, health care institutions, higher educational facilities, student loan issuers, housing authorities and other similar agencies and obligations issued by private entities that finance projects that serve a substantial public purpose. Municipal bonds and privately issued bonds used for the financing of public purpose projects are generally supported by taxes, assessments, fees or tariffs related to the use of these projects, lease payments or other similar types of revenue streams. National has not written any meaningful amount of business since its formation in 2009.

*Structured Finance and International Insurance*

The Company's structured finance and international insurance segment is principally conducted through MBIA Corp. The financial guarantees issued by MBIA Corp. generally provide unconditional and irrevocable guarantees of the payment of principal of, and interest or other amounts owing on, global structured finance and non-U.S. public finance insured obligations when due, or in the event MBIA Corp. has the right, at its discretion, to accelerate insured obligations upon default or otherwise, upon MBIA Corp.'s acceleration. Certain guaranteed investment contracts written by MBIA Inc. are insured by MBIA Corp., and if MBIA Inc. were to have insufficient assets to pay amounts due upon maturity or termination, MBIA Corp. would make such payments. MBIA Corp. also insures debt obligations of the following affiliates:

MBIA Inc.;

GFL;

Meridian Funding Company LLC;

LaCrosse Financial Products, LLC ( LaCrosse ), a wholly-owned affiliate, in which MBIA Corp. has written insurance policies guaranteeing the obligations under CDS, including termination payments that may become due upon certain events including the insolvency or payment default by MBIA Corp. or LaCrosse; and

Triple-A One Funding Corporation.

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**Table of Contents****MBIA Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****Note 11: Business Segments (continued)**

MBIA Corp. s guarantees insure structured finance and asset-backed obligations, privately issued bonds used for the financing of public purpose projects, which are primarily located outside of the U.S. and that include toll roads, bridges, airports, public transportation facilities, utilities and other types of infrastructure projects serving a substantial public purpose, and obligations of sovereign-related and sub-sovereign issuers. Structured finance and ABS typically are securities repayable from expected cash flows generated by a specified pool of assets, such as residential and commercial mortgages, insurance policies, consumer loans, corporate loans and bonds, trade and export receivables, leases for equipment, aircraft and real property. The Company is no longer insuring new credit derivative contracts except for transactions related to the reduction of existing derivative exposure. MBIA Corp. has not written any meaningful amount of business since 2008.

*Advisory Services*

The advisory services segment primarily consists of the operations of Cutwater Investor Services Corp. ( Cutwater-ISC ), Cutwater Asset Management Corp. ( Cutwater-AMC ), and Cutwater Asset Management U.K. Limited ( Cutwater-UK ). Cutwater-ISC and Cutwater-AMC offers advisory services, including cash management, discretionary asset management and structured products on a fee-for-service basis. The Company offers these services to public, not-for-profit, corporate and financial services clients, including the Company and its subsidiaries, as well as portfolio accounting and reporting services. Cutwater-ISC and Cutwater-AMC are SEC registered investment advisers. Cutwater-AMC is also a Financial Industry Regulatory Authority member firm. Cutwater-UK provides fee-based asset management services to the Company s foreign insurance affiliate and to third-party institutional clients and investment structures. Cutwater-UK is registered with the Financial Services Authority in the U.K.

*Corporate*

The Company s corporate segment is a reportable segment and includes revenues and expenses that arise from general corporate activities, such as fees, net investment income, net gains and losses, interest expense on MBIA Inc. debt and general corporate expenses.

*Wind-down Operations*

The Company s wind-down operations consist of the asset/liability products and conduit segments.

The asset/liability products segment principally consists of the activities of MBIA Inc., MBIA Investment Management Corp. ( IMC ), GFL and Euro Asset Acquisition Limited ( EAAL ). IMC, along with MBIA Inc., provided customized investment agreements, guaranteed by MBIA Corp., for bond proceeds and other public funds for such purposes as construction, loan origination, escrow and debt service or other reserve fund requirements. It has also provided customized products for funds that are invested as part of asset-backed or structured product transactions. GFL raises funds through the issuance of MTNs with varying maturities, which are, in turn, guaranteed by MBIA Corp. GFL lends the proceeds of these MTN issuances to MBIA Inc. ( GFL Loans ). MBIA Inc. invests the proceeds of investment agreements and GFL Loans in eligible investments, which consisted of investment grade securities at the time of purchase with a minimum average double-A credit quality rating. MBIA Inc. primarily purchases domestic securities, which are pledged to MBIA Corp. as security for its guarantees on investment agreements and MTNs. Additionally, MBIA Inc. loans a portion of the proceeds from investment agreements and MTNs to EAAL. EAAL primarily purchases foreign assets as permitted under the Company s investment guidelines.

The Company s conduit segment administers two conduits through MBIA Asset Finance, LLC. Assets financed by these conduits are currently funded by MTNs and liquidity loans.

The ratings downgrades of MBIA Corp. have resulted in a substantial reduction of funding activities and the termination and collateralization of certain investment agreements, as well as winding down of existing asset/liability products and conduit obligations.





**Table of Contents****MBIA Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****Note 11: Business Segments (continued)***Segment Results*

The following tables provide the Company's segment results for the three months ended March 31, 2012 and 2011:

| In millions  | Three Months Ended March 31, 2012   |  |                      |           |                         |                           | Consolidated |
|--|-------------------------------------|--|----------------------|-----------|-------------------------|---------------------------|--------------|
|  | U.S. Public<br>Finance<br>Insurance | Structured<br>Finance<br>and<br>International<br>Insurance | Advisory<br>Services | Corporate | Wind-down<br>Operations | Eliminations              |              |
| Revenues <sup>(1)</sup>  | \$ 125                              | \$ 55  | \$ 6                 | \$ 1      | \$ 19                   | \$ -                      | \$ 206       |
| Realized gains and other settlements on insured derivatives                    | -                                   | (4)  | -                    | -         | -                       | -                         | (4)          |
| Unrealized gains (losses) on insured derivatives                               | -                                   | 303  | -                    | -         | -                       | -                         | 303          |
| Net gains (losses) on financial instruments at fair value and foreign exchange | 10                                  | 46   | -                    | 5         | (80)                    | -                         | (19)         |
| Net investment losses related to other-than-temporary impairments              | -                                   | (40)   | -                    | -         | (54)                    | -                         | (94)         |
| Other net realized gains (losses)  | -                                   | 1  | -                    | -         | -                       | -                         | 1            |
| Revenues of consolidated VIEs  | -                                   | (14)   | -                    | -         | 4                       | -                         | (10)         |
| Inter-segment revenues <sup>(2)</sup>  | 36                                  | (7)  | 7                    | 23        | 3                       | (62)                      | -            |
| <b>Total revenues</b>  | <b>171</b>                          | <b>340</b>   | <b>13</b>            | <b>29</b> | <b>(108)</b>            | <b>(62)</b>               | <b>383</b>   |
| Loss and loss adjustment expense   | 14                                  | 83   | -                    | -         | -                       | -                         | 97           |
| Operating expenses   | 75                                  | 59   | 15                   | 21        | 1                       | -                         | 171          |
| Interest expense   | -                                   | 33   | -                    | 14        | 26                      | -                         | 73           |
| Expenses of consolidated VIEs  | -                                   | 17   | -                    | -         | 4                       | -                         | 21           |
| Inter-segment expenses <sup>(2)</sup>  | 27                                  | 46   | 2                    | 4         | 8                       | (87)                      | -            |
| <b>Total expenses</b>  | <b>116</b>                          | <b>238</b>   | <b>17</b>            | <b>39</b> | <b>39</b>               | <b>(87)</b>               | <b>362</b>   |
| Income (loss) before income taxes  | \$ 55                               | \$ 102   | \$ (4)               | \$ (10)   | \$ (147)                | \$ 25                     | \$ 21        |
| Identifiable assets  | \$ 7,534                            | \$ 19,632  | \$ 46                | \$ 670    | \$ 4,732                | \$ (6,488) <sup>(3)</sup> | \$ 26,126    |

(1) - Represents the sum of third-party financial guarantee net premiums earned, net investment income, insurance-related fees and reimbursements, investment management fees and other fees.

(2) - Represents intercompany premium income and expense, intercompany asset management fees and expenses, and intercompany interest income and expense pertaining to intercompany receivables and payables.

(3) - Consists of intercompany reinsurance balances, repurchase agreements and loans.

**Table of Contents****MBIA Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****Note 11: Business Segments (continued)**

| In millions  | Three Months Ended March 31, 2011   |  |                      |           |                         |                           | Consolidated |
|--|-------------------------------------|--|----------------------|-----------|-------------------------|---------------------------|--------------|
|  | U.S. Public<br>Finance<br>Insurance | Structured<br>Finance<br>and<br>International<br>Insurance | Advisory<br>Services | Corporate | Wind-down<br>Operations | Eliminations              |              |
| Revenues <sup>(1)</sup>  | \$ 131                              | \$ 102   | \$ 6                 | \$ 1      | \$ 25                   | \$ -                      | \$ 265       |
| Realized gains and other settlements on insured derivatives                    | -                                   | (354)  | -                    | -         | -                       | -                         | (354)        |
| Unrealized gains (losses) on insured derivatives                               | -                                   | (1,422)  | -                    | -         | -                       | -                         | (1,422)      |
| Net gains (losses) on financial instruments at fair value and foreign exchange | 3                                   | 33   | -                    | 23        | (83)                    | -                         | (24)         |
| Net investment losses related to other-than-temporary impairments              | -                                   | (2)  | -                    | -         | (11)                    | -                         | (13)         |
| Net gains (losses) on extinguishment of debt                                   | -                                   | -  | -                    | -         | 24                      | 2                         | 26           |
| Other net realized gains (losses)  | -                                   | 1  | -                    | -         | 4                       | -                         | 5            |
| Revenues of consolidated VIEs  | -                                   | (105)  | -                    | -         | 15                      | -                         | (90)         |
| Inter-segment revenues <sup>(2)</sup>  | 18                                  | 11   | 9                    | 22        | (5)                     | (55)                      | -            |
| Total revenues   | 152                                 | (1,736)  | 15                   | 46        | (31)                    | (53)                      | (1,607)      |
| Loss and loss adjustment expense   | 3                                   | (39)   | -                    | -         | -                       | -                         | (36)         |
| Operating expenses   | 12                                  | 42   | 15                   | 22        | 1                       | -                         | 92           |
| Interest expense   | -                                   | 33   | -                    | 15        | 27                      | -                         | 75           |
| Expenses of consolidated VIEs  | -                                   | 20   | -                    | -         | 5                       | -                         | 25           |
| Inter-segment expenses <sup>(2)</sup>  | 26                                  | 29   | 1                    | 4         | 9                       | (69)                      | -            |
| Total expenses   | 41                                  | 85   | 16                   | 41        | 42                      | (69)                      | 156          |
| Income (loss) before income taxes  | \$ 111                              | \$ (1,821)   | \$ (1)               | \$ 5      | \$ (73)                 | \$ 16                     | \$ (1,763)   |
| Identifiable assets  | \$ 8,232                            | \$ 24,179  | \$ 54                | \$ 624    | \$ 6,161                | \$ (7,007) <sup>(3)</sup> | \$ 32,243    |

(1) - Represents the sum of third-party financial guarantee net premiums earned, net investment income, insurance-related fees and reimbursements, investment management fees and other fees.

(2) - Represents intercompany premium income and expense, intercompany asset management fees and expenses, and intercompany interest income and expense pertaining to intercompany receivables and payables.

(3) - Consists of intercompany reinsurance balances, repurchase agreements and loans.

Premiums on financial guarantees and insured derivatives reported within the Company's insurance segments are generated within and outside the U.S. The following table summarizes premiums earned on financial guarantees and insured derivatives by geographic location of risk for the three months ended March 31, 2012 and 2011:

Three Months Ended March 31,

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| <b>In millions</b>                | <b>2012</b>   | <b>2011</b>   |
|-----------------------------------|---------------|---------------|
| <b>Total premiums earned:</b>     |               |               |
| United States                     | \$ 119        | \$ 122        |
| United Kingdom                    | 8             | 7             |
| Europe (excluding United Kingdom) | 5             | 12            |
| Internationally diversified       | 5             | 9             |
| Central and South America         | 11            | 9             |
| Asia                              | 1             | 7             |
| Other                             | 3             | 3             |
| <b>Total</b>                      | <b>\$ 152</b> | <b>\$ 169</b> |

**Table of Contents****MBIA Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****Note 11: Business Segments (continued)**

The following tables provide the results of the segments within the wind-down operations for the three months ended March 31, 2012 and 2011:

| In millions  | Three Months Ended March 31, 2012 |          |              | Total Wind-down Operations |
|--|-----------------------------------|----------|--------------|----------------------------|
|  | Asset / Liability Products        | Conduits | Eliminations |                            |
| Revenues <sup>(1)</sup>  | \$ 19                             | \$ -     | \$ -         | \$ 19                      |
| Net gains (losses) on financial instruments at fair value and foreign exchange | (80)                              | -        | -            | (80)                       |
| Net investment losses related to other-than-temporary impairments              | (54)                              | -        | -            | (54)                       |
| Revenues of consolidated VIEs  | -                                 | 4        | -            | 4                          |
| Inter-segment revenues <sup>(2)</sup>  | 4                                 | (1)      | -            | 3                          |
| Total revenues   | (111)                             | 3        | -            | (108)                      |
| Operating expenses   | 1                                 | -        | -            | 1                          |
| Interest expense   | 26                                | -        | -            | 26                         |
| Expenses of consolidated VIEs  | -                                 | 4        | -            | 4                          |
| Inter-segment expenses <sup>(2)</sup>  | 8                                 | -        | -            | 8                          |
| Total expenses   | 35                                | 4        | -            | 39                         |
| Income (loss) before income taxes  | \$ (146)                          | \$ (1)   | \$ -         | \$ (147)                   |
| Identifiable assets  | \$ 3,610                          | \$ 1,177 | \$ (55)      | \$ 4,732                   |

(1) - Represents the sum of third-party interest income, investment management services fees and other fees.

(2) - Represents intercompany asset management fees and expenses plus intercompany interest income and expense pertaining to intercompany debt.

| In millions  | Three Months Ended March 31, 2011 |          |              | Total Wind-down Operations |
|--|-----------------------------------|----------|--------------|----------------------------|
|  | Asset / Liability Products        | Conduits | Eliminations |                            |
| Revenues <sup>(1)</sup>  | \$ 24                             | \$ 1     | \$ -         | \$ 25                      |
| Net gains (losses) on financial instruments at fair value and foreign exchange | (83)                              | -        | -            | (83)                       |
| Net investment losses related to other-than-temporary impairments              | (11)                              | -        | -            | (11)                       |

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|  |          |          |          |          |
|--|----------|----------|----------|----------|
| Net gains (losses) on extinguishment of debt | 24       | -        | -        | 24       |
| Other net realized gains (losses)            | 4        | -        | -        | 4        |
| Revenues of consolidated VIEs                | 10       | 5        | -        | 15       |
| Inter-segment revenues <sup>(2)</sup>        | (4)      | (1)      | -        | (5)      |
| Total revenues                               | (36)     | 5        | -        | (31)     |
| Operating expenses                           | 1        | -        | -        | 1        |
| Interest expense                             | 27       | -        | -        | 27       |
| Expenses of consolidated VIEs                | -        | 5        | -        | 5        |
| Inter-segment expenses <sup>(2)</sup>        | 8        | 1        | -        | 9        |
| Total expenses                               | 36       | 6        | -        | 42       |
| Income (loss) before income taxes            | \$ (72)  | \$ (1)   | \$ -     | \$ (73)  |
| Identifiable assets                          | \$ 4,897 | \$ 1,565 | \$ (301) | \$ 6,161 |

(1) - Represents the sum of third-party interest income, investment management services fees and other fees.

(2) - Represents intercompany asset management fees and expenses plus intercompany interest income and expense pertaining to intercompany debt.

**Table of Contents****MBIA Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****Note 12: Earnings Per Share**

Basic earnings per share excludes dilution and is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share reflects the dilutive effect of all stock options and other items outstanding during the period that could potentially result in the issuance of common stock. For the three months ended March 31, 2012 and 2011, there were 3,559,044 and 3,827,614, respectively, of stock options outstanding that were not included in the diluted earnings per share calculation because they were antidilutive.

The following table presents the computation of basic and diluted earnings per share for the three months ended March 31, 2012 and 2011:

| \$ in millions except share and per share amounts | Three Months Ended March 31, |             |
|---|------------------------------|-------------|
|   | 2012                         | 2011        |
| Net income (loss)                                 | \$ 10                        | \$ (1,274)  |
| Basic weighted average shares <sup>(1)</sup>      | 193,489,424                  | 199,972,759 |
| Effect of common stock equivalents:               |                              |             |
| Stock options                                     | 1,105,550                    | -           |
| Diluted weighted average shares                   | 194,594,974                  | 199,972,759 |
| Net income (loss) per common share:               |                              |             |
| Basic   | \$ 0.05                      | \$ (6.37)   |
| Diluted   | \$ 0.05                      | \$ (6.37)   |

(1) - Includes 5,219,053 and 5,228,926 of unvested restricted stock and units that receive nonforfeitable dividends or dividend equivalents for the three months ended March 31, 2012 and 2011, respectively.

**Note 13: Commitments and Contingencies**

The following commitments and contingencies provide an update of those discussed in Note 23: Commitments and Contingencies in the Notes to Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2011 as filed with the SEC on February 29, 2012, and should be read in conjunction with the complete descriptions provided in the aforementioned Form 10-K.

**Corporate Litigation**

*Trustees of the Police and Fire Retirement System of the City of Detroit v. Clapp et al.*, No. 08-CV-1515 (S.D.N.Y.)

On June 3, 2011, Plaintiff filed an amended derivative complaint against certain of the Company's present and former officers and directors, and against the Company, as nominal defendant. The Company's response was filed on January 16, 2012.

*Ambac Bond Insurance Coverage Cases*, Coordinated Proceeding Case No. JCCP 4555 (Super. Ct. of Cal., County of San Francisco)



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In August 2011, plaintiffs filed amended versions of their respective complaints. On October 20, 2011, the court overruled MBIA's demurrers to plaintiffs' amended complaints. Briefing is complete on MBIA and the other monoline defendants' special motion to strike pursuant to California's anti-SLAPP statute. A decision is pending.

### ***Recovery Litigation***

*MBIA Insurance Corp. v. Countrywide Home Loans, Inc., et al.*; Index No. 602825/08 (N.Y. Sup. Ct., N.Y. County)

On April 5, 2012, the Appellate Division, First Department, of the New York State Supreme Court unanimously affirmed the lower court's denial of Bank of America's motion to consolidate and/or sever successor liability claims against Bank of America, allowing deposition and expert discovery on the successor liability claim to proceed. On January 3, 2012, the court granted in part and denied in part MBIA Corp.'s motion for partial summary judgment regarding proof of causation, holding that MBIA is not required to establish a direct causal link between Countrywide's misrepresentations and MBIA's claims payments made pursuant to the insurance policies at issue, but reserving judgment on the causation burden for the contractual repurchase claims. On January 25, 2012, Bank of America filed a Notice of Appeal against the January 3, 2012 order, and MBIA filed a Notice of Cross-Appeal on February 6, 2012. On February 27, 2012, the parties exchanged expert reports.

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**MBIA Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Unaudited)**

**Note 13: Commitments and Contingencies (continued)**

*MBIA Insurance Corp. v. Residential Funding Company, LLC*; Index No. 603552/2008 (N.Y. Sup. Ct., N.Y. County)

On April 16, 2012, the parties exchanged expert reports.

***Transformation Litigation***

*Aurelius Capital Master, Ltd. et al. v. MBIA Inc. et al.*, 09-cv-2242 (R.S.) (S.D.N.Y.)

On April 11, 2012, the Aurelius Plaintiffs and MBIA filed a Stipulation of Dismissal resolving the litigation and the case has been closed on the court's docket.

*ABN AMRO Bank N.V. et al. v. MBIA Inc. et al.*; Index No. 601475/09 (N.Y. Sup. Ct., N.Y. County)

On April 11, 2012, UBS AG, London Branch withdrew from the litigation. On May 7, 2012, Natixis withdrew from the litigation. Sixteen of the original eighteen plaintiffs have dismissed their claims, several of which dismissals were related to the commutation of certain of their MBIA-insured exposures. On April 20, 2012, Justice Kapnick indicated that the case would be stayed pending conclusion of the trial in the Article 78 proceeding discussed below.

