United States
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended March 31, 2013

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

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

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

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

Large accelerated filer ☑ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐

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

As of May 2, 2013, 192,964,835 shares of Common Stock, par value $1 per share, were outstanding.

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MBIA INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (Unaudited)
(In millions except share and per share amounts)

	March 31, 2013	December 31, 2012
Assets		
Investments:		
Fixed-maturity securities held as available-for-sale, at fair value (amortized cost $4,101 and $4,347)	$ 4,215	$ 4,485
Fixed-maturity securities at fair value	243	244
Investments pledged as collateral, at fair value (amortized cost $374 and $489)	333	443
Short-term investments held as available-for-sale, at fair value (amortized cost $859 and $662)	866	669
Other investments (includes investments at fair value of $13 and $12)	22	21
Total investments	5,679	5,862
Cash and cash equivalents	862	814
Premiums receivable	1,161	1,228
Deferred acquisition costs	290	302
Insurance loss recoverable	3,877	3,648
Property and equipment, at cost (less accumulated depreciation of $144 and $146)	68	69
Deferred income taxes, net	1,146	1,199
Other assets	238	268
Assets of consolidated variable interest entities:		
Cash	72	176
Investments held-to-maturity, at amortized cost (fair value $2,759 and $2,674)	2,826	2,829
Fixed-maturity securities held as available-for-sale, at fair value (amortized cost $628 and $637)	623	625
Fixed-maturity securities at fair value	1,753	1,735
Loans receivable at fair value	1,819	1,881
Loan repurchase commitments	1,176	1,086
Other assets	2	2
Total assets	**$ 21,592**	**$ 21,724**
Liabilities and Equity		
Liabilities:		
Unearned premium revenue	$ 2,774	$ 2,938
Loss and loss adjustment expense reserves	785	853
Investment agreements	915	944
Medium-term notes (includes financial instruments carried at fair value of $181 and $165)	1,577	1,598
Long-term debt	1,661	1,662
Derivative liabilities	3,006	2,934
Other liabilities	377	315
Liabilities of consolidated variable interest entities:		
Variable interest entity notes (includes financial instruments carried at fair value of $3,578 and $3,659)	7,039	7,124
Derivative liabilities	149	162
Total liabilities	**18,283**	**18,530**
Commitments and contingencies (See Note 13)		
Equity:		
Preferred stock, par value $1 per share; authorized shares—10,000,000; issued and outstanding—none	-	-
Common stock, par value $1 per share; authorized shares—400,000,000; issued shares—277,793,696 and 277,405,039	278	277
Additional paid-in capital	3,107	3,076
Retained earnings	2,203	2,039
Accumulated other comprehensive income (loss), net of tax of $18 and $21	9	56
Treasury stock, at cost—84,836,010 and 81,733,530 shares	(2,309)	(2,275)
Total shareholders' equity of MBIA Inc.	3,288	3,173
Preferred stock of subsidiary and noncontrolling interest	21	21
Total equity	**3,309**	**3,194**
Total liabilities and equity	**$ 21,592**	**$ 21,724**

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

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MBIA INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)
(In millions except share and per share amounts)

	Three Months Ended March 31,	
	2013	2012
Revenues:		
Premiums earned:		
Scheduled premiums earned	$ 79	$ 96
Refunding premiums earned	41	41
Premiums earned (net of ceded premiums of $2 and $3)	120	137
Net investment income	38	62
Fees and reimbursements	6	7
Change in fair value of insured derivatives:		
Realized gains (losses) and other settlements on insured derivatives	12	(4)
Unrealized gains (losses) on insured derivatives	(73)	303
Net change in fair value of insured derivatives	(61)	299
Net gains (losses) on financial instruments at fair value and foreign exchange	63	(19)
Investment losses related to other-than-temporary impairments:		
Investment losses related to other-than-temporary impairments	-	(53)
Other-than-temporary impairments recognized in accumulated other comprehensive income (loss)	-	(41)
Net investment losses related to other-than-temporary impairments	-	(94)
Net gains (losses) on extinguishment of debt	4	-
Other net realized gains (losses)	-	1
Revenues of consolidated variable interest entities:		
Net investment income	16	17
Net gains (losses) on financial instruments at fair value and foreign exchange	33	(27)
Total revenues	219	383
Expenses:		
Losses and loss adjustment	(194)	97
Amortization of deferred acquisition costs	16	13
Operating	106	158
Interest	60	73
Expenses of consolidated variable interest entities:		
Operating	4	6
Interest	12	15
Total expenses	4	362
Income (loss) before income taxes	215	21
Provision (benefit) for income taxes	51	11
Net income (loss)	**$ 164**	**$ 10**
Net income (loss) per common share:		
Basic	$ 0.84	$ 0.05
Diluted	$ 0.84	$ 0.05
Weighted average number of common shares outstanding:		
Basic	194,523,933	193,489,424
Diluted	195,631,960	194,594,974

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

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MBIA INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (Unaudited)
(In millions)

	Three Months Ended March 31,	
	2013	2012
Net income (loss)	$ 164	$ 10
Other comprehensive income (loss):		
Unrealized gains (losses) on available-for-sale securities:		
Unrealized gains (losses) arising during the period	13	47
Provision (benefit) for income taxes	4	6
Total	9	41
Reclassification adjustments for (gains) losses included in net income (loss)	(25)	135
Provision (benefit) for income taxes	(9)	47
Total	(16)	88
Other-than-temporary impairments on available-for-sale securities:		
Other-than-temporary impairments arising during the period	5	11
Provision (benefit) for income taxes	2	4
Total	3	7
Reclassification adjustments for (gains) losses included in net income (loss)	-	41
Provision (benefit) for income taxes	-	15
Total	-	26
Net foreign currency translation gains (losses)	(43)	(12)
Total other comprehensive income (loss)	(47)	150
Comprehensive income (loss)	**$ 117**	**$ 160**

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

MBIA INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (Unaudited)
For The Three Months Ended March 31, 2013
(In millions except share amounts)

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock		Total Shareholders' Equity of MBIA Inc.	Preferred Stock of Subsidiary and Noncontrolling Interest		Total Equity
	Shares	Amount				Shares	Amount		Shares	Amount	
Balance, December 3 2012	**277,405,039**	**$ 277**	**$ 3,076**	**$ 2,039**	**$ 56**	**(81,733,530)**	**$(2,275)**	**$ 3,173**	**1,315**	**$ 21**	**$ 3,194**
Net income	-	-	-	164	-	-	-	164	-	-	164
Other comprehensi income (loss)	-	-	-	-	(47)	-	-	(47)	-	-	(47)
Share-based compensation net of tax of $5	388,657	1	31	-	-	(3,102,480)	(34)	(2)	-	-	(2)
Balance, March 31, 2013	**277,793,696**	**$ 278**	**$ 3,107**	**$2,203**	**$ 9**	**(84,836,010)**	**$(2,309)**	**$ 3,288**	**1,315**	**$ 21**	**$ 3,309**

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

MBIA INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
(In millions)

	Three Months Ended March 31,	
	2013	2012
Cash flows from operating activities:		
Premiums, fees and reimbursements received	$ 54	$ 53
Investment income received	115	162
Insured derivative losses and commutations paid	-	(20)
Financial guarantee losses and loss adjustment expenses paid	(115)	(172)
Proceeds from reinsurance and recoveries	13	16
Operating and employee related expenses paid	(84)	(120)
Interest paid, net of interest converted to principal	(61)	(149)
Income taxes (paid) received	-	(3)
Net cash provided (used) by operating activities	(78)	(233)
Cash flows from investing activities:		
Purchase of fixed-maturity securities	(673)	(938)
Sale and redemption of fixed-maturity securities	1,062	1,440
Proceeds from paydowns on variable interest entity loans	69	60
Redemptions of held-to-maturity investments	4	750
Sale (purchase) of short-term investments, net	(130)	(115)
Sale (purchase) of other investments, net	(1)	65
(Payments) proceeds for derivative settlements	(31)	(51)
Collateral (to) from swap counterparty	23	-
Capital expenditures	-	(1)
Net cash provided (used) by investing activities	323	1,210
Cash flows from financing activities:		
Proceeds from investment agreements	8	16
Payments for drawdowns of investment agreements	(39)	(18)
Issuance of medium-term notes	-	8
Principal paydowns of medium-term notes	(23)	-
Principal paydowns of variable interest entity notes	(246)	(262)
Payments for securities sold under agreements to repurchase	-	(138)
Payments for retirement of debt	(1)	(361)
Net cash provided (used) by financing activities	(301)	(755)
Net increase (decrease) in cash and cash equivalents	(56)	222
Cash and cash equivalents—beginning of period	990	633
Cash and cash equivalents—end of period	$ 934	$ 855
Reconciliation of net income (loss) to net cash provided (used) by operating activities:		
Net income (loss)	$ 164	$ 10
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:		
Change in:		
Premiums receivable	44	37
Deferred acquisition costs	12	11
Unearned premium revenue	(130)	(149)
Loss and loss adjustment expense reserves	(68)	31
Insurance loss recoverable	(229)	(91)
Current income taxes	(1)	(24)
Net investment losses related to other-than-temporary impairments	-	94
Unrealized (gains) losses on insured derivatives	73	(303)
Net (gains) losses on financial instruments at fair value and foreign exchange	(96)	46
Deferred income tax provision (benefit)	53	32
(Gains) losses on extinguishment of debt	(4)	-
Other operating	104	73
Total adjustments to net income (loss)	(242)	(243)
Net cash provided (used) by operating activities	$ (78)	$ (233)

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

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MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 1: Business Developments and Risks and Uncertainties

Summary

MBIA Inc., together with its consolidated subsidiaries, (collectively, "MBIA" or the "Company") operates one of the largest financial guarantee insurance businesses in the industry and is a provider of asset management advisory services. These activities are managed through three business segments: United States ("U.S.") public finance insurance; structured finance and international insurance; and advisory services. The Company's U.S. public finance insurance business is primarily operated through National Public Finance Guarantee Corporation and its subsidiaries ("National"), its structured finance and international insurance business is primarily operated through MBIA Insurance Corporation and its subsidiaries ("MBIA Corp."), and its asset management advisory services business is primarily operated through Cutwater Holdings, LLC and its subsidiaries ("Cutwater"). The holding company, MBIA, and certain of its subsidiaries also manage certain other business activities, the results of which are reported in its corporate, asset/liability products, and conduit segments. The corporate segment includes revenues and expenses that arise from general corporate activities. While the asset/liability products and conduit businesses represent separate business segments, they may be referred to collectively as "wind-down operations" as the funding programs managed through those businesses are in wind-down. Refer to "Note 10: Business Segments" for further information about the Company's reporting segments.

Business Developments

As a result of insured losses and realized investment losses during the period from 2007 through March 31, 2013, the Company has seen ratings downgrades, a near cessation of new insurance business, and increasing liquidity pressure. The Company has been unable to write meaningful amounts of new insurance business since 2008 and does not expect to write significant new insurance business prior to an upgrade of the credit ratings of National. As of March 31, 2013, National was rated BB with a developing outlook by Standard & Poor's Financial Services LLC ("S&P") and Baa2 with a review for downgrade by Moody's Investors Service, Inc. ("Moody's"). In May of 2013, S&P upgraded National's rating to BBB with a credit watch positive outlook. In addition, in May of 2013, S&P upgraded MBIA Inc.'s rating to B- with a credit watch positive from B- with a negative outlook and upgraded MBIA Insurance Corporation's rating to B with a stable outlook from CCC with a negative outlook.

Bank of America Settlement

In May of 2013, MBIA Inc., together with its subsidiaries MBIA Corp. and National, entered into a comprehensive settlement agreement and related agreements (the "BofA Settlement Agreement") with Bank of America Corporation and certain of its subsidiaries (collectively, "Bank of America"). Under the terms of the BofA Settlement Agreement, MBIA Corp. received a payment of approximately $1.7 billion, consisting of $1.6 billion in cash and $136 million principal amount of MBIA Inc.'s 5.70% Senior Notes due 2034. In exchange for such payment, MBIA Corp. agreed to dismiss the litigation commenced in September 2008 against Countrywide Home Loans, Inc. ("Countrywide"), among other parties, and later amended to include claims against Bank of America, relating to breaches of representations and warranties on certain MBIA-insured securitizations sponsored by Countrywide. Bank of America and MBIA have also agreed to the commutation of all of the MBIA Corp. policies held by Bank of America, which have a notional insured amount of approximately $7.4 billion, and of which $6.1 billion are policies insuring credit default swaps ("CDS") held by Bank of America referencing commercial real estate exposures. MBIA Corp. will have no further payment obligations under the commuted policies. The New York State Department of Financial Services ("NYSDFS") advised MBIA Corp. that the NYSDFS did not object to the BofA Settlement Agreement.

Under the terms of the BofA Settlement Agreement, Bank of America received a five-year warrant to purchase 9.94 million shares of MBIA common stock at a price of $9.59 per share. Bank of America has also agreed to dismiss the pending litigation between the parties concerning the restructuring transactions announced by MBIA on February 18, 2009 (the "Transformation") and the pending litigation between the parties concerning the senior debt Consent Solicitation completed by MBIA in the fourth quarter of 2012. In addition, Bank of America agreed to withdraw the purported "notice of default" it sent in connection with such Consent Solicitation.

Under the terms of the BofA Settlement Agreement, the dismissals of the litigations referenced above are initially being filed on a "without prejudice" basis. The parties will refile such dismissals on a "with prejudice" basis provided that, within the one-year period following execution of the BofA Settlement Agreement, none of the claims released pursuant to the BofA Settlement Agreement are reinstated and neither party is required to make a payment on any such released claims. The Company views the likelihood of such an event as remote, and thus expects that the litigation dismissals will be filed on a "with prejudice" basis at the expiration of such one-year period.

MBIA Corp.'s policies insuring the residential mortgage-backed securities ("RMBS") securitizations originated by Countrywide will continue to be in full force and effect, and MBIA Corp. will continue to make timely payments of principal and interest when due under such policies. Bank of America will have no further representation and warranty liability with respect to the origination of the mortgage loans in the MBIA-insured Countrywide and certain other securitizations.

In addition, MBIA Corp. has entered into a $500 million three-year secured revolving credit agreement with Blue Ridge Investments, L.L.C., an affiliate of Bank of America (the "BofA Secured Loan"). Borrowings may be used for general corporate purposes and will be secured by a pledge of collateral consisting of the following: (i) MBIA Corp.'s right to receive put-back recoveries related to ineligible mortgage loans included in its insured RMBS transactions; (ii) MBIA Corp.'s future recoveries on defaulted insured RMBS transactions resulting from expected excess spread generated by performing loans in such transactions; (iii) MBIA Corp.'s future installment premiums; and (iv) 65% of the voting capital stock in MBIA Corp.'s wholly-owned subsidiary, MBIA UK (Holdings) Limited. The BofA Secured Loan includes a number of provisions that govern MBIA Corp.'s ability to draw on the loan and use the proceeds from the borrowings, limit the amount MBIA Corp. can use to fund commutations without the consent of Bank of America, and require it to prepay borrowings. The loan also includes customary representations and warranties and customary affirmative, negative and financial covenants, including a requirement that MBIA Corp. maintain at least $750 million of statutory capital (defined as policyholders' surplus plus contingency reserves).

The payment from Bank of America, including the MBIA Inc. bonds, was used to repay the remaining outstanding balance and accrued interest on MBIA Corp.'s secured loan from National (the "National Secured Loan") in accordance with its terms. The National Secured Loan balance of $1.7 billion as of March 31, 2013 was reduced to approximately $1.6 billion prior to the Bank of America settlement as a result of the receipt of $110 million in settlement of Flagstar Bank's put-back obligation.

The value of the settlement is consistent with amounts recorded on MBIA Corp.'s statutory balance sheet as of December 31, 2012. MBIA Corp.'s liquidity and capital risk profile has substantially improved as a result of the settlement. While the Company has updated its estimates to reflect the BofA Settlement Agreement in its financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") as of and for the three months ended March 31, 2013, certain of the agreements will be accounted for in the second quarter of 2013 as of the settlement date.

Pursuant to the anti-dilution provisions of warrants that were issued by MBIA to Warburg Pincus Private Equity X, L.P. and certain of its affiliates ("Warburg Pincus") pursuant to an Investment Agreement, dated as of December 10, 2007, as amended and restated as of February 6, 2008, by and between MBIA and Warburg Pincus, the strike price under such warrants will be decreased and the aggregate number of shares of MBIA common stock to be issued upon exercise of such warrants will be increased, in each case as a result of the issuance of the warrant to Bank of America. The adjustments to the strike price and number of such underlying shares are not expected to have a material dilutive effect on the MBIA common stock.

Societe Generale Settlement

In May of 2013, the Company entered into an agreement with Societe Generale pursuant to which MBIA commuted $4.2 billion of gross insured exposure comprising asset-backed securities ("ABS") collateralized debt obligations ("CDOs"), structured commercial mortgage-backed securities ("CMBS") pools and commercial real estate ("CRE") CDOs. The amount MBIA paid to Societe Generale in consideration of commuting its insured exposure was consistent with MBIA Corp.'s aggregate statutory loss reserves for the exposures commuted. Also, pursuant to the agreement, Societe Generale agreed to dismiss the pending litigation between the parties concerning the Transformation, which includes any appeals of the decision denying the Article 78 petition and the plenary case.

Transformation Litigation Resolution

As a result of the Bank of America settlement and the Societe Generale settlement, all litigation brought originally by the group of eighteen domestic and international financial institutions, relating to the establishment of National, has been resolved.

Other

As of March 31, 2013, the liquidity position of MBIA, which consists of the liquidity positions of the Company's corporate segment and asset/liability products segment, was $373 million compared with $239 million as of December 31, 2012. During the three months ended March 31, 2013, $115 million was released from an escrow account under the MBIA group's tax sharing agreement (the "Tax Escrow Account"), which resulted in an increase to MBIA's liquidity position. Management believes that MBIA can support its operating needs for the foreseeable future primarily from additional anticipated releases of assets from the Tax Escrow Account, which releases are subject to the risk of National incurring net tax losses in the future and declines in the value of the assets held in the Tax Escrow Account.

MBIA Corp. continues to seek to reduce both the absolute amount and the volatility of its obligations and potential future claim payments through the execution of commutations of insurance policies. The combination of the failure of certain mortgage originators to honor contractual obligations to repurchase ineligible mortgage loans from securitizations the Company insured, commutation payments to reduce liabilities and claim payments have placed liquidity pressure on MBIA Corp. The failure of certain mortgage originators to repurchase ineligible mortgages from securitizations the Company insured represents significant breaches of their contractual obligations. As of March 31, 2013 and December 31, 2012, MBIA Corp.'s cash and liquid assets were $258 million and $345 million, respectively. The Company believes MBIA Corp.'s current liquidity position, together with future cash inflows and amounts available under a lending facility, is adequate to make expected future claim payments.

During the three months ended March 31, 2013, MBIA Corp. made $139 million in gross claim payments, and commuted $2.1 billion of gross insured exposure, primarily comprising investment grade corporate CDOs. Subsequent to March 31, 2013, MBIA Corp. agreed to commute an additional $13.4 billion of gross insured exposure, primarily comprising structured CMBS pools, first-lien subprime RMBS, high yield corporate CDOs, CRE CDOs, structured insurance securities, ABS CDOs and first-lien alternative-A RMBS, including the aggregate notional amount of $7.4 billion described above in the "Bank of America Settlement" discussion and the aggregate notional amount of $4.2 billion described above in the "Societe Generale Settlement" discussion.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 1: Business Developments and Risks and Uncertainties (continued)

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

Risks and Uncertainties

The Company’s financial statements include estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. The outcome of certain significant risks and uncertainties could cause the Company to revise its estimates and assumptions or could cause actual results to differ from the Company’s estimates. While the Company believes it continues to have sufficient capital and liquidity to meet all of its expected obligations, if one or more possible adverse outcomes were to be realized, its statutory capital, financial position, results of operations and cash flows could be materially and adversely affected. Significant risks and uncertainties that could affect amounts reported in the Company’s financial statements in future periods include, but are not limited to, the following:

- Management’s expected liquidity and capital forecasts for MBIA Corp. for 2013 reflect adequate resources to pay expected claims. In addition, MBIA Corp. can borrow under the BofA Secured Loan to pay claims. However, there is risk to the liquidity forecast as the Company’s second-lien RMBS and remaining insured CMBS pools are potentially volatile. There are risks to the capital forecast due to those potential liabilities, potential volatility in the collection of put-back recoverables and potential volatility associated with remaining ABS CDO exposures. Further, the remaining insured portfolio, aside from these exposures, could deteriorate and result in loss reserves and claim payments. Management believes it will have adequate resources to pay expected claims. However, if MBIA Corp. experiences higher than expected claims payments or is unable to commute exposures that represent substantial risk to the Company, MBIA Corp. may ultimately have insufficient resources to continue paying claims, which could also cause the NYSDFS to commence a rehabilitation or liquidation proceeding, as per Article 74 of the New York Insurance Law (“NYIL”), against MBIA Insurance Corporation (an “MBIA Corp. Proceeding”). As a result of the BofA Settlement Agreement, the risk of an MBIA Corp. Proceeding has been significantly reduced.
- Management believes that MBIA Inc. has sufficient liquidity resources to meet all of its obligations for the foreseeable future. However, MBIA Inc. may not have sufficient liquidity to make all payments due on its liabilities and to meet other financial requirements, such as posting collateral, primarily as a result of invested asset performance and a potential inadequacy of dividends from its principal operating subsidiaries. In order to meet liquidity requirements, MBIA Inc. may finance unencumbered assets through intercompany or third-party facilities, in some cases with NYSDFS approval, or use free cash or other assets, although there can be no assurance that these strategies will be available or adequate. A failure by MBIA Inc. to settle liabilities that are also insured by MBIA Corp. could result in claims on MBIA Corp.
- Incurred losses from insured RMBS have declined from their peaks. However, due to the large percentage of ineligible mortgage loans included within the MBIA Corp. insured second-lien portfolio, performance remains difficult to predict and losses could ultimately be in excess of MBIA Corp.’s current estimated loss reserves. In addition, MBIA Corp.’s efforts to recover losses from second-lien RMBS originators could be delayed, settled at amounts below its contractual claims or potentially settled at amounts below those recorded in its financial statements. Refer to “Note 5: Loss and Loss Adjustment Expense Reserves” for information about MBIA Corp.’s RMBS reserves and recoveries.
- Further economic stress might cause increases in MBIA Corp.’s loss estimates on its remaining exposure, particularly within its higher risk structured CMBS pool, ABS CDO and RMBS exposures. As of March 31, 2013, MBIA Corp.’s CMBS pools and CRE CDOs gross par outstanding, including approximately $6.1 billion of exposure held by Bank of America that was commuted subsequent to March 31, 2013, and ABS CDO gross par outstanding was approximately $17.6 billion and $4.1 billion, respectively. The Company’s primary strategy for managing its CMBS pool and ABS CDO exposures has been commutations. The Company’s ability to commute insured transactions is limited by available liquidity, including the availability of the BofA Secured Loan, intercompany loans and the use of other available financing structures and liquidity, some of which could be subject to regulatory approval by the NYSDFS. The BofA Secured Loan includes a number of provisions that govern MBIA Corp.’s ability to draw on the loan and use the proceeds from the borrowings, limit the amount MBIA Corp. can use to fund commutations without the consent of Bank of America, and require it to prepay borrowings. The loan also includes customary representations and warranties and customary affirmative and restricted covenants, including a requirement that MBIA Corp. maintain at least $750 million of statutory capital (defined as policyholders’ surplus plus contingency reserves). There can be no assurance that the Company will be able to fund further commutations through borrowings or otherwise. Refer to “Note 5: Loss and Loss Adjustment Expense Reserves” for information about the Company’s estimate of losses on its exposures.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 1: Business Developments and Risks and Uncertainties (continued)

- As of March 31, 2013, MBIA Insurance Corporation was not in compliance with a requirement under NYIL to hold qualifying assets in an amount necessary to satisfy its contingency reserves. MBIA Insurance Corporation has reported the deficit and has requested approval from the NYSDFS, to release a portion of its contingency reserves as of September 30, 2012, December 31, 2012 and March 31, 2013, but to date has not received approval. In addition, as of March 31, 2013, MBIA Insurance Corporation exceeded its aggregate risk limits under NYIL. MBIA Insurance Corporation previously filed a formal notification with the NYSDFS regarding the overage and submitted a plan to achieve compliance with its limits. While the NYSDFS has not taken action against MBIA Insurance Corporation, the NYSDFS may restrict MBIA Insurance Corporation from making commutation or other payments or may impose other remedial actions for failing to meet these requirements.
- In the event the economy and the markets to which MBIA is exposed do not improve, or decline, the unrealized losses on insured credit derivatives could increase, causing additional stress in the Company's reported financial results. In addition, volatility in the relationship between MBIA's credit spreads and those on underlying collateral assets of insured credit derivatives can create significant unrealized gains and losses on the Company's reported results of operations. Refer to "Note 6: Fair Value of Financial Instruments" for information about the Company's valuation of insured credit derivatives.

As a result of the BofA Settlement Agreement, the risk of an MBIA Corp. Proceeding has been significantly reduced. While the Company believes MBIA Corp. will have adequate resources to pay expected claims, in the event it does not have adequate resources in the future and the NYSDFS were to commence an MBIA Corp. Proceeding, the Company would be subject to the following:

- Medium-term notes ("MTNs") issued by MBIA's subsidiaries MBIA Global Funding, LLC ("GFL") and Meridian Funding, LLC ("Meridian"), which are insured by MBIA Corp., would accelerate. To the extent GFL failed to pay the accelerated amounts under the GFL MTNs or the collateral securing the Meridian MTNs was deemed insufficient to pay the accelerated amounts under the Meridian MTNs, the MTN holders would have policy claims against MBIA Corp. for scheduled payments of interest and principal;
- An MBIA Corp. Proceeding may accelerate certain investment agreements issued by MBIA Inc., including, in some cases, with make-whole payments. While the investment agreements are fully collateralized with high quality collateral, the settlements of these amounts could reduce MBIA Inc.'s liquidity resources, and to the extent MBIA fails to pay the accelerated amounts under these investment agreements or the collateral securing these investment agreements is deemed insufficient to pay the accelerated amounts due, the holders of the investment agreements would have policy claims against MBIA Corp.;
- CDS counterparties may seek to terminate CDS contracts insured by MBIA Corp. and make market-based damage claims (irrespective of whether actual credit-related losses are expected under the underlying exposure). The Company believes that such an acceleration would likely eliminate any residual value in MBIA Corp.;
- The Company may be unable to carry out its tax planning strategies as a result of an MBIA Corp. Proceeding. This may cause the Company to record additional allowances against a portion or all of its deferred tax assets. Refer to "Note 9: Income Taxes" for information about the Company's deferred tax assets. In addition, the Company currently files a consolidated tax return. An MBIA Corp. Proceeding could result in challenges to the tax sharing arrangement among the MBIA affiliates that might adversely affect the Company's ability to manage taxes efficiently;
- The rehabilitator or liquidator would replace the Board of Directors of MBIA 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;

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 1: Business Developments and Risks and Uncertainties (continued)

- An MBIA Corp. Proceeding would be an event of default under the BofA Secured Loan and, as a result, the loan could be accelerated and Bank of America would have rights to the loan's collateral; and
- An MBIA Corp. Proceeding may impose unplanned costs on MBIA Inc. In addition, MBIA Corp. would be subject to significant additional expenses arising from the appointment of a rehabilitator or liquidator, as receiver, and payment of the fees and expenses of the advisors to such rehabilitator or liquidator.

Note 2: Significant Accounting Policies

The Company has disclosed its significant accounting policies in "Note 2: Significant Accounting Policies" in the Notes to Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2012. The following significant accounting policies provide an update to those included in the Company's Annual Report on Form 10-K.

Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X and, accordingly, do not include all of the information and disclosures required by GAAP for annual periods. These statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Annual Report on Form 10-K for the year ended December 31, 2012. The accompanying consolidated financial statements have not been audited by an independent registered public accounting firm in accordance with the standards of the Public Company Accounting Oversight Board (U.S.), but in the opinion of management such financial statements include all adjustments, consisting only of normal recurring adjustments, necessary for the fair statement of the Company's consolidated financial position and results of operations. All material intercompany balances and transactions have been eliminated.

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. As additional information becomes available or actual amounts become determinable, the recorded estimates are revised and reflected in operating results.

The results of operations for the three months ended March 31, 2013 may not be indicative of the results that may be expected for the year ending December 31, 2013. The December 31, 2012 consolidated balance sheet was derived from audited financial statements, but does not include all disclosures required by GAAP for annual periods. Certain amounts have been reclassified in comparison to prior years' financial statements to conform to the current presentation. Such reclassifications had no impact on total revenues, expenses, assets, liabilities, shareholders' equity, operating cash flows, investing cash flows, or financing cash flows for all periods presented.

Note 3: Recent Accounting Pronouncements

Recently Adopted Accounting Standards

Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income (ASU 2013-02)

In February 2013, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2013-02, "Comprehensive Income (Topic 220)—Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income" that requires an entity to present information about the amounts reclassified out of accumulated other comprehensive income ("AOCI") by component and to present significant amounts reclassified out of AOCI by the respective line items of net income. The amendment only affects the Company's disclosures and does not affect the Company's consolidated balance sheets, results of operations, or cash flows. The Company adopted this standard in the first quarter of 2013.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 3: Recent Accounting Pronouncements (continued)

Disclosures about Offsetting Assets and Liabilities (ASU 2011-11)

In December 2011, the FASB issued ASU 2011-11, "Balance Sheet (Topic 210)—Disclosures about Offsetting Assets and Liabilities." ASU 2011-11 creates new disclosure requirements about the nature of the Company's rights of setoff and related arrangements associated with its financial instruments and derivative instruments. This amendment does not change the existing offsetting eligibility criteria or the permitted balance sheet presentation for those instruments that meet the eligibility criteria. The disclosure requirements are effective for the Company beginning in the first quarter of 2013. In January 2013, the FASB issued ASU 2013-01, "Balance Sheet (Topic 210)—Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities." ASU 2013-01 clarifies that ASU 2011-11 applies only to derivatives, repurchase agreements and reverse repurchase agreements, and securities borrowing and securities lending transactions that are either offset in accordance with specific criteria contained in the FASB Accounting Standards Codification or subject to a master netting arrangement or similar agreement. These standards only affect the Company's disclosures and do not affect the Company's consolidated balance sheets, results of operations, or cash flows. The Company adopted this standard in the first quarter of 2013.

Note 4: Variable Interest Entities

Structured Finance and International Insurance

Through MBIA's structured finance and international insurance segment, the Company provides credit protection to issuers of obligations that may involve issuer-sponsored special purpose entities ("SPEs"). An SPE may be considered a variable interest entity ("VIE") to the extent the SPE's total equity at risk is not sufficient to permit the SPE to finance its activities without additional subordinated financial support or its equity investors lack any one of the following characteristics (i) the power to direct the activities of the SPE that most significantly impact the entity's economic performance or (ii) the obligation to absorb the expected losses of the entity or the right to receive the expected residual returns of the entity. A holder of a variable interest or interests in a VIE is required to assess whether it has a controlling financial interest, and thus is required to consolidate the entity as primary beneficiary. An assessment of a controlling financial interest identifies the primary beneficiary as the variable interest holder that has both of the following characteristics (i) the power to direct the activities of the VIE that most significantly impact the entity's economic performance and (ii) the obligation to absorb losses of the entity or the right to receive benefits from the entity that could potentially be significant to the VIE. The primary beneficiary is required to consolidate the VIE. An ongoing reassessment of controlling financial interest is required to be performed based on any substantive changes in facts and circumstances involving the VIE and its variable interests.

The Company evaluates issuer-sponsored SPEs initially to determine if an entity is a VIE, and is required to reconsider its initial determination if certain events occur. For all entities determined to be VIEs, MBIA performs an ongoing reassessment to determine whether its guarantee to provide credit protection on obligations issued by VIEs provides the Company with a controlling financial interest. Based on its ongoing reassessment of controlling financial interest, the Company determines whether a VIE is required to be consolidated or deconsolidated.

The Company makes its determination for consolidation based on a qualitative assessment of the purpose and design of a VIE, the terms and characteristics of variable interests of an entity, and the risks a VIE is designed to create and pass through to holders of variable interests. The Company generally provides credit protection on obligations issued by VIEs, and holds certain contractual rights according to the purpose and design of a VIE. The Company may have the ability to direct certain activities of a VIE depending on facts and circumstances, including the occurrence of certain contingent events, and these activities may be considered the activities of a VIE that most significantly impact the entity's economic performance. The Company generally considers its guarantee of principal and interest payments of insured obligations, given nonperformance by a VIE, to be an obligation to absorb losses of the entity that could potentially be significant to the VIE. At the time the Company determines it has the ability to direct the activities of a VIE that most significantly impact the economic performance of the entity based on facts and circumstances, MBIA is deemed to have a controlling financial interest in the VIE and is required to consolidate the entity as primary beneficiary. The Company performs an ongoing reassessment of controlling financial interest that may result in consolidation or deconsolidation of any VIE.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 4: Variable Interest Entities (continued)

Wind-down Operations

In its asset/liability products segment, the Company invests in obligations issued by issuer-sponsored SPEs which are included in fixed-maturity securities held as available-for-sale ("AFS"). The Company evaluates issuer-sponsored SPEs to determine if the entity is a VIE. For all entities determined to be VIEs, the Company evaluates whether its investment is determined to have both of the characteristics of a controlling financial interest in the VIE. The Company performs an ongoing reassessment of controlling financial interests in issuer-sponsored VIEs based on investments held. MBIA's wind-down operations do not have a controlling financial interest in any issuer-sponsored VIEs and are not the primary beneficiary of any issuer-sponsored VIEs.

In the conduit segment, the Company has managed and administered two conduits that invested primarily in debt securities and were funded through the issuance of VIE notes and long-term debt. MBIA Corp. insures the debt obligations of the conduits, and provides credit protection on certain assets held by the conduits. The conduits are VIEs and are consolidated by the Company as primary beneficiary. In 2012, all debt securities held by one of the conduits were entirely repaid, and the proceeds were used to repay all outstanding long-term debt of this conduit. The Company subsequently dissolved this conduit, and no longer provides any related credit protection.

Nonconsolidated VIEs

Insurance

The following tables present the total assets of nonconsolidated VIEs in which the Company holds a variable interest as of March 31, 2013 and December 31, 2012, through its insurance operations. The following tables also present the Company's maximum exposure to loss for nonconsolidated VIEs and carrying values of the assets and liabilities for its interests in these VIEs as of March 31, 2013 and December 31, 2012. The Company has aggregated nonconsolidated VIEs based on the underlying credit exposure of the insured obligation. The nature of the Company's variable interests in nonconsolidated VIEs is related to financial guarantees, insured CDS contracts and any investments in obligations issued by nonconsolidated VIEs.

	March 31, 2013							
			Carrying Value of Assets			Carrying Value of Liabilities		
In millions	VIE Assets	Maximum Exposure to Loss	Investments [1]	Premiums Receivable [2]	Insurance Loss Recoverable [3]	Unearned Premium Revenue [4]	Loss and Loss Adjustment Expense Reserves [5]	Derivative Liabilities [6]
Insurance:								
Global structured finance:								
Collateralized debt obligations	$ 15,031	$ 10,796	$ -	$ 60	$ 4	$ 53	$ 35	$ 66
Mortgage-backed residential	32,210	12,505	10	72	3,502	70	389	5
Mortgage-backed commercial	4,646	2,328	-	2	-	2	-	-
Consumer asset-backed	5,605	2,990	10	18	-	18	21	-
Corporate asset-backed	18,799	9,309	-	111	13	128	-	-
Total global structured finance	76,291	37,928	20	263	3,519	271	445	71
Global public finance	45,298	20,242	-	202	-	248	4	-
Total insurance	$121,589	$ 58,170	$ 20	$ 465	$ 3,519	$ 519	$ 449	$ 71

(1) - Reported within "Investments" on MBIA's consolidated balance sheets.

(2) - Reported within "Premiums receivable" on MBIA's consolidated balance sheets.

(3) - Reported within "Insurance loss recoverable" on MBIA's consolidated balance sheets.

(4) - Reported within "Unearned premium revenue" on MBIA's consolidated balance sheets.

(5) - Reported within "Loss and loss adjustment expense reserves" on MBIA's consolidated balance sheets.

(6) - Reported within "Derivative liabilities" on MBIA's consolidated balance sheets.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 4: Variable Interest Entities (continued)

	December 31, 2012							
			Carrying Value of Assets			Carrying Value of Liabilities		
In millions	VIE Assets	Maximum Exposure to Loss	Investments [1]	Premiums Receivable [2]	Insurance Loss Recoverable [3]	Unearned Premium Revenue [4]	Loss and Loss Adjustment Expense Reserves [5]	Derivative Liabilities [6]
Insurance:								
Global structured finance:								
Collateralized debt obligations	$ 16,925	$ 10,873	$ -	$ 62	$ 5	$ 55	$ 37	$ 74
Mortgage-backed residential	34,061	13,075	11	77	3,278	75	440	4
Mortgage-backed commercial	4,801	2,432	-	2	-	2	-	-
Consumer asset-backed	5,820	3,086	10	19	-	19	21	-
Corporate asset-backed	19,980	9,981	-	123	13	140	-	-
Total global structured finance	81,587	39,447	21	283	3,296	291	498	78
Global public finance	39,259	21,346	-	220	-	267	4	-
Total insurance	$120,846	$ 60,793	$ 21	$ 503	$ 3,296	$ 558	$ 502	$ 78

(1) - Reported within “Investments” on MBIA’s consolidated balance sheets.

(2) - Reported within “Premiums receivable” on MBIA’s consolidated balance sheets.

(3) - Reported within “Insurance loss recoverable” on MBIA’s consolidated balance sheets.

(4) - Reported within “Unearned premium revenue” on MBIA’s consolidated balance sheets.

(5) - Reported within “Loss and loss adjustment expense reserves” on MBIA’s consolidated balance sheets.

(6) - Reported within “Derivative liabilities” on MBIA’s consolidated balance sheets.

The maximum exposure to loss as a result of MBIA’s variable interests in VIEs is represented by insurance in force. Insurance in force is the maximum future payments of principal and interest, net of cessions to reinsurers, which may be required under commitments to make payments on insured obligations issued by nonconsolidated VIEs.

Other

During the first quarter of 2013, the Company began managing a VIE that issues notes for the purpose of funding loans to the United Kingdom (“U.K.”) social housing sector. Assets of the VIE totaled approximately $135 million as of March 31, 2013. MBIA holds de minimis variable interests in the VIE, has no obligation or commitment to provide the financial support or liquidity to the VIE, and is not the primary beneficiary.

Consolidated VIEs

The carrying amounts of assets and liabilities of consolidated VIEs were $8.3 billion and $7.2 billion, respectively, as of March 31, 2013, and $8.3 billion and $7.3 billion, respectively, as of December 31, 2012. The carrying amounts of assets and liabilities are presented separately in “Assets of consolidated variable interest entities” and “Liabilities of consolidated variable interest entities” on the Company’s consolidated balance sheets. Additional VIEs are consolidated or deconsolidated based on an ongoing reassessment of controlling financial interest, when events occur or circumstances arise, and whether the ability to exercise rights that constitute power to direct activities of any VIEs are present according to the design and characteristics of these entities. No additional VIEs were consolidated or deconsolidated during the three months ended March 31, 2013 and 2012.

Holders of insured obligations of issuer-sponsored VIEs related to the Company’s structured finance and international insurance segment do not have recourse to the general assets of MBIA. In the event of nonpayment of an insured obligation issued by a consolidated VIE, the Company is obligated to pay principal and interest, when due, on the respective insured obligation only. The Company’s exposure to consolidated VIEs is limited to the credit protection provided on insured obligations and any additional variable interests held by MBIA. Creditors of the conduits do not have recourse to the general assets of MBIA apart from the financial guarantee insurance policies provided by MBIA Corp. on insured obligations issued by the conduits.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 5: Loss and Loss Adjustment Expense Reserves

Loss and Loss Adjustment Expense Process

As of March 31, 2013, the majority of the Company's case basis reserves and insurance loss recoveries recorded in accordance with GAAP were related to insured second-lien and first-lien RMBS transactions. These reserves and recoveries do not include estimates for policies insuring credit derivatives. Policies insuring credit derivative contracts are accounted for as derivatives and carried at fair value under GAAP. The fair values of insured derivative contracts are influenced by a variety of market and transaction-specific factors that may be unrelated to potential future claim payments under the Company's insurance policies. In the absence of credit impairments on insured derivative contracts or the early termination of such contracts at a loss, the cumulative unrealized losses recorded from fair valuing these contracts should reverse before or at the maturity of the contracts.

Notwithstanding the difference in accounting under GAAP for financial guarantee policies and the Company's insured derivatives, insured derivatives have similar terms, conditions, risks, and economic profiles to financial guarantee insurance policies, and, therefore, are evaluated by the Company for loss (referred to as credit impairment herein) and loss adjustment expense ("LAE") periodically in a manner similar to the way that loss and LAE reserves are estimated for financial guarantee insurance policies. Credit impairments represent actual payments and collections plus the present value of estimated expected future claim payments, net of recoveries. MBIA Insurance Corporation's expected future claim payments for insured derivatives were discounted using a rate of 5.72%, the same rate it used to calculate its statutory loss reserves as of March 31, 2013. These credit impairments, calculated in accordance with statutory accounting principles ("U.S. STAT"), differ from the fair values recorded in the Company's consolidated financial statements. The Company considers its credit impairment estimates as critical information for investors as it provides information about loss payments the Company expects to make on insured derivative contracts. As a result, the following loss and LAE process discussion includes information about loss and LAE activity recorded in accordance with GAAP for financial guarantee insurance policies and credit impairments estimated in accordance with U.S. STAT for insured derivative contracts. Refer to "Note 6: Fair Value of Financial Instruments" included herein for additional information about the Company's insured credit derivative contracts.

RMBS Case Basis Reserves and Recoveries (Financial Guarantees)

The Company's RMBS reserves and recoveries relate to financial guarantee insurance policies. The Company calculated RMBS case basis reserves as of March 31, 2013 for both second-lien and first-lien RMBS transactions using a process called the "Roll Rate Methodology." The Roll Rate Methodology is a multi-step process using a database of loan level information, a proprietary internal cash flow model, and a commercially available model to estimate expected ultimate cumulative losses on insured bonds. "Roll Rate" is defined as the probability that current loans become delinquent and that loans in the delinquent pipeline are charged-off or liquidated. Generally, Roll Rates are calculated for the previous three months and averaged. The loss reserve estimates are based on a probability-weighted average of three scenarios of loan losses (base case, stress case, and an additional stress case).

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

Second-lien RMBS Reserves

The Company's second-lien RMBS case basis reserves as of March 31, 2013 relate to RMBS backed by home equity lines of credit ("HELOC") and closed-end second mortgages ("CES").

The Roll Rates for 30-59 day delinquent loans and 60-89 day delinquent loans are calculated on a transaction-specific basis. The Company assumes that the Roll Rate for 90+ day delinquent loans, excluding foreclosures and Real Estate Owned ("REO") is 95%. The Roll Rates are applied to the amounts in the respective delinquency buckets based on delinquencies as of February 28, 2013 to estimate future losses from loans that are delinquent as of the current reporting period.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 5: Loss and Loss Adjustment Expense Reserves (continued)

Roll Rates for loans that are current as of February 28, 2013 ("Current Roll to Loss") are also calculated on a transaction-specific basis. A proportion of loans reported current as of February 28, 2013 is assumed to become delinquent every month, at a Current Roll to Loss rate that persists at a high level for a time and subsequently starts to decline. A key assumption in the model is the period of time in which the Company projects high levels of Current Roll to Loss to persist. The Company runs multiple scenarios, each with varying periods of time, for which the high levels of Current Roll to Loss rates persist. Loss reserves are calculated by using a weighted average of these scenarios, with the majority of the probability assigned to stressful scenarios (stress case and additional stress case), where the high levels of Current Roll to Loss rates persist for six or twenty four months before reverting to historic levels. In the base case scenario, the Company assumes that the Current Roll to Loss begins to decline immediately and continues to decline over the next six months to 25% of their levels as of February 28, 2013. For example, in the base case, as of February 28, 2013, if the amount of current loans which become 30-59 days delinquent is 10%, and recent performance suggests that 30% of those loans will be charged-off, the Current Roll to Loss for the transaction is 3%. In the base case, it is then assumed that the Current Roll to Loss will reduce linearly to 25% of its original value over the next six months (i.e., 3% will linearly reduce to 0.75% over the six months from March 2013 to August 2013). After that six-month period, the Company further reduces the Current Roll to Loss to 0% by early 2014 with the expectation that the performing seasoned loans will eventually result in loan performance reverting to historically low levels of default.

In addition, in the Company's loss reserve models for transactions secured by HELOCs, the Company considers borrower draw and prepayment rates and factors that could affect the excess spread generated by current loans, which offsets losses and reduces payments. For HELOCs, the current three-month average draw rate is generally used to project future draws on the line. For HELOCs and transactions secured by fixed-rate CES, the three-month average conditional prepayment rate is generally used to start the projection for trends in voluntary principal prepayments. Projected cash flows are also based on an assumed constant basis spread between floating rate assets and floating rate insured debt obligations (the difference between Prime and London Interbank Offered Rate ("LIBOR") interest rates, minus any applicable fees). For all transactions, cash flow models consider allocations and other structural aspects of the transactions, including managed amortization periods, rapid amortization periods and claims against MBIA Corp.'s insurance policy consistent with such policy's terms and conditions. In developing multiple loss scenarios, stress is applied by elongating the Current Roll to Loss rate for various periods, simulating a slower improvement in the transaction performance. The estimated net claims from the procedure above are then discounted using a risk-free rate to a net present value reflecting MBIA's general obligation to pay claims over time and not on an accelerated basis. The above assumptions represent MBIA's best estimates of how transactions will perform over time.

The Company monitors portfolio performance on a monthly basis against projected performance, reviewing delinquencies, Roll Rates, and prepayment rates (including voluntary and involuntary). However, given the large percentage of mortgage loans that were not underwritten by the sellers/servicers in accordance with applicable underwriting guidelines, performance remains difficult to predict and losses may exceed expectations. In the event of a material deviation in actual performance from projected performance, the Company would increase or decrease the case basis reserves accordingly. If actual performance were to remain at the peak levels the Company is modeling for six months longer than in the probability-weighted outcome, the addition to the Company's second-lien RMBS case basis reserves before considering potential recoveries would be approximately $80 million.

Second-lien RMBS Recoveries

As of March 31, 2013, the Company recorded estimated recoveries of $4.0 billion, gross of income taxes, related to second-lien RMBS put-back claims on ineligible mortgage loans, consisting of $2.8 billion included in "Insurance loss recoverable" and $1.2 billion included in "Loan repurchase commitments" presented under the heading "Assets of consolidated variable interest entities" on the Company's consolidated balance sheets. As of March 31, 2013 and December 31, 2012, the Company's estimated recoveries after income taxes calculated at the federal statutory rate of 35%, were $2.6 billion and $2.3 billion, respectively, which was 78% and 73% of the consolidated total shareholders' equity of MBIA, excluding preferred stock of subsidiaries and noncontrolling interests. These estimated recoveries relate to the Company's put-back claims of ineligible mortgage loans, including put-back claims settled in May of 2013 as part of the Bank of America and Flagstar Bank settlements and put-back claims being disputed by the loan sellers/servicers that are currently subject to litigation initiated by the Company to pursue recoveries. While the Company believes that it will prevail in enforcing its contractual rights against sellers/servicers with which it has not settled, there is uncertainty with respect to the ultimate outcome. Furthermore, there is a risk that sellers/servicers or other responsible parties might not be able to satisfy their put-back obligations. Such risks are contemplated in the scenarios the Company utilizes to calculate recoveries.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 5: Loss and Loss Adjustment Expense Reserves (continued)

The Company assesses the financial abilities of the sellers/servicers using external credit ratings and other factors. The impact of such factors on cash flows related to expected recoveries is incorporated into the Company's probability-weighted scenarios. Accordingly, the Company has not recognized any recoveries related to its IndyMac Bank, F.S.B. insured exposures and has subsequent to the Residential Capital, LLC ("ResCap") bankruptcy filing revised the indicative scenarios and related probabilities related to ResCap put-back recoveries to contemplate bankruptcy scenario based outcomes. The Company's expected recoveries may be discounted in the future based on additional reviews of the creditworthiness of other sellers/servicers.

The Company utilizes probability-weighted scenarios primarily based on the percentage of incurred losses for all sellers/servicers in order to estimate recoveries of ineligible mortgage loans.

On May 14, 2012, ResCap, and its wholly-owned subsidiary companies, Residential Funding Company, LLC ("RFC") and GMAC Mortgage, LLC ("GMAC"), each filed for bankruptcy protection under Chapter 11 of the United States Bankruptcy Code. The Company believes that the claims against RFC and GMAC are stronger and better defined than most other unsecured creditor claims as a result of the following reasons:

- MBIA's direct contractual relationship between GMAC and RFC related to the Company's second-lien RMBS put-back claims on ineligible mortgage loans;
- MBIA's legal claims against RFC and GMAC based on breach of contract and fraud have withstood motions to dismiss; and
- MBIA expert reports submitted in the RFC litigation and subsequent decisions in other cases which have affirmed MBIA's claims.

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 unsecured creditors of the ResCap companies. As of March 31, 2013, the auction of the servicing platform and specific loans of the ResCap bankruptcy estate, as well as the corresponding sales associated with the auctions, have concluded and closed. However, an actual distribution of proceeds will not occur until a plan detailing the distribution of assets has been approved by the bankruptcy court. Consequently, the outcomes utilized by the Company continue to be based upon information that was available to the Company as of the filing date.

As of March 31, 2013, the Company continues to maintain the same probability-weighted scenarios for its non-GMAC and non-RFC exposures (non-ResCap exposures), which are primarily based on the percentage of incurred losses the Company would collect. The non-ResCap recovery estimates incorporate five scenarios that include full recovery of its incurred losses and limited/reduced recoveries due to litigation delays and risks and/or potential financial distress of the sellers/servicers. Probabilities were assigned across these scenarios, with most of the probability weight on partial recovery scenarios.

The sum of the probabilities assigned to all scenarios, both ResCap and non-ResCap is 100%. Expected cash inflows from recoveries are discounted using the current risk-free discount rates associated with the underlying transaction's cash flows. Excluding Bank of America and Flagstar Bank, this ranged from 0.9% to 2.0%, depending upon the transaction's expected average life, which ranged from 5.5 years to 11.1 years. However, based on the Company's assessment of the strength of its contract claims, the Company believes it is entitled to collect and/or assert a claim for the full amount of its incurred losses on these transactions, which totaled $2.1 billion through March 31, 2013, excluding incurred losses related to claims against Bank of America and Flagstar Bank that were settled in May of 2013. The Company is entitled to collect interest on amounts paid.

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

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 5: Loss and Loss Adjustment Expense Reserves (continued)

The Company consistently reviews the approach and assumptions it applies to calculate put-back recoveries. As previously indicated, the relevant transactional documents afford the Company the contractual right to put-back ineligible loans. The same transactional documents also provide that the Company is entitled to reimbursement of interest on paid claims at a prescribed interest rate. Following Judge Jed Rakoff's decision on February 7, 2013 in the Assured Guaranty v. Flagstar case (Assured Guaranty Municipal Corp. v. Flagstar Bank, 11-cv-02375, U.S. District Court, Southern District of New York (Manhattan)), in which he confirmed Assured Guaranty's analogous right to recover contractual interest in addition to claims paid, the Company has refined its put-back recovery assumptions to increase the probability that it will be reimbursed for contractual interest owed on paid claims. Consistent with the Company's probability based put-back recovery calculations it has determined the interest owed contemplating litigation risk, and repayment risk, as well as the potential value in the context of a settlement. The Company continues to maintain that in the context of its put-back litigation, the Company is entitled to receive interest at the New York State statutory rate, however, it currently calculates its put-back recoveries using the contractual interest rate, which is lower than the New York State statutory rate.

As of March 31, 2013, sellers/servicers have not substituted loans which MBIA has put-back, and the amount of loans repurchased has been insignificant. The unsatisfactory resolution of these put-backs led MBIA to initiate litigation against six of the sellers/servicers to enforce their obligations. The Company has alleged several causes of action in its complaints, including breach of contract, fraudulent inducement and indemnification. MBIA's aggregate $4.0 billion of estimated potential recoveries do not include damages from causes of action other than breach of contract. Irrespective of amounts recorded in its financial statements, MBIA is seeking to recover and/or assert claims for the full amount of its incurred losses and other damages on these transactions. As of March 31, 2013, MBIA has not collected any material amounts of cash related to these recoveries. Subsequent to March 31, 2013, MBIA settled its put-back claims against Bank of America and Flagstar Bank. Refer to "Note 1: Business Developments and Risks and Uncertainties" included herein for a description of the BofA Settlement Agreement. Additional information on the status of litigation against other sellers/servicers can be found in the "Recovery Litigation" discussion within "Note 13: Commitments and Contingencies".

MBIA has initiated litigation against six sellers/servicers (most recent filing was January 11, 2013) related to loan put-backs. MBIA has received five decisions with regard to the respective defendants' motions to dismiss the Company's claims. In each instance, the respective court denied the motion, allowing MBIA to proceed on, at minimum, its fraud and breach of contract claims. In December 2011, MBIA reached an agreement with one of the six sellers/servicers with whom it had initiated litigation and that litigation has been dismissed.

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

1. the strength of the Company's existing contract claims related to ineligible mortgage loan substitution/repurchase obligations;
2. the settlement of the Company's put-back related claims with Bank of America and Flagstar Bank in May of 2013 and the settlement of Assured Guaranty's and Syncora's put-back related claims with Bank of America;
3. the improvement in the financial strength of certain sellers/servicers due to mergers and acquisitions and/or government assistance, which should facilitate the ability of these sellers/servicers and their successors to comply with required loan repurchase/substitution obligations. The Company is not aware of any provisions that explicitly preclude or limit successors' obligations to honor the obligations of original sellers/servicers. The Company's assessment of any credit risk associated with sellers/servicers (or their successors) is reflected in the Company's probability-weighted potential recovery scenarios;
4. evidence of ineligible mortgage loan repurchase/substitution by sellers/servicers for put-back requests made by other harmed parties; this factor is further enhanced by (i) Bank of America's disclosure that it has resolved $8.0 billion of repurchase requests in the fourth quarter of 2010; (ii) the Fannie Mae settlements with Ally Bank announced on December 23, 2010 and with Bank of America (which also involved Freddie Mac) announced on December 31, 2010; and (iii) the Bank of America settlement with Fannie Mae announced on January 7, 2013, which settlement substantially resolves Countrywide repurchase related claims between Bank of America and Fannie Mae;
5. the Company's settlement agreements entered into in 2010, 2011 and 2013 between MBIA Corp. and sponsors of certain MBIA Corp.-insured mortgage loan securitizations in which the Company received consideration in exchange for a release relating to its representation and warranty claims against the sponsors. These settlements resolved all of MBIA's representation and warranty claims against the sponsors on mutually beneficial terms and in aggregate were slightly more than the recoveries previously recorded by the Company related to these exposures;
6. Assured Guaranty's favorable court ruling awarding it $90 million (plus interest, fees and expenses) due to Flagstar Bank's pervasive breach of mortgage representations and warranties;
7. the defendants' failure to win dismissals of MBIA's put-back litigations discussed above, allowing MBIA to continue to pursue its contract and fraud claims;

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 5: Loss and Loss Adjustment Expense Reserves (continued)

8. MBIA's successful motion in the Countrywide litigation allowing MBIA to present evidence of liability and damages through the introduction of statistically valid random samples of loans rather than on a loan-by-loan basis and subsequent decisions consistent with that ruling;
9. MBIA's successful motion regarding causation in the Countrywide litigation, which provides that MBIA is not required to establish a direct causal link between Countrywide's misrepresentations and MBIA's claims payments made pursuant to the insurance policies at issue, and that MBIA may seek damages equal to the amount that it has been and will be required to pay under the relevant policies, less premiums received;
10. the April 2, 2013 decision in MBIA's Countrywide litigation from the New York State Supreme Court, Appellate Division, First Department, in which the Court endorsed MBIA's position that the repurchase provision in the transactional documents, on which the Company's recoveries are based, does not require the loans be delinquent or defaulted to be eligible for repurchase, and that to prevail on the fraud and contract claims, MBIA need not establish causation tying Countrywide's misrepresentations to the Company's claims payments;
11. Syncora's and Assured Guaranty's successful motions regarding causation in their Federal court put-back litigations with JP Morgan Chase and Flagstar Bank, respectively, which support the ruling on causation in MBIA's litigation against Countrywide; and
12. other loan repurchase reserves and/or settlements which have been publicly disclosed by certain sellers/servicers.

The Company continues to consider all relevant facts and circumstances, including the factors described above, in developing its assumptions on expected cash inflows, probability of potential recoveries (including the outcome of litigation) and recovery period. The estimated amount and likelihood of potential recoveries are expected to be revised and supplemented to the extent there are developments in the pending litigation, new litigation is initiated and/or changes to the financial condition of sellers/servicers occur. While the Company believes it will be successful in realizing recoveries from contractual and other claims, the ultimate amounts recovered may be materially different from those recorded by the Company given the inherent uncertainty of the manner of resolving the claims (e.g., litigation) and the assumptions used in the required estimation process for accounting purposes which are based, in part, on judgments and other information that are not easily corroborated by historical data or other relevant benchmarks.

