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

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

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

For the fiscal year ended December 31, 2012

or

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

For the transition period from to

Commission File Number 1-9583

MBIA INC.

(Exact name of registrant as specified in its charter)

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

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

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

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

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

None

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

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

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

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

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

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

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

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

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

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

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

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Note Regarding Forward-Looking Statements

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

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

Note Regarding Reliance on Statements in Our Contracts

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

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

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

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Part I

Item 1. Business

OVERVIEW OF OUR SERVICES

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

Financial Guarantee Business

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

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

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

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

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Item 1. Business (continued)

Asset Management Advisory Services Business

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

Other Advisory Services

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

OUR BUSINESS STRATEGY

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

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

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

Strategic Transformation

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

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

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Item 1. Business (continued)

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

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

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

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

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

Capital Preservation, Liquidity Management and Deleveraging

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

RMBS Recoveries

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

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

Item 1. Business (continued)

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

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

Commutations

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

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

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Item 1. Business (continued)

Liquidity Risk Management and Intercompany Lending Agreements

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

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

Consent Solicitation

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

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

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

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Item 1. Business (continued)

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

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

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

OUR INSURANCE OPERATIONS

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

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

Item 1. Business (continued)

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

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

National Insured Portfolio

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

FGIC Transaction

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

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

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Item 1. Business (continued)

Transformation

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

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

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

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

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

Portfolio Profile

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

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Item 1. Business (continued)

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

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

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

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

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

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

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

Total United States public finance	$	337,114

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

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Item 1. Business (continued)

MBIA Corp. Insured Portfolio

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

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

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

Structured Finance and Asset-Backed Obligations

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

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

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

International Obligations

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

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Item 1. Business (continued)

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

Portfolio Profile

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

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

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

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

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

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

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

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Item 1. Business (continued)

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

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

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

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

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

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

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

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

Item 1. Business (continued)

Risk Management

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

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

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

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

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

Insurance Origination, Monitoring and Remediation

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

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

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Item 1. Business (continued)

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

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

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

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

Credit Risk Models

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

Item 1. Business (continued)

Market Risk Assessment

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

Operational Risk Assessment

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

Losses and Reserves

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

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

Reinsurance

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

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

Item 1. Business (continued)

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

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

Intercompany Reinsurance Arrangements

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

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

Insurance Regulation

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

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

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Item 1. Business (continued)

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

New York Insurance Regulation

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

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

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

New York State Dividend Limitations

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

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Item 1. Business (continued)

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

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

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

Contingency Reserves

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

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

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Item 1. Business (continued)

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

Risk Limits

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

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

Holding Company Regulation

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

Change of Control

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

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Item 1. Business (continued)

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

Insurance Guarantee Funds

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

Insured Credit Default Swaps

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

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

OUR ADVISORY SERVICES

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

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

Item 1. Business (continued)

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

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

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

Advisory Services Regulation

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

Other Advisory Services

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

OUR WIND-DOWN BUSINESSES

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

Asset/Liability Products

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

Item 1. Business (continued)

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

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

Conduits

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

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

INVESTMENTS AND INVESTMENT POLICY

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

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

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

Item 1. Business (continued)

COMPETITION

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

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

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

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

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

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Item 1. Business (continued)

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

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

RATING AGENCIES

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

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

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

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

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Item 1. Business (continued)

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

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

CAPITAL FACILITIES

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

FINANCIAL INFORMATION

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

EMPLOYEES

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

AVAILABLE INFORMATION

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

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

EXECUTIVE OFFICERS OF THE REGISTRANT

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

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

Item 1. Business (continued)

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

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

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

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

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

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

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

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

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

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Item 1A. Risk Factors

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

Insured Portfolio Loss Related Risk Factors

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

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

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

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

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

Item 1A. Risk Factors (continued)

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

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

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

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

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

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

Item 1A. Risk Factors (continued)

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

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

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

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

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

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

Item 1A. Risk Factors (continued)

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

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

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

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

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

Item 1A. Risk Factors (continued)

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

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

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

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

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

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

Item 1A. Risk Factors (continued)

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

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

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

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

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

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

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

Item 1A. Risk Factors (continued)

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

Servicer risk could adversely impact performance of Structured Finance transactions.

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

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

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

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

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

Item 1A. Risk Factors (continued)

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

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

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

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

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

Capital, Liquidity and Market Related Risk Factors

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

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

Item 1A. Risk Factors (continued)

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

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

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

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Item 1A. Risk Factors (continued)

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

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

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

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

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

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

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

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Item 1A. Risk Factors (continued)

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

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

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

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

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

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

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

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

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

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Item 1A. Risk Factors (continued)

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

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

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

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

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

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

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Item 1A. Risk Factors (continued)

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

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

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

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

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

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

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

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

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Item 1A. Risk Factors (continued)

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

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

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

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

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

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

Item 1A. Risk Factors (continued)

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

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

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

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

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

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

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

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

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

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Item 1A. Risk Factors (continued)

- a large portion of MBIA Inc. s financial resources must be dedicated to the payment of principal and interest on our debt, thereby reducing the funds available to us for other purposes;
- it may be more difficult for us to satisfy our obligations to our creditors, resulting in possible defaults on, and acceleration of, such debt;
- we may be more vulnerable to general adverse economic and industry conditions;
- our ability to refinance debt may be limited or the associated costs may increase;
- our flexibility to adjust to changing market conditions could be limited, or we may be prevented from carrying out capital spending that is necessary or important to our growth strategy and efforts to improve operating margins of our businesses; and
- we are exposed to the risk of fluctuations in interest rates and foreign currency exchange rates because a portion of our liabilities are at variable rates of interest or denominated in foreign currencies.