*ABN AMRO Bank N.V. et al. v. Eric Dinallo et al.*; Index no. 601846/09 (N.Y. Sup. Ct., N.Y. County)

Submission of papers relating to the original petition was completed on March 16, 2012. A trial is scheduled for May 14, 2012. On April 11, 2012, UBS AG, London Branch withdrew from the litigation. On May 7, 2012, Natixis withdrew from the litigation. As described above, sixteen of the original eighteen plaintiffs have dismissed their claims.

*Barclays Bank PLC., et al. v. Wrynn et al.*; Index No. 651811/2010 (N.Y. Sup. Ct., N.Y. County)

The proceeding is currently stayed.

The Company is defending against the aforementioned actions in which it is a defendant and expects ultimately to prevail on the merits. There is no assurance, however, that the Company will prevail in these actions. Adverse rulings in these actions could have a material adverse effect on the Company's ability to implement its strategy and on its business, results of operations, cash flows and financial condition. At this stage of the litigation, there has not been a determination as to the amount, if any, of damages. Accordingly, the Company is not able to estimate any amount of loss or range of loss.

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

**Note 14: Subsequent Events**

Refer to Note 13, Commitments and Contingencies for information about legal proceedings that occurred after March 31, 2012.

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**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

**FORWARD-LOOKING AND CAUTIONARY STATEMENTS**

This quarterly 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 expressions are used in the forward-looking statements. These statements are subject to certain risks and uncertainties that could cause actual results to differ materially from historical earnings and those presently anticipated or projected. MBIA cautions readers not to place undue reliance on any such forward-looking statements, which speak only to their respective dates. We undertake no obligation to publicly correct or update any forward-looking statement if the Company later becomes aware that such result is not likely to be achieved.

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

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

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

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

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

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

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

the resolution of litigation claims against the Company;

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

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

changes in the Company's credit ratings;

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

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

uncertainties that have not been identified at this time.

The above factors provide a summary of and are qualified in their entirety by the risk factors discussed under "Risk Factors" in Part I, Item 1A of MBIA Inc.'s Annual Report on Form 10-K for the year ended December 31, 2011. In addition, refer to "Note 1: Business Developments, Risks and Uncertainties, and Liquidity" in the Notes to Consolidated Financial Statements for a discussion of certain risks and uncertainties related to our financial statements.

## **EXECUTIVE OVERVIEW**

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

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**Table of Contents****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)****EXECUTIVE OVERVIEW (continued)**

During the first quarter of 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. However, MBIA Corp.'s liquidity position weakened principally as a result of losses and loss adjustment expense (LAE) payments. As of March 31, 2012, National and MBIA Corp. had \$690 million and \$329 million, respectively, of total liquidity without regard to investments in their subsidiaries. Total liquidity within our insurance businesses includes cash and short-term investments, as well as other assets that are readily available for liquidity purposes. As of March 31, 2012, the liquidity position of MBIA Inc., which consists of the liquidity positions of its corporate and asset/liability products activities, was \$482 million and comprised cash and liquid assets of \$251 million available for general corporate liquidity purposes, excluding the amounts held in escrow under its tax sharing agreement, and \$231 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. A detailed discussion of the Company's liquidity position is presented within the Liquidity section herein.

Our financial guarantee insurance business model has been significantly impacted since 2008 by adverse credit rating actions by Standard & Poor's Financial Services LLC (S&P) and Moody's Investors Service, Inc. (Moody's). As of March 31, 2012, National was rated BBB with a developing outlook by S&P and Baa2 with a negative outlook by Moody's. As of March 31, 2012, MBIA Insurance Corporation was rated B with a negative outlook by S&P and B3 with a review of a possible downgrade by Moody's. The absence of S&P's and Moody's highest ratings has adversely impacted our ability to write new insurance business and the premiums we can charge, and could diminish the future acceptance of our financial guarantee insurance products.

***Economic and Financial Market Trends and MBIA's Business Outlook***

We believe the three months ended March 31, 2012 continued to suggest a positive but restrained economic recovery. U.S. Gross Domestic Product showed growth as financial markets recovered from a difficult second half of 2011, and both the business and consumer segments of our economy showed signs of resilience. Additionally, the events in Europe continued to contribute to global uncertainty as did the recent spike in oil prices and uncertainties around the impending U.S. election. All considered, we continue to believe U.S. growth will be positive but below trend as the headwinds of soft housing and employment markets and a still debt-laden consumer weigh on spending. MBIA's business outlook should be viewed against this backdrop since these are some of the key economic conditions which, together with the ineligibility of mortgage loans supporting our insured RMBS transactions and the volatility of unrealized gains and losses on our insured derivatives, significantly impact our financial results.

Our financial results, prepared in accordance with accounting principles generally accepted in the United States of America (GAAP), have been extremely volatile since the fourth quarter of 2007 as a result of unrealized gains and losses from fair valuing our insured credit derivatives. 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 2012 as a result of actual and perceived future performance of our insured credit derivatives and the perception of MBIA's credit risk. Our economic performance may also be volatile depending on changes in our loss estimates based on deviations in macroeconomic conditions and collateral performance from our expectations, and further deterioration in economic conditions and financial markets in the U.S. and abroad.

Uncertainties regarding the European sovereign debt crisis have also affected the global economy. MBIA does not insure any direct European sovereign debt. However, MBIA's indirect European sovereign insured debt exposure totaled \$8.4 billion as of March 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 insured gross par outstanding, \$854 million, \$782 million, and \$262 million, related to Spain, Portugal, and Ireland, respectively. The remaining \$6.5 billion related to the United Kingdom. The Company has an immaterial amount of direct and indirect European sovereign debt holdings included in its investment portfolios. A default by one or more sovereign issuers could have an adverse effect on our insured debt exposures and investment portfolios.



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**Table of Contents****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)****EXECUTIVE OVERVIEW (continued)**

Our business and financial results have been significantly influenced by a number of factors including, but not limited to, the following:

MBIA Corp.'s efforts to seek recoveries due to ineligible mortgage loans for which we believe the sellers/servicers have contractual obligations to cure, repurchase or replace such ineligible mortgage loans have resulted in the recognition of recoveries in connection with these contractual put-back rights based on our assessment of a distribution of possible outcomes. The methodology utilized to calculate and recognize the recoveries was initially focused on the loan files reviewed by MBIA and its independent consultants. More recently, we have determined that in light of various court rulings, including approvals of a sampling approach to establish damages, our methodologies for calculating and recognizing put-back recoveries does not require, and should not be predicated on, reviews of additional loan files. We expect to revise and supplement, on a quarterly basis, our assumptions on the likelihood and timing of actual recoveries, as well as our estimated amount of such recoveries, based on facts and circumstances as they emerge. Such developments have included and will include activity in the pending litigations in which we are seeking to enforce our put-back rights, as well as an ongoing analysis of the capacity of sellers/servicers or other responsible parties to pay our claims and other factors that could influence the amount, likelihood and timing of the recoveries. As of March 31, 2012, we recorded a total of \$3.2 billion in expected recoveries related to our put-back claims of ineligible mortgage loans, including expected recoveries recorded in consolidated variable interest entities (VIEs). We have recorded our largest put-back recoveries against Countrywide Home Loans, Inc. and certain of its affiliates, including Bank of America Corp. We have also recorded substantial recoveries related to put-backs against GMAC Mortgage, LLC and Residential Funding Company, LLC, which are subsidiaries of Ally Financial Inc. Our cumulative incurred loss related to these ineligible mortgage loans was \$4.8 billion as of March 31, 2012. 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 the full amount of our incurred loss related to these ineligible mortgage loans. 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. We may further discount our expected recoveries in the future based on a review of the creditworthiness of sellers/servicers. In particular, the Company believes it is now more likely that GMAC Mortgage, LLC and Residential Funding Company, LLC will file for bankruptcy in light of their reported financial condition and public comments made by Ally Financial Inc. In the event of a bankruptcy filing by GMAC Mortgage, LLC and Residential Funding Company, LLC, the Company will re-assess the value of its expected recoveries against GMAC Mortgage, LLC and Residential Funding Company, LLC and may have to substantially reduce the value of such recoveries depending on the Company's assessment of its likely recovery in the bankruptcy proceeding based on the information available in connection with the bankruptcy. At this time the Company cannot reasonably estimate the amount of the change, if any, in the value of the recoveries, which will depend on whether there is a bankruptcy filing and on other facts and circumstances that are unknown at this time. A more detailed discussion of potential recoveries is presented within Note 5: Loss and Loss Adjustment Expense Reserves in the Notes to Consolidated Financial Statements.

For the three months ended March 31, 2012, we estimated an additional \$296 million of credit losses and LAE related to our insured CMBS exposure primarily on insured credit default swap (CDS) contracts. This additional amount reflects the cost of commutations during the first quarter of 2012, revised expectations for the cost of commuting similar transactions in the future, and deterioration within some transactions. While average debt service coverage in transactions in our aggregate portfolio has decreased over the last year, debt coverage ratios on some loans have deteriorated significantly. Ultimate loss rates remain uncertain, and we have recorded additional impairments on our insured CMBS portfolio every quarter since the beginning of 2010 as our anticipated economic losses have increased during that time period. It is possible that we will experience severe losses or liquidity needs due to increased deterioration in our insured CMBS portfolio, in particular if macroeconomic stress escalates. A double dip recession may result in increased delinquencies, higher levels of liquidations of delinquent loans and/or severities of loss upon liquidation. Although we have also seen stabilization in the delinquency rate over the past several months, loan modifications and extensions granted by the special servicers for these CMBS loans and increased liquidations have contributed to the stabilization. The special servicers are responsible for managing loans that have defaulted and for conducting the remediation and foreclosure process with the objective of

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maximizing proceeds for all bondholders by avoiding or minimizing loan level losses.

In the first three months of 2012, MBIA Corp. commuted \$4.3 billion of gross insured exposure, comprising investment grade corporate CDOs, and CRE CDOs, all of which were previously disclosed in MBIA Inc.'s Annual Report on Form 10-K for the year ended December 31, 2011. Subsequent to March 31, 2012, MBIA Corp. agreed to commute transactions with additional counterparties. These transactions, primarily comprising CMBS, CRE CDOs, asset-backed securities (ABS) CDOs, and subprime RMBS transactions, totaled \$7.2 billion in gross insured exposure. In consideration for the commutation of insured transactions, including the transactions described above, the Company has made and may in the future make payments to the counterparties, the amounts of which, if any, may be less than or greater than any statutory loss reserves established for the respective transactions. The Company enters into commutations in the ordinary course of its business and does not intend to make contemporaneous disclosures regarding any such transactions regardless of the amounts paid to effect such commutations in relation to the statutory loss reserves established for the respective transactions. Our ability to commute insured transactions may be limited by available liquidity as determined based on management's assessment.



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**Table of Contents****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)****EXECUTIVE OVERVIEW (continued)**

The pending litigation challenging the establishment of National also has constrained our ability to establish high stable ratings and generate new U.S. public finance financial guarantee insurance business. We do not expect to write significant new financial guarantee insurance business prior to an upgrade of our insurance financial strength ratings. We expect that once the pending litigation is resolved, we will seek to obtain higher ratings for National and the market acceptance necessary to meet our objectives. Our ability to achieve these ratings is subject to rating agency criteria in effect at that time, including qualitative and quantitative factors, and the timing of any such upgrade is uncertain. There is no assurance that we will prevail in the pending litigation or be able to achieve such ratings. While there is currently only one bond insurer actively engaged in the market, we have observed new competitors indicating an interest in entering the bond insurance market and continuing to consider strategies for launch, and 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.

In 2011, National entered into a secured loan with MBIA Insurance Corporation ( National Secured Loan ) under which National loaned MBIA Insurance Corporation \$1.1 billion in order to enable MBIA Corp. to fund settlements and commutations of its insurance policies. Since March 31, 2012, MBIA Insurance Corporation has borrowed an additional \$443 million under the National Secured Loan with the approval of the New York State Department of Financial Services ( NYSDFS ) at the same terms of the original loan to fund additional commutations of its insurance policies. MBIA Insurance Corporation's ability to repay the National Secured Loan is primarily predicated on its ability to collect on its future receivables, including its ability to successfully enforce the put-back rights described above. As a result, the existence of the National Secured Loan may adversely affect National's ability to achieve higher stable ratings and, therefore, its ability to write new business. Refer to the Liquidity section herein for information about the terms of the National Secured Loan.

In National, our U.S. public finance insured portfolio continues to perform as expected. We have, however, experienced increased stress in National's insured portfolio in the first quarter of 2012 as a portion of the obligations that we insure were issued by some of the state and local governments that remain under extreme financial and budgetary stress. Continued 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.

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

Refer to Note 13: Commitments and Contingencies in the Notes to Consolidated Financial Statements for a detailed discussion on the lawsuits filed by and against the Company.

***Financial Highlights***

For the three months ended March 31, 2012, we recorded consolidated net income of \$10 million or \$0.05 per diluted share compared with a consolidated net loss of \$1.3 billion or \$6.37 per diluted share for the same period of 2011.

We also use adjusted pre-tax income (loss), a non-GAAP measure, to supplement our analysis of our periodic results. We consider adjusted pre-tax income (loss) a measure of fundamental periodic financial performance, which we believe is useful for an understanding of our results. Adjusted pre-tax income (loss) adjusts GAAP pre-tax income (loss) to remove the effects of consolidating insured VIEs and gains and losses related to insured credit derivatives, which we believe will reverse over time, as well as to add in changes in the present value of insurance

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claims we expect to pay on insured credit derivatives based on our ongoing insurance loss monitoring. Adjusted pre-tax income (loss) is not a substitute for and should not be viewed in isolation from GAAP pre-tax income (loss), and our definition of adjusted pre-tax income (loss) may differ from that used by other companies. Refer to the following Results of Operations section for a reconciliation of adjusted pre-tax income (loss) to GAAP pre-tax income (loss).

For the three months ended March 31, 2012, consolidated adjusted pre-tax loss was \$548 million compared with adjusted pre-tax income of \$25 million for the same period of 2011. The unfavorable change in consolidated adjusted pre-tax loss for the three months ended March 31, 2012 was principally due to an increase in total insurance losses and LAE, an increase in operating expenses due to a significant increase in legal and litigation related costs, an increase in net investment losses related to other-than-temporary impairments, and lower net investment income.

Our consolidated book value (total shareholders' equity) was \$1.9 billion as of March 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 favorable changes in spreads and pricing on collateral, partially offset by the tightening of our own credit spreads and an improvement in the Company's recovery rate. Our consolidated book value per share as of March 31, 2012 was \$9.59 compared with \$8.80 as of December 31, 2011.

**Table of Contents****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)****EXECUTIVE OVERVIEW (continued)**

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

As of March 31, 2012, ABV per share was \$32.00 down from \$34.50 as of December 31, 2011, reflecting a decline compared with the increase in our consolidated book value described above. The decrease in ABV per share was primarily driven by insurance losses, realized losses from sales and impairments of investments, and a significant increase in legal and litigation related costs.

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. Management has discussed and reviewed the development, selection, and disclosure of critical accounting estimates with the Company's Audit Committee. Management believes that the most critical accounting estimates, since these estimates require significant judgment, are loss and LAE reserves, valuation of financial instruments, and deferred income taxes. Financial results could be materially different if other methodologies were used or if management modified its assumptions.

For a discussion of the Company's critical accounting estimates, see Critical Accounting Estimates in Part II, Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations included in the Company's Annual Report on Form 10-K for the year ended December 31, 2011. In addition, refer to Note 5: Loss and Loss Adjustment Expense Reserves in the Notes to Consolidated Financial Statements included in this Form 10-Q for a current description of estimates used in our insurance loss reserving process.

**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 three months ended March 31, 2012 and 2011:

| In millions except for per share amounts | Three Months Ended March 31, |      |
|--|------------------------------|------|
|  | 2012                         | 2011 |

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|                                      |         |            |
|--------------------------------------|---------|------------|
| Total revenues (losses)              | \$ 383  | \$ (1,607) |
| Total expenses                       | 362     | 156        |
| <br>                                 |         |            |
| Pre-tax income (loss)                | 21      | (1,763)    |
| Provision (benefit) for income taxes | 11      | (489)      |
| <br>                                 |         |            |
| Net income (loss)                    | \$ 10   | \$ (1,274) |
| <br>                                 |         |            |
| Net income (loss) per common share:  |         |            |
| Basic                                | \$ 0.05 | \$ (6.37)  |
| Diluted                              | \$ 0.05 | \$ (6.37)  |

**Table of Contents****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)****RESULTS OF OPERATIONS (continued)**

For the three months ended March 31, 2012, we recorded consolidated net income of \$10 million, or \$0.05 per share, compared with a consolidated net loss of \$1.3 billion, or \$6.37 per share, for the same period of 2011. Weighted average diluted common shares outstanding totaled 195 million for the three months ended March 31, 2012, down 3% from the same period of 2011 as a result of share repurchases by the Company during 2011. Consolidated total revenues (losses) for the three months ended March 31, 2012 included \$299 million of net gains on insured derivatives compared with \$1.8 billion of net losses for the same period of 2011. The net gains on insured derivatives in 2012 were principally the result of commuting derivatives at prices below fair value and favorable movements in spreads and pricing on collateral within transactions, partially offset by the effects of MBIA's nonperformance risk on its derivative liabilities which resulted from a tightening of its own credit spreads and an improvement in the Company's recovery rate. The net losses on insured derivatives in 2011 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, partially offset by improved collateral pricing. Consolidated total expenses for the three months ended March 31, 2012 included \$97 million of net insurance loss and LAE compared with a benefit of \$36 million for the same period of 2011. The net insurance loss and LAE in 2012 and benefit in 2011 were principally related to our insured RMBS exposure.

Included in our consolidated net income for the three months ended March 31, 2012 was \$31 million of losses before income taxes related to consolidated VIEs, after the elimination of intercompany revenues and expenses, compared with losses before income taxes of \$115 million for the same period of 2011. The net effect of consolidated VIEs on our financial results will vary over time as VIEs are consolidated or deconsolidated by the Company, and as the values of consolidated VIE assets and liabilities change.

**Adjusted Pre-Tax Income**

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

| <b>In millions</b>  | <b>Three Months Ended March 31,</b> |             |
|---|-------------------------------------|-------------|
|   | <b>2012</b>                         | <b>2011</b> |
| Adjusted total revenues                                     | \$ 115                              | \$ 332      |
| Adjusted total expenses                                     | 663                                 | 307         |
| Adjusted pre-tax income (loss)                              | (548)                               | 25          |
| Additions to adjusted pre-tax income (loss):                |                                     |             |
| Impact of consolidating certain VIEs                        | 5                                   | 15          |
| Mark-to-market gains (losses) on insured credit derivatives | 303                                 | (1,591)     |
| Subtractions from adjusted pre-tax income (loss):           |                                     |             |
| Impairments on insured credit derivatives                   | (261)                               | 212         |
| Pre-tax income (loss)                                       | \$ 21                               | \$ (1,763)  |

For the three months ended March 31, 2012, total revenues included in adjusted pre-tax income (loss) decreased compared with the same period of 2011 primarily as a result of an increase in net losses related to sales and other-than-temporary impairments of investments and lower net investment income. Total expenses included in adjusted pre-tax income (loss) for the three months ended March 31, 2012 increased compared with the same period of 2011 primarily as a result of an increase in insurance losses and LAE and an increase in operating expenses due to significantly higher legal and litigation related costs.

**Adjusted Book Value**

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As of March 31, 2012, ABV per share (a non-GAAP measure) was \$32.00, down from \$34.50 as of December 31, 2011. The decrease in ABV per share was primarily driven by insurance losses, realized losses from sales and impairments of investments, and a significant increase in legal and litigation related costs.