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

First-lien RMBS Reserves

The Company's first-lien RMBS case basis reserves as of March 31, 2013, which primarily relate to RMBS backed by alternative A-paper ("Alt-A") and subprime mortgage loans, were determined using the Roll Rate Methodology. The Company assumes that the Roll Rate for loans in foreclosure, REO and bankruptcy are 90%, 90% and 75%, respectively. Roll Rates for current, 30-59 day delinquent loans, 60-89 day delinquent loans and 90+ day delinquent loans are calculated on a transaction-specific basis. The Current Roll to Loss rates stay at the February 28, 2013 level for one month before declining to 25% of this level over a 24-month period. Additionally, the Company runs scenarios where the 90+ day roll rate to loss is set at 90%. The Roll Rates are applied to the amounts in the respective delinquency buckets based on delinquencies as of February 28, 2013 to estimate future losses from loans that are delinquent as of the current reporting period.

In calculating ultimate cumulative losses for first-lien RMBS, the Company estimates the amount of loans that are expected to be liquidated through foreclosure or short sale. The time to liquidation for a defaulted loan is specific to the loan's delinquency bucket with the latest three-month average loss severities generally used to start the projection for trends in loss severities at loan liquidation. The loss severities are reduced over time to account for reduction in the amount of foreclosure inventory, anticipated future increases in home prices, principal amortization of the loan and government foreclosure moratoriums.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 5: Loss and Loss Adjustment Expense Reserves (continued)

ABS CDOs (Financial Guarantees and Insured Derivatives)

MBIA's insured ABS CDOs are transactions that include a variety of collateral ranging from corporate bonds to structured finance assets (which includes but are not limited to RMBS related collateral, ABS CDOs, corporate CDOs and collateralized loan obligations). These transactions were insured as either financial guarantee insurance policies or credit derivatives with the majority insured in the form of credit derivatives. Since the fourth quarter of 2007, MBIA's insured par exposure within the ABS CDO portfolio has been substantially reduced through a combination of terminations and commutations. Accordingly, as of March 31, 2013, the insured par exposure of the ABS CDO financial guarantee insurance policies and credit derivatives portfolio has declined by approximately 89% of the insured amount as of December 31, 2007.

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

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

As of March 31, 2013, the Company established loss and LAE reserves totaling $107 million related to ABS CDO financial guarantee insurance policies after the elimination of $234 million as a result of consolidating VIEs. For the three months ended March 31, 2013, the Company had a benefit of $37 million of losses and LAE recorded in earnings related to ABS CDO financial guarantee insurance policies after the elimination of a $2 million benefit as a result of consolidating VIEs. In the event of further deteriorating performance of the collateral referenced or held in ABS CDO transactions, the amount of losses estimated by the Company could increase materially.

Credit Impairments Related to Structured CMBS Pools, CRE CDOs and CRE Loan Pools (Financial Guarantees and Insured Derivatives)

Most of the structured CMBS pools, CRE CDOs and CRE loan pools insured by MBIA are accounted for as insured credit derivatives and are carried at fair value in the Company's consolidated financial statements. Since the Company's insured credit derivatives have similar terms, conditions, risks, and economic profiles to its financial guarantee insurance policies, the Company evaluates them for impairment in the same way that it estimates loss and LAE for its financial guarantee policies. The following discussion provides information about the Company's process for estimating credit impairments on these contracts using its statutory loss reserve methodology, determined as the present value of the probability-weighted potential future losses, net of estimated recoveries, across multiple scenarios, plus actual payments and collections.

The Company has developed multiple scenarios to consider the range of potential outcomes in the CRE market and their impact on MBIA. The approaches require substantial judgments about the future performance of the underlying loans, and include the following:

- The first approach considers the range of commutation agreements achieved since 2010 through March 31, 2013, which included 66 structured CMBS pools, CRE CDOs and CRE loan pool policies totaling $33.1 billion of gross insured exposure. The Company considers the range of commutations achieved over the past several years with multiple counterparties. This approach results in an estimated price to commute the remaining policies with price estimates, based on this experience. It is customized by counterparty and is dependent on the level of dialogue with the counterparty and the credit quality and payment profile of the underlying exposure.

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Notes to Consolidated Financial Statements (Unaudited)

Note 5: Loss and Loss Adjustment Expense Reserves (continued)

- The second approach considers current delinquency rates and uses current and projected net operating income ("NOI") and capitalization rates ("Cap Rates") to project losses under two scenarios. Loans are stratified by size with larger loans being valued utilizing lower Cap Rates than for smaller loans. These scenarios also assume that Cap Rates and NOIs remain flat for the near term and then begin to improve gradually. Additionally, in these scenarios, any loan with a balance greater than $75 million with a debt service coverage ratio ("DSCR") less than 1.0x, or that was reported as being in any stage of delinquency, was reviewed individually so that performance and loss severity could be more accurately determined. Specific loan level assumptions for this large loan subset were then incorporated into these scenarios, as well as specific assumptions regarding certain smaller loans when there appeared to be a material change in the asset's financial or delinquency performance over the preceding six months. As the Company continues to increase the level of granularity in its individual loan assessments, it analyzes and adjusts assumptions for loans with certain mitigating attributes, such as no lifetime delinquency, recent appraisals indicating sufficient value and large capital reserve levels. These scenarios project different levels of additional defaults with respect to loans that are current. This approach makes use of the most recent financial statements available at the property level.
- The third approach stratifies loans into buckets based on delinquency status (including a "current" bucket) and utilizes recent Roll Rates actually experienced within each of the commercial mortgage-backed index ("CMBX") series in order to formulate an assumption to predict future delinquencies. Ultimately, this generates losses over a projected time horizon based on the assumption that loss severities will begin to decline from the high levels seen over the past two years. The Company further examines those loans referenced in the CMBX indices which were categorized as 90+ days delinquent or in the process of foreclosure and determines the average monthly balance of such loans which were cured. The Company then applies the most recent rolling six-month average balance of all such cured loans to all underperforming loans in the 90+ day delinquent bucket or in the foreclosure process (and those projected to roll into late stage delinquency from the current and lesser stage levels of delinquency) and assumes all other loans are liquidated. The Company reserves the right to exclude any aberrant data from this analysis and also assumes all loans in the REO category liquidate over the next twelve months.
- The fourth approach is based on a proprietary model developed by reviewing performance data on over 80,000 securitized CRE loans originated between 1992 and 2011. The time period covered during the performance review includes the years 2006 through 2011. The Company believes that these five years represent an appropriate time period in which to conduct a performance review because they encompass a period of extreme stress in the economy and the CRE market.

  Based on a review of the data, the Company found property type and the DSCR to be the most significant determinants of a loan's default probability, with other credit characteristics less influential. As a result, the Company developed a model in which the loans were divided into 168 representative cohorts based on their DSCR and property type. For each of these cohorts, the Company calculated the average annual probability of default, and then ran Monte Carlo simulations to estimate the timing of defaults. In addition, the model incorporated the following logic:

  - NOI and Cap Rates were assumed to remain at current levels for loans in the Company's classified portfolio, resulting in no modifications or extensions under the model, other than as described in the next bullet point, to reflect the possibility that the U.S. economy and CRE market could experience no growth for the foreseeable future.
  - Any valuation estimates obtained by special servicers since a loan's origination as well as the Company's individual large loan level analysis for loans with balances greater than $75 million were incorporated as described in the second approach. However, in the fourth approach no adjustments were made for loans lower than $75 million regardless of any mitigating factors.

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

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Notes to Consolidated Financial Statements (Unaudited)

Note 5: Loss and Loss Adjustment Expense Reserves (continued)

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

For the three months ended March 31, 2013, the Company had a benefit of $8 million of losses and LAE recorded in earnings related to CRE CDO financial guarantee insurance policies. For the three months ended March 31, 2013, additional credit impairments and LAE on structured CMBS pools, CRE CDOs and CRE loan pools were estimated to be $290 million as a result of additional delinquencies and loan level liquidations, as well as continued refinements of MBIA's assessment of various commutation possibilities. The majority of the increase relates to a subset of transactions with a single counterparty. The cumulative credit impairments and LAE on structured CMBS pools, CRE CDOs and CRE loan pools were estimated to be $3.9 billion through March 31, 2013. The pace of increases in the delinquency rate has slowed, many loans are being modified and liquidations continue to take place. Some loans were liquidated with minimal losses of 1% to 2%, others experienced near complete losses, and in some cases severities exceeded 100%. These liquidations have led to losses in the CMBS market, and in many cases, have resulted in reductions of enhancement to the individual CMBS bonds referenced by the insured structured CMBS pools. In certain insured transactions, these losses have resulted in deductible erosion. Bond level enhancement and pool level deductibles are structural features intended to mitigate losses to the Company. However, some of the transactions reference similar rated subordinate tranches of CMBS bonds. When there are broad-based declines in property performance, this leverage can result in rapid deterioration in pool performance. Subsequent to March 31, 2013, a CMBS pool transaction experienced deterioration such that all remaining deductible was eliminated and claims for this transaction were presented to the Company.

Loss and LAE Activity

Financial Guarantee Insurance Losses (Non-Derivative)

The Company's financial guarantee insurance losses and LAE for the three months ended March 31, 2013 are presented in the following table:

Losses and LAE

	Three Months Ended March 31, 2013			
In millions	**Second-lien RMBS**	**First-lien RMBS**	**Other [1]**	**Total**
Losses and LAE related to actual and expected payments	$ 67	$ (12)	$ (51)	$ 4
Recoveries of actual and expected payments	(220)	(4)	26	(198)
Gross losses incurred	(153)	(16)	(25)	(194)
Reinsurance	-	-	-	-
Losses and LAE	$ (153)	$ (16)	$ (25)	$ (194)

(1) - Primarily financial guarantee ABS CDOs.

The second-lien RMBS losses and LAE related to actual and expected payments included in the preceding table comprise net increases of previously established reserves. The second-lien RMBS recoveries of actual and expected payments include $306 million in recoveries resulting from ineligible mortgage loans included in insured exposures that are subject to contractual obligations by sellers/servicers to repurchase or replace such mortgages, partially offset by a $94 million reduction in excess spread.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 5: Loss and Loss Adjustment Expense Reserves (continued)

The following table provides information about the financial guarantees and related claim liability included in each of MBIA's surveillance categories as of March 31, 2013:

	Surveillance Categories				
$ in millions	Caution List Low	Caution List Medium	Caution List High	Classified List	Total
Number of policies	54	24	8	209	295
Number of issues [1]	31	15	8	139	193
Remaining weighted average contract period (in years)	7.9	4.9	8.1	9.8	8.8
Gross insured contractual payments outstanding: [2]					
Principal	$3,893	$1,466	$ 232	$ 9,246	$14,837
Interest	2,526	359	97	5,312	8,294
Total	$6,419	$1,825	$ 329	$14,558	$23,131
Gross claim liability	$ -	$ -	$ -	$ 1,459	$ 1,459
Less:					
Gross potential recoveries	-	-	-	4,276	4,276
Discount, net	-	-	-	234	234
Net claim liability (recoverable)	$ -	$ -	$ -	$ (3,051)	$ (3,051)
Unearned premium revenue	$ 125	$ 22	$ 2	$ 116	$ 265

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

(2) - Represents contractual principal and interest payments due by the issuer of the obligations insured by MBIA.

The following table provides information about the financial guarantees and related claim liability included in each of MBIA's surveillance categories as of December 31, 2012:

	Surveillance Categories				
$ in millions	Caution List Low	Caution List Medium	Caution List High	Classified List	Total
Number of policies	54	25	10	206	295
Number of issues [1]	29	15	10	136	190
Remaining weighted average contract period (in years)	8.1	4.0	7.6	9.5	8.7
Gross insured contractual payments outstanding: [2]					
Principal	$4,250	$1,176	$ 373	$ 9,458	$15,257
Interest	2,721	256	120	5,264	8,361
Total	$6,971	$1,432	$ 493	$14,722	$23,618
Gross claim liability	$ -	$ -	$ -	$ 1,589	$ 1,589
Less:					
Gross potential recoveries	-	-	-	4,109	4,109
Discount, net	-	-	-	229	229
Net claim liability (recoverable)	$ -	$ -	$ -	$ (2,749)	$ (2,749)
Unearned premium revenue	$ 142	$ 11	$ 3	$ 122	$ 278

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

(2) - Represents contractual principal and interest payments due by the issuer of the obligations insured by MBIA.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 5: Loss and Loss Adjustment Expense Reserves (continued)

The gross claim liability as of March 31, 2013 and December 31, 2012 in the preceding tables represents the Company's estimate of undiscounted probability-weighted future claim payments, which principally relate to insured first-lien and second-lien RMBS transactions and U.S. public finance transactions. The gross potential recoveries represent the Company's estimate of undiscounted probability-weighted recoveries of actual claim payments and recoveries of estimated future claim payments, and principally relate to insured second-lien RMBS transactions. Both amounts reflect the elimination of claim liabilities and potential recoveries related to VIEs consolidated by the Company.

The following table presents the components of the Company's loss and LAE reserves and insurance loss recoverable as reported on the Company's consolidated balance sheets as of March 31, 2013 and December 31, 2012 for insured obligations within MBIA's "Classified List". The loss reserves (claim liability) and insurance claim loss recoverable included in the following table represent the present value of the probability-weighted future claim payments and recoveries reported in the preceding tables.

In millions	As of March 31, 2013	As of December 31, 2012
Loss reserves (claim liability)	$ 713	$ 790
LAE reserves	72	63
Loss and LAE reserves	$ 785	$ 853
Insurance claim loss recoverable	$ (3,840)	$ (3,610)
LAE insurance loss recoverable	(37)	(38)
Insurance loss recoverable	$ (3,877)	$ (3,648)
Reinsurance recoverable on unpaid losses	$ 14	$ 14
Reinsurance recoverable on paid losses	-	1
Reinsurance recoverable on paid and unpaid losses	$ 14	$ 15

As of March 31, 2013, loss and LAE reserves include $1.1 billion of reserves for expected future payments offset by expected recoveries of such future payments of $289 million. As of December 31, 2012, loss and LAE reserves included $1.2 billion of reserves for expected future payments offset by expected recoveries of such future payments of $332 million. As of March 31, 2013 and December 31, 2012, the insurance loss recoverable principally related to estimated recoveries of payments made by the Company resulting from ineligible mortgage loans in certain insured second-lien residential mortgage loan securitizations that are subject to a contractual obligation by the sellers/servicers to repurchase or replace the ineligible mortgage loans and expected future recoveries on second-lien RMBS transactions resulting from expected excess spread generated by performing loans in such transactions. The Company expects to be reimbursed for the majority of its potential recoveries related to ineligible mortgage loans by the second half of 2013.

Total paid losses and LAE, net of reinsurance and collections, for the three months ended March 31, 2013 was $102 million, including $84 million related to insured second-lien RMBS transactions. For the three months ended March 31, 2013, the increase in insurance loss recoverable related to paid losses totaled $229 million, and principally related to insured second-lien RMBS transactions.

The following table presents the Company's second-lien RMBS exposure, gross undiscounted claim liability and potential recoveries for amounts excluding consolidated VIEs and amounts related to consolidated VIEs, as of March 31, 2013. All insured transactions reviewed with potential recoveries are included within the "Classified List".

Second-lien RMBS Exposure		Outstanding		Gross Undiscounted	
$ in billions	Issues	Gross Principal	Gross Interest	Claim Liability	Potential Recoveries
Excluding Consolidated VIEs:					
Insured issues designated as "Classified List"	23	$ 4.0	$ 1.5	$ 0.2	$ 3.7
Insured issues reviewed with potential recoveries	16	$ 3.6	$ 1.4	$ 0.2	$ 3.6
Consolidated VIEs:					
Insured issues designated as "Classified List"	12	$ 2.1	$ 0.8	$ 0.1	$ 1.4
Insured issues reviewed with potential recoveries	11	$ 2.0	$ 0.8	$ 0.1	$ 1.4

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 5: Loss and Loss Adjustment Expense Reserves (continued)

The Company has performed reviews on 30 of the 35 total insured issues designated as "Classified List" and recorded potential recoveries on 27 of those 30 issues, primarily related to five issuers (Countrywide, RFC, GMAC, Flagstar Bank and Credit Suisse). In addition, the Company has received consideration on two transactions, including one Alt-A transaction, which have been excluded in the preceding table.

The following table presents changes in the Company's loss and LAE reserves for the three months ended March 31, 2013. Changes in the loss and LAE reserves attributable to the accretion of the claim liability discount, changes in discount rates, changes in the timing and amounts of estimated payments and recoveries, changes in assumptions and changes in LAE reserves are recorded in "Losses and loss adjustment" expenses in the Company's consolidated statements of operations. As of March 31, 2013, the weighted average risk-free rate used to discount the Company's loss reserves (claim liability) was 1.50%. LAE reserves are expected to be settled within a one-year period and are not discounted.

In millions	Changes in Loss and LAE Reserves for the Three Months Ended March 31, 2013								
Gross Loss and LAE Reserves as of December 31, 2012	Loss Payments for Cases with Reserves	Accretion of Claim Liability Discount	Changes in Discount Rates	Changes in Timing of Payments	Changes in Amount of Net Payments	Changes in Assumptions	Changes in Unearned Premium Revenue	Changes in LAE Reserves	Gross Loss and LAE Reserves as of March 31, 2013
$ 853	$ (78)	$ 3	$ (33)	$ 11	$ (1)	$ 26	$ (5)	$ 9	$ 785

The decrease in the Company's gross loss and LAE reserves reflected in the preceding table was primarily due to a decrease in reserves related to loss payments on insured first-lien and second-lien RMBS issues.

Current period changes in the Company's estimate of potential recoveries may be recorded as an insurance loss recoverable asset, netted against the gross loss and LAE reserve liability, or both. The following table presents changes in the Company's insurance loss recoverable and changes in recoveries on unpaid losses reported within the Company's claim liability for the three months ended March 31, 2013. Changes in insurance loss recoverable attributable to the accretion of the discount on the recoverable, changes in discount rates, changes in the timing and amounts of estimated collections, changes in assumptions and changes in LAE recoveries are recorded in "Losses and loss adjustment" expenses in the Company's consolidated statements of operations.

		Changes in Insurance Loss Recoverable and Recoveries on Unpaid Losses for the Three Months Ended March 31, 2013							
In millions	Gross Reserve as of December 31, 2012	Collections for Cases with Recoveries	Accretion of Recoveries	Changes in Discount Rates	Changes in Timing of Collections	Changes in Amount of Collections	Changes in Assumptions	Changes in LAE Recoveries	Gross Reserve as of March 31, 2013
Insurance loss recoverable	$ 3,648	$ (9)	$ 11	$ (4)	$ -	$ (53)	$ 285	$ (1)	$ 3,877
Recoveries on unpaid losses	332	-	1	(5)	-	-	(41)	2	289
Total	$ 3,980	$ (9)	$ 12	$ (9)	$ -	$ (53)	$ 244	$ 1	$ 4,166

The Company's insurance loss recoverable increased during 2013 primarily due to changes in assumptions associated with issues outstanding as of December 31, 2012, which related to increases in expected recoveries on ineligible mortgage loans included in insured second-lien residential mortgage securitization exposures that are subject to contractual obligations by sellers/servicers to repurchase or replace such mortgages, partially offset by changes in the amount of collections. Recoveries on unpaid losses decreased primarily due to changes in assumptions.

The following table presents the Company's total estimated recoveries from ineligible mortgage loans included in certain insured second-lien mortgage loan securitizations as of March 31, 2013. The total estimated recoveries from ineligible mortgage loans of $4.0 billion include $2.8 billion recorded as "Insurance loss recoverable" and $1.2 billion recorded as "Loan repurchase commitments" presented under the heading "Assets of consolidated variable interest entities" on the Company's consolidated balance sheets.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 5: Loss and Loss Adjustment Expense Reserves (continued)

In millions	Total Estimated Recoveries from Ineligible Mortgage Loans as of December 31, 2012	Accretion of Future Collections	Changes in Discount Rates	Recoveries (Collections)	Changes in Amount of Collections	Changes in Assumptions	Total Estimated Recoveries from Ineligible Mortgage Loans as of March 31, 2013
	$ 3,583	$ 11	$ (1)	$ -	$ -	$ 374	$ 3,967

The Company's total estimated recoveries from ineligible mortgage loans in the preceding table increased primarily as a result of the modification of the put-back recovery assumptions which increased the probability that the Company will be reimbursed for contractual interest owed on paid claims as described within the preceding "Second-lien RMBS Recoveries" section.

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

Costs associated with remediating insured obligations assigned to the Company's "Caution List—Low," "Caution List—Medium," "Caution List—High" and "Classified List" are recorded as LAE. LAE is primarily recorded as part of the Company's provision for its loss reserves and included in "Losses and loss adjustment" on the Company's consolidated statements of operations. The following table presents the gross expenses related to remedial actions for insured obligations:

	Three Months Ended March 31,	
In millions	2013	2012
Loss adjustment expense incurred, gross	$ 18	$ 75

Note 6: Fair Value of Financial Instruments

Fair Value Measurement

Fair value is a market-based measure considered from the perspective of a market participant. Therefore, even when market assumptions are not readily available, the Company's own assumptions are set to reflect those which it believes market participants would use in pricing an asset or liability at the measurement date. The fair value measurements of financial instruments held or issued by the Company are determined through the use of observable market data when available. Market data is obtained from a variety of third-party sources, including dealer quotes. If dealer quotes are not available for an instrument that is infrequently traded, the Company uses alternate valuation methods, including either dealer quotes for similar instruments or modeling using market data inputs. The use of alternate valuation methods generally requires considerable judgment in the application of estimates and assumptions and changes to such estimates and assumptions may produce materially different fair values.

The accounting guidance for fair value measurement establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available and reliable. Observable inputs are those the Company believes that market participants would use in pricing an asset or liability based on available market data. Unobservable inputs are those that reflect the Company's beliefs about the assumptions market participants would use in pricing an asset or liability based on the best information available. The fair value hierarchy is broken down into three levels based on the observability and reliability of inputs, as follows:

- Level 1—Valuations based on quoted prices in active markets for identical assets or liabilities that the Company can access. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail any degree of judgment.
- Level 2—Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly. Level 2 assets include debt securities with quoted prices that are traded less frequently than exchange-traded instruments, securities which are priced using observable inputs and derivative contracts whose values are determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 6: Fair Value of Financial Instruments (continued)

- Level 3—Valuations based on inputs that are unobservable and supported by little or no market activity and that are significant to the overall fair value measurement. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques where significant inputs are unobservable, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

The availability of observable inputs can vary from product to product and period to period and is affected by a wide variety of factors, including, for example, the type of product, whether the product is new and not yet established in the marketplace, and other characteristics particular to the product. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the Company assigns the level in the fair value hierarchy for which the fair value measurement in its entirety falls, based on the least observable input that is significant to the fair value measurement.

1. Financial Assets (excluding derivative assets)

Financial assets, excluding derivative assets, held by the Company primarily consist of investments in debt securities. Substantially all of the Company's investments are priced by independent third parties, including pricing services and brokers. Typically the Company receives one pricing service value or broker quote for each instrument, which represents a non-binding indication of value. The Company reviews the assumptions, inputs and methodologies used by pricing services to obtain reasonable assurance that the prices used in its valuations reflect fair value. When the Company believes a third-party quotation differs significantly from its internally developed expectation of fair value, whether higher or lower, the Company reviews its data or assumptions with the provider. This review includes comparing significant assumptions such as prepayment speeds, default ratios, forward yield curves, credit spreads and other significant quantitative inputs to internal assumptions, and working with the price provider to reconcile the differences. The price provider may subsequently provide an updated price. In the event that the price provider does not update their price, and the Company still does not agree with the price provided, the Company will try to obtain a price from another third-party provider, such as a broker, or use an internally developed price which it believes represents the fair value of the investment. The fair values of investments for which internal prices were used were not significant to the aggregate fair value of the Company's investment portfolio as of March 31, 2013 or December 31, 2012. All challenges to third-party prices are reviewed by staff of the Company with relevant expertise to ensure reasonableness of assumptions.

In addition to challenging pricing assumptions, the Company obtains reports from the independent accountants for significant third-party pricing services attesting to the effectiveness of the controls over data provided to the Company. These reports are obtained annually and are reviewed by the Company to ensure key controls are applied by the pricing services, and that appropriate user controls are in place at the third-party pricing services organization to ensure proper measurement of the fair values of its investments. In the event that any controls in these reports are deemed as ineffective by independent accountants, the Company will take the necessary actions to ensure that internal user controls are in place to mitigate the control risks. No deficiencies were noted for significant third-party pricing services used.

2. Financial Liabilities (excluding derivative liabilities)

Financial liabilities, excluding derivative liabilities, issued by the Company primarily consist of investment agreements and MTNs within its wind-down operations, debt issued for general corporate purposes and debt in VIEs. Investment agreements, MTNs, and corporate debt are typically recorded at face value adjusted for premiums or discounts. Financial liabilities that the Company has elected to fair value or that require fair value reporting or disclosures are valued based on the estimated value of the underlying collateral, the Company's or a third-party's estimate of discounted cash flow model estimates, or quoted market values for similar products. These valuations include adjustments for expected nonperformance risk of the Company.

3. Derivative Liabilities

The Company's derivative liabilities are primarily insured credit derivatives that reference structured pools of cash securities and CDSs. The Company generally insured the most senior liabilities of such transactions, and at the inception of transactions its exposure generally had more subordination than needed to achieve triple-A ratings from credit rating agencies. The types of collateral underlying its insured derivatives consist of cash securities and CDSs referencing primarily corporate, asset-backed, residential mortgage-backed, commercial mortgage-backed, CRE loans, and CDO securities.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 6: Fair Value of Financial Instruments (continued)

The Company's insured credit derivative contracts are non-traded structured credit derivative transactions. Since insured derivatives are highly customized and there is generally no observable market for these derivatives, the Company estimates their fair values in a hypothetical market based on internal and third-party models simulating what a similar company would charge to assume the Company's position in the transaction at the measurement date. This pricing would be based on the expected loss of the exposure. The Company reviews its valuation model results on a quarterly basis to assess the appropriateness of the assumptions and results in light of current market activity and conditions. This review is performed by internal staff with relevant expertise. If live market spreads or securities prices are observable for similar transactions, those spreads are an integral part of the analysis. New insured transactions that resemble existing (previously insured) transactions, if any, would be considered, as well as negotiated settlements of existing transactions.

The Company may from time to time make changes in its valuation techniques if the change results in a measurement that it believes is equally or more representative of fair value under current circumstances.

4. Internal Review Process

All significant financial assets and liabilities, including derivative assets and liabilities, are reviewed by committees created by the Company to ensure compliance with the Company's policies and risk procedures in the development of fair values of financial assets and liabilities. These valuation committees review, among other things, key assumptions used for internally developed prices, significant changes in sources and uses of inputs, including changes in model approaches, and any adjustments from third-party inputs or prices to internally developed inputs or prices. The committees also review any significant impairment or improvements in fair values of the financial instruments from prior periods. From time to time, these committees will reach out to the Company's valuation experts to better understand key methods and assumptions used for the determination of fair value, including understanding significant changes in fair values. These committees are comprised of senior finance team members with the relevant experience in the financial instruments their committee is responsible for. For each quarter, these committees document their agreement with the fair values developed by management of the Company as reported in the quarterly and annual financial statements.

Valuation Techniques

Valuation techniques for financial instruments measured at fair value and included in the tables that follow are described below.

Fixed-Maturity Securities (including short-term investments) Held as Available-For-Sale, Fixed-Maturity Securities at Fair Value, Investments Pledged as Collateral, Investments Held-to-Maturity, and Other Investments

Fixed-maturity securities (including short-term investments) held as AFS, fixed-maturity securities at fair value, investments pledged as collateral, and other investments include investments in U.S. Treasury and government agencies, foreign governments, corporate obligations, mortgage-backed securities ("MBS") and ABS (including CMBS and CDOs), state and municipal bonds and perpetual debt and equity securities (including money market mutual funds).

These investments are generally valued based on recently executed transaction prices or quoted market prices. When quoted market prices are not available, fair value is generally determined using quoted prices of similar investments or a valuation model based on observable and unobservable inputs. Inputs vary depending on the type of investment. Observable inputs include contractual cash flows, interest rate yield curves, CDS spreads, prepayment and volatility scores, diversity scores, cross-currency basis index spreads, and credit spreads for structures similar to the financial instrument in terms of issuer, maturity and seniority. Unobservable inputs include cash flow projections and the value of any credit enhancement.

The fair value of the held-to-maturity ("HTM") investments is determined using discounted cash flow models. Key inputs include unobservable cash flows projected over the expected term of the investment discounted using observable interest rate yield curves of similar securities.

Investments based on quoted market prices of identical investments in active markets are classified as Level 1 of the fair value hierarchy. Level 1 investments generally consist of U.S. Treasury and foreign government and agency investments. Quoted market prices of investments in less active markets, as well as investments which are valued based on other than quoted prices for which the inputs are observable, such as interest rate yield curves, are categorized in Level 2 of the fair value hierarchy. Investments that contain significant inputs that are not observable are categorized as Level 3.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 6: Fair Value of Financial Instruments (continued)

Cash and Cash Equivalents, Receivable for Investments Sold, Net Cash Collateral Pledged to Swap Counterparties and Accrued Investment Income

The carrying amounts of cash and cash equivalents, receivable for investments sold, net cash collateral pledged to swap counterparties and accrued investment income approximate fair values due to the short-term nature and credit worthiness of these instruments.

Loans Receivable at Fair Value

Loans receivable at fair value are comprised of loans held by consolidated VIEs consisting of residential mortgage loans, commercial mortgage loans and other whole business loans. Fair values of residential mortgage loans are determined using quoted prices for MBS issued by the respective VIE and adjustments for the fair values of the financial guarantees provided by MBIA Corp. on the related MBS. Fair values of commercial mortgage loans and other whole business loans are valued based on quoted prices of similar collateralized MBS. Loans receivable at fair value are categorized in Level 3 of the fair value hierarchy.

Loan Repurchase Commitments

Loan repurchase commitments are obligations owed by the sellers/servicers of mortgage loans to either MBIA as reimbursement of paid claims or to the RMBS trusts as defined in the transaction documents. Loan repurchase commitments are assets of the consolidated VIEs. This asset represents the rights of MBIA against the sellers/servicers for breaches of representations and warranties that the securitized residential mortgage loans sold to the trust to comply with stated underwriting guidelines and for the sellers/servicers to cure, replace, or repurchase mortgage loans. Fair value measurements of loan repurchase commitments represent the amounts owed by the sellers/servicers to MBIA as reimbursement of paid claims. Loan repurchase commitments are not securities and no quoted prices or comparable market transaction information are observable or available. Loan repurchase commitments at fair value are categorized in Level 3 of the fair value hierarchy. Fair values of loan repurchase commitments are determined using discounted cash flow techniques based on inputs including:

- breach rates representing the rate at which the sellers/servicers failed to comply with stated representations and warranties;
- recovery rates representing the estimates of future cash flows for the asset, including estimates about possible variations in the amount of cash flows expected to be collected;
- expectations about possible variations in the timing of collections of the cash flows; and
- time value of money, represented by the rate on risk-free monetary assets.

Investment Agreements

The fair values of investment agreements are determined using discounted cash flow techniques based on contractual cash flows and observable interest rates currently being offered for similar agreements with comparable maturity dates. Investment agreements contain collateralization and termination agreements that substantially mitigate the nonperformance risk of the Company. As the terms of the notes are private, and the contract cash flows are not observable, these investment agreements are categorized as Level 3 of the fair value hierarchy.

Medium-Term Notes

The fair values of certain MTNs are based on quoted market prices provided by third-party sources, where available. When quoted market prices are not available, the Company applies a matrix pricing grid based on the quoted market prices received and the MTNs' stated maturity and interest rate to determine fair value. Nonperformance risk is included in the quoted market prices and the matrix pricing grid.

The Company has elected to record these MTNs at fair value as they contain embedded derivatives which cannot accurately be separated from the host debt instrument and fair valued separately, therefore, these MTNs are carried at fair value with changes in fair value reflected in earnings. The remaining MTNs, which are not carried at fair value, do not contain embedded derivatives.

As these MTNs are illiquid and the prices reflect significant unobservable inputs, they are categorized as Level 3 of the fair value hierarchy.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 6: Fair Value of Financial Instruments (continued)

Variable Interest Entity Notes

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

Long-term Debt

Long-term debt consists of notes, debentures and surplus notes. The fair value of long-term notes, debentures and surplus notes are estimated based on quoted prices for the identical or similar securities. Long-term debt is categorized as Level 2 of the fair value hierarchy.

Derivatives—Asset/Liability Products

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

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

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

Derivatives—Insurance

The derivative contracts insured by the Company cannot be legally traded and generally do not have observable market prices. The Company determines the fair values of insured credit derivatives using valuation models. The fair valuation models are consistently applied from period to period, with refinements to the fair value estimation approach being applied as and when the information becomes available. Negotiated settlements are also considered when determining fair value to provide the best estimate of how another market participant would evaluate fair value.

Approximately 80% of the balance sheet fair value of insured credit derivatives as of March 31, 2013 was valued primarily based on the Binomial Expansion Technique ("BET") Model. Approximately 20% of the balance sheet fair value of insured credit derivatives as of March 31, 2013 was valued primarily based on the internally developed Direct Price Model. An immaterial amount of insured credit derivatives were valued using the dual-default model. The valuation of insured derivatives includes the impact of its credit standing. All of these derivatives are categorized as Level 3 of the fair value hierarchy as their fair value is derived using significant unobservable inputs.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 6: Fair Value of Financial Instruments (continued)

A. Description of the BET Model

1. Valuation Model Overview

The BET Model estimates what a bond insurer would charge to guarantee a transaction at the measurement date, based on the market-implied default risk of the underlying collateral and the remaining structural protection in a deductible or subordination.

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

- Estimates of aggregated collateral losses are calculated by reference to the following (described in further detail under “BET Model Inputs” below):
  - credit spreads of underlying collateral based on actual spreads or spreads on similar collateral with similar ratings, or in some cases, are benchmarked; for collateral pools where the spread distribution is characterized by extremes, each segment of the pool is modeled separately instead of using an overall pool average;
  - diversity score of the collateral pool as an indication of correlation of collateral defaults; and
  - recovery rate for all defaulted collateral.
- Allocation of losses to separate tranches of the capital structure according to priority of payments in a transaction.
- The inception-to-date unrealized gain or loss on a transaction is the difference between the original price of the risk (the original market-implied expected loss) and the current price of the risk based on the assumed market-implied expected losses derived from the model.

Additional structural assumptions of the BET Model are:

- Default probabilities are determined by three factors: credit spread, recovery rate after default, and the time period under risk.
- Frequencies of defaults are modeled evenly over time.
- Collateral assets are generally considered on an average basis rather than being modeled on an individual basis.
- Collateral asset correlation is modeled using a diversity score which is calculated based on industry or sector concentrations. Recovery rates are based on historical averages and updated based on market evidence.

2. BET Model Inputs

a. Credit spreads

The average spread of collateral is a key input as the Company assumes credit spreads reflect the market’s assessment of default probability for each piece of collateral. Spreads are obtained from market data sources published by third parties (e.g., dealer spread tables for assets most closely resembling collateral within the Company’s transactions) as well as collateral-specific spreads on the underlying reference obligations provided by trustees or market sources. Also, when these sources are not available, the Company benchmarks spreads for collateral against market spreads or prices. This data is reviewed on an ongoing basis for reasonableness and applicability to the Company’s derivative portfolio. The Company also calculates spreads based on quoted prices and on internal assumptions about expected life, when pricing information is available and spread information is not.

The Company uses the spread hierarchy listed below in determining which source of spread information to use, with the rule being to use CDS spreads where available and cash security spreads as the next alternative.

Spread Hierarchy:

- Collateral-specific credit spreads when observable.
- Sector-specific spread tables by asset class and rating.
- Corporate spreads, including Bloomberg spread tables based on rating.
- Benchmark from most relevant market source when corporate spreads are not directly relevant.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 6: Fair Value of Financial Instruments (continued)

There were some transactions where the Company incorporated multiple levels within the hierarchy, including using actual collateral-specific credit spreads in combination with a calculated spread based on an assumed relationship. In those cases, MBIA classified the transaction as being benchmarked from the most relevant spread source even though the majority of the average spread was from actual collateral-specific spreads. As of March 31, 2013, sector-specific spreads were used in 8% of the transactions valued using the BET Model. Corporate spreads were used in 42% of the transactions and spreads benchmarked from the most relevant spread source were used for 50% of the transactions. The spread source can also be identified by whether or not it is based on collateral weighted average rating factor ("WARF"). No collateral-specific spreads are based on WARF. Sector-specific spreads, corporate spreads and some benchmarked spreads are based on WARF. WARF-sourced and/or ratings-sourced credit spreads were used for 77% of the transactions.

Over time, the data inputs change as new sources become available, existing sources are discontinued or are no longer considered to be reliable or the most appropriate. It is always the Company's objective to use more observable spread hierarchies defined above. However, the Company may on occasion move to less observable spread inputs due to the discontinuation of data sources or due to the Company considering certain spread inputs no longer representative of market spreads.

b. Diversity Scores

Diversity scores are a means of estimating the diversification in a portfolio. The diversity score estimates the number of uncorrelated assets that are assumed to have the same loss distribution as the actual portfolio of correlated assets. While diversity score is a required input into the BET model, due to current high levels of default within the collateral of the structures, diversity score does not have a significant impact on valuation.

c. Recovery Rate

The recovery rate represents the percentage of par expected to be recovered after an asset defaults, indicating the severity of a potential loss. MBIA generally uses rating agency recovery assumptions which may be adjusted to account for differences between the characteristics and performance of the collateral used by the rating agencies and the actual collateral in MBIA-insured transactions. The Company may also adjust rating agency assumptions based on the performance of the collateral manager and on empirical market data.

d. Nonperformance Risk

The Company's valuation methodology for insured credit derivative liabilities incorporates the Company's own nonperformance risk. The Company calculates the fair value by discounting the market value loss estimated through the BET Model at discount rates which include MBIA CDS spreads as of March 31, 2013. The CDS spreads assigned to each deal are based on the weighted average life of the deal. The Company limits the nonperformance impact so that the derivative liability could not be lower than the Company's recovery derivative price multiplied by the unadjusted derivative liability.

B. Description of Direct Price Model

1. Valuation Model Overview

The Direct Price Model uses quoted market prices of financial assets correlated to the underlying collateral of the pool of assets backing the liabilities guaranteed by certain insured derivative liabilities. These quoted market prices are adjusted to reflect the unique characteristics of the liabilities of the entities backed by the correlated assets and unique terms of the insured derivative contracts.

2. Model Inputs

- Collateral prices

  Fair value of collateral is based on quoted prices when available. When quoted prices are not available, a matrix pricing grid is used based on security type and rating to determine fair value of collateral which applies an average based on securities with the same rating and security type categories.

- Interest rates

  The present value of the market-implied potential losses was calculated assuming that MBIA deferred all principal losses to the legal final maturity. This was done through a cash flow model that calculated potential interest payments in each period and the potential principal loss at the legal final maturity. These cash flows were discounted using the LIBOR flat swap curve.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 6: Fair Value of Financial Instruments (continued)

- Nonperformance risk

  The methodology for calculating MBIA's nonperformance risk is the same as used for the BET Model. Due to the current level of MBIA CDS spread rates and the long tenure of these transactions, the derivative recovery rate was used to estimate nonperformance risk for all transactions marked by this model.

Overall Model Results

As of March 31, 2013 and December 31, 2012, the Company's net insured derivative liability was $3.0 billion and $2.9 billion, respectively, and was primarily related to the fair values of insured credit derivatives, based on the results of the aforementioned pricing models. In the current environment, the most significant driver of changes in fair value is nonperformance risk. In aggregate, the nonperformance calculation resulted in a pre-tax net insured derivative liability that was $3.2 billion and $4.4 billion lower than the net liability that would have been estimated if the Company excluded nonperformance risk in its valuation as of March 31, 2013 and December 31, 2012, respectively. Nonperformance risk is a fair value concept and does not contradict the Company's internal view, based on fundamental credit analysis of the Company's economic condition, that the Company will be able to pay all claims when due.

Warrants

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

Accrued Interest Expense

The fair value of the accrued interest expense on the surplus notes due 2033 is determined based on the scheduled interest payments discounted by the market's perception of the credit risk related to the repayment of the surplus notes. The credit risk related to the repayment of the surplus notes is based on recent trades of the surplus notes. The deferred interest payment will be due on the first business day on or after which the Company obtains approval to make such payment.

The carrying amounts of accrued interest expense on all other long-term debt approximate fair value due to the short-term nature of these instruments.

Financial Guarantees

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

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

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

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 6: Fair Value of Financial Instruments (continued)

Significant Unobservable Inputs

The following tables provide quantitative information regarding the significant unobservable inputs used by the Company for assets and liabilities measured at fair value on a recurring basis as of March 31, 2013 and December 31, 2012. These tables exclude inputs used to measure fair value that are not developed by the Company, such as broker prices and other third-party pricing service valuations.

In millions	Fair Value as of March 31, 2013	Valuation Techniques	Unobservable Input	Range (Weighted Average)
Assets of consolidated VIEs:				
Loans receivable at fair value	$ 1,819	Quoted market prices adjusted for financial guarantees provided to VIE obligations	Impact of financial guarantee	0% - 21% (4%)
Loan repurchase commitments	1,176	Discounted cash flow	Recovery rates	10% - 75% (46%)
			Breach rates	67% - 94% (78%)
Liabilities of consolidated VIEs:				
Variable interest entity notes	1,901	Quoted market prices of VIE assets adjusted for financial guarantees provided	Impact of financial guarantee	0% - 34% (8%)
Credit derivative liabilities, net:				
CMBS	1,851	BET Model	Recovery rates	21% - 90% (51%)
			Nonperformance risk	20% - 48% (48%)
			Weighted average life (in years)	0.1 - 33.5 (4.3)
			CMBS spreads	0.6% - 23.5% (13.1%)
Multi-sector CDO	594	Direct Price Model	Nonperformance risk	48% - 48% (48%)
Other	549	BET Model	Recovery rates	42% - 70% (47%)
			Nonperformance risk	37% - 48% (48%)
			Weighted average life (in years)	0.4 - 19.6 (2.8)

In millions	Fair Value as of December 31, 2012	Valuation Techniques	Unobservable Input	Range (Weighted Average)
Assets of consolidated VIEs:				
Loans receivable at fair value	$ 1,881	Quoted market prices adjusted for financial guarantees provided to VIE obligations	Impact of financial guarantee	0% - 14% (3%)
Loan repurchase commitments	1,086	Discounted cash flow	Recovery rates	10% - 75% (47%)
			Breach rates	66% - 94% (78%)
Liabilities of consolidated VIEs:				
Variable interest entity notes	1,932	Quoted market prices of VIE assets adjusted for financial guarantees provided	Impact of financial guarantee	0% - 23% (6%)
Credit derivative liabilities, net:				
CMBS	1,590	BET Model	Recovery rates	21% - 90% (51%)
			Nonperformance risk	19% - 59% (58%)
			Weighted average life (in years)	0.1 - 5.6 (4.4)
			CMBS spreads	1% - 23% (13%)
Multi-sector CDO	525	Direct Price Model	Nonperformance risk	59% - 59% (59%)
Other	806	BET Model	Recovery rates	42% - 75% (47%)
			Nonperformance risk	42% - 59% (58%)
			Weighted average life (in years)	0.1 - 19.6 (3.0)

Sensitivity of Significant Unobservable Inputs

The significant unobservable input used in the fair value measurement of the Company's loans receivable at fair value of consolidated VIEs is the impact of the financial guarantee. The fair value of loans receivable is calculated by subtracting the value of the financial guarantee from the market value of VIE liabilities. The value of a financial guarantee is estimated by the Company as the present value of expected cash payments under the policy. As expected cash payments provided by the Company under the insurance policy increase, there is a lower expected cash flow on the underlying loans receivable of the VIE. This results in a lower fair value of the loans receivable in relation to the obligations of the VIE.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 6: Fair Value of Financial Instruments (continued)

The significant unobservable inputs used in the fair value measurement of the Company's loan repurchase commitments of consolidated VIEs are the recovery rates and the breach rates. Recovery rates reflect the estimates of future cash flows reduced for litigation delays and risks and/or potential financial distress of the sellers/servicers. The estimated recoveries of the loan repurchase commitments may differ from the actual recoveries that may be received in the future. Breach rates represent the rate at which the mortgages fail to comply with stated representations and warranties of the sellers/servicers. Significant increases or decreases in the recovery rates and the breach rates would result in significantly higher or lower fair values of the loan repurchase commitments, respectively. Additionally, changes in the legal environment and the ability of the counterparties to pay would impact the recovery rate assumptions, which could significantly impact the fair value measurement. Any significant challenges by the counterparties to the Company's determination of breaches of representations and warranties could significantly adversely impact the fair value measurement. Recovery rates and breach rates are determined independently. Changes in one input will not necessarily have any impact on the other input.

The significant unobservable input used in the fair value measurement of the Company's variable interest entity notes of consolidated VIEs is the impact of the financial guarantee. The fair value of VIE notes is calculated by adding the value of the financial guarantee to the market value of VIE assets. The value of a financial guarantee is estimated by the Company as the present value of expected cash payments under the policy. As the value of the guarantee provided by the Company to the obligations issued by the VIE increases, the credit support adds value to the liabilities of the VIE. This results in an increase in the fair value of the liabilities of the VIE.

The significant unobservable inputs used in the fair value measurement of the Company's CMBS credit derivatives, which are valued using the BET Model, are CMBS spreads, recovery rates, nonperformance risk and weighted average life. The CMBS spread is an indicator of credit risk of the collateral securities. The recovery rate represents the percentage of notional expected to be recovered after an asset defaults, indicating the severity of a potential loss. The nonperformance risk is an assumption of the Company's own ability to pay and whether the Company will have the necessary resources to pay the obligations as they come due. Weighted average life is based on the Company's estimate of when the principal of the underlying collateral of the CMBS structure will be repaid. A significant increase in weighted average life can result in an increase or decrease in the fair value of the derivative liability, depending on the discount rate and the timing of significant losses. Any significant increase or decrease in recovery rates or the Company's nonperformance risk would result in a decrease or increase in the fair value of the derivative liabilities, respectively. CMBS spreads, recovery rates, nonperformance risk and weighted average lives are determined independently. Changes in one input will not necessarily have any impact on the other inputs.

The significant unobservable input used in the fair value measurement of the Company's multi-sector CDO credit derivatives, which are valued using the Direct Price Model, is nonperformance risk. The nonperformance risk is an assumption of the Company's own ability to pay and whether the Company will have the necessary resources to pay the obligations as they come due. Any significant increase or decrease in the Company's nonperformance risk would result in a decrease or increase in the fair value of the derivative liabilities, respectively.

The significant unobservable inputs used in the fair value measurement of the Company's other credit derivatives, which are valued using the BET Model, are recovery rates, nonperformance risk and weighted average life. The recovery rate represents the percentage of notional expected to be recovered after an asset defaults, indicating the severity of a potential loss. The nonperformance risk is an assumption of the Company's own ability to pay and whether the Company will have the necessary resources to pay the obligations as they come due. Weighted average life is based on the Company's estimate of when the principal of the underlying collateral will be repaid. A significant increase in weighted average life can result in an increase or decrease in the fair value of the derivative liability, depending on the discount rate and the timing of significant losses. Any significant increase or decrease in recovery rates or the Company's nonperformance risk would result in a decrease or increase in the fair value of the derivative liabilities, respectively. Recovery rates, nonperformance risk and weighted average lives are determined independently. Changes in one input will not necessarily have any impact on the other inputs.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 6: Fair Value of Financial Instruments (continued)

Fair Value Measurements

The following tables present the fair value of the Company's assets (including short-term investments) and liabilities measured and reported at fair value on a recurring basis as of March 31, 2013 and December 31, 2012:

	Fair Value Measurements at Reporting Date Using				
In millions	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Counterparty and Cash Collateral Netting	Balance as of March 31, 2013
Assets:					
Fixed-maturity investments:					
U.S. Treasury and government agency	$ 641	$ 99	$ -	$ -	$ 740
State and municipal bonds	-	1,504	23[1]	-	1,527
Foreign governments	110	91	8[1]	-	209
Corporate obligations	-	1,087	57[1]	-	1,144
Mortgage-backed securities:					
Residential mortgage-backed agency	-	931	-	-	931
Residential mortgage-backed non-agency	-	89	1[1]	-	90
Commercial mortgage-backed	-	24	13[1]	-	37
Asset-backed securities:					
Collateralized debt obligations	-	61	37[1]	-	98
Other asset-backed	-	78	67[1]	-	145
Total fixed-maturity investments	751	3,964	206	-	4,921
Money market securities	693	7	-	-	700
Perpetual debt and equity securities	27	12	10[1]	-	49
Cash and cash equivalents	862	-	-	-	862
Derivative assets:					
Non-insured derivative assets:					
Interest rate derivatives	-	81	4[1]	(81)	4
Total derivative assets	-	81	4	(81)	4

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 6: Fair Value of Financial Instruments (continued)

	Fair Value Measurements at Reporting Date Using				
In millions	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Counterparty and Cash Collateral Netting	Balance as of March 31, 2013
Assets of consolidated VIEs:					
State and municipal bonds	-	37	-	-	37
Corporate obligations	-	209	79(1)	-	288
Mortgage-backed securities:					
Residential mortgage-backed non-agency	-	893	6(1)	-	899
Commercial mortgage-backed	-	416	28(1)	-	444
Asset-backed securities:					
Collateralized debt obligations	-	207	117(1)	-	324
Other asset-backed	-	117	47(1)	-	164
Money market securities	220	-	-	-	220
Cash	72	-	-	-	72
Loans receivable	-	-	1,819	-	1,819
Loan repurchase commitments	-	-	1,176	-	1,176
Total assets	$ 2,625	$ 5,943	$ 3,492	$ (81)	$ 11,979
Liabilities:					
Medium-term notes	$ -	$ -	$ 181(1)	$ -	$ 181
Derivative liabilities:					
Insured derivatives:					
Credit derivatives	-	12	2,994	-	3,006
Non-insured derivatives:					
Interest rate derivatives	-	265	3(1)	(269)	(1)
Currency derivatives	-	-	1(1)	-	1
Other liabilities:					
Warrants	-	12	-	-	12
Liabilities of consolidated VIEs:					
Variable interest entity notes	-	1,677	1,901	-	3,578
Derivative liabilities:					
Interest rate derivatives	-	126	-	-	126
Currency derivatives	-	-	23(1)	-	23
Total liabilities	$ -	$ 2,092	$ 5,103	$ (269)	$ 6,926

(1) - Unobservable inputs are either not developed by the Company or do not significantly impact the overall fair values of the aggregate financial assets and liabilities.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 6: Fair Value of Financial Instruments (continued)

	Fair Value Measurements at Reporting Date Using				
In millions	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Counterparty and Cash Collateral Netting	Balance as of December 31, 2012
Assets:					
Fixed-maturity investments:					
U.S. Treasury and government agency	$ 784	$ 100	$ -	$ -	$ 884
State and municipal bonds	-	1,429	103[1]	-	1,532
Foreign governments	86	107	3[1]	-	196
Corporate obligations	-	1,140	76[1]	-	1,216
Mortgage-backed securities:					
Residential mortgage-backed agency	-	988	-	-	988
Residential mortgage-backed non-agency	-	94	4[1]	-	98
Commercial mortgage-backed	-	20	28[1]	-	48
Asset-backed securities:					
Collateralized debt obligations	-	65	31[1]	-	96
Other asset-backed	-	119	26[1]	-	145
Total fixed-maturity investments	870	4,062	271	-	5,203
Money market securities	585	8	-	-	593
Perpetual debt and equity securities	23	20	14[1]	-	57
Cash and cash equivalents	814	-	-	-	814
Derivative assets:					
Non-insured derivative assets:					
Interest rate derivatives	-	89	5[1]	(90)	4
Total derivative assets	-	89	5	(90)	4

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 6: Fair Value of Financial Instruments (continued)

	Fair Value Measurements at Reporting Date Using				
In millions	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Counterparty and Cash Collateral Netting	Balance as of December 31, 2012
Assets of consolidated VIEs:					
State and municipal bonds	-	41	-	-	41
Corporate obligations	-	215	78(1)	-	293
Mortgage-backed securities:					
Residential mortgage-backed non-agency	-	869	6(1)	-	875
Commercial mortgage-backed	-	410	7(1)	-	417
Asset-backed securities:					
Collateralized debt obligations	-	215	125(1)	-	340
Other asset-backed	-	120	64(1)	-	184
Money market securities	210	-	-	-	210
Cash	176	-	-	-	176
Loans receivable	-	-	1,881	-	1,881
Loan repurchase commitments	-	-	1,086	-	1,086
Total assets	$ 2,678	$ 6,049	$ 3,537	$ (90)	$ 12,174
Liabilities:					
Medium-term notes	$ -	$ -	$ 165(1)	$ -	$ 165
Derivative liabilities:					
Insured derivatives:					
Credit derivatives	-	13	2,921	-	2,934
Non-insured derivatives:					
Interest rate derivatives	-	287	4(1)	(293)	(2)
Currency derivatives	-	1	1(1)	-	2
Other liabilities:					
Warrants	-	6	-	-	6
Liabilities of consolidated VIEs:					
Variable interest entity notes	-	1,727	1,932	-	3,659
Derivative liabilities:					
Interest rate derivatives	-	141	-	-	141
Currency derivatives	-	-	21(1)	-	21
Total liabilities	$ -	$ 2,175	$ 5,044	$ (293)	$ 6,926

(1) - Unobservable inputs are either not developed by the Company or do not significantly impact the overall fair values of the aggregate financial assets and liabilities.

Level 3 assets at fair value, as of March 31, 2013 and December 31, 2012 represented approximately 29% of total assets measured at fair value. Level 3 liabilities at fair value, as of March 31, 2013 and December 31, 2012 represented approximately 74% and 73%, respectively, of total liabilities measured at fair value.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 6: Fair Value of Financial Instruments (continued)

The following tables present the fair values and carrying values of the Company's assets and liabilities that are disclosed at fair value but not reported at fair value on the Company's consolidated balance sheets as of March 31, 2013 and December 31, 2012:

	Fair Value Measurements at Reporting Date Using				
In millions	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value Balance as of March 31, 2013	Carry Value Balance as of March 31, 2013
Assets:					
Other investments	$ -	$ -	$ 9	$ 9	$ 9
Accrued investment income [1]	40	-	-	40	40
Receivable for investments sold [1]	3	-	-	3	3
Net cash collateral pledged [1]	58	-	-	58	58
Assets of consolidated VIEs:					
Investments held-to-maturity	-	-	2,759	2,759	2,826
Total assets	$ 101	$ -	$ 2,768	$ 2,869	$ 2,936
Liabilities:					
Investment agreements	$ -	$ -	$ 1,126	$ 1,126	$ 915
Medium-term notes	-	-	944	944	1,396
Long-term debt	-	801	-	801	1,661
Payable for investments purchased [2]	51	-	-	51	51
Accrued interest expense [2]	13	21	-	34	103
Liabilities of consolidated VIEs:					
Variable interest entity notes	-	-	3,253	3,253	3,461
Total liabilities	$ 64	$ 822	$ 5,323	$ 6,209	$ 7,587
Financial Guarantees:					
Gross	$ -	$ -	$ 466	$ 466	$ (318)
Ceded	-	-	100	100	87

(1) - Reported within "Other assets" on MBIA's consolidated balance sheets.

(2) - Reported within "Other liabilities" on MBIA's consolidated balance sheets.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 6: Fair Value of Financial Instruments (continued)

	Fair Value Measurements at Reporting Date Using				
In millions	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value Balance as of December 31, 2012	Carry Value Balance as of December 31, 2012
Assets:					
Other investments	$ -	$ -	$ 9	$ 9	$ 9
Accrued investment income (1)	43	-	-	43	43
Receivable for investments sold (1)	17	-	-	17	17
Net cash collateral pledged (1)	66	-	-	66	66
Assets of consolidated VIEs:					
Investments held-to-maturity	-	-	2,674	2,674	2,829
Total assets	$ 126	$ -	$ 2,683	$ 2,809	$ 2,964
Liabilities:					
Investment agreements	$ -	$ -	$ 1,175	$ 1,175	$ 944
Medium-term notes	-	-	860	860	1,433
Long-term debt	-	692	-	692	1,662
Payable for investments purchased (2)	50	-	-	50	50
Accrued interest expense (2)	9	10	-	19	70
Liabilities of consolidated VIEs:					
Variable interest entity notes	-	-	3,147	3,147	3,465
Total liabilities	$ 59	$ 702	$ 5,182	$ 5,943	$ 7,624
Financial Guarantees:					
Gross	$ -	$ -	$ 650	$ 650	$ 143
Ceded	-	-	97	97	91

(1) - Reported within “Other assets” on MBIA’s consolidated balance sheets.