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

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

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

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

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

Item 1A. Risk Factors (continued)

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

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

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

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

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

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

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

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

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Item 1A. Risk Factors (continued)

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

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

Strategic Plan Related Risk Factors

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

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

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

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

Item 1A. Risk Factors (continued)

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

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

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

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

Competition may have an adverse effect on our businesses.

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

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Item 1A. Risk Factors (continued)

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

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

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

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

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

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

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

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

Item 1A. Risk Factors (continued)

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

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

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

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

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

Item 1A. Risk Factors (continued)

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

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

General Risk Factors

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

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

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

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

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

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

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

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

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Item 1A. Risk Factors (continued)

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

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

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

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

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

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

Item 1B. Unresolved Staff Comments

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

Item 2. Properties

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

Item 3. Legal Proceedings

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

Item 4. Mine Safety Disclosures

Not applicable.

Part II

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Source: Bloomberg Finance L.P.

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Item 6. Selected Financial Data

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

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Item 6. Selected Financial Data (continued)

Quarterly Financial Information (unaudited):

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

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

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

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

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

FORWARD-LOOKING AND CAUTIONARY STATEMENTS

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

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

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

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

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

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

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

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

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

- the resolution of litigation claims against the Company;

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

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

- changes in the Company s credit ratings;

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

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

- uncertainties that have not been identified at this time.

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

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

EXECUTIVE OVERVIEW

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

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

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

Economic and Financial Market Trends

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

MBIA s Business Outlook

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

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

EXECUTIVE OVERVIEW (continued)

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

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

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

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

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

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

EXECUTIVE OVERVIEW (continued)

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

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

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

RMBS Recoveries and Insured CMBS Portfolio

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

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

EXECUTIVE OVERVIEW (continued)

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

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

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

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

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

EXECUTIVE OVERVIEW (continued)

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

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

The Consent Solicitation

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

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

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

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

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EXECUTIVE OVERVIEW (continued)

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

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

Financial Highlights

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

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

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

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EXECUTIVE OVERVIEW (continued)

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

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

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

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

CRITICAL ACCOUNTING ESTIMATES

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

Loss and Loss Adjustment Expense Reserves

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

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

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

CRITICAL ACCOUNTING ESTIMATES (continued)

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

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

Valuation of Financial Instruments

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

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

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

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

Fair Value Hierarchy Level 3

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

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CRITICAL ACCOUNTING ESTIMATES (continued)

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

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

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

Deferred Income Taxes

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

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

CRITICAL ACCOUNTING ESTIMATES (continued)

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

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

RECENT ACCOUNTING PRONOUNCEMENTS

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

RESULTS OF OPERATIONS

Summary of Consolidated Results

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

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

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

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

RESULTS OF OPERATIONS (continued)

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

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

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

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

European Sovereign Debt Exposure

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

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

RESULTS OF OPERATIONS (continued)

Adjusted Pre-Tax Income

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

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

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

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

Adjusted Book Value

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

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

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

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

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

(2) Consists of financial guarantee premiums and fees.

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

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

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RESULTS OF OPERATIONS (continued)

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

U.S. Public Finance Insurance

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

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

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

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

n/m Percent change not meaningful.

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

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

RESULTS OF OPERATIONS (continued)

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

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

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

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

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

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

(1) Estimated yield-to-maturity.

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

RESULTS OF OPERATIONS (continued)

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

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

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

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

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

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

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

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

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

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

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

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

RESULTS OF OPERATIONS (continued)

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

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

n/m Percent change not meaningful.

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

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

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

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

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

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

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

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RESULTS OF OPERATIONS (continued)

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

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

Structured Finance and International Insurance

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

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

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

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

RESULTS OF OPERATIONS (continued)

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

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

n/m Percent change not meaningful.

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

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

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

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RESULTS OF OPERATIONS (continued)

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

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

n/m Percent change not meaningful.

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

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

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

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

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

on our consolidated statements of operations.

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

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

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RESULTS OF OPERATIONS (continued)

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

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

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

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

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

(1) Estimated yield-to-maturity.

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

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

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

n/m Percent change not meaningful.

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RESULTS OF OPERATIONS (continued)

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

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

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

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

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

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

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RESULTS OF OPERATIONS (continued)

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

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

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

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

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

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

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

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RESULTS OF OPERATIONS (continued)

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

Aggregate Losses and LAE Roll Forward

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

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

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

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

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

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

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

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

(1) Includes HELOC loans and CES.

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RESULTS OF OPERATIONS (continued)

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

(1) Includes HELOC loans and CES.

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

(1) Includes HELOC loans and CES.

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

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

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

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

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

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

(1) Includes HELOC loans and CES.

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

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

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

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

(1) Includes HELOC loans and CES.

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

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

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

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

(1) Includes HELOC loans and CES.

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

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

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

Summary of Financial Guarantee Insurance Losses and LAE

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

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

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

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

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

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

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

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

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

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

n/m Percent change not meaningful

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

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RESULTS OF OPERATIONS (continued)

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

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

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

Residential Mortgage Exposure

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

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

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RESULTS OF OPERATIONS (continued)

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

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

(1) Includes international exposure of $744 million.

(2) Includes international exposure of $11 million.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Other

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

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

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

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

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

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

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

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RESULTS OF OPERATIONS (continued)

Structured Finance and International Insurance Selected Portfolio Exposures

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

Collateralized Debt Obligations and Related Instruments

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

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

In billions

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

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

Multi-Sector CDOs

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

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

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

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

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

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

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

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

Insured Exposure Rating [1]	**Original**	**Current**
AAA		