**Table of Contents****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)****RESULTS OF OPERATIONS (continued)**

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<br>March 31, 2012 | As of<br>December 31, 2011 |
|---|-------------------------|----------------------------|
| Total shareholders' equity of MBIA Inc.                                 | \$ 1,858                | \$ 1,700                   |
| Basic common shares outstanding   | 193,738,787             | 193,143,196                |
| Book value per share  | \$ 9.59                 | \$ 8.80                    |
| Adjustments for items included in book value per share (after-tax):     |                         |                            |
| Cumulative net loss from consolidating certain VIEs <sup>(1)</sup>      | 0.89                    | 0.82                       |
| Cumulative unrealized loss on insured credit derivatives                | 15.06                   | 16.12                      |
| Net unrealized (gains) losses included in other comprehensive income    | (0.08)                  | 0.85                       |
| Adjustments for items not included in book value per share (after-tax): |                         |                            |
| Net unearned premium revenue <sup>(2)(3)</sup>                          | 11.49                   | 12.00                      |
| Present value of insured derivative installment revenue <sup>(4)</sup>  | 0.78                    | 0.86                       |
| Cumulative impairments on insured credit derivatives <sup>(4)</sup>     | (4.57)                  | (3.74)                     |
| Deferred acquisition costs  | (1.16)                  | (1.21)                     |
| <b>Total adjustments per share</b>                                      | <b>22.41</b>            | <b>25.70</b>               |
| <b>Adjusted book value per share</b>                                    | <b>\$ 32.00</b>         | <b>\$ 34.50</b>            |

(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 March 31, 2012 and December 31, 2011.

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

**U.S. Public Finance Insurance**

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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.



**Table of Contents****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)****RESULTS OF OPERATIONS (continued)**

The following table presents our U.S. public finance insurance segment results for the three months ended March 31, 2012 and 2011:

| In millions   | Three Months Ended March 31, |            | Percent Change<br>2012 vs. 2011 |
|---|------------------------------|------------|---------------------------------|
|   | 2012                         | 2011       |                                 |
| Net premiums earned   | \$ 106                       | \$ 89      | 19%                             |
| Net investment income   | 54                           | 58         | -7%                             |
| Fees and reimbursements   | 1                            | 2          | -50%                            |
| Net gains (losses) on financial instruments at fair value<br>and foreign exchange | 10                           | 3          | n/m                             |
| <b>Total revenues</b>   | <b>171</b>                   | <b>152</b> | <b>13%</b>                      |
| Losses and loss adjustment  | 14                           | 3          | n/m                             |
| Amortization of deferred acquisition costs  | 22                           | 19         | 16%                             |
| Operating   | 80                           | 19         | n/m                             |
| <b>Total expenses</b>   | <b>116</b>                   | <b>41</b>  | <b>n/m</b>                      |
| Pre-tax income (loss)   | \$ 55                        | \$ 111     | -50%                            |

n/m - Percent change not meaningful.

For the three months ended March 31, 2012 and 2011, we did not write a meaningful amount of U.S. public finance insurance. The lack of insurance writings in our U.S. public finance segment reflects the insurance financial strength credit ratings assigned to National by major ratings agencies and the impact of litigation over the formation of National in 2009. We do not expect to write a material amount of new business prior to an upgrade of our insurance financial strength ratings and market acceptance that such ratings will be stable in the future. The timing of any such upgrade is uncertain and will depend on a variety of quantitative and qualitative factors used by the rating agencies in their evaluation, including the resolution of pending litigation. We believe that we will resume writing business in the U.S. public finance market before actively re-engaging in the structured finance and international markets.

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

For the three months ended March 31, 2012 and 2011, there were no material differences between adjusted pre-tax income of \$55 million and \$111 million, respectively, and GAAP pre-tax income.

**NET PREMIUMS EARNED** Net premiums earned on non-derivative financial guarantees represent gross premiums earned net of premiums ceded to reinsurers, and include scheduled premium earnings and premium earnings from refunded issues. For the three months ended March 31, 2012, U.S. public finance net premiums earned were \$106 million compared with \$89 million for the same period of 2011. The increase in 2012 resulted from an increase in refunded premiums earned of \$34 million offset by a decline in scheduled premiums earned of \$17 million.

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Scheduled premium earnings declined due to the maturity of insured issues within our U.S. public finance portfolio with no material new insurance writings. Additionally, refunding activity over the past several years has accelerated premium earnings in prior periods and reduced the amount of premiums that would have been earned in the current period.

**NET INVESTMENT INCOME** For the three months ended March 31, 2012, our U.S. public finance insurance investment portfolio generated \$54 million of net investment income compared with \$58 million for the same period of 2011. The decrease in net investment income for 2012 was primarily due to lower asset balances, partially offset by income from the National Secured Loan and an increase in average interest rates on the 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, during 2012 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 \$20 million for the three months ended March 31, 2012. The National Secured Loan enhances the overall yield of our U.S. public finance insurance investment portfolio as lower yielding investments were sold to fund the amount loaned under this agreement. Refer to the Liquidity section included herein for additional information about these agreements.

**Table of Contents****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)****RESULTS OF OPERATIONS (continued)**

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

| In millions                     | March 31, 2012                |                              | December 31, 2011             |                              |
|---------------------------------|-------------------------------|------------------------------|-------------------------------|------------------------------|
|                                 | Investments at Amortized Cost | Pre-tax yield <sup>(1)</sup> | Investments at Amortized Cost | Pre-tax yield <sup>(1)</sup> |
| <b>Fixed-income securities:</b> |                               |                              |                               |                              |
| Tax-exempt                      | \$ 982                        | 4.01%                        | \$ 1,067                      | 4.06%                        |
| Taxable                         | 2,118                         | 3.66%                        | 2,073                         | 3.89%                        |
| Short-term                      | 549                           | 0.75%                        | 641                           | 0.70%                        |
| <b>Total fixed-income</b>       | <b>3,649</b>                  | <b>3.32%</b>                 | <b>3,781</b>                  | <b>3.40%</b>                 |
| Secured loan to an affiliate    | 1,130                         |                              | 1,130                         |                              |
| Other                           | 15                            |                              | 16                            |                              |
| <b>Total</b>                    | <b>\$ 4,794</b>               |                              | <b>\$ 4,927</b>               |                              |

(1) - Estimated yield-to-maturity.

**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 5: Loss and Loss Adjustment Expense Reserves in the Notes to Consolidated Financial Statements for a description of the Company's loss reserving policy and additional information related to its loss reserves.

The following tables present information about our U.S. public finance insurance loss and LAE reserves and recoverables as of March 31, 2012 and December 31, 2011, as well as our related loss and LAE provision for the three months ended March 31, 2012 and 2011:

| In millions                                       | March 31, 2012 | December 31, 2011 | Percent Change 2012 vs. 2011 |
|---|----------------|-------------------|------------------------------|
| Gross losses and LAE reserves                     | \$ 379         | \$ 369            | 3%                           |
| Expected recoveries on unpaid losses              | (197)          | (200)             | -2%                          |
| <b>Loss and LAE reserves</b>                      | <b>\$ 182</b>  | <b>\$ 169</b>     | <b>8%</b>                    |
| Insurance loss recoverable                        | \$ 166         | \$ 155            | 7%                           |
| Insurance loss recoverable - ceded <sup>(1)</sup> | \$ 5           | \$ 4              | 25%                          |
| Reinsurance recoverable on paid and unpaid losses | \$ 8           | \$ 8              | 0%                           |

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

| <b>In millions</b>                                   | <b>Three Months Ended March 31,</b> |             | <b>Percent Change</b> |
|--|-------------------------------------|-------------|-----------------------|
|  | <b>2012</b>                         | <b>2011</b> | <b>2012 vs. 2011</b>  |
| Loss and LAE related to actual and expected payments | \$ 22                               | \$ (162)    | -114%                 |
| Recoveries of actual and expected payments           | (8)                                 | 165         | -105%                 |
| <b>Gross losses incurred</b>                         | <b>14</b>                           | <b>3</b>    | <b>n/m</b>            |
| Reinsurance  | 0                                   | 0           | n/m                   |
| <b>Loss and loss adjustment expenses</b>             | <b>\$ 14</b>                        | <b>\$ 3</b> | <b>n/m</b>            |

n/m - Percentage change not meaningful.

For the three months ended March 31, 2012 and 2011, losses and LAE incurred were \$14 million and \$3 million, respectively. For the three months ended March 31, 2011, a reversal of loss and LAE reserves related to lower expected future claim payments was offset by the reversal of the corresponding recoveries of such payments.

**Table of Contents****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)****RESULTS OF OPERATIONS (continued)**

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 March 31, 2012 and December 31, 2011, loss and LAE reserves comprised the following:

| \$ in millions             | Number of Issues <sup>(1)</sup> |                      | Loss and LAE Reserve |                      | Par Outstanding   |                      |
|----------------------------|---------------------------------|----------------------|----------------------|----------------------|-------------------|----------------------|
|                            | March 31,<br>2012               | December 31,<br>2011 | March 31,<br>2012    | December 31,<br>2011 | March 31,<br>2012 | December 31,<br>2011 |
| Gross of reinsurance:      |                                 |                      |                      |                      |                   |                      |
| Issues with defaults       | 9                               | 11                   | \$ 163               | \$ 163               | \$ 794            | \$ 797               |
| Issues without defaults    | 8                               | 5                    | 19                   | 6                    | 181               | 26                   |
| Total gross of reinsurance | 17                              | 16                   | \$ 182               | \$ 169               | \$ 975            | \$ 823               |

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

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

| In millions                                | Three Months Ended March 31, |       | Percent Change<br>2012 vs.<br>2011 |
|--|------------------------------|-------|------------------------------------|
|  | 2012                         | 2011  |                                    |
| Gross expenses                             | \$ 80                        | \$ 19 | n/m                                |
| Amortization of deferred acquisition costs | \$ 22                        | \$ 19 | 16%                                |
| Operating                                  | 80                           | 19    | n/m                                |
| Total insurance operating expenses         | \$ 102                       | \$ 38 | n/m                                |

n/m - Percent change not meaningful.

Gross expenses represent total insurance expenses before the deferral of any policy acquisition costs. Gross expenses increased for the three months ended March 31, 2012 compared with the same period of 2011 primarily due to a significant increase in legal and litigation related costs.

Amortization of deferred acquisition costs increased for the three months ended March 31, 2012 compared with the same period of 2011, consistent with higher premium earnings from refunded policies during the first quarter of 2012. We did not defer a material amount of policy acquisition costs during the first quarters of 2012 and 2011.

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**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.

**Table of Contents****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)****RESULTS OF OPERATIONS (continued)**

The following table presents the credit quality distribution of MBIA's U.S. public finance outstanding gross par insured as of March 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.

| In millions            | Gross Par Outstanding as of March 31, |        |            |        |
|------------------------|---------------------------------------|--------|------------|--------|
|                        | 2012                                  |        | 2011       |        |
| Rating                 | Amount                                | %      | Amount     | %      |
| AAA                    | \$ 22,249                             | 5.6%   | \$ 27,362  | 5.7%   |
| AA                     | 182,866                               | 46.0%  | 219,192    | 46.2%  |
| A                      | 151,355                               | 38.0%  | 180,354    | 38.0%  |
| BBB                    | 38,674                                | 9.7%   | 44,489     | 9.4%   |
| Below investment grade | 2,849                                 | 0.7%   | 3,352      | 0.7%   |
| Total                  | \$ 397,993                            | 100.0% | \$ 474,749 | 100.0% |

The credit quality distribution of our U.S. public finance insurance exposure as of March 31, 2012 remained relatively consistent with March 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 March 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, 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 of an affiliate, LaCrosse Financial Products, LLC, including termination payments that may become due upon certain events including the insolvency or payment default of the financial guarantor or the CDS issuer.

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

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.





**Table of Contents****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)****RESULTS OF OPERATIONS (continued)**

The following table presents our structured finance and international insurance segment results for the three months ended March 31, 2012 and 2011:

| In millions  | Three Months Ended March 31, |            | Percent Change |
|--|------------------------------|------------|----------------|
|  | 2012                         | 2011       | 2012 vs. 2011  |
| Net premiums earned  | \$ 47                        | \$ 67      | -30%           |
| Net investment income  | 8                            | 31         | -74%           |
| Fees and reimbursements  | 25                           | 27         | -7%            |
| Change in fair value of insured derivatives:                                   |                              |            |                |
| Realized gains (losses) and other settlements on insured derivatives           | (4)                          | (354)      | -99%           |
| Unrealized gains (losses) on insured derivatives                               | 303                          | (1,422)    | -121%          |
| Net change in fair value of insured derivatives                                | 299                          | (1,776)    | -117%          |
| Net gains (losses) on financial instruments at fair value and foreign exchange | 18                           | 33         | -45%           |
| Net investment losses related to other-than-temporary impairments              | (40)                         | (2)        | n/m            |
| Other net realized gains (losses)  | 1                            | 1          | 0%             |
| Revenues of consolidated VIEs:   |                              |            |                |
| Net investment income  | 13                           | 13         | 0%             |
| Net gains (losses) on financial instruments at fair value and foreign exchange | (31)                         | (130)      | -76%           |
| Total revenues   | 340                          | (1,736)    | -120%          |
| Losses and loss adjustment   | 83                           | (39)       | n/m            |
| Amortization of deferred acquisition costs                                     | 27                           | 33         | -18%           |
| Operating  | 57                           | 37         | 54%            |
| Interest   | 53                           | 34         | 56%            |
| Expenses of consolidated VIEs:   |                              |            |                |
| Operating  | 7                            | 10         | -30%           |
| Interest   | 11                           | 10         | 10%            |
| Total expenses   | 238                          | 85         | n/m            |
| Pre-tax income (loss)  | \$ 102                       | \$ (1,821) | -106%          |

n/m - Percentage change not meaningful.

For the three months ended March 31, 2012 and 2011, we did not write a meaningful amount of structured finance and international insurance. The lack of insurance writings in our structured finance and international insurance segment reflects the impact of the downgrades of MBIA Corp.'s insurance financial strength ratings by the major rating agencies, which occurred in 2008 and again in 2009. The Company does not expect to write a material amount of new business prior to an upgrade of the insurance financial strength ratings of MBIA Corp. and market acceptance that such ratings will be stable in the future. The timing of any such upgrade is uncertain and will depend on a variety of quantitative and qualitative factors used by the rating agencies in their evaluation, including the resolution of pending litigation. Pre-tax income (loss) in each of the periods included in the preceding table was primarily driven by changes in the fair value of our insured credit derivatives, which reflects

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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.

**Table of Contents****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)****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 three months ended March 31, 2012 and 2011:

| In millions  | Three Months Ended March 31, |            | Percent Change<br>2012 vs. 2011 |
|--|------------------------------|------------|---------------------------------|
|  | 2012                         | 2011       |                                 |
| Adjusted total revenues                                  | \$ 92                        | \$ 215     | -57%                            |
| Adjusted total expenses                                  | 538                          | 235        | 129%                            |
| Adjusted pre-tax income (loss)                           | (446)                        | (20)       | n/m                             |
| Additions to adjusted pre-tax income (loss):             |                              |            |                                 |
| Impact of consolidating certain VIEs                     | (16)                         | 2          | n/m                             |
| Mark-to-market gain (loss) on insured credit derivatives | 303                          | (1,591)    | -119%                           |
| Subtractions from adjusted pre-tax income (loss):        |                              |            |                                 |
| Impairments on insured credit derivatives                | (261)                        | 212        | n/m                             |
| Pre-tax income (loss)                                    | \$ 102                       | \$ (1,821) | -106%                           |

n/m - Percent change not meaningful.

For the three months ended March 31, 2012, adjusted pre-tax loss was \$446 million compared with an adjusted pre-tax loss of \$20 million for the same period of 2011. Adjusted total revenues for the three months ended March 31, 2012 decreased compared with the same period of 2011 principally due to higher net investment losses related to other-than-temporary impairments and lower net investment income and premiums earned. Adjusted total expenses for the three months ended March 31, 2012 increased compared with the same period of 2011 primarily as a result of an increase in insurance losses and LAE, an increase in operating expenses due to significantly higher legal and litigation related costs, and an increase in interest expense from the National Secured Loan that was established in December of 2011.

**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 three months ended March 31, 2012 and 2011:

| In millions                                 | Three Months Ended March 31, |        |
|---|------------------------------|--------|
|   | 2012                         | 2011   |
| Net premiums earned:                        |                              |        |
| Financial guarantee contracts               | \$ 47                        | \$ 67  |
| Insured derivative contracts <sup>(1)</sup> | 15                           | 32     |
| VIEs (eliminated in consolidation)          | 5                            | 5      |
| Total net premiums earned                   | \$ 67                        | \$ 104 |

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(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 three months ended March 31, 2012 and 2011 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.

| <b>In millions</b>          | <b>Three Months Ended March 31,</b> |             | <b>Percent Change</b> |
|-----------------------------|-------------------------------------|-------------|-----------------------|
|                             | <b>2012</b>                         | <b>2011</b> | <b>2012 vs. 2011</b>  |
| <b>Net premiums earned:</b> |                                     |             |                       |
| U.S.                        | \$ 19                               | \$ 29       | -34%                  |
| Non-U.S.                    | 28                                  | 38          | -26%                  |
| <br>                        |                                     |             |                       |
| Total net premiums earned   | \$ 47                               | \$ 67       | -30%                  |

**Table of Contents****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)****RESULTS OF OPERATIONS (continued)**

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

**NET INVESTMENT INCOME** For the three months ended March 31, 2012, our structured finance and international insurance investment portfolio generated \$8 million of net investment income compared with \$31 million for the same period of 2011. The decrease in net investment income was primarily due to lower average asset balances in 2012 as a result of claim and commutation payments, and reinvesting proceeds from sales and maturities of high-yielding securities in lower yielding liquid securities.

MBIA Corp., as lender, maintained a secured lending agreement with our asset/liability products segment ( MBIA Corp. Secured Loan ). Interest income on this arrangement, totaling approximately \$2 million and \$5 million for the three months ended March 31, 2012 and 2011, respectively, is included in our structured finance and international insurance net investment income. Refer to the Liquidity section included herein for additional information about this agreement.

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

| In millions                  | March 31, 2012                |                              | December 31, 2011             |                              |
|------------------------------|-------------------------------|------------------------------|-------------------------------|------------------------------|
|                              | Investments at Amortized Cost | Pre-tax yield <sup>(1)</sup> | Investments at Amortized Cost | Pre-tax yield <sup>(1)</sup> |
| Fixed-income securities:     |                               |                              |                               |                              |
| Tax-exempt                   | \$ -                          | 0.00%                        | \$ 1                          | 5.79%                        |
| Taxable                      | 756                           | 2.63%                        | 1,131                         | 3.38%                        |
| Short-term                   | 281                           | 0.95%                        | 222                           | 1.46%                        |
| Total fixed-income           | 1,037                         | 2.17%                        | 1,354                         | 3.07%                        |
| Secured loan to an affiliate | 300                           |                              | 300                           |                              |
| Other                        | 7                             |                              | 7                             |                              |
| Total                        | \$ 1,344                      |                              | \$ 1,661                      |                              |

(1) - Estimated yield-to-maturity.

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

| In millions  | Three Months Ended March 31, |       | Percent Change |
|--|------------------------------|-------|----------------|
|  | 2012                         | 2011  | 2012 vs. 2011  |
| Net premiums and fees earned on insured derivatives                  | \$ 16                        | \$ 32 | -50%           |
| Realized gains (losses) on insured derivatives                       | (20)                         | (386) | -95%           |
| Realized gains (losses) and other settlements on insured derivatives | (4)                          | (354) | -99%           |

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|  |        |            |       |
|--|--------|------------|-------|
| Unrealized gains (losses) on insured derivatives | 303    | (1,422)    | -121% |
| Net change in fair value of insured derivatives  | \$ 299 | \$ (1,776) | -117% |

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 three months ended March 31, 2012, realized losses on insured derivatives of \$20 million resulted primarily from settlements and claim payments on CMBS and corporate transactions. Realized losses on insured derivatives for the three months ended March 31, 2011 primarily resulted from settlement payments related to commutations of structured CMBS pool transactions.

For the three months ended March 31, 2012, unrealized gains on insured derivatives were principally associated with commutations and the result of favorable movements in spreads and pricing on collateral within transactions, partially offset by the effects of MBIA's nonperformance risk on its derivative liability which resulted from a tightening of its own credit spreads and an improvement in the Company's recovery rate. For the three months ended March 31, 2011, unrealized losses on insured derivatives were principally the result of the effects of MBIA's nonperformance risk on its derivative liability, partially offset by improved collateral pricing and the reversal of unrealized losses from the commutations of structured CMBS pool transactions.

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**Table of Contents****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)****RESULTS OF OPERATIONS (continued)**

As of March 31, 2012, MBIA Corp.'s five year CDS cost was 26.5% upfront plus 5% per annum compared with 40% upfront plus 5% per annum as of March 31, 2011. 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 11.88% upfront plus 5% per annum to 28.25% upfront plus 5% per annum as of March 31, 2012. As of March 31, 2011, those costs ranged from 8.63% upfront plus 5% per annum to 42.50% upfront plus 5% per annum.