(2) - Reported within “Other liabilities” on MBIA’s consolidated balance sheets.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 6: Fair Value of Financial Instruments (continued)

The following tables present information about changes in Level 3 assets (including short-term investments) and liabilities measured at fair value on a recurring basis for the three months ended March 31, 2013 and 2012:

Changes in Level 3 Assets and Liabilities Measured at Fair Value on a Recurring Basis for the Three Months Ended March 31, 2013

In millions	Balance, Beginning of Period	Realized Gains / (Losses)	Unrealized Gains / (Losses) Included in Earnings	Unrealized Gains / (Losses) Included in OCI	Foreign Exchange Recognized in OCI or Earnings	Purchases	Issuances	Settlements	Sales	Transfers into Level 3 [1]	Transfers out of Level 3 [1]	Ending Balance	Change in Unrealized Gains (Losses) for the Period Included in Earnings for Assets still held as of March 31, 2013
Assets:													
Foreign governments	$ 3	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 8	$ (3)	$ 8	$ -
Corporate obligations	76	2	4	1	(2)	-	-	(1)	(23)	-	-	57	4
Residential mortgage-backed non-agency	4	-	-	-	-	-	-	(3)	-	-	-	1	-
Commercial mortgage-backed	28	-	-	4	-	-	-	-	(19)	1	(1)	13	-
Collateralized debt obligations	31	(1)	-	3	-	-	-	(4)	-	9	(1)	37	-
Other asset-backed	26	-	-	1	-	-	-	(2)	-	42	-	67	-
State and municipal bonds	103	2	-	-	-	-	-	(1)	(13)	-	(68)	23	-
Perpetual debt and equity securities	14	-	-	-	(1)	-	-	-	-	-	(3)	10	-
Assets of consolidated VIEs:													
Corporate obligations	78	-	(2)	-	-	-	-	-	-	3	-	79	-
Residential mortgage-backed non-agency	6	-	6	-	-	-	-	(6)	-	1	(1)	6	1
Commercial mortgage-backed	7	-	1	-	-	-	-	-	-	20	-	28	1
Collateralized debt obligations	125	-	(8)	-	-	-	-	-	-	1	(1)	117	(4)
Other asset-backed	64	-	(14)	-	-	-	-	(3)	-	-	-	47	(9)
Loans receivable	1,881	-	8	-	-	-	-	(70)	-	-	-	1,819	8
Loan repurchase commitment	1,086	-	90	-	-	-	-	-	-	-	-	1,176	90
Total assets	$ 3,532	$ 3	$ 85	$ 9	$ (3)	$ -	$ -	$ (90)	$ (55)	$ 85	$ (78)	$ 3,488	$ 91

In millions	Balance, Beginning of Period	Realized (Gains) / Losses	Unrealized (Gains) / Losses Included in Earnings	Unrealized (Gains) / Losses Included in OCI	Foreign Exchange Recognized in OCI or Earnings	Purchases	Issuances	Settlements	Sales	Transfers into Level 3 [1]	Transfers out of Level 3 [1]	Ending Balance	Change in Unrealized (Gains) Losses for the Period Included in Earnings for Liabilities still held as of March 31, 2013
Liabilities:													

Medium-term notes	$ 165	$ -	$ 21	$ -	$ (5)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 181	$ 16
Credit derivatives net	2,921	1	73	-	-	-	-	(1)	-	-	-	2,994	131
Interest rate derivatives, net	(1)	-	1	-	(1)	-	-	-	-	-	-	(1)	-
Currency derivatives net	1	-	1	-	(1)	-	-	-	-	-	-	1	-
Liabilities of consolidated VIEs:													
VIE notes	1,932	-	122	-	-	-	-	(153)	-	-	-	1,901	122
Currency derivatives, net	21	-	(1)	-	3	-	-	-	-	-	-	23	2
Total liabilities	$ 5,039	$ 1	$ 217	$ -	$ (4)	$ -	$ -	$ (154)	$ -	$ -	$ -	$ 5,099	$ 271

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

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 6: Fair Value of Financial Instruments (continued)

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

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

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

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

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 6: Fair Value of Financial Instruments (continued)

Transfers into and out of Level 3 were $85 million and $78 million, respectively, for the three months ended March 31, 2013. Transfers into and out of Level 2 were $78 million and $85 million, respectively, for the three months ended March 31, 2013. Transfers into Level 3 were principally related to other asset-backed obligations, commercial mortgage-backed obligations and CDOs where inputs, which are significant to their valuation, became unobservable during the quarter. State and municipal bonds comprised the majority of the transferred instruments out of Level 3 where inputs, which are significant to their valuation, became observable during the quarter. These inputs included spreads, prepayment speeds, default speeds, default severities, yield curves observable at commonly quoted intervals, and market corroborated inputs. There were no transfers into or out of Level 1.

Transfers into and out of Level 3 were $28 million and $42 million, respectively, for the three months ended March 31, 2012. Transfers into and out of Level 2 were $42 million and $28 million, respectively, for the three months ended March 31, 2012. Transfers into Level 3 were principally related to CDOs and corporate obligations where inputs, which are significant to their valuation, became unobservable during the quarter. CDOs, commercial mortgage-backed and residential mortgage-backed non-agency comprised the majority of the transferred instruments out of Level 3 where inputs, which are significant to their valuation, became observable during the quarter. These inputs included spreads, prepayment speeds, default speeds, default severities, yield curves observable at commonly quoted intervals, and market corroborated inputs. There were no transfers into or out of Level 1.

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

Gains and losses (realized and unrealized) included in earnings related to Level 3 assets and liabilities for the three months ended March 31, 2013 and 2012 are reported on the Company's consolidated statements of operations as follows:

	Three Months Ended March 31, 2013	
In millions	Total Gains (Losses) Included in Earnings	Change in Unrealized Gains (Losses) for the Period Included in Earnings for Assets and Liabilities still held as of March 31, 2013
Revenues:		
Unrealized gains (losses) on insured derivatives	$ (73)	$ (131)
Realized gains (losses) and other settlements on insured derivatives	(1)	-
Net gains (losses) on financial instruments at fair value and foreign exchange	(16)	(12)
Revenues of consolidated VIEs:		
Net gains (losses) on financial instruments at fair value and foreign exchange	(40)	(37)
Total	$ (130)	$ (180)

	Three Months Ended March 31, 2012	
In millions	Total Gains (Losses) included in Earnings	Change in Unrealized Gains (Losses) for the Period Included in Earnings for Assets and Liabilities still held as of March 31, 2012
Revenues:		
Net investment income	$ (5)	$ -
Unrealized gains (losses) on insured derivatives	303	286
Realized gains (losses) and other settlements on insured derivatives	(20)	-
Net gains (losses) on financial instruments at fair value and foreign exchange	(36)	(12)
Net investment losses related to other-than-temporary impairments	(95)	-
Revenues of consolidated VIEs:		
Net gains (losses) on financial instruments at fair value and foreign exchange	(111)	(113)
Total	$ 36	$ 161

Fair Value Option

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

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 6: Fair Value of Financial Instruments (continued)

The following table presents the changes in fair value included in the Company's consolidated statements of operations for the three months ended March 31, 2013 and 2012 for all financial instruments for which the fair value option was elected:

	Net Gains (Losses) on Financial Instruments at Fair Value and Foreign Exchange	
	Three Months Ended March 31,	
In millions	2013	2012
Fixed-maturity securities held at fair value	$ 18	$ (1)
Loans receivable at fair value:		
Residential mortgage loans	(74)	18
Other loans	13	(39)
Loan repurchase commitments	90	-
Long-term debt	81	(7)

Substantially all gains and losses included in earnings during the three months ended March 31, 2013 on loans receivable and VIE notes reported in the preceding table are attributable to credit risk. This is primarily due to the high rate of defaults on loans and the collateral supporting the VIE notes, resulting in depressed pricing of the financial instruments.

The following table reflects the difference between the aggregate fair value and the aggregate remaining contractual principal balance outstanding as of March 31, 2013 and December 31, 2012 for loans and VIE notes for which the fair value option was elected:

	As of March 31, 2013			As of December 31, 2012		
In millions	Contractual Outstanding Principal	Fair Value	Difference	Contractual Outstanding Principal	Fair Value	Difference
Loans receivable at fair value:						
Residential mortgage loans	$ 2,220	$1,660	$ 560	$ 2,307	$1,735	$ 572
Residential mortgage loans (90 days or more past due)	244	54	190	244	54	190
Other loans	22	11	11	22	22	-
Other loans (90 days or more past due)	196	94	102	197	70	127
Total loans receivable at fair value	$ 2,682	$1,819	$ 863	$ 2,770	$1,881	$ 889
Variable interest entity notes	$ 8,813	$3,578	$ 5,235	$ 9,021	$3,659	$ 5,362

Note 7: Investments

Investments, excluding those elected under the fair value option, include debt and equity securities classified as either AFS or HTM. Other invested assets designated as AFS are primarily comprised of money market funds.

The following tables present the amortized cost, fair value, corresponding gross unrealized gains and losses and other-than-temporary impairments ("OTTI") for AFS and HTM investments in the Company's consolidated investment portfolio as of March 31, 2013 and December 31, 2012:

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 7: Investments (continued)

	March 31, 2013				
In millions	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Other-Than-Temporary Impairments [1]
AFS Investments					
Fixed-maturity investments:					
U.S. Treasury and government agency	$ 678	$ 37	$ (1)	$ 714	$ -
State and municipal bonds	1,457	76	(8)	1,525	-
Foreign governments	198	12	-	210	-
Corporate obligations	994	45	(20)	1,019	4
Mortgage-backed securities:					
Residential mortgage-backed agency	888	16	(3)	901	-
Residential mortgage-backed non-agency	78	11	(7)	82	2
Commercial mortgage-backed	31	1	(1)	31	-
Asset-backed securities:					
Collateralized debt obligations	158	1	(65)	94	(21)
Other asset-backed	141	3	(11)	133	-
Total fixed-maturity investments	4,623	202	(116)	4,709	(15)
Money market securities	688	-	-	688	-
Perpetual debt and equity securities	12	1	-	13	-
Assets of consolidated VIEs:					
State and municipal bonds	33	4	-	37	-
Corporate obligations	175	10	(6)	179	-
Mortgage-backed securities:					
Residential mortgage-backed non-agency	86	-	(7)	79	-
Asset-backed securities:					
Collateralized debt obligations	94	-	(6)	88	-
Other asset-backed	20	-	-	20	-
Money market securities	220	-	-	220	-
Total AFS investments	$ 5,951	$ 217	$ (135)	$6,033	$ (15)
HTM Investments					
Assets of consolidated VIEs:					
Corporate obligations	$ 2,826	$ 26	$ (93)	$2,759	$ -
Total HTM investments	$ 2,826	$ 26	$ (93)	$2,759	$ -

(1) - Represents unrealized gains or losses on other than temporarily impaired securities recognized in AOCI, which includes the non-credit component of impairments, as well as all subsequent changes in fair value of such impaired securities reported in AOCI.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 7: Investments (continued)

In millions	December 31, 2012 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Other-Than-Temporary Impairments [1]
AFS Investments					
Fixed-maturity investments:					
U.S. Treasury and government agency	$ 819	$ 40	$ (1)	$ 858	$ -
State and municipal bonds	1,446	97	(12)	1,531	-
Foreign governments	183	13	-	196	-
Corporate obligations	1,058	54	(20)	1,092	5
Mortgage-backed securities:					
Residential mortgage-backed agency	939	19	(1)	957	-
Residential mortgage-backed non-agency	86	11	(8)	89	-
Commercial mortgage-backed	46	-	(4)	42	-
Asset-backed securities:					
Collateralized debt obligations	161	1	(71)	91	(25)
Other asset-backed	145	3	(11)	137	-
Total fixed-maturity investments	4,883	238	(128)	4,993	(20)
Money market securities	580	-	-	580	-
Perpetual debt and equity securities	22	1	-	23	-
Assets of consolidated VIEs:					
State and municipal bonds	38	3	-	41	-
Corporate obligations	177	9	(6)	180	-
Mortgage-backed securities:					
Residential mortgage-backed non-agency	92	-	(10)	82	-
Asset-backed securities:					
Collateralized debt obligations	97	-	(8)	89	-
Other asset-backed	23	-	-	23	-
Money market securities	210	-	-	210	-
Total AFS investments	$ 6,122	$ 251	$ (152)	$6,221	$ (20)
HTM Investments					
Assets of consolidated VIEs:					
Corporate obligations	$ 2,829	$ 2	$ (157)	$2,674	$ -
Total HTM investments	$ 2,829	$ 2	$ (157)	$2,674	$ -

(1) - Represents unrealized gains or losses on other than temporarily impaired securities recognized in AOCI, which includes the non-credit component of impairments, as well as all subsequent changes in fair value of such impaired securities reported in AOCI.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 7: Investments (continued)

The following table presents the distribution by contractual maturity of AFS and HTM fixed-maturity securities at amortized cost and fair value as of March 31, 2013. Contractual maturity may differ from expected maturity as borrowers may have the right to call or prepay obligations.

	AFS Securities				HTM Securities	
			Consolidated VIEs		Consolidated VIEs	
In millions	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$ 274	$ 275	$ 17	$ 18	$ -	$ -
Due after one year through five years	898	921	107	116	-	-
Due after five years through ten years	794	831	-	-	-	-
Due after ten years through fifteen years	370	398	84	82	-	-
Due after fifteen years	991	1,043	-	-	2,826	2,759
Mortgage-backed and asset-backed	1,296	1,241	200	187	-	-
Total fixed-maturity investments	$ 4,623	$ 4,709	$ 408	$ 403	$ 2,826	$ 2,759

Deposited and Pledged Securities

The fair value of securities on deposit with various regulatory authorities was $11 million and $10 million as of March 31, 2013 and December 31, 2012, respectively. These deposits are required to comply with state insurance laws.

The Company enters into securities borrowing and lending contracts in connection with MBIA's collateralized investment agreement activities. Such contracts are only transacted with high-quality dealer firms. It is the Company's policy to take possession of securities borrowed under these contracts. The Company minimizes credit risk from counterparties that might be unable to fulfill their contractual obligations by monitoring customer credit exposure and collateral values and requiring additional collateral to be deposited with the Company when deemed necessary.

Substantially all of the obligations under investment agreements require the Company to pledge securities as collateral. Securities pledged in connection with investment agreement activities may not be repledged by the investment agreement counterparty. As of March 31, 2013 and December 31, 2012, the fair value of securities pledged as collateral for these investment agreements approximated $804 million and $820 million, respectively. The Company's collateral as of March 31, 2013 consisted principally of RMBS, U.S. Treasury and government agency bonds and state and municipal bonds, and was primarily held with major U.S. banks. Additionally, the Company pledged cash and money market securities as collateral under investment agreements in the amount of $122 million and $144 million as of March 31, 2013 and December 31, 2012, respectively.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 7: Investments (continued)

Impaired Investments

The following tables present the gross unrealized losses related to AFS and HTM investments as of March 31, 2013 and December 31, 2012:

	March 31, 2013					
	Less than 12 Months		12 Months or Longer		Total	
In millions	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
AFS Investments						
Fixed-maturity investments:						
U.S. Treasury and government agency	$ 70	$ (1)	$ -	$ -	$ 70	$ (1)
State and municipal bonds	196	(2)	85	(6)	281	(8)
Foreign governments	32	-	-	-	32	-
Corporate obligations	267	(5)	54	(15)	321	(20)
Mortgage-backed securities:						
Residential mortgage-backed agency	403	(3)	36	-	439	(3)
Residential mortgage-backed non-agency	2	-	27	(7)	29	(7)
Commercial mortgage-backed	3	-	1	(1)	4	(1)
Asset-backed securities:						
Collateralized debt obligations	4	-	74	(65)	78	(65)
Other asset-backed	3	-	63	(11)	66	(11)
Total fixed-maturity investments	980	(11)	340	(105)	1,320	(116)
Perpetual debt and equity securities	1	-	-	-	1	-
Assets of consolidated VIEs:						
Corporate obligations	10	-	21	(6)	31	(6)
Mortgage-backed securities:						
Residential mortgage-backed non-agency	3	-	76	(7)	79	(7)
Asset-backed securities:						
Collateralized debt obligations	-	-	83	(6)	83	(6)
Total AFS investments	$ 994	$ (11)	$ 520	$ (124)	$1,514	$ (135)
HTM Investments						
Assets of consolidated VIEs:						
Corporate obligations	$ 311	$ (4)	$1,336	$ (89)	$1,647	$ (93)
Total HTM investments	$ 311	$ (4)	$1,336	$ (89)	$1,647	$ (93)

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 7: Investments (continued)

	December 31, 2012					
	Less than 12 Months		12 Months or Longer		Total	
In millions	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
AFS Investments						
Fixed-maturity investments:						
U.S. Treasury and government agency	$ 234	$ (1)	$ -	$ -	$ 234	$ (1)
State and municipal bonds	69	-	87	(12)	156	(12)
Foreign governments	11	-	1	-	12	-
Corporate obligations	202	(2)	57	(18)	259	(20)
Mortgage-backed securities:						
Residential mortgage-backed agency	173	(1)	38	-	211	(1)
Residential mortgage-backed non-agency	4	-	28	(8)	32	(8)
Commercial mortgage-backed	3	-	27	(4)	30	(4)
Asset-backed securities:						
Collateralized debt obligations	1	-	80	(71)	81	(71)
Other asset-backed	4	-	65	(11)	69	(11)
Total fixed-maturity investments	701	(4)	383	(124)	1,084	(128)
Perpetual debt and equity securities	1	-	1	-	2	-
Assets of consolidated VIEs:						
Corporate obligations	-	-	31	(6)	31	(6)
Mortgage-backed securities:						
Residential mortgage-backed non-agency	-	-	82	(10)	82	(10)
Asset-backed securities:						
Collateralized debt obligations	-	-	85	(8)	85	(8)
Total AFS investments	$ 702	$ (4)	$ 582	$ (148)	$1,284	$ (152)
HTM Investments						
Assets of consolidated VIEs:						
Corporate obligations	$ 297	$ (19)	$1,287	$ (138)	$1,584	$ (157)
Total HTM investments	$ 297	$ (19)	$1,287	$ (138)	$1,584	$ (157)

Gross unrealized losses on AFS and HTM securities decreased as of March 31, 2013 compared with December 31, 2012 primarily due to market price appreciation.

With the weighting applied on the fair value of each security relative to the total fair value, the weighted average contractual maturity of securities in an unrealized loss position as of March 31, 2013 and December 31, 2012 was 24 and 23 years, respectively. As of March 31, 2013 and December 31, 2012, there were 124 and 153 securities, respectively, that were in an unrealized loss position for a continuous twelve-month period or longer, of which the fair values of 68 and 89 securities, respectively, were below book value by more than 5%.

The following table presents the distribution of securities by percentage of fair value below book value by more than 5%:

Percentage of Fair Value Below Book Value	Number of Securities	Book Value (in millions)	Fair Value (in millions)
> 5% to 15%	18	$ 741	$ 641
> 15% to 25%	15	136	110
> 25% to 50%	15	56	40
> 50%	20	80	17
Total	68	$ 1,013	$ 808

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 7: Investments (continued)

The following table presents the fair values and gross unrealized losses by credit rating category of ABS, MBS and corporate obligations included in the Company's consolidated AFS investment portfolio as of March 31, 2013 for which fair value was less than amortized cost. The credit ratings are based on ratings from Moody's as of March 31, 2013 or an alternate ratings source, such as S&P, when a security is not rated by Moody's. For investments that are insured by various third-party guarantee insurers, the credit rating reflects the higher of the insurer's rating or the underlying bond's rating.

In millions	Aaa		Aa		A		Baa		Below Investment Grade		Not Rated		Total	
Asset Type	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
ABS	$ 25	$ (1)	$ 64	$ (5)	$ 3	$ -	$ 1	$ -	$ 134	$ (76)	$ -	$ -	$ 227	$ (82)
MBS	439	(4)	4	-	78	(7)	2	-	13	(2)	15	(5)	551	(18)
Corporate obligations	5	-	72	(1)	196	(11)	65	(13)	14	(1)	-	-	352	(26)
Total	$ 469	$ (5)	$ 140	$ (6)	$ 277	$ (18)	$ 68	$ (13)	$ 161	$ (79)	$ 15	$ (5)	$ 1,130	$ (126)

The total ABS, MBS and corporate obligations reported in the preceding table include those which are guaranteed by financial guarantors. In addition, the following table presents information on ABS, MBS and corporate obligations guaranteed by the Company and third-party financial guarantors.

Asset Type	Average Credit Rating with the Effect of Guarantee	Average Credit Rating without the Effect of Guarantee	Insured Securities Rated Below Investment Grade without the Effect of Guarantee (in millions) Fair Value	Percentage
ABS	Below investment grade	Below investment grade	$ 100	64 %
MBS	A	Below investment grade	83	95 %
Corporate obligations	Baa	Baa	-	- %

Refer to the table in the "Determination of Credit Loss Guaranteed by the Company and Other Third-Party Guarantors" section within the OTTI section of this note for information on the insured securities included in the table above.

The Company concluded that it does not have the intent to sell securities in an unrealized loss position and it is more likely than not, that it would not have to sell these securities before recovery of their cost basis. In making this conclusion, the Company examined the cash flow projections for its investment portfolios, the potential sources and uses of cash in its businesses, and the cash resources available to its business other than sales of securities. It also considered the existence of any risk management or other plans as of March 31, 2013 that would require the sale of impaired securities. Impaired securities that the Company intends to sell before the expected recovery of such securities' fair values have been written down to fair value.

Other-Than-Temporary Impairments

Evaluating AFS Securities for OTTI

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

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

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 7: Investments (continued)

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

Determination of Credit Loss on ABS, MBS and Corporate Obligations

Investments with unrealized losses that met the above criteria were tested for OTTI and principally related to ABS, MBS and corporate obligations.

ABS investments are evaluated for OTTI using historical collateral performance, deal waterfall and structural protections, credit ratings, and forward looking projections of collateral performance based on business and economic conditions specific to each collateral type and risk. The underlying collateral is evaluated to identify any specific performance concerns, and stress scenarios are considered in forecasting ultimate returns of principal. Based on this evaluation, if a principal default is projected for a security, estimated future cash flows are discounted at the security's interest rate used to recognize interest income on the security. For CDO investments, the Company utilizes the same tools as for RMBS investments discussed below, aggregating the bond level cash flows to the CDO investment level. If the present value of cash flows is less than the Company's amortized cost for the security, the difference is recorded as an OTTI loss.

RMBS investments are evaluated for OTTI using several quantitative tools. Loan level data are obtained and analyzed in a model that produces prepayment, default, and severity vectors. The model utilizes macro inputs, including housing price assumptions and interest rates. The vector outputs are used as inputs to a third-party cash flow model, which considers deal waterfall dynamics and structural features, to generate cash flows for an RMBS investment. The expected cash flows of the security are then discounted at the interest rate used to recognize interest income of the security to arrive at a present value amount. If the present value of the cash flows is less than the Company's amortized cost for the investment, the difference is recorded as an OTTI loss.

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

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 7: Investments (continued)

For the three months ended March 31, 2012, the credit losses recognized in earnings were related to RMBS and CDOs. The following table presents a summary of the significant inputs considered in determining the measurement of the credit losses on securities in which a portion of the impairment is included in AOCI:

Asset-backed Securities	Three Months Ended March 31, 2012
Expected size of losses [1]:	
Range [2]	12.13% to 100.00%
Weighted average [3]	90.60%
Current subordination levels [4]:	
Range [2]	0.00% to 0.00%
Weighted average [3]	0.00%
Prepayment speed (annual constant prepayment rate) [5]:	
Range [2]	0.00% to 22.68%
Weighted average [3]	10.21%

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

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

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

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

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

Determination of Credit Loss Guaranteed by the Company and Other Third-Party Guarantors

The Company does not record OTTI related to credit concerns about issuers of securities insured by MBIA Corp. and National since investors in these securities, including MBIA, are guaranteed payment of principal and interest when due by MBIA. Securities insured by the Company, whether or not owned by the Company, are evaluated for impairment as part of its insurance surveillance process and, therefore, losses on securities insured by the Company are recorded in accordance with its loss reserving policy. Refer to “Note 2: Significant Accounting Policies” in the Notes to Consolidated Financial Statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2012 for information about the Company’s loss reserving policy and “Note 5: Loss and Loss Adjustment Expense Reserves” for information about loss reserves.

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

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 7: Investments (continued)

The following table provides information about securities held by the Company as of March 31, 2013 that were in an unrealized loss position and insured by a financial guarantor, along with the amount of insurance loss reserves corresponding to the par amount owned by the Company:

In millions	Fair Value	Unrealized Loss	Insurance Loss Reserve [2]
Asset-backed:			
MBIA [1]	$ 146	$ (58)	$ 16
Other	9	(5)	-
Total asset-backed	155	(63)	16
Mortgage-backed:			
MBIA [1]	6	-	-
Other	82	(7)	-
Total mortgage-backed	88	(7)	-
Corporate obligations:			
Other	11	(10)	-
Total corporate obligations	11	(10)	-
Other:			
MBIA [1]	68	(6)	-
Other	7	-	-
Total other	75	(6)	-
Total	$ 329	$ (86)	$ 16

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

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

Credit Loss Rollforward

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

In millions	Three Months Ended March 31,	
Credit Losses Recognized in Earnings Related to Other-Than-Temporary Impairments	2013	2012
Beginning balance	$ 197	$ 341
Additions for credit loss impairments recognized in the current period on securities previously impaired	-	2
Reductions for credit loss impairments previously recognized on securities sold during the period	(2)	(7)
Reductions for credit loss impairments previously recognized on securities impaired to fair value during the period [1]	-	(59)
Ending balance	$ 195	$ 277

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

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 7: Investments (continued)

Sales of Available-For-Sale Investments

Gross realized gains and losses are recorded in "Net gains (losses) on financial instruments at fair value and foreign exchange" in the Company's consolidated statements of operations. The proceeds and gross realized gains and losses from sales of AFS investments for the three months ended March 31, 2013 and 2012 are as follows:

	Three Months Ended March 31,	
In millions	2013	2012
Proceeds from sales	$ 878	$ 2,052
Gross realized gains	$ 36	$ 31
Gross realized losses	$ (3)	$ (79)

Note 8: Derivative Instruments

Overview

MBIA has entered into derivative instruments through its financial guarantee of CDS and for purposes of hedging risks associated with existing assets and liabilities and forecasted transactions. The Company accounts for derivative instruments in accordance with the accounting principles for derivative and hedging activities, which requires that all such instruments be recorded on the balance sheet at fair value. Refer to "Note 6: Fair Value of Financial Instruments" for the method of determining the fair value of derivative instruments.

U.S. Public Finance Insurance

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

Structured Finance and International Insurance

The Company entered into derivative instruments that it viewed as an extension of its core financial guarantee business but which do not qualify for the financial guarantee scope exception and, therefore, must be recorded at fair value on the balance sheet. These insured CDS contracts, primarily referencing corporate, asset-backed, residential mortgage-backed, commercial mortgage-backed, CRE loans, and CDO securities, are intended to be held for the entire term of the contract absent a negotiated settlement with the counterparty.

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

Variable Interest Entities

VIEs consolidated by the Company have entered into derivative instruments primarily consisting of interest rate swaps. Interest rate swaps are entered into to mitigate the risks associated with fluctuations in interest rates or fair values of certain contracts.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 8: Derivative Instruments (continued)

Asset/Liability Products

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

In certain instances, the Company's asset/liability products business purchased or issued securities that contain embedded derivatives. In accordance with the accounting guidance for derivative instruments and hedging activities, the balance sheet location of the Company's embedded derivative instruments is determined by the location of the related security.

Changes in the fair value of the Company's asset/liability products business derivatives are recorded on the Company's consolidated statements of operations within "Net gains (losses) on financial instruments at fair value and foreign exchange".

Credit Derivatives Sold

The following tables present information about credit derivatives sold by the Company's insurance operations that were outstanding as of March 31, 2013 and December 31, 2012. Credit ratings represent the lower of underlying ratings assigned to the collateral by Moody's, S&P or MBIA.

$ in millions		As of March 31, 2013						
		Notional Value						
Credit Derivatives Sold	Weighted Average Remaining Expected Maturity	AAA	AA	A	BBB	Below Investment Grade	Total Notional	Fair Value Asset (Liability)
Insured credit default swaps	4.9 Years	$10,007	$5,792	$3,109	$11,250	$14,228	$44,386	$(2,960)
Insured swaps	19.2 Years	-	85	3,632	1,958	-	5,675	(8)
All others	32.6 Years	-	-	-	-	195	195	(38)
Total notional		$10,007	$5,877	$6,741	$13,208	$14,423	$50,256	
Total fair value		$ (3)	$ (83)	$ (8)	$ (534)	$(2,378)		$(3,006)

$ in millions		As of December 31, 2012						
		Notional Value						
Credit Derivatives Sold	Weighted Average Remaining Expected Maturity	AAA	AA	A	BBB	Below Investment Grade	Total Notional	Fair Value Asset (Liability)
Insured credit default swaps	5.1 Years	$10,457	$5,862	$5,253	$11,571	$13,859	$47,002	$(2,858)
Insured swaps	19.4 Years	-	103	3,661	1,982	71	5,817	(8)
All others	1.8 Years	-	-	-	-	195	195	(68)
Total notional		$10,457	$5,965	$8,914	$13,553	$14,125	$53,014	
Total fair value		$ (7)	$ (70)	$ (72)	$ (732)	$(2,053)		$(2,934)

Internal credit ratings assigned by MBIA on the underlying collateral are derived by the Company's surveillance group. In assigning an internal rating, current status reports from issuers and trustees, as well as publicly available transaction-specific information, are reviewed. Also, where appropriate, cash flow analyses and collateral valuations are considered. The maximum potential amount of future payments (undiscounted) on CDS contracts are estimated as the notional value plus any additional debt service costs, such as interest or other amounts owing on CDS contracts. The maximum amount of future payments that MBIA may be required to make under these guarantees as of March 31, 2013 is $48.5 billion. This amount is net of $392 million of insured derivatives ceded under reinsurance agreements in which MBIA economically hedges a portion of the credit and market risk associated with its insured derivatives and offsetting agreements with a counterparty. The maximum potential amount of future payments (undiscounted) on insured swaps are estimated as the notional value of such contracts.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 8: Derivative Instruments (continued)

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

Counterparty Credit Risk

The Company manages counterparty credit risk on an individual counterparty basis through master netting agreements covering derivative instruments in the asset/liability products segment. There are no master netting agreements in the Structured Finance and International Insurance or the U.S. Public Finance segments. The master netting agreements in the asset/liability products segment allow the Company to contractually net amounts due from a counterparty with those amounts due to such counterparty when certain triggering events occur. The Company only executes swaps under master netting agreements, which typically contain mutual credit downgrade provisions that generally provide the ability to require assignment or termination in the event either MBIA or the counterparty is downgraded below a specified credit rating.

Under these arrangements, the Company may receive or provide U.S. Treasury and other highly rated securities or cash to secure counterparties' exposure to the Company or its exposure to counterparties, respectively. Such collateral is available to the holder to pay for replacing the counterparty in the event that the counterparty defaults. As of March 31, 2013, the Company did not hold cash collateral to derivative counterparties but posted cash collateral to derivative counterparties of $262 million. Of this amount, $188 million is netted within "Derivative liabilities", $16 million is included within "Other liabilities" as cash collateral netted against accrued interest on derivative liabilities and an additional $58 million is included in "Other assets" on the Company's consolidated balance sheets. As of December 31, 2012, the Company did not hold cash collateral to derivative counterparties but posted cash collateral to derivative counterparties of $285 million. Of this amount, $203 million is netted within "Derivative liabilities", $16 million is included within "Other liabilities" as cash collateral netted against accrued interest on derivative liabilities and an additional $66 million is included in "Other assets" on the Company's consolidated balance sheets. As of March 31, 2013 and December 31, 2012, the Company did not post securities to derivative counterparties.

As of March 31, 2013 and December 31, 2012, the fair value on one positive Credit Support Annex ("CSA") was $4 million. This CSA governs collateral posting requirements between MBIA and its derivative counterparties. The Company did not receive collateral due to the Company's credit rating, which was below the CSA minimum credit ratings level for holding counterparty collateral. As of March 31, 2013 and December 31, 2012, the counterparty was rated A2 by Moody's and A by S&P.

Financial Statement Presentation

The fair value of amounts recognized for eligible derivative contracts executed with the same counterparty under a master netting agreement, including any cash collateral that may have been received or posted by the Company, is presented on a net basis in accordance with accounting guidance for the offsetting of fair value amounts related to derivative instruments. Insured CDSs and insured swaps are not subject to master netting agreements. VIE derivative assets and liabilities are not presented net of any master netting agreements.

As of March 31, 2013, the total fair value of the Company's derivative assets, after counterparty netting of $81 million, was $12 million, of which $4 million was reported within "Other assets" and "Other assets-VIEs". Embedded derivatives of $8 million were reported within "Medium-term notes" on the Company's consolidated balance sheets.

As of March 31, 2013, the total fair value of the Company's derivative liabilities, after counterparty netting of $81 million and cash collateral posted by the Company of $188 million was $3.2 billion, which was reported within "Derivative liabilities" and "Derivative liabilities-VIEs" on the Company's consolidated balance sheets. Embedded derivatives of $37 million were reported within "Medium-term notes" on the Company's consolidated balance sheets.

Counterparty netting of derivative assets and liabilities offsets balances in "Interest rate" and "Currency swaps" in the table below.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 8: Derivative Instruments (continued)

The following table presents the total fair value of the Company's derivative assets and liabilities by instrument and balance sheet location, before counterparty netting and posting of cash collateral, as of March 31, 2013:

In millions		Derivative Assets [1]		Derivative Liabilities [1]	
Derivative Instruments	Notional Amount Outstanding	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Not designated as hedging instruments:					
Insured credit default swaps	$ 44,705	Other assets	$ -	Derivative liabilities	$(2,960)
Insured swaps	5,675	Other assets	-	Derivative liabilities	(8)
Non-insured credit default swaps	5	Other assets	-	Derivative liabilities	-
Interest rate swaps	1,604	Other assets	85	Derivative liabilities	(269)
Interest rate swaps-VIE	2,728	Other assets-VIE	-	Derivative liabilities-VIE	(127)
Interest rate swaps-embedded	468	Medium-term notes	8	Medium-term notes	(37)
Currency swaps	19	Other assets	-	Derivative liabilities	-
Currency swaps-VIE	107	Other assets-VIE	-	Derivative liabilities-VIE	(23)
All other	195	Other assets	-	Derivative liabilities	(38)
All other-VIE	280	Other assets-VIE	-	Derivative liabilities-VIE	-
All other-embedded	20	Other investments	-	Other investments	-
Total non-designated derivatives	$ 55,806		$ 93		$(3,462)

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

As of December 31, 2012, the total fair value of the Company's derivative assets, after counterparty netting of $90 million, was $12 million, of which $4 million was reported within "Other assets" and "Other assets-VIEs". Embedded derivatives of $8 million were reported within "Medium-term notes" on the Company's consolidated balance sheets.

As of December 31, 2012, the total fair value of the Company's derivative liabilities, after counterparty netting of $90 million and cash collateral posted by the Company of $203 million, was $3.1 billion which was reported within "Derivative liabilities" and "Derivative liabilities-VIEs" on the Company's consolidated balance sheets. Embedded derivatives of $36 million were reported within "Medium-term notes" and "Other investments" on the Company's consolidated balance sheets.

Counterparty netting of derivative assets and liabilities offsets balances in "Interest rate swaps not designated as hedging instruments" and "Currency swaps" in the table below.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 8: Derivative Instruments (continued)

The following table presents the total fair value of the Company's derivative assets and liabilities by instrument and balance sheet location, before counterparty netting and posting of cash collateral, as of December 31, 2012:

In millions		Derivative Assets [1]		Derivative Liabilities [1]	
Derivative Instruments	Notional Amount Outstanding	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Not designated as hedging instruments:					
Insured credit default swaps	$ 47,320	Other assets	$ -	Derivative liabilities	$(2,858)
Insured swaps	5,817	Other assets	-	Derivative liabilities	(8)
Non-insured credit default swaps	10	Other assets	-	Derivative liabilities	-
Interest rate swaps	1,637	Other assets	94	Derivative liabilities	(290)
Interest rate swaps-VIE	2,728	Other assets-VIE	-	Derivative liabilities-VIE	(141)
Interest rate swaps-embedded	483	Medium-term notes	8	Medium-term notes	(35)
Currency swaps	40	Other assets	-	Derivative liabilities	(3)
Currency swaps-VIE	110	Other assets-VIE	-	Derivative liabilities-VIE	(21)
All other	195	Other assets	-	Derivative liabilities	(68)
All other-VIE	280	Other assets-VIE	-	Derivative liabilities-VIE	-
All other-embedded	20	Other investments	-	Other investments	(1)
Total non-designated	$ 58,640		$ 102		$(3,425)
Total derivatives	$ 58,640		$ 102		$(3,425)

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

The following table presents the effect of derivative instruments on the consolidated statements of operations for the three months ended March 31, 2013:

In millions		
Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized in Income on Derivative	Net Gain (Loss) Recognized in Income
Insured credit default swaps	Unrealized gains (losses) on insured derivatives	$ (103)
Insured credit default swaps	Realized gains (losses) and other settlements on insured derivatives	12
Interest rate swaps	Net gains (losses) on financial instruments at fair value and foreign exchange	3
Interest rate swaps-VIE	Net gains (losses) on financial instruments at fair value and foreign exchange-VIE	13
Currency swaps	Net gains (losses) on financial instruments at fair value and foreign exchange	2
Currency swaps-VIE	Net gains (losses) on financial instruments at fair value and foreign exchange-VIE	(1)
All other	Unrealized gains (losses) on insured derivatives	30
Total		$ (44)

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

In millions

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

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 8: Derivative Instruments (continued)

In millions

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

Note 9: Income Taxes

The Company's income taxes and the related effective tax rates for the three months ended March 31, 2013 and 2012 are as follows:

In millions	Three Months Ended March 31, 2013	2012
Income (loss) before income taxes	$ 215	$ 21
Provision (benefit) for income taxes	$ 51	$ 11
Effective tax rate	23.7%	52.4%

For the three months ended March 31, 2013, the Company's effective tax rate applied to its pre-tax income was lower than the U.S. statutory tax rate primarily as a result of the decrease in the valuation allowance against its deferred tax asset.

For the three months ended March 31, 2012, the Company's effective tax rate applied to its pre-tax income was higher than the U.S. statutory tax rate as a result of the increase in the valuation allowance, partially offset by the benefit of tax exempt income and the release of a portion of the reserve for uncertain tax benefits.

For interim reporting purposes, the Company has calculated its effective tax rate for the full year of 2013 by adjusting annual forecasted pre-tax income for mark-to-market income, fair value adjustments, capital gains/losses, and other adjustments, when projecting its full year effective tax rate. The Company has accounted for these items at the federal applicable tax rate after applying the projected full year effective tax rate to actual three-month results before discrete items.

Deferred Tax Asset, Net of Valuation Allowance

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

As of March 31, 2013, the Company reported a net deferred tax asset of $1.1 billion. The $1.1 billion net deferred tax asset is net of a $127 million valuation allowance. As of March 31, 2013, the Company had a valuation allowance against a portion of the deferred tax asset related to capital loss carryforwards and losses from asset impairments as these losses are considered capital losses, have a five-year carryforward period, once recognized, and can only offset capital gain income. The March 31, 2013 valuation allowance reflects a decrease of $19 million from the December 31, 2012 valuation allowance of $146 million. The decrease in the valuation allowance for the three months ended March 31, 2013 was primarily due to the generation of capital gain income from the termination of certain contracts.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 9: Income Taxes (continued)

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

- Due to the long-tail nature of the financial guarantee business, MBIA Inc.'s insurance subsidiaries, without regard to any new business, will have a steady stream of scheduled premium earnings with respect to the existing insured portfolio. Additionally, MBIA Corp.'s announcement in February 2008 of a suspension in writing new structured finance transactions and a permanent cessation with respect to insuring new CDS contracts, except in transactions related to the reduction of existing derivative exposure, would not have an impact on the expected earnings related to the existing insured portfolio.
- The Company performed taxable income projections over a twenty-year period to determine whether it will have sufficient income to offset its deferred tax asset that will generate future ordinary deductions. In this analysis, the Company concluded that premium earnings, even without regard to any new business, combined with investment income, less deductible expenses, will be sufficient to recover its net deferred tax asset. The Company's taxable income projections used to assess the recoverability of its deferred tax asset include an estimate of future loss and LAE equal to the present value discount of loss reserves already recognized on the balance sheet and an estimate of LAE which is generally insignificant. The Company does not assume additional losses, with the exception of the accretion of its existing present value loss reserves, because the Company establishes case basis reserves on a present value basis based on an estimate of probable losses on specifically identified credits that have defaulted or are expected to default.
- While the ratings downgrades by the rating agencies have significantly adversely impacted the Company's ability to write new insurance business, the downgrades did not have a material impact on earnings from the existing insured portfolio, which the Company believes will be sufficient to absorb losses in the event that the cumulative unrealized losses become fully impaired.
- With respect to installment policies, the Company generally does not have an automatic cancellation provision solely in connection with ratings downgrades. With regard to upfront policies, to the extent that the issuer chooses to terminate a policy, any unearned premium reserve with respect to that policy will be accelerated into earnings (i.e. refundings).

After reviewing all of the evidence available, both positive and negative, MBIA believes that it has appropriately valued the recoverability of its deferred tax assets, net of the valuation allowance, as of March 31, 2013. The Company continues to assess the adequacy of its valuation allowance as additional evidence becomes available. The Company's recent financial results have been volatile which has impacted management's ability to accurately project future taxable income. Continued volatility or losses beyond those projected may cause the Company to conclude that certain of the deferred tax assets within the total deferred tax assets of $1.1 billion as of March 31, 2013 may not be realizable. The Company performs an analysis every quarter to review its conclusion as to the ability to realize the deferred tax asset.

Accounting for Uncertainty in Income Taxes

The Company's policy is to record and disclose any change in unrecognized tax benefit ("UTB") and related interest and/or penalties to income tax in the consolidated statements of operations.

In millions	
Unrecognized tax benefit as of December 31, 2012	$ 47
The gross amount of the increase/(decrease) in the UTB as a result of tax positions taken:	
During a prior year	-
During the current year	4
The amounts of decreases in the UTB related to settlements with taxing authorities	-
The reduction in the UTB as a result of the applicable statute of limitations	-
Unrecognized tax benefit as of March 31, 2013	$ 51

MBIA's major tax jurisdictions include the U.S. and the U.K. MBIA and its U.S. subsidiaries file a U.S. consolidated federal income tax return.

The U.K. tax authorities are currently auditing tax years 2005 through 2011. On February 5, 2013, HM Revenue & Customs ("HMRC") notified the Company of their request for a meeting to discuss the progress of the audit. The Company is responding in writing to the HMRC prior to setting a meeting date.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 10: Business Segments

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

As defined by segment reporting, an operating segment is a component of a company (i) that engages in business activities from which it earns revenue and incurs expenses, (ii) whose operating results are regularly reviewed by the Chief Operating Decision Maker to assess the performance of the segment and to make decisions about the allocation of resources to the segment and, (iii) for which discrete financial information is available. The following sections provide a description of each of the Company's reportable operating segments.

U.S. Public Finance Insurance

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

Structured Finance and International Insurance

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

- MBIA Inc.;
- GFL;
- Meridian;
- LaCrosse Financial Products, LLC, a wholly-owned affiliate, in which MBIA Corp. has written insurance policies guaranteeing the obligations under CDS, including termination payments that may become due upon certain events including the insolvency or payment default of the financial guarantor or the CDS issuer.

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

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 10: Business Segments (continued)

Advisory Services

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

Corporate

The Company's corporate segment is a reportable segment and includes revenues and expenses that arise from general corporate activities, such as fees, net investment income, net gains and losses, interest expense on MBIA Inc. debt and general corporate expenses. In the first quarter of 2010, MBIA established a service company, Optinuity Alliance Resources Corporation, which provides general support services to the corporate segment and other operating businesses. Employees of the service company provide various support services including management, legal, accounting, treasury, information technology, and insurance portfolio surveillance, among others, on a fee-for-service basis. The service company's revenues and expenses are included in the results of the corporate segment.

Wind-down Operations

The Company's wind-down operations consist of the asset/liability products and conduit segments. The asset/liability products segment principally consists of the activities of MBIA Inc., MBIA Investment Management Corp. ("IMC") and GFL. IMC, along with MBIA Inc., provided customized investment agreements, guaranteed by MBIA Corp., for bond proceeds and other public funds for such purposes as construction, loan origination, escrow and debt service or other reserve fund requirements. It also provided customized products for funds that are invested as part of asset-backed or structured product transactions. GFL raised funds through the issuance of MTNs with varying maturities, which were, in turn, guaranteed by MBIA Corp. GFL lent the proceeds of these MTN issuances to MBIA Inc. ("GFL Loans"). MBIA Inc. invested the proceeds of investment agreements and GFL Loans in eligible investments, which consisted of investment grade securities rated investment grade at the time of purchase and maintained a minimum average double-A credit quality rating at the time of purchase. MBIA Inc. primarily purchases domestic securities, which are pledged to MBIA Corp. as security for its guarantees on investment agreements and MTNs.

The Company's conduit segment administers one conduit through MBIA Asset Finance, LLC. Assets financed by this conduit are currently funded by MTNs.

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

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 10: Business Segments (continued)

Segments Results

The following tables provide the Company's segment results for the three months ended March 31, 2013 and 2012:

	Three Months Ended March 31, 2013						
In millions	U.S. Public Finance Insurance	Structured Finance and International Insurance	Advisory Services	Corporate	Wind-down Operations	Eliminations	Consolidated
Revenues [1]	$ 108	$ 42	$ 4	$ 1	$ 9	$ -	$ 164
Net change in fair value of insured derivatives	-	(61)	-	-	-	-	(61)
Net gains (losses) on financial instruments at fair value and foreign exchange	32	22	-	6	3	-	63
Net gains (losses) on extinguishment of debt	-	-	-	-	4	-	4
Revenues of consolidated VIEs	-	47	-	-	2	-	49
Inter-segment revenues [2]	46	20	7	26	(2)	(97)	-
Total revenues	186	70	11	33	16	(97)	219
Losses and loss adjustment	4	(198)	-	-	-	-	(194)
Operating	14	34	10	64	-	-	122
Interest	-	28	-	12	20	-	60
Expenses of consolidated VIEs	-	14	-	-	2	-	16
Inter-segment expenses [2]	26	56	2	3	13	(100)	-
Total expenses	44	(66)	12	79	35	(100)	4
Income (loss) before income taxes	$ 142	$ 136	$ (1)	$ (46)	$ (19)	$ 3	$ 215
Identifiable assets	$ 6,874	$ 17,149	$ 34	$ 861	$ 2,484	$ (5,810)[3]	$ 21,592

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

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

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

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 10: Business Segments (continued)

	Three Months Ended March 31, 2012						
In millions	U.S. Public Finance Insurance	Structured Finance and International Insurance	Advisory Services	Corporate	Wind-down Operations	Eliminations	Consolidated
Revenues [1]	$ 125	$ 55	$ 6	$ 1	$ 19	$ -	$ 206
Net change in fair value of insured derivatives	-	299	-	-	-	-	299
Net gains (losses) on financial instruments at fair value and foreign exchange	10	46	-	5	(80)	-	(19)
Net investment losses related to other-than-temporary impairments	-	(40)	-	-	(54)	-	(94)
Other net realized gains (losses)	-	1	-	-	-	-	1
Revenues of consolidated VIEs	-	(14)	-	-	4	-	(10)
Inter-segment revenues [2]	36	(7)	7	23	3	(62)	-
Total revenues	171	340	13	29	(108)	(62)	383
Losses and loss adjustment	14	83	-	-	-	-	97
Operating	75	59	15	21	1	-	171
Interest	-	33	-	14	26	-	73
Expenses of consolidated VIEs	-	17	-	-	4	-	21
Inter-segment expenses [2]	27	46	2	4	8	(87)	-
Total expenses	116	238	17	39	39	(87)	362
Income (loss) before income taxes	$ 55	$ 102	$ (4)	$ (10)	$ (147)	$ 25	$ 21
Identifiable assets	$ 7,534	$ 19,632	$ 46	$ 670	$ 4,732	$ (6,488)[3]	$ 26,126

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

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

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

Premiums on financial guarantees and insured derivatives reported within the Company's insurance segments are generated within and outside the U.S. The following table summarizes premiums earned on financial guarantees and insured derivatives by geographic location of risk for the three months ended March 31, 2013 and 2012:

	Three Months Ended March 31,	
In millions	2013	2012
Total premiums earned:		
United States	$ 106	$ 119
United Kingdom	8	8
Europe (excluding United Kingdom)	3	5
Internationally diversified	3	5
Central and South America	8	11
Asia	1	1
Other	2	3
Total	$ 131	$ 152

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 10: Business Segments (continued)

The following tables provide the results of the segments within the wind-down operations for the three months ended March 31, 2013 and 2012:

	Three Months Ended March 31, 2013			
In millions	Asset / Liability Products	Conduits	Eliminations	Total Wind-down Operations
Revenues (1)	$ 9	$ -	$ -	$ 9
Net gains (losses) on financial instruments at fair value and foreign exchange	3	-	-	3
Net gains (losses) on extinguishment of debt	4	-	-	4
Revenues of consolidated VIEs	-	2	-	2
Inter-segment revenues (2)	(2)	-	-	(2)
Total revenues	14	2	-	16
Interest	20	-	-	20
Expenses of consolidated VIEs	-	2	-	2
Inter-segment expenses (2)	2	11	-	13
Total expenses	22	13	-	35
Income (loss) before income taxes	$ (8)	$ (11)	$ -	$ (19)
Identifiable assets	$1,822	$ 692	$ (30)	$ 2,484

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

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

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

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

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

Note 11: Earnings Per Share

Basic earnings per share excludes dilution and is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share reflects the dilutive effect of all stock options and other items outstanding during the period that could potentially result in the issuance of common stock. For the three months ended March 31, 2013 and 2012, there were 3,045,974 and 3,559,044, respectively, of stock options outstanding that were not included in the diluted earnings per share calculation because they were antidilutive.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 11: Earnings Per Share (continued)

The following table presents the computation of basic and diluted earnings per share for the three months ended March 31, 2013 and 2012:

$ in millions except share and per share amounts	Three Months Ended March 31, 2013	2012
Net income (loss)	$ 164	$ 10
Basic weighted average shares [1]	194,523,933	193,489,424
Effect of common stock equivalents:		
Stock options	1,108,027	1,105,550
Diluted weighted average shares	195,631,960	194,594,974
Net income (loss) per common share:		
Basic	$ 0.84	$ 0.05
Diluted	$ 0.84	$ 0.05

(1) - Includes 6,125,599 and 5,219,053 of unvested restricted stock and units that receive nonforfeitable dividends or dividend equivalents for the three months ended March 31, 2013 and 2012, respectively.

Note 12: Accumulated Other Comprehensive Income

The following table presents the changes in the components of AOCI for the three months ended March 31, 2013:

In millions	Unrealized Gains (Losses) on AFS Securities, Net	Foreign Currency Translation, Net	Total
Balance, January 1, 2013	$ 43	$ 13	$ 56
Other comprehensive income before reclassifications	12	(43)	(31)
Amounts reclassified from AOCI	(16)	-	(16)
Net current period other comprehensive income	(4)	(43)	(47)
Balance, March 31, 2013	$ 39	$ (30)	$ 9

The following table presents the details of the reclassifications from AOCI for the three months ended March 31, 2013:

In millions

Details about AOCI Components	Amounts Reclassified from AOCI	Affected Line Item on the Consolidated Statements of Operations
Unrealized gains (losses) on AFS securities:		
Realized gain on sale of securities	$ 26	Net gains (losses) on financial instruments at fair value and foreign exchange
Amortization on securities	(1)	Net investment income
	25	Income (loss) before income taxes
	9	Provision (benefit) for income taxes
Total reclassifications for the period	$ 16	Net income (loss)

Note 13: Commitments and Contingencies

The following commitments and contingencies provide an update of those discussed in “Note 20: Commitments and Contingencies” in the Notes to Consolidated Financial Statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2012, and should be read in conjunction with the complete descriptions provided in the aforementioned Form 10-K.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 13: Commitments and Contingencies (continued)

Recovery Litigation

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

In May of 2013, the parties reached an agreement to resolve MBIA's claims in this action. A Stipulation of Discontinuance without Prejudice will be filed shortly. Refer to "Note 1: Business Developments and Risks and Uncertainties" included herein for a description of the comprehensive settlement agreement.

MBIA Insurance Corp. v. Bank of America Corp.; Countrywide Home Loans, Inc., Countrywide Securities Corp., and Countrywide Financial Corp. et al.; Case No. BC417572 (Ca. Super. Ct., County of Los Angeles)

In May of 2013, the parties reached an agreement to resolve MBIA's claims in this action. A Stipulation of Discontinuance without Prejudice will be filed shortly. Refer to "Note 1: Business Developments and Risks and Uncertainties" included herein for a description of the comprehensive settlement agreement.

MBIA Insurance Corp. v. Federal Deposit Insurance Corporation (in its corporate capacity and as conservator and receiver for IndyMac Federal Bank, F.S.B.); Civil Action No. 09-01011 (ABJ) (D.D.C.)

On March 8, 2013, the United States Court of Appeals for the D.C. Circuit affirmed the district court's ruling dismissing MBIA Corp.'s amended complaint.

MBIA Insurance Corp. v. Credit Suisse Securities (USA) LLC, et al. ; Index No. 603751/2009 (N.Y. Sup. Ct., N.Y. County)

On March 8, 2013, the defendants filed their answer to the amended complaint.

MBIA Insurance Corp. v. J.P. Morgan Securities LLC (f/k/a Bear, Stearns & Co. Inc) ; Index No. 64676/2012 (N.Y. Sup. Ct., County of Westchester)

On November 7, 2012, J.P. Morgan Securities LLC withdrew its motion to dismiss and filed its answer on March 26, 2013 .

MBIA Insurance Corp. v. Ally Financial Inc. (f/k/a GMAC, LLC) et al. ; 12-cv-02563 SRN/TNL (D. Minn.)

On February 15, 2013, the defendants filed their motion to dismiss. A hearing on the motion is scheduled for May 31, 2013.

MBIA Insurance Corp. v. Flagstar ABS, LLC, et al. ; 13-cv-0262 (JSR) (S.D.N.Y.)

The parties filed a Stipulation of Discontinuance and Order of Dismissal with Prejudice of this action on May 2, 2013. Under the terms of the settlement, MBIA Corp. dismissed the lawsuit against Flagstar Bank in exchange for $110 million in cash and other consideration.

Transformation Litigation

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

On March 4, 2013, the court issued a decision dismissing the Article 78 proceeding. On April 2, 2013, the remaining plaintiffs filed a Notice of Appeal to the Appellate Division, First Department. In May of 2013, following the Bank of America and Societe Generale settlements, all plaintiffs in this matter have agreed to dismiss their claims. A Stipulation of Discontinuance will be filed shortly. Refer to "Note 1: Business Developments and Risks and Uncertainties" included herein for a description of the settlement agreements.

ABN AMRO Bank N.V. et al. v. MBIA Inc. et al.; Index No. 601475/2009 (N.Y. Sup. Ct., N.Y. County)

In May of 2013, following the Bank of America and Societe Generale settlements, all plaintiffs in this matter have agreed to dismiss their claims. A Stipulation of Discontinuance will be filed shortly. Refer to "Note 1: Business Developments and Risks and Uncertainties" included herein for a description of the settlement agreements.

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

In May of 2013, following the Bank of America and Societe Generale settlements, all plaintiffs in this matter have agreed to dismiss their claims. A Stipulation of Discontinuance will be filed shortly. Refer to "Note 1: Business Developments and Risks and Uncertainties" included herein for a description of the settlement agreements.

CQS ABS Master Fund Ltd., CQS Select ABS Master Fund Ltd., and CQS ABS Alpha Master Fund Ltd. v. MBIA Inc. et al .; Civil Action No. 12-cv-6840 (R.S.) (S.D.N.Y.)

On March 18, 2013, argument was heard on MBIA's motion to disqualify plaintiffs' counsel, White & Case LLP.

Broadbill Partners LP, et al. v. MBIA Inc., et al. ; Index No. 653865/2012 (N.Y. Sup. Ct., N.Y. County)

On March 15, 2013, the briefing was completed on MBIA's motion to dismiss.

Corporate Litigation

Bank of America v. MBIA Inc. and The Bank of New York Mellon, as Indenture Trustee; Index No. 70444/2012 (N.Y. Sup. Ct., Westchester County)

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 13: Commitments and Contingencies (continued)

In May of 2013, the parties reached an agreement to resolve their respective claims in this action. A Stipulation of Discontinuance without Prejudice will be filed shortly. Refer to “Note 1: Business Developments and Risks and Uncertainties” included herein for a description of the comprehensive settlement agreement.

MBIA Inc. v. Bank of America Corp. and Blue Ridge Investments, L.L.C.; Index No. 51664/2013 (N.Y. Sup. Ct., Westchester County)

In May of 2013, the parties reached an agreement to resolve their respective claims in this action. A Stipulation of Discontinuance without Prejudice will be filed shortly. Refer to “Note 1: Business Developments and Risks and Uncertainties” included herein for a description of the comprehensive settlement agreement.

Mary Crescente v. Joseph Brown, et al. ; Index No. 17595/2008 (N.Y. Sup. Ct., Westchester County)

On March 25, 2013, a stipulation of discontinuance was filed with the court resolving the litigation.

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

On March 22, 2013, the court granted the Bond Insurer defendants’ motion to strike pursuant to California’s Anti-SLAPP statute dismissing the plaintiffs’ claims under California’s Cartwright Act.

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

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

Note 14: Subsequent Events

In May of 2013, MBIA and Bank of America entered into a comprehensive settlement agreement, which among other things, resolved litigation between MBIA and certain of its subsidiaries and Bank of America and certain of its subsidiaries. Refer to “Note 1: Business Developments and Risks and Uncertainties” for a description of the comprehensive settlement agreement.