As of March 31, 2012, we had \$60.6 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 three months ended March 31, 2012, 10 insured issues, representing \$6.4 billion in gross par outstanding, had either matured or were contractually settled prior to maturity. Subsequent to March 31, 2012, we agreed to commute an additional \$6.1 billion of gross par outstanding.

Since our insured credit derivatives have similar terms, conditions, risks, and economic profiles to our financial guarantee insurance policies, we evaluate them for impairment periodically in the same way that we estimate loss and LAE for our financial guarantee policies. Credit impairments on insured derivatives represent actual payments plus the present values of our estimates of expected future claim payments, net of expected future recoveries. MBIA Insurance Corporation's expected future claim payments were discounted using a rate of 5.59%, the same rate used to calculate its statutory loss reserves as of March 31, 2012. We estimated that additional credit impairments on insured derivatives (excluding LAE) for the three months ended March 31, 2012 were \$281 million across 18 CDO insured issues. Beginning with the fourth quarter of 2007 through March 31, 2012, total credit impairments on insured derivatives were estimated at \$5.1 billion across 70 CDO insured issues, inclusive of 60 insured issues for which we made settlement and claim payments of \$3.8 billion, net of reinsurance and collections. Accordingly, we expect to realize additional net losses of \$1.3 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. Although the Company's statements of operations include the fair values, the Company believes its disclosure of credit impairments on insured derivatives provides additional meaningful information about potential realized losses on these contracts. The fair value of an insured derivative contract will be influenced by a variety of market and transaction-specific factors that may be unrelated to potential future claim payments. In the absence of credit impairments or the termination of derivatives at losses, the cumulative unrealized losses recorded from fair valuing insured derivatives should reverse before or at the maturity of the contracts. Contracts also may be settled prior to maturity at amounts that may be more or less than their recorded fair values. Those settlements can result in realized gains or losses, and will result in the reversal of unrealized gains or losses. The Company is not required to post collateral to counterparties of these contracts. Refer to "Risk Factors" in Part I, Item 1A of MBIA Inc.'s Annual Report on Form 10-K for the year ended December 31, 2011 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 \$1 million and \$7 million for the three months ended March 31, 2012 and 2011, respectively.

**NET INVESTMENT LOSSES RELATED TO OTHER-THAN-TEMPORARY IMPAIRMENTS** For the three months ended March 31, 2012, net investment losses related to other-than-temporary impairments totaled \$40 million and primarily related to one impaired security that was written down to its fair value as we intend to sell the security before an expected recovery of fair value to its amortized cost. Refer to the "Liquidity" section included herein for additional information about impaired investments.

**REVENUES OF CONSOLIDATED VIEs** For the three months ended March 31, 2012, total revenues of consolidated VIEs within our structured finance and international insurance segment were a loss of \$18 million compared with a loss of \$117 million for the same period of 2011. The fluctuation in revenues of consolidated VIEs was principally driven by a decrease in net losses on financial instruments at fair value and foreign exchange due to the deconsolidation of VIEs resulting from commutations in 2011.

**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

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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 depending on the likelihood of a loss. We establish case basis reserves in connection with insured issues designated as classified credits.



**Table of Contents****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)****RESULTS OF OPERATIONS (continued)**

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), its RMBS exposure backed by home equity lines of credit ( HELOCs ) or closed-end second mortgages ( CES ) and its ABS CDO insured exposure. Continued significant adverse developments and higher than expected payments on these exposures and/or lower than expected recoveries on the RMBS exposures, could result in a decline in the Company's liquidity and statutory capital position.

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

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

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

**Aggregate Losses and LAE Roll Forward**

| In millions   | Financial<br>Guarantee<br>Insurance <sup>(1)</sup> | Financial<br>Guarantee<br>Insurance<br>Related to VIEs <sup>(2)</sup> | Insured Credit<br>Derivative<br>Impairments<br>and LAE <sup>(3)</sup> | Reinsurance <sup>(4)</sup> | Total <sup>(5)</sup> |
|---|--|---|---|----------------------------|----------------------|
| Gross loss and LAE reserves as of<br>December 31, 2011                      | \$ 667   | \$ 353  | \$ 1,103  | \$ (7)                     | \$ 2,116             |
| Gross insurance loss recoverable as of<br>December 31, 2011                 | (2,891)  | (1,365)   | (70)  | 8                          | (4,318)              |
| Total reserves (recoverable) as of<br>December 31, 2011                     | (2,224)  | (1,012)   | 1,033   | 1                          | (2,202)              |
| Ceded reserves  | 0  | -   | 1   | (1)                        | 0                    |
| Net reserves as of December 31, 2011  | (2,224)  | (1,012)   | 1,034   | -                          | (2,202)              |
| Total aggregate losses and LAE incurred<br>(Payments) collections and other | 83<br>(145)  | 36<br>(47)  | 283<br>(22)   | -<br>-                     | 402<br>(214)         |
| Net reserves as of March 31, 2012   | (2,286)  | (1,023)   | 1,295   | -                          | (2,014)              |
| Ceded reserves  | 0  | -   | (1)   | 1                          | 0                    |
|   | \$ (2,286)   | \$ (1,023)  | \$ 1,294  | \$ 1                       | \$ (2,014)           |

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Total reserves (recoverable) as of March 31, 2012

|  |                   |                   |                 |             |                   |
|--|-------------------|-------------------|-----------------|-------------|-------------------|
| Gross loss and LAE reserves as of March 31, 2012         | \$ 685            | \$ 336            | \$ 1,361        | \$ (7)      | \$ 2,375          |
| Gross insurance loss recoverable as of March 31, 2012    | (2,971)           | (1,359)           | (67)            | 8           | (4,389)           |
| <b>Total reserves (recoverable) as of March 31, 2012</b> | <b>\$ (2,286)</b> | <b>\$ (1,023)</b> | <b>\$ 1,294</b> | <b>\$ 1</b> | <b>\$ (2,014)</b> |

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

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

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

**Table of Contents****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)****RESULTS OF OPERATIONS (continued)****Aggregate Losses and LAE (change in discounted values of net payments)**

| In millions                            | For the Three Months Ended March 31, 2012 |                |               |                      |               |
|--|---|----------------|---------------|----------------------|---------------|
|  | Second-<br>lien<br>RMBS <sup>(1)</sup>    | ABS CDO        | CMBS          | Other <sup>(2)</sup> | Total         |
| Change in actual and expected payments | \$ 165                                    | \$ (45)        | \$ 296        | \$ (3)               | \$ 413        |
| Change in actual and expected salvage  | (32)                                      | 15             | -             | 6                    | (11)          |
| <b>Total aggregate losses and LAE</b>  | <b>\$ 133</b>                             | <b>\$ (30)</b> | <b>\$ 296</b> | <b>\$ 3</b>          | <b>\$ 402</b> |

(1) - Includes HELOC loans and CES.

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

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

| In millions                            | For the Three Months Ended March 31, 2011 |              |               |                      |               |
|--|---|--------------|---------------|----------------------|---------------|
|  | Second-<br>lien<br>RMBS <sup>(1)</sup>    | ABS CDO      | CMBS          | Other <sup>(2)</sup> | Total         |
| Change in actual and expected payments | \$ 44                                     | \$ 85        | \$ 135        | \$ (31)              | \$ 233        |
| Change in actual and expected salvage  | (54)                                      | (16)         | -             | (16)                 | (86)          |
| <b>Total aggregate losses and LAE</b>  | <b>\$ (10)</b>                            | <b>\$ 69</b> | <b>\$ 135</b> | <b>\$ (47)</b>       | <b>\$ 147</b> |

(1) - Includes HELOC loans and CES.

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

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

| In millions  | For the Three Months Ended March 31, 2012 |                |               |                      |               |
|--|---|----------------|---------------|----------------------|---------------|
|  | Second-<br>lien<br>RMBS <sup>(1)</sup>    | ABS CDO        | CMBS          | Other <sup>(2)</sup> | Total         |
| Financial guarantee insurance <sup>(3)</sup>   | \$ 81                                     | \$ (2)         | \$ 1          | \$ 3                 | \$ 83         |
| Financial guarantee insurance related to consolidated VIEs<br>(eliminated in consolidation) <sup>(4)</sup> | 52  | (16)           | -             | -                    | 36            |
| Insured credit derivatives (statutory basis) <sup>(5)</sup>  | -   | (12)           | 295           | 0                    | 283           |
| <b>Total aggregate losses and LAE</b>  | <b>\$ 133</b>                             | <b>\$ (30)</b> | <b>\$ 296</b> | <b>\$ 3</b>          | <b>\$ 402</b> |

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(1) - Includes HELOC loans and CES.

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

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

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

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

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

| In millions  | For the Three Months Ended March 31, 2011 |              |               |                      |               |
|--|---|--------------|---------------|----------------------|---------------|
|  | Second-lien<br>RMBS <sup>(1)</sup>        | ABS CDO      | CMBS          | Other <sup>(2)</sup> | Total         |
| Financial guarantee insurance <sup>(3)</sup>   | \$ 0                                      | \$ 8         | \$ -          | \$ (47)              | \$ (39)       |
| Financial guarantee insurance related to consolidated VIEs<br>(eliminated in consolidation) <sup>(4)</sup> | (10)                                      | 12           | -             | -                    | 2             |
| Insured credit derivatives (statutory basis) <sup>(5)</sup>  | -   | 49           | 135           | 0                    | 184           |
| <b>Total aggregate losses and LAE</b>  | <b>\$ (10)</b>                            | <b>\$ 69</b> | <b>\$ 135</b> | <b>\$ (47)</b>       | <b>\$ 147</b> |

(1) - Includes HELOC loans and CES.

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

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

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

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

**Table of Contents****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)****RESULTS OF OPERATIONS (continued)**

The increase in total aggregate losses and LAE for the three months ended March 31, 2012 compared with the same period of 2011 was primarily due to an increase in our expectations of future payments on CMBS and second-lien RMBS exposures, partially offset by decreases in credit impairments on our ABS CDOs.

**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 5: Loss and Loss Adjustment Expense Reserves in the Notes to Consolidated Financial Statements for a description of the Company's loss and LAE reserving policy and additional information related to its loss reserves.

The following tables present information about our insurance reserves and recoverable as of March 31, 2012 and December 31, 2011, as well as our loss and LAE incurred for the three months ended March 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 subrogation rights.

| In millions                                       | March 31,<br>2012 | December 31,<br>2011 | Percent Change<br>2012 vs.<br>2011 |
|---|-------------------|----------------------|------------------------------------|
| Gross losses and LAE reserves                     | \$ 1,006          | \$ 1,029             | -2%                                |
| Expected recoveries on unpaid losses              | (321)             | (362)                | -11%                               |
| Loss and LAE reserves                             | \$ 685            | \$ 667               | 3%                                 |
| Insurance loss recoverable                        | \$ 2,971          | \$ 2,891             | 3%                                 |
| Insurance loss recoverable - ceded <sup>(1)</sup> | 7                 | 7                    | 0%                                 |
| Reinsurance recoverable on paid and unpaid losses | 7                 | 8                    | -13%                               |

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

| In millions  | Three Months Ended March 31,<br>2012 | Three Months Ended March 31,<br>2011 | Percent Change<br>2012 vs. 2011 |
|--|--------------------------------------|--------------------------------------|---------------------------------|
| Loss and LAE related to actual and expected payments | \$ 125                               | \$ (9)                               | n/m                             |
| Recoveries of actual and expected payments           | (42)                                 | (30)                                 | 40%                             |
| Gross losses incurred                                | 83                                   | (39)                                 | n/m                             |
| Reinsurance  | 0                                    | 0                                    | n/m                             |
| Loss and loss adjustment expenses                    | \$ 83                                | \$ (39)                              | n/m                             |

n/m - Percent change not meaningful.

Losses and LAE incurred in our structured finance and international insurance segment totaled \$83 million for the three months ended March 31, 2012. Included in the \$83 million were gross losses related to actual and expected future payments of \$125 million, including \$129 million related to insured second-lien RMBS transactions. Partially offsetting these losses were recoveries of actual and expected payments of \$42 million, including \$48 million related to insured second-lien RMBS transactions. The \$48 million of recoveries related to second-lien RMBS transactions included \$49 million of recoveries resulting from ineligible mortgage loans included in insured exposures that are subject to contractual obligations by sellers/servicers to repurchase or replace such mortgage loans offset by a \$1 million reduction in excess spread (the difference between interest inflows on assets and interest outflows on liabilities) within the securitizations.

**Table of Contents****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)****RESULTS OF OPERATIONS (continued)**

Losses and LAE incurred in our structured finance and international insurance segment was a benefit of \$39 million for the three months ended March 31, 2011. Included in the \$39 million benefit were increases in recoveries of actual and expected payments of \$30 million, of which \$4 million related to insured second-lien RMBS transactions and \$26 million related to other activity. In addition to these recoveries, there was a \$9 million benefit of losses and LAE incurred comprising \$47 million of net loss reversals related to first-lien transactions, offset by \$4 million of losses related to insured second-lien RMBS transactions and \$34 million of other activity. The \$4 million of recoveries related to insured second-lien RMBS transactions included \$118 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 the reversal of \$114 million related to excess interest cash flows within the securitizations.

For the three months ended March 31, 2012, losses and LAE incurred included the elimination of \$36 million as a result of the consolidation of VIEs. The \$36 million elimination included gross losses related to actual and expected future payments of \$18 million and a decrease in recoveries of actual and expected payments of \$18 million. For the three months ended March 31, 2011, losses and LAE incurred included the elimination of \$2 million as a result of the consolidation of VIEs. The \$2 million elimination included gross losses related to actual and expected future payments of \$55 million offset by recoveries of actual and expected payments of \$53 million.

Included in the Company's loss and LAE reserves are both reserves for insured obligations for which a payment default has occurred and MBIA Corp. has already paid a claim and also for which a payment default has not yet occurred but a claim is expected in the future. The following table includes LAE reserves as of March 31, 2012 and December 31, 2011 for three issues 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 March 31, 2012 and December 31, 2011, loss and LAE reserves comprised the following:

| \$ in millions             | Number of Issues <sup>(1)</sup> |                   | Loss and LAE Reserve |                   | Par Outstanding |                   |
|----------------------------|---------------------------------|-------------------|----------------------|-------------------|-----------------|-------------------|
|                            | March 31, 2012                  | December 31, 2011 | March 31, 2012       | December 31, 2011 | March 31, 2012  | December 31, 2011 |
| Gross of reinsurance:      |                                 |                   |                      |                   |                 |                   |
| Issues with defaults       | 93                              | 92                | \$ 470               | \$ 447            | \$ 7,613        | \$ 7,863          |
| Issues without defaults    | 25                              | 26                | 215                  | 220               | 1,693           | 1,734             |
| Total gross of reinsurance | 118                             | 118               | \$ 685               | \$ 667            | \$ 9,306        | \$ 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 March 31, 2012 and December 31, 2011, our insurance loss recoverable in our structured finance and international insurance segment was \$3.0 billion and \$2.9 billion, respectively. The increase in our insurance loss recoverable principally resulted from an increase in expected potential recoveries resulting from the aforementioned obligations of the sellers/servicers of second-lien RMBS transactions to repurchase ineligible mortgage loans. As of March 31, 2012 and December 31, 2011, our insurance loss recoverable also included estimated recoveries of approximately \$760 million and \$731 million, respectively, from excess spread within second-lien RMBS securitizations. Insurance loss recoverables due to reinsurers totaled \$7 million as of March 31, 2012 and December 31, 2011. Insurance loss recoverables are only paid to reinsurers upon receipt of such amounts by MBIA.

**Residential Mortgage Exposure**

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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 three months ended March 31, 2012, we recorded losses and LAE of \$133 million related to second-lien RMBS transactions, before the elimination of \$52 million of losses incurred as a result of consolidating VIEs. The \$81 million consolidated losses and LAE was due to gross losses and LAE related to actual and expected payments of \$129 million offset by gross recoveries of actual and expected payments of \$48 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 March 31, 2012, the Company had \$3.2 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 March 31, 2012, the Company had \$334 million of gross par outstanding in five insured direct subprime mortgage transactions with 2005, 2006, or 2007 subprime mortgage collateral appearing on the Company s Classified or Caution Lists.



**Table of Contents****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)****RESULTS OF OPERATIONS (continued)**

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

| In millions            | Gross Par Outstanding |                                |                         |                   |                 | Total     |
|------------------------|-----------------------|--------------------------------|-------------------------|-------------------|-----------------|-----------|
|                        | Prime First-lien      | Alternative A-paper First-lien | Subprime First-lien     | HELOC Second-lien | CES Second-lien |           |
| AAA                    | \$ 206                | \$ 1,318                       | \$ 1,953                | \$ -              | \$ 11           | \$ 3,488  |
| AA                     | 15                    | 1                              | 106                     | -                 | -               | 122       |
| A                      | 2                     | 463                            | 175                     | 43                | 23              | 706       |
| BBB                    | 0                     | 488                            | 124                     | 768               | 23              | 1,403     |
| Below investment grade | 2                     | 1,254                          | 878                     | 2,944             | 3,827           | 8,905     |
| Total gross par        | \$ 225                | \$ 3,524 <sup>(1)</sup>        | \$ 3,236 <sup>(2)</sup> | \$ 3,755          | \$ 3,884        | \$ 14,624 |

(1) - Includes international exposure of \$930 million.

(2) - Includes international exposure of \$16 million.

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

| In millions | Gross Par Outstanding |                  |          |                |
|-------------|-----------------------|------------------|----------|----------------|
|             | HELOC                 | % of Total HELOC | CES      | % of Total CES |
| 2007        | \$ 509                | 13%              | \$ 2,545 | 65%            |
| 2006        | 1,340                 | 36%              | 1,237    | 32%            |
|             | 1,117                 | 30%              | -        | 0%             |

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|                 |          |      |          |      |
|-----------------|----------|------|----------|------|
| 2005            |          |      |          |      |
| 2004            | 669      | 18%  | 68       | 2%   |
| 2003 and prior  | 120      | 3%   | 34       | 1%   |
| Total gross par | \$ 3,755 | 100% | \$ 3,884 | 100% |

As of March 31, 2012, total gross par outstanding for HELOC and CES was \$3.8 billion and \$3.9 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 three months ended March 31, 2012, we paid approximately \$176 million, net of reinsurance and collections, on insured second-lien RMBS transactions, or \$128 million after eliminating \$48 million of net payments made on behalf of consolidated VIEs. Through March 31, 2012, we paid a cumulative total of \$6.1 billion, net of reinsurance and collections, or \$4.0 billion after eliminating \$2.1 billion of net payments on insured second-lien RMBS transactions that are currently consolidated as VIEs. As of March 31, 2012, we had loss and LAE reserves related to our remaining insured second-lien RMBS exposure of \$315 million before eliminating \$92 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.

**Table of Contents****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)****RESULTS OF OPERATIONS (continued)**

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

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

| <b>\$ in millions</b>    | <b>Number of Issues</b> | <b>Original Par Insured</b> | <b>Gross Par Outstanding</b> | <b>Claim Payments and LAE Net of Collections Since Inception</b> |
|--------------------------|-------------------------|-----------------------------|------------------------------|--|
| HELOC                    | 13                      | \$ 14,253                   | \$ 2,247                     | \$ 2,141   |
| CES                      | 9                       | 8,198                       | 2,393                        | 1,994  |
| <b>Total</b>             | <b>22</b>               | <b>\$ 22,451</b>            | <b>\$ 4,640</b>              | <b>\$ 4,135</b>  |
| Total net of reinsurance |                         |                             |                              | \$ 4,025   |

As of March 31, 2012, the par outstanding on insured second-lien RMBS transactions included in the preceding table was \$4.6 billion compared with \$4.9 billion as of December 31, 2011. As of March 31, 2012, we expect to pay an additional \$453 million (on a present value basis) on these transactions and expect to receive a total of \$990 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, \$760 million is included in Insurance loss recoverable and \$230 million is included in Loss and loss adjustment expense reserves. In addition, we expect to receive \$2.1 billion (on a present value basis) in respect of the sellers'/servicers' obligation to repurchase ineligible mortgage loans, which is included in Insurance loss recoverable.

Since September 2008, MBIA Corp. initiated litigation against multiple mortgage loan sellers/servicers alleging, among other things, that such sellers/servicers made material misrepresentations concerning the quality of loans made by these sellers/servicers, which were included in a number of MBIA Corp.-insured second-lien residential mortgage securitizations. In particular, complaints in these actions allege that a significant percentage of the defaulted loans in these securitizations were ineligible for inclusion and thus reflect breaches of the originators' representations with respect to such loans. In addition, the complaints allege that the sellers/servicers have failed to honor their contractual obligations regarding loan repurchases and ongoing servicing practices. For more information on these and other lawsuits commenced by MBIA Corp., refer to Note 13: Commitments and Contingencies in the Notes to Consolidated Financial Statements.

The following table provides information about second-lien RMBS transactions included in MBIA Corp.'s insured portfolio for which it has made claim payments and LAE, net of collections, as of March 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 \$2.2 billion of total payments before reinsurance, \$703 million was eliminated subsequent to consolidation. As of March 31, 2012, the Company has recorded actual or expected put-back recoveries for amounts paid on all second-lien RMBS transactions included in the following table:

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

| <b>\$ in millions</b> | <b>Number of Issues</b> | <b>Original Par Insured</b> | <b>Gross Par Outstanding</b> | <b>Claim Payments and LAE Net of Collections Since</b> |
|-----------------------|-------------------------|-----------------------------|------------------------------|--|
|-----------------------|-------------------------|-----------------------------|------------------------------|--|

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|              |           |                 |                 | <b>Inception</b> |
|--------------|-----------|-----------------|-----------------|------------------|
| HELOC        | 6         | \$ 3,657        | \$ 1,098        | \$ 629           |
| CES          | 7         | 5,068           | 1,435           | 1,556            |
| <b>Total</b> | <b>13</b> | <b>\$ 8,725</b> | <b>\$ 2,533</b> | <b>\$ 2,185</b>  |

Total net of reinsurance \$ 2,113

As of March 31, 2012, we expect to pay an additional \$149 million (on a present value basis) on these transactions and expect to receive a total of \$340 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 March 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 5: 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.

**Table of Contents****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)****RESULTS OF OPERATIONS (continued)**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 three months ended March 31, 2012 and 2011 are presented in the following table:

| In millions                                | Three Months Ended March 31, Percent Change |       |               |
|--|---|-------|---------------|
|  | 2012  | 2011  | 2012 vs. 2011 |
| Gross expenses                             | \$ 58                                       | \$ 38 | 53%           |
| Amortization of deferred acquisition costs | \$ 27                                       | \$ 33 | -18%          |
| Operating                                  | 57  | 37    | 54%           |
| Total insurance operating expenses         | \$ 84                                       | \$ 70 | 20%           |

Gross expenses represent total insurance expenses before the deferral of any policy acquisition costs. Gross expenses increased for the three months ended March 31, 2012 compared with the same period of 2011 due to a significant increase in legal and litigation related costs and an increase in costs associated with insured CDS contracts.

The decrease in the amortization of deferred acquisition costs for the three months ended March 31, 2012 compared with the same period of 2011 principally reflects the acceleration of deferred costs into earnings in prior periods as policies were terminated. Operating expenses increased for the three months ended March 31, 2012 compared with the same period of 2011 as a result of the increase in gross expenses. We did not defer a material amount of policy acquisition costs during the first quarter of 2012 or 2011. Policy acquisition costs in these periods were related to premium taxes and assessments on installment policies written in prior periods.

**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. The following table presents the credit quality distribution of our structured finance and international gross par outstanding as of March 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.

| In millions | Gross Par Outstanding as of March 31, |       |           |       |
|-------------|---------------------------------------|-------|-----------|-------|
|             | 2012                                  |       | 2011      |       |
| Rating      | Amount                                | %     | Amount    | %     |
| AAA         | \$ 38,907                             | 29.2% | \$ 54,599 | 29.5% |
| AA          | 9,887                                 | 7.4%  | 19,299    | 10.4% |
| A           | 25,902                                | 19.5% | 32,070    | 17.3% |

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|                        |            |        |            |        |
|------------------------|------------|--------|------------|--------|
| BBB                    | 32,092     | 24.1%  | 39,931     | 21.5%  |
| Below investment grade | 26,381     | 19.8%  | 39,415     | 21.3%  |
| Total <sup>(1)</sup>   | \$ 133,169 | 100.0% | \$ 185,314 | 100.0% |

(1) - Includes gross par outstanding of \$11.5 billion and \$17.9 billion related to our consolidated VIEs as of March 31, 2012 and 2011, respectively. As of March 31, 2012, total structured finance and international gross par outstanding rated A or above, before giving effect to MBIA's guarantee, was 56% compared with 57% as of March 31, 2011. Additionally, as of March 31, 2012 and 2011, 20% and 21%, respectively, of gross par outstanding was rated below investment grade.

***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.

**Table of Contents****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)****RESULTS OF OPERATIONS (continued)***Collateralized Debt Obligations and Related Instruments*

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

MBIA Corp.'s \$64.4 billion CDO portfolio represented 48% of its total insured gross par outstanding of \$133.2 billion as of March 31, 2012. The distribution of the Company's insured CDO and related instruments portfolio by collateral type is presented in the following table:

| <b>In billions</b>  | <b>Gross Par<br/>Outstanding as of<br/>March 31, 2012</b> |
|---|---|
| <b>Collateral Type</b>                                      |   |
| Multi-sector CDOs <sup>(1)</sup>                            | \$ 6.0  |
| Investment grade CDOs and structured corporate credit pools | 28.4  |
| High yield corporate CDOs                                   | 6.4   |
| Commercial real estate pools and CRE CDOs                   | 23.6  |
| <b>Total</b>  | <b>\$ 64.4</b>  |

(1) - Includes one multi-sector CDO-squared transaction with gross par of \$132 million as of March 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 subordination in the underlying securities collateralizing MBIA Corp.'s insured tranche is fully eroded and the subordination below MBIA Corp.'s insured tranche in the CDO transaction (Insured Tranche Subordination) is fully eroded. MBIA Corp.'s payment obligation after a default generally insures current interest and ultimate principal.

Total gross par exposure in our multi-sector CDO portfolio was \$37.3 billion as of December 31, 2007. Since the end of 2007 through March 31, 2012, our multi-sector CDO gross par exposure has decreased by approximately \$31.3 billion primarily from negotiated commutations of \$19.8 billion in gross par and contractual terminations without any payment from MBIA Corp. of \$5.4 billion in gross par. The remaining reduction was due to the amortization and maturity of transactions. As of March 31, 2012, our gross par exposure to multi-sector CDOs was \$6.0 billion and represented 9% of MBIA Corp.'s CDO exposure and 5% of MBIA Corp.'s total gross par insured.

**Table of Contents****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)****RESULTS OF OPERATIONS (continued)**

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 March 31, 2012 |                       |  |      |       |  |                  |                                    |      |
|--|---|-----------------------|--|------|-------|--|------------------|------------------------------------|------|
|  | # of CDOs   | Gross Par Outstanding | Other Collateral   | RMBS | Total | Current Insured                        | Original Insured | Net Derivative / Asset (Liability) |      |
| Tranche Subordination Range Below MBIA |   |                       |  |      |       | Tranche Subordination Range Below MBIA |                  |                                    |      |
| <b>CDOs of High-Grade U.S. ABS</b>     |   |                       |  |      |       |  |                  |                                    |      |
| 2003                                   | 1   | \$ 132 <sup>(1)</sup> | 100%   | 0%   | 100%  | 34.4%                                  | 10.0%            | \$ (15)                            |      |
| 2004                                   | 2   | 422                   | 70%  | 30%  | 100%  | 0.0-8.7%                               | 10.0-13.0%       | (37)                               |      |
| 2005                                   | 1   | 715                   | 32%  | 68%  | 100%  | 0.0%                                   | 20.0%            | (160)                              |      |
| 2006                                   | 3   | 1,364                 | 44%  | 56%  | 100%  | 0.0%                                   | 12.0-14.0%       | (314)                              |      |
| 2007                                   | 1   | 1,100                 | 100%   | 0%   | 100%  | 0.0%                                   | 13.0%            | (397)                              |      |
| Subtotal                               | 8   | 3,733                 |  |      |       |  |                  | (923)                              |      |
| <b>CDOs of Mezzanine U.S. ABS</b>      |   |                       |  |      |       |  |                  |                                    |      |
| 2000                                   | 1   | 1                     | 62%  | 38%  | 100%  | 100.0%                                 | 21.4%            | -                                  |      |
| 2002                                   | 6   | 482                   | 63%  | 37%  | 100%  | 0.0-80.3%                              | 13.8-28.1%       | -                                  |      |
| 2003                                   | 4   | 492                   | 57%  | 43%  | 100%  | 0.0-59.0%                              | 21.5-29.8%       | -                                  |      |
| 2004                                   | 3   | 314                   | 41%  | 59%  | 100%  | 0.0%                                   | 25.0-30.5%       | (24)                               |      |
| Subtotal                               | 14  | 1,289                 |  |      |       |  |                  | (24)                               |      |
| Total                                  | 22  | 5,022                 |  |      |       |  |                  | (947)                              |      |
|  |   | 338                   | Multi-Sector CDO European Mezzanine and Other Collateral (1 CDO)         |      |       |  |                  |                                    | (24) |
|  |   | 638                   | Multi-Sector CDO insured in the Secondary Market prior to 2005 (32 CDOs) |      |       |  |                  |                                    | -    |
| Grand Total                            |   | \$ 5,998              |  |      |       |  |                  | \$ (971)                           |      |

(1) This transaction is multi-sector CDO squared.

Our multi-sector CDOs are classified into CDOs of high-grade U.S. ABS, including one CDO-squared transaction, and CDOs of mezzanine U.S. ABS. As of March 31, 2012, gross par outstanding on MBIA Corp.-insured CDOs of high-grade U.S. ABS totaled \$3.7 billion. The majority of the collateral contained within this category is RMBS. Original Insured Tranche Subordination levels in these transactions ranged from 10% to 20% compared with current Insured Tranche Subordination levels of 0% to 34.4%. As of March 31, 2012, gross par outstanding on MBIA Corp.-insured CDOs of mezzanine U.S. ABS totaled \$1.3 billion and the majority of the collateral consisted of RMBS and CMBS. Original Insured Tranche Subordination levels in these transactions ranged from 13.8% to 30.5% compared with current Insured Tranche Subordination levels that range from 0% to 100%.



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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 March 31, 2012, there were credit impairment estimates for 28 classified multi-sector CDO transactions for which MBIA Corp. expects to incur actual net claims in the future (15 of which are insured in the secondary market), representing 51% 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 31% 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.

**Table of Contents****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)****RESULTS OF OPERATIONS (continued)**

As of March 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 <sup>(1)</sup> | Original | Current |
|--|----------|---------|
| AAA                                    | 100%     | 0%      |
| AA                                     | 0%       | 2%      |
| A                                      | 0%       | 0%      |
| BBB                                    | 0%       | 6%      |
| Below investment grade                 | 0%       | 92%     |
| Total                                  | 100%     | 100%    |

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

*Investment Grade Corporate CDOs and Structured Corporate Credit Pools*

Our investment grade corporate CDO exposure references pools of predominantly investment grade corporate credits. Additionally, some of these pools may include limited exposure to other asset classes, including structured finance securities (such as RMBS and CDOs). Most of our investment grade corporate CDO policies guarantee coverage of losses on collateral assets once Insured Tranche Subordination in the form of a deductible has been eroded, and are generally highly customized structures. Our gross par exposure to investment grade corporate CDOs of \$28.4 billion represents 44% 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 March 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 \$13.1 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 monotranch 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 | # of CDOs | Gross Par Outstanding | Corporate Collateral | Other Collateral | Total | As of March 31, 2012                                   |   | Net Derivative / Asset (Liability) |
|----------------|-----------|-----------------------|----------------------|------------------|-------|--|---|------------------------------------|
|                |           |                       |                      |                  |       | Current Insured Tranche Subordination Range Below MBIA | Original Insured Tranche Subordination Range Below MBIA |                                    |
| Year Insured   |           |                       |                      |                  |       |  |   |                                    |

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|             |    |           |  |    |      |            |            |            |
|-------------|----|-----------|--|----|------|------------|------------|------------|
| 2005        | 6  | \$ 9,077  | 92%  | 8% | 100% | 10.9-25.1% | 14.0-27.5% | \$ (455)   |
| 2006        | 4  | 6,932     | 94%  | 6% | 100% | 11.4-21.7% | 16.0-25.0% | (488)      |
| 2007        | 10 | 12,414    | 98%  | 2% | 100% | 11.9-27.9% | 15.0-30.0% | (370)      |
| Subtotal    | 20 | 28,423    |  |    |      |            |            | (1,313)    |
|             |    | 26        | Investment Grade Corporate CDOs insured in the Secondary Market prior to 2003 (3 CDOs) |    |      |            |            | -          |
| Grand Total |    | \$ 28,449 |  |    |      |            |            | \$ (1,313) |

*High Yield Corporate CDOs*

Our high yield corporate CDO portfolio, totaling \$6.4 billion of gross par exposure, largely comprises middle-market/special-opportunity corporate loan transactions, broadly syndicated bank CLOs and older vintage corporate high yield bond CDOs. The CDOs in this category are diversified by both vintage and geography (with European and U.S. collateral). Our gross par exposure to high yield corporate CDOs represents 10% of MBIA Corp. s CDO exposure and 5% of MBIA Corp. s total gross par insured as of March 31, 2012.

**Table of Contents****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)****RESULTS OF OPERATIONS (continued)**

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

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

| \$ in millions |      | As of March 31, 2012 |   |                       |                       |                            |  |   |
|----------------|------|----------------------|---|-----------------------|-----------------------|----------------------------|--|---|
| Year           | # of | Gross Par            | Corporate   | Current Insured       | Original Insured      | Net Derivative /           |  |   |
| Insured        | CDOs | Outstanding          | Collateral  | Tranche Subordination | Tranche Subordination | Asset                      |  |   |
|                |      |                      |   | Range Below MBIA      | Range Below MBIA      | (Liability) <sup>(1)</sup> |  |   |
| 2003           | 1    | \$ 161               | 100%  | 14.9%                 | 24.2%                 | \$ -                       |  |   |
| 2004           | 2    | 3,015                | 100%  | 46.8-74.0%            | 22.0-33.3%            | -                          |  |   |
| 2005           | 1    | 895                  | 100%  | 27.0%                 | 21.8%                 | -                          |  |   |
| 2006           | 2    | 802                  | 100%  | 35.4-81.1%            | 33.3-49.0%            | -                          |  |   |
| 2007           | 3    | 1,468                | 100%  | 28.6-30.7%            | 32.0-34.0%            | 0                          |  |   |
| Subtotal       | 9    | 6,341                |   |                       |                       | 0                          |  |   |
|                |      |                      | High Yield Corporate CDO insured in the Secondary Market prior to |                       |                       |                            |  |   |
|                |      | 90                   | 2003 (4 CDOs)   |                       |                       |                            |  | - |
| Grand Total    |      | \$ 6,431             |   |                       |                       | \$ 0                       |  |   |

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(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 March 31, 2012, we had \$23.6 billion of gross par exposure to the CRE sector through insured structured transactions primarily comprising CRE collateral. Our CRE portfolio can be largely sub-divided into two distinct categories: structured CMBS pools and CRE CDOs. In addition, MBIA Corp. insures approximately \$3.3 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. Subsequent to March 31, 2012, MBIA Corp. agreed to commute \$4.3 billion of gross insured CRE exposure.

During the three months ended March 31, 2012 and since March 31, 2012, the Company agreed to early settlements which totaled \$4.9 billion related to CRE exposure in all three categories of the CRE sector.

Refer to Note 5: 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 March 31, 2012, our gross par exposure to structured CMBS pools totaled \$19.2 billion and represented approximately 14% of MBIA Corp.'s total gross par insured. Since the end of 2007 through March 31, 2012, our structured CMBS pools gross par exposure has decreased by approximately \$21.0 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.

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

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

| Year Insured | # of Pools | Gross Par Outstanding | As of March 31, 2012  |           |       |       |                    |                     |            | Net Derivative / Asset (Liability) |
|--------------|------------|-----------------------|---|-----------|-------|-------|--------------------|---------------------|------------|------------------------------------|
|              |            |                       | CMBS  | REIT Debt | Other | Total | Current Deductible | Original Deductible |            |                                    |
| 2003         | 1          | \$ 105                | 68%   | 24%       | 8%    | 100%  | 40.7%              | 26.0%               | \$ -       |                                    |
| 2006         | 5          | 1,729                 | 97%   | 0%        | 3%    | 100%  | 10.0-41.0%         | 10.0-54.2%          | (111)      |                                    |
| 2007         | 19         | 17,364                | 96%   | 0%        | 4%    | 100%  | 5.0-84.8%          | 5.0-82.3%           | (1,837)    |                                    |
| Subtotal     | 25         | 19,198                |   |           |       |       |                    |                     | (1,948)    |                                    |
|              |            | 51                    | Structured CMBS Pools insured in the Secondary Market prior to 2005 (3 pools) |           |       |       |                    |                     |            | -                                  |
| Grand Total  |            | \$ 19,249             |   |           |       |       |                    |                     | \$ (1,948) |                                    |

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

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In addition, we have experienced ratings erosion in the total CMBS collateral underlying our insured static pools. Whereas approximately 33.3% of the total CMBS collateral underlying the pools outstanding as of March 31, 2012 was originally rated BBB and below and approximately 44.0% was originally rated AAA, 63.8% of the total CMBS collateral underlying these pools as of March 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 nine static CMBS pools, having \$6.3 billion of gross par outstanding as of March 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 nine pools consisted of higher rated CMBS bonds, REIT debt and other securities. The BBB and below rated CMBS bonds underlying these nine pools had original credit enhancement levels that ranged from 0.0% to 9.0% with an original weighted average credit enhancement level of 3.2%, compared to credit enhancement levels that range from 0.0% to 85.0% with a weighted average credit enhancement level of 2.3% as of March 31, 2012. MBIA Corp.'s original policy level deductibles for these nine insured pools ranged from 23.0% to 82.3% with an original weighted average deductible by gross par outstanding of 37.9%, compared to deductibles that range from 14.5% to 84.8% with a weighted average deductible by gross par outstanding of 32.4% as of March 31, 2012. As of March 31, 2012, most of MBIA Corp.'s estimated credit impairments for our static CMBS pools relate to a subset of these nine pools.

**Table of Contents****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)****RESULTS OF OPERATIONS (continued)**

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

| Original Rating                     | CMBS Collateral Vintage |       |       |       |        |
|-------------------------------------|-------------------------|-------|-------|-------|--------|
|                                     | 2004 and Prior          | 2005  | 2006  | 2007  | Total  |
| AAA                                 | 6.7%                    | 3.6%  | 21.4% | 12.3% | 44.0%  |
| AA                                  | 0.0%                    | 0.0%  | 0.8%  | 2.7%  | 3.5%   |
| A                                   | 0.0%                    | 2.0%  | 14.2% | 3.0%  | 19.2%  |
| BBB                                 | 1.7%                    | 4.8%  | 16.5% | 4.6%  | 27.6%  |
| Below investment grade or not rated | 2.4%                    | 1.5%  | 0.8%  | 1.0%  | 5.7%   |
| Total                               | 10.8%                   | 11.9% | 53.7% | 23.6% | 100.0% |

As of March 31, 2012, our structured CMBS pool portfolio comprised approximately 41,600 loans. The current weighted average debt service coverage ratio (DSCR) of underlying mortgage loans in the CMBS pools was 1.51 based on net operating income derived from the most recent property level financial statements (based on 31.1% of the properties having provided 2011 financial statements and 84.2% having provided partial 2011 or 2010 financial statements) compared with an average DSCR of 1.69 as of March 31, 2011. Many properties experienced significant declines in financial performance over the past year resulting in the percentage of properties with a DSCR less than 1.0 increasing from nearly 15.5% as of March 31, 2011 to 17.5% as of March 31, 2012. The weighted average loan-to-value ratio was 81% as of March 31, 2012 compared with 80% as of December 31, 2011 and 77% as of March 31, 2011. The majority of the loans are long-term and fixed-rate in nature. Approximately 21.5% of the loans will mature within the next three years. The weighted average DSCR of those loans was 1.79 based on the latest available financial statements. Approximately seven percent of the loans mature in the next twelve months and these loans have a weighted average DSCR of 2.09. Transaction deductibles range from 5% to 85% and underlying bond level credit enhancement generally ranges from 0% to 30% or higher, both of which are structural factors that were intended to minimize potential losses.