In May of 2013, MBIA entered into an agreement with Societe Generale, which among other things, resolved litigation concerning Transformation. Refer to “Note 1: Business Developments and Risks and Uncertainties” for a description of the agreement.

Refer to “Note 13: Commitments and Contingencies” for information about legal proceedings that occurred after March 31, 2013.

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

FORWARD-LOOKING AND CAUTIONARY STATEMENTS

This quarterly report of MBIA Inc. ("MBIA", the "Company", "we", "us" or "our") includes statements that are not historical or current facts and are "forward-looking statements" made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. The words "believe", "anticipate", "project", "plan", "expect", "estimate", "intend", "will likely result", "looking forward", or "will continue" and similar expressions 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. 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 its 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 MBIA Inc.'s Annual Report on Form 10-K for the year ended December 31, 2012. 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.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

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 primarily 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 the first quarter of 2013, 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 March 31, 2013, National and MBIA Corp. had $440 million and $258 million, respectively, of total liquidity without regard to the liquidity of their subsidiaries. As of December 31, 2012, National and MBIA Corp. had $419 million and $345 million, respectively, of total liquidity without regard to the liquidity of 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 March 31, 2013, MBIA had liquidity of $373 million comprising cash and liquid assets of $317 million available for general corporate liquidity purposes, excluding the amounts held in escrow under its tax sharing agreement, and $56 million not pledged directly as collateral for its asset/liability products segment. As of December 31, 2012, MBIA had $239 million of cash and liquid assets comprising $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. A detailed discussion of the Company's liquidity position is presented within the "Liquidity" section herein.

As of March 31, 2013, National was rated BB with a developing outlook by Standard & Poor's Financial Services LLC ("S&P") and Baa2 with a review for downgrade by Moody's Investors Service, Inc. ("Moody's"). The absence of S&P and Moody's highest ratings has adversely impacted our ability to write new insurance business and the premiums we can charge, and could diminish the future acceptance of our financial guarantee insurance products. In May of 2013, S&P upgraded National's rating to BBB with a credit watch positive outlook. In addition, in May of 2013, S&P upgraded MBIA Inc.'s rating to B- with a credit watch positive from B- with a negative outlook and upgraded MBIA Insurance Corporation's rating to B with a stable outlook from CCC with a negative outlook.

MBIA's Business Outlook and Recent Developments

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. 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.

Bank of America Settlement

In May of 2013, MBIA Inc., together with its subsidiaries MBIA Corp. and National, entered into a comprehensive settlement agreement and related agreements (the "BofA Settlement Agreement") with Bank of America Corporation and certain of its subsidiaries (collectively, "Bank of America"). Under the terms of the BofA Settlement Agreement, MBIA Corp. received a payment of approximately $1.7 billion, consisting of $1.6 billion in cash and $136 million principal amount of MBIA Inc.'s 5.70% Senior Notes due 2034. In exchange for such payment, MBIA Corp. agreed to dismiss the litigation commenced in September 2008 against Countrywide Home Loans, Inc. ("Countrywide"), among other parties, and later amended to include claims against Bank of America, relating to breaches of representations and warranties on certain MBIA-insured securitizations sponsored by Countrywide. Bank of America and MBIA have also agreed to the commutation of all of the MBIA Corp. policies held by Bank of America, which have a notional insured amount of approximately $7.4 billion, and of which $6.1 billion are policies insuring credit default swaps ("CDS") held by Bank of America referencing commercial real estate exposures. MBIA Corp. will have no further payment obligations under the commuted policies. The NYSDFS advised MBIA Corp. that the NYSDFS did not object to the BofA Settlement Agreement.

Under the terms of the BofA Settlement Agreement, Bank of America received a five-year warrant to purchase 9.94 million shares of MBIA common stock at a price of $9.59 per share. Bank of America has also agreed to dismiss the pending litigation between the parties concerning the restructuring transactions announced by MBIA on February 18, 2009 (the "Transformation") and the pending litigation between the parties concerning the senior debt Consent Solicitation completed by MBIA in the fourth quarter of 2012. In addition, Bank of America agreed to withdraw the purported "notice of default" it sent in connection with such Consent Solicitation.

Under the terms of the BofA Settlement Agreement, the dismissals of the litigations referenced above are initially being filed on a "without prejudice" basis. The parties will refile such dismissals on a "with prejudice" basis provided that, within the one-year period following execution of the BofA Settlement Agreement, none of the claims released pursuant to the BofA Settlement Agreement are reinstated and neither party is required to make a payment on any such released claims. The Company views the likelihood of such an event as remote, and thus expects that the litigation dismissals will be filed on a "with prejudice" basis at the expiration of such one-year period.

MBIA Corp.'s policies insuring the RMBS securitizations originated by Countrywide will continue to be in full force and effect, and MBIA Corp. will continue to make timely payments of principal and interest when due under such policies. Bank of America will have no further representation and warranty liability with respect to the origination of the mortgage loans in the MBIA-insured Countrywide and certain other securitizations.

In addition, MBIA Corp. has entered into a $500 million three-year secured revolving credit agreement with Blue Ridge Investments, L.L.C., an affiliate of Bank of America (the "BofA Secured Loan"). Borrowings may be used for general corporate purposes and will be secured by a pledge of collateral consisting of the following: (i) MBIA Corp.'s right to receive put-back recoveries related to ineligible mortgage loans included in its insured

RMBS transactions; (ii) MBIA Corp.'s future recoveries on defaulted insured RMBS transactions resulting from expected excess spread generated by performing loans in such transactions; (iii) MBIA Corp.'s future installment premiums; and (iv) 65% of the voting capital stock in MBIA Corp.'s wholly-owned subsidiary, MBIA UK (Holdings) Limited. The BofA Secured Loan includes a number of provisions that govern MBIA Corp.'s ability to draw on the loan and use the proceeds from the borrowings, limit the amount MBIA Corp. can use to fund commutations without the consent of Bank of America, and require it to prepay borrowings. The loan also includes customary representations and warranties and customary affirmative, negative and financial covenants, including a requirement that MBIA Corp. maintain at least $750 million of statutory capital (defined as policyholders' surplus plus contingency reserves).

The payment from Bank of America, including the MBIA Inc. bonds, was used to repay the remaining outstanding balance and accrued interest on MBIA Corp.'s secured loan from National (the "National Secured Loan") in accordance with its terms. The National Secured Loan balance of $1.7 billion as of March 31, 2013 was reduced to approximately $1.6 billion prior to the Bank of America settlement as a result of the receipt of $110 million in settlement of Flagstar Bank's put-back obligation.

The value of the settlement is consistent with amounts recorded on MBIA Corp.'s statutory balance sheet as of December 31, 2012. MBIA Corp.'s liquidity and capital risk profile has substantially improved as a result of the settlement. While the Company has updated its estimates to reflect the BofA Settlement Agreement in its GAAP financial statements as of and for the three months ended March 31, 2013, certain of the agreements will be accounted for in the second quarter of 2013 as of the settlement date.

Pursuant to the anti-dilution provisions of warrants that were issued by MBIA to Warburg Pincus Private Equity X, L.P. and certain of its affiliates ("Warburg Pincus") pursuant to an Investment Agreement, dated as of December 10, 2007, as amended and restated as of February 6, 2008, by and between MBIA and Warburg Pincus, the strike price under such warrants will be decreased and the aggregate number of shares of MBIA common stock to be issued upon exercise of such warrants will be increased, in each case as a result of the issuance of the warrant to Bank of America. The adjustments to the strike price and number of such underlying shares are not expected to have a material dilutive effect on the MBIA common stock.

Societe Generale Settlement

In May of 2013, the Company entered into an agreement with Societe Generale pursuant to which MBIA commuted $4.2 billion of gross insured exposure comprising asset-backed securities ("ABS") CDOs, structured CMBS pools and CRE CDOs. The amount MBIA paid to Societe Generale in consideration of commuting its insured exposure was consistent with MBIA Corp.'s aggregate statutory loss reserves for the exposures commuted. Also, pursuant to the agreement, Societe Generale agreed to dismiss the pending litigation between the parties concerning the Transformation, which includes any appeals of the decision denying the Article 78 petition and the plenary case.

Transformation Litigation Resolution

As a result of the Bank of America settlement and the Societe Generale settlement, all litigation brought originally by the group of eighteen domestic and international financial institutions, relating to the establishment of National, has been resolved.

Other

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 forecasts for MBIA Corp. for 2013 reflect adequate resources to pay expected claims. The comprehensive settlement with Bank of America, announced in May of 2013, substantially improved MBIA Corp.'s liquidity forecast and capital stability. However, there are risks to this forecast, as our RMBS and ABS CDO exposures, and remaining CMBS exposure may be volatile. Subsequent to March 31, 2013, a material claim was presented on a CMBS pool transaction by a counterparty; and we expect further claims on this exposure. In addition, there is risk around our assumed recoveries against sellers/servicers of insured RMBS exposures. While we believe MBIA Corp. will have adequate resources to pay expected claims, there can be no such assurance that it will have adequate resources. If MBIA Corp. experiences higher than expected claims payments or is unable to commute exposures that represent a substantial risk, MBIA Insurance Corporation 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.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

EXECUTIVE OVERVIEW (continued)

- For the three months ended March 31, 2013, we estimated an additional $282 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 CMBS pools originally insured in 2007 primarily referencing BBB and lower rated collateral described below under "RMBS Recoveries and Insured CMBS Portfolio".
- During the three months ended March 31, 2013, MBIA Corp. commuted $2.1 billion of gross insured exposure, primarily comprising investment grade corporate CDOs. Subsequent to March 31, 2013, MBIA Corp. agreed to commute an additional $13.4 billion of gross insured exposure, primarily comprising structured CMBS pools, ABS CDOs, first-lien subprime RMBS, high yield corporate CDOs, CRE CDOs, structured insurance securities, and first-lien alternative-A RMBS. 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. The Company's ability to commute insured transactions is limited by available liquidity, including the availability of the BofA Secured Loan, intercompany loans and the use of other available financing structures, some 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 or otherwise.
- The commutations completed subsequent to March 31, 2013 will reduce MBIA Corp's statutory case loss reserves by $1.5 billion. In addition, the settlements of the put-back litigation with Bank of America and Flagstar Bank will reduce MBIA Corp.'s statutory put-back recoverables by $2.9 billion. Because these transactions were agreed upon in the period subsequent to March 31, 2013, but before MBIA Corp. published its statutory results, the March 31, 2013 amounts were adjusted to reflect the agreements. The net effect of the adjustments was to lower MBIA Corp.'s statutory capital by an immaterial amount. The commutation costs and the put-back receipts were consistent with both the related put-back recoverables and related case reserves that existed on MBIA Corp.'s balance sheet as of March 31, 2013.
- Our ability to achieve high stable ratings for National is subject to rating agency criteria, including qualitative and quantitative factors, and the timing of any upgrade is uncertain. There is no assurance that we will 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.
- Our U.S. public finance insured portfolio, in National, continues to perform as expected. We did experience increased stress in this portfolio in the three months ended March 31, 2013 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.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

EXECUTIVE OVERVIEW (continued)

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. 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 March 31, 2013, we recorded $4.0 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 $2.1 billion as of March 31, 2013, excluding incurred losses related to claims against Bank of America and Flagstar Bank that were settled in May of 2013. 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, which claims were settled in May of 2013 as part of the BofA Settlement Agreement.

Subsequent to March 31, 2013, a counterparty presented claims on an insured CMBS transaction. We expect to experience additional claims on this transaction. While the CMBS exposures held by Bank of America/Merrill Lynch were commuted in May of 2013, we continue to have significant CMBS exposure. While the risk of losses in the CMBS portfolio has been reduced substantially, due to this commutation, especially in the short-term, it is possible that we will experience significant losses and/or liquidity needs due to increased deterioration in our insured CMBS portfolio or our failure to commute these policies, 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 the collection of its remaining put-back recoveries in a timely manner or the availability of other resources.

We have 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. As of March 31, 2013, the auction of the servicing platform and specific loans of the ResCap bankruptcy estate, as well as the corresponding sales associated with the auctions, have concluded and closed. However, an actual distribution of proceeds will not occur until a plan detailing the distribution of assets has been approved by the bankruptcy court. Consequently, the outcomes utilized by the Company continue to be based upon information that was available to the Company as of the filing date. A more detailed discussion of potential recoveries is presented within "Note 5: Loss and Loss Adjustment Expense Reserves" in the Notes to Consolidated Financial Statements.

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 4% since December 31, 2011.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

EXECUTIVE OVERVIEW (continued)

Additionally, as of March 31, 2013, we recorded expected recoveries of $811 million (on a present value basis) from excess spread (the difference between interest inflows on mortgage loan collateral and interest outflows on insured beneficial interests) in our second-lien RMBS transactions, in reimbursement of our past and future expected claims. Of this amount, $747 million is included in "Insurance loss recoverable" and $64 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 $811 million will be received in its entirety.

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.

Economic and Financial Market Trends

We believe the three months ended March 31, 2013 continued to show improvements in the U.S. economy. Despite the automatic spending cuts from sequestration, the increase in gasoline prices and higher payroll taxes, consumer confidence remained relatively strong particularly in the automobile and housing sectors. In addition, the unemployment rate dropped to its lowest level in over four years. This continued improvement in the labor market should help to improve personal incomes. There still remains, however, uncertainty over Congress' ability to reach agreement on how to address the ever increasing federal debt. Economic activity in Europe remains weak, particularly in peripheral countries. Additionally, the recent setbacks in Cyprus indicate more work is needed before the Euro area resolves common currency issues and returns to financial stability. While confidence in the U.S. economy should continue to grow throughout 2013, sustained job growth and resolution of fiscal policies in Washington remain critical to a complete recovery. 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.

Financial Highlights

For the three months ended March 31, 2013, we recorded consolidated net income of $164 million or $0.84 per diluted share compared with consolidated net income of $10 million or $0.05 per diluted share, for the same period of 2012.

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 three months ended March 31, 2013, consolidated adjusted pre-tax loss was $20 million compared with an adjusted pre-tax loss of $548 million for the same period of 2012.

Our consolidated shareholders' equity was $3.3 billion as of March 31, 2013 compared with $3.2 billion as of December 31, 2012. The increase was primarily the result of a benefit from losses and LAE based on increases in recoveries of actual and expected payments. Our consolidated book value per share as of March 31, 2013 was $17.04 compared with $16.22 as of December 31, 2012.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

EXECUTIVE OVERVIEW (continued)

In addition to book value per share, we also analyze adjusted book value ("ABV") per share, a non-GAAP measure. We consider ABV a measure of fundamental value of the Company and the change in ABV an important measure of financial performance. ABV adjusts GAAP book value to remove the impact of certain items which the Company believes will reverse from GAAP book value over time through the GAAP statements of operations and GAAP statements of comprehensive income, 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 March 31, 2013, ABV per share was $30.56, down from $30.68 as of December 31, 2012.

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

CRITICAL ACCOUNTING ESTIMATES

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

For a discussion of the Company's critical accounting estimates, see "Critical Accounting Estimates" in Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in the Company's Annual Report on Form 10-K for the year ended December 31, 2012. In addition, refer to "Note 5: Loss and Loss Adjustment Expense Reserves" in the Notes to Consolidated Financial Statements for a current description of estimates used in our insurance loss reserving process.

RECENT ACCOUNTING PRONOUNCEMENTS

Refer to "Note 3: Recent Accounting Pronouncements" in the Notes to Consolidated Financial Statements for a discussion of accounting guidance recently adopted by the Company.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

RESULTS OF OPERATIONS

Summary of Consolidated Results

The following table presents a summary of our consolidated financial results for the three months ended March 31, 2013 and 2012:

In millions except for per share amounts	Three Months Ended March 31, 2013	2012
Total revenues (losses)	$ 219	$ 383
Total expenses	4	362
Pre-tax income (loss)	215	21
Provision (benefit) for income taxes	51	11
Net income (loss)	$ 164	$ 10
Net income (loss) per common share:		
Basic	$ 0.84	$ 0.05
Diluted	$ 0.84	$ 0.05

For the three months ended March 31, 2013, we recorded consolidated net income of $164 million, or $0.84 per share, compared with consolidated net income of $10 million, or $0.05 per share, for the same period of 2012. Weighted average diluted common shares outstanding totaled 196 million for the three months ended March 31, 2013, up 1% from the same period of 2012. Consolidated total revenues (losses) for the three months ended March 31, 2013 included $61 million of net losses on insured derivatives compared with $299 million of net gains for the same period of 2012. The net losses on insured derivatives in 2013 were principally the result of the effects of MBIA's nonperformance risk on its derivative liabilities which resulted from a tightening of its own credit spreads and an improvement in the Company's recovery rate, partially offset by the effects of changes in the weighted average life of the portfolio and favorable movements in spreads and pricing on collateral transactions. The net gains on insured derivatives in 2012 were principally the result of commuting derivatives at prices below fair value and favorable movements in spreads and pricing on collateral within transactions, partially offset by the effects of MBIA's nonperformance risk on its derivative liabilities which resulted from a tightening of its own credit spreads and an improvement in the Company's recovery rate. Consolidated total expenses for the three months ended March 31, 2013 included a $194 million benefit of net insurance loss and LAE compared with a $97 million loss for the same period of 2012. The net insurance loss and LAE benefit in 2013 and loss in 2012 were principally related to our insured RMBS exposure.

Included in our consolidated net income for the three months ended March 31, 2013 was $33 million of income before income taxes related to consolidated VIEs, after the elimination of intercompany revenues and expenses, compared with losses before income taxes of $31 million for the same period of 2012. 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 $7.8 billion as of March 31, 2013 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 $7.8 billion of insured gross par outstanding, $793 million, $674 million, and $249 million were related to Spain, Portugal, and Ireland, respectively. The remaining $6.1 billion was 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 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

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 three months ended March 31, 2013 and 2012:

In millions	Three Months Ended March 31, 2013	2012
Adjusted pre-tax income (loss)	$ (20)	$ (548)
Additions to adjusted pre-tax income (loss):		
Impact of consolidating certain VIEs	18	5
Mark-to-market gains (losses) on insured credit derivatives	(73)	303
Subtractions from adjusted pre-tax income (loss):		
Impairments on insured credit derivatives	(290)	(261)
Pre-tax income (loss)	$ 215	$ 21

For the three months ended March 31, 2013, our consolidated adjusted pre-tax loss decreased compared with the same period of 2012 primarily as a result of a decrease in insurance losses and LAE, the absence of net investment losses related to other-than-temporary impairments, gains on the sales of investments, and lower operating expenses due to lower legal and litigation related costs.

Adjusted Book Value

As of March 31, 2013, ABV per share (a non-GAAP measure) was $30.56, down from $30.68 as of December 31, 2012. The decrease in ABV per share was primarily driven by additional impairments on our insured credit derivatives.

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 March 31, 2013	As of December 31, 2012
Total shareholders' equity of MBIA Inc.	$ 3,288	$ 3,173
Common shares outstanding	192,957,686	195,671,508
Book value per share	$ 17.04	$ 16.22
Adjustments for items included in book value per share (after-tax):		
Cumulative net loss from consolidating certain VIEs (1)	0.53	0.59
Cumulative unrealized loss on insured credit derivatives	10.09	9.70
Net unrealized (gains) losses included in other comprehensive income	(0.31)	(0.47)
Adjustments for items not included in book value per share (after-tax):		
Net unearned premium revenue (2)(3)	9.52	9.92
Present value of insured derivative installment revenue (4)	0.55	0.60
Cumulative impairments on insured credit derivatives (4)	(5.86)	(4.85)
Deferred acquisition costs	(1.00)	(1.03)
Total adjustments per share	13.52	14.46
Adjusted book value per share	$ 30.56	$ 30.68

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

(2) - Consists of financial guarantee premiums and fees.

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

(4) - The discount rate on insured derivative installment revenue and impairments was 5% as of March 31, 2013 and December 31, 2012.

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.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

RESULTS OF OPERATIONS (continued)

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 the rights and liabilities under each of the policies covered under a reinsurance agreement with FGIC, is currently pending. For a detailed discussion on this novation agreement, refer to "Part 1 Business-Our Insurance Operations" included in the Company's Annual Report on Form 10-K for the year ended December 31, 2012.

The following table presents our U.S. public finance insurance segment results for the three months ended March 31, 2013 and 2012:

In millions	Three Months Ended March 31, 2013	2012	Percent Change
Net premiums earned	$ 103	$ 106	-3%
Net investment income	49	54	-9%
Fees and reimbursements	2	1	100%
Net gains (losses) on financial instruments at fair value and foreign exchange	32	10	n/m
Total revenues	186	171	9%
Losses and loss adjustment	4	14	-71%
Amortization of deferred acquisition costs	22	22	-%
Operating	18	80	-78%
Total expenses	44	116	-62%
Pre-tax income (loss)	$ 142	$ 55	n/m

n/m - Percent change not meaningful.

For the three months ended March 31, 2013 and 2012, we did not write a meaningful amount of U.S. public finance insurance. The lack of insurance writings in our U.S. public finance segment reflects the insurance financial strength credit ratings assigned to National by major ratings agencies and the impact of litigation over the formation of National in 2009. We do not expect to write a material amount of new business prior to an upgrade of our insurance financial strength ratings and market acceptance that such ratings will be stable in the future. The timing of any such upgrade is uncertain and will depend on a variety of quantitative and qualitative factors used by the rating agencies in their evaluation, including the resolution of pending litigation. We believe that we will resume writing business in the U.S. public finance market before actively re-engaging in the structured finance and international markets. On February 28, 2013, S&P lowered its rating on National to BB from BBB with a developing outlook. As a result of the downgrade of National, FGIC had the right to terminate its reinsurance agreement with National. In May of 2013, S&P upgraded National's rating to BBB with a credit watch positive outlook. S&P's upgrade of National to BBB removed FGIC's right to terminate its reinsurance agreement with National.

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 decrease in net premiums earned for the three months ended March 31, 2013 compared with the same period of 2012 primarily resulted from a decrease in scheduled premiums earned of $3 million. Scheduled premium earnings decreased 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.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

RESULTS OF OPERATIONS (continued)

NET INVESTMENT INCOME The decrease in net investment income for the three months ended March 31, 2013 compared with the same period of 2012 was primarily due to a decrease in the notional value of our simultaneous repurchase and reverse repurchase agreements ("Asset Swap") with our asset/liability products segment and lower asset balances. The Asset Swap provides yield enhancement to our U.S. public finance insurance investment portfolio as a result of increased net interest earnings from these collective agreements.

The interest income on the National Secured Loan is included in our U.S. public finance net investment income and totaled $29 million for the three months ended March 31, 2013 compared with $20 million for the same period of 2012. The National Secured Loan enhances the overall yield of our U.S. public finance insurance investment portfolio as lower yielding investments were sold to fund the amount loaned under this agreement. While interest due on the National Secured Loan is recorded in the period during which it accrues, the payment of interest was being deferred. In connection with the BofA Settlement Agreement, MBIA Corp. repaid the remaining outstanding balance and accrued interest on the National Secured Loan. Refer to the "Liquidity" section included herein for additional information about these agreements.

Investment asset balances at amortized cost as of March 31, 2013 and December 31, 2012 are presented in the following table:

	March 31, 2013		December 31, 2012	
In millions	Investments at Amortized Cost	Pre-tax Yield (1)	Investments at Amortized Cost	Pre-tax Yield (1)
Fixed-income securities:				
Tax-exempt	$ 375	3.89%	$ 417	3.98%
Taxable	2,409	2.82%	2,378	2.98%
Short-term	289	0.73%	204	1.17%
Total fixed-income	3,073	2.76%	2,999	2.99%
Secured loan to an affiliate	1,681		1,652	
Other	16		16	
Total	$ 4,770		$ 4,667	

(1) - Estimated yield-to-maturity.

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 the three months ended March 31, 2013 compared with the same period of 2012 was principally due to realized gains from sales of securities from the ongoing management of our U.S. public finance insurance investment portfolio.

LOSS AND LOSS ADJUSTMENT EXPENSES National's portfolio surveillance group is responsible for monitoring our U.S. public finance segment's insured obligations. The level and frequency of monitoring of any insured obligation depends on the type, size, rating and performance of the insured issue. Refer to "Note 5: Loss and Loss Adjustment Expense Reserves" in the Notes to Consolidated Financial Statements for a description of the Company's loss reserving policy and additional information related to its loss reserves.

Some municipalities experiencing significant financial distress, including Jefferson County, Alabama, San Bernardino, California and Stockton, California have entered into Chapter 9 bankruptcy proceedings of the United States Bankruptcy Code with the potential for, or stated intent to, impair payments to bondholders, and by extension cause losses to bond insurers. This could have an adverse impact on our loss reserves.

The following table presents information about our U.S. public finance insurance loss and LAE expenses for the three months ended March 31, 2013 and 2012:

	Three Months Ended March 31,		Percent
In millions	2013	2012	Change
Loss and LAE related to actual and expected payments	$ 5	$ 22	-77%
Recoveries of actual and expected payments	(1)	(8)	-88%
Gross losses incurred	4	14	-71%
Reinsurance	-	-	-
Losses and loss adjustment expenses	$ 4	$ 14	-71%

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

RESULTS OF OPERATIONS (continued)

The following tables present information about our U.S. public finance insurance loss and LAE reserves and recoverables as of March 31, 2013 and December 31, 2012:

In millions	March 31, 2013	December 31, 2012	Percent Change
Gross loss and LAE reserves	$ 270	$ 267	1%
Expected recoveries on unpaid losses	(103)	(108)	-5%
Loss and LAE reserves	$ 167	$ 159	5%
Insurance loss recoverable	$ 261	$ 256	2%
Insurance loss recoverable—ceded (1)	$ 7	$ 7	-%
Reinsurance recoverable on paid and unpaid losses	$ 7	$ 8	-13%

(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. As of March 31, 2013 and December 31, 2012, loss and LAE reserves comprised the following:

$ in millions	Number of Issues (1)		Loss and LAE Reserve		Par Outstanding	
	March 31, 2013	December 31, 2012	March 31, 2013	December 31, 2012	March 31, 2013	December 31, 2012
Gross of reinsurance:						
Issues with defaults	9	9	$ 142	$ 141	$ 750	$ 749
Issues without defaults	9	9	25	18	111	113
Total gross of reinsurance	18	18	$ 167	$ 159	$ 861	$ 862

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

POLICY ACQUISITION COSTS AND OPERATING EXPENSES U.S. public finance insurance segment expenses for the three months ended March 31, 2013 and 2012 are presented in the following table:

	Three Months Ended March 31,		Percent
In millions	2013	2012	Change
Gross expenses	$ 18	$ 80	-78%
Amortization of deferred acquisition costs	$ 22	$ 22	-%
Operating	18	80	-78%
Total insurance operating expenses	$ 40	$ 102	-61%

Gross expenses represent total insurance expenses before the deferral of any policy acquisition costs. Gross expenses decreased for the three months ended March 31, 2013 compared with the same period of 2012 primarily due to decreases in legal and litigation related costs and expenses related to support services provided by Optinuity Alliance Resources Corp. ("Optinuity").

Operating expenses decreased for the three months ended March 31, 2013 compared with the same period of 2012. This decrease was a result of the decrease in gross expenses as we did not defer a material amount of policy acquisition costs during the first quarters of 2013 and 2012.

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.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

RESULTS OF OPERATIONS (continued)

The following table presents the credit quality distribution of MBIA's U.S. public finance outstanding gross par insured as of March 31, 2013 and December 31, 2012. All ratings are as of the period presented and represent S&P ratings. If transactions are not rated by S&P, a Moody's equivalent rating is used. If transactions are not rated by either S&P or Moody's, an MBIA equivalent rating is used.

In millions	Gross Par Outstanding			
	March 31, 2013		December 31, 2012	
Rating	Amount	%	Amount	%
AAA	$ 17,838	5.5%	$ 18,518	5.5%
AA	155,963	48.2%	162,504	48.2%
A	119,638	36.9%	122,743	36.4%
BBB	27,657	8.5%	30,496	9.0%
Below investment grade	2,755	0.9%	2,853	0.9%
Total	$323,851	100.0%	$337,114	100.0%

The credit quality distribution of our U.S. public finance insurance exposure as of March 31, 2013 remained relatively consistent with December 31, 2012. Total U.S. public finance insurance gross par outstanding rated A or above, before giving effect to National's guarantee, was approximately 90% and gross par outstanding rated below investment grade, before giving effect to National's guarantee, was less than 1% as of March 31, 2013 and December 31, 2012.

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 upon certain events including the insolvency or payment default of the financial guarantor or the CDS issuer.

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

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

RESULTS OF OPERATIONS (continued)

The following table presents our structured finance and international insurance segment results for the three months ended March 31, 2013 and 2012:

In millions	Three Months Ended March 31, 2013	2012	Percent Change
Net premiums earned	$ 36	$ 47	-23%
Net investment income	5	8	-38%
Fees and reimbursements	24	25	-4%
Change in fair value of insured derivatives:			
Realized gains (losses) and other settlements on insured derivatives	12	(4)	n/m
Unrealized gains (losses) on insured derivatives	(73)	303	-124%
Net change in fair value of insured derivatives	(61)	299	-120%
Net gains (losses) on financial instruments at fair value and foreign exchange	22	18	22%
Net investment losses related to other-than-temporary impairments	-	(40)	-100%
Other net realized gains (losses)	-	1	-100%
Revenues of consolidated VIEs:			
Net investment income	13	13	-%
Net gains (losses) on financial instruments at fair value and foreign exchange	31	(31)	n/m
Total revenues	70	340	-79%
Losses and loss adjustment	(198)	83	n/m
Amortization of deferred acquisition costs	33	27	22%
Operating	26	57	-54%
Interest	58	53	9%
Expenses of consolidated VIEs:			
Operating	5	7	-29%
Interest	10	11	-9%
Total expenses	(66)	238	-128%
Pre-tax income (loss)	$ 136	$ 102	33%

n/m - Percentage change not meaningful.

For the three months ended March 31, 2013 and 2012, we did not write a meaningful amount of structured finance and international insurance. The lack of insurance writings in our structured finance and international insurance segment reflects the impact of the downgrades of MBIA Corp.'s insurance financial strength ratings by the major rating agencies, which occurred in 2008, 2009, 2012 and the first quarter of 2013. 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 decreased for the three months ended March 31, 2013 compared to the same period of 2012 primarily due to changes in the fair value of our insured credit derivatives, which reflects changes in the market perception of MBIA Corp.'s credit risk. This decrease was partially offset by a benefit from losses and LAE from increases in recoveries of actual and expected payments and lower legal and litigation related costs.

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.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

RESULTS OF OPERATIONS (continued)

The following table presents the adjusted pre-tax income (loss) of our structured finance and international insurance segment, and a reconciliation of adjusted pre-tax income (loss) to GAAP pre-tax income (loss) for the three months ended March 31, 2013 and 2012:

In millions	Three Months Ended March 31, 2013	2012	Percent Change
Adjusted pre-tax income (loss)	$ (97)	$ (446)	-78%
Additions to adjusted pre-tax income (loss):			
Impact of consolidating certain VIEs	16	(16)	n/m
Mark-to-market gain (loss) on insured credit derivatives	(73)	303	-124%
Subtractions from adjusted pre-tax income (loss):			
Impairments on insured credit derivatives	(290)	(261)	11%
Pre-tax income (loss)	$ 136	$ 102	33%

n/m - Percent Change not meaningful.

For the three months ended March 31, 2013, our adjusted pre-tax loss decreased compared with the same period of 2012 primarily as a result of a decrease in insurance losses and LAE, the absence of net investment losses related to other-than-temporary impairments and lower operating expenses.

NET PREMIUMS EARNED Our structured finance and international insurance segment generates net premiums from insurance policies accounted for as financial guarantee contracts and insured derivative contracts, and certain of those premiums may be eliminated in our consolidated financial statements as a result of the Company consolidating VIEs. The following table provides net premiums earned by type of insurance contract for the three months ended March 31, 2013 and 2012:

In millions	Three Months Ended March 31, 2013	2012
Net premiums earned:		
Financial guarantee contracts	$ 36	$ 47
Insured derivative contracts (1)	12	15
VIEs (eliminated in consolidation)	3	5
Total net premiums earned	$ 51	$ 67

(1) - Premiums related to insured derivatives are included in "Realized gains (losses) and other settlements on insured derivatives" on our consolidated statements of operations.

Net premiums earned on non-derivative financial guarantee contracts for the three months ended March 31, 2013 and 2012 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.

In millions	Three Months Ended March 31, 2013	2012	Percent Change
Net premiums earned:			
U.S.	$ 13	$ 19	-32%
Non-U.S.	23	28	-18%
Total net premiums earned	$ 36	$ 47	-23%

Structured finance and international net premiums earned decreased in the three months ended March 31, 2013 compared with the same period of 2012 due to the maturity and early settlement of insured transactions with no material writings of new insurance policies.

NET INVESTMENT INCOME The decrease in net investment income for the three months ended March 31, 2013 compared with the same period of 2012 was primarily due to declining average asset balances in 2013 due to sales to fund 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 and had no further draws. Refer to the "Liquidity" section included herein for additional information about this agreement.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

RESULTS OF OPERATIONS (continued)

Investment asset balances at amortized cost as of March 31, 2013 and December 31, 2012 are presented in the following table:

In millions	March 31, 2013 Investments at Amortized Cost	March 31, 2013 Pre-tax Yield (1)	December 31, 2012 Investments at Amortized Cost	December 31, 2012 Pre-tax Yield (1)
Fixed-income securities:				
Taxable	$ 516	1.92%	$ 725	1.60%
Short-term	227	1.28%	160	1.38%
Total fixed-income	743	1.72%	885	1.56%
Other	2		1	
Total	$ 745		$ 886	

(1) - Estimated yield-to-maturity.

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 three months ended March 31, 2013 and 2012:

In millions	Three Months Ended March 31, 2013	Three Months Ended March 31, 2012	Percent Change
Net premiums and fees earned on insured derivatives	$ 13	$ 16	-19%
Realized gains (losses) on insured derivatives	(1)	(20)	-95%
Realized gains (losses) and other settlements on insured derivatives	12	(4)	n/m
Unrealized gains (losses) on insured derivatives	(73)	303	-124%
Net change in fair value of insured derivatives	$ (61)	$ 299	-120%

n/m - Percentage change not meaningful.

The Company no longer insures new credit derivative contracts except in transactions related to the restructuring or reduction of existing derivative exposure. Premiums earned related to insured credit derivatives will decrease over time as a result of settlements prior to maturity and scheduled amortizations. For the three months ended March 31, 2012, realized losses on insured derivatives of $20 million resulted primarily from settlements and claim payments on CMBS and corporate transactions.

For the three months ended March 31, 2013, unrealized losses on insured derivatives were principally associated with the effects of MBIA's nonperformance risk on its derivative liabilities and collateral erosion partially offset by shorter weighted average lives on transactions and favorable movements in spreads and pricing on collateral. For the three months ended March 31, 2012, unrealized gains on insured derivatives were principally associated with commutations and the result of favorable movements in spreads and pricing on collateral within transactions, partially offset by the effects of MBIA's nonperformance risk on its derivative liability which resulted from a tightening of its own credit spreads and an improvement in the Company's recovery rate.

As of March 31, 2013, MBIA Corp.'s five year CDS cost was 38.63% upfront plus 5% per annum compared with 26.50% upfront plus 5% per annum as of March 31, 2012. 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 32.13% upfront plus 5% per annum to 40.00% upfront plus 5% per annum as of March 31, 2013. Those costs ranged from 11.88% upfront plus 5% per annum to 28.25% upfront plus 5% per annum as of March 31, 2012.

As of March 31, 2013, we had $45.0 billion of gross par outstanding on insured credit derivatives compared with $47.5 billion as of December 31, 2012. The decrease in gross par outstanding was primarily due to contractual terminations, amortizations and maturities. During the three months ended March 31, 2013, five insured issues, representing $2.1 billion in gross par outstanding, either matured or were contractually settled prior to maturity.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

RESULTS OF OPERATIONS (continued)

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 March 31, 2013. We estimated that additional credit impairments on insured derivatives (excluding LAE) for the three months ended March 31, 2013 were $290 million across 10 CDO insured issues. Beginning with the fourth quarter of 2007 through March 31, 2013, total credit impairments on insured derivatives were estimated at $5.9 billion across 73 insured CDO 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 $1.7 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. The fair value of an insured derivative contract will be influenced by a variety of market and transaction-specific factors that may be unrelated to potential future claim payments. In the absence of credit impairments or the termination of derivatives at losses, the cumulative unrealized losses recorded from fair valuing insured derivatives should reverse before or at the maturity of the contracts. Contracts also may be settled prior to maturity at amounts that may be more or less than their recorded fair values. Those settlements can result in realized gains or losses, and will result in the reversal of unrealized gains or losses. The Company is not required to post collateral to counterparties of these contracts. Refer to "Risk Factors" in Part I, Item 1A of MBIA Inc.'s Annual Report on Form 10-K for the year ended December 31, 2012 for information on legislative changes that could require collateral posting by MBIA Corp. notwithstanding the contract terms.

Costs associated with mitigating credit impairments on insured derivatives are expensed as incurred and included within "Operating expenses" in our consolidated statements of operations. Such costs totaled $1 million for the three months ended March 31, 2013 and 2012.

NET INVESTMENT LOSSES RELATED TO OTHER-THAN-TEMPORARY IMPAIRMENTS Net investment losses related to other-than-temporary impairments for the three months ended March 31, 2012 was primarily related to one impaired security that was written down to its fair value as it was our intent to sell the security before an expected recovery of fair value to its amortized cost. Refer to the "Liquidity" section included herein for additional information about impaired investments.

REVENUES OF CONSOLIDATED VIEs For the three months ended March 31, 2013, total revenues of consolidated VIEs were $44 million compared with a loss of $18 million for the same period of 2012. The increase in revenues of consolidated VIEs was primarily related to net gains on financial instruments at fair value and foreign exchange as a result of changes in the fair value of VIE assets and liabilities recorded through earnings.

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" depending 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.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

RESULTS OF OPERATIONS (continued)

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

The following tables present the aggregate loss and LAE reserves and insurance loss recoverables as of March 31, 2013 and December 31, 2012, and the aggregate change in the discounted values of net payments expected to be made on all insurance contracts for the three months ended March 31, 2013 and 2012:

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, 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)
Ceded reserves	(1)	-	-	1	-
Net reserves as of December 31, 2012	(2,699)	(1,045)	1,427	-	(2,317)
Total aggregate losses and LAE incurred	(198)	5	291	-	98
(Payments) collections and other	(101)	(28)	(1)	-	(130)
Net reserves as of March 31, 2013	(2,998)	(1,068)	1,717	-	(2,349)
Ceded reserves	1	-	-	(1)	-
Total reserves (recoverable) as of March 31, 2013	$ (2,997)	$ (1,068)	$ 1,717	$ (1)	$(2,349)
Gross loss and LAE reserves as of March 31, 2013	$ 618	$ 324	$ 1,748	$ (7)	$ 2,683
Gross insurance loss recoverable as of March 31, 2013	(3,615)	(1,392)	(31)	6	(5,032)
Total reserves (recoverable) as of March 31, 2013	$ (2,997)	$ (1,068)	$ 1,717	$ (1)	$(2,349)

(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 March 31, 2013 and December 31, 2012, there was a $1 million receivable 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)

In millions	For the Three Months Ended March 31, 2013					
	Second-lien RMBS [1]	First-lien RMBS	ABS CDO	CMBS	Other	Total
Change in actual and expected payments	$ 109	$ (12)	$ (43)	$ 285	$ (10)	$ 329
Change in actual and expected salvage	(255)	(4)	5	(3)	26	(231)
Total aggregate losses and LAE	$ (146)	$ (16)	$ (38)	$ 282	$ 16	$ 98

(1) - Includes HELOC loans and CES.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

RESULTS OF OPERATIONS (continued)

	For the Three Months Ended March 31, 2012					
In millions	Second-lien RMBS [1]	First-lien RMBS	ABS CDO	CMBS	Other	Total
Change in actual and expected payments	$ 165	$ (5)	$ (45)	$ 296	$ 2	$ 413
Change in actual and expected salvage	(32)	5	15	-	1	(11)
Total aggregate losses and LAE	$ 133	$ -	$ (30)	$ 296	$ 3	$ 402

(1) - Includes HELOC loans and CES.

The decrease in total aggregate losses and LAE for the three months ended March 31, 2013 compared with the same period of 2012 was primarily due to increases in future expected recoveries on second-lien RMBS exposures, primarily driven by increases in recoveries resulting from ineligible mortgage loans that are subject to contractual obligations by sellers/servicers to repurchase or replace such mortgage loans.

In addition to the information presented above, the following tables present aggregate losses and LAE for the three months ended March 31, 2013 and 2012 by insurance type:

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

	For the Three Months Ended March 31, 2013					
In millions	Second-lien RMBS [1]	First-lien RMBS	ABS CDO	CMBS	Other	Total
Financial guarantee insurance [2]	$ (153)	$ (16)	$ (37)	$ (8)	$ 16	$ (198)
Financial guarantee insurance related to consolidated VIEs (eliminated in consolidation) [3]	7	-	(2)	-	-	5
Insured credit derivatives (statutory basis) [4]	-	-	1	290	-	291
Total aggregate losses and LAE	$ (146)	$ (16)	$ (38)	$ 282	$ 16	$ 98

(1) - Includes HELOC loans and CES.

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

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

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

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

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

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

RESULTS OF OPERATIONS (continued)

The following table presents information about our loss and LAE incurred for the three months ended March 31, 2013 and 2012:

In millions	Three Months Ended March 31, 2013	2012	Percent Change
Loss and LAE related to actual and expected payments	$ (1)	$ 125	-101%
Recoveries of actual and expected payments	(197)	(42)	n/m
Gross losses incurred	(198)	83	n/m
Reinsurance	-	-	-
Losses and loss adjustment expenses	$ (198)	$ 83	n/m

n/m - Percent change not meaningful.

Losses and LAE incurred in our structured finance and international insurance segment was a benefit of $198 million for the three months ended March 31, 2013. Included in the $198 million benefit were increases in recoveries of actual and expected payments of $197 million and decreases in gross losses related to actual and expected future payments of $1 million. Included in the $197 million in recoveries were $220 million related to insured second-lien RMBS transactions. Included in the $1 million of gross losses related to actual and expected future payments were decreases of $39 million related to ABS CDO activity, $12 million related to first-lien activity and $17 million related to other activity. Partially offsetting these decreases were increases of $67 million related to insured second-lien RMBS transactions. The $220 million of recoveries related to second-lien RMBS transactions included $306 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 $94 million reduction in excess spread within the securitizations.

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

For the three months ended March 31, 2013, losses and LAE incurred included the elimination of a $5 million expense as a result of the consolidation of VIEs. The $5 million elimination included gross losses related to actual and expected future payments of $38 million, partially offset by recoveries of actual and expected payments of $33 million. For the three months ended March 31, 2012, losses and LAE incurred included the elimination of a $36 million expense as a result of the consolidation of VIEs. The $36 million elimination included gross losses related to actual and expected future payments of $18 million and a decrease in recoveries of actual and expected payments of $18 million.

The following table presents information about our insurance reserves and recoverable as of March 31, 2013 and December 31, 2012. 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 transactional documents (inclusive of subrogation rights).

In millions	March 31, 2013	December 31, 2012	Percent Change
Gross loss and LAE reserves	$ 804	$ 918	-12%
Expected recoveries on unpaid losses	(186)	(224)	-17%
Loss and LAE reserves	$ 618	$ 694	-11%
Insurance loss recoverable	$ 3,615	$ 3,392	7%
Insurance loss recoverable - ceded (1)	$ 6	$ 6	- %
Reinsurance recoverable on paid and unpaid losses	$ 7	$ 7	- %

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

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

RESULTS OF OPERATIONS (continued)

Included in the Company's loss and LAE reserves are both reserves for insured obligations for which a payment default has occurred and MBIA Corp. has already paid a claim and also for which a payment default has not yet occurred but a claim is expected in the future. The following table includes LAE reserves as of March 31, 2013 and December 31, 2012 for four issues that had no expected future claim payments or par outstanding, but for which the Company is obligated to pay LAE incurred in prior periods. As of March 31, 2013 and December 31, 2012, loss and LAE reserves comprised the following:

	Number of Issues [1]		Loss and LAE Reserve		Par Outstanding	
$ in millions	March 31, 2013	December 31, 2012	March 31, 2013	December 31, 2012	March 31, 2013	December 31, 2012
Gross of reinsurance:						
Issues with defaults	101	97	$ 421	$ 448	$ 7,112	$ 7,194
Issues without defaults	24	25	197	246	1,273	1,402
Total gross of reinsurance	125	122	$ 618	$ 694	$ 8,385	$ 8,596

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

MBIA reports expected potential recoveries of certain paid claims within "Insurance loss recoverable" and the corresponding estimated recovery amounts due to reinsurers within "Other liabilities" on the Company's consolidated balance sheets. As of March 31, 2013 and December 31, 2012, our insurance loss recoverable in our structured finance and international insurance segment was $3.6 billion and $3.4 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 March 31, 2013 and December 31, 2012, our insurance loss recoverable also included estimated recoveries of approximately $747 million and $780 million, respectively, primarily from excess spread (the difference between interest inflows on mortgage loan collateral and interest outflows on insured beneficial interests) within insured second-lien RMBS securitizations. Insurance loss recoverables due to reinsurers totaled $6 million as of March 31, 2013 and December 31, 2012. Insurance loss recoverables are only paid to reinsurers upon receipt of such amounts by MBIA.

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 three months ended March 31, 2013, we recorded a $153 million benefit related to insured second-lien RMBS transactions. The $153 million benefit was due to gross recoveries of actual and expected payments of $220 million, partially offset by gross losses and LAE related to actual and expected payments of $67 million.

MBIA Corp. also insures MBS backed by first-lien subprime mortgage loans directly through RMBS securitizations. There has been considerable stress and continued deterioration in the subprime mortgage market since 2008 reflected by increased delinquencies and losses, particularly related to subprime mortgage loans originated during 2005, 2006 and 2007. As of March 31, 2013 and December 31, 2012, the Company had $2.2 billion of gross par outstanding from direct exposure to subprime mortgage loans. While subprime transactions directly guaranteed by MBIA Corp. include collateral comprising mortgage loans that originated during 2005, 2006, and 2007, we currently do not expect ultimate material losses on these transactions given the amount of subordination below MBIA Corp.'s insured portion of such transactions available to absorb losses from collateral defaults. As of March 31, 2013, the Company had $308 million of gross par outstanding in six insured direct subprime mortgage transactions with 2005 or 2006 subprime mortgage collateral appearing on the Company's Classified or Caution Lists.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

RESULTS OF OPERATIONS (continued)

The following table presents the gross par outstanding of MBIA Corp.'s total direct RMBS insured exposure as of March 31, 2013 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	$ 79	$ 1,040	$ 939	$ -	$ 8	$ 2,066
AA	16	262	152	6	-	436
A	38	147	379	-	17	581
BBB	71	365	205	1,485	1,626	3,752
Below investment grade	-	1,156	485	1,581	1,486	4,708
Total gross par	$ 204	$ 2,970[1]	$ 2,160[2]	$ 3,072	$ 3,137	$11,543

(1) - Includes international exposure of $727 million.

(2) - Includes international exposure of $10 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 March 31, 2013. 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	$ 421	14%	$2,062	66%
2006	1,115	36%	1,015	32%
2005	933	30%	-	-%
2004	540	18%	35	1%
2003 and prior	63	2%	25	1%
Total gross par	$3,072	100%	$3,137	100%

The HELOC and CES gross par outstanding in the above tables decreased from $3.2 billion and $3.3 billion, respectively, as of December 31, 2012.

During the three months ended March 31, 2013, we paid approximately $111 million, net of reinsurance and collections, on insured second-lien RMBS transactions, or $84 million after eliminating $27 million of net payments made on behalf of consolidated VIEs. Through March 31, 2013, we paid a cumulative total of $6.7 billion, net of reinsurance and collections, or $4.4 billion after eliminating $2.3 billion of net payments on insured second-lien RMBS transactions that are currently consolidated as VIEs. As of March 31, 2013, we had loss and LAE reserves related to our remaining insured second-lien RMBS exposure of $200 million before eliminating $90 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.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

RESULTS OF OPERATIONS (continued)

The following table provides information about 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 March 31, 2013 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	14	$ 16,253	$ 1,998	$ 2,304
CES	9	8,198	1,955	2,155
Total	23	$ 24,451	$ 3,953	$ 4,459
Total net of reinsurance				$ 4,350

The gross par outstanding on insured second-lien RMBS transactions included in the preceding table was $4.0 billion as of March 31, 2013 and December 31, 2012. As of March 31, 2013, we expect to pay an additional $223 million (on a present value basis) on these transactions and expect to receive a total of $811 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, $747 million is included in "Insurance loss recoverable" and $64 million is included in "Loss and loss adjustment expense reserves." In addition, we expect to receive $2.8 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 13: 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 March 31, 2013 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, $857 million was eliminated subsequent to consolidation. As of March 31, 2013, 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	$ 923	$ 687
CES	7	5,068	1,158	1,703
Total	13	$ 8,725	$ 2,081	$ 2,390
Total net of reinsurance				$ 2,318

As of March 31, 2013, we expect to pay an additional $103 million (on a present value basis) on these transactions and expect to receive a total of $241 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 $1.2 billion (on a present value basis) as of March 31, 2013 from the contractual obligation of the sellers/servicers to repurchase ineligible mortgage loans, which is reported in "Loan repurchase commitments" under "Assets of consolidated variable interest entities" on the consolidated balance sheets.

Refer to "Note 5: Loss and Loss Adjustment Expense Reserves" in the Notes to Consolidated Financial Statements for additional information about assumptions used to estimate recoveries on our RMBS exposure.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

RESULTS OF OPERATIONS (continued)

Other

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

POLICY ACQUISITION COSTS AND OPERATING EXPENSES Structured finance and international insurance segment expenses for the three months ended March 31, 2013 and 2012 are presented in the following table:

In millions	Three Months Ended March 31, 2013	2012	Percent Change
Gross expenses	$ 29	$ 58	-50%
Amortization of deferred acquisition costs	$ 33	$ 27	22%
Operating	26	57	-54%
Total insurance operating expenses	$ 59	$ 84	-30%

Gross expenses represent total insurance expenses before the deferral of any policy acquisition costs. Gross expenses decreased for the three months ended March 31, 2013 compared with the same period of 2012 due to reductions in legal and litigation related costs and compensation expenses. The increase in the amortization of deferred acquisition costs for the three months ended March 31, 2013 compared with the same period of 2012 principally reflects the strengthening of the U.S. dollar related to our international policies.

Operating expenses decreased for the three months ended March 31, 2013 compared with the same period of 2012 due to a decrease in gross expenses. We did not defer a material amount of policy acquisition costs during the first quarter of 2013 or 2012. Policy acquisition costs in these periods were primarily related to ceding commission income and premium taxes on installment policies written in prior periods.

INSURED PORTFOLIO EXPOSURE The credit quality of our structured finance and international insured portfolio is assessed in the same manner as our U.S. public finance insured portfolio. As of March 31, 2013 and December 31, 2012, 27% and 26%, 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.

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.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

RESULTS OF OPERATIONS (continued)

MBIA Corp.'s $49.1 billion CDO portfolio represented 46% of its total insured gross par outstanding of $107.9 billion as of March 31, 2013. 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 March 31, 2013
Multi-sector CDOs [1]	$ 4.1
Investment grade CDOs and structured corporate credit pools	21.8
High yield corporate CDOs	5.6
Commercial real estate pools and CRE CDOs	17.6
Total	$ 49.1

(1) - Includes one multi-sector CDO-squared transaction with gross par of $84 million as of March 31, 2013

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 no longer generates enough cash flow to support the insured notes. MBIA Corp.'s payment obligation after a default generally insures current interest and ultimate principal.

Total gross par exposure in our multi-sector CDO portfolio was $37.3 billion as of December 31, 2007. Since the end of 2007 through March 31, 2013, our multi-sector CDO gross par exposure has decreased by approximately $33.2 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 amortization and maturity of transactions. As of March 31, 2013, our gross par exposure to multi-sector CDOs of $4.1 billion represented 8% of MBIA Corp.'s CDO exposure and 4% of MBIA Corp.'s total gross par insured.

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

$ in millions			Collateral as a % of Performing Pool Balance as of March 31, 2013					
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	$ 163[1]	100%	0%	100%	9.4-44.4%	10.0%	$ (10)
2005 - 2007	3	2,204	61%	39%	100%	0.0%	13.0-20.0%	(573)
Subtotal	5	2,367						(583)
CDOs of Mezzanine U.S. ABS								
2002 - 2004	11	1,051	65%	35%	100%	0.0-70.1%	13.8-30.5%	(21)
Total	16	3,418						(604)
		285	Multi-Sector CDO European Mezzanine and Other Collateral (1 CDO)					(2)
		446	Multi-Sector CDO insured in the Secondary Market prior to 2005 (27 CDOs)					-
Grand Total		$ 4,149						$ (606)

(1) - Includes one multi-sector CDO-squared transaction with gross par of $84 million as of March 31, 2013.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

RESULTS OF OPERATIONS (continued)

The significant erosion of subordination in our multi-sector CDO transactions principally resulted from the underperformance of RMBS and CDO collateral. As discussed above, the erosion of Insured Tranche Subordination in these transactions increases the likelihood that MBIA Corp. will pay claims. As of March 31, 2013, 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 March 31, 2013, the ratings distribution of our insured multi-sector CDO transactions is presented in the following table. These ratings are intended to reflect the past and expected future performance of the underlying collateral within each transaction.

Insured Exposure Rating [1]	Original	Current
AAA	100%	0%
AA	0%	2%
A	0%	0%
BBB	0%	7%
Below investment grade	0%	91%
Total	100%	100%

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

Investment Grade Corporate CDOs and Structured Corporate Credit Pools

Our investment grade corporate CDO exposure references pools of predominantly investment grade corporate credits. Additionally, some of these pools may include limited exposure to other asset classes, including structured finance securities (such as RMBS and CDOs). Most of our investment grade corporate CDO policies guarantee coverage of losses on collateral assets once Insured Tranche Subordination in the form of a deductible has been eroded, and are generally highly customized structures. Our gross par exposure to investment grade corporate CDOs of $21.8 billion represents 44% of MBIA Corp.'s CDO exposure and 20% of MBIA Corp.'s total gross par insured. The Company's insured investment grade corporate CDOs have experienced Insured Tranche Subordination erosion due to the default of underlying referenced corporate obligors, as well as certain structured finance securities, but we currently do not expect losses on MBIA Corp.'s insured tranches. As of March 31, 2013, the collateral amount in the portfolio exceeds the gross par outstanding as a result of credit enhancement (such as over-collateralization and Insured Tranche Subordination).

Our gross par of insured investment grade corporate CDOs includes $10.8 billion that was typically structured to include buckets (typically 30% to 35% of the overall CDO) of references to specific tranches of other investment grade corporate CDOs (monotranches). In such transactions, MBIA Corp.'s insured investment grade corporate CDOs include, among direct corporate or structured credit reference risks, a monotranche or single layer of credit risk referencing a diverse pool of corporate assets or obligors with a specific attachment and a specific detachment point. The referenced monotranches in such CDOs were typically rated double-A and sized to approximately 3% of the overall reference risk pool. The inner referenced monotranches are not typically subject to acceleration and do not give control rights to a senior investor. The inner referenced monotranches have experienced Insured Tranche Subordination erosion due to the default of their referenced corporate assets.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

RESULTS OF OPERATIONS (continued)

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

$ in millions			As of March 31, 2013					
Year Insured	# of CDOs	Gross Par Outstanding	Corporate Collateral	Other Collateral	Total	Current Insured Tranche Subordination Range Below MBIA	Original Insured Tranche Subordination Range Below MBIA	Net Derivative / Asset (Liability)
2005	2	$ 2,763	85%	15%	100%	20.0-23.3%	25.0-27.5%	$ (28)
2006	4	6,766	94%	6%	100%	11.4-18.1%	16.0-25.0%	(218)
2007	10	12,278	98%	2%	100%	11.1-27.9%	15.0-30.0%	(279)
Total	16	21,807						(525)

High Yield Corporate CDOs

Our high yield corporate CDO portfolio, totaling $5.6 billion of gross par exposure, largely comprises middle-market/special- opportunity corporate loan transactions and broadly syndicated CLOs. Our gross par exposure to high yield corporate CDOs represents 11% of MBIA Corp.'s CDO exposure and 5% of MBIA Corp.'s total gross par insured as of March 31, 2013.

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

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

$ in millions			As of March 31, 2013			
Year Insured	# of CDOs	Gross Par Outstanding	Corporate Collateral	Current Insured Tranche Subordination Range Below MBIA	Original Insured Tranche Subordination Range Below MBIA	Net Derivative / Asset (Liability) (1)
2003 - 2007	6	$ 5,629	100%	10.1-33.1%	21.8-33.3%	$ -
	16		High Yield Corporate CDO insured in the Secondary Market prior to 2003 (2 CDOs)			-
Total		$ 5,645				$ -

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

Commercial Real Estate Pools and CRE CDOs

As of March 31, 2013, we had $17.6 billion of gross par exposure to the CRE sector through insured structured transactions primarily comprising CRE collateral. Our CRE portfolio can be largely sub-divided into two distinct categories: structured CMBS pools and CRE CDOs. In addition, MBIA Corp. insures approximately $2.6 billion in CRE loan pools, primarily comprising European assets. These CRE loans are not included in the following "Structured CMBS Pools" and "CRE CDOs" sections.