Delinquencies have increased markedly in the CRE market over the last three years given the economic climate and the shortage of financing. As of March 31, 2012, 30-day and over delinquencies increased in the fixed-rate conduit CMBS market to 8.9% and increased in MBIA Corp.'s insured static pooled CMBS portfolio to 11.3%. 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, in particular if macroeconomic stress escalates, there is a "double dip" recession, increased delinquencies, higher levels of liquidations of delinquent loans, and/or higher severities of loss upon liquidation. Although we still believe the likelihood of a "double dip" recession is low, we do consider the possibility in our estimates for future claims.

#### CRE CDOs

As of March 31, 2012, our gross par exposure to CRE CDOs totaled \$4.3 billion and represented approximately 3% 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 March 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 3% of the collateral in the CRE CDO portfolio.

**Table of Contents****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)****RESULTS OF OPERATIONS (continued)**

Within our CRE CDO portfolio, we had three transactions with 2006 or 2007 vintage collateral totaling \$1.3 billion of gross par outstanding as of March 31, 2012 in which substantially all of the collateral originally comprised BBB or BBB- rated tranches of CMBS. While these transactions were designed to include managed portfolios, trading has been minimal since inception. Two of these transactions, totaling \$948 million, will be commuted pursuant to commutation agreements executed in 2011 and subsequent to the end of the first quarter of 2012. The Company no longer has material credit risk exposure to these two transactions.

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

| \$ in millions |               | As of March 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             | \$ 42                 | 61%  | 0%          | 23%       | 16%   | 100%  | 19.6-35.2%          | 22.0-22.4%           | \$ -                             |  |
| 2005           | 1             | 79                    | 89%  | 0%          | 3%        | 8%    | 100%  | 38.7%               | 22.7%                | (2)                              |  |
| 2006           | 9             | 1,667                 | 36%  | 47%         | 6%        | 11%   | 100%  | 0.0-66.6%           | 24.0-50.0%           | (77)                             |  |
| 2007           | 9             | 2,519                 | 62%  | 21%         | 5%        | 12%   | 100%  | 0.0-53.7%           | 20.0-60.0%           | (157)                            |  |
| Total          | 21            | \$ 4,307              |      |             |           |       |       |                     |                      | \$ (236)                         |  |

**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 March 31, 2012 for our U.S. public finance and structured finance and international insurance operations:

| In millions | Standard & Poor's Rating (Status) | Moody's Rating (Status) | Ceded Par Outstanding | LOC / Trust Accounts | Reinsurance Recoverable <sup>(1)</sup> |
|-------------|-----------------------------------|-------------------------|-----------------------|----------------------|--|
| Reinsurers  |                                   |                         |                       |                      |  |

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|                          |                    |                        |                 |             |              |
|--------------------------|--------------------|------------------------|-----------------|-------------|--------------|
| Assured Guaranty Corp.   | AA-                | Aa3                    | \$ 3,096        | \$ -        | \$ 15        |
|                          | (Stable Outlook)   | (Ratings Under Review) |                 |             |              |
| Assured Guaranty Re Ltd. | AA-                | A1                     | 539             | 5           | -            |
|                          | (Stable Outlook)   | (Ratings Under Review) |                 |             |              |
| Overseas Private         | AA+                | Aaa                    | 344             | -           | -            |
| Investment Corporation   | (Negative Outlook) | (Negative Outlook)     |                 |             |              |
| Export Development       | AAA                | Aaa                    | 73              | 1           | -            |
| Canada                   | (Stable Outlook)   | (Stable Outlook)       |                 |             |              |
| Others                   | A+ or above        | A1 or above            | 89              | 1           | 0            |
| <b>Total</b>             |                    |                        | <b>\$ 4,141</b> | <b>\$ 7</b> | <b>\$ 15</b> |

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

MBIA requires certain unauthorized reinsurers to maintain bank letters of credit or establish trust accounts to cover liabilities ceded to such reinsurers under reinsurance contracts. As of March 31, 2012, the total amount available under these letters of credit and trust arrangements was \$7 million. The Company remains liable on a primary basis for all reinsured risk, and although MBIA believes that its reinsurers remain capable of meeting their obligations, there can be no assurance of such in the future.

**Table of Contents****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)****RESULTS OF OPERATIONS (continued)**

As of March 31, 2012, the aggregate amount of insured par outstanding ceded by MBIA to reinsurers under reinsurance agreements was \$4.1 billion compared with \$4.3 billion as of December 31, 2011. Of the \$4.1 billion of ceded par outstanding as of March 31, 2012, \$2.5 billion was ceded from our U.S. public finance insurance segment and \$1.6 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 March 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 \$2.5 billion. For Financial Guaranty Insurance Company (FGIC) policies assigned to National from MBIA Insurance Corporation, National maintains the right to receive third-party reinsurance totaling \$8.9 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 three months ended March 31, 2012 and 2011. These results include revenues and expenses from transactions with the Company's insurance, corporate, and wind-down operations.

| In millions                                 | Three Months Ended March 31, |                  | Percent Change |
|---|------------------------------|------------------|----------------|
|   | 2012                         | 2011             | 2012 vs. 2011  |
| Net investment income                       | \$ 0                         | \$ 0             | n/m            |
| Fees  | 13                           | 15               | -13%           |
| <b>Total revenues</b>                       | <b>13</b>                    | <b>15</b>        | <b>-13%</b>    |
| Operating expenses                          | 17                           | 16               | 6%             |
| <b>Pre-tax income (loss)</b>                | <b>\$ (4)</b>                | <b>\$ (1)</b>    | <b>n/m</b>     |
| Ending assets under management:             |                              |                  |                |
| Third-party                                 | \$ 20,601                    | \$ 26,347        | -22%           |
| Insurance and corporate                     | 7,522                        | 9,013            | -17%           |
| Asset/liability products and conduits       | 7,470                        | 5,612            | 33%            |
| <b>Total ending assets under management</b> | <b>\$ 35,593</b>             | <b>\$ 40,972</b> | <b>-13%</b>    |

n/m - Percentage change not meaningful.

For the three months ended March 31, 2012, the increase in pre-tax loss compared with the same period of 2011 was primarily driven by a decrease in advisory fees due to declines in asset balances managed for third parties.

Average third-party assets under management for the three months ended March 31, 2012 and 2011 were \$21.0 billion and \$26.2 billion, respectively. As of March 31, 2012, third-party ending assets under management were \$20.6 billion, a decrease of \$1.7 billion from December 31, 2011 and a decrease of \$5.7 billion from March 31, 2011. The decrease in third-party assets was principally due to a decline in

our pool products, which resulted from lower operating balances at the state and local government level and the continued low interest rate environment.

**Table of Contents****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)****RESULTS OF OPERATIONS (continued)***Corporate*

General corporate activities are conducted through our corporate segment. Our corporate operations primarily consist of holding company activities, including our service company, Optinuity Alliance Resources Corp. ( 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 three months ended March 31, 2012 and 2011. These results include revenues and expenses that arise from general corporate activities and from providing support to our other segments.

| In millions  | Three Months Ended March 31, |      | Percent Change<br>2012 vs. 2011 |
|--|------------------------------|------|---------------------------------|
|  | 2012                         | 2011 |                                 |
| Net investment income  | \$ 1                         | \$ 0 | n/m                             |
| Fees   | 23                           | 23   | 0%                              |
| Net gains (losses) on financial instruments at fair value and foreign exchange | 5                            | 23   | -78%                            |
| Total revenues   | 29                           | 46   | -37%                            |
| Operating  | 25                           | 26   | -4%                             |
| Interest   | 14                           | 15   | -7%                             |
| Total expenses   | 39                           | 41   | -5%                             |
| Pre-tax income (loss)  | \$ (10)                      | \$ 5 | n/m                             |

n/m - Percentage change not meaningful.

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. Partially offsetting the gains for the three months ended March 31, 2012 were losses on the sale of investments.

*Wind-down Operations*

We operate an asset/liability products business in which we historically issued debt and investment agreements insured by MBIA Corp. to capital markets and municipal investors. The proceeds of the debt and investment agreements were used initially to purchase assets that largely matched the duration of those liabilities. We also operate a conduit business in which we historically funded transactions by issuing debt insured by MBIA Corp. The rating downgrades of MBIA Corp. resulted in the termination and collateralization of certain derivatives and investment agreements and, together with the rising cost and declining availability of funding and liquidity within many of the asset classes in which proceeds were invested, caused the Company to begin winding down its asset/liability products and conduit businesses in 2008. Since the

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downgrades of MBIA Corp., we have not issued debt in connection with either business and, as a result, the outstanding liability balances and corresponding asset balances will continue to decline over time as liabilities mature, terminate or are repurchased by us.

**Table of Contents****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)****RESULTS OF OPERATIONS (continued)***Asset/Liability Products*

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

| In millions   | Three Months Ended March 31, |         | Percent Change |
|---|------------------------------|---------|----------------|
|   | 2012                         | 2011    | 2012 vs. 2011  |
| Net investment income   | \$ 17                        | \$ 23   | -26%           |
| Net gains (losses) on financial instruments at fair value and foreign exchange      | (73)                         | (83)    | -12%           |
| Investment losses related to other-than-temporary impairments:                      |                              |         |                |
| Investment losses related to other-than-temporary impairments                       | (52)                         | (7)     | n/m            |
| Other-than-temporary impairments recognized in accumulated other comprehensive loss | (3)                          | (4)     | -25%           |
| Net investment losses related to other-than-temporary impairments                   | (55)                         | (11)    | n/m            |
| Net gains (losses) on extinguishment of debt  | -                            | 24      | -100%          |
| Other net realized gains (losses)   | -                            | 4       | -100%          |
| Revenues of consolidated VIEs:  |                              |         |                |
| Net investment income   | -                            | (3)     | -100%          |
| Net gains (losses) on financial instruments at fair value and foreign exchange      | -                            | 10      | -100%          |
| Total revenues  | (111)                        | (36)    | n/m            |
| Operating   | 4                            | 3       | 33%            |
| Interest expense  | 31                           | 33      | -6%            |
| Total expenses  | 35                           | 36      | -3%            |
| Pre-tax income (loss)   | \$ (146)                     | \$ (72) | 103%           |

n/m - Percentage change not meaningful.

**NET INVESTMENT LOSSES RELATED TO OTHER-THAN-TEMPORARY IMPAIRMENTS** For the three months ended March 31, 2012, total net investment losses related to other-than-temporary impairments increased compared with the same period of 2011 primarily as a result of impairing certain securities to their fair value as we intend to sell these securities before a recovery of their value to amortized cost. Refer to the Liquidity section included herein for additional information about impaired investments.

**NET GAINS (LOSSES) ON EXTINGUISHMENT OF DEBT** For the three months ended March 31, 2011, net gains (losses) on extinguishment of debt included gains from the repurchases of medium-term notes ( MTNs ) issued by the Company.



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**BOOK VALUE** As of March 31, 2012, our asset/liability products segment had a deficit of total assets to total liabilities of \$542 million compared with a deficit of \$725 million as of December 31, 2011. Assets primarily comprising cash and investments at market value and tax receivables totaled \$3.6 billion and \$3.8 billion as of March 31, 2012 and December 31, 2011, respectively. Investments were comprised of securities with an average credit quality rating of A1. Liabilities primarily comprising principal and accrued interest outstanding on investment agreements and MTN obligations, securities sold under agreements to repurchase, a loan from an affiliate and derivative liabilities totaled \$4.1 billion and \$4.5 billion as of March 31, 2012 and December 31, 2011, respectively. The decrease in total liabilities primarily resulted from scheduled amortizations of debt.

In addition to our asset/liability products segment's GAAP book value deficit, we also analyze the segment's adjusted book value deficit (ALM Adjusted BV Deficit), a non-GAAP measure. We consider ALM Adjusted BV Deficit a measure of the amount by which liabilities expected to be cash settled exceed assets expected to be cash settled as of the balance sheet date on an amortized cost basis. This deficit represents a potential cash short-fall upon the extinguishment of the selected liabilities as of the balance sheet date without regard to the timing of cash flows. As such, it does not reflect future operating income or losses, particularly those that may be generated from selling assets above or below their amortized costs and from repurchasing debt at discounts. The ALM Adjusted BV Deficit is based on assets and liabilities included in our asset/liability products segment's GAAP balance sheet, but do not include all balances required by GAAP. The Company believes this measure is useful in analyzing liquidity risk, in conjunction with other measures, within our asset/liability products segment.

**Table of Contents****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)****RESULTS OF OPERATIONS (continued)**

As of March 31, 2012, ALM Adjusted BV Deficit was \$783 million compared with \$591 million as of December 31, 2011. The increase in ALM Adjusted BV Deficit was driven primarily by losses from sales of investments and other-than-temporary impairments of assets and a negative spread of investment income to interest expense. We expect ALM Adjusted BV Deficit to continue to increase as a result of on-going expected operating losses. Our ability to resolve this deficit will depend on our ability to successfully implement our strategies. There can be no assurance that we will be successful in implementing our strategies or that such strategies will provide adequate liquidity to meet all payment obligations. Refer to the Liquidity section included herein for a discussion about the liquidity position of MBIA Inc. as it relates to the asset/liability products segment.

The following table provides a reconciliation of our asset/liability products segment's GAAP book value deficit to ALM Adjusted BV Deficit:

| In millions  | As of<br>March 31, 2012 | As of<br>December 31, 2011 |
|--|-------------------------|----------------------------|
| Asset/liability products segment's GAAP book value     | \$ (542)                | \$ (725)                   |
| Additions to GAAP book value:                          |                         |                            |
| Intersegment payable                                   | -                       | 223 <sup>(1)</sup>         |
| Subtractions from GAAP book value:                     |                         |                            |
| Net unrealized (gains) losses on financial instruments | 403                     | 588                        |
| Deferred income tax benefit                            | (644)                   | (677)                      |
| <b>Total adjustments</b>                               | <b>(241)</b>            | <b>134</b>                 |
| <b>ALM Adjusted BV Deficit</b>                         | <b>\$ (783)</b>         | <b>\$ (591)</b>            |

(1) - Represents amounts owed by the asset/liability products activities of MBIA Inc. to the corporate activities of MBIA Inc., which the corporate activities of MBIA Inc. recorded as contributed capital to the asset/liability products activities in the first quarter of 2012.

**Conduits**

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

| In millions                    | Three Months Ended March 31, |      | Percent Change |
|--------------------------------|------------------------------|------|----------------|
|                                | 2012                         | 2011 | 2012 vs. 2011  |
| Revenues of consolidated VIEs: |                              |      |                |
| Net investment income          | \$ 3                         | \$ 4 | -25%           |
|                                | -                            | 1    | -100%          |

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

|                |   |   |      |
|----------------|---|---|------|
| Total revenues | 3 | 5 | -40% |
|----------------|---|---|------|

Expenses of consolidated VIEs:

|           |   |   |       |
|-----------|---|---|-------|
| Operating | 0 | 1 | -100% |
|-----------|---|---|-------|

|          |   |   |      |
|----------|---|---|------|
| Interest | 4 | 5 | -20% |
|----------|---|---|------|

|                |   |   |      |
|----------------|---|---|------|
| Total expenses | 4 | 6 | -33% |
|----------------|---|---|------|

|                       |        |        |    |
|-----------------------|--------|--------|----|
| Pre-tax income (loss) | \$ (1) | \$ (1) | 0% |
|-----------------------|--------|--------|----|

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 three months ended March 31, 2012, total revenues and total expenses decreased slightly compared with the same period of 2011 as a result of the repayment of assets and extinguishment of liabilities within Triple-A One Funding Corporation.

As of March 31, 2012 and December 31, 2011, our conduit segment's investments (including cash) totaled \$1.1 billion and \$1.5 billion, respectively and our conduit segment's debt obligations totaled \$1.1 billion and \$1.5 billion, respectively.

**Table of Contents****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)****RESULTS OF OPERATIONS (continued)***Taxes**Provision for Income Taxes*

The Company's income taxes and the related effective tax rates for the three months ended March 31, 2012 and 2011 are presented in the following table:

|                                      | <b>Three Months Ended March 31,</b> |             |
|--------------------------------------|-------------------------------------|-------------|
| <b>In millions</b>                   | <b>2012</b>                         | <b>2011</b> |
| Pre-tax income (loss)                | \$ 21                               | \$ (1,763)  |
| Provision (benefit) for income taxes | \$ 11                               | \$ (489)    |
| Effective tax rate                   | 52.4%                               | 27.7%       |

For the three months ended March 31, 2012, the Company's effective tax rate applied to its pre-tax loss was higher than the U.S. statutory tax rate of 35% primarily due to an increase in the Company's valuation allowance against its deferred tax assets.

For the three months ended March 31, 2011, the Company's effective tax rate applied to our pre-tax loss was lower than the U.S. statutory tax rate of 35% as a result of interim tax accounting principles, which treat the tax effect of certain items as discrete to the quarter. This was offset by the benefit of the reversal of a portion of our valuation allowance, tax-exempt interest income from investments, and income earned in non-U.S. jurisdictions, which was taxed at less than 35%.

Refer to Note 10: Income Taxes in the Notes to Consolidated Financial Statements for a further discussion of income taxes, including the Company's valuation allowance against deferred tax assets and its accounting for tax uncertainties.

**CAPITAL RESOURCES**

The Company manages its capital resources to minimize its cost of capital while maintaining appropriate claims-paying resources (CPR) for National and MBIA Corp. The Company's capital resources consist of total shareholders' equity, total debt issued by MBIA Inc. for general corporate purposes, and surplus notes issued by MBIA Insurance Corporation. Total capital resources were \$3.7 billion and \$3.5 billion as of March 31, 2012 and December 31, 2011, respectively. MBIA Inc. utilizes its capital resources to support the business activities of its subsidiaries. As of March 31, 2012, MBIA Inc.'s investments in subsidiaries totaled \$3.5 billion.

*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. Refer to the statutory accounting practices note to consolidated financial statements of National and MBIA Corp. within exhibits 99.2 and 99.3, respectively, of MBIA Inc.'s annual report on Form 10-K for the year ended December 31, 2011 for an explanation of the differences between U.S. STAT and GAAP.

*National*

Capital and Surplus

National reported total statutory capital of \$2.9 billion as of March 31, 2012 compared with \$2.8 billion as of December 31, 2011. As of March 31, 2012, statutory capital comprised \$1.4 billion of contingency reserves and \$1.5 billion of policyholders' surplus. The increase in National's statutory capital is primarily due to statutory net income of \$39 million for the three months ended March 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 March 31, 2012, National's unassigned surplus was \$898 million. In October 2010, the plaintiffs in the litigation challenging the establishment of National initiated a court proceeding challenging the approval of the surplus reset. Refer to Note 13: Commitments and Contingencies in the Notes to Consolidated Financial Statements for a discussion of this action.

**Table of Contents****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)****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 was \$1.5 billion as of March 31, 2012. National's policyholders' surplus will grow over time from the recognition of unearned premiums and investment income and the expected release of the contingency reserves. Conversely, incurred losses would reduce policyholders' surplus.

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

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

National's statutory policyholders' surplus was lower than its GAAP shareholder's equity by \$2.1 billion as of March 31, 2012. U.S. STAT differs from GAAP in certain respects. Refer to Note 12: Statutory Accounting Practices in the Notes to Consolidated Financial Statements of National within exhibit 99.2 of MBIA Inc.'s annual report on Form 10-K for the year ended December 31, 2011 for an explanation of the differences between U.S. STAT and GAAP.

**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.

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

| In millions            | As of March 31,<br>2012 | As of December 31,<br>2011 |
|------------------------|-------------------------|----------------------------|
| Policyholders' surplus | \$ 1,488                | \$ 1,424                   |
| Contingency reserves   | 1,378                   | 1,385                      |
|                        | 2,866                   | 2,809                      |

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|  |    |       |          |
|--|----|-------|----------|
| Statutory capital                                    |    |       |          |
| Unearned premium reserve                             |    | 2,397 | 2,485    |
| Present value of installment premiums <sup>(1)</sup> |    | 234   | 239      |
|  |    |       |          |
| Premium resources <sup>(2)</sup>                     |    | 2,631 | 2,724    |
| Net loss and LAE reserves <sup>(1)</sup>             |    | (2)   | (3)      |
| Salvage reserves                                     |    | 172   | 161      |
|  |    |       |          |
| Gross loss and LAE reserve                           |    | 170   | 158      |
|  |    |       |          |
| Total claims-paying resources                        | \$ | 5,667 | \$ 5,691 |

(1) - Calculated using a discount rate of 4.77% as of March 31, 2012 and December 31, 2011.

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

**Table of Contents****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)****CAPITAL RESOURCES (continued)**

National's total CPR as of March 31, 2012 of \$5.7 billion remained flat compared with December 31, 2011, as net income and an increase in salvage reserves were offset by decreases in unearned premiums.

*MBIA Insurance Corporation*Capital and Surplus

MBIA Insurance Corporation reported total statutory capital of \$1.9 billion as of March 31, 2012 compared with \$2.3 billion as of December 31, 2011. As of March 31, 2012, statutory capital comprised \$495 million of contingency reserves and \$1.4 billion of policyholders' surplus. For the three months ended March 31, 2012, MBIA Insurance Corporation had a statutory net loss of \$510 million, primarily due to losses and LAE incurred, interest expense recorded on its surplus notes, and realized losses from the impairment of an investment, partially offset by net premiums earned. MBIA Insurance Corporation's policyholders' surplus as of March 31, 2012 includes a negative unassigned surplus of \$656 million.

As of March 31, 2012, MBIA Insurance Corporation recognized estimated recoveries of \$2.1 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 112% of MBIA Insurance Corporation's statutory capital (defined as policyholders' surplus plus contingency reserves) as of March 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 Economic and Financial Market Trends and 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 was \$1.4 billion as of March 31, 2012. 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. Reductions in the contingency reserve may be recognized based on excessive reserves and under certain stipulated conditions, subject to the approval of the Superintendent of the NYSDFS. Pursuant to approval granted by the NYSDFS in accordance with NYIL, as of March 31, 2012, MBIA Insurance Corporation released to surplus an aggregate of \$196 million of excessive contingency reserves. Absent this release, MBIA Insurance Corporation would have had a short-fall of \$196 million of qualifying assets used to meet its requirement as a result of its use of cash to pay claims and to effect commutations, and as a result of the failure of certain mortgage originators to honor contractual obligations to repurchase ineligible mortgage loans from securitizations MBIA Corp. had insured. Including the above release, pursuant to approvals granted by the NYSDFS in accordance with NYIL, MBIA Insurance Corporation released to surplus an aggregate of \$1.1 billion of excessive contingency reserves during 2011 and 2012.

In connection with MBIA Corp. 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. In addition, as noted above, in connection with the approval of the December 31, 2011 contingency reserve release, National agreed that it would not pay any dividends without prior approval from the NYSDFS until July 19, 2013 (which was fifteen months after the expiration of the period during which National had then agreed not to pay dividends in connection with the court proceeding challenging the approval of National's unassigned surplus reset).



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MBIA Insurance Corporation's statutory policyholders' surplus is higher than its GAAP shareholders' equity by \$1.6 billion as of March 31, 2012. U.S. STAT differs from GAAP in certain respects. Refer to Note 15: Statutory Accounting Practices in the Notes to Consolidated Financial Statements of MBIA Corp. within exhibit 99.3 of MBIA Inc.'s annual report on Form 10-K for the year ended December 31, 2011 for an explanation of the differences between U.S. STAT and GAAP.

**Table of Contents****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)****CAPITAL RESOURCES (continued)****Claims-Paying Resources (Statutory Basis)**

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

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

| In millions  | As of March 31,<br>2012 | As of December 31,<br>2011 |
|--|-------------------------|----------------------------|
| Policyholders' surplus                               | \$ 1,368                | \$ 1,597                   |
| Contingency reserves                                 | 495                     | 706                        |
| Statutory capital                                    | 1,863                   | 2,303                      |
| Unearned premium reserve                             | 621                     | 607                        |
| Present value of installment premiums <sup>(1)</sup> | 1,193                   | 1,226                      |
| Premium resources <sup>(2)</sup>                     | 1,814                   | 1,833                      |
| Net loss and LAE reserves <sup>(1)</sup>             | (2,067)                 | (2,266)                    |
| Salvage reserves <sup>(3)</sup>                      | 4,328                   | 4,249                      |
| Gross loss and LAE reserve                           | 2,261                   | 1,983                      |
| Total claims-paying resources                        | \$ 5,938                | \$ 6,119                   |

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(1) - Calculated using a discount rate of 5.59% as of March 31, 2012 and December 31, 2011.

(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 March 31, 2012 was \$5.9 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 support the liquidity needs of the asset/liability products business, and potential cross-defaults of holding company debt with other obligations in the consolidated group. The asset/liability products business of MBIA Inc. is subject to ongoing negative cash flow and has a deficit of invested assets to liabilities. In addition, the liquidity resources of MBIA Inc. are subject to collateralization requirements in connection with the liabilities it has issued to third parties and affiliates and in connection with third-party derivative contracts;

The liquidity resources of MBIA Corp., which are subject to payments on insured exposures, and in some cases may be large bullet payments; payments to counterparties in consideration for the commutation of insured transactions; and delays in the collection of contract claim recoveries related to ineligible mortgage loans in certain insured transactions. MBIA Corp. is currently subject to negative cash flow as a result of these payments and delays in collecting recoveries; and

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**Table of Contents****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)****LIQUIDITY (continued)**

The liquidity resources of National, for which we have not observed material liquidity risk to date, but which are exposed to unexpected loss payments on its insured transactions and potential negative cash flow, and liquidity support arrangements with its affiliates.

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

***Key Intercompany Lending Agreements*****National Secured Loan**

National provided the 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. As of March 31, 2012, the outstanding principal amount under this loan was \$1.1 billion. 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 payment 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 March 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. Since March 31, 2012, MBIA Insurance Corporation borrowed an additional \$443 million under the National Secured Loan with the approval of the NYSDFS at the same terms of the original loan to fund additional commutations of its insurance policies. 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.

**Asset Swap**

National maintains the Asset Swap (simultaneous repurchase and reverse repurchase agreements) with MBIA Inc. for up to \$2.0 billion based on the fair value of securities borrowed. The Asset Swap provides MBIA Inc. with eligible assets to pledge under investment agreement and derivative contracts in the asset/liability products business. As of March 31, 2012, the notional amount utilized under each of these agreements was \$1.0 billion and the fair value of collateral pledged by National and MBIA Inc. under these agreements was \$1.0 billion and \$1.1 billion, respectively. The net average interest rate on these transactions was 0.88% and 0.23% for the three months ended March 31, 2012 and 2011, 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. The average interest rate on the MBIA Corp. Secured Loan was 2.53% for the three months ended March 31, 2012. As of March 31, 2012, the amount outstanding under the MBIA Corp. Secured Loan was \$300 million and the fair value of the collateral pledged by MBIA Inc. to MBIA Corp. under this agreement was \$166 million. In May 2012, the outstanding balance of the MBIA Corp. Secured Loan was repaid in full. 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 approval from the NYSDFS for any draws under the facility.

Conduit Repurchase Agreement

MBIA Inc. maintains a repurchase agreement with Meridian ( Conduit Repurchase Agreement ), under which \$1.0 billion notional amount may be utilized, subject to a pledge of collateral. The Conduit Repurchase Agreement had an average interest rate during the three months ended March 31, 2012 of 2.51%. As of March 31, 2012, the notional amount utilized by MBIA Inc. under this agreement and the fair value of the collateral pledged by MBIA Inc. were \$55 million and \$63 million, respectively.

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**Table of Contents****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)****LIQUIDITY (continued)***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 conduits segments, posting collateral under financing and hedging arrangements and investment agreements, making payments and collateral postings related to interest rate and foreign exchange swaps, and paying operating expenses. The primary sources of cash within MBIA Inc. used to meet its liquidity needs include available cash and liquid assets not subject to collateral posting requirements, scheduled principal and interest on assets held in its investment portfolio, dividends from subsidiaries, payments under tax sharing agreements with these subsidiaries (once the payments become unrestricted) and the ability to issue debt and equity. There can be no assurance as to the amount and timing of any such dividends or payments under the tax sharing agreements. MBIA Inc.'s corporate debt, investment agreements, MTNs, and derivatives may be accelerated by the holders of such instruments upon the occurrence of certain events, such as a breach of covenant or representation, a bankruptcy of MBIA Inc. or the filing of an insolvency proceeding with respect to MBIA Corp. MBIA Inc.'s obligations under its loans from GFL may be accelerated only upon the occurrence of a bankruptcy or liquidation of MBIA Inc. Refer to Note 11: 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 that are not already collateralized.

During the three months ended March 31, 2012, pursuant to the tax sharing agreement, National settled with MBIA Inc. its taxes related to the 2010 and 2011 tax years of \$1 million and \$11 million, respectively. In addition, National paid to MBIA Inc. estimated 2012 taxes of \$23 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 March 31, 2012, \$293 million remained in escrow for the 2010 through 2012 tax years.

MBIA Inc. is subject to material liquidity risks and uncertainty. To mitigate these risks, we seek to maintain cash and liquid investments in excess of our expected cash requirements in a multi-year period. 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 within MBIA Inc. is primarily a result of the following factors:

Currently, the majority of the assets of MBIA Inc. are pledged against investment agreement liabilities, intercompany and third-party financing arrangements and derivatives, which 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 or third-party facilities, or use free cash or other assets, in some cases with NYSDFS approval, although there can be no assurance that these strategies will be available or adequate to meet liquidity requirements.

The ALM Adjusted BV Deficit was \$783 million as of March 31, 2012, which increased from \$591 million as of December 31, 2011. This deficit is a result of selling investments at losses, and may further increase as a result of selling investments and terminating interest rates swaps at losses in the future. In addition, this deficit is expected to increase as a result of on-going expected operating losses. This deficit will need to be reversed prior to the maturity of the liabilities in order to ensure that there are sufficient funds available to fully retire the liabilities. We expect that MBIA Inc. will be able to eliminate the deficit prior to the maturity of the related liabilities from distributions from its operating subsidiaries and by raising third-party capital, although there can be no

assurance that MBIA Inc. will be able to eliminate the deficit through such means.

**Table of Contents****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)****LIQUIDITY (continued)**

Because the majority of MBIA Inc.'s assets are pledged against the obligations described above, the widening of credit spreads would have an adverse impact on the market value of these assets and increase collateralization requirements for the portfolio. The following table presents the estimated pre-tax change in fair value of the asset/liability products business's assets as of March 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.

| In millions                    | Change in Credit Spreads<br>(Asset/Liability Products Business) |                            |                            |                             |
|--------------------------------|---|----------------------------|----------------------------|-----------------------------|
|                                | 200 Basis Point<br>Decrease                                     | 50 Basis Point<br>Decrease | 50 Basis Point<br>Increase | 200 Basis Point<br>Increase |
| Estimated change in fair value | \$ 210  | \$ 67                      | \$ (64)                    | \$ (233)                    |

In the three months ended March 31, 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.

Stressed credit market conditions for the remainder of 2012 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 encumbered and other 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.

As of March 31, 2012, the liquidity position of MBIA Inc., which consists of the liquidity positions of its corporate and asset/liability products activities, was \$482 million and comprised cash and liquid assets of \$251 million available for general corporate liquidity purposes, excluding the amounts held in escrow under its tax sharing agreement, and \$231 million not pledged directly as collateral in 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 receivables associated with loss payments, the payment of claims on insured exposures, payments made to commute insured exposure, 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. 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



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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.

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**Table of Contents****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)****LIQUIDITY (continued)**

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. has insured transactions with substantial principal amounts due at maturity that are scheduled to mature in the near term. While MBIA Corp. expects the transactions to be refinanced on or prior to the maturity date, there is no assurance that such refinancing will occur. In the event that the refinancing does not occur, MBIA Corp. will be required to pay the full insured principal amount at maturity. 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 mitigating liquidity risk, the insurance of CDS contracts may, in certain events, including the insolvency or payment default of the insurer or the issuer of the CDS, be subject to termination by the counterparty, triggering a claim for the fair value of the contract. 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 5: Loss and Loss Adjustment Expense Reserves in the Notes to Consolidated Financial Statements for a discussion of our loss process. Additionally, our structured finance and international insurance segment requires cash for the payment of operating expenses, as well as principal and interest related to its surplus notes.

Since the fourth quarter of 2007 through March 31, 2012, MBIA Corp. has made \$10.9 billion of cash payments, before reinsurance and collections and excluding LAE (including payments made to debt holders of consolidated VIEs), associated with second-lien RMBS securitizations and with commutations and claim payments relating to CDS contracts. These cash payments include loss payments of \$785 million made on behalf of MBIA Corp.'s consolidated VIEs. Of the \$10.9 billion, MBIA Corp. has paid \$6.4 billion of gross claims (before reinsurance and collections and excluding LAE) on policies insuring second-lien RMBS securitizations, driven primarily by an extensive number of ineligible mortgage loans being placed in the securitizations in breach of the representations and warranties of the sellers/servicers.

MBIA Corp. is seeking to enforce its rights to have mortgage sellers/servicers cure, replace or repurchase ineligible mortgage loans from securitizations and has recorded a total of \$3.2 billion of related expected recoveries on its consolidated balance sheets as of March 31, 2012, including expected recoveries recorded in our consolidated VIEs. These put-back claims have been disputed by the loan sellers/servicers and are the subject of certain litigations discussed more fully in Note 13: Commitments and Contingencies in the Notes to Consolidated Financial Statements. There is some risk that the sellers/servicers or other responsible parties might not be able to fully satisfy any judgment we secure in litigation. 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 recoveries, which are recognized on our consolidated balance sheets. We believe that we have adequate liquidity resources to provide for anticipated cash outflows; however, if we do not realize or are delayed in realizing these expected recoveries, we may not have adequate liquidity to fully execute the strategy to reduce future potential economic losses by commuting policies and purchasing instruments issued or guaranteed by us, or to repay any intercompany borrowings.

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 mortgage sellers/servicers cure, replace or repurchase ineligible mortgage loans from securitizations it insured.

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, the outstanding balance of which loan was \$300 million as of March 31, 2012. In May 2012, the outstanding balance of the MBIA Corp. Secured Loan was repaid in full. 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 approval from the NYSDFS for any draws under the facility.

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As of March 31, 2012, MBIA Corp. held cash and available-for-sale investments of \$1.3 billion, of which \$329 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. 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.

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**Table of Contents****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)****LIQUIDITY (continued)***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 provides liquid assets to our asset/liability products business. 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. 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 the asset/liability business were unable to pledge additional eligible assets in order to meet minimum required collateral amounts.

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

National held cash and short-term investments of \$780 million as of March 31, 2012, of which \$690 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**Operating Cash Flows*

For the three months ended March 31, 2012, net cash used by operating activities totaled \$233 million compared with \$546 million for the same period of 2011. The Company's net use of cash in the first three months of 2012 was largely related to loss payments on financial guarantee insurance policies insuring RMBS exposure, interest paid on long-term debt, and operating expenses, partially offset by investment income

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received. The Company's net use of cash in the first three months of 2011 was largely related to payments for commutations of CDS contracts, loss payments on financial guarantee insurance policies insuring RMBS exposure, interest paid on long-term debt, and operating expenses, partially offset by investment income received.

### *Investing Cash Flows*

For the three months ended March 31, 2012, net cash provided by investing activities was \$1.2 billion compared with \$1.0 billion for the same period of 2011. Net cash provided by investing activities in the first three months of 2012 resulted from sales and redemptions of securities for purposes of funding insurance-related loss payments and repayments of long-term debt. Net cash provided by investing activities in the first three months of 2011 resulted from sales and redemptions of securities for purposes of funding commutations of insured derivative contracts, insurance-related loss payments, investment agreement withdrawals, and repayments of other debt.

**Table of Contents****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)****LIQUIDITY (continued)***Financing Cash Flows*

For the three months ended March 31, 2012, net cash used by financing activities was \$755 million compared with \$606 million for the same period of 2011. Net cash used by financing activities in the three months of 2012 principally related to payments for the retirement of long-term debt and principal payments on VIE notes. Net cash used by financing activities in the first three months of 2011 principally related to principal payments on VIE notes, withdrawals of investment agreements, and payments for the retirement of other debt.

*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 March 31, 2012 and December 31, 2011 the fair values of our consolidated available-for-sale investments were \$7.8 billion and \$8.4 billion, respectively, as presented in the following table. Additionally, consolidated cash and cash equivalents as of March 31, 2012 and December 31, 2011 were \$711 million and \$473 million, respectively.

| In millions   | As of March 31,<br>2012 | As of December 31,<br>2011 | Percent Change<br>2012 vs.<br>2011 |
|---|-------------------------|----------------------------|------------------------------------|
| <b>Available-for-sale investments:</b>                    |                         |                            |                                    |
| U.S. public finance insurance operations segment          |                         |                            |                                    |
| Amortized cost  | \$ 3,654                | \$ 3,787                   | -4%                                |
| Unrealized net gain (loss)                                | 119                     | 108                        | 10%                                |
| Fair value  | 3,773                   | 3,895                      | -3%                                |
| Structured finance and international insurance operations |                         |                            |                                    |
| Amortized cost  | 1,043                   | 1,361                      | -23%                               |
| Unrealized net gain (loss)                                | 19                      | (15)                       | n/m                                |
| Fair value  |                         | 1,346                      | -21%                               |

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|  |       |       |       |
|--|-------|-------|-------|
|  | 1,062 |       |       |
| Corporate segment                                  |       |       |       |
| Amortized cost                                     | 540   | 448   | 21%   |
| Unrealized net gain (loss)                         | (64)  | (61)  | 5%    |
| Fair value   | 476   | 387   | 23%   |
| Advisory services                                  |       |       |       |
| Amortized cost                                     | 15    | 17    | -12%  |
| Unrealized net gain (loss)                         | -     | -     | n/m   |
| Fair value   | 15    | 17    | -12%  |
| Wind-down operations                               |       |       |       |
| Amortized cost                                     | 2,554 | 2,939 | -13%  |
| Unrealized net gain (loss)                         | (67)  | (206) | -67%  |
| Fair value   | 2,487 | 2,733 | -9%   |
| Total available-for-sale investments:              |       |       |       |
| Amortized cost                                     | 7,806 | 8,552 | -9%   |
| Unrealized net gain (loss)                         | 7     | (174) | -104% |
| Total available-for-sale investments at fair value | 7,813 | 8,378 | -7%   |

**Table of Contents****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)****LIQUIDITY (continued)**

| In millions   | As of<br>March 31,<br>2012 | As of<br>December 31,<br>2011 | Percent Change<br>2012 vs. 2011 |
|---|----------------------------|-------------------------------|---------------------------------|
| Investments carried at fair value:                        |                            |                               |                                 |
| U.S. public finance insurance operations segment          |                            |                               |                                 |
| Amortized cost  | 168                        | 165                           | 2%                              |
| Unrealized net gain (loss)                                | (1)                        | (1)                           | 0%                              |
| Fair value  | 167                        | 164                           | 2%                              |
| Structured finance and international insurance operations |                            |                               |                                 |
| Amortized cost  | 26                         | 25                            | 4%                              |
| Unrealized net gain (loss)                                | -                          | -                             | n/m                             |
| Fair value  | 26                         | 25                            | 4%                              |
| Corporate segment   |                            |                               |                                 |
| Amortized cost  | 19                         | 41                            | -54%                            |
| Unrealized net gain (loss)                                | 2                          | (19)                          | -111%                           |
| Fair value  | 21                         | 22                            | -5%                             |



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|  |     |      |       |
|--|-----|------|-------|
| Advisory services  |     |      |       |
| Amortized cost   | 3   | 3    | 0%    |
| Unrealized net gain (loss)   | -   | -    | n/m   |
| Fair value   |     |      |       |
|  | 3   | 3    | 0%    |
| Wind-down operations   |     |      |       |
| Amortized cost   | 16  | 102  | -84%  |
| Unrealized net gain (loss)   | -   | (12) | -100% |
| Fair value   |     |      |       |
|  | 16  | 90   | -82%  |
| Total investments carried at fair value:                                   |     |      |       |
| Amortized cost   | 232 | 336  | -31%  |
| Unrealized net gain (loss)   | 1   | (32) | -103% |
| Total Investments carried at fair value                                    |     |      |       |
|  | 233 | 304  | -23%  |
| Held-to-maturity investments:  |     |      |       |
| Structured finance and international insurance operations - amortized cost |     |      |       |
|  | 1   | 1    | 0%    |
| Total held-to-maturity investments at amortized cost                       |     |      |       |
|  | 1   | 1    | 0%    |
| Other investments at amortized cost:                                       |     |      |       |
| U.S. public finance insurance operations segment                           |     |      |       |
|  | 9   | 9    | 0%    |
| Advisory services  |     |      |       |
|  | 1   | 1    | 0%    |
| Total other investments at amortized cost                                  |     |      |       |
|  |     | 10   | 0%    |

|  |          |          |     |
|--|----------|----------|-----|
| Consolidated investments at carrying value | \$ 8,057 | \$ 8,693 | -7% |
|--|----------|----------|-----|

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.