Refer to "Note 5: Loss and Loss Adjustment Expense Reserves" in the Notes to Consolidated Financial Statements for a discussion of credit impairments on our CRE pools and CDO exposure, including the methodology used to calculate these impairments.

Structured CMBS Pools

As of March 31, 2013, our gross par exposure to structured CMBS pools totaled $15.6 billion and represented approximately 15% of MBIA Corp.'s total gross par insured. Since the end of 2007 through March 31, 2013, our structured CMBS pools gross par exposure has decreased by approximately $25.1 billion, primarily from negotiated commutations and early settlements. Our structured CMBS pool insured transactions are pools of CMBS bonds, Real Estate Investment Trust ("REIT") debt and other CRE CDOs structured with first loss deductibles such that MBIA Corp.'s obligation attached at a minimum of a triple-A level when the policies were issued. The deductible sizing was a function of the underlying collateral ratings and certain structural attributes. MBIA Corp.'s guarantees for most structured CMBS pool transactions cover losses on collateral assets once the deductibles have been eroded. These deductibles provide credit enhancement and subordination to MBIA's insured position.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

RESULTS OF OPERATIONS (continued)

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

The following table presents the collateral as a percentage of the pool balances, as well as the current deductible, as of March 31, 2013 for all MBIA Corp.-insured structured CMBS pool transactions:

$ in millions			As of March 31, 2013						
Year Insured	# of Pools	Gross Par Outstanding	CMBS	REIT Debt	Other	Total	Current Deductible	Original Deductible	Net Derivative / Asset (Liability)
2003	1	$ 50	69%	16%	15%	100%	66.4%	26.0%	$ -
2006	5	1,669	97%	0%	3%	100%	3.8-48.9%	10.0-54.2%	(38)
2007	15	13,827	98%	0%	2%	100%	2.5-83.0%	5.0-82.3%	(1,682)
Subtotal	21	15,546							(1,720)
		14	Structured CMBS Pools insured in the Secondary Market prior to 2005 (2 pools)						-
Grand Total		$ 15,560							$ (1,720)

While on an aggregate basis the deductible levels in the above table show little erosion, certain policies reflected in the table have experienced significant deductible erosion. This significant deductible erosion was largely due to liquidations of underlying loan collateral in those transactions over the past two years. Subsequent to March 31, 2013, one transaction experienced deterioration such that all the remaining deductible was eliminated and a claim for this transaction was presented to MBIA.

In addition, we have experienced ratings erosion in the total CMBS collateral underlying our insured static pools. Whereas approximately 32% of the total CMBS collateral underlying the pools outstanding as of March 31, 2013 was originally rated BBB and below and approximately 50% was originally rated AAA, approximately 58% of the total CMBS collateral underlying these pools as of March 31, 2013 was rated below investment grade. The higher risk of the collateral that was originally rated BBB and below was intended to be offset by the diversification in the collateral pool and the level of the deductible, whereas pools backed by all AAA collateral benefited from diversification, as well as higher credit quality, and required smaller deductibles. In all cases, regardless of the underlying collateral rating, MBIA Corp.'s insured position was rated AAA at origination of the transaction by at least one of the Moody's, S&P or Fitch ratings companies.

As of March 31, 2013, we had exposure to eight static CMBS pools, having $6.0 billion of gross par outstanding, that were originally insured in 2006 and 2007, and in which substantially all of the underlying collateral comprised CMBS tranches originally rated BBB and lower. The remainder of the collateral in these eight pools consisted of higher rated CMBS bonds, REIT debt and other securities. The BBB and below rated CMBS bonds underlying these eight pools had an original weighted average credit enhancement level of 2.9%, compared with a weighted average credit enhancement level of 1.8% as of March 31, 2013. 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 37.7%, compared with deductibles that range from 2.5% to 83.0% with a weighted average deductible by gross par outstanding of 20.8% as of March 31, 2013. As of March 31, 2013, 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. Subsequent to March 31, 2013, MBIA commuted these exposures as part of the BofA Settlement Agreement. After all commutations agreed to subsequent to March 31, 2013, we have exposure to four static CMBS pools 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. Total gross par outstanding on these pools was $914 million as of March 31, 2013.

Additionally, we insure two static CMBS pools, totaling $3.0 billion of gross par outstanding as of March 31, 2013, that were originally insured in 2007, and are comprised of CMBS collateral which was originally rated A. Although deductible erosion at the policy level has been minimal to date, we do expect additional erosion. While ultimate loss rates remain uncertain and if the economy does not improve, it is possible that we will experience severe losses, particularly if the underlying loans are unable to pay off at their expected maturity dates.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

RESULTS OF OPERATIONS (continued)

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

	CMBS Collateral Vintage				
Original Rating	2004 and Prior	2005	2006	2007	Total
AAA	8.2%	4.5%	23.6%	14.0%	50.3%
AA	0.0%	0.0%	1.0%	3.3%	4.3%
A	0.0%	2.4%	9.2%	1.7%	13.3%
BBB	1.7%	4.5%	16.9%	4.6%	27.7%
Below investment grade or not rated	1.7%	1.2%	0.6%	0.9%	4.4%
Total	11.6%	12.6%	51.3%	24.5%	100.0%

As of March 31, 2013, our structured CMBS pool portfolio comprised approximately 35,400 loans. The current weighted average debt service coverage ratio ("DSCR") of underlying mortgage loans in the CMBS pools was 1.45 based on net operating income derived from the most recent property level financial statements. As of March 31, 2013, some properties still show signs of significant financial distress as evidenced by the fact that approximately 17% of the properties have reported a DSCR less than 1.0. The majority of the loans are long-term and fixed-rate in nature. Approximately ten percent of the loans mature in the next twelve months and these loans have a weighted average DSCR of 1.80. The large shifts in the Company's structured CMBS pool portfolio due to early settlements reached over the past several months render comparison to previous periods less meaningful.

Delinquencies have increased markedly in the CRE market over the last three years given the economic climate and the shortage of financing. As of March 31, 2013, 30-day and over delinquencies decreased in the fixed-rate conduit CMBS market to 8.8% and decreased in MBIA Corp.'s insured static pooled CMBS portfolio to 11.3%. The higher delinquency rate in MBIA Corp.'s portfolio was primarily due to a concentration in the 2006 and early 2007 vintages. Additionally, the market includes newer vintage transactions from 2010 to 2012, which have virtually no material delinquencies. Although we have also seen stabilization in the pace of increases in the delinquency rate over the past several months, some of the deceleration is attributable to the loan modifications and extensions granted by the special servicers for these CMBS loans as well as increased liquidations. The special servicers are responsible for managing loans that have defaulted and for conducting the remediation and foreclosure process with the objective of maximizing proceeds for all bondholders by avoiding or minimizing loan level losses.

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

CRE CDOs

As of March 31, 2013, our gross par exposure to CRE CDOs totaled $2.0 billion and represented approximately 2% of MBIA Corp.'s total gross par insured. CRE CDOs are managed pools of CMBS, CRE whole loans, B-Notes, mezzanine loans, REIT debt, and other securities (including, in some instances, buckets for RMBS and CRE CDOs) that allow for reinvestment during a defined time period. Most of these transactions benefit from typical CDO structural features such as cash diversion triggers, collateral quality tests, and manager replacement provisions. Typically, MBIA Corp. guarantees timely interest and ultimate principal of these CDOs. As with our other insured CDOs, these transactions were generally structured with credit protection originally rated triple-A, or a multiple of triple-A, below our guarantee. As of March 31, 2013, our CRE CDO insured portfolio did not contain any CDOs of ABS exposures. Some of the CRE CDO transactions do contain some RMBS collateral, but overall this comprises 1% of the collateral in the CRE CDO portfolio.

Within our CRE CDO portfolio, we had one transaction with 2005, 2006, and 2007 vintage collateral totaling $344 million of gross par outstanding as of March 31, 2013 in which substantially all of the collateral originally comprised BBB or BBB- rated tranches of CMBS. Although the transaction originally allowed for some manager flexibility, no underlying securities were ever traded, nor will they be going forward. Subsequent to March 31, 2013, MBIA commuted this exposure as part of the BofA Settlement Agreement.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

RESULTS OF OPERATIONS (continued)

The following table presents the collateral as a percentage of the performing pool balances as of March 31, 2013 for all MBIA Corp.-insured CRE CDO transactions:

$ in millions			As of March 31, 2013							
Year Insured	# of CRE CDOs	Gross Par Outstanding	CMBS	Whole Loans	REIT Debt	Other	Total	Current Enhancement	Original Enhancement	Net Derivative / Asset (Liability)
2004	2	$ 30	62%	0%	14%	24%	100%	21.1-46.4%	22.0-22.4%	$ -
2005	1	44	90%	0%	0%	10%	100%	35.5%	22.7%	(1)
2006	7	407	28%	67%	1%	4%	100%	0.0-56.9%	24.0-50.0%	-
2007	6	1,550	66%	28%	1%	5%	100%	8.1-38.2%	21.7-50.0%	(130)
Total	16	$ 2,031								$ (131)

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

Reinsurance enables the Company to cede exposure for purposes of syndicating risk and increasing its capacity to write new business while complying with its single risk and credit guidelines. When a reinsurer is downgraded by one or more of the rating agencies, less capital credit is given to MBIA under rating agency models and the overall value of the reinsurance to MBIA is reduced. The Company generally retains the right to reassume the business ceded to reinsurers under certain circumstances, including a reinsurer's rating downgrade below specified thresholds. The following table presents information about our reinsurance agreements as of March 31, 2013 for our U.S. public finance and structured finance and international insurance operations:

In millions					
Reinsurers	Standard & Poor's Rating (Status)	Moody's Rating (Status)	Ceded Par Outstanding	Letters of Credit/Trust Accounts	Reinsurance Recoverable (1)
Assured Guaranty Corp.	AA- (Stable Outlook)	A3 (Stable Outlook)	$ 2,331	$ -	$ 14
Assured Guaranty Re Ltd.	AA- (Stable Outlook)	Baa1 (Stable Outlook)	494	5	-
Overseas Private Investment Corporation	AA+ (Negative Outlook)	Aaa (Negative Outlook)	358	-	-
Export Development Canada	AAA (Stable Outlook)	Aaa (Stable Outlook)	55	1	-
Others	A+ or above	A2 or above	60	1	-
Total			$ 3,298	$ 7	$ 14

(1) - Amount comprises recoverables on unpaid losses.

MBIA requires certain unauthorized reinsurers to maintain bank letters of credit or establish trust accounts to cover liabilities ceded to such reinsurers under reinsurance contracts. As of March 31, 2013, the total amount available under these letters of credit and trust accounts was $7 million. The Company remains liable on a primary basis for all reinsured risk, and although MBIA believes that its reinsurers remain capable of meeting their obligations, there can be no assurance of such in the future.

As of March 31, 2013, the aggregate amount of insured par outstanding ceded by MBIA to reinsurers under reinsurance agreements was $3.3 billion compared with $3.4 billion as of December 31, 2012. Of the $3.3 billion of ceded par outstanding as of March 31, 2013, $1.8 billion was ceded from our U.S. public finance insurance segment and $1.5 billion was ceded from our structured finance and international insurance segment. Under National's reinsurance agreement with MBIA Corp., if a reinsurer of MBIA Corp. is unable to pay claims ceded by MBIA Corp. on U.S. public finance exposure, National will assume liability for such ceded claim payments. As of March 31, 2013, the total amount for which National would be liable in the event that the reinsurers of MBIA Corp. were unable to meet their obligations is $1.8 billion. For FGIC policies assigned to National from MBIA Insurance Corporation, National maintains the right to receive third-party reinsurance totaling $4.3 billion.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

RESULTS OF OPERATIONS (continued)

Advisory Services

Our asset management advisory business is primarily conducted through Cutwater and Trifinium Advisors (UK) Limited ("Trifinium"). Cutwater provides advisory services, including cash management, discretionary asset management and structured products on a fee-for-service basis. Cutwater offers these services to public, not-for-profit, corporate and financial services clients, including MBIA Inc. and its other subsidiaries. Trifinium provides fee-based asset management and advisory services to the Company's foreign insurance affiliate and to third-party clients and investment structures. During the first quarter of 2013, Trifinium began managing a financing program that provides loans to the U.K. social housing sector. Trifinium earns fees for management and other services provided to the program.

The following table summarizes the results and assets under management of our advisory services segment for the three months ended March 31, 2013 and 2012. These results include revenues and expenses from transactions with the Company's insurance, corporate, and wind-down operations.

In millions	Three Months Ended March 31, 2013	2012	Percent Change
Fees	$ 11	$ 13	-15%
Operating expenses	12	17	-29%
Pre-tax income (loss)	$ (1)	$ (4)	-75%
Ending assets under management:			
Third-party	$ 17,494	$ 20,601	-15%
Insurance and corporate	7,224	7,522	-4%
Asset/liability products and conduits	4,717	7,470	-37%
Total ending assets under management	$ 29,435	$ 35,593	-17%

For the three months ended March 31, 2013, the decrease in pre-tax loss compared with the same period of 2012 was primarily driven by a decrease in operating expenses, principally due to lower compensation expenses.

Average third-party assets under management for the three months ended March 31, 2013 and 2012 were $17.7 billion and $21.0 billion, respectively. This decrease was principally due to declines in our pool products and CDO management business.

Corporate

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

The following table summarizes the consolidated results of our corporate segment for the three months ended March 31, 2013 and 2012. The results include revenues and expenses that arise from general corporate activities and from providing support to our other segments.

In millions	Three Months Ended March 31, 2013	2012	Percent Change
Net investment income	$ 1	$ 1	-%
Fees	27	23	17%
Net gains (losses) on financial instruments at fair value and foreign exchange	5	5	-%
Total revenues	33	29	14%
Operating	67	25	n/m
Interest	12	14	-14%
Total expenses	79	39	103%
Pre-tax income (loss)	$ (46)	$ (10)	n/m

n/m - Percent change not meaningful.

FEES Fees are generated from support services provided to business units within the Company on a fee-for-service basis. Fees for the three months ended March 31, 2013 increased compared with the same period of 2012 primarily due to a fee paid in 2013 by our conduit segment for administrative and other services of $10 million. Such fees may vary significantly from period to period.

OPERATING EXPENSES Operating expenses for the three months ended March 31, 2013 increased compared with the same period of 2012 due to significantly higher legal and litigation related costs.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

RESULTS OF OPERATIONS (continued)

Wind-down Operations

We operate an asset/liability products business in which we historically issued debt and investment agreements insured by MBIA Corp. to capital markets and municipal investors. The proceeds of the debt and investment agreements were used initially to purchase assets that largely matched the duration of those liabilities. We also operate a conduit business in which we historically funded transactions by issuing debt insured by MBIA Corp. The rating downgrades of MBIA Corp. resulted in the termination and collateralization of certain derivatives and investment agreements and, together with the rising cost and declining availability of funding and liquidity within many of the asset classes in which proceeds were invested, caused the Company to begin winding down its asset/liability products and conduit businesses in 2008. Since the downgrades of MBIA Corp., we have not issued debt in connection with either business and, as a result, the outstanding liability balances and corresponding asset balances will continue to decline over time as liabilities mature, terminate or are repurchased by us.

Asset/Liability Products

The following table presents the results of our asset/liability products segment for the three months ended March 31, 2013 and 2012. These results include revenues and expenses from transactions with the Company's insurance and corporate operations.

In millions	Three Months Ended March 31, 2013	2012	Percent Change
Net investment income	$ 7	$ 17	-59%
Net gains (losses) on financial instruments at fair value and foreign exchange	3	(73)	-104%
Net investment losses related to other-than-temporary impairments	-	(55)	-100%
Net gains (losses) on extinguishment of debt	4	-	n/m
Total revenues	14	(111)	-113%
Operating	2	4	-50%
Interest expense	20	31	-35%
Total expenses	22	35	-37%
Pre-tax income (loss)	$ (8)	$ (146)	-95%

n/m - Percentage change not meaningful.

NET INVESTMENT INCOME The decrease in net investment income for the three months ended March 31, 2013 compared with the same period of 2012 was primarily due to lower average asset balances as investments were sold to generate liquidity and repay liabilities.

NET GAINS (LOSSES) ON FINANCIAL INSTRUMENTS AT FAIR VALUE AND FOREIGN EXCHANGE The favorable change in net gains (losses) on financial instruments at fair value and foreign exchange for the three months ended March 31, 2013 compared with the same period of 2012 was primarily the result of a decline in losses related to the sale of investments and favorable movements in foreign exchange rates on medium-term notes ("MTNs"), partially offset by a decline in gains on derivatives.

NET INVESTMENT LOSSES RELATED TO OTHER-THAN-TEMPORARY IMPAIRMENTS The Company has an ongoing review process for all securities to assess whether a decline in value is related to a credit loss. The Company utilizes cash flow modeling for purposes of assessing other-than-temporary impairments. Net investment losses related to other-than-temporary impairments for the three months ended March 31, 2012 related to impairing certain securities to their fair values, as it was our intent to sell these securities before a recovery of their fair values to amortized cost. Refer to the "Liquidity" section included herein for additional information about impaired investments.

NET GAINS (LOSSES) ON EXTINGUISHMENT OF DEBT For the three months ended March 31, 2013, net gains (losses) on extinguishment of debt was primarily due to gains from the repurchase of MTNs issued by the Company.

INTEREST EXPENSE The decrease in interest expense for the three months ended March 31, 2013 compared with the same period of 2012 was primarily due to the continued maturity and repurchases of liabilities by the Company.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

RESULTS OF OPERATIONS (continued)

Conduits

The following table presents the results of our conduit segment for the three months ended March 31, 2013 and 2012. These results include revenues and expenses from transactions with the Company's insurance and corporate operations.

	Three Months Ended March 31,		Percent
In millions	2013	2012	Change
Revenues of consolidated VIEs:			
Net investment income	$ 2	$ 3	-33%
Total revenues	2	3	-33%
Expenses of consolidated VIEs:			
Operating	11	-	n/m
Interest	2	4	-50%
Total expenses	13	4	n/m
Pre-tax income (loss)	$ (11)	$ (1)	n/m

n/m - Percentage change not meaningful.

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

For the three months ended March 31, 2013, total revenues decreased compared with the same period of 2012 as a result of lower asset balances, and total expenses increased compared with the same period of 2012 primarily as a result of a $10 million fee paid to our corporate segment for administrative and other services.

Taxes

Provision for Income Taxes

The Company's income taxes and the related effective tax rates for the three months ended March 31, 2013 and 2012 are presented in the following table:

	Three Months Ended March 31,	
In millions	2013	2012
Pre-tax income (loss)	$ 215	$ 21
Provision (benefit) for income taxes	$ 51	$ 11
Effective tax rate	23.7%	52.4%

For the three months ended March 31, 2013, our effective tax rate applied to our pre-tax income was lower than the U.S. statutory tax rate of 35% primarily due to a reduction in our valuation allowance against our deferred tax asset.

For the three months ended March 31, 2012, our effective tax rate applied to our pre-tax income was higher than the U.S. statutory tax rate of 35%, as a result of the increase in the valuation allowance, partially offset by the benefit of tax exempt income and the release of a portion of the reserve for uncertain tax benefits.

Refer to "Note 9: Income Taxes" in the Notes to Consolidated Financial Statements for a further discussion of income taxes, including the Company's valuation allowance against deferred tax assets and its accounting for tax uncertainties.

CAPITAL RESOURCES

The Company manages its capital resources to minimize its cost of capital while maintaining appropriate claims-paying resources ("CPR") for National and MBIA Corp. The Company's capital resources consist of total shareholders' equity, total debt issued by MBIA Inc. for general corporate purposes, and surplus notes issued by MBIA Insurance Corporation. Total capital resources were $4.9 billion and $4.8 billion as of March 31, 2013 and December 31, 2012, respectively. MBIA Inc. utilizes its capital resources to support the business activities of its subsidiaries. As of March 31, 2013, MBIA Inc.'s investments in subsidiaries totaled $4.3 billion.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

CAPITAL RESOURCES (continued)

In addition to managing the capital resources of MBIA Inc's subsidiaries, we also manage the capital resources of MBIA Inc. supporting our corporate and asset/liability products segments. This includes our corporate unsecured debt issued for general corporate purposes and debt and investment agreements for operating leverage purposes in support of our asset/liability products business. MBIA Inc. seeks to maintain sufficient liquidity and capital resources to meet its general corporate needs as well as the needs of the asset/liability products business. As of March 31, 2013 and December 31, 2012, 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. The Company expects that MBIA Inc. will generate sufficient cash to satisfy its net debt and its general corporate needs over time from distributions from its operating subsidiaries and by raising third-party capital, although there can be no assurance that such factors will generate sufficient cash to satisfy its net debt. Refer to the following "Liquidity—MBIA Inc. Liquidity" section for additional information about MBIA Inc.'s liquidity.

Securities Repurchases

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

Debt securities

MBIA Inc. or its subsidiaries may repurchase or terminate their outstanding debt at prices that we deem to be economically advantageous. During the three months ended March 31, 2013, we repurchased approximately $24 million par value outstanding of MTNs issued by our asset/liability segment at a weighted average cost of approximately 94% of par value.

Insurance Statutory Capital

National and MBIA Insurance Corporation are incorporated and licensed in, and are subject to primary insurance regulation and supervision by, the State of New York. National and MBIA Insurance Corporation each are required to file detailed annual financial statements, as well as interim financial statements, with the NYSDFS and similar supervisory agencies in each of the other jurisdictions in which it is licensed. These financial statements are prepared in accordance with New York State and the National Association of Insurance Commissioners' statements of U.S. STAT and assist our regulators in evaluating minimum standards of solvency, including minimum capital requirements, and business conduct. U.S. STAT differs from GAAP in a number of ways. Refer to the statutory accounting practices note to consolidated financial statements of National and MBIA Corp. within exhibits 99.1 and 99.2, respectively, of MBIA Inc.'s Annual Report on Form 10-K for the year ended December 31, 2012 for an explanation of the differences between U.S. STAT and GAAP.

National

Capital and Surplus

National reported total statutory capital of $3.3 billion as of March 31, 2013 compared with $3.2 billion as of December 31, 2012. As of March 31, 2013, statutory capital comprised $1.2 billion of contingency reserves and $2.1 billion of policyholders' surplus. The increase in National's statutory capital is primarily due to statutory net income of $100 million for the three months ended March 31, 2013. Consistent with our plan to transform our insurance business, the Company received approval from the NYSDFS to reset National's unassigned surplus to zero, which was effective January 1, 2010. As of March 31, 2013, National's unassigned surplus was $1.5 billion. In October 2010, the plaintiffs in the litigation challenging the establishment of National initiated a court proceeding challenging the approval of the surplus reset. Refer to "Note 13: Commitments and Contingencies" in the Notes to Consolidated Financial Statements for a discussion of this action.

In order to maintain its New York State financial guarantee insurance license, National is required to maintain a minimum of $65 million of policyholders' surplus. National is also required to maintain contingency reserves to provide protection to policyholders in the event of extreme losses in adverse economic events. Refer to the following "MBIA Insurance Corporation—Capital and Surplus" section for additional information about contingency reserves under the New York Insurance Law ("NYIL"). National's policyholders' surplus will grow over time from the recognition of unearned premiums and investment income and the expected release of the contingency reserves. Conversely, incurred losses would reduce policyholders' surplus. As of March 31, 2013 and December 31, 2012, National was not in compliance with its single risk limits requirements but was in compliance with its aggregate risk limits.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

CAPITAL RESOURCES (continued)

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

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

National's statutory policyholders' surplus was lower than its GAAP shareholder's equity by $1.8 billion as of March 31, 2013. U.S. STAT differs from GAAP in certain respects. Refer to "Note 11: Statutory Accounting Practices" in the Notes to Consolidated Financial Statements of National within exhibit 99.1 of MBIA Inc.'s Annual Report on Form 10-K for the year ended December 31, 2012 for an explanation of the differences between U.S. STAT and GAAP.

Claims-Paying Resources (Statutory Basis)

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

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

CAPITAL RESOURCES (continued)

National's CPR and components thereto, as of March 31, 2013 and December 31, 2012 are presented in the following table:

In millions	As of March 31, 2013	As of December 31, 2012
Policyholders' surplus	$ 2,104	$ 1,999
Contingency reserves	1,245	1,249
Statutory capital	3,349	3,248
Unearned premium reserve	1,951	2,041
Present value of installment premiums (1)	213	217
Premium resources (2)	2,164	2,258
Net loss and LAE reserves (1)	(103)	(109)
Salvage reserves	263	262
Gross loss and LAE reserve	160	153
Total claims-paying resources	$ 5,673	$ 5,659

(1) - Calculated using a discount rate 4.54% as of March 31, 2013 and December 31, 2012.

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

MBIA Insurance Corporation

Capital and Surplus

MBIA Insurance Corporation reported total statutory capital of $1.3 billion as of March 31, 2013 compared with $1.5 billion as of December 31, 2012. As of March 31, 2013, statutory capital comprised $478 million of contingency reserves and $784 million of policyholders' surplus. For the three months ended March 31, 2013, MBIA Insurance Corporation had a statutory net loss of $185 million, primarily due to losses and LAE incurred and interest expense on the National Secured Loan, partially offset by net premiums earned. MBIA Insurance Corporation's policyholders' surplus as of March 31, 2013 included a negative unassigned surplus of $1.2 billion.

As of March 31, 2013, MBIA Insurance Corporation recognized estimated recoveries of $2.6 billion, net of reinsurance and income taxes at a rate of 35%, on a statutory basis related to put-backs of ineligible mortgage loans in its insured transactions. These expected insurance recoveries represented 203% of MBIA Insurance Corporation's statutory capital as of March 31, 2013. There can be no assurance that we will be successful or that we will not be delayed in realizing these recoveries. Refer to "Executive Overview—MBIA's Business Outlook" included herein for factors that may influence MBIA Corp.'s ability to realize these recoveries.

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

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

CAPITAL RESOURCES (continued)

Under NYIL, MBIA Insurance Corporation is also required to establish a contingency reserve to provide protection to policyholders in the event of extreme losses in adverse economic events. The amount of the reserve is based on the percentage of principal insured or premiums earned, depending on the type of obligation (net of collateral, reinsurance, refunding, refinancings and certain insured securities). Under NYIL, MBIA Insurance Corporation is required to invest its minimum surplus and contingency reserves, and 50% of its loss reserves and unearned premium reserves, in certain qualifying assets. Reductions in the contingency reserve may be recognized based on excessive reserves and under certain stipulated conditions, subject to the approval of the Superintendent of the NYSDFS. As of March 31, 2013, MBIA Insurance Corporation had a deficit of $209 million of qualifying assets required to support its contingency reserves. The deficit was caused by the failure of certain mortgage originators, to honor contractual obligations to repurchase ineligible mortgage loans from securitizations we insured thus requiring MBIA Insurance Corporation to sell liquid assets in order to make claim payments. The deficit may grow as additional commutation and claim payments are made in the future. MBIA Insurance Corporation reported the deficit and requested approval from the NYSDFS to release excess contingency reserves as of September 30, 2012, December 31, 2012 and March 31, 2013, but to date has not received approval. For risks associated with MBIA Insurance Corporation's failure to meet its contingency reserve requirement, see Item 1A "Risk Factors—Capital, Liquidity and Market Related Risk Factors—If our insurance companies fail to meet regulatory capital requirements they may become subject to regulatory action" in our Annual Report on Form 10-K for the year ended December 31, 2012.

As of March 31, 2013, MBIA Insurance Corporation exceeded its aggregate risk limits under the NYIL by $174 million. The overage was caused by the decrease in statutory capital described above. MBIA Insurance Corporation previously notified the NYSDFS of the overage and submitted a plan to achieve compliance with the limits in accordance with the NYIL. If MBIA Insurance Corporation is not in compliance with its aggregate risk limits, the NYSDFS may prevent MBIA Insurance Corporation from transacting any new financial guarantee insurance business until it no longer exceeds the limitations. In 2013 and 2012, MBIA Insurance Corporation reported additional overages to the NYSDFS with respect to its single risk limits due to changes in its statutory capital.

In connection with MBIA Insurance Corporation obtaining approval from the NYSDFS to release excessive contingency reserves as discussed above, MBIA 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.

MBIA Insurance Corporation's statutory policyholders' surplus is higher than its GAAP shareholders' equity by $178 million as of March 31, 2013. U.S. STAT differs from GAAP in certain respects. Refer to "Note 14: Statutory Accounting Practices" in the Notes to Consolidated Financial Statements of MBIA Corp. within exhibit 99.2 of MBIA Inc.'s Annual Report on Form 10-K for the year ended December 31, 2012 for an explanation of the differences between U.S. STAT and GAAP.

Claims-Paying Resources (Statutory Basis)

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

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

CAPITAL RESOURCES (continued)

MBIA Insurance Corporation's CPR and components thereto, as of March 31, 2013 and December 31, 2012 are presented in the following table:

In millions	As of March 31, 2013	As of December 31, 2012
Policyholders' surplus	$ 784	$ 965
Contingency reserves	478	493
Statutory capital	1,262	1,458
Unearned premium reserve	585	600
Present value of installment premiums (1)	979	1,035
Premium resources (2)	1,564	1,635
Net loss and LAE reserves (1)	(2,378)	(2,448)
Salvage reserves (3)	4,893	4,628
Gross loss and LAE reserve	2,515	2,180
Total claims-paying resources	$ 5,341	$ 5,273

(1) - Calculated using a discount rate of 5.72% as of March 31, 2013 and December 31, 2012.

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

(3) - This amount primarily consists of expected recoveries related to the Company's put-back claims.

LIQUIDITY

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

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

The majority of our liquidity management efforts focus on:

- The liquidity resources of MBIA Inc., which are subject to: uncertainty in the timing and amount of cash inflows from dividends paid by National and MBIA Insurance Corporation; the necessity of having to meet the scheduled principal and interest on its corporate debt and investment agreements issued by the asset/liability products business; payments on derivative contracts related to the asset/liability products business; and ongoing operating expense needs. The asset/liability products business of MBIA Inc. is subject to ongoing negative cash flow and has a deficit of invested assets to liabilities. In addition, the liquidity resources of MBIA Inc. are subject to collateralization requirements in connection with the liabilities it has issued to third parties and affiliates and in connection with third-party derivative contracts.
- The liquidity resources of MBIA Corp., which are subject to: ongoing payments related to second-lien RMBS exposures; payments on its remaining CMBS exposures, due to the deterioration in such exposures; delays in the collection of recoveries related to ineligible mortgage loans in certain insured RMBS transactions; payments to counterparties in consideration for the commutation of insured transactions; and payments on insured exposures that in some cases may be large bullet payments. MBIA Corp. is currently subject to negative cash flow as a result of these payments and delays in collecting recoveries.

We also monitor the liquidity resources of National, for which we have not observed material liquidity risk to date, in order to ensure it maintains sufficient liquidity to pay claims and satisfy its other obligations. National's liquidity resources are subject to loss payments on its insured transactions and negative cash flow, primarily due to tax payments resulting from embedded earnings and investment income.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

LIQUIDITY (continued)

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

Key Lending Agreements

BofA Secured Loan

In connection with the BofA Settlement Agreement in May of 2013, MBIA Corp. and Blue Ridge Investments, L.L.C., an affiliate of Bank of America ("Blue Ridge"), entered into the BofA Secured Loan, pursuant to which Blue Ridge agreed to make revolving loans to MBIA Corp. in an aggregate amount of up to $500 million. The following is a summary of the material terms of the Loan Agreement. This summary is not complete and is subject to the full text of the documents described below.

Use of Proceeds

The proceeds of the BofA Secured Loan can be used for general corporate purposes. Once the BofA Secured Loan outstanding exceeds $50 million, the proceeds must be used for the purpose of meeting ordinary course liquidity requirements expected to arise during the 30 days following such borrowing.

Conditions to Borrowings

Blue Ridge's obligation to make loans is subject to usual and customary conditions precedent, including that on the date of the borrowing (i) no default is continuing or would occur as a result of that borrowing and (ii) the representations and warranties specified in the BofA Secured Loan agreement are true and accurate in all material respects.

Interest Rate and Fees

Loans will bear interest at a rate per annum equal to, at MBIA Corp.'s option, of (i) the adjusted LIBOR rate ("LIBOR Rate Loans") plus an applicable margin, or (ii) the base rate ("Base Rate Loans"), which is determined by reference to the highest of (A) Bank of America's prime rate and (B) the sum of the federal funds effective rate plus ½ of 1.0%, and (C) the adjusted LIBOR rate plus 1.00%, plus an applicable margin. Interest accrues daily and is payable (x) in the case of Base Rate Loans, quarterly in arrears, and (y) in the case of LIBOR Rate Loans, on the last day of each interest period applicable to such LIBOR Rate Loan (unless the interest period is longer than three months, in which case interest is payable on the last day of each three-month period). The applicable margin is 7.50% per annum (in the case of LIBOR Rate Loans) and 6.50% (in the case of Base Rate Loans). With respect to any available but undrawn amounts under the Loan Agreement, MBIA Corp. is obligated to pay a commitment fee on such undrawn amounts of 2.00% per annum.

Security

The Loans are secured by (i) recoveries for claims paid on insured RMBS arising from satisfaction by various originators of such securities of their obligations to buy back ineligible loans ("Put Back Recoveries"), (ii) future installment premiums in respect of all of MBIA Corp.'s outstanding financial guaranty insurance policies, (iii) salvage or subrogation recoveries that result from excess interest or other income generated on performing loans in RMBS insured by MBIA Corp. and (iv) 65% of the voting capital stock of MBIA UK (Holdings) Limited (the collateral described in clauses (ii) and (iii) above, the "Other Prepayment Collateral"). Under the BofA Secured Loan agreement, the value of the collateral described in clauses (i) through (iii) above must at all times be greater than $1.0 billion. As of March 31, 2013, the value of the Collateral was approximately $2.5 billion (after giving effect to the BofA Settlement Agreement and Flagstar Bank settlement).

Scheduled Repayment

The maturity date of the BofA Secured Loan is three years from the closing date, at which time any then outstanding loans will be due and payable.

Mandatory Prepayments

Loans are required to be prepaid (and Blue Ridge's commitments reduced) in an amount equal to the following: (i) 100% of the proceeds of any put-back recoveries and (ii) on and after the first anniversary of the closing date, from the proceeds of any Other Prepayment Collateral in an amount equal to (x) from the first anniversary of the closing date to the second anniversary of the closing date, 50% of such proceeds and (y) from the second anniversary of the closing date to the maturity date, 100% of such proceeds. In addition, loans must be prepaid (and Blue Ridge's commitments reduced) in an amount equal to 100% of the proceeds of certain disposals of assets to the extent exceeding $1 million in aggregate for all such disposals. Finally, loans must be prepaid (but without any commitment reduction) to the extent the proceeds of any borrowing that is a liquidity borrowing are not in fact used for such purposes and have not otherwise been used to repay loans within the required 30-day period.

Representations and Warranties

The BofA Secured Loan agreement contains customary representations and warranties for loan facilities of this type, which are given on the closing date and at each borrowing under the BofA Secured Loan agreement, including with respect to organization of MBIA Corp., power and authority, enforceability of the loan documents, receipt of any necessary governmental approvals, financial condition and solvency, and compliance with laws.

Covenants

The BofA Secured Loan agreement contains certain affirmative and negative covenants which are customary for loan facilities of this type in relation to, among other matters, delivery of financial statements, notice of material events, existence and conduct of business, payment of taxes and other

obligations, maintenance of books and records, compliance with all material laws, and maintenance of insurance, and includes a requirement that MBIA Corp. maintain at least $750 million of statutory capital (defined as policyholders' surplus plus contingency reserves).

In addition, MBIA Corp. may not, without Blue Ridge's consent, consummate any amendments, compromises or commutations with respect to insurance obligations and settlements of litigation to the extent (x) that payments made in respect of such remediation efforts exceed $500 million in the aggregate, (y) after giving effect thereto and to any borrowings of loans in connection therewith, the aggregate principal amount of loans outstanding would exceed $200 million or (z) after giving effect thereto, all remediation efforts taken as a whole since the closing date, would, cumulatively, have reduced MBIA Corp.'s statutory capital by $100 million or more.

In addition, MBIA Corp. may not prepay, redeem, purchase, defease or otherwise satisfy prior to the scheduled maturity thereof in any manner, or make any payment of principal, interest or fees or any other payment on, any of its indebtedness (including the Surplus Notes), except for payments of the loans under the BofA Secured Loan agreement and except for certain refinancings and refundings of its indebtedness.

Change of Control

MBIA Corp. may be required to prepay all amounts outstanding under the BofA Secured Loan agreement upon the occurrence of a change of control.

Events of Default

The BofA Secured Loan agreement contains certain events of default which are customary for loan facilities of this type (and with customary cure periods), including failure to pay principal, interest or fees on the loans, misrepresentation, failure to observe covenants or conditions, failure to pay other material indebtedness, insolvency and bankruptcy matters, and unlawfulness or invalidity of the loan documents.

National Secured Loan

In 2011, National provided a $1.1 billion National Secured Loan to MBIA Insurance Corporation in order to enable MBIA Insurance Corporation to fund settlements and commutations of its insurance policies. This loan was approved by the NYSDFS as well as by the boards of directors of MBIA Inc., MBIA Insurance Corporation and National. The National Secured Loan has a fixed annual interest rate of 7% and a maturity date of December 2016. MBIA Insurance Corporation has the option to defer payments of interest when due by capitalizing interest amounts to the loan balance, subject to the collateral value exceeding certain thresholds. MBIA Insurance Corporation has elected to defer the interest payments due under the loan. MBIA Insurance Corporation's obligation to repay the loan is secured by a pledge of collateral having an estimated value in excess of the notional amount of the loan as of March 31, 2013, which collateral comprised the following future receivables of MBIA Corp.: (i) its right to receive put-back recoveries related to ineligible mortgage loans included in its insured second-lien RMBS transactions; (ii) future recoveries on defaulted insured second-lien RMBS transactions resulting from expected excess spread generated by performing loans in such transactions; and (iii) future installment premiums. During 2012, MBIA Insurance Corporation borrowed an additional $443 million under the National Secured Loan with the approval of the NYSDFS at the same terms as the original loan to fund additional commutations of its insurance policies. As of March 31, 2013 the outstanding principal amount, which includes capitalized interest, was $1.7 billion. In connection with the BofA Settlement Agreement, in May of 2013, MBIA Insurance Corporation repaid this loan in full and it was extinguished.

Asset Swap

National maintains the Asset Swap (simultaneous repurchase and reverse repurchase agreements) with MBIA Inc. for up to $2.0 billion based on the fair value of securities borrowed. The Asset Swap provides MBIA Inc. with eligible assets to pledge under investment agreements and derivative contracts in the asset/liability products business. As of March 31, 2013, the notional amount utilized under each of these agreements was $474 million and the fair value of collateral pledged by National and MBIA Inc. under these agreements was $497 million and $517 million, respectively. The net average interest rate on these transactions was 0.10% and 0.88% for the three months ended March 31, 2013 and 2012, respectively. The NYSDFS approved the Asset Swap in connection with the re-domestication of National to New York. National has committed to the NYSDFS to use commercially reasonable efforts to reduce the amount of the Asset Swap over time.

MBIA Corp. Secured Loan

MBIA Corp., as lender, maintains a master repurchase agreement, the MBIA Corp. Secured Loan, with MBIA Inc. for the benefit of MBIA Inc.'s asset/liability products business, which totaled $2.0 billion at inception and was scheduled to mature in May 2012, as amended. This loan was repaid in May 2012 and there have been no further draws. The average interest rate on the MBIA Corp. Secured Loan was 2.53% for the three months ended March 31, 2012. Also in May 2012, the NYSDFS approved the maturity extension of the MBIA Corp. Secured Loan facility to May 2013 with a maximum outstanding amount of $450 million. This loan facility expired on May 3, 2013.

Conduit Repurchase Agreement

MBIA Inc. maintains a repurchase agreement with Meridian ("Conduit Repurchase Agreement"), with a maximum funded amount of $1.0 billion, subject to a pledge of collateral. The Conduit Repurchase Agreement had an average interest rate during the three months ended March 31, 2013 and 2012 of 2.30% and 2.51%, respectively. As of March 31, 2013, the amount drawn by MBIA Inc. under this agreement and the fair value of the collateral pledged by MBIA Inc. were $30 million and $38 million, respectively.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

LIQUIDITY (continued)

MBIA Inc. Liquidity

MBIA Inc.'s liquidity resources support our corporate and asset/liability products segments. The activities of MBIA Inc. consist of holding and managing investments, servicing outstanding corporate debt instruments, investment agreements and MTNs issued by the asset/liability products and conduit segments, posting collateral under financing and hedging arrangements and investment agreements, making payments and collateral postings related to interest rate and foreign exchange swaps, and paying operating expenses. The primary sources of cash within MBIA Inc. used to meet its liquidity needs include available cash and liquid assets not subject to collateral posting requirements, scheduled principal and interest on assets held in its investment portfolio, dividends from subsidiaries, payments under tax sharing agreements with these subsidiaries (once the payments become unrestricted) and the ability to issue debt and equity. There can be no assurance as to the amount and timing of any such dividends or payments under the tax sharing agreements. MBIA Inc.'s corporate debt, investment agreements, MTNs, and derivatives may be accelerated by the holders of such instruments upon the occurrence of certain events, such as a breach of covenant or representation, a bankruptcy of MBIA Inc. or the filing of an insolvency proceeding with respect to National, in the case of the corporate debt, or MBIA Insurance Corporation, in the cases of the obligations it insures. MBIA Inc.'s obligations under its loans from GFL may be accelerated only upon the occurrence of a bankruptcy or liquidation of MBIA Inc. Refer to "Note 10: Business Segments" in the Notes to Consolidated Financial Statements for a description of the GFL loans. In the event of any acceleration of our obligations, including under our corporate debt, investment agreements, MTNs, or derivatives, we likely would not have sufficient liquid resources to pay amounts due with respect to our corporate debt and other obligations.

During the three months ended March 31, 2013, pursuant to the tax sharing agreement, National settled its taxes related to the 2012 tax year of $16 million with MBIA Inc. Consistent with the tax sharing agreement, this amount was placed in an escrow account until the expiration of National's two-year net operating loss ("NOL") carry-back period under U.S. tax rules. At the expiration of National's carry-back period, any funds remaining after any reimbursement to National in respect of any NOL carry-backs would be available for general corporate purposes, including to satisfy any other obligations under the tax sharing agreement. During the first quarter of 2013, MBIA Inc. received $115 million that was previously held in escrow under the MBIA group tax sharing agreement. The amount represents National's liability under the tax sharing agreement for the 2010 tax year, and was released pursuant to the terms of the agreement following the expiration of National's two-year NOL carry-back period under U.S. tax rules. As of March 31, 2013, $346 million remained in escrow for the 2011 and 2012 tax years.

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

- Currently, the majority of the cash and securities of MBIA Inc. is pledged against investment agreement liabilities, intercompany financing arrangements and derivatives, which limit its ability to raise liquidity through asset sales. In addition, if the market value or rating eligibility of the assets which are pledged against these obligations were to decline, we would be required to pledge additional eligible assets in order to meet minimum required collateral amounts against these liabilities. In such event, we may sell additional assets, potentially with substantial losses, finance unencumbered assets through intercompany facilities, or use free cash or other assets, in some cases with NYSDFS approval, although there can be no assurance that these strategies will be available or adequate to meet liquidity requirements.
- Uncertainty of the timing and amount of cash inflows from dividends paid by MBIA's principal operating subsidiaries. Refer to the "Capital Resources-Insurance Statutory Capital" section for a discussion on our insurance subsidiaries' dividend restrictions.
- Certain investment agreements issued by MBIA Inc. may accelerate (including, in some cases, with make-whole payments), in the event of the commencement of a rehabilitation or liquidation proceedings against MBIA Insurance Corporation. The settlement of these amounts due in such a circumstance could further reduce MBIA Inc.'s liquidity resources.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

LIQUIDITY (continued)

Because most of MBIA Inc.'s assets are pledged against the obligations described above, the widening of credit spreads would have an adverse impact on the market value of these assets and increase collateralization requirements for the portfolio. The following table presents the estimated pre-tax change in the aggregate fair value of the asset/liability products business' assets as of March 31, 2013 from instantaneous shifts in credit spread curves. This table assumes that all credit spreads move by the same amount; however, it is more likely that the actual changes in credit spreads will vary by investment sector and individual security. The table presents hypothetical increases and decreases in credit spreads of 50 and 200 basis points. Because downward movements of these amounts in some cases would result in negative spreads, a floor was assumed for minimum spreads.

	Change in Credit Spreads (Asset/Liability Products Business)			
	200 Basis Point	50 Basis Point	50 Basis Point	200 Basis Point
In millions	Decrease	Decrease	Increase	Increase
Estimated change in fair value	$ 107	$ 37	$ (34)	$ (122)

During 2013, MBIA Inc. maintained three intercompany financing facilities to provide it with additional resources to meet its liquidity requirements within the asset/liability products business: the Asset Swap, the MBIA Corp. Secured Loan and the Conduit Repurchase Agreement. Refer to the preceding "Key Intercompany Lending Agreements" section for a description of these facilities.

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

As of March 31, 2013, the liquidity position of MBIA Inc., which consists of the liquidity positions of its corporate and asset/liability products activities, was $373 million and comprised cash and liquid assets of $317 million available for general corporate liquidity purposes, excluding the amounts held in escrow under its tax sharing agreement, and $56 million not pledged directly as collateral for its asset/liability products activities. As of December 31, 2012, MBIA Inc. had $239 million of cash and liquid assets comprising $170 million available for general corporate liquidity purposes, excluding the amounts held in escrow under its tax sharing agreement, and $69 million not pledged directly as collateral for its asset/liability products activities. We believe this liquidity position provides MBIA Inc. with sufficient funds to cover expected obligations at least through the next twelve months.

MBIA Corp. Liquidity

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

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

LIQUIDITY (continued)

We believe the current liquidity position of MBIA Corp. is adequate to make expected future claim payments. MBIA Corp.'s liquidity position has been substantially strengthened as a result of the BofA Settlement Agreement, including the elimination of potential claims on the Bank of America/Merrill Lynch CMBS exposures and the execution of the BofA Secured Loan entered into in May of 2013. The liquidity position of MBIA Corp. has been stressed due to ongoing payments on second-lien RMBS exposures, payments on its remaining CMBS exposures and the payments to counterparties in consideration for the commutation of insured transactions, which have resulted in a substantial reduction of exposure and potential loss volatility. While MBIA Corp. has made and may in the future make payments to counterparties in consideration for the commutation of insured transactions, MBIA Corp.'s ability to commute insured transactions will depend on management's assessment of available liquidity or ability to secure other sources of financing. Depending on the amounts of claims on policies issued by MBIA Corp., MBIA Corp. may not have sufficient liquid assets to pay such claims.

Payment requirements for the structured finance and international financial guarantee contracts fall into three categories: (i) timely interest and ultimate principal; (ii) ultimate principal only at final maturity; and (iii) payments upon settlement of individual collateral losses as they occur after any deductible or subordination has been exhausted, which payments are unscheduled and therefore more difficult to predict, and which category applies to most of the transactions on which we have recorded loss reserves. Insured transactions that require payment in full of the principal insured at maturity could present liquidity risks for MBIA Corp. since payment of the principal is due at maturity but any salvage could be recovered over time after payment of the principal amount. MBIA Corp. has insured transactions with substantial principal amounts due at maturity that are scheduled to mature in the near term. While MBIA Corp. expects the transactions to be refinanced on or prior to the maturity date, there is no assurance that such refinancing will occur. In the event that the refinancing does not occur, MBIA Corp. will be required to pay the full insured principal amount at maturity. MBIA Corp. is generally required to satisfy claims within one to three business days, and as a result seeks to identify potential claims in advance through our monitoring process. While our financial guarantee policies generally cannot be accelerated, thereby helping to mitigate liquidity risk, the insurance of CDS contracts may, in certain circumstances, including the occurrence of certain insolvency or payment defaults under the CDS contracts, be subject to termination by the counterparty, triggering a claim for the fair value of the contract. In order to monitor liquidity risk and maintain appropriate liquidity resources, we use the same methodology as we use to monitor credit quality and losses within our insured portfolio, including stress scenarios. Refer to "Note 5: Loss and Loss Adjustment Expense Reserves" in the Notes to Consolidated Financial Statements for a discussion of our loss process.

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

Since the fourth quarter of 2007 through March 31, 2013, MBIA Corp. has made $11.8 billion of cash payments, before reinsurance and collections and excluding LAE (including payments made to debt holders of consolidated VIEs), associated with second-lien RMBS securitizations and with commutations and claim payments primarily relating to CDS contracts. These cash payments include loss payments of $964 million made on behalf of MBIA Corp.'s consolidated VIEs. Of the $11.8 billion, MBIA Corp. has paid $6.8 billion of gross claims (before reinsurance and collections and excluding LAE) on policies insuring second-lien RMBS securitizations, driven primarily by an extensive number of ineligible mortgage loans being placed in the securitizations in breach of the representations and warranties of the sellers/servicers. In addition, MBIA Corp. has paid $5.0 billion of gross settlement and claim payments (before reinsurance and collections and excluding LAE) on insured credit derivatives. Also, since the fourth quarter of 2007 through March 31, 2013, MBIA Corp. has collected $201 million of excess spread before reinsurance.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

LIQUIDITY (continued)

MBIA Corp. is seeking to enforce its rights to have mortgage sellers/servicers cure, replace or repurchase ineligible mortgage loans from securitizations and has recorded a total of $4.0 billion of related expected recoveries on our consolidated balance sheets as of March 31, 2013, including expected recoveries recorded in our consolidated VIEs. These put-back claims have been disputed by the loan sellers/servicers and MBIA Corp. is seeking to enforce its rights through litigations with Ally Financial, RFC, GMAC (which is currently stayed subject to the ResCap Chapter 11 bankruptcy), and Credit Suisse Securities (USA) LLC and certain other parties, as discussed more fully in "Note 13: Commitments and Contingencies" in the Notes to Consolidated Financial Statements. On May 14, 2012, ResCap and its wholly-owned subsidiary companies, RFC and GMAC each filed for bankruptcy protection under Chapter 11 of the United States Bankruptcy Code; the Company is a member of the Unsecured Creditor's Committee. Additionally, there is some risk that the sellers/servicers or other responsible parties might not be able to fully satisfy any judgment we secure in litigation and/or through resolution of the ResCap bankruptcy. Further, there can be no assurance that we will be successful or that we will not be delayed in realizing these recoveries. Such risks are contemplated in the scenarios we utilize to calculate these recoveries, which are recognized on our consolidated balance sheets. We collected our put-back claim against Bank of America subsequent to March 31, 2013, which substantially reduced our remaining consolidated expected recoveries.

A portion of the commutation payments made since the fourth quarter of 2011 were financed through the National Secured Loan, which was paid in full and extinguished in May of 2013 in connection with the BofA Settlement Agreement and the settlement of Flagstar Bank's put-back obligation. Future commutation payments may be financed through draws on the BofA Secured Loan. MBIA Insurance Corporation's ability to repay the BofA Secured Loan and any accrued interest will be largely dependent on MBIA Corp.'s ability to collect on its future receivables, including its ability to successfully enforce its rights to have the mortgage sellers/servicers cure, replace or repurchase ineligible mortgage loans from insured securitizations.

MBIA Corp. also insures third-party holders of our asset/liability products segment's obligations. If we were unable to meet payment or collateral requirements associated with these obligations, the holders thereof could make claims under the MBIA Corp. insurance policies. In 2008, to provide additional liquidity to the asset/liability products business, MBIA Corp. lent $2.0 billion to the segment on a secured basis under the MBIA Corp. Secured Loan. As of March 31, 2013, the outstanding balance of the MBIA Corp. Secured Loan was repaid in full. In May 2012, the NYSDFS approved the maturity extension of the MBIA Corp. Secured Loan facility to May 2013 with a maximum outstanding amount of $450 million. This loan facility expired on May 3, 2013.

As of March 31, 2013, MBIA Corp. held cash and available-for-sale investments of $1.2 billion, of which $258 million comprised cash and highly liquid assets. 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. We believe that MBIA Corp.'s liquidity resources, including expected cash inflows, will adequately provide for anticipated cash outflows. Depending on the amount of actual claims on the policies issued by MBIA Corp., including claims on insured exposures that in some cases may require large bullet payments, MBIA Corp. may not have sufficient liquid assets to pay such claims. In the event of unexpected liquidity requirements, we may have insufficient resources to meet our obligations or insufficient qualifying assets to support our surplus and reserves, and may seek to increase our cash holdings position by selling or financing assets, or raising external capital, and there can be no assurance that we will be able to draw on these additional sources of liquidity. See Part I, Item 1A of MBIA Inc.'s Annual Report on Form 10-K for the year ended December 31, 2012, "Risk Factors—Capital, Liquidity and Market Related Risk Factors—MBIA Insurance Corporation may be placed in a rehabilitation or liquidation proceeding as a result of, among other things, a lack of liquid assets available to pay claims due to the failure by RMBS sellers/servicers to honor their contractual obligation to repurchase ineligible mortgage loans, combined with the substantial RMBS claims payments and other claims and commutation payments to date, as well as the increased probability that MBIA Corp. will experience claims payments on certain of its CMBS exposures in the future".

National Liquidity

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

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

LIQUIDITY (continued)

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

- The insurance policies issued or reinsured by National, the entity from which we conduct our U.S. public finance insurance business, provide unconditional and irrevocable guarantees of payments of the principal of, and interest or other amounts owing on, insured obligations when due or, in the event that the insurance company has the right, at its discretion, to accelerate insured obligations upon default or otherwise, upon the insurance company's election to accelerate. In the event of a default in payment of principal, interest or other insured amounts by an issuer, National generally promises to make funds available in the insured amount within one to three business days following notification. In some cases, the amount due can be substantial, particularly if the default occurs on a transaction to which National has a large notional exposure or on a transaction structured with large, bullet-type principal maturities. The fact that the U.S. public finance insurance segment's financial guarantee contracts generally cannot be accelerated by a party other than the insurer helps to mitigate liquidity risk in this segment.
- National has entered into certain intercompany transactions to support the liquidity needs of its affiliates. These transactions include the National Secured Loan to MBIA Insurance Corporation and the Asset Swap through which National exchanges liquid assets with MBIA Inc. As a result of these transactions, National is subject to repayment risk, which may adversely affect its liquidity. The National Secured Loan was paid in full and extinguished in May of 2013 in connection with the BofA Settlement Agreement. In addition, changes in the market value of securities sold to National under its Asset Swap with the asset/liability products business may adversely affect its liquidity position if MBIA Inc. were unable to pledge additional eligible assets in order to meet minimum required collateral amounts.

National held cash and short-term investments of $512 million as of March 31, 2013, of which $440 million was highly liquid and consisted predominantly of highly rated municipal, U.S. agency and corporate bonds. As of December 31, 2012, National held cash and short-term investments of $470 million, of which $419 million was highly liquid and consisted predominantly of highly rated municipal, U.S. agency and corporate bonds. With the exception of its loan to MBIA Insurance Corporation, as of March 31, 2013, most of National's investments, including those encumbered by the Asset Swap, are liquid and highly rated.

Consolidated Cash Flows

Information about our consolidated cash flows by category is presented on our consolidated statements of cash flows. The following table presents a summary of our consolidated cash flows for the three months ended March 31, 2013 and 2012:

	Three Months Ended March 31,		Percent
In millions	2013	2012	Change
Net cash provided (used) by:			
Operating activities	$ (78)	$ (233)	-67%
Investing activities	323	1,210	-73%
Financing activities	(301)	(755)	-60%

Operating activities

Net cash used by operating activities decreased for the three months ended March 31, 2013 compared with the same period of 2012 primarily due to decreases in financial guarantee losses and loss adjustment expenses paid and interest paid. Partially offsetting these decreases were reductions in cash received from net investment income and premiums.

Investing activities

Net cash provided by investing activities decreased for the three months ended March 31, 2013 compared with the same period of 2012 primarily due to declines in the sale and redemption of fixed-maturity securities and redemptions of held-to-maturity investments.

Financing activities

Net cash used by financing activities decreased for the three months ended March 31, 2013 compared with the same period of 2012 primarily due to decreases in payments for the retirement of debt related to our conduit segment and payments for securities sold under agreements to repurchase.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

LIQUIDITY (continued)

Investments

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

Our available-for-sale investments comprise high-quality fixed-income securities and short-term investments. As of March 31, 2013 and December 31, 2012, the fair values of our consolidated available-for-sale investments were $5.4 billion and $5.6 billion, respectively, as presented in the following table. Additionally, consolidated cash and cash equivalents as of March 31, 2013 and December 31, 2012 were $862 million and $814 million, respectively.

In millions	As of March 31, 2013	As of December 31, 2012	Percent Change
Available-for-sale investments:			
U.S. public finance insurance			
Amortized cost	$ 3,080	$ 3,006	2%
Unrealized net gain (loss)	69	105	-34%
Fair value	3,149	3,111	1%
Structured finance and international insurance			
Amortized cost	746	886	-16%
Unrealized net gain (loss)	22	22	-%
Fair value	768	908	-15%
Corporate			
Amortized cost	498	543	-8%
Unrealized net gain (loss)	(35)	(36)	-3%
Fair value	463	507	-9%
Advisory services			
Amortized cost	9	11	-18%
Unrealized net gain (loss)	-	-	n/m
Fair value	9	11	-18%
Wind-down operations			
Amortized cost	990	1,039	-5%
Unrealized net gain (loss)	31	20	55%
Fair value	1,021	1,059	-4%
Total available-for-sale investments:			
Amortized cost	5,323	5,485	-3%
Unrealized net gain (loss)	87	111	-22%
Total available-for-sale investments at fair value	5,410	5,596	-3%

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

LIQUIDITY (continued)

In millions	As of March 31, 2013	As of December 31, 2012	Percent Change
Investments carried at fair value:			
U.S. public finance insurance			
Amortized cost	193	190	2%
Unrealized net gain (loss)	(1)	-	n/m
Fair value	192	190	1%
Structured finance and international insurance			
Amortized cost	25	27	-7%
Unrealized net gain (loss)	2	3	-33%
Fair value	27	30	-10%
Corporate			
Amortized cost	38	38	- %
Unrealized net gain (loss)	(5)	(10)	-50%
Fair value	33	28	18%
Advisory services			
Amortized cost	4	4	- %
Unrealized net gain (loss)	-	-	n/m
Fair value	4	4	- %
Wind-down operations			
Amortized cost	3	5	-40%
Unrealized net gain (loss)	1	-	n/m
Fair value	4	5	-20%
Total investments carried at fair value:			
Amortized cost	263	264	- %
Unrealized net gain (loss)	(3)	(7)	-57%
Total investments carried at fair value	260	257	1%
Other investments at amortized cost:			
U.S. public finance insurance operations segment	9	9	- %
Total other investments at amortized cost	9	9	- %
Consolidated investments at carrying value	$ 5,679	$ 5,862	-3%

n/m - Percent change not meaningful.

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

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

LIQUIDITY (continued)

Credit Quality

The credit quality distribution of the Company's fixed-income investment portfolios, excluding short-term investments, based on ratings from Moody's as of March 31, 2013 is presented in the following table. Alternate ratings sources, such as S&P or the best estimate of the ratings assigned by the Company, have been used for a small percentage of securities that are not rated by Moody's.

	U.S. Public Finance		Structured Finance and International		Advisory Services		Corporate		Wind-down Operations		Total	
In millions	Fair Value	% of Fixed-Income Investments	Fair Value	% of Fixed-Income Investments	Fair Value	% of Fixed-Income Investments	Fair Value	% of Fixed-Income Investments	Fair Value	% of Fixed-Income Investments	Fair Value	% of Fixed-Income Investments
Available-for-sale:												
Aaa	$ 1,479	52%	$ 372	70%	$ 1	50%	$ -	0%	$ 224	27%	$ 2,076	48%
Aa	822	29%	92	17%	-	0%	-	0%	91	11%	1,005	23%
A	390	14%	7	1%	1	50%	11	7%	219	26%	628	14%
Baa	135	4%	12	2%	-	0%	20	13%	232	28%	399	9%
Below investment grade	22	1%	45	9%	-	0%	106	70%	46	6%	219	5%
Not rated	4	0%	5	1%	-	0%	15	10%	16	2%	40	1%
Total	$ 2,852	100%	$ 533	100%	$ 2	100%	$ 152	100%	$ 828	100%	$ 4,367	100%
Short-term investments	289		233		7		311		189		1,029	
Investments held-to-maturity	-		-		-		-		-		-	
Investments held at fair value	192		27		4		33		4		260	
Other investments	16		2		1		-		4		23	
Consolidated investments at carrying value	$ 3,349		$ 795		$ 14		$ 496		$ 1,025		$ 5,679	

As of March 31, 2013, the weighted average credit quality of the Company's available-for-sale investment portfolios, excluding short-term and other investments, as presented in the preceding table are as follows:

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

Insured Investments

MBIA's consolidated investment portfolio includes investments that are insured by various financial guarantee insurers ("Insured Investments"), including investments insured by MBIA Corp. and National ("Company-Insured Investments"). As of March 31, 2013, Insured Investments at fair value represented $620 million or 11% of consolidated investments, of which $364 million or 6% of consolidated investments were Company-Insured Investments.

As of March 31, 2013, based on the actual or estimated underlying ratings of our consolidated investment portfolio, without giving effect to financial guarantees, the weighted average rating of the consolidated investment portfolio would be in the Aa range, the weighted average rating of only the Insured Investments in the investment portfolio would be in the Baa range, and 3% of the total investment portfolio would be rated below investment grade in the Insured Investments.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

LIQUIDITY (continued)

The distribution of the Company's Insured Investments by financial guarantee insurer as of March 31, 2013 is presented in the following table:

	U.S. Public Finance		Structured Finance and International		Corporate		Wind-Down Operations		Total	
In millions	Fair Value	% of Total Investments	Fair Value	% of Total Investments	Fair Value	% of Total Investments	Fair Value	% of Total Investments	Fair Value	% of Total Investments
MBIA Corp.	$ -	0%	$ 20	0%	$ 68	1%	$ 143	3%	$ 231	4%
National	72	1%	-	0%	-	0%	61	1%	133	2%
Assured Guaranty Municipal Corp.	47	1%	-	0%	-	0%	135	2%	182	3%
Ambac Financial Group, Inc.	9	0%	-	0%	1	0%	32	1%	42	1%
FGIC	3	0%	2	0%	12	1%	8	0%	25	1%
Other	2	0%	-	0%	5	0%	-	0%	7	0%
Total	$ 133	2%	$ 22	0%	$ 86	2%	$ 379	7%	$ 620	11%

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

The underlying ratings of the Company-Insured Investments as of March 31, 2013 are reflected in the following table. Amounts represent the fair value of such investments including the benefit of the MBIA guarantee. The ratings in the following table are based on ratings from Moody's. Alternate ratings sources, such as S&P, have been used for a small percentage of securities that are not rated by Moody's.

In millions Underlying Ratings Scale	U.S. Public Finance Insurance	Structured Finance and International Insurance	Corporate	Wind-down Operations	Total
National:					
Aa	$ 31	$ -	$ -	$ 15	$ 46
A	20	-	-	16	36
Baa	21	-	-	30	51
Total National	$ 72	$ -	$ -	$ 61	$ 133
MBIA Corp.:					
A	$ -	$ -	$ -	$ 13	$ 13
Baa	-	-	-	117	117
Below investment grade	-	20	68	13	101
Total MBIA Corp.	$ -	$ 20	$ 68	$ 143	$ 231
Total MBIA Insured Investments	$ 72	$ 20	$ 68	$ 204	$ 364

Without giving effect to the MBIA guarantee of the Company-Insured Investments in the consolidated investment portfolio, as of March 31, 2013, based on actual or estimated underlying ratings, the weighted average rating of the consolidated investment portfolio was in the Aa range, the weighted average rating of only the Company-Insured Investments was in the Baa range, and investments rated as below investment grade in the Company-Insured Investments were 3% of the total consolidated investment portfolio.

Impaired Investments

As of March 31, 2013 and December 31, 2012, we held impaired available-for-sale investments (investments for which fair value was less than amortized cost) with a fair value of $1.5 billion and $1.3 billion, respectively.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

LIQUIDITY (continued)

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

Refer to "Note 7: Investments" in the Notes to Consolidated Financial Statements for a detailed discussion about impaired investments.

Debt Obligations

Principal payments due under our debt obligations in the nine months ending December 31, 2013 and each of the subsequent four years ending December 31 and thereafter are presented in the following table. The repayment of principal on our surplus notes is reflected in 2018, which is the next call date. Principal payments under investment agreements are based on expected withdrawal dates. All other principal payments are based on contractual maturity dates. Foreign currency denominated liabilities are presented in U.S. dollars using applicable exchange rates as of March 31, 2013, and liabilities issued at a discount reflect principal amounts due at maturity.

	As of March 31, 2013						
In millions	Nine Months Ending December 31, 2013	2014	2015	2016	2017	Thereafter	Total
Structured finance and international insurance segment:							
Variable interest entity notes	$ 343	$ 393	$ 569	$ 561	$ 608	$ 6,008	$ 8,482
Surplus notes	-	-	-	-	-	940	940
Corporate segment:							
Long-term debt	-	-	-	-	-	722	722
Asset/liability products segment:							
Investment agreements	170	140	46	50	60	539	1,005
Medium-term notes	16	46	253	125	53	1,828	2,321
Conduit segment:							
Medium-term notes	-	150	-	336	-	149	635
Total	$ 529	$ 729	$ 868	$1,072	$ 721	$10,186	$14,105

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

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

Interest Rate Sensitivity

Interest rate sensitivity can be estimated by projecting a hypothetical instantaneous increase or decrease in interest rates. The following table presents the estimated pre-tax change in fair value of the Company's financial instruments as of March 31, 2013 from instantaneous shifts in interest rates:

	Change in Interest Rates					
In millions	300 Basis Point Decrease	200 Basis Point Decrease	100 Basis Point Decrease	100 Basis Point Increase	200 Basis Point Increase	300 Basis Point Increase
Estimated change in fair value	$ (51)	$ (11)	$ 10	$ (42)	$ (91)	$ (143)

Foreign Exchange Sensitivity

Foreign exchange rate sensitivity can be estimated by projecting a hypothetical instantaneous increase or decrease in foreign exchange rates. The following table presents the estimated pre-tax change in fair value of the Company's financial instruments as of March 31, 2013 from instantaneous shifts in foreign exchange rates:

	Change in Foreign Exchange Rates			
	Dollar Weakens		Dollar Strengthens	
In millions	20%	10%	10%	20%
Estimated change in fair value	$ (60)	$ (30)	$ 30	$ 60

Credit Spread Sensitivity

Credit spread sensitivity can be estimated by projecting a hypothetical instantaneous increase or decrease in credit spreads. The following table presents the estimated pre-tax change in fair value of the Company's financial instruments as of March 31, 2013 from instantaneous shifts in credit spread curves. For this table it was assumed that all credit spreads move by the same amount. It is more likely that the actual changes in credit spreads will vary by security. National's investment portfolio would generally be expected to experience lower credit spread volatility than the investment portfolio of the asset/liability products segment because of higher credit quality and portfolio composition in sectors that have been less volatile historically. The table shows hypothetical increases and decreases in credit spreads of 50 and 200 basis points. Because downward movements of these amounts in some cases would result in negative spreads, a floor was assumed for minimum spreads. The changes in fair value reflect partially offsetting effects as the value of the investment portfolios generally changes in an opposite direction from the liability portfolio.

Item 3. Quantitative and Qualitative Disclosures About Market Risk (continued)

	Change in Credit Spreads			
In millions	200 Basis Point Decrease	50 Basis Point Decrease	50 Basis Point Increase	200 Basis Point Increase
Estimated change in fair value	$ (67)	$ 21	$ (36)	$ (145)

Credit Derivatives Sensitivity

MBIA issued insurance policies insuring payments due on structured credit derivative contracts and directly entered into credit derivative contracts, which are marked-to-market through earnings under the accounting principles for derivatives and hedging activities. All these transactions were insured by the Company's structured finance and international insurance operations. The majority of these structured CDSs related to structured finance transactions with underlying reference obligations of cash securities and CDSs referencing liabilities of corporations or of other structured finance securitizations. The asset classes of the underlying reference obligations included corporate, asset-backed, residential mortgage-backed and commercial mortgage-backed securities. These transactions were usually underwritten at or above a triple-A credit rating level. As of March 31, 2013, approximately 22% of the tranches insured by the Company were rated triple-A. Additionally, MBIA's wind-down operations entered into single-name CDSs as part of its asset management activities. In the first three months of 2013, the value of the Company's credit derivative contracts was principally affected by the movements of MBIA's nonperformance risk on its derivative liabilities which resulted from a tightening of its own credit spreads and an increase in the Company's recovery rate and collateral erosion partially offset by shorter weighted average lives on transactions and favorable movements in spreads and pricing on collateral within transactions. As risk factors change, the values of credit derivative contracts will change and the resulting gains or losses will be recorded within net income.

In the first three months of 2013, the Company has observed a tightening of its own credit spreads. As changes in fair value can be caused by factors unrelated to the performance of MBIA's business and credit portfolio, including general market conditions and perceptions of credit risk, as well as market use of credit derivatives for hedging purposes unrelated to the specific referenced credits in addition to events that affect particular credit derivative exposures, the application of fair value accounting will cause the Company's earnings to be more volatile than would be suggested by the underlying performance of MBIA's business operations and credit portfolio.

The following tables reflect sensitivities to changes in credit spreads, collateral prices, rating migrations, recovery rates and the Company's own credit spreads and recovery rates. Each table stands on its own and should be read independently of each other. Refer to "Note 6: Fair Value of Financial Instruments" in the Notes to Consolidated Financial Statements for further information about the Company's financial assets and liabilities that are accounted for at fair value, including valuation techniques and disclosures required by GAAP.

Sensitivity to changes in credit spreads can be estimated by projecting a hypothetical instantaneous shift in credit spread curves. The following table presents the estimated pre-tax change in fair value and the cumulative estimated net fair value of the Company's credit derivatives portfolio of instantaneous shifts in credit spreads as of March 31, 2013. In scenarios where credit spreads decreased, a floor of zero was used.

	Change in Credit Spreads						
In millions	600 Basis Point Decrease	200 Basis Point Decrease	50 Basis Point Decrease	0 Basis Point Change	50 Basis Point Increase	200 Basis Point Increase	600 Basis Point Increase
Estimated pre-tax net gains (losses)	$ 1,063	$ 391	$ 98	$ -	$ (100)	$ (424)	$(1,350)
Estimated net fair value	$(1,936)	$(2,608)	$(2,901)	$(2,999)	$(3,099)	$(3,423)	$(4,349)

Actual shifts in credit spread curves will vary based on the credit quality of the underlying reference obligations. In general, within any asset class, higher credit rated reference obligations will exhibit less credit spread movement than lower credit rated reference obligations. Additionally, the degree of credit spread movement can vary significantly for different asset classes. The basis point change presented in the preceding table, however, represents a fixed basis point change in referenced obligation credit spreads across all credit quality rating categories and asset classes and, therefore, the actual impact of spread changes would vary from this presentation depending on the credit rating and distribution across asset classes, both of which will adjust over time depending on new business written and runoff of the existing portfolio.

Item 3. Quantitative and Qualitative Disclosures About Market Risk (continued)

Since the Company is now using collateral prices as an input into the Direct Price Model for certain multi-sector insured CDOs, a sensitivity analysis below shows the estimated pre-tax change in fair value and the cumulative estimated net fair value of the Company's insured credit derivatives portfolio of a 10% and 20% change in collateral prices as of March 31, 2013.

	Change in Collateral Prices (Structured Finance and International Insurance)				
In millions	20% Increase	10% Increase	No Change	10% Decrease	20% Decrease
Estimated pre-tax net gains (losses)	$ 48	$ 24	$ -	$ (24)	$ (48)
Estimated net fair value	$ (2,951)	$ (2,975)	$ (2,999)	$ (3,023)	$ (3,047)

Sensitivity to changes in the collateral portfolio credit quality can be estimated by projecting a hypothetical change in rating migrations. The following table presents the estimated pre-tax change in fair value and the cumulative estimated net fair value of the Company's insured credit derivatives portfolio of a one and three notch rating change in the credit quality as of March 31, 2013. A notch represents a one step movement up or down in the credit rating.

	Change in Credit Ratings (Structured Finance and International Insurance)				
In millions	Three Notch Increase	One Notch Increase	No Change	One Notch Decrease	Three Notch Decrease
Estimated pre-tax net gains (losses)	$ 924	$ 122	$ -	$ (271)	$ (833)
Estimated net fair value	$ (2,075)	$ (2,877)	$ (2,999)	$ (3,270)	$ (3,832)

Recovery rates on defaulted collateral are an input into the Company's valuation model. Sensitivity to changes in the recovery rate assumptions used by the Company can be estimated by projecting a hypothetical change in these assumptions. The following table presents the estimated pre-tax change in fair value and the cumulative estimated net fair value of the Company's insured credit derivatives portfolio of a 10% and 20% change in the recovery rate assumptions as of March 31, 2013.

	Change in Recovery Rates (Structured Finance and International Insurance)				
In millions	20% Increase	10% Increase	No Change	10% Decrease	20% Decrease
Estimated pre-tax net gains (losses)	$ 222	$ 106	$ -	$ (96)	$ (186)
Estimated net fair value	$ (2,777)	$ (2,893)	$ (2,999)	$ (3,095)	$ (3,185)

Accounting principles for fair value measurements require the Company to incorporate its own nonperformance risk in its valuation methodology. Sensitivity to changes in the Company's credit spreads can be estimated by projecting a hypothetical change in this assumption. The following table presents the estimated pre-tax change in fair value and the cumulative estimated net fair value of the Company's insured credit derivative portfolio using upfront credit spreads of 0%, an increase of 50%, and a decrease of 50%. The actual upfront spread used in the valuation as of March 31, 2013 ranged from 32.13% to 40.00% based on the tenor of each transaction. The below amounts include an additional annual running credit spread of 5%.

	MBIA Upfront Credit Spread (Structured Finance and International Insurance)			
In millions	Increase by 50 Percent	No Change	Decrease by 50 Percent	Decrease to 0 Percentage Points
Estimated pre-tax net gains (losses)	$ 3	$ -	$ (469)	$ (1,321)
Estimated net fair value	$ (2,996)	$ (2,999)	$ (3,468)	$ (4,320)

With the inclusion of the MBIA recovery rate in the calculation of nonperformance risk for the Company's insured credit derivatives portfolio, the following sensitivity table presents the estimated pre-tax change in fair value of insured credit derivatives due to changes in that recovery rate. The values shown below reflect an approximate trading range of the MBIA recovery rate.

	MBIA's Recovery Rate (Structured Finance and International Insurance)		
In millions	Decrease to 30 Percentage Points	No Change	Increase to 60 Percentage Points
Estimated pre-tax net gains (losses)	$ 581	$ -	$ (431)
Estimated net fair value	$ (2,418)	$ (2,999)	$ (3,430)

Item 3. Quantitative and Qualitative Disclosures About Market Risk (continued)

MBIA Corp.'s insurance of structured credit derivatives typically remain in place until the maturity of the derivative. With respect to MBIA Corp.'s insured structured credit derivatives, in the absence of credit impairments or the termination of derivatives at losses, the cumulative unrealized losses should reverse before or at maturity of the contracts. Additionally, in the event of the termination and settlement of a contract prior to maturity, any resulting gain or loss upon settlement will be recorded in our consolidated financial statements. In February 2008, the Company announced its intention not to insure credit derivatives in the future, except in transactions that are intended to reduce its overall exposure to insured derivatives.

Item 4. Controls and Procedures

As of the end of the period covered by this report, an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15(d)-15(e) under the Securities Exchange Act of 1934) was performed under the supervision and with the participation of the Company's senior management, including the Chief Executive Officer and the Chief Financial Officer. Based on that evaluation, the Company's management, including the Chief Executive Officer and the Chief Financial Officer, concluded that the Company's disclosure controls and procedures were effective as of the end of the period covered by this report. In addition, there have not been any changes in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934) during the fiscal quarter to which this report relates that have materially affected, or are likely to materially affect, the Company's internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

For a discussion of the Company's litigation and related matters, see "Note 13: Commitments and Contingencies" in the Notes to Consolidated Financial Statements of MBIA Inc. and Subsidiaries in Part I, Item 1. In the normal course of operating its businesses, MBIA Inc. may be involved in various legal proceedings. As a courtesy, the Company posts on its website under the section "Legal Proceedings," selected information and documents in reference to selected legal proceedings in which the Company is the plaintiff or the defendant. The Company will not necessarily post all documents for each proceeding and undertakes no obligation to revise or update them to reflect changes in events or expectations. The complete official court docket can be publicly accessed by contacting the clerk's office of the respective court where each litigation is pending.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The table below presents repurchases made by the Company in each month during the first quarter of 2013:

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]
January	-	$ -	-	$ 23
February	4,836	9.97	-	23
March	182,412	11.55	-	23
	187,248	$ 11.51	-	23

(1) - 180,681 shares were repurchased by the Company in open market transactions for settling awards under the Company's long-term incentive plans and 6,567 net shares were purchased in open market transactions as an investment in the Company's non-qualified deferred compensation plan.

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

Item 5. Other Information

The information contained in Part I, Item 2,"Management's Discussion and Analysis of Financial Condition and Results of Operations—Executive Overview—Bank of America Settlement" in this Quarterly Report on Form 10-Q concerning the issuance of a five-year warrant to Bank of America to purchase 9.94 million shares of MBIA common stock at a price of $9.59 per share, and the information contained in Part I, Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity— Key Lending Agreements—National Secured Loan" in this Quarterly Report on Form 10-Q concerning the entry by MBIA Corp. into the BofA Secured Loan is hereby incorporated herein by reference.

Item 6. Exhibits

+4.1.	Warrant Agreement, dated as of May 6, 2013, between MBIA Inc. and Blue Ridge Investments, L.L.C.
+10.1.	Loan Agreement, dated as of May 6, 2013, between MBIA Insurance Corporation and Blue Ridge Investments, L.L.C.
+10.2.	Security Agreement, dated as of May 6, 2013, between MBIA Insurance Corporation and Blue Ridge Investments, L.L.C.
+31.1.	Chief Executive Officer - Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
+31.2.	Chief Financial Officer - Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
*32.1.	Chief Executive Officer - Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
*32.2.	Chief Financial Officer - Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
+99.1.	Additional Exhibits - National Public Finance Guarantee Corporation and Subsidiaries GAAP Consolidated Financial Statements.
+99.2.	Additional Exhibits - MBIA Insurance Corporation and Subsidiaries GAAP Consolidated Financial Statements.
+101.	Additional Exhibits - MBIA Inc. and Subsidiaries Consolidated Financial Statements and Notes to Consolidated Financial Statements from the Company’s Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2013, formatted in XBRL.

+ Filed Herewith

* Furnished Herewith

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

MBIA Inc.
Registrant

Date: May 9, 2013

/s/ C. Edward Chaplin
C. Edward Chaplin
Chief Financial Officer

Date: May 9, 2013

/s/ Douglas C. Hamilton
Douglas C. Hamilton
Controller (Principal Accounting Officer)

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THE SECURITIES REPRESENTED BY THIS INSTRUMENT HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR SECURITIES LAWS OF ANY STATE AND MAY NOT BE TRANSFERRED, SOLD OR OTHERWISE DISPOSED OF EXCEPT WHILE A REGISTRATION STATEMENT RELATING THERETO IS IN EFFECT UNDER SUCH ACT AND APPLICABLE STATE SECURITIES LAWS OR PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER SUCH ACT OR SUCH LAWS.

WARRANT
to purchase
9,942,458
Shares of Common Stock
dated as of May 6, 2013
MBIA INC.
a Connecticut Corporation

Issue Date: May 6, 2013

1. Definitions . Unless the context otherwise requires, when used herein the following terms shall have the meanings indicated.

" *Affiliate* " means, with respect to any Person, any Person directly or indirectly controlling, controlled by or under common control with, such other person. For purposes of this definition, "control" (including, with correlative meanings, the terms "controlled by" and "under common control with") when used with respect to any Person, means the possession, directly or indirectly, of the power to cause the direction of management or policies of such person, whether through the ownership of voting securities by contract or otherwise.

" *Applicable Price* " means the greater of the Market Price per share of outstanding Common Stock on (i) the date on which the Company issues or sells any Common Stock other than Excluded Stock or (ii) the first date of the announcement of such issuance or sale.

" *Appraisal Procedure* " means a procedure whereby two independent appraisers, one chosen by the Company and one by the Warrantholder (or if there is more than one Warrantholder, a majority in interest of Warrantholders), shall mutually agree upon the determinations then the subject of appraisal. Each party shall deliver a notice to the other appointing its appraiser within fifteen (15) days after the Appraisal Procedure is invoked. If within thirty (30) days after appointment of the two appraisers they are unable to agree upon the amount in question, a third independent appraiser shall be chosen within ten (10) days thereafter by the mutual consent of such first two appraisers or, if such first two appraisers fail to agree upon the appointment of a third appraiser, such appointment shall be made by the American Arbitration Association, or any organization successor thereto, from a panel of arbitrators having experience in the appraisal of the subject matter to be appraised. The decision of the third appraiser so appointed and chosen shall be given within thirty (30) days after the selection of such third appraiser. If three appraisers shall be appointed and the determination of one appraiser is disparate from the middle determination by more than twice the amount by which the other determination is disparate from the middle determination, then the determination of such appraiser shall be excluded, the remaining two determinations shall be averaged and such average shall be binding and conclusive on the Company and the Warrantholder; otherwise, the average of all three determinations shall be binding and conclusive on the Company and the Warrantholder. The costs of conducting any

Appraisal Procedure shall be borne by the Warrantholder requesting such Appraisal Procedure, except (A) the fees and expenses of the appraiser appointed by the Company and any other costs incurred by the Company shall be borne by the Company and (B) if such Appraisal Procedure shall result in a determination that is disparate by 5% or more from the Company's initial determination, all costs of conducting such Appraisal Procedure shall be borne by the Company.

" *Beneficially Own,* " " *Beneficial Owner* " and " *Beneficial Ownership* " are defined in Rules 13d-3 and 13d-5 of the Exchange Act.

" *Board* " means the Board of Directors of the Company.

" *Business Combination* " means a merger, consolidation, statutory share exchange or similar transaction that requires adoption by the Company's stockholders.

" *Business Day* " means any day except Saturday, Sunday and any day that shall be a legal holiday or a day on which banking institutions in the State of New York generally are authorized or required by law or other governmental actions to close.

" *Capital Stock* " means (A) with respect to any Person that is a corporation or company, any and all shares, interests, participations or other equivalents (however designated) of capital or capital stock of such Person and (B) with respect to any Person that is not a corporation or company, any and all partnership or other equity interests of such Person.

" *Change of Control* " means, with respect to the Company, the occurrence of any one of the following events:

(A) the Incumbent Directors cease for any reason to constitute at least a majority of the Board; *provided* , that any person becoming a director subsequent to the date of the Investment Agreement whose election or nomination for election was approved by a vote of at least two-thirds of the Incumbent Directors then on the Board (either by a specific vote or by approval of the proxy statement of the relevant party in which such person is named as a nominee for director, without written objection to such nomination) shall be an Incumbent Director (except that no individuals who were not directors at the time any agreement or understanding with respect to any Business Combination or contested election is reached shall be treated as Incumbent Directors for the purposes of clause (C) below with respect to such Business Combination or this paragraph in the case of a contested election);

(B) any Person (other than the Investor and its Affiliates) is or becomes a Beneficial Owner, directly or indirectly, of 50% of the aggregate voting power of the Voting Securities; *provided* , *however* , that the event described in this clause (B) will not be deemed a Change of Control by virtue of any holdings or acquisitions: (i) by the Company or any of its Subsidiaries, (ii) by any employee benefit plan (or related trust) sponsored or maintained by the Company or any of its subsidiaries; *provided* , that such holdings or acquisitions by any such plan (other than any plan maintained under Section 401(k) of the Internal Revenue Code of 1986, as amended) do not exceed 50% of the then outstanding Voting Securities, (iii) by any underwriter temporarily holding securities pursuant to an offering of such securities or (iv) pursuant to a Non-Qualifying Transaction;

(C) a Business Combination, to the extent it is not a Non-Qualifying Transaction;

(D) the consummation of a Transfer;

(C) a plan of liquidation or dissolution of the Company;

(D) a De-Listing; or

(E) a sale of all or substantially all of the Company's assets.

" *Common Stock* " means the Company's common stock, par value $1.00 per share, and any Capital Stock for or into which such Common Stock hereafter is exchanged, converted, reclassified or recapitalized by the Company or pursuant to an agreement or Business Combination to which the Company is a party.

" *Company* " means MBIA Inc., a Connecticut corporation.

"De-Listing" means the voluntary de-listing of the Common Stock from the New York Stock Exchange or the NASDAQ Stock Market other than in connection with a listing of the Common Stock on a national securities exchange.

" *Exchange Act* " means the Securities Exchange Act of 1934, as amended, or any successor statute, and the rules and regulations promulgated thereunder.

" *Excluded Stock* " means (A) shares of Common Stock issued by the Company as a stock dividend payable in shares of Common Stock, or upon any subdivision or split-up of the outstanding shares of Capital Stock in each case which is subject to Section 13(B), or upon conversion of shares of Capital Stock (but not the issuance of such Capital Stock which will be subject to the provisions of Section 13(A)) and (B) shares of Common Stock to be issued to employees, consultants and advisors of the Company pursuant to options granted prior to the date of issuance of this Warrant and pursuant to options granted after the date of issuance of this Warrant if the exercise price per share of Common Stock on the date of such grant equals or exceeds the Market Price of a share of Common Stock on the date of such grant.

" *Exercise Price* " has the meaning given to it in Section 2.

" *Expiration Time* " has the meaning given to it in Section 3.

" *Governmental Entities* " means any governmental or regulatory federal, state, local and foreign authorities, agencies, courts, commissions or other entities, including stock exchanges and other self-regulatory organizations.

"Group" means a group as contemplated by Section 13(d)(3) of the Exchange Act.

" *Incumbent Directors* " means individuals who on the date of the Investment Agreement constitute the Board and any other individuals deemed to be Incumbent Directors as set forth in clause (A) of the definition of "Change of Control" above.

" *Investment Agreement* " means the Investment Agreement, of even date herewith, between the Company and the Investor, including all schedules and exhibits thereto.

" *Investor* " means Blue Ridge Investments, L.L.C.

" *Market Price* " means, with respect to a particular security, on any given day, the last reported sale price regular way or, in case no such reported sale takes place on such day, the average of the last closing bid and ask prices regular way, in either case on the principal national securities exchange on which the applicable securities are listed or admitted to trading, or if not listed or admitted to trading on any national securities exchange, (A) the closing sale price for such day reported by the Nasdaq Stock Market if such security is traded over-the-counter and quoted in the Nasdaq Stock Market, or (B) if such security is so traded, but not so quoted, the average of the closing reported bid and ask prices of such security as reported by the Nasdaq Stock Market or any comparable system, or (C) if such security is not listed on the Nasdaq Stock Market or any comparable system, the average of the closing bid and ask prices as furnished by two members of the National Association of Securities Dealers, Inc. selected from time to time by the Company for that purpose. If such security is not listed and traded in a manner that the quotations referred to above are available for the period required hereunder, the Market Price per share of Common Stock shall be deemed to be the fair value per share of such security as determined in good faith by the Board of Directors of the Company.

"National" means National Public Finance Guarantee Corporation.

" *Non-Qualifying Transaction* " means any Business Combination that satisfies all of the following criteria: (A) more than 50% of the total voting power of the surviving corporation resulting from a Business Combination, or, if applicable, the ultimate parent corporation that directly or indirectly has beneficial ownership of 100% of the voting securities eligible to elect directors of the surviving corporation, is represented by Voting Securities that were outstanding immediately before such Business Combination (or, if applicable, is represented by shares into which such Voting Securities were converted pursuant to such Business Combination) and (B) at least a majority of the members of the board of directors of the parent corporation (or, if there is no parent corporation, the surviving corporation) following the consummation of the Business Combination were Incumbent Directors at the time the Company's Board approved the execution of the initial agreement providing for such Business Combination.

" *Person* " has the meaning given to it in Section 3(a)(9) of the Exchange Act and as used in Sections 13(d)(3) and 14(d)(2) of the Exchange Act.

" *Preliminary Control Event* " means, with respect to the Company, the earlier of (i) the execution of definitive documentation for a transaction that, if consummated, would result in a Change of Control, (ii) the recommendation that stockholders tender in response to a tender or exchange offer, that, if consummated, would result in a Change of Control upon consummation, (iii) the filing of a registration statement with the Securities and Exchange Commission in respect of a Transfer, (iv) the making of a public disclosure of a decision by the Company to consummate a Transfer, (v) the public announcement by the Company that it intends to effect a De-Listing, and (v) the actual consummation of a Change of Control.

" *Securities* " means Common Stock, the Warrants and any other securities (including shares of Common Stock into which any of the foregoing are converted, exchanged or exercised in accordance with the terms hereof).

" *Securities Act* " means the Securities Act of 1933, as amended, or any successor statute, and the rules and regulations promulgated thereunder.

" *Shares* " is defined in Section 2.

"Transfer" means the transfer, distribution (by dividend, exchange or any other means) or disposition, in one transaction or a series of related transactions, to the Company's stockholders or to any Person or Group of 50% or more of the Capital Stock or consolidated assets of (i) National or (ii) a Subsidiary or Subsidiaries of the Company that own, directly or indirectly, 50% or more of the consolidated assets of the Company.

" *Subsidiary* " of a Person means those corporations, banks, savings banks, associations and other Persons of which such Person owns or controls 51% or more of the outstanding equity securities either directly or through an unbroken chain of entities, as to each of which 51% or more of the outstanding equity securities is owned directly or indirectly by its parent; *provided, however,* that there shall not be included any such entity to the extent that the equity securities of such entity were acquired in satisfaction of a debt previously contracted in good faith or are owned or controlled in a *bona fide* fiduciary capacity.

" *Voting Securities* " means the Company's then outstanding securities eligible to vote for the election of directors.

" *Warburg Warrants* " means the warrants issued to Warburg Pincus Private Equity X, LP (" *Warburg* ") and its affiliates pursuant to (i) that certain Warrant Agreement, dated as of January 30, 2008, between the Company and Warburg, (ii) that certain B Warrant Agreement, dated as of January 30, 2008, between the Company and Warburg, (iii) that certain B2 Warrant Agreement, dated as of January 30, 2008, between the Company and Warburg, and (iv) that certain B2 Warrant Agreement, dated as of January 30, 2008, between the Company and Warburg Pincus X Partners, L.P.

" *Warrantholder* " has the meaning given to it in Section 2.

" *Warrants* " means this Warrant, issued to the Investor pursuant to the Investment Agreement.

2. Number of Shares; Exercise Price . This certifies that, for value received, Investor, its affiliates or its registered assigns (the " *Warrantholder* ") is entitled, upon the terms and subject to the conditions hereinafter set forth, to acquire from the Company, in whole or in part, up to an aggregate of 9,942,458 fully paid and nonassessable shares of Common Stock, par value $1.00 per share (the " *Shares* "), of the Company, at a purchase price of $9.59 per Share (the " *Exercise Price* "). The number of Shares and the Exercise Price are subject to adjustment as provided herein, and all references to "Shares," "Common Stock" and "Exercise Price" herein shall be deemed to include any such adjustment or series of adjustments.

3. Exercise of Warrant; Term . To the extent permitted by applicable laws and regulations, including but not limited to the insurance laws of the State of New York, the right to purchase the Shares represented by this Warrant are exercisable, in whole or in part by the Warrantholder, at any time or from time to time after 9:00 a.m., New York City time, on the date hereof, but in no event later than 11:59 p.m., New York City time, on the fifth anniversary of the date of issuance of the Warrant (the " *Expiration Time* "), by (A) the surrender of this Warrant and delivery of the Notice of Exercise annexed hereto, duly completed and executed on behalf of the Warrantholder, to the Company via e-mail or to the office of the Company in Armonk, New York (or such other office or agency of the Company in the United States as it may designate by notice in writing (including by e-mail) to the Warrantholder at the address of the Warrantholder appearing on the books of the Company), and (B) payment of the Exercise Price for the Shares thereby purchased by having the Company withhold shares of Common Stock issuable upon exercise of the Warrant equal in value to the aggregate Exercise Price as to which this Warrant is so exercised based on the Market Price

of the Common Stock on the trading day prior to the date on which the last of this Warrant and the Notice of Exercise is delivered to the Company. If the Warrantholder does not exercise this Warrant in its entirety, the Warrantholder will be entitled to receive from the Company within a reasonable time, and in any event not exceeding three (3) Business Days, a new warrant in substantially identical form for the purchase of that number of Shares equal to the difference between the number of Shares subject to this Warrant and the number of Shares as to which this Warrant is so exercised.

4. Issuance of Shares; Authorization; Listing . Certificates for Shares (or book entry shares) issued upon exercise of this Warrant will be issued in such name or names as the Warrantholder may designate and will be delivered to such named Person or Persons within a reasonable time, not to exceed three (3) Business Days after the date on which this Warrant has been duly exercised in accordance with the terms of this Warrant, subject to prior or simultaneous surrender of this Warrant at the Company's office designated in accordance with Section 3. The Company hereby represents and warrants that any Shares issued upon the exercise of this Warrant in accordance with the provisions of Section 3 will, upon such exercise, be duly and validly authorized and issued, fully paid and nonassessable and free from all taxes, liens and charges (other than liens or charges created by the Warrantholder or taxes in respect of any transfer occurring contemporaneously therewith). The Company agrees that the Shares so issued will be deemed to have been issued to the Warrantholder as of the close of business on the date on which the last of this Warrant and payment of the Exercise Price is delivered to the Company in accordance with the terms of this Warrant, notwithstanding that the stock transfer books of the Company may then be closed or certificates representing such Shares may not be actually delivered on such date. The Company will at all times reserve and keep available, out of its authorized but unissued Common Stock, solely for the purpose of providing for the exercise of this Warrant, the aggregate number of shares of Common Stock issuable upon exercise of this Warrant; provided that nothing in this Section 4 shall preclude the Company from satisfying its obligations in respect of the exercise of this Warrant by delivery of shares of Common Stock that are held in the treasury of the Company. The Company will (i) procure, at its sole expense, the listing of the Shares and other securities issuable upon exercise of this Warrant, including but not limited to those Shares issuable pursuant to Section 13 of this Warrant, subject to issuance or notice of issuance on all stock exchanges on which the Common Stock are then listed or traded and (ii) maintain the listing of such Shares after issuance for so long as the Common Stock is listed on such stock exchanges. The Company will use commercially reasonable efforts to ensure that the Shares may be issued without violation of any applicable law or regulation or of any requirement of any securities exchange on which the Shares are listed or traded.

5. No Fractional Shares or Scrip . No fractional Shares or scrip representing fractional Shares shall be issued upon any exercise of this Warrant. In lieu of any fractional Share to which the Warrantholder would otherwise be entitled, the Warrantholder shall be entitled to receive a cash payment equal to the Market Price of the Common Stock less the Exercise Price for such fractional share.

6. No Rights as Shareholders; Transfer Books . This Warrant does not entitle the Warrantholder to any voting rights or other rights as a shareholder of the Company prior to the date of exercise hereof. The Company will at no time close its transfer books against transfer of this Warrant in any manner which interferes with the timely exercise of this Warrant.

7. Charges, Taxes and Expenses . Issuance of certificates for Shares to the Warrantholder upon the exercise of this Warrant shall be made without charge to the Warrantholder for any issue or transfer tax or other incidental expense in respect of the issuance of such certificates, all of which taxes and expenses shall be paid by the Company.

8. Transfer/Assignment .

   (A) Without obtaining the consent of the Company to assign or transfer this Warrant, from and after the earlier of (x) the six-month anniversary of the issuance of this Warrant and (y) the consummation by the Company of a registered public offering of equity or equity linked Securities of the Company (other than Excluded Stock), this Warrant and all rights hereunder shall be transferable, in whole or in part, upon the books of the Company by the registered holder hereof in person or by duly authorized attorney, and a new warrant shall be made and delivered by the Company, of the same tenor and date as this Warrant but registered in the name of the transferee, upon surrender of this Warrant, duly endorsed, to the office or agency of the Company described in Section 2. All expenses (other than stock transfer taxes, if any) and other charges payable in connection with the preparation, execution and delivery of the new warrants pursuant to this Section 8 shall be paid by the Company.

   (B) Notwithstanding anything herein to the contrary, nothing shall prevent any hedging transactions by the Warrantholder or its transferees .

9. Exchange and Registry of Warrant . This Warrant is exchangeable, upon the surrender hereof by the Warrantholder to the Company, for a new warrant or warrants of like tenor and representing the right to purchase the same aggregate number of Shares. The Company shall maintain a registry showing the name and address of the Warrantholder as the registered holder of this Warrant. This Warrant may be surrendered for exchange or exercise, in accordance with its terms, at the office of the Company, and the Company shall be entitled to rely in all respects, prior to written notice to the contrary, upon such registry.

10. Loss, Theft, Destruction or Mutilation of Warrant . Upon receipt by the Company of evidence reasonably satisfactory to it of the loss, theft, destruction or mutilation of this Warrant, and in the case of any such loss, theft or destruction, upon receipt of an indemnity or security reasonably satisfactory to the Company, or, in the case of any such mutilation, upon surrender and cancellation of this Warrant, the Company shall make and deliver, in lieu of such lost, stolen, destroyed or mutilated Warrant, a new Warrant of like tenor and representing the right to purchase the same aggregate number of Shares as provided for in such lost, stolen, destroyed or mutilated Warrant.

11. Saturdays, Sundays, Holidays, etc . If the last or appointed day for the taking of any action or the expiration of any right required or granted herein shall not be a Business Day, then such action may be taken or such right may be exercised on the next succeeding day that is a Business Day.

12. Rule 144 Information . The Company covenants that it will use its commercially reasonable efforts to timely file all reports and other documents required to be filed by it under the Securities Act and the Exchange Act and the rules and regulations promulgated by the U.S. Securities and Exchange Commission thereunder (or, if the Company is not required to file such reports, it will, upon the request of any Warrantholder, make publicly available such information as necessary to permit sales pursuant to Rule 144), and it will use commercially reasonable efforts to take such further action as any Warrantholder may reasonably request, all to the extent required from time to time to enable such holder to sell the Warrants without registration under the Securities Act within the limitation of the exemptions provided by (i) Rule 144 under the Securities Act, as such

Rule may be amended from time to time, or (ii) any similar rule or regulation hereafter adopted by the Securities and Exchange Commission. Upon the written request of any Warrantholder, the Company will deliver to such Warrantholder a written statement that it has complied with such requirements.

13. Adjustments and Other Rights . The Exercise Price and the number of Shares issuable upon exercise of this Warrant shall be subject to adjustment from time to time as follows; *provided* , that no single event shall be subject to adjustment under more than one subsection of this Section 13 so as to result in duplication:

(A) Common Stock Issued at Less than the Applicable Price . If the Company issues or sells any Common Stock other than Excluded Stock for consideration per share less than 85% of the Applicable Price, then the Exercise Price in effect immediately prior to each such issuance or sale will immediately (except as provided below) be reduced to the price determined by multiplying the Exercise Price in effect immediately prior to such issuance or sale by a fraction, (x) the numerator of which shall be (1) the number of shares of Common Stock outstanding immediately prior to such issuance or sale plus (2) the number of shares of Common Stock which the aggregate consideration received by the Company for the total number of such additional shares of Common Stock so issued or sold would purchase at the Applicable Price, and (y) the denominator of which shall be the number of shares of Common Stock outstanding immediately after such issuance or sale. In such event, the number of shares of Common Stock issuable upon the exercise of this Warrant shall be increased to the number obtained by dividing (x) the product of (1) the number of Shares issuable upon the exercise of this Warrant before such adjustment and (2) the Exercise Price in effect immediately prior to the issuance or sale giving rise to this adjustment, by (y) the new Exercise Price determined in accordance with the immediately preceding sentence. For the avoidance of doubt, no adjustment of the Exercise Price or the number of Shares issuable upon exercise of this Warrant shall be made pursuant to this Section 13(A) in connection with any change in the number of shares of Common Stock deliverable upon exercise of any Warburg Warrant that results from the anti-dilution provisions of such Warburg Warrant. For the purposes of any adjustment of the Exercise Price and the number of Shares issuable upon exercise of this Warrant pursuant to this Section 13(A), the following provisions shall be applicable, *provided* , *however* , no increase in the Exercise Price or reduction in the number of Shares issuable upon exercise of this Warrant shall be made pursuant to subclauses (i) or (ii) of this Section 13(A):

(i) In the case of the issuance or sale of Common Stock for cash, the amount of the consideration received by the Company shall be deemed to be the amount of the gross cash proceeds received by the Company for such Common Stock before deducting therefrom any discounts or commissions allowed, paid or incurred by the Company for any underwriting or otherwise in connection with the issuance and sale thereof.

(ii) In the case of the issuance or sale of Common Stock (otherwise than upon the conversion of shares of Capital Stock or other securities of the Company) for a consideration in whole or in part other than cash, including securities acquired in exchange therefor (other than securities by their terms so exchangeable), the consideration other than cash shall be deemed to be the fair value thereof as determined by the Board, before deducting therefrom any discounts or commissions allowed, paid or incurred by the Company for any underwriting or

otherwise in connection with the issuance and sale thereof, *provided* , *however* , that such per share fair value as determined by the Board shall not exceed the Applicable Price.

(iii) In the case of the issuance of (1) options, warrants or other rights to purchase or acquire Common Stock (whether or not at the time exercisable) or (2) securities by their terms convertible into or exchangeable for Common Stock (whether or not at the time so convertible or exchangeable) or options, warrants or rights to purchase such convertible or exchangeable securities (whether or not at the time exercisable):

(1) The aggregate maximum number of shares of Common Stock deliverable upon exercise of such options, warrants or other rights to purchase or acquire Common Stock shall be deemed to have been issued at the time such options, warrants or rights are issued and for a consideration equal to the consideration (determined in the manner provided in Section 13(A)(i) and (ii)), if any, received by the Company upon the issuance or sale of such options, warrants or rights plus the minimum purchase price provided in such options, warrants or rights for the Common Stock covered thereby.

(2) The aggregate maximum number of shares of Common Stock deliverable upon conversion of or in exchange for any such convertible or exchangeable securities, or upon the exercise of options, warrants or other rights to purchase or acquire such convertible or exchangeable securities and the subsequent conversion or exchange thereof, shall be deemed to have been issued at the time such securities were issued or such options, warrants or rights were issued and for a consideration equal to the consideration, if any, received by the Company for any such securities and related options, warrants or rights (excluding any cash received on account of accrued interest or accrued dividends), plus the additional consideration (in each case, determined in the manner provided in Section 13(A)(i) and (ii)), if any, to be received by the Company upon the conversion or exchange of such securities, or upon the exercise of any related options, warrants or rights to purchase or acquire such convertible or exchangeable securities and the subsequent conversion or exchange thereof.

(3) On any change in the number of shares of Common Stock deliverable upon exercise of any such options, warrants or rights or conversion or exchange of such convertible or exchangeable securities or any change in the consideration to be received by the Company upon such exercise, conversion or exchange, but excluding changes resulting from the anti-dilution provisions thereof (to the extent comparable to the anti-dilution provisions contained herein), the Exercise Price and the number of Shares issuable upon exercise of this Warrant as then in effect shall forthwith be readjusted to such Exercise Price and number of Shares as would have been obtained had an adjustment been made upon the issuance or sale of such options, warrants or rights not exercised prior to such change, or of such convertible or exchangeable securities not converted or exchanged prior to such change, upon the basis of such change.

(4) On the expiration or cancellation of any such options, warrants or rights (without exercise), or the termination of the right to convert or exchange such convertible or exchangeable securities (without exercise), if the Exercise Price and the number of Shares issuable upon exercise of this Warrant shall have been adjusted upon the issuance or sale thereof, the Exercise Price and the number of Shares issuable upon exercise of this Warrant shall forthwith be readjusted to such Exercise Price and number of Shares as would have been obtained had an adjustment been made upon the issuance or sale of such options, warrants, rights or such convertible or exchangeable securities on the basis of the issuance of only the number of shares of Common Stock actually issued upon the exercise of such options, warrants or rights, or upon the conversion or exchange of such convertible or exchangeable securities.

(5) If the Exercise Price and the number of Shares issuable upon exercise of this warrant shall have been adjusted upon the issuance or sale of any such options, warrants, rights or convertible or exchangeable securities, no further adjustment of the Exercise Price and the number of Shares issuable upon exercise of this Warrant shall be made for the actual issuance of Common Stock upon the exercise, conversion or exchange thereof; *provided* , *however* , that no increase in the Exercise Price or reduction in the number of Shares issuable upon exercise of this Warrant shall be made pursuant to subclauses (1) or (2) of this Section 13(A)(iii).

(B) Stock Splits, Subdivisions, Reclassifications or Combinations . If the Company shall (i) declare a dividend or make a distribution on its Common Stock in shares of Common Stock, (ii) subdivide or reclassify the outstanding shares of Common Stock into a greater number of shares, or (iii) combine or reclassify the outstanding Common Stock into a smaller number of shares, the number of Shares issuable upon exercise of this Warrant at the time of the record date for such dividend or distribution or the effective date of such subdivision, combination or reclassification shall be proportionately adjusted so that the Warrantholder after such date shall be entitled to purchase the number of shares of Common Stock which such holder would have owned or been entitled to receive after such date had this Warrant been exercised immediately prior to such date. In such event, the Exercise Price in effect at the time of the record date for such dividend or distribution or the effective date of such subdivision, combination or reclassification shall be adjusted to the number obtained by dividing (x) the product of (1) the number of Shares issuable upon the exercise of this Warrant before such adjustment and (2) the Exercise Price in effect immediately prior to the issuance giving rise to this adjustment by (y) the new number of shares issuable upon exercise of the Warrant determined pursuant to the immediately preceding sentence.

(C) Other Distributions . In case the Company shall fix a record date for the making of a distribution to all holders of shares of its Common Stock (i) of shares of any class other than its Common Stock, (ii) of evidence of indebtedness of the Company or any Subsidiary, (iii) of assets (including without limitation cash dividends, but excluding dividends or distributions referred to in Section 13(B), or (iv) of rights or warrants (excluding those referred to in Section 13(B)), in each such case, the Exercise Price in

effect prior thereto shall be reduced immediately thereafter to the price determined by dividing (x) an amount equal to the difference resulting from (1) the number of shares of Common Stock outstanding on such record date multiplied by the Exercise Price per Share on such record date, less (2) the fair market value (as reasonably determined by the Board) of said shares or evidences of indebtedness or assets or rights or warrants to be so distributed, by (y) the number of shares of Common Stock outstanding on such record date; such adjustment shall be made successively whenever such a record date is fixed. In such event, the number of shares of Common Stock issuable upon the exercise of this Warrant shall be increased to the number obtained by dividing (x) the product of (1) the number of Shares issuable upon the exercise of this Warrant before such adjustment, and (2) the Exercise Price in effect immediately prior to the issuance giving rise to this adjustment by (y) the new Exercise Price determined in accordance with the immediately preceding sentence. In the event that such distribution is not so made, the Exercise Price and the number of Shares issuable upon exercise of this Warrant then in effect shall be readjusted, effective as of the date when the Board determines not to distribute such shares, evidences of indebtedness, assets, rights or warrants, as the case may be, to the Exercise Price that would then be in effect and the number of Shares that would then be issuable upon exercise of this Warrant if such record date had not been fixed.

(D) Business Combinations . Subject to Section 14 of this Warrant, in case of any Business Combination or reclassification of Common Stock (other than a reclassification of Common Stock referred to in Section 13(B)), any Shares issued or issuable upon exercise of this Warrant after the date of such Business Combination or reclassification, shall be exchangeable for the number of shares of stock or other securities or property (including cash) to which the Common Stock issuable (at the time of such Business Combination or reclassification) upon exercise of this Warrant immediately prior to such Business Combination or reclassification would have been entitled upon such Business Combination or reclassification; and in any such case, if necessary, the provisions set forth herein with respect to the rights and interests thereafter of the Warrantholder shall be appropriately adjusted so as to be applicable, as nearly as may reasonably be, to any shares of stock or other securities or property thereafter deliverable on the exercise of this Warrant. In determining the kind and amount of stock, securities or the property receivable upon consummation of such Business Combination, if the holders of Common Stock have the right to elect the kind or amount of consideration receivable upon consummation of such Business Combination, then the Warrantholder shall have the right to make a similar election upon exercise of this Warrant with respect to the number of shares of stock or other securities or property which the Warrantholder will receive upon exercise of this Warrant.

(E) Rounding of Calculations; Minimum Adjustments . All calculations under this Section 13 shall be made to the nearest one-tenth (1/10th) of a cent or to the nearest one-hundredth (1/100th) of a share, as the case may be. Any provision of this Section 13 to the contrary notwithstanding, no adjustment in the Exercise Price or the number of Shares into which this Warrant is exercisable shall be made if the amount of such adjustment would be less than $0.01 or one-tenth (1/10th) of a share of Common Stock, respectively, but any such amount shall be carried forward and an adjustment with respect thereto shall be made at the time of and together with any subsequent adjustment which, together with such amount and any other amount or amounts so carried forward, shall aggregate $0.01 or 1/10th of a share of Common Stock, respectively, or more.

(F) Timing of Issuance of Additional Common Stock Upon Certain Adjustments . In any case in which the provisions of this Section 13 shall require that an adjustment shall become effective immediately after a record date for an event, the Company may defer until the occurrence of such event (i) issuing to the Warrantholder of this Warrant exercised after such record date and before the occurrence of such event the additional shares of Common Stock issuable upon such exercise by reason of the adjustment required by such event over and above the shares of Common Stock issuable upon such exercise before giving effect to such adjustment and (ii) paying to such Warrantholder any amount of cash in lieu of a fractional share of Common Stock; *provided* , *however* , that the Company upon request shall deliver to such Warrantholder a due bill or other appropriate instrument evidencing such Warrantholder's right to receive such additional shares, and such cash, upon the occurrence of the event requiring such adjustment.

(G) Adjustment for Unspecified Actions . If the Company takes any action affecting the Common Stock, other than actions described in this Section 13, which in the opinion of the Board would adversely affect the exercise rights of the Warrantholder, the Exercise Price for the Warrants and/or the number of Shares received upon exercise of the Warrant shall be adjusted for the Warrantholder's benefit, to the extent permitted by law, (i) if any of the Warburg Warrants is then outstanding, in the same manner, and at the same time, as the Board determines to adjust the exercise price under such Warburg Warrants and/or number of Shares received upon exercise of such Warburg Warrants as a result of such action (and, if the Board determines not to make any adjustment under the Warburg Warrants as a result of such action, no adjustment shall be made under this Warrant), or (ii) if none of the Warburg Warrants is then outstanding, or if each holder of any Warburg Warrant then outstanding has waived its right to any adjustment as a result of such action, in such manner, and at such time, as such Board after consultation with the Investor shall reasonably determine to be equitable in the circumstances. Failure of the Board to provide for any such adjustment will be evidence that the Board has determined that it is equitable to make no such adjustments in the circumstances.

(H) Statement Regarding Adjustments . Whenever the Exercise Price or the number of Shares into which this Warrant is exercisable shall be adjusted as provided in Section 13, the Company shall forthwith file at the principal office of the Company a statement showing in reasonable detail the facts requiring such adjustment and the Exercise Price that shall be in effect and the number of Shares into which this Warrant shall be exercisable after such adjustment, and the Company shall also cause a copy of such statement to be sent by e-mail and by mail, first class postage prepaid, to each Warrantholder at the address appearing in the Company's records.

(I) Notice of Adjustment Event . In the event that the Company shall propose to take any action of the type described in this Section 13 (but only if the action of the type described in this Section 13 would result in an adjustment in the Exercise Price or the number of Shares into which this Warrant is exercisable or a change in the type of securities or property to be delivered upon exercise of this Warrant), the Company shall give notice to the Warrantholder, in the manner set forth in Section 13(H), which notice shall specify the record date, if any, with respect to any such action and the approximate date on which such action is to take place. Such notice shall also set forth the facts with respect thereto as shall be reasonably necessary to indicate the effect on the Exercise Price and the number, kind or class of shares or other securities or property which shall be deliverable upon exercise of this Warrant. In the case of any action which would require the fixing of a record date, such notice shall be given at least 10 days prior to the date so fixed, and

in case of all other action, such notice shall be given at least 15 days prior to the taking of such proposed action. Failure to give such notice, or any defect therein, shall not affect the legality or validity of any such action.

(J) No Impairment . The Company will not, by amendment of its Amended and Restated Articles of Incorporation or through any reorganization, transfer of assets, consolidation, merger, dissolution, issue or sale of securities or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms to be observed or performed hereunder by the Company, but will at all times in good faith assist in the carrying out of all the provisions of this Warrant and in taking of all such action as may be necessary or appropriate in order to protect the rights of the Warrantholder.

(K) Proceedings Prior to Any Action Requiring Adjustment . As a condition precedent to the taking of any action which would require an adjustment pursuant to this Section 13, the Company shall take any action which may be necessary, including obtaining regulatory, New York Stock Exchange or stockholder approvals or exemptions, in order that the Company may thereafter validly and legally issue as fully paid and nonassessable all shares of Common Stock that the Warrantholder is entitled to receive upon exercise of this Warrant pursuant to this Section 13.

(L) Adjustment Rules . Any adjustments pursuant to this Section 13 shall be made successively whenever an event referred to herein shall occur. If an adjustment in Exercise Price made hereunder would reduce the Exercise Price to an amount below par value of the Common Stock, then such adjustment in Exercise Price made hereunder shall reduce the Exercise Price to the par value of the Common Stock.

14. Change of Control . Within 30 calendar days following the occurrence of a Preliminary Control Event, the Warrantholder may deliver a written notice to the Company, electing to cause the Company to purchase any Warrant, in whole or in part, acquired hereunder that the Warrantholder then holds, at a valuation based on a computation of the option value of the Warrant using Black-Scholes calculation methods and making the assumptions described in the Black-Scholes methodology described in Exhibit A . Payment by the Company to the Warrantholder of such purchase price shall be in cash due only upon the occurrence of the Change in Control and on the date of the occurrence of the Change of Control and simultaneous therewith and with surrender by the Warrantholder of such Warrant, subject to the mechanics described in the last paragraph of Exhibit A. If the Warrantholder does not elect to have the Company purchase any Warrant in its entirety, the Warrantholder will be entitled to receive from the Company within a reasonable time, and in any event not exceeding three (3) Business Days, a new warrant in substantially identical form for the purchase of that number of Shares subject to the outstanding portion of such Warrant. The Company agrees that it will not take any action resulting in a Preliminary Control Event in the absence of definitive documentation providing for such election right of the Warrantholder pursuant to this Section 14. Under no circumstances shall the Warrantholder be restricted from engaging in any hedging or derivative program reasonably necessary in the opinion of the Warrantholder to secure the option value of this Warrant so adjusted.