**Table of Contents****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)****LIQUIDITY (continued)***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 March 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.

| In millions                                | U.S. Public Finance |                               | Structured Finance and International |                               | Advisory Services |                               | Corporate     |                               | Wind-down Operations |                               | Total           |                               |
|--|---------------------|-------------------------------|--------------------------------------|-------------------------------|-------------------|-------------------------------|---------------|-------------------------------|----------------------|-------------------------------|-----------------|-------------------------------|
|  | 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  | \$ 1,791            | 56%                           | \$ 623                               | 80%                           | \$ 1              | 50%                           | \$ -          | 0%                            | \$ 411               | 23%                           | \$ 2,826        | 48%                           |
| Aa   | 1,009               | 31%                           | 50                                   | 7%                            | -                 | 0%                            | -             | 0%                            | 330                  | 19%                           | 1,389           | 24%                           |
| A  | 270                 | 8%                            | 9                                    | 1%                            | 1                 | 50%                           | -             | 0%                            | 571                  | 33%                           | 851             | 14%                           |
| Baa  | 129                 | 4%                            | 16                                   | 2%                            | -                 | 0%                            | -             | 0%                            | 299                  | 17%                           | 444             | 8%                            |
| Below investment grade                     | 16                  | 1%                            | 44                                   | 6%                            | -                 | 0%                            | 92            | 79%                           | 144                  | 8%                            | 296             | 5%                            |
| Not rated                                  | 3                   | 0%                            | 33                                   | 4%                            | -                 | 0%                            | 25            | 21%                           | 9                    | 0%                            | 70              | 1%                            |
| <b>Total</b>                               | <b>\$ 3,218</b>     | <b>100%</b>                   | <b>\$ 775</b>                        | <b>100%</b>                   | <b>\$ 2</b>       | <b>100%</b>                   | <b>\$ 117</b> | <b>100%</b>                   | <b>\$ 1,764</b>      | <b>100%</b>                   | <b>\$ 5,876</b> | <b>100%</b>                   |
| Short-term investments                     | 550                 |                               | 279                                  |                               | 13                |                               | 359           |                               | 679                  |                               | 1,880           |                               |
| Investments held-to-maturity               | -                   |                               | 1                                    |                               | -                 |                               | -             |                               | -                    |                               | 1               |                               |
| Investments held at fair value             | 167                 |                               | 26                                   |                               | 3                 |                               | 21            |                               | 16                   |                               | 233             |                               |
| Other investments                          | 14                  |                               | 7                                    |                               | 1                 |                               | -             |                               | 45                   |                               | 67              |                               |
| Consolidated investments at carrying value | \$ 3,949            |                               | \$ 1,088                             |                               | \$ 19             |                               | \$ 497        |                               | \$ 2,504             |                               | \$ 8,057        |                               |

As of March 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                  | Aa   | Aa                | Below investment grade | A                    |

*Insured Investments*

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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 March 31, 2012, Insured Investments at fair value represented \$1.0 billion or 13% of consolidated investments, of which \$554 million or 7% of consolidated investments were Company-Insured Investments.

As of March 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.

**Table of Contents****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)****LIQUIDITY (continued)**

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

| In millions                      | U.S. Public Finance |                        | Structured Finance and International |                        | Corporate  |                        | Wind-down Operations |                        | Total      |                        |
|----------------------------------|---------------------|------------------------|--------------------------------------|------------------------|------------|------------------------|----------------------|------------------------|------------|------------------------|
|                                  | 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 |
|                                  | \$ -                | 0%                     | \$ 22                                | 0%                     | \$ 30      | 1%                     | \$ 261               | 3%                     | \$ 313     | 4%                     |
| MBIA Corp.                       | 133                 | 2%                     | -                                    | 0%                     | -          | 0%                     | 108                  | 1%                     | 241        | 3%                     |
| National                         | 69                  | 1%                     | -                                    | 0%                     | -          | 0%                     | 158                  | 2%                     | 227        | 3%                     |
| Assured Guaranty Municipal Corp. | 27                  | 0%                     | -                                    | 0%                     | 41         | 1%                     | 116                  | 1%                     | 184        | 2%                     |
| Ambac Financial Group, Inc.      | 3                   | 0%                     | 2                                    | 0%                     | 15         | 0%                     | 21                   | 1%                     | 41         | 1%                     |
| FGIC                             | 3                   | 0%                     | -                                    | 0%                     | -          | 0%                     | 6                    | 0%                     | 9          | 0%                     |
| Other                            |                     |                        |                                      |                        |            |                        |                      |                        |            |                        |
| Total                            | \$ 235              | 3%                     | \$ 24                                | 0%                     | \$ 86      | 2%                     | \$ 670               | 8%                     | \$ 1,015   | 13%                    |

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 March 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<br>Underlying Ratings | U.S. Public Finance | Structured Finance | Corporate | Wind-down Operations | Total |
|-----------------------------------|---------------------|--------------------|-----------|----------------------|-------|
|-----------------------------------|---------------------|--------------------|-----------|----------------------|-------|

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| Scale                                 | Insurance and International Insurance |              |              |               |               |
|---------------------------------------|---------------------------------------|--------------|--------------|---------------|---------------|
| National:                             |                                       |              |              |               |               |
| Aaa                                   | \$ -                                  | \$ -         | \$ -         | \$ -          | \$ -          |
| Aa                                    | 54                                    | -            | -            | 23            | 77            |
| A                                     | 42                                    | -            | -            | 36            | 78            |
| Baa                                   | 37                                    | -            | -            | 49            | 86            |
| Below investment grade                | -                                     | -            | -            | -             | -             |
| <b>Total National</b>                 | <b>\$ 133</b>                         | <b>\$ -</b>  | <b>\$ -</b>  | <b>\$ 108</b> | <b>\$ 241</b> |
| MBIA Corp.:                           |                                       |              |              |               |               |
| Aaa                                   | \$ -                                  | \$ -         | \$ -         | \$ -          | \$ -          |
| Aa                                    | -                                     | -            | -            | 87            | 87            |
| A                                     | -                                     | -            | -            | 17            | 17            |
| Baa                                   | -                                     | -            | -            | 105           | 105           |
| Below investment grade                | -                                     | 22           | 30           | 52            | 104           |
| <b>Total MBIA Corp.</b>               | <b>\$ -</b>                           | <b>\$ 22</b> | <b>\$ 30</b> | <b>\$ 261</b> | <b>\$ 313</b> |
| <b>Total MBIA Insured Investments</b> | <b>\$ 133</b>                         | <b>\$ 22</b> | <b>\$ 30</b> | <b>\$ 369</b> | <b>\$ 554</b> |

**Table of Contents****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)****LIQUIDITY (continued)**

Without giving effect to the MBIA guarantee of the Company-Insured Investments in the consolidated investment portfolio, as of March 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 2% of the total investment portfolio was rated below investment grade in the Company-Insured Investments.

*Impaired Investments*

As of March 31, 2012 and December 31, 2011, we held impaired investments (investments for which fair value was less than amortized cost) with a fair value of \$2.1 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 7: Investments in the Notes to Consolidated Financial Statements for a detailed discussion about impaired investments.

*Debt Obligations*

Principal payments due under our debt obligations in the nine months ending December 31, 2012 and each of the subsequent four years ending December 31 and thereafter are presented in the following table. The repayment of principal on our surplus notes is reflected in 2013, the first call date. Principal payments under investment agreements are based on expected withdrawal dates. All other principal payments are based on contractual maturity dates. Foreign currency denominated liabilities are presented in U.S. dollars using applicable exchange rates as of March 31, 2012, and liabilities issued at a discount reflect principal amounts due at maturity.

| In millions   | As of March 31, 2012                |        |        |          |        |            |           |
|---|-------------------------------------|--------|--------|----------|--------|------------|-----------|
|   | Nine Months Ended December 31, 2012 | 2013   | 2014   | 2015     | 2016   | Thereafter | Total     |
| Structured finance and international insurance segment: |                                     |        |        |          |        |            |           |
| Variable interest entity notes                          | \$ 491                              | \$ 608 | \$ 506 | \$ 1,204 | \$ 912 | \$ 7,787   | \$ 11,508 |
| Surplus notes   | -                                   | 940    | -      | -        | -      | -          | 940       |
| Corporate segment:                                      |                                     |        |        |          |        |            |           |
| Long-term debt  | -                                   | -      | -      | -        | -      | 900        | 900       |
| Asset/liability products segment:                       |                                     |        |        |          |        |            |           |
| Investment agreements                                   | 456                                 | 183    | 141    | 172      | 58     | 662        | 1,672     |
| Medium-term notes                                       | 90                                  | 41     | 60     | 255      | 129    | 1,908      | 2,483     |
| Securities sold under agreements to repurchase          | 149                                 | -      | -      | -        | -      | -          | 149       |
| Conduit segment:  |                                     |        |        |          |        |            |           |
| Medium-term notes                                       | -                                   | -      | 172    | -        | 606    | 325        | 1,103     |

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|       |          |          |        |          |          |           |           |
|-------|----------|----------|--------|----------|----------|-----------|-----------|
| Total | \$ 1,186 | \$ 1,772 | \$ 879 | \$ 1,631 | \$ 1,705 | \$ 11,582 | \$ 18,755 |
|-------|----------|----------|--------|----------|----------|-----------|-----------|

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**Table of Contents****Item 3. 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.

**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 March 31, 2012 from instantaneous shifts in interest rates:

| In millions | Change in Interest Rates       |                          |                          |                          |                          |                          |
|-------------|--------------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
|             | 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 | \$ (201)                 | \$ (99)                  | \$ (39)                  | \$ (56)                  | \$ (96)                  |

**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 March 31, 2012 from instantaneous shifts in foreign exchange rates:

| In millions                    | Change in Foreign Exchange Rates |         |                    |       |
|--------------------------------|----------------------------------|---------|--------------------|-------|
|                                | Dollar Weakens                   |         | Dollar Strengthens |       |
|                                | 20%                              | 10%     | 10%                | 20%   |
| Estimated change in fair value | \$ (79)                          | \$ (39) | \$ 39              | \$ 79 |

**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 March 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. MBIA Corp.'s investment portfolio would generally be expected to experience lower credit spread volatility than the investment portfolio of the asset/liability products segment because of higher credit quality and portfolio composition in sectors that have been less volatile historically. The table shows hypothetical increases and decreases in credit spreads of 50 and 200 basis points. Because downward movements of these amounts in some cases would result in negative spreads, a floor was assumed for minimum spreads. The changes in fair value reflect partially offsetting effects as the value of the investment portfolios generally change in an opposite direction from the liability portfolio.

| In millions                    | Change in Credit Spreads |                          |
|--------------------------------|--------------------------|--------------------------|
|                                | 50 Basis Point Increase  | 200 Basis Point Increase |
| Estimated change in fair value | \$ (79)                  | \$ (79)                  |

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|                                | <b>200 Basis<br/>Point<br/>Decrease</b> | <b>50 Basis<br/>Point<br/>Decrease</b> | <b>50 Basis<br/>Point<br/>Increase</b> | <b>200 Basis<br/>Point<br/>Increase</b> |
|--------------------------------|---|--|--|---|
| Estimated change in fair value | \$ 100                                  | \$ 54                                  | \$ (97)                                | \$ (303)                                |

**Table of Contents****Item 3. Quantitative and Qualitative Disclosures About Market Risk (continued)***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 March 31, 2012, approximately 18% of the tranches insured by the Company were rated triple-A. Additionally, MBIA's wind-down operations enter into single-name CDSs as part of its asset management activities. In the first quarter of 2012, the value of the Company's credit derivative contracts was predominantly affected by improved collateral pricing and spreads partially offset by the effects of MBIA's performance risk on its derivative liability. As risk factors change, the values of credit derivative contracts will change and the resulting gains or losses will be recorded within net income.

In the first quarter of 2012, the Company has observed a tightening of its own credit spreads. As changes in fair value can be caused by factors unrelated to the performance of MBIA's business and credit portfolio, including general market conditions and perceptions of credit risk, as well as market use of credit derivatives for hedging purposes unrelated to the specific referenced credits in addition to events that affect particular credit derivative exposures, the application of fair value accounting will cause the Company's earnings to be more volatile than would be suggested by the underlying performance of MBIA's business operations and credit portfolio.

The following tables reflect sensitivities to changes in credit spreads, collateral prices, rating migrations, recovery rates and to changes in 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 6: 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 March 31, 2012. In scenarios where credit spreads decreased, a floor of zero was used.

| In millions                          | Change in Credit Spreads |                          |                         |                      |                         |                          |                          |
|--------------------------------------|--------------------------|--------------------------|-------------------------|----------------------|-------------------------|--------------------------|--------------------------|
|                                      | 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) | \$ 2,007                 | \$ 613                   | \$ 157                  | \$ -                 | \$ (164)                | \$ (681)                 | \$ (2,082)               |
| Estimated net fair value             | \$ (2,488)               | \$ (3,882)               | \$ (4,338)              | \$ (4,495)           | \$ (4,659)              | \$ (5,176)               | \$ (6,577)               |

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 March 31, 2012.

**Change in Collateral Prices**  
**(Structured Finance and International Insurance Operations)**

| <b>In millions</b>                   | <b>20% Increase</b> | <b>10% Increase</b> | <b>No Change</b> | <b>10% Decrease</b> | <b>20% Decrease</b> |
|--------------------------------------|---------------------|---------------------|------------------|---------------------|---------------------|
| Estimated pre-tax net gains (losses) | \$ 88               | \$ 44               | \$ -             | \$ (44)             | \$ (88)             |
| Estimated net fair value             | \$ (4,407)          | \$ (4,451)          | \$ (4,495)       | \$ (4,539)          | \$ (4,583)          |

**Table of Contents****Item 3. Quantitative and Qualitative Disclosures About Market Risk (continued)**

Sensitivity to changes in the collateral portfolio credit quality can be estimated by projecting a hypothetical change in rating migrations. The following table presents the estimated pre-tax change in fair value and the cumulative estimated net fair value of the Company's insured credit derivatives portfolio of a one and three notch rating change in the credit quality as of March 31, 2012. A notch represents a one step movement up or down in the credit rating.

| In millions                          | Change in Credit Ratings                                    |                    |            |                    |                      |
|--------------------------------------|---|--------------------|------------|--------------------|----------------------|
|                                      | (Structured Finance and International Insurance Operations) |                    |            |                    |                      |
|                                      | Three Notch Increase  | One Notch Increase | No Change  | One Notch Decrease | Three Notch Decrease |
| Estimated pre-tax net gains (losses) | \$ 1,869  | \$ 347             | \$ -       | \$ (484)           | \$ (1,010)           |
| Estimated net fair value             | \$ (2,626)  | \$ (4,148)         | \$ (4,495) | \$ (4,979)         | \$ (5,505)           |

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 March 31, 2012.

| In millions                          | Change in Recovery Rates                                    |              |            |              |              |
|--------------------------------------|---|--------------|------------|--------------|--------------|
|                                      | (Structured Finance and International Insurance Operations) |              |            |              |              |
|                                      | 20% Increase  | 10% Increase | No Change  | 10% Decrease | 20% Decrease |
| Estimated pre-tax net gains (losses) | \$ 416  | \$ 204       | \$ -       | \$ (197)     | \$ (381)     |
| Estimated net fair value             | \$ (4,079)  | \$ (4,291)   | \$ (4,495) | \$ (4,692)   | \$ (4,876)   |

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 March 31, 2012 ranged from 11.88% to 28.25% based on the tenor of each transaction. The below amounts include an additional annual running credit spread of 5%.

**MBIA Upfront Credit Spread**

(Structured Finance and International Insurance Operations)

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| In millions                          | Increase by 50<br>Percent | No Change | Decrease by 50<br>Percent | Decrease to 0<br>Percentage Points |
|--------------------------------------|---------------------------|-----------|---------------------------|------------------------------------|
| Estimated pre-tax net gains (losses) | \$ 511                    | \$ -      | \$ (865)                  | \$ (1,735)                         |

|                          |            |            |            |            |
|--------------------------|------------|------------|------------|------------|
| Estimated net fair value | \$ (3,984) | \$ (4,495) | \$ (5,360) | \$ (6,230) |
|--------------------------|------------|------------|------------|------------|

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 the approximate trading range of the MBIA recovery rate in the last few months.

**MBIA's Recovery Rate**

| In millions                          | (Structured Finance and International<br>Insurance<br>Operations) |            |                                     |
|--------------------------------------|---|------------|-------------------------------------|
|                                      | Decrease to 25<br>Percentage Points                               | No Change  | Increase to 50<br>Percentage Points |
| Estimated pre-tax net gains (losses) | \$ 363  | \$ -       | \$ (219)                            |
| Estimated net fair value             | \$ (4,132)  | \$ (4,495) | \$ (4,714)                          |

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**Item 3. Quantitative and Qualitative Disclosures About Market Risk (continued)**

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 4. Controls and Procedures**

As of the end of the period covered by this report, an evaluation of the effectiveness of the design and operation of the Company s disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15(d)-15(e) under the Securities Exchange Act of 1934) was performed under the supervision and with the participation of the Company s senior management, including the Chief Executive Officer and the Chief Financial Officer. Based on that evaluation, the Company s management, including the Chief Executive Officer and the Chief Financial Officer, concluded that the Company s disclosure controls and procedures were effective as of the end of the period covered by this report. In addition, there have not been any changes in the Company s internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934) during the fiscal quarter to which this report relates that have materially affected, or are likely to materially affect, the Company s internal control over financial reporting.

**Table of Contents****PART II OTHER INFORMATION****Item 1. Legal Proceedings**

For a discussion of the Company's litigation and related matters, see Note 13: Commitments and Contingencies in the Notes to Consolidated Financial Statements of MBIA Inc. and Subsidiaries in Part I, Item 1. 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 1A. Risk Factors**

There has been no material change in the Company's risk factors during the three months ended March 31, 2012. For additional information on risk factors, refer to Part I, Item 1A, "Risk Factors" of the Company's Annual Report on Form 10-K for the year ended December 31, 2011.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

The table below presents repurchases made by the Company in each month during the first quarter of 2012:

| Month    | Total Number of Shares Purchased <sup>(1)</sup> | Average Price Paid Per Share | Total Number of Shares Purchased as Part of a Publicly Announced Plan | Maximum Amount That May Be Purchased Under the Plan <sup>(2)</sup> (in millions) |
|----------|---|------------------------------|---|--|
| January  | 600   | \$ 12.35                     | -   | \$ 23  |
| February | 1,585   | 11.68                        | -   | 23   |
| March    | 1,000   | 9.66                         | -   | 23   |
| Total    | 3,185   | \$ 11.17                     | -   | 23   |

(1) - 2,185 shares were repurchased by the Company in open market transactions for settling awards under the Company's long-term incentive plans and 1,000 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.

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. Mine Safety Disclosures**



Not applicable.

**Item 5. Other Information**

None.

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**Item 6. Exhibits**

- +31.1 Chief Executive Officer - Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- +31.2 Chief Financial Officer - Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- \*32.1 Chief Executive Officer - Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- \*32.2 Chief Financial Officer - Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- +99.1 Additional Exhibits - National Public Finance Guarantee Corporation and Subsidiaries GAAP Consolidated Financial Statements
- +99.2 Additional Exhibits - MBIA Insurance Corporation and Subsidiaries GAAP Consolidated Financial Statements
- \*101 Additional Exhibits - MBIA Inc. and Subsidiaries Consolidated Financial Statements and Notes to Consolidated Financial Statements from the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2012, formatted in XBRL

- + Filed Herewith
- \* Furnished Herewith

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

MBIA INC.

Registrant

Date: May 10, 2012

/s/ C. Edward Chaplin  
C. Edward Chaplin  
Chief Financial Officer

Date: May 10, 2012

/s/ Douglas C. Hamilton  
Douglas C. Hamilton  
Controller (Principal Accounting Officer)