15. Contest and Appraisal Rights .

(A) If any determination of Market Price or fair market value is to be made hereunder, and, at such time, a similar determination of “Market Price” or “fair market value” is made under any Warburg Warrant then outstanding, the determination of Market Price or fair market

value, as the case may be, hereunder shall be the same as the final determination made with respect to the "Market Price" or "fair market value," as the case may be, under such Warburg Warrant. Upon such final determination under such Warburg Warrant, the Company shall promptly deliver notice thereof to the Warrantholder.

(B) If any determination of Market Price or fair market value is to be made hereunder but no similar determination of "Market Price" or "fair market value" is made under any Warburg Warrant then outstanding, or if no Warburg Warrant is outstanding at such time, the provisions in this Section 15(B) shall apply. Upon each determination of Market Price or fair market value, as the case may be, hereunder, the Company shall promptly give notice thereof to the Warrantholder, setting forth in reasonable detail the calculation of such Market Price or fair market value, and the method and basis of determination thereof, as the case may be. If the Warrantholder (or if there is more than one Warrantholder, a majority in interest of Warrantholders) shall disagree with such determination and shall, by notice to the Company given within fifteen (15) days after the Company's notice of such determination, elect to dispute such determination, such dispute shall be resolved in accordance with this Section 15(B). In the event that a determination of Market Price, or fair market value (if such determination solely involves Market Price), is disputed, such dispute shall be submitted, at the Company's expense, to a New York Stock Exchange member firm selected by the Company and acceptable to the Warrantholder, whose determination of Market Price or fair market value, as the case may be, shall be binding on the Company and the Warrantholder. In the event that a determination of fair market value, other than a determination solely involving Market Price, is disputed, such dispute shall be resolved through the Appraisal Procedure.

16. Governing Law . This Warrant shall be binding upon any successors or assigns of the Company. This Warrant shall constitute a contract under the laws of New York and for all purposes shall be construed in accordance with and governed by the laws of New York, without giving effect to the conflict of laws principles.

17. Attorneys' Fees . In any litigation, arbitration or court proceeding between the Company and the Warrantholder as the holder of this Warrant relating hereto, the prevailing party shall be entitled to reasonable attorneys' fees and expenses incurred in enforcing this Warrant.

18. Amendments . This Warrant may be amended and the observance of any term of this Warrant may be waived only with the written consent of the Company and the Warrantholder.

19. Notices . All notices hereunder shall be in writing and shall be effective (A) on the day on which delivered if delivered personally or transmitted by facsimile transmission or e-mail with evidence of receipt and with, in the case of e-mail, a copy mailed on the same day in the manner provided in clause (B) or (C), (B) one Business Day after the date on which the same is delivered to a nationally recognized overnight courier service with evidence of receipt, or (C) five Business Days after the date on which the same is deposited, postage prepaid, in the U.S. mail, sent by certified or registered mail, return receipt requested, and addressed to the party to be notified at the address indicated below (or at such other address and/or facsimile number and/or e-mail address and/or to the attention of such other person as the Company or the Warrantholder may designate by ten-day advance written notice):

(1) if to the Company:

MBIA Inc.
113 King Street
Armonk, New York 10504
Attention: Ram Wertheim, General Counsel
Facsimile: (914) 765-3919
E-mail: Ram.Wertheim@mbia.com

with a copy to:

Debevoise & Plimpton LLP
919 Third Avenue
New York, New York 10022
Attention: Andrew L. Bab
Steven J. Slutzky
Facsimile: (212) 919-6836
E-mail: albab@debevoise.com
sjslutzky@debevoise.com

(2) if to the Warrantholder, at the address for the Warrantholder set forth in the registry maintained by the Company pursuant to Section 9.

20. Prohibited Actions . The Company agrees that it will not take any action which would entitle the Warrantholder to an adjustment of the Exercise Price if the total number of shares of Common Stock issuable after such action upon exercise of this Warrant, together with all shares of Common Stock then outstanding and all shares of Common Stock then issuable upon the exercise of all outstanding options, warrants, conversion and other rights, would exceed the total number of shares of Common Stock then authorized by its Amended and Restated Articles of Incorporation.

21. Entire Agreement . This Warrant and the forms attached hereto, and the Investment Agreement, contain the entire agreement between the parties with respect to the subject matter hereof and supersede all prior and contemporaneous arrangements or undertakings with respect thereto.

[Remainder of page intentionally left blank]

[copy]

IN WITNESS WHEREOF, the Company has caused this Warrant to be executed by a duly authorized officer.

Dated: May 6, 2013

MBIA INC.

By: /s/ Ram Wertheim
Name: Ram Wertheim
Title: Executive Vice President,
Chief Legal Officer and Secretary

Attest:

By: /s/ David Griffiths
Name: David Griffiths
Title: Attorney

Acknowledged and Agreed:

BLUE RIDGE INVESTMENTS, L.L.C.

By: /s/ Neil Cotty
Name: Neil Cotty
Title: Executive Vice President

[Signature Page to Warrant]

[copy]

[Form Of Notice Of Exercise]

Date:

TO: MBIA Inc.

RE: Election to Subscribe for and Purchase Common Stock

The undersigned, pursuant to the provisions set forth in the attached Warrant, hereby agrees to subscribe for and purchase the number of shares of the Common Stock set forth below covered by such Warrant. The undersigned, in accordance with Section 3 of the Warrant, hereby agrees to pay the aggregate Exercise Price for such shares of Common Stock in the manner set forth in the Warrant. A new warrant evidencing the remaining shares of Common Stock covered by such Warrant, but not yet subscribed for and purchased, if any, should be issued in the name set forth below.

Number of Shares of Common Stock: _____

Name and Address of Person to be
Issued New Warrant: _____
_____
_____
_____

Holder: _____

By: _____
Name: _____
Title: _____

[copy]

Exhibit A

Black-Scholes Assumptions

For the purpose of this Exhibit A:

" *Acquiror* " means (a) the third party that has entered into definitive document for a transaction, or (b) the offeror in the event of a tender or exchange offer, that could reasonably result in a Change of Control upon consummation.

Underlying Security Price:	In the event of a merger or acquisition, (A) in the event of an "all cash" deal, the cash per share offered to the Company's shareholders by the Acquiror; (B) in the event of an "all stock" deal, (1) in the event of a fixed exchange ratio transaction, the product of (i) the average of the Market Price of the Acquiror's common stock for the ten (10) trading day period ending on the day preceding the date of the Preliminary Control Event and (ii) the number of Acquiror's shares being offered for one share of Common Stock and (2) in the event of a fixed value transaction, the value offered by the Acquiror for one share of Common Stock; (C) in the event of a transaction contemplating various forms of consideration for each share of Common Stock, the cash portion, if any, shall be valued as clause (A) above and the stock portion shall be valued as clause (B) above and any other forms of consideration shall be valued by the Company in good faith, without applying any discounts to such consideration. In the event of all other Change of Control events, the average of the Market Price of the Common Stock for the five (5) trading day period beginning on the date of the Preliminary Control Event.
Exercise Price:	The Exercise Price as adjusted and then in effect for the Warrant at the time of the Preliminary Control Event.
Dividend Rate:	The Company's annualized dividend yield as of the date of the Preliminary Control Event
Interest Rate:	The applicable U.S. 5-year treasury note risk free rate as of the date of the Preliminary Control Event
Model Type:	Black-Scholes
Exercise Type:	American
Put or Call:	Call
Trade Date:	The date of the Preliminary Control Event
Expiration Date:	Expiration Time
Settle Date:	The date of the Preliminary Control Event
Exercise Delay:	0
Volatility:	The average annual volatility over the last 3 years of the Common Stock as listed by Bloomberg L.P., as of the date of the Preliminary Control Event

Such valuation of the Warrant based on the Black-Scholes methodology shall not be discounted in any way. If the Warrantholder disputes such Black-Scholes valuation pursuant to this Exhibit A as calculated by the Company, the Company and the Warrantholder will choose a mutually-agreeable firm to compute the valuation of the Warrant using the guidelines above, and such valuation shall be final. The fees and expenses of such firm shall be borne equally by the Company and the Warrantholder.

The Company covenants that it will not close the Change of Control transaction or otherwise facilitate the closing of a tender or exchange offer as referenced above until giving the Warrantholder at least five (5) Business Days to sell or distribute the Common Stock to be received in an exchange and will cooperate with the Warrantholder to ensure that there is an effective registration statement available to facilitate such a sale during such five (5) Business Day period or an effective opportunity is provided in the case of a tender or exchange offer as referenced above to tender such shares in to the offer.

Exhibit 10.1

EXECUTION COPY

LOAN AGREEMENT

between

MBIA INSURANCE CORPORATION,
as Borrower

and

BLUE RIDGE INVESTMENTS, L.L.C.,
as Lender

Dated as of May 6, 2013

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EXHIBIT F	Form of Compliance Certificate

LOAN AGREEMENT (this " *Agreement* ") dated as of May 6, 2013, between MBIA INSURANCE CORPORATION, a stock insurance corporation organized under the laws of the State of New York (the " *Borrower* "), and BLUE RIDGE INVESTMENTS, L.L.C., a Delaware limited liability company, as a lender (the " *Lender* "). Unless otherwise defined herein, all capitalized terms used herein and defined in Section 1.1 are used herein as so defined.

PRELIMINARY STATEMENTS

A. In connection with the Settlement Agreement and as part of the consideration for releases contemplated thereunder, the Lender has agreed to provide revolving credit loans to the Borrower in an aggregate amount of up to $500,000,000, to be made available by the Lender in one or more disbursements during the Commitment Period, upon the terms and conditions set forth in this Agreement.

B. Beginning on the first Business Day to occur after the Closing Date, the Borrower intends to use the proceeds of such loans for general corporate purposes.

C. On or prior to the Closing Date, the New York State Department of Financial Services shall have been given the requisite notice of the Borrower entering into this Agreement and shall have approved the Borrower pledging the Collateral pursuant to the Security Agreement, repaying the amounts outstanding under the NPFGC Loan Agreement and entering into the Settlement Agreement and consummating the transactions contemplated thereby.

NOW, THEREFORE, in consideration of the foregoing premises and other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties agree as follows:

ARTICLE I
DEFINITIONS

1.1 Certain Defined Terms . As used in this Agreement, the following terms shall have the following meanings:

" *Additional Amounts* " shall have the meaning set forth in Section 3.1(b)(i).

" *Adjusted LIBOR Rate* " shall mean, a rate per annum determined by the Lender pursuant to the following formula: (i) for any Interest Period on any Interest Rate Determination Date with respect to a LIBOR Rate Loan, the rate per annum equal to the British Bankers Association LIBOR Rate (" BBA LIBOR "), as published by Reuters (or other commercially available source providing quotations of BBA LIBOR as designated

by the Lender from time to time) at approximately 11:00 a.m., London time, on such Interest Rate Determination Date, for Dollar deposits (for delivery on the first day of such Interest Period) with a term equivalent to such Interest Period. If such rate is not available at such time for any reason, then the "Adjusted LIBOR Rate" for such Interest Period shall be the rate per annum determined by the Lender to be the rate at which deposits in Dollars for delivery on the first day of such Interest Period in same day funds in the approximate amount of the Eurodollar Rate Loan being made, continued or converted by Bank of America and with a term equivalent to such Interest Period would be offered by Bank of America's London Branch to major banks in the London interbank eurodollar market at their request at approximately 11:00 a.m. (London time) two Business Days prior to the commencement of such Interest Period divided by (ii) an amount equal to (a) 1.00, *minus* (b) the Applicable Reserve Requirement.

" *Affiliate* " shall mean, with respect to a specified Person, another Person that directly, or indirectly through one or more intermediaries, Controls or is Controlled by or is under common Control with the Person specified.

" *Applicable Law* " shall mean any applicable statute, law, regulation, ordinance, rule, judgment, rule of common law, order, decree, Governmental Approval, approval, concession, grant, franchise, license, agreement, directive, guideline, policy, requirement or other governmental restriction or any similar form of decision of, or determination by (or any interpretation or administration of any of the foregoing by), any Governmental Authority, whether in effect as of the date of this Agreement or thereafter.

" *Applicable Margin* " shall mean (i) with respect to Loans that are LIBOR Rate Loans, a percentage per annum equal to 7.50%, and (ii) with respect to Loans that are Base Rate Loans, a percentage per annum equal to 6.50%.

" *Applicable Reserve Requirement* " shall mean, at any time, for any LIBOR Rate Loan, the maximum rate, expressed as a decimal, at which reserves (including any basic marginal, special, supplemental, emergency or other reserves) are required to be maintained with respect thereto against "Eurocurrency Liabilities" (as such term is defined in Regulation D) under regulations issued from time to time by the Board of Governors of the Federal Reserve System or other applicable banking regulator. A LIBOR Rate Loan shall be deemed to constitute Eurocurrency liabilities and as such shall be deemed subject to reserve requirements without benefits of credit for proration, exceptions or offsets that may be available from time to time to the applicable Lender. The rate of interest on LIBOR Rate Loans shall be adjusted automatically on and as of the effective date of any change in the Applicable Reserve Requirement.

" *Attributable Indebtedness* " means, on any date, (a) in respect of any Capitalized Lease of any Person, the capitalized amount thereof that would appear on a balance sheet of such Person prepared as of such date in accordance with US GAAP, (b) in respect of any Synthetic Lease Obligation, the capitalized amount of the remaining lease or similar

payments under the relevant lease or other applicable agreement or instrument that would appear on a balance sheet of such Person prepared as of such date in accordance with US GAAP if such lease or other agreement or instrument were accounted for as a Capitalized Lease and (c) all Synthetic Debt of such Person.

" *Audited Financial Statements* " means (i) the audited balance sheet of the Borrower and its Subsidiaries on a consolidated basis, prepared in accordance with US GAAP, (ii) the audited balance sheet of the Borrower, prepared in accordance with the Regulated Accounting Principles, (iii) the audited balance sheet of MBIA UK prepared in accordance with UK GAAP and (iv) the audited balance sheet of UK Insurance, prepared in accordance with UK GAAP, in each case, for the fiscal year ended December 31, 2012, and, in the case of each of clauses (i) through (iv), the related statements of income or operations and shareholders' equity for such fiscal year, and in the case of clauses (i) and (ii) only, cash flows for such fiscal year, of each of the Borrower and its Subsidiaries, the Borrower, MBIA UK or UK Insurance, as applicable, including the notes thereto, prepared in accordance with US GAAP, Regulated Accounting Principles or UK GAAP, as applicable.

" *Available Commitment* " shall mean, at any time, an amount equal to the excess, if any, of (*a*) the amount of the Commitment Amount *over* (*b*) the principal amount of all Loans made by the Lender.

" *Bank of America* " shall mean Bank of America, N.A., a national banking association.

" *Base Rate* " shall mean, for any day, a rate per annum equal to the greatest of (i) the Prime Rate in effect on such day, (ii) the Federal Funds Effective Rate in effect on such day plus 0.5% and (iii) the rate set forth in clause (i) of the definition of Adjusted LIBOR Rate for a one month Interest Period determined as of such date or, if such date is not a Business Day, on the immediately preceding Business Day plus 1.00%. Any change in the Base Rate due to a change in the Prime Rate or the Federal Funds Effective Rate shall be effective on the effective day of such change in the Prime Rate or the Federal Funds Effective Rate, respectively. As used in this definition " *Prime Rate* " shall mean the rate of interest per annum publicly announced from time to time by Bank of America as its "prime rate" in effect at its principal office in New York, New York; each change in the Prime Rate shall be effective on the date such change is publicly announced. The Prime Rate is a reference rate and does not necessarily represent the lowest or best rate actually charged to any customer. The Lender may make commercial loans or other loans at rates of interest at, above or below the Prime Rate.

" *Base Rate Loan* " shall mean a Loan bearing interest at a rate determined by reference to the Base Rate.

" *Borrower* " shall have the meaning assigned thereto in the preamble hereof.

“ *Borrowing Date* ” shall mean any date on which a Loan is made (or, as applicable, is requested to be made) hereunder.

“ *Business Day* ” shall mean (i) any day excluding Saturday, Sunday and any day which is a legal holiday under the laws of the State of New York or is a day on which banking institutions located in such state are authorized or required by law or other governmental action to close, or are in fact closed, and (ii) with respect to all notices, determinations, fundings and payments in connection with the Adjusted LIBOR Rate or any LIBOR Rate Loans, the term “Business Day” shall mean any day which is a Business Day described in clause (i) and which is also a day for trading by and between banks in Dollar deposits in the London interbank market.

“ *Capitalized Leases* ” shall mean all leases that have been or should be, in accordance with US GAAP, recorded as capitalized leases.

“ *CERCLA* ” shall mean the Comprehensive Environmental Response, Compensation and Liability Act of 1980.

“ *CERCLIS* ” shall mean the Comprehensive Environmental Response, Compensation and Liability Information System maintained by the U.S. Environmental Protection Agency.

“ *Change in Law* ” shall mean (a) the adoption or taking effect of any law, treaty, rule or regulation after the date of this Agreement, (b) any change in any law, treaty, rule or regulation or in the administration, interpretation, implementation or application thereof by any Governmental Authority after the date of this Agreement or (c) the making or issuance of any request, rule, guideline or directive (whether or not having the force of law) by any Governmental Authority after the date of this Agreement; provided that notwithstanding anything herein to the contrary, (x) the Dodd-Frank Wall Street Reform and Consumer Protection Act and all requests, rules, guidelines or directives thereunder or issued in connection therewith and (y) all requests, rules, guidelines or directives promulgated by the Bank for International Settlements, the Basel Committee on Banking Supervision (or any successor or similar authority) or the United States or foreign regulatory authorities, in each case pursuant to Basel III, shall in each case be deemed to be a “Change in Law”, regardless of the date enacted, adopted or issued.

“ *Change of Control* ” means an event or series of events by which:

(a) any “person” or “group” (as such terms are used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, but excluding any employee benefit plan of such person or its subsidiaries, and any person or entity acting in its capacity as trustee, agent or other fiduciary or administrator of any such plan) other than (i) MBIA Inc. or a direct or indirect Subsidiary thereof, (ii) Warburg Pincus Private Equity X, L.P., Warburg Pincus Equity Partners, L.P., any of their Affiliates or (iii) Fairholme Funds, Inc., Fairholme

Capital Management, L.L.C., any of their Affiliates becomes the “beneficial owner” (as defined in Rules 13d-3 and 13d-5 under the Securities Exchange Act of 1934, except that a person or group shall be deemed to have “beneficial ownership” of all securities that such person or group has the right to acquire, whether such right is exercisable immediately or only after the passage of time (such right, an “option right”)), directly or indirectly, of 25% or more of the equity securities of the Borrower entitled to vote for members of the board of directors or equivalent governing body of the Borrower on a fully-diluted basis (and taking into account all such securities that such “person” or “group” has the right to acquire pursuant to any option right); or

(b) during any period of 12 consecutive months, a majority of the members of the board of directors or other equivalent governing body of the Borrower or MBIA Inc. ceases to be composed of individuals (i) who were members of that board or equivalent governing body on the first day of such period, (ii) whose election or nomination to that board or equivalent governing body was approved by individuals referred to in clause (i) above constituting at the time of such election or nomination at least a majority of that board or equivalent governing body or (iii) whose election or nomination to that board or other equivalent governing body was approved by individuals referred to in clauses (i) and (ii) above constituting at the time of such election or nomination at least a majority of that board or equivalent governing body (excluding, in the case of both clause (ii) and clause (iii), any individual whose initial nomination for, or assumption of office as, a member of that board or equivalent governing body occurs as a result of an actual or threatened solicitation of proxies or consents for the election or removal of one or more directors by any person or group other than a solicitation for the election of one or more directors by or on behalf of the board of directors); or

(c) MBIA Inc. shall cease, directly or indirectly, to own and control legally and beneficially all of the Equity Interests in the Borrower; or

(d) a “change of control” or any comparable term under, and as defined in any Indebtedness of the Borrower or any of its Subsidiaries in an aggregate principal amount in excess of the Threshold Amount shall have occurred.

“ *Closing Date* ” shall mean the first Business Day when all the conditions precedent in Section 4.1 are satisfied or waived (provided, that, the Closing Date shall not occur on a date after May 10, 2013).

“ *Code* ” means the Internal Revenue Code of 1986.

“ *Collateral* ” shall have the meaning assigned thereto in Section 2.1 of the Security Agreement.

“ *Collateral Calculation Certificate* ” shall mean a certificate substantially in the form of Exhibit D signed by the Chief Financial Officer, Treasurer or Controller of the

Borrower (together with detailed supporting calculations and underlying data in a form satisfactory to the Lender) (i) including the Borrower's good faith calculation of the notional amount of the Subject Collateral as of the last date of the most recently ended fiscal quarter of the Borrower in the case of a Collateral Calculation Certificate delivered pursuant to Section 6.1(b), and as of the date of the proposed Loan, in the case of a Collateral Calculation Certificate delivered pursuant to Section 4.2(g), calculated by adding (w) the notional amount of the Excess Spread Salvage Collateral reflected in the Borrower's Statutory Financial Statements, (x) the notional amount of the Installment Premium Collateral calculated in a manner consistent with the manner in which the Borrower calculates the present value of future installment premiums on a stand-alone basis for inclusion in MBIA Inc.'s periodic reports filed under the Securities Exchange Act of 1934, as amended and (y) the notional amount of the Put-Back Recoveries, net of any expected set-offs against the Subject Collateral determined by the Borrower in good faith consistent with the estimates used in determining its loss reserves reflected in its Statutory Financial Statements (provided that such Collateral Calculation Certificate shall also include (a) the notional amount of Put-Back Recoveries gross of any set-offs described in this clause (y) and (b) the amount of Put-Back Recoveries recorded as a contra-liability on the Borrower's Statutory Financial Statements), and (ii) certifying that since the last date of such fiscal quarter, no event or circumstance has occurred that would reasonably be expected to have a material adverse effect on the notional amount of any component of the Subject Collateral as reflected on such Collateral Calculation Certificate, except as otherwise disclosed on such Certificate.

" *Commitment Amount* " shall mean (i) prior to the last day of the Commitment Period $500,000,000, as such amount may be reduced pursuant to the terms hereof, and (ii) on and after the last day of the Commitment Period, zero.

" *Commitment Period* " shall mean the period from and including the first Business Day after the Closing Date to but excluding the Maturity Date (provided that the Commitment Amount at such time is greater than zero pursuant to the terms hereof).

" *Compliance Certificate* " shall mean a certificate substantially in the form of Exhibit F .

" *Connection Income Taxes* " means Other Connection Taxes that are imposed on or measured by pre-tax income (however denominated) or that are franchise Taxes or branch profits Taxes.

" *Contractual Obligation* " shall mean, as to any Person, any provision of any security issued by such Person or of any agreement, instrument or other undertaking to which such Person is a party or by which it or any of its property is bound.

" *Control* " shall mean the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of a Person, whether through the ability to exercise voting power, by contract or otherwise. "Controlling" and "Controlled" have meanings correlative thereto.

" *Conversion/Continuation Date* " shall mean the effective date of a continuation or conversion, as the case may be, as set forth in the applicable Conversion/Continuation Notice.

" *Conversion/Continuation Notice* " shall mean a Conversion/Continuation Notice substantially in the form of Exhibit E.

" *Debtor Relief Laws* " means all rehabilitation, dissolution, impairment, liquidation, conservatorship, bankruptcy, assignment for the benefit of creditors, moratorium, rearrangement, receivership, insolvency, reorganization, or other debtor relief laws of the United States or other applicable jurisdictions, including the State of New York, from time to time in effect and affecting the rights of policyholders or creditors generally, including Article 74 and Section 1310 of the New York Insurance Law and Title 11 of the United States Code.

" *Default Rate* " shall mean an interest rate (before as well as after judgment) equal to (a) with respect to overdue principal, the applicable interest rate *plus* 2.00% *per annum* and (b) with respect to any other overdue amount (including overdue interest), the interest rate applicable to Base Rate Loans *plus* 2% *per annum* .

" *Disposition* " or " *Dispose* " means the sale, transfer, license, lease or other disposition (including any sale and leaseback transaction) of any property by any Person (or the granting of any option or other right to do any of the foregoing), including any sale, assignment, transfer or other disposal, with or without recourse, of any notes or accounts receivable or any rights and claims associated therewith.

" *Dollar* " and *"$* " shall mean the lawful currency of the United States.

" *Eligible Assignee* " shall mean (i) any Affiliate of the Lender, and (ii) any other Person (other than a natural Person or the Borrower or any of the Borrower's Affiliates or Subsidiaries).

" *Environmental Laws* " shall mean any and all Applicable Laws now or hereafter in effect and in each case as amended, and any judicial or administrative interpretation thereof, relating to pollution and the protection of the environment or of human health (as it relates to the exposure to Hazardous Materials) or to the presence, release or threatened release, or the manufacture, use, transportation, treatment, storage, disposal or recycling of Hazardous Materials, or the arrangement for any such activities.

" *Equity Interests* " shall mean, with respect to any Person, all of the shares of capital stock of (or other ownership or profit interests in) such Person, all of the warrants, options

or other rights for the purchase or acquisition from such Person of shares of capital stock of (or other ownership or profit interests in) such Person, all of the securities convertible into or exchangeable for shares of capital stock of (or other ownership or profit interests in) such Person or warrants, rights or options for the purchase or acquisition from such Person of such shares (or such other interests), and all of the other ownership or profit interests in such Person (including partnership, member or trust interests therein), whether voting or nonvoting, and whether or not such shares, warrants, options, rights or other interests are outstanding on any date of determination.

" *ERISA* " shall mean the Employee Retirement Income Security Act of 1974.

" *ERISA Affiliate* " shall mean any trade or business (whether or not incorporated) under common control with the Borrower within the meaning of Section 414(b) or (c) of the Code (and Sections 414(m) and (o) of the Code for purposes of provisions relating to Section 412 of the Code).

" *ERISA Event* " shall mean (a) a Reportable Event with respect to a Pension Plan; (b) a withdrawal by the Borrower or any ERISA Affiliate from a Pension Plan subject to Section 4063 of ERISA during a plan year in which it was a substantial employer (as defined in Section 4001 (a)(2) of ERISA) or a cessation of operations that is treated as such a withdrawal under Section 4062(e) of ERISA; (c) a complete or partial withdrawal by the Borrower or any ERISA Affiliate from a Multiemployer Plan or notification that a Multiemployer Plan is in reorganization; (d) the filing of a notice of intent to terminate, the treatment of a Plan amendment as a termination under Section 4041 or 4041A of ERISA, or the commencement of proceedings by the PBGC to terminate a Pension Plan or Multiemployer Plan; (e) an event or condition which constitutes grounds under Section 4042 of ERISA for the termination of, or the appointment of a trustee to administer, any Pension Plan or Multiemployer Plan; or (f) the imposition of any liability under Title IV of ERISA, other than for PBGC premiums due but not delinquent under Section 4007 of ERISA, upon the Borrower or any ERISA Affiliate.

" *Event of Default* " shall have the meaning set forth in Section 8.1.

" *Excess Spread Salvage Collateral* " shall have the meaning assigned thereto in Section 2.1(c) of the Security Agreement.

" *Excluded Taxes* " means any of the following Taxes imposed on or with respect the Lender or required to be withheld or deducted from a payment to the Lender: (i) Taxes imposed on or measured by its pre-tax income (however denominated), franchise Taxes and branch profits Taxes, in each case, (A) imposed as a result of the Lender being organized under the laws of, or having its principal office or its applicable lending office located in, the jurisdiction imposing such Tax (or any political subdivision thereof) or (B) that are Other Connection Taxes, (ii) U.S. federal withholding Taxes imposed on amounts payable to or for the account of the Lender with respect to an applicable interest in a Loan

pursuant to a law in effect on the date on which (A) the Lender acquires such interest in the Loan or (B) the Lender changes its applicable lending office, except in each case to the extent that, pursuant to Section 3.1(a)(ii) or (c), amounts with respect to such Taxes were payable either to the Lender's assignor immediately before the Lender became a party hereto or to the Lender immediately before it changed its applicable lending office, (iii) Taxes attributable to the Lender's failure to comply with Section 3.1(e) and (iv) any U.S. federal withholding Taxes imposed pursuant to FATCA.

" *FATCA* " means Sections 1471 through 1474 of the Code, as of the date of this Agreement (or any amended or successor version that is substantively comparable and not materially more onerous to comply with), any current or future regulations or official interpretations thereof.

" *Federal Funds Effective Rate* " shall mean for any day, the rate per annum (expressed, as a decimal, rounded upwards, if necessary, to the next higher one-hundredth of one percent (1/100 of 1%)) equal to the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers on such day, as published by the Federal Reserve Bank of New York on the Business Day next succeeding such day; provided, that (i) if such day is not a Business Day, the Federal Funds Rate for such day shall be such rate on such transactions on the next preceding Business Day as so published on the next succeeding Business Day, and (ii) if no such rate is so published on such next succeeding Business Day, the Federal Funds Rate for such day shall be the average of the quotations on such day received by the Lender from three federal funds brokers of recognized standing selected by it.

" *Fiscal Quarter* " shall mean, for any Fiscal Year, each three-month fiscal period commencing on (i) January 1, (ii) April 1, (iii) July 1 and (iv) October 1 of such Fiscal Year. As used herein, references to the First Fiscal Quarter, the Second Fiscal Quarter, the Third Fiscal Quarter and the Fourth Fiscal Quarter shall mean the Fiscal Quarter referred to in clauses (i), (ii), (iii) and (iv), respectively.

" *Fiscal Year* " shall mean the fiscal year of the Borrower ending on December 31 of each calendar year. As used herein, references to a Fiscal Year followed by a given calendar year (e.g., Fiscal Year 2012) shall mean the Fiscal Year ended on December 31 of such calendar year.

" *Governmental Approval* " shall mean any action, order, authorization, consent, approval, license, lease, ruling, permit, certification, exemption, filing or registration by or with any Governmental Authority.

" *Governmental Authority* " shall mean any nation, government, state or any political subdivision of any thereof, any central bank (or similar monetary or regulatory authority) of any thereof, any entity exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government (including any supranational or multi-national entity), and any corporation or other entity owned or controlled, through stock or capital ownership or otherwise, by any of the foregoing.

" *Guarantee* " shall mean, as to any Person, any (a) any obligation, contingent or otherwise, of such Person guaranteeing or having the economic effect of guaranteeing any Indebtedness or other obligation payable or performable by another Person (the " *primary obligor* ") in any manner, whether directly or indirectly, and including any obligation of such Person, direct or indirect, (i) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness or other obligation, (ii) to purchase or lease property, securities or services for the purpose of assuring the obligee in respect of such Indebtedness or other obligation of the payment or performance of such Indebtedness or other obligation, (iii) to maintain working capital, equity capital or any other financial statement condition or liquidity or level of income or cash flow of the primary obligor so as to enable the primary obligor to pay such Indebtedness or other obligation, or (iv) entered into for the purpose of assuring in any other manner the obligee in respect of such Indebtedness or other obligation of the payment or performance thereof or to protect such obligee against loss in respect thereof (in whole or in part), or (b) any Lien on any assets of such Person securing any Indebtedness or other obligation of any other Person, whether or not such Indebtedness or other obligation is assumed by such Person (or any right, contingent or otherwise, of any holder of such Indebtedness to obtain any such Lien). The amount of any Guarantee shall be deemed to be an amount equal to the stated or determinable amount of the related primary obligation, or portion thereof, in respect of which such Guarantee is made or, if not stated or determinable, the maximum reasonably anticipated liability in respect thereof as determined by the guaranteeing Person in good faith. The term " *Guarantee* " as a verb has a corresponding meaning.

" *Hazardous Materials* " shall mean (i) any petroleum or petroleum product, radioactive material, asbestos in any form that is or could become friable, urea formaldehyde foam insulation and polychlorinated biphenyls; and (ii) any chemical, materials waste, pollutant, contaminant or substance in any form that is defined by Environmental Law as "toxic," "hazardous," a "pollutant" a "contaminant" or words of similar meaning and regulatory effect.

" *Indebtedness* " means, as to any Person at a particular time, without duplication, all of the following, whether or not included as indebtedness or liabilities in accordance with US GAAP:

(a) all obligations of such Person for borrowed money and all obligations of such Person evidenced by bonds, debentures, notes, loan agreements or other similar instruments;

(b) the maximum amount of all direct or contingent obligations of such Person arising under letters of credit (including standby and commercial), bankers' acceptances, bank guaranties, surety bonds and similar instruments;

(c) net obligations of such Person under any Swap Contract;

(d) all obligations of such Person to pay the deferred purchase price of property or services (other than trade accounts payable in the ordinary course of business and not past due for more than 30 days after the due date therefor);

(e) indebtedness (excluding prepaid interest thereon) secured by a Lien on property owned or being purchased by such Person (including indebtedness arising under conditional sales or other title retention agreements), whether or not such indebtedness shall have been assumed by such Person or is limited in recourse;

(f) all Attributable Indebtedness in respect of Capitalized Leases and Synthetic Lease Obligations of such Person and all Synthetic Debt of such Person;

(g) all obligations of such Person to purchase, redeem, retire, defease or otherwise make any payment in respect of any Equity Interest in such Person or any other Person or any warrant, right or option to acquire such Equity Interest, valued, in the case of a redeemable preferred interest, at the greater of its voluntary or involuntary liquidation preference plus accrued and unpaid dividends; and

(h) all Guarantees of such Person in respect of any of the foregoing.

For all purposes hereof, the Indebtedness of any Person shall include the Indebtedness of any partnership or joint venture (other than a joint venture that is itself a corporation or limited liability company) in which such Person is a general partner or a joint venturer, unless such Indebtedness is expressly made non-recourse to such Person. The amount of any net obligation under any Swap Contract on any date shall be deemed to be the Swap Termination Value thereof as of such date.

" *Indemnified Taxes* " means (i) Taxes, other than Excluded Taxes, imposed on or with respect to any payment made by or on account of any obligation of the Borrower under any Loan Document and (ii) to the extent not otherwise described in clause (i) above, Other Taxes.

" *Insolvency Proceeding* " shall mean, with respect to any Person (a) any case, action or proceeding with respect to such Person before or by any court or other Governmental Authority relating to bankruptcy, rehabilitation, liquidation, dissolution, winding-up, relief of debtors, debt arrangement or reorganization in a bankruptcy, rehabilitation, liquidation or receivership proceeding, or (b) any general assignment for the benefit of creditors, composition, debt arrangement, marshaling of assets for creditors or other similar arrangement in respect of its creditors generally or any substantial portion of its creditors, in any case undertaken under Applicable Law.

" *Installment Premium Collateral* " shall have the meaning assigned thereto in Section 2.1(b) of the Security Agreement.

" *Insurance Licenses* " has the meaning assigned to such term in Section 5.24.

" *Insurance Subsidiary* " shall mean any Subsidiary of the Borrower that is authorized or admitted by a Supervisory Authority to carry on or transact one or more aspects of the business of selling, issuing or underwriting insurance or reinsurance.

" *Interest Payment Date* " shall mean, with respect to (i) any Base Rate Loan, the last day of each Fiscal Quarter, commencing on the first such date to occur after the Closing Date, (ii) any LIBOR Rate Loan having an Interest Period of less than three (3) months, the last day of each Interest Period applicable to such Loan and (iii) any LIBOR Rate Loan having an Interest Period of three (3) months or longer, the last day of each Fiscal Quarter and, without duplication, the last day of such Interest Period.

" *Interest Period* " shall mean, in connection with a LIBOR Rate Loan, an interest period of one (1), two (2), three (3) or six (6) months (or such other period as may be agreed by the Lender), as specified by the Borrower in the applicable Notice of Borrowing or Conversion/Continuation Notice, (i) initially, commencing on the Borrowing Date or Conversion/Continuation Date thereof, as the case may be; and (ii) thereafter, commencing on the day on which the immediately preceding Interest Period expires; ***provided*** , that (a) if an Interest Period would otherwise expire on a day that is not a Business Day, such Interest Period shall expire on the next succeeding Business Day unless no further Business Day occurs in such month, in which case such Interest Period shall expire on the immediately preceding Business Day; (b) any Interest Period that begins on the last Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the calendar month at the end of such Interest Period) shall, subject to clause (c) of this definition, end on the last Business Day of a calendar month; (c) no Interest Period with respect to any portion of any Loan shall extend beyond the Maturity Date.

" *Interest Rate Determination Date* " shall mean, with respect to any Interest Period, the date that is two Business Days prior to the first day of such Interest Period.

" *Investment* " shall mean, as to any Person, any direct or indirect acquisition or investment by such Person, whether by means of (a) the purchase or other acquisition of Equity Interests of another Person, (b) a loan, advance or capital contribution to, Guarantee or assumption of debt or any obligations of, or purchase or other acquisition of any other debt or interest in, another Person, or (c) the purchase or other acquisition (in one transaction or a series of transactions) of assets of another Person that constitute a business unit or all or a substantial part of the business of, such Person. For purposes of covenant compliance, the amount of any Investment shall be the amount actually invested, without adjustment for subsequent increases or decreases in the value of such Investment.

" *IRS* " shall mean the United States Internal Revenue Service.

" *Lender* " shall have the meaning assigned thereto in the preamble hereof.

" *LIBOR Rate Loan* " shall mean a Loan bearing interest at a rate determined by reference to the Adjusted LIBOR Rate.

" *Lien* " shall mean any security interest, mortgage, deed of trust, pledge, hypothecation, assignment, claim, charge or deposit arrangement, encumbrance, lien (statutory or other) or preferential arrangement of any kind or nature whatsoever in respect of any property (including those created by, arising under or evidenced by any conditional sale or other title retention agreement), the interest of a lessor under a capital lease, or any financing lease (such as a synthetic lease) having substantially similar economic effect as any of the foregoing, but not including the interest of a lessor under an operating lease (other than a synthetic lease) as defined under US GAAP.

" *Loan Documents* " shall mean this Agreement, the Note, the Security Documents, each Notice of Borrowing and each Conversion/Continuation Notice, and any other document, instrument or agreement designated as a "Loan Document" by the Borrower and the Lender.

" *Loans* " shall have the meaning set forth in Section 2.1.

" *Margin Stock* " shall mean "margin stock" as such term is defined in Regulation U of the Board of Governors of the Federal Reserve System as amended, or any successor regulation.

" *Material Adverse Effect* " shall mean any of (a) a material adverse change in, or a material adverse effect upon the condition (financial or otherwise), business, properties or results of operations of the Borrower, (b) a material impairment on the ability of the Borrower to fulfill any of its obligations under this Agreement or any of the other Loan Documents or (c) a material adverse effect upon the legality, validity, binding effect or enforceability against the Borrower of any Loan Document or the rights and remedies of the Lender under any of the Loan Documents.

" *Maturity Date* " shall mean the earliest of (i) the third anniversary of the Closing Date, and (ii) the date that all Loans shall become due and payable in full hereunder, whether by acceleration or otherwise.

" *MBIA UK* " shall mean MBIA UK (Holdings) Limited, a limited company organized under the laws of England and Wales.

“ *MBIA UK Pledge Agreement* ” shall mean the pledge agreement under the laws of the laws of England and Wales, relating to the pledge of the Equity Interests of MBIA UK as Collateral to secure the Obligations.

“ *Moody's* ” means Moody's Investors Service, Inc. and any successor thereto.

“ *Multiemployer Plan* ” shall mean any employee benefit plan of the type described in Section 4001(a)(3) of ERISA, to which the Borrower or any ERISA Affiliate makes or is obligated to make contributions, or during the preceding five plan years, has made or been obligated to make contributions.

“ *Note* ” shall mean the promissory note, substantially in the form of Exhibit A, issued by the Borrower pursuant to Section 2.2.

“ *Notice of Borrowing* ” shall mean a notice substantially in the form of Exhibit B.

“ *NPFGC Loan Agreement* ” shall mean that certain Loan Agreement dated as of December 12, 2011 between the Borrower and National Public Finance Guarantee Corporation, as lender, as the same may be amended, restated, supplemented or otherwise modified from time to time.

“ *NPFGC Loan Documents* ” shall mean (i) the NPFGC Loan Agreement, (ii) that certain Security Agreement dated as of December 12, 2011 between the Borrower and National Public Finance Guarantee Corporation, as secured party, and (iii) any other document, agreement or instrument entered into in connection with the foregoing, in each case as the same may be amended, restated, supplemented or otherwise modified from time to time.

“ *NPL* ” shall mean the National Priorities List under CERCLA.

“ *Obligations* ” shall mean all indebtedness (including interest accruing during the pendency of any bankruptcy, insolvency, receivership or other similar proceeding, regardless of whether allowed or allowable in such proceeding) and other monetary obligations of the Borrower to the Lender or any other Person, individually or collectively, existing on the Closing Date or arising thereafter (direct or indirect, joint or several, absolute or contingent, matured or unmatured, liquidated or unliquidated, secured or unsecured) arising or incurred under this Agreement or any of the other Loan Documents (including under any of the Loans made or reimbursement or other monetary obligations incurred or other instruments at any time evidencing any thereof), in each case whether now existing or hereafter arising, whether all such obligations arise or accrue before or after the commencement of any bankruptcy, insolvency or receivership proceedings (and whether or not such claims, interest, costs, expenses or fees are allowed or allowable in any such proceeding).

" *Organization Documents* " shall mean, (a) with respect to any corporation, the certificate or articles of incorporation and the bylaws (or equivalent or comparable constitutive documents with respect to any non-U.S. jurisdiction); (b) with respect to any limited liability company, the certificate or articles of formation or organization and operating agreement; and (c) with respect to any partnership, joint venture, trust or other form of business entity, the partnership, joint venture or other applicable agreement of formation or organization and any agreement, instrument, filing or notice with respect thereto filed in connection with its formation or organization with the applicable Governmental Authority in the jurisdiction of its formation or organization and, if applicable, any certificate or articles of formation or organization of such entity.

" *Other Connection Taxes* " means, with respect to the Lender, Taxes imposed as a result of a present or former connection between the Lender and the jurisdiction imposing such Tax (other than connections arising from the Lender having executed, delivered, become a party to, performed its obligations under, received payments under, received or perfected a security interest under, engaged in any other transaction pursuant to or enforced any Loan Document, or sold or assigned an interest in any Loan or Loan Document).

" *Other Prepayment Collateral* " shall mean (a) Installment Premium Collateral, (b) Excess Spread Salvage Collateral and (c) all Collateral described in clause (f) of Section 2.1 of the Security Agreement to the extent derived from Installment Premium Collateral or Excess Spread Salvage Collateral.

" *Other Taxes* " shall mean any present or future stamp, court or documentary, intangible, recording, filing or similar Taxes or any other excise or property taxes, charges or similar levies that arise from any payment made under, from the execution, delivery, performance, enforcement or registration of, from the receipt or perfection of a security interest under, or otherwise with respect to, any Loan Document.

" *Permitted Investments* " means any of the following types of Investments, to the extent owned by the Borrower or any of its Subsidiaries free and clear of all Liens (other than Liens created under the Security Documents):

(a) readily marketable obligations issued or directly and fully guaranteed or insured by the United States of America or any agency or instrumentality thereof having maturities of not more than 360 days from the date of acquisition thereof; provided that the full faith and credit of the United States of America is pledged in support thereof;

(b) time deposits with, or insured certificates of deposit or bankers' acceptances of, any commercial bank that (i) (A) is a Lender or (B) is organized under the laws of the United States, any state thereof or the District of Columbia or is the principal banking subsidiary of a bank holding company organized under the laws of the United States, any state thereof or the District of Columbia, and is a member of the Federal Reserve System, (ii) issues (or the parent of which issues) commercial paper rated as

described in clause (c) of this definition and (iii) has combined capital and surplus of at least $500,000,000, in each case with maturities of not more than 180 days from the date of acquisition thereof;

(c) commercial paper issued by any Person organized under the laws of any state of the United States of America and rated at least “P-1” (or the then equivalent grade) by Moody’s or at least “A-1” (or the then equivalent grade) by S&P, in each case with maturities of not more than 180 days from the date of acquisition thereof;

(d) Investments in fixed income securities rated at least “A” by S&P or “A2” by Moody’s on the date of acquisition, other than those issued by Affiliates of the Borrower; and

(e) Investments, classified in accordance with US GAAP as current assets of the Borrower or any of its Subsidiaries, in money market investment programs registered under the Investment Company Act of 1940, which are administered by financial institutions that are rated AAA (or the equivalent thereof) or better by S&P or Aaa3 (or the equivalent thereof) or better by Moody’s, and the portfolios of which are limited solely to Investments of the character, quality and maturity described in clauses (a), (b) and (c) of this definition.

“ *Permitted Lien* ” shall have the meaning set forth in Section 7.1.

“ *Person* ” shall mean an individual, sole proprietorship, partnership, corporation, association, institution, entity, limited liability company, business trust, joint stock company, trust, unincorporated association, joint venture or Governmental Authority.

“ *Pension Plan* ” shall mean any “employee pension benefit plan” (as such term is defined in Section 3(2) of ERISA), including a Multiemployer Plan, that is subject to Title IV of ERISA and is sponsored or maintained by the Borrower or any ERISA Affiliate or to which the Borrower or any ERISA Affiliate contributes or has an obligation to contribute, or in the case of a multiple employer or other plan described in Section 4064(a) of ERISA, has made contributions at any time during the immediately preceding five plan years.

“ *Plan* ” shall mean any “employee benefit plan” (as such term is defined in Section 3(3) of ERISA) established by the Borrower or, with respect to any such plan that is subject to Section 412 of the Code or Title IV of ERISA, any ERISA Affiliate.

“ *Potential Event of Default* ” shall mean any event or circumstance that, with the giving of notice, the passage of time or both, would (if not cured, waived or otherwise remedied during such time) constitute an Event of Default.

“ *Put Back Prepayment Collateral* ” shall mean Put-Back Recoveries, as well as all Collateral described in clause (f) of Section 2.1 of the Security Agreement to the extent derived from Put Back Prepayment Collateral.

“ *Put-Back Recoveries* ” shall have the meaning assigned thereto in Section 2.1(a) of the Security Agreement.

“ *Register* ” shall have the meaning set forth in Section 9.7(c).

“ *Regulated Accounting Principles* ” shall mean the statutory accounting principles permitted or prescribed by the New York State Department of Financial Services.

“ *Regulation D* ” shall mean Regulation D of the Board of Governors of the Federal Reserve System, as in effect from time to time.

“ *Regulation X* ” shall mean Regulation X of the Board of Governors of the Federal Reserve System, as in effect from time to time.

“ *Related Parties* ” means, with respect to any Person, such Person’s Affiliates and the partners, directors, officers, employees, agents, trustees, administrators, managers, advisors and representatives of such Person and of such Person’s Affiliates.

“ *Reportable Event* ” means any of the events set forth in Section 4043(c) of ERISA, other than events for which the 30 day notice period has been waived.

“ *Required Coverage* ” shall mean $1,000,000,000.

“ *Responsible Officer* ” means the chief executive officer, president, chief financial officer, treasurer, assistant treasurer or controller of the Borrower or any of its Subsidiaries, as the context may require. Any document delivered hereunder that is signed by a Responsible Officer of the Borrower or any of its Subsidiaries shall be conclusively presumed to have been authorized by all necessary corporate, partnership and/or other action on the part of such Person and such Responsible Officer shall be conclusively presumed to have acted on behalf of such Person.

“ *Restricted Payment* ” means any dividend or other distribution (whether in cash, securities or other property) with respect to any capital stock or other Equity Interest of any Person or any of its Subsidiaries, or any payment (whether in cash, securities or other property), including any sinking fund or similar deposit, on account of the purchase, redemption, retirement, defeasance, acquisition, cancellation or termination of any such capital stock or other Equity Interest, or on account of any return of capital to any Person’s stockholders, partners or members (or the equivalent of any thereof), or any option, warrant or other right to acquire any such dividend or other distribution or payment.

" *S&P* " means Standard & Poor's Financial Services LLC, a subsidiary of The McGraw-Hill Companies, Inc., and any successor thereto.

" *SEC* " means the Securities and Exchange Commission, any successor thereto and any analogous Governmental Authority succeeding to any of its principal functions.

" *Securities Act* " shall mean the Securities Act of 1933, as amended from time to time, and any successor statute.

" *Security Agreement* " shall mean the Security Agreement, dated as of the date hereof, between the Borrower and the Lender, as the same may from time to time be amended, modified or supplemented.

" *Security Documents* " shall mean the Security Agreement, the MBIA UK Pledge Agreement, and all other instruments, agreements, certificates and documents (including Uniform Commercial Code financing statements and fixture filings) delivered to the Lender in connection with any Collateral or to secure the Obligations under the Loan Documents.

"Settlement Agreement" shall mean the Settlement Agreement and Release, dated as of the date hereof, among, *inter alios* , the Borrower and the Lender, as the same may be amended, modified or supplemented from time to time.

" *Settlement Documents* " shall mean (i) the Settlement Agreement, (ii) the Termination Agreement (as defined in the Settlement Agreement), (iii) the Investment Agreement (as defined in the Settlement Agreement) and (iv) the Warrant Issuance (as defined in the Settlement Agreement).

" *Solvent* " and " *Solvency* " shall mean, with respect to any Person on any date of determination, that on such date (a) the fair value of the property of such Person is greater than the total amount of liabilities, including contingent liabilities, of such Person, (b) the present fair salable value of the assets of such Person is not less than the amount that will be required to pay the probable liability of such Person on its debts as they become absolute and matured, (c) such Person does not intend to, and does not believe that it will, incur debts or liabilities beyond such Person's ability to pay such debts and liabilities as they mature, (d) such Person is not engaged in business or a transaction, and is not about to engage in business or a transaction, for which such Person's property would constitute an unreasonably small capital, and (e) such Person is able to pay its debts and liabilities, contingent obligations and other commitments as they mature in the ordinary course of business. The amount of contingent liabilities at any time shall be computed as the amount that, in the light of all the facts and circumstances existing at such time, represents the amount that can reasonably be expected to become an actual or matured liability.

“ *Statutory Capital* ” shall mean the policyholders’ surplus, *plus* contingency reserves of the Borrower, determined in a manner consistent with that used in preparing the Audited Financial Statements described in clause (ii) of the definition thereof.

“ *Statutory Financial Statements* ” shall have the meaning set forth in Section 6.1(a)(iii).

“ *Subject Collateral* ” shall mean the Collateral described in clauses (a), (b) and (c) of Section 2.1 of the Security Agreement.

“ *Subsidiary* ” of a Person shall mean a corporation, partnership, joint venture, limited liability company or other business entity of which a majority of the shares of securities or other interests having ordinary voting power for the election of directors or other governing body (other than securities or interests having such power only by reason of the happening of a contingency) are at the time beneficially owned, or the management of which is otherwise controlled, directly, or indirectly through one or more intermediaries, or both, by such Person. Unless otherwise specified, all references herein to a “Subsidiary” or to “Subsidiaries” shall refer to a Subsidiary or Subsidiaries of the Borrower.

“ *Supervisory Authority* ” shall mean , with respect to the Borrower or any Insurance Subsidiary, (a) the department of insurance or similar Governmental Authority of the state or other jurisdiction of domicile of the Borrower or such Insurance Subsidiary, as the case may be, or (b) to the extent asserting regulatory jurisdiction over the Borrower or such Insurance Subsidiary, as the case may be, the insurance department, authority or agency in each state or jurisdiction (domestic or foreign) in which the Borrower or such Insurance Subsidiary, as the case may be, is licensed, and shall include any federal or national insurance regulatory department, authority or agency that may be created and that asserts insurance regulatory jurisdiction over the Borrower or such Insurance Subsidiary, as the case may be.

“ *Surplus Notes* ” shall mean the Borrower’s 14% Fixed to Floating Rate Surplus Notes due 2033.

“ *Swap Contract* ” shall mean (a) any and all rate swap transactions, basis swaps, credit derivative transactions, forward rate transactions, commodity swaps, commodity options, forward commodity contracts, equity or equity index swaps or options, bond or bond price or bond index swaps or options or forward bond or forward bond price or forward bond index transactions, interest rate options, forward foreign exchange transactions, cap transactions, floor transactions, collar transactions, currency swap transactions, cross-currency rate swap transactions, currency options, spot contracts, or any other similar transactions or any combination of any of the foregoing (including any options to enter into any of the foregoing), whether or not any such transaction is governed by or subject to any master agreement, and (b) any and all transactions of any kind, and the related confirmations, which are subject to the terms and conditions of, or governed by, any

form of master agreement published by the International Swaps and Derivatives Association, Inc., any International Foreign Exchange Master Agreement, or any other master agreement (any such master agreement, together with any related schedules, a " *Master Agreement* "), including any such obligations or liabilities under any Master Agreement.

" *Swap Termination Value* " shall mean, in respect of any one or more Swap Contracts, after taking into account the effect of any legally enforceable netting agreement relating to such Swap Contracts, (a) for any date on or after the date such Swap Contracts have been closed out and termination value(s) determined in accordance therewith, such termination value(s), and (b) for any date prior to the date referenced in clause (a), the amount(s) determined as the mark-to-market value(s) for such Swap Contracts, as determined based upon one or more mid-market or other readily available quotations provided by any recognized dealer in such Swap Contracts (which may include the Lender or any Affiliate of the Lender).

" *Synthetic Debt* " shall mean, with respect to any Person as of any date of determination thereof, all obligations of such Person in respect of transactions entered into by such Person that are intended to function primarily as a borrowing of funds (including any minority interest transactions that function primarily as a borrowing) but are not otherwise included in the definition of "Indebtedness" or as a liability on the consolidated balance sheet of such Person and its Subsidiaries in accordance with US GAAP.

" *Synthetic Lease Obligation* " shall mean the monetary obligation of a Person under (a) a so-called synthetic, off-balance sheet or tax retention lease, or (b) an agreement for the use or possession of property (including sale and leaseback transactions), in each case, creating obligations that do not appear on the balance sheet of such Person but which, upon the application of any Debtor Relief Laws to such Person, would be characterized as the indebtedness of such Person (without regard to accounting treatment).

" *Taxes* " shall mean any and all present and future taxes, levies, assessments, imposts, duties, deductions, fees, withholdings (including backup withholding) or other charges imposed by any Governmental Authority, including any interest, additions to tax or penalties applicable thereto.

" *Threshold Amount* " shall mean $10,000,000.

" *Type of Loan* " shall mean either a Base Rate Loan or a LIBOR Rate Loan.

" *UK GAAP* " shall mean generally accepted accounting principles in the United Kingdom that are applicable to the circumstances as of the date of determination, consistently applied.

" *UK Insurance* " shall mean MBIA UK Insurance Limited, a limited company organized under the laws of England and Wales.

" *Unfunded Pension Liability* " shall mean the excess of a Pension Plan's benefit liabilities under Section 4001(a)(16) of ERISA, over the current value of that Pension Plan's assets, determined in accordance with the assumptions used for funding the Pension Plan pursuant to Section 412 of the Code for the applicable plan year.

" *Uniform Commercial Code* " shall have the meaning assigned thereto in the Security Agreement.

" *United States* " shall mean the United States of America.

" *US GAAP* " shall mean generally accepted accounting principles in the United States set forth in the opinions and pronouncements of the Accounting Principles Board and the American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board or such other principles as may be approved by a significant segment of the accounting profession in the United States, that are applicable to the circumstances as of the date of determination, consistently applied.

" *USA PATRIOT Act* " shall mean the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (Title III of Pub. L. 107-56, Oct. 26, 2001).

1.2 Other Interpretive Provisions .

Except as otherwise expressly provided herein, the rules of interpretation set forth below shall apply to this Agreement and the other Loan Documents:

(a) any term defined herein or in any other Loan Document by reference to another document, instrument or agreement shall continue to have the meaning assigned thereto whether or not such other document, instrument or agreement remains in effect;

(b) words imparting the singular include the plural and vice versa;

(c) words imparting a gender include any gender;

(d) within a Loan Document, each reference to a part, clause, section, paragraph, article, party, annex, appendix, exhibit, schedule or other attachment shall be deemed to be a reference to a part, clause, section, paragraph, or article of, or a party, annex, appendix, exhibit, schedule or other attachment to, the Loan Document in question unless, in any such case, otherwise expressly provided in any such Loan Document;

(e) a reference to any statute, regulation, proclamation, ordinance or law includes all statutes, regulations, proclamations, ordinances or laws varying, consolidating or replacing the same from time to time, and a reference to a statute includes all regulations, policies, protocols, codes, proclamations and ordinances issued or otherwise applicable under that statute unless, in any such case, otherwise expressly provided in any such statute or in the applicable Loan Document;

(f) a definition of or reference to any document, schedule, exhibit, instrument or agreement includes any amendment or supplement to, or restatement, replacement, modification or novation of, any such document, schedule, exhibit, instrument or agreement (other than any such amendment, supplement, restatement, replacement, modification or novation in violation of the Loan Documents) unless otherwise specified in such definition or in the context in which such reference is used;

(g) a reference to a particular section, paragraph or other part of a particular statute shall be deemed to be a reference to any other section, paragraph or other part of a statute substituted therefor from time to time;

(h) if a capitalized term describes, or shall be defined by reference to, a document, instrument or agreement that has not as of any particular date been executed and delivered and such document, instrument or agreement is attached as an exhibit to any Loan Document, such reference shall be deemed to be to such form and, following such execution and delivery and subject to paragraph (f) above, to the document, instrument or agreement as so executed and delivered;

(i) a reference to any Person (as hereinafter defined) includes such Person's successors and permitted assigns, whether by way of merger or otherwise;

(j) any reference to "days" shall mean calendar days unless "Business Days" are expressly specified;

(k) unless otherwise provided herein, if the date as of which any right, option or election is exercisable is stated to be on a day that is not a Business Day, such right, option or election may be exercised on the next succeeding Business Day with the same effect as if the same was exercised or made on such date or day;

(l) words such as "hereunder," "hereto," "hereof" and "herein" and other words of similar import shall, unless the context requires otherwise, refer to the whole of the applicable document and not to any particular article, section, subsection, paragraph or clause thereof;

(m) a reference to "including" means including without limiting the generality of any description preceding such term, and for purposes hereof and of each Loan Document the rule of *ejusdem generis* shall not be applicable to limit a general statement, followed by or referable to an enumeration of specific matters, to matters similar to those specifically mentioned;

(n) except where expressly provided otherwise, whenever any matter is required to be satisfactory to, or determined or approved by, the Lender, or the Lender is required or permitted to exercise any discretion (including any discretion to waive, select, require, deem appropriate, deem necessary, permit, determine or approve any matter), the satisfaction, determination or approval of the Lender, or the exercise by the Lender of such discretion, shall be in its sole and absolute discretion; and

(o) the word “or” shall be non-exclusive and shall be construed to include the word “and.”

ARTICLE II
THE LOANS

2.1 Amounts and Terms of Commitments .

(a) Subject to and upon the terms and conditions set forth herein, the Lender agrees to make loans (each a “ *Loan* ”) to the Borrower from time to time, on any Business Day, during the Commitment Period in an aggregate principal amount not to exceed at any time outstanding the Commitment Amount. Loans may be Base Rate Loans or LIBOR Loans, as further provided herein.

(b) Except as otherwise provided herein, the Borrower may borrow, repay and reborrow Loans until the Maturity Date.

2.2 Evidence of Debt .

(a) The entries made in the Lender’s accounts in respect of (i) the amount of the Loans made hereunder, (ii) the amount of any principal or interest due and payable or to become due and payable from the Borrower to the Lender hereunder and (iii) the amount of any sum received by the Lender hereunder from the Borrower shall be prima facie evidence of the existence and amounts of the obligations therein recorded; provided that the failure of the Lender to maintain such accounts or any error therein shall not in any manner affect the obligations of the Borrower to repay the Loans in accordance with the terms specified herein.

(b) Upon request by the Lender, the Borrower will duly execute and deliver the Note to the Lender to evidence the Loans made hereunder.

2.3 Procedure for Borrowing .

From time to time during the Commitment Period, the Borrower may request the Lender to make a Loan by delivering an irrevocable written notice to the Lender in the

form of a Notice of Borrowing (to be confirmed promptly by telephone), specifying (*i*) the aggregate principal amount of the Loan to be made on the Borrowing Date, (*ii*) the requested Borrowing Date, which shall be a Business Day, (*iii*) whether the requested Loan is to consist of Base Rate Loans or LIBOR Loans, and (*iv*) if the requested Loan is to consist of LIBOR Loans, the initial Interest Periods selected by the Borrower for such LIBOR Loans. The Borrower shall give each Notice of Borrowing to the Lender not later than 12:00 p.m. (New York City time) at least three Business Days before the date of the requested Loan borrowing in the case of a Loan consisting of LIBOR Loans and not later than 12:00 p.m. (New York City time) at least one Business Day before the date of the requested Loan borrowing in the case of a Loan consisting of Base Rate Loans. Each Notice of Borrowing shall be delivered by first-class mail, fax or by e-mail containing such signed and completed Notice of Borrowing to the Lender at the office or facsimile number (or e-mail address, as the case may be) specified by the Lender (and such telephonic notice shall be given to the telephone number specified by the Lender). Unless the Lender determines that any applicable condition set forth in Article IV has not been satisfied by not later than 2:00 p.m. New York City time on the requested Borrowing Date, the Lender will make the requested Loan by wire transfer of immediately available funds to such account of the Borrower or its designee as specified in the applicable Notice of Borrowing. Each borrowing of Loans shall be in a principal amount of (i) $5,000,000 or a whole multiple of $1,000,000 in excess thereof, in the case of LIBOR Rate Loans and (ii) $2,000,000 or a whole multiple of $500,000 in excess thereof, in the case of Base Rate Loans.

2.4 Prepayments and Commitment Reductions .

(a) Optional Prepayments and Commitment Reductions .

(i) Subject to Section 3.2, the Borrower may, from time to time, prepay the Loans, in whole or in part, without premium or penalty, by giving the Lender irrevocable written notice of its intent to prepay the Loans and the amount of such prepayment, which notice shall be given at or before 12:00 noon (New York City time) on (x) the date of such prepayment, if such Loans being prepaid are Base Rate Loans, or (y) on the date that is three Business Days prior to the date of repayment, in the case of any LIBOR Rate Loan. Any such prepayment (other than any prepayment of all Loans then outstanding) shall be in a principal amount of (A) $5,000,000 or a whole multiple of $1,000,000 in excess thereof, in the case of LIBOR Rate Loans, or (B) $500,000 or a whole multiple of $100,000 in excess thereof, in the case of Base Rate Loans. If such notice is given by the Borrower, the Borrower shall make such prepayment (and the payment amount specified in such notice shall be due and payable) on the date specified therein, together with accrued interest to such date on the amount prepaid and any amounts required pursuant to Section 3.2.

(ii) The Borrower may, upon notice to the Lender, from time to time permanently reduce the Commitment Amount; provided that (x) any such notice

shall be received by the Lender not later than 11:00 a.m. five Business Days prior to the date of termination or reduction, (y) any such partial reduction shall be in an aggregate amount of $5,000,000 or any whole multiple of $1,000,000 in excess thereof and (z) the Borrower shall not terminate or reduce the Commitment Amount if, after giving effect thereto and to any concurrent prepayments hereunder, the Loans outstanding would exceed the Commitment Amount.

(b) Mandatory Prepayments and Mandatory Commitment Reductions .

(i) Promptly upon (and in no event later than 5 p.m. New York City time on the date of, or in the case of cash proceeds received after noon New York City time, no later than 5 p.m. New York City time on the following Business Day) receipt of any cash proceeds by the Borrower or any Subsidiary from or in respect of any Put Back Prepayment Collateral, the Borrower shall (A) notify the Lender in writing thereof and (B) prepay the Loans (with a corresponding automatic and permanent reduction of the Commitment Amount) in an amount of principal that, together with accrued interest thereon as of the date of prepayment, is equal to the amount of such cash proceeds, and automatically, without any further action by the Borrower, the Commitment Amount shall be permanently reduced by an amount that is equal to the amount of such cash proceeds in excess of any Loans then outstanding.

(ii) On and after the date that is one year after the Closing Date, promptly upon (and in no event later than 5 p.m. New York City time on the date of, or in the case of cash proceeds received after noon New York City time, no later than 5 p.m. New York City time on the following Business Day) receipt of any cash proceeds by the Borrower or any Subsidiary from or in respect of any Other Prepayment Collateral, the Borrower shall (A) notify the Lender in writing thereof and (B) prepay the Loans (with a corresponding automatic and permanent reduction of the Commitment Amount) in an amount of principal that, together with accrued interest thereon as of the date of prepayment, is equal to (x) prior to the date that is two years after the Closing Date, 50% or (y) from and after the date that is two years after the Closing Date, 100% of the amount of such cash proceeds, and automatically, without any further action by the Borrower, the Commitment Amount shall be permanently reduced by an amount that is equal to the amount by which (x) prior to the date that is two years after the Closing Date, 50% or (y) from and after the date that is two years after the Closing Date, 100% of such cash proceeds exceeds the amount of any Loans then outstanding.

(iii) Promptly upon (and in no event later than 5 p.m. New York City time on the date of, or in the case of cash proceeds received after noon New York City time, no later than 5 p.m. New York City time on the following Business Day) receipt by the Borrower or any Subsidiary of any cash proceeds from any Disposition made pursuant to Section 7.6(m), the Borrower shall (A) notify the

Lender in writing thereof and (B) prepay the Loans (with a corresponding automatic and permanent reduction of the Commitment Amount) in an amount of principal that, together with accrued interest thereon as of the date of prepayment, is equal to the amount of such cash proceeds, and automatically, without any further action by the Borrower, the Commitment Amount shall be permanently reduced by an amount that is equal to the amount of such cash proceeds in excess of any Loans then outstanding, provided that, notwithstanding anything herein to the contrary, the Borrower shall not be required to make any prepayment pursuant to this Section 2.4 (b)(iii) so long as the aggregate amount of such Dispositions made from and after the Closing Date and as to which prepayments have not been made under this Section 2.4(b)(iii) is not greater than $1,000,000.

(iv) In the event that the Borrower is required, in connection with any borrowing of Loans, to represent and warrant to the Lender pursuant to Section 4.2(h) that the proceeds of such borrowing of Loans are to be used by the Borrower to meet the Borrower's ordinary course liquidity needs within 30 days of such Borrowing Date, then, to the extent that any portion of the proceeds of such Loans are not so used within such 30 day period, the Borrower shall, on the 30 th day of such period, (A) notify the Lender in writing thereof and (B) prepay the Loans (but not, for the avoidance of doubt, reduce the Commitment Amount) in an amount of principal that is equal to the amount of Loans borrowed as part of such borrowing which were not so used in such period to meet the Borrower's ordinary course liquidity needs or to make voluntary prepayments of the Loans in accordance with Section 2.4(a).

(c) Application of Prepayments of Loans to Base Rate Loans and LIBOR Rate Loans . Any prepayment of Loans shall be applied first to Base Rate Loans to the full extent thereof before application to LIBOR Rate Loans, in each case in a manner which minimizes the amount of any payments required to be made by the Borrower pursuant to Section 3.2.

2.5 Scheduled Repayment .

The Borrower shall repay the full amount of principal outstanding of the Loans, and all accrued and unpaid interest thereon, all accrued and unpaid fees due under any Loan Documents and all other Obligations, on the Maturity Date. The Borrower shall also make the mandatory prepayments required by Section 2.4(b).

2.6 Interest .

(a) The Loans shall accrue interest for each day from, and including, the first day of each Interest Period to, but excluding, the last day of such Interest Period on the outstanding principal amount thereof commencing on the Borrowing Date thereof: (i) in the case of a Base Rate Loan, at the Base Rate plus the Applicable Margin, and (ii) in the case of a LIBOR Rate Loan, at the Adjusted LIBOR Rate plus the Applicable Margin.

(b) Interest on each Loan shall be paid in arrears on each Interest Payment Date and at such other times as may be specified herein. Accrued interest also shall be paid on the date of any prepayment of Loans under Section 2.4 for the portion of the Loans so prepaid.

(c) [Reserved]

(d) Notwithstanding paragraphs (a) and (b), while any Event of Default exists, (*i*) the Borrower shall pay interest (after as well as before entry of judgment thereon to the extent permitted by Applicable Law) on the principal amount of all outstanding Loans and, to the extent permitted by Applicable Law, on any other amount payable under any Loan Document, at a rate per annum equal to the Default Rate, and (*ii*) all such interest shall be due and payable on demand of the Lender.

(e) The basis for determining the rate of interest with respect to any Loan, and the Interest Period with respect to any LIBOR Rate Loan, shall be selected by the Borrower and notified to the Lender pursuant to the applicable Notice of Borrowing or Conversion/Continuation Notice, as the case may be. If on any day a Loan is outstanding with respect to which a Notice of Borrowing or Conversion/Continuation Notice has not been delivered to the Lender in accordance with the terms hereof specifying the applicable basis for determining the rate of interest, then for that day such Loan shall be a Base Rate Loan.

2.7 Computation of Interest .

Interest payable hereunder shall be computed on the basis of a 360-day year with respect to LIBOR Rate Loans and 365/366-day year with respect to Base Rate Loans, in each case for the actual number of days elapsed in the period during which it accrues. In computing interest on any Loan, the date of the making of such Loan or the first day of an Interest Period applicable to such Loan or, with respect to a Base Rate Loan being converted from a LIBOR Rate Loan, the date of conversion of such LIBOR Rate Loan to such Base Rate Loan, as the case may be, shall be included, and the date of payment of such Loan or the expiration date of an Interest Period applicable to such Loan or, with respect to a Base Rate Loan being converted to a LIBOR Rate Loan, the date of conversion of such Base Rate Loan to such LIBOR Rate Loan, as the case may be, shall be excluded; provided, that if a Loan is repaid on the same day on which it is made, one (1) day’s interest shall be paid on that Loan.

2.8 Payments Generally .

(a) All payments (including prepayments) to be made by the Borrower hereunder shall be made without condition, defense, set-off, deduction, withholding, recoupment or counterclaim, except as required by Applicable Law, and shall be made prior to 12:00 noon, New York City time, on the due date thereof to the Lender in Dollars by wire transfer of immediately available funds to such account of the Lender as the Lender may notify the Borrower. Any payment received by the Lender later than such time on the specified payment date shall be deemed to have been received on the following Business Day, and any applicable interest or fees shall continue to accrue.

(b) Whenever any payment is due on a day other than a Business Day, such payment shall be made on the next Business Day, *provided* that, should such next Business Day fall in the next calendar month, such payment shall be due on the preceding Business Day, and such extension of time shall in such event be included in, and such reduction of time shall in such event be excluded from, the computation of interest or fees.

(c) Payments in respect of Loans received by the Lender from the Borrower shall be applied: *first* , to accrued interest and fees due on such Loans (including on any amount of deferred interest); *second* , to payments of principal due on such Loans; and *third* , to all other amounts due under this Agreement and the other Loan Documents and all Obligations.

2.9 Conversion/Continuation .

(a) Subject to Section 3.3 and so long as no Event of Default shall have occurred and then be continuing, the Borrower shall have the option:

(i) to convert at any time all or any part of any Loan (equal to (x) in the case of a conversion to LIBOR Rate Loans, $5,000,000 and integral multiples of $1,000,000 in excess thereof and (y) in the case of a conversion to Base Rate Loans, $500,000 and integral multiples of $100,000 in excess thereof) from one Type of Loan to another Type of Loan; provided , that a LIBOR Rate Loan may only be converted on the expiration of the Interest Period applicable to such LIBOR Rate Loan unless the Borrower shall pay all amounts due under Section 3.2 in connection with any such conversion; or

(ii) upon the expiration of any Interest Period applicable to any LIBOR Rate Loan, to continue all or any portion of such Loan equal to $5,000,000 and integral multiples of $1,000,000 in excess of that amount as a LIBOR Rate Loan.

(b) The Borrower shall deliver a Conversion/Continuation Notice to the Lender no later than 12:00 p.m. (New York City time) at least one Business Day in advance

of the proposed conversion date (in the case of a conversion to a Base Rate Loan) and at least three (3) Business Days in advance of the proposed Conversion/Continuation Date (in the case of a conversion to, or a continuation of, a LIBOR Rate Loan). If for any reason a conversion or continuation of a LIBOR Rate Loan does not occur on a date specified therefor in a Conversion/Continuation Notice or telephonic request for conversion or continuation, the Borrower shall make any payments required pursuant to Section 3.2.

(c) Notwithstanding anything herein to the contrary, the Borrower may not borrow LIBOR Loans, or convert to or continue LIBOR Loans, in each case unless such resulting LIBOR Loans shall have an Interest Period ending on or prior to the Maturity Date.

2.10 [reserved]

2.11 Fees .

(a) Commitment Fee . The Borrower shall pay to the Lender a commitment fee equal to 2.00% times the actual daily amount by which the Commitment Amount exceeds the sum of the outstanding amount of the Loans. The commitment fee shall accrue at all times during the Commitment Period. The commitment fee shall be payable in arrears on the last day of March, June, September and December of each year and on the Maturity Date, commencing on the first such date to occur after the date hereof. The commitment fee shall be computed on the basis of a year of 360 days and shall be payable for the actual number of days elapsed (including the first day but excluding the last day).

(b) Other Fees . The Borrower agrees to pay to the Lender fees payable in the amounts and at the times separately agreed upon between the Borrower and the Lender. Such fees shall be fully earned when paid and shall not be refundable for any reason whatsoever.

2.12 Increased Costs .

(a) If any Change in Law shall:

(i) impose, modify or deem applicable any reserve, special deposit or similar requirement against assets of, deposits with or for the account of, or credit extended by, the Lender (except any reserve requirement which is reflected in the determination of Adjusted LIBOR Rate);

(ii) subject the Lender to any Taxes (other than (A) Indemnified Taxes, (B) Taxes described in clauses (b) through (d) of the definition of Excluded Taxes and (C) Connection Income Taxes) on its loans, loan principal, commitments, or other obligations, or its deposits, reserves, other liabilities or capital attributable thereto; or

(iii) impose on the Lender or the London interbank market any other condition, cost or expense affecting this Agreement or LIBOR Rate Loans made by such Lender or any LIBOR Rate Loan or participation therein;

and the result of any of the foregoing shall be to increase the cost to the Lender of making, converting to, continuing or maintaining any LIBOR Rate Loan or of maintaining its obligation to make any such LIBOR Rate Loan, or to reduce the amount of any sum received or receivable by the Lender hereunder, whether of principal, interest or otherwise, then, upon the request of the Lender, the Borrower will pay to the Lender such additional amount or amounts as will compensate the Lender for such additional costs incurred or reduction suffered.

(b) If the Lender determines that any Change in Law regarding capital requirements has or would have the effect of reducing the rate of return on the Lender's capital or on the capital of the Lender's holding company, if any, as a consequence of this Agreement or the Loans made by the Lender, to a level below that which the Lender or the Lender's holding company could have achieved but for such Change in Law (taking into consideration the Lender's policies and the policies of the Lender's holding company with respect to capital adequacy), then from time to time, upon the request of the Lender, the Borrower will pay to the Lender such additional amount or amounts as will compensate the Lender or the Lender's holding company for any such reduction suffered.

(c) A certificate of the Lender setting forth the amount or amounts necessary to compensate the Lender or its holding company, as the case may be, as specified in paragraph (a) or (b) of this Section and delivered to the Borrower shall be conclusive absent manifest error. The Borrower shall pay the Lender the amount shown as due on any such certificate within ten (10) days (or such later date as may be agreed by the Lender) after receipt thereof.

(d) Failure or delay on the part of the Lender to demand compensation pursuant to this Section shall not constitute a waiver of the Lender's right to demand such compensation; provided that the Borrower shall not be required to compensate the Lender pursuant to this Section for any increased costs or reductions incurred more than nine months prior to the date that the Lender notifies the Borrower of the Change in Law giving rise to such increased costs or reductions and of the Lender's intention to claim compensation therefor; provided further that, if the Change in Law giving rise to such increased costs or reductions is retroactive, then the nine-month period referred to above shall be extended to include the period of retroactive effect thereof.

ARTICLE III
TAXES, YIELD PROTECTION AND ILLEGALITY

3.1 Taxes .

(a) Payments Free of Taxes; Obligation to Withhold; Payments on Account of Taxes . Any and all payments by or on account of any obligation of the Borrower under any Loan Document shall be made without deduction or withholding for any Taxes, except as required by Applicable Law. If any Applicable Law (as determined in the good faith discretion of the Borrower) requires the deduction or withholding of any Tax from any such payment by the Borrower, then the Borrower shall be entitled to make such deduction or withholding and shall timely pay the full amount deducted or withheld to the relevant Governmental Authority in accordance with Applicable Law and, if such Tax is an Indemnified Tax, then the sum payable by the Borrower shall be increased as necessary so that after such deduction or withholding has been made (including such deductions and withholdings applicable to additional sums payable under this Section 3.1) the Lender receives an amount equal to the sum it would have received had no such deduction or withholding been made.

(b) Payment of Other Taxes by the Borrower . Without limiting the provisions of subsection (a) above, the Borrower shall timely pay to the relevant Governmental Authority in accordance with Applicable Law any Other Taxes.

(c) Tax Indemnifications .

(i) Without limiting the provisions of subsection (a) or (b) above, the Borrower shall, and does hereby, indemnify the Lender, and shall make payment in respect thereof within thirty days after demand therefor, for the full amount of any Indemnified Taxes (including Indemnified Taxes imposed or asserted on or attributable to amounts payable under this Section 3.1) payable or paid by the Lender or required to be withheld or deducted from a payment to the Lender, and any penalties, interest and reasonable expenses arising therefrom or with respect thereto, whether or not such Indemnified Taxes were correctly or legally imposed or asserted by the relevant Governmental Authority. A certificate as to the amount of such payment or liability delivered to the Borrower by the Lender shall be conclusive absent manifest error.

(ii) Without limiting the provisions of subsection (a) or (b) above, the Lender shall, and does hereby, indemnify the Borrower, and shall make payment in respect thereof within thirty days after demand therefor, (x) against any Taxes attributable to the Lender's failure to comply with the provisions of Section 9.7(d) relating to the maintenance of a Participant Register and (y) against any Excluded Taxes attributable to the Lender, in each case, that are payable or paid by the Borrower in connection with any Loan Document, and any reasonable expenses arising therefrom or with respect thereto, whether or not such Taxes were correctly or legally imposed or asserted by the relevant Governmental Authority. A certificate as to the amount of such payment or liability delivered to the Lender by the Borrower shall be conclusive absent manifest error. The Lender hereby authorizes the Borrower to set off and apply any and all amounts at any time owing to the Lender under this Agreement or any other Loan Document against any amount due to the Borrower under this clause (ii).

(d) Evidence of Payments. Upon request by the Borrower or the Lender, as the case may be, after any payment of Taxes by the Borrower or the Lender to a Governmental Authority as provided in this Section 3.1, the Borrower shall deliver to the Lender or the Lender shall deliver to the Borrower, as the case may be, the original or a certified copy of a receipt issued by such Governmental Authority evidencing such payment, a copy of any return required by Applicable Law to report such payment or other evidence of such payment reasonably satisfactory to the Borrower or the Lender, as the case may be.

(e) Status of Lender; Tax Documentation.

(i) If the Lender is entitled to an exemption from or reduction of withholding Tax with respect to payments made under any Loan Document, the Lender shall deliver to the Borrower, at the time or times reasonably requested by the Borrower, such properly completed and executed documentation reasonably requested by the Borrower as will permit such payments to be made without withholding or at a reduced rate of withholding. In addition, the Lender, if reasonably requested by the Borrower, shall deliver such other documentation prescribed by Applicable Law or reasonably requested by the Borrower as will enable the Borrower to determine whether or not the Lender is subject to backup withholding or information reporting requirements. Notwithstanding anything to the contrary in the preceding two sentences, the completion, execution and submission of such documentation (other than such documentation set forth in Sections 3.1(e)(ii)(A), (ii)(B) and (ii)(D) below) shall not be required if in the Lender's reasonable judgment such completion, execution or submission would subject the Lender to any material unreimbursed cost or expense or would materially prejudice the legal or commercial position of the Lender.

(ii) Without limiting the generality of the foregoing:

(A) if the Lender is a "United States person" as defined in Section 7701(a)(30) of the Code, the Lender shall deliver to the Borrower on or prior to the date on which the Lender becomes a Lender under this Agreement (and from time to time thereafter upon the reasonable request of the Borrower), executed copies of IRS Form W-9 certifying that the Lender is exempt from U.S. federal backup withholding tax;

(B) if the Lender is not a "United States person" as defined in Section 7701(a)(30) of the Code, the Lender shall, to the extent it is legally entitled to do so, deliver to the Borrower on or prior to the date on which the Lender becomes a Lender under this Agreement (and from time to time thereafter upon the reasonable request of the Borrower), whichever of the following is applicable:

(1) if the Lender claims the benefits of an income tax treaty to which the United States is a party (x) with respect to payments of interest under any Loan Document, executed copies of IRS Form W-8BEN establishing an exemption from, or reduction of, U.S. federal withholding Tax pursuant to the "interest" article of such tax treaty and (y) with respect to any other applicable payments under any Loan Document, IRS Form W-8BEN establishing an exemption from, or reduction of, U.S. federal withholding Tax pursuant to the "business profits" or "other income" article of such tax treaty;

(2) executed copies of IRS Form W-8ECI;

(3) if the Lender claims the benefits of the exemption for portfolio interest under Section 871(h) or 881(c) of the Code, (x) a certificate to the effect that the Lender is not a "bank" within the meaning of Section 881(c)(3)(A) of the Code, a "10 percent shareholder" of the Borrower within the meaning of Section 881(c)(3)(B) of the Code, or a "controlled foreign corporation" described in Section 881(c)(3)(C) of the Code (a "U.S. Tax Compliance Certificate") and (y) executed copies of IRS Form W-8BEN; or

(4) to the extent the Lender is not the beneficial owner, executed copies of IRS Form W-8IMY, accompanied by IRS Form W-8ECI, IRS Form W-8BEN, a U.S. Tax Compliance Certificate, IRS Form W-9, and/or other certification documents from each beneficial owner, as applicable; provided that if the Lender is a partnership and one or more direct or indirect partners of the Lender are claiming the portfolio interest exemption, the Lender may provide a U.S. Tax Compliance Certificate on behalf of each such direct and indirect partner;

(C) if the Lender is not a "United States person" as defined in Section 7701(a)(30) of the Code, the Lender shall, to the extent it is legally entitled to do so, deliver to the Borrower on or prior to the date on which the Lender becomes a Lender under this Agreement (and from time to time thereafter upon the reasonable request of the Borrower), executed originals of any other form prescribed by Applicable Law as a basis for claiming exemption from or a reduction in U.S. federal withholding Tax, duly completed, together with such supplementary documentation as may be prescribed by Applicable Law to permit the Borrower to determine the withholding or deduction required to be made; and

(D) if a payment made to the Lender under any Loan Document would be subject to U.S. federal withholding Tax imposed by FATCA if the Lender were to fail to comply with the applicable reporting requirements of FATCA (including those contained in Section 1471(b) or 1472(b) of the Code, as applicable), the Lender shall deliver to the Borrower at the time or times prescribed by Applicable Law and at such time or times reasonably requested by the Borrower such documentation prescribed by Applicable Law (including as prescribed by Section 1471(b)(3)(C)(i) of the Code) and such additional documentation reasonably requested by the Borrower as may be necessary for the Borrower to comply with its obligations under FATCA and to determine that the Lender has complied with the Lender's obligations under FATCA or to determine the amount to deduct and withhold from such payment. Solely for purposes of this clause (D), "FATCA" shall include any amendments made to FATCA after the date of this Agreement.

(iii) The Lender agrees that if any form or certification it previously delivered pursuant to this Section 3.1 expires or becomes obsolete or inaccurate in any respect, it shall update such form or certification or promptly notify the Borrower in writing of its legal inability to do so.

(f) Treatment of Certain Refunds. If the Lender determines, in its sole discretion exercised in good faith, that it has received a refund of any Taxes as to which it has been indemnified by the Borrower or with respect to which the Borrower has paid additional amounts pursuant to this Section 3.1, it shall pay to the Borrower an amount equal to such refund (but only to the extent of indemnity payments made, or additional amounts paid, by the Borrower under this Section 3.1 with respect to the Taxes giving rise to such refund), net of all out-of-pocket expenses (including Taxes) incurred by the Lender, and without interest (other than any interest paid by the relevant Governmental Authority with respect to such refund), provided that the Borrower, upon the request of the Lender, agrees to repay the amount paid over to the Borrower (plus any penalties, interest or other charges imposed by the relevant Governmental Authority) to the Lender in the event the Lender is required to repay such refund to such Governmental Authority. Notwithstanding anything to the contrary in this subsection, in no event will the Lender be required to pay any amount to the Borrower pursuant to this subsection the payment of which would place the Lender in a less favorable net after-Tax position than the Lender would have been in if the Tax subject to indemnification and giving rise to such refund had not been deducted, withheld or otherwise imposed and the indemnification payments or additional amounts with respect to such Tax had never been paid. This subsection shall not be construed to require the Lender to make available its tax returns (or any other information relating to its taxes that it deems confidential) to the Borrower or any other Person.

(g) Survival. Each party's obligations under this Section 3.1 shall survive any assignment of rights by, or the replacement of, the Lender, the termination of the Commitments and the repayment, satisfaction or discharge of all obligations under any Loan Document.

3.2 Funding Losses . If the Borrower:

(a) fails to make on a timely basis any payment of principal of any Loan;

(b) fails to make any prepayment of any Loan in accordance with Section 2.4 (including, without limitation, an optional prepayment after having given notice of such prepayment in accordance with Section 2.4(a));

(c) fails to borrow any Loan on the date indicated in a Notice of Borrowing delivered in accordance with Section 2.3 (in each case except if such failure is due solely to the fault of the Lender); or

(d) makes an optional prepayment, conversion or continuation of a Loan on a day other than the last day of the applicable Interest Period for such Loan (whether voluntary, mandatory, automatic, by reason of acceleration or otherwise);

the Borrower shall promptly compensate the Lender and hold such Lender harmless from any loss, cost or expense incurred, including any loss of anticipated profits and any loss or expense arising from the liquidation or reemployment of funds obtained by it to maintain such Loan or from fees payable to terminate the deposits from which such funds were obtained. The Borrower shall also pay any customary administrative fees charged by such Lender in connection with the foregoing.

3.3 Illegality, Etc .

(a) In the event that on any date the Lender shall have determined that the making, maintaining or continuation of its LIBOR Rate Loans (i) has become unlawful as a result of compliance by the Lender in good faith with any law, treaty, governmental rule, regulation, guideline or order (or would conflict with any such treaty, governmental rule, regulation, guideline or order not having the force of law even though the failure to comply therewith would not be unlawful), or (ii) has become impracticable, as a result of contingencies occurring after the date hereof which materially and adversely affect the London interbank market or the position of the Lender in that market, then, and in any such event, the Lender shall give notice (by telecopy or by telephone confirmed in writing) to the Borrower of such determination. Thereafter (1) the obligation of the Lender to make Loans as, or to convert Loans to, LIBOR Rate Loans shall be suspended until such notice

shall be withdrawn by the Lender, (2) to the extent such determination by the Lender relates to a LIBOR Rate Loan then being requested by the Borrower pursuant to a Notice of Borrowing or a Conversion/Continuation Notice, the Lender shall make such Loan as (or continue such Loan as or convert such Loan to, as the case may be) a Base Rate Loan, (3) the Lender's obligation to maintain its outstanding LIBOR Rate Loans (the "*Affected Loans*") shall be terminated at the earlier to occur of the expiration of the Interest Period then in effect with respect to the Affected Loans or when required by law, and (4) the Affected Loans shall automatically convert into Base Rate Loans on the date of such termination. Upon any such conversion, the Borrower shall also pay accrued interest on the amount so converted. Notwithstanding the foregoing, to the extent a determination by the Lender as described above relates to a LIBOR Rate Loan then being requested by the Borrower pursuant to a Notice of Borrowing or a Conversion/Continuation Notice the Borrower shall have the option to rescind such Notice of Borrowing or Conversion/Continuation Notice by giving notice (by telecopy or by telephone confirmed in writing) to the Lender of such rescission on the date on which the Lender gives notice of its determination as described above.

(b) In the event that the Lender shall have determined, on any Interest Rate Determination Date with respect to any LIBOR Rate Loans, that by reason of circumstances affecting the London interbank market, adequate and fair means do not exist for ascertaining the interest rate applicable to such LIBOR Rate Loans on the basis provided for in the definition of Adjusted LIBOR Rate, the Lender shall give notice (by telecopy or by telephone confirmed in writing) to the Borrower of such determination, whereupon (i) no Loans may be made as, or converted to, LIBOR Rate Loans until such time as the Lender notifies the Borrower that the circumstances giving rise to such notice no longer exist, and (ii) any Notice of Borrowing or Conversion/ Continuation Notice given by the Borrower with respect to the Loans in respect of which such determination was made shall be deemed, as applicable, to be a Notice of Borrowing for Base Rate Loans or a Conversion/Continuation Notice to convert or continue, as the case may be, such Loans as Base Rate Loans.

(c) Calculation of all amounts payable to the Lender hereunder shall be made as though the Lender had actually funded each of its relevant LIBOR Rate Loans through the purchase of a LIBOR deposit bearing interest at the rate obtained pursuant to clause (i) of the definition of Adjusted LIBOR Rate in an amount equal to the amount of such LIBOR Rate Loan and having a maturity comparable to the relevant Interest Period and through the transfer of such LIBOR deposit from an offshore office of the Lender to a domestic office of the Lender in the United States of America; provided , however , that the Lender may fund each of its LIBOR Rate Loans in any manner it sees fit and the foregoing assumptions shall be utilized only for the purposes of calculating amounts payable under this Section 3.3.

3.4 Survival . All of the Borrower's obligations under this Article III shall survive termination of this Agreement and the commitments hereunder and repayment of all other obligations hereunder.

ARTICLE IV
CONDITIONS PRECEDENT

4.1 Conditions Precedent to Effectiveness of this Agreement . The effectiveness of this Agreement is subject to the satisfaction (or waiver in accordance with the terms hereof) of the following conditions precedent:

(a) Loan Documents . The Lender shall have received all of the following documents, duly executed and delivered by the parties thereto and in form and substance satisfactory to the Lender:

(i) this Agreement;

(ii) the Security Agreement;

(iii) the MBIA UK Pledge Agreement; and

(iv) the Note (if requested).

(b) Other Deliverables . The Lender shall have received the following, each of which shall be originals or .pdf (or other electronic) copies unless otherwise specified, each properly executed by an officer of the Borrower and each dated the Closing Date (or, in the case of certificates of governmental officials, a recent date before the Closing Date):

(i) appropriate financing statements (Form UCC-1 or such other financing statements or similar notices as shall be required by Applicable Law) authorized for filing under the Uniform Commercial Code or other Applicable Law of each jurisdiction in which the filing of a financing statement or giving of notice may be required to perfect the security interests intended to be created by the Security Agreement;

(ii) a copy of the Organization Documents of the Borrower, including all amendments thereto, certified as of a recent date by the Secretary of State or other applicable Governmental Authority of its respective jurisdiction of organization, together with:

(A) a certificate as to the good standing of the Borrower, as of a recent date, from the Secretary of State or other applicable Governmental Authority of its jurisdiction of organization;

(B) a certificate of the Secretary or Assistant Secretary of the Borrower dated the Closing Date and certifying (1) that attached thereto is a true and complete copy of the Organization Documents of the Borrower as in effect on the Closing Date and at all times since a date prior to the date of the resolutions described in clause (2) below; (2) that attached thereto is a true and complete copy of resolutions duly adopted by the board of directors of the Borrower authorizing the execution, delivery and performance of the Loan Documents to which it is to be a party and the borrowings hereunder, and that such resolutions have not been modified, rescinded or amended and are in full force and effect; and (3) as to the incumbency and specimen signature of each officer executing any Loan Document or any other document delivered in connection herewith on behalf of the Borrower; and

(C) a certificate of another officer as to the incumbency and specimen signature of the Secretary or Assistant Secretary of the Borrower executing the certificate pursuant to clause (B) above;

(iii) a customary written legal opinion of (A) Weil, Gotshal & Manges LLP, special counsel to the Borrower, and (B) in-house counsel to the Borrower, in each case as to matters of New York and United States federal law, addressed to the Lender, dated as of the Closing Date, and in form and substance reasonably satisfactory to the Lender.

(c) The Borrower shall have provided the financial statements described in Sections 5.14(a), (c) and (d).

(d) Representations and Warranties . The representations and warranties of the Borrower set forth in the Loan Documents shall be true and correct in all material respects (except that, to the extent that any representation and warranty is qualified by materiality, such representation and warranty shall be true and correct in all respects), on and as of the date of the date hereof, except as they relate to an earlier date, in which case they shall have been true and correct in all material respects as of such earlier date.

(e) No Event of Default . No Potential Event of Default or Event of Default shall exist or shall result from the consummation of the transactions contemplated hereby or any of the other Loan Documents.

(f) Governmental Approvals .

(i) All Governmental Approvals required for the execution and delivery hereof by each of the Lender and the Borrower and performance of their respective obligations hereunder shall have been obtained and remain in full force and effect;

(ii) without limiting the generality of the foregoing, the Borrower shall have given the New York State Department of Financial Services the requisite notice of the Borrower entering into this Agreement and the Borrower and the Lender shall have obtained the approval of the New York State Department of Financial Services to this Agreement (including, without limitation, the assignment provisions hereof), the other Loan Documents and the transactions contemplated thereby, including without limitation the granting of Liens on the Collateral by the Borrower to the Lender to secure the Obligations and the making of Loans, and such approval shall be in form and substance reasonably satisfactory to the Lender;

(iii) without limiting the generality of the foregoing, the Borrower and the Lender shall have obtained all necessary approvals and consents of the regulators of MBIA UK to the granting of Liens on the Equity Interests thereof in favor of the Secured Party (as defined in the Security Agreement) and all such approvals and consents shall be in form and substance reasonably satisfactory to the Lender; and

(iv) all conditions required to be satisfied as of the effective date hereof pursuant to such Governmental Approvals shall have been satisfied.

(g) Value of Collateral . The Lender shall have received a Collateral Calculation Certificate, evidencing that as of the Closing Date, the value of the Subject Collateral is in excess of Required Coverage.

(h) NPFGC Loan Documents . On or prior to the Closing Date and the initial incurrence of Loans hereunder, (i) the NPFGC Loan Agreement shall have been repaid in full and (ii) duly executed UCC-3 termination statements evidencing, and any other documents necessary or desirable to evidence, the release of all security interests and Liens granted pursuant to the NPFGC Loan Documents shall have been delivered to the Lender.

(i) Effectiveness of the Settlement . On or prior to the Closing Date, there shall have been delivered to the Borrower and the Lender true and correct copies of the final Settlement Documents. All Settlement Documents shall have been duly executed and delivered by the parties thereto and shall be in full force and effect, and the terms and conditions of such documents, as well as the transactions contemplated by them, shall have been duly approved by the board of directors (or equivalent) of each of the Borrower, the Lender and each of the other parties thereto.

(j) USA PATRIOT Act . The Borrower shall, prior to the Closing Date, have provided the documentation and other information to the Lender that are required by regulatory authorities under applicable “know your customer” rules and regulations, including the USA PATRIOT Act, to the extent requested at least one Business Day prior to the Closing Date.

(k) Solvency Certificate . The Lender shall have received a certificate from the chief financial officer of the Borrower attesting that the Borrower, individually, and the Borrower and its Subsidiaries, taken as a whole, are Solvent on the Closing Date, after giving effect to the transactions contemplated hereby and pursuant to the Settlement Agreement.

(l) Pro Forma Compliance . The Borrower shall be in pro forma compliance with the covenants set forth in Sections 7.12(a) and (b) after giving effect to the transactions contemplated by the Settlement Agreement and hereby.

(m) Officer's Certificate . The Borrower shall have provided the Lender with a certificate signed by a Responsible Officer of the Borrower certifying that the conditions specified in clauses (d), (e), (f), (g), (h), (i) and (l) of this Section 4.1 have been satisfied.

(n) Lien Searches . The Borrower shall have delivered to the Lender customary lien searches reasonably satisfactory thereto, evidencing the absence of Liens (other than Permitted Liens) on the property of the Borrower.

4.2 Conditions Precedent to the Making of each Loan . The obligation of the Lender to make each Loan hereunder is subject to the satisfaction (or waiver in accordance with the terms hereof) of the following conditions on and as of the requested Borrowing Date:

(a) Effective Date . The Agreement shall have become effective in accordance with Section 4.1.

(b) Representations and Warranties . At the time of and immediately after giving effect to such Loan, the representations and warranties of the Borrower set forth in the Loan Documents shall be true and correct in all material respects (except that, to the extent that any representation and warranty is qualified by materiality, such representation and warranty shall be true and correct in all respects), on and as of the applicable Borrowing Date as if made on and as of such date, except as they relate to an earlier date, in which case they shall have been true and correct in all material respects as of such earlier date.

(c) No Event of Default . At the time of and immediately after giving effect to such Loan, no Potential Event of Default or Event of Default shall have occurred and be continuing.

(d) Notice of Borrowing . The Lender shall have received a duly completed and executed Notice of Borrowing from the Borrower, as required by Section 2.3. Such Notice of Borrowing shall constitute a representation and warranty by the Borrower that, as of the date of such notice and as of the requested Borrowing Date, the conditions in this Section are satisfied and will be satisfied on the requested Borrowing Date.

(e) Commitment Availability . On the applicable Borrowing Date, the aggregate principal amount of all Loans, after giving effect to any Loan borrowed on such Borrowing Date, shall not exceed the Available Commitment.

(f) Governmental Approvals .

(i) All Governmental Approvals required for the execution and delivery hereof by each of the Lender and the Borrower and performance of their respective obligations hereunder, including the making of the requested Loan, shall have been obtained and remain in full force and effect;

(ii) without limiting the generality of the foregoing, all of the approvals described in Section 4.1(f)(ii) and (iii) shall be in full force and effect and shall not have been revoked or amended in any manner; and

(iii) all conditions required to be satisfied as of the requested Borrowing Date pursuant to such Governmental Approvals shall have been satisfied.

(g) Coverage . On the applicable Borrowing Date, the Borrower shall have delivered to the Lender a Collateral Calculation Certificate (dated as of such Borrowing Date), evidencing that as of the Borrowing Date, after giving effect to the borrowing of the requested Loan, the value of the Subject Collateral is in excess of Required Coverage.

(h) Proceeds . In the event that, after giving effect to such Borrowing, the aggregate principal amount of the Loans outstanding will be greater than $50,000,000, the Borrower shall, as of the applicable Borrowing Date, represent and warrant to the Lender (in the executed Notice of Borrowing) that the proceeds of such Borrowing are to be used by the Borrower to meet the Borrower's ordinary course liquidity needs within 30 days of such Borrowing Date.

(i) Pro Forma Compliance . On the applicable Borrowing Date and after giving effect to the applicable borrowing and the use of the proceeds thereof, the Borrower shall be in pro forma compliance with the covenants set forth in Section 7.12(a) and (b).

ARTICLE V
REPRESENTATIONS AND WARRANTIES

The Borrower makes all of the following representations and warranties to and in favor of the Lender as of the date of this Agreement and each Borrowing Date, except to the extent that any of such representations or warranties specifically relate to an earlier date (in which case they shall have been true and correct on such date). All of the following representations and warranties shall survive the execution and delivery of this Agreement.

5.1 Corporate Existence and Power . The Borrower and each of its Subsidiaries:

(a) is duly organized and validly existing and in good standing under the laws of the jurisdiction of its organization,

(b) has, in the case of the Borrower, the full power and authority to enter into and perform the obligations undertaken by it pursuant to the Loan Documents,

(c) has, in the case of the Borrower, taken all necessary action whatsoever required and obtained all necessary consents and licenses required to authorize its entry into, delivery and performance of the Loan Documents and the terms hereof, and to ensure that the obligations of the Borrower thereunder are legal, valid and binding on it,

(d) is duly authorized, qualified and licensed under the laws of each jurisdiction in which its ownership, lease or operation of property or the conduct of its business requires such qualification or license except as the failure to be so authorized or qualified (individually or in the aggregate) could not reasonably be expected to have a Material Adverse Effect, and

(e) has not taken any corporate action nor have any other steps been taken or legal proceedings been started or threatened against it for its winding-up, dissolution, administration or reorganization or the appointment of a receiver, administrator, liquidator or similar officer of it or of any or all of its assets or revenues.

5.2 Corporate Authorization; Non-Contravention . The execution, delivery and performance by it of the Loan Documents does not (a) contravene (i) its Organization Documents, (ii) any Applicable Law, (iii) any material Contractual Obligation to which it is a party or binding on or affecting it or its property other than any Contractual Obligations that have been waived, or (iv) any order, judgment, award, injunction or decree binding on or affecting it or its property or (b) result in, or require the creation or imposition of, any Lien upon or with respect to any of the properties now owned or hereafter acquired by it, except pursuant to the Security Documents.

5.3 Execution; Binding Effect . The Loan Documents have been duly executed and delivered and constitute legal, valid and binding obligations of the Borrower enforceable against it in accordance with their terms subject to any applicable bankruptcy, insolvency or similar laws affecting creditors' rights generally.

5.4 No Injunction . No injunction, writ, temporary restraining order or any order of any nature has been issued by any court or other Governmental Authority purporting to enjoin or restrain the execution, delivery or performance of the Loan Documents, or directing that the transactions provided for therein not be consummated as therein provided.

5.5 No Potential Event Default or Event Default . The Borrower and each of its Subsidiaries is not in default under or with respect to any Contractual Obligation that could, either individually or in the aggregate, reasonably be expected to have a Material Adverse Effect. No Potential Event Default or Event of Default has occurred and is continuing or would result from the consummation of the transactions contemplated by this Agreement or any other Loan Document.

5.6 Ownership of Property .

(a) The Borrower and each of its Subsidiaries has good record and title in fee simple to, or valid leasehold interests in, all real property necessary or used in the ordinary conduct of its business.

(b) Schedule 5.6(b) sets forth a complete and accurate list of all Liens on the property or assets of the Borrower and each of its Subsidiaries, showing as of the date hereof the lienholder thereof, the principal amount of the obligations secured thereby and the property or assets of the Borrower or such Subsidiary subject thereto. The property of the Borrower and each of its Subsidiaries is subject to no Liens, other than Liens set forth on Schedule 5.6(b), and as otherwise permitted by Section 7.1.

5.7 Environmental Compliance . Except as could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect, the Borrower and each of its Subsidiaries is and has been in compliance with applicable Environmental Laws.

5.8 Insurance . The properties of the Borrower and its Subsidiaries are insured with financially sound and reputable insurance companies which are not Affiliates of the Borrower, in such amounts, with such deductibles and covering such risks as are customarily carried by companies engaged in similar businesses and owning similar properties in localities where the applicable company operates.

5.9 Taxes . The Borrower and its Subsidiaries have filed all Tax returns and reports required to be filed, and have paid all Federal, state and other material Taxes, assessments, fees and other governmental charges levied or imposed upon them or their properties, income or assets otherwise due and payable, except those which are being contested in good faith by appropriate proceedings diligently conducted and for which adequate reserves have been provided in accordance with the US GAAP. There is no proposed tax assessment against the Borrower or any Subsidiary that would, if made, reasonably be expected to have a Material Adverse Effect.

5.10 Compliance with Law . The Borrower and its Subsidiaries are in compliance in all material respects with the requirements of all Applicable Laws and all orders, writs, injunctions and decrees applicable to it or to its properties, except in such instances in which (i) such requirement of law or order, writ, injunction or decree is being contested in good faith by appropriate proceedings diligently conducted or (ii) the failure to comply therewith, either individually or in the aggregate, could not reasonably be expected to have a Material Adverse Effect.

5.11 USA PATRIOT Act; OFAC .

(a) USA PATRIOT Act . To the extent applicable, the Borrower and its Subsidiaries is in compliance in all material respects with (i) the Trading with the Enemy Act, as amended, and each of the foreign assets control regulations of the United States Treasury Department (31 CFR, Subtitle B, Chapter V, as amended), and any other enabling legislation or executive order relating thereto, and (ii) the USA PATRIOT Act.

(b) Sanctioned Persons . None of the Borrower, any Subsidiary nor, to the knowledge of the Borrower, any director or officer of the Borrower or any Subsidiary is subject to any U.S. sanctions administered by the Office of Foreign Assets Control of the U.S. Treasury Department (" *OFAC* "); and the Borrower will not directly or indirectly use the proceeds of the Loans or otherwise make available such proceeds to any Person, for the purpose of financing the activities of any Person subject to any United States sanctions administered by OFAC.

5.12 Margin Stock; Investment Company Act .

(a) The Borrower is not engaged and will not engage, principally, or as one of its important activities, in the business of purchasing or carrying any Margin Stock or extending credit for such purpose, and no part of the proceeds of any Loan will be used to purchase or carry any Margin Stock, or be used for any purpose which violates, or which is inconsistent with, the provisions of Regulation U or X.

(b) None of the Borrower, any Person Controlling the Borrower, or any Subsidiary is or is required to be registered as an "investment company" under the Investment Company Act of 1940.

5.13 Governmental Authorization; Other Consents . No approval, consent, exemption, authorization, or other action by, or notice to, or filing with, any Governmental Authority or any other Person is necessary or required in connection with (a) the execution, delivery or performance by, or enforcement against, the Borrower of this Agreement or any other Loan Document, (b) the grant by the Borrower of the Liens granted by it pursuant to the Security Documents, (c) the perfection or maintenance of the Liens created under the Security Documents (including the first priority nature thereof) or (d) the exercise by the Lender of its rights under the Loan Documents or the remedies in respect of the Collateral

pursuant to the Security Documents, except for (i) the authorizations, approvals, actions, notices and filings listed on Schedule 5.13 , all of which have been duly obtained, taken, given or made and are in full force and effect and (ii) consents required to enforce the pledge of shares in MBIA UK.

5.14 Financial Statements; No Material Adverse Effect .

(a) The Audited Financial Statements (i) were prepared in accordance with US GAAP, Regulated Accounting Principles or UK GAAP, as applicable, consistently applied throughout the period covered thereby, except as otherwise expressly noted therein; (ii) fairly present the financial condition of the Borrower, the Borrower and its Subsidiaries, MBIA UK or UK Insurance, as applicable, in each case as of the date thereof and their results of operations for the period covered thereby in accordance with US GAAP, Regulated Accounting Principles or UK GAAP, as applicable consistently applied throughout the period covered thereby, except as otherwise expressly noted therein; and (iii) show all material indebtedness and other liabilities, direct or contingent, of the Borrower, the Borrower and its Subsidiaries, MBIA UK or UK Insurance, as applicable, in each case as of the date thereof, including liabilities for taxes, material commitments and Indebtedness.

(b) Since the date of the Audited Financial Statements, there has been no event or circumstance, either individually or in the aggregate, that has had or could reasonably be expected to have a Material Adverse Effect.

(c) The forecasted cash flows, shown on a monthly basis for each of the six months beginning with the month ending May 31, 2013, of (A) the Borrower, prepared in accordance with Regulated Accounting Principles, (B) the Borrower and its Subsidiaries on a consolidated basis, prepared in accordance with US GAAP, (C) UK Insurance, prepared in accordance with UK GAAP and (D) UK Insurance, in the form prepared by the Borrower and delivered to the Lender on the Closing Date, were prepared in good faith on the basis of the assumptions stated therein, which assumptions were fair in light of the conditions existing at the time of delivery of such forecasts, and represented, at the time of delivery, the Borrower's reasonable estimate of its (or its and its Subsidiaries, or UK Insurance's, as applicable) future financial condition and performance, it being recognized by the Lender that such forecasts are not to be viewed as facts and are subject to significant uncertainties and contingencies, many of which are beyond the control of the Borrower and its Subsidiaries, that no assurances can be given that any particular forecast will be realized, that actual results may vary from projected results and that such differences may be material.

(d) The consolidated pro forma balance sheet (i) of the Borrower and its Subsidiaries as at March 31, 2013, prepared in accordance with US GAAP, and (ii) of the Borrower as at March 31, 2013, prepared in accordance with Regulated Accounting Principles, each certified by the chief financial officer or treasurer of the Borrower, copies

of which have been furnished to the Lender, fairly present the consolidated pro forma financial condition of the Borrower and its Subsidiaries or the Borrower, as applicable, as at such date, in each case giving effect to the transactions contemplated by the Settlement Agreement, all in accordance with US GAAP or Regulated Accounting Principles, as applicable.

5.15 Litigation . (x) Except as set forth on Schedule 5.15 , there are no actions, suits, proceedings, claims or disputes pending or, to the knowledge of the Borrower after due and diligent investigation, threatened or contemplated, at law, in equity, in arbitration or before any Governmental Authority, by or against the Borrower or any of its Subsidiaries or against any of their properties or revenues that (a) purport to affect or pertain to this Agreement or any other Loan Document, or (b) either individually or in the aggregate, if determined adversely, could reasonably be expected to have a Material Adverse Effect and (y) since the Closing Date, there have been no developments, events or other changes in the actions, suits, proceedings, claims or disputes set forth on Schedule 5.15 that, either individually or in the aggregate, could reasonably be expected to have a Material Adverse Effect.

5.16 ERISA Compliance . (a) Each Plan is in compliance in all material respects with the applicable provisions of ERISA, the Code and other Applicable Laws. Each Plan that is intended to qualify under Section 401(a) of the Code has received a favorable determination letter from the IRS or an application for such a letter is currently being processed by the IRS with respect thereto and, to the best knowledge of the Borrower, nothing has occurred which would prevent, or cause the loss of, such qualification. The Borrower and each ERISA Affiliate have made all required contributions to each Plan subject to Section 412 of the Code, and no application for a funding waiver or an extension of any amortization period pursuant to Section 412 of the Code has been made with respect to any Plan.

(b) There are no pending or, to the best knowledge of the Borrower, threatened claims, actions or lawsuits, or action by any Governmental Authority, with respect to any Plan sponsored by the Borrower or any ERISA Affiliate that could reasonably be expected to have a Material Adverse Effect. There has been no prohibited transaction or violation of the fiduciary responsibility rules with respect to any Plan sponsored by the Borrower or any ERISA Affiliate that has resulted or could reasonably be expected to result in a Material Adverse Effect.

(c) Except as could not reasonably be expected to have a Material Adverse Effect, (i) no ERISA Event has occurred or is reasonably expected to occur; (ii) no Pension Plan has any Unfunded Pension Liability; (iii) neither the Borrower nor any ERISA Affiliate has incurred, or reasonably expects to incur, any liability under Title IV of ERISA with respect to any Pension Plan (other than premiums due and not delinquent under Section 4007 of ERISA); (iv) neither the Borrower nor any ERISA Affiliate has incurred, or reasonably expects to incur, any liability (and no event has occurred which, with the

giving of notice under Section 4219 of ERISA, would result in such liability) under Section 4201 or 4243 of ERISA with respect to a Multiemployer Plan; and (v) neither the Borrower nor any ERISA Affiliate has engaged in a transaction that could be subject to Section 4069 or 4212(c) of ERISA.

(d) With respect to each scheme or arrangement mandated by a government other than the United States (a " *Foreign Government Scheme or Arrangement* ") and with respect to each employee benefit plan maintained or contributed to by the Borrower or any Subsidiary of the Borrower that is not subject to United States law (a " *Foreign Plan* "):

(i) any employer and employee contributions required by law or by the terms of any Foreign Government Scheme or Arrangement or any Foreign Plan have been made, or, if applicable, accrued, in accordance with normal accounting practices;

(ii) the fair market value of the assets of each funded Foreign Plan, the liability of each insurer for any Foreign Plan funded through insurance or the book reserve established for any Foreign Plan, together with any accrued contributions, is sufficient to procure or provide for the accrued benefit obligations, as of the date hereof, with respect to all current and former participants in such Foreign Plan according to the actuarial assumptions and valuations most recently used to account for such obligations in accordance with applicable generally accepted accounting principles; and

(iii) each Foreign Plan required to be registered has been registered and has been maintained in good standing with applicable regulatory authorities.

5.17 Subsidiaries; Equity Interests . The Borrower has no Subsidiaries other than those specifically disclosed in Part (a) of Schedule 5.17 (as may be updated from time to time in accordance with the terms of this Agreement), and all of the outstanding Equity Interests in such Subsidiaries have been validly issued, are fully paid and non-assessable and are owned by the Borrower in the amounts specified on Part (a) of Schedule 5.17 (as may be updated from time to time in accordance with the terms of this Agreement) free and clear of all Liens except those created under the Security Documents. The Borrower has no equity investments in any other corporation or entity other than those specifically disclosed in Part (b) of Schedule 5.17 (as may be updated from time to time in accordance with the terms of this Agreement). All of the outstanding Equity Interests in the Borrower have been validly issued, are fully paid and non-assessable and are owned by MBIA Inc. in the amounts specified on Part (c) of Schedule 5.17 free and clear of all Liens except those created under the Security Documents. Part (d) of Schedule 5.17 shows, as of the Closing Date, the jurisdiction of the Borrower's incorporation, the address of the Borrower's principal place of business and the Borrower's U.S. taxpayer identification number. The copy of the charter of the Borrower and each amendment thereto provided pursuant to Section 4.1(b)(ii)(B) is a true and correct copy of each such document, each of which is valid and in full force and effect.

5.18 Disclosure . The Borrower has disclosed to the Lender all agreements, instruments and corporate or other restrictions to which it or any of its Subsidiaries is subject, and all other matters known to it, that, individually or in the aggregate, could reasonably be expected to result in a Material Adverse Effect. No report, financial statement, certificate or other information furnished (whether in writing or orally) by or on behalf of the Borrower to the Lender in connection with the transactions contemplated hereby and the negotiation of this Agreement or delivered hereunder or under any other Loan Document (in each case as modified or supplemented by other information so furnished) contains any untrue statement of a material fact or omits to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading in any material respect; provided that, with respect to projected financial information, the Borrower represents only that such information was prepared in good faith based upon assumptions believed to be reasonable at the time; it being recognized by the Lender that such projections are not to be viewed as facts and are subject to significant uncertainties and contingencies, many of which are beyond the control of the Borrower and its Subsidiaries, that no assurances can be given that any particular financial projections will be realized, that actual results may vary from projected results and that such differences may be material.

5.19 Intellectual Property; Licenses, Etc . The Borrower and each of its Subsidiaries own, or possess the right to use, all of the material trademarks, service marks, trade names, copyrights, patents, patent rights, franchises, licenses and other intellectual property rights (collectively, " *IP Rights* ") that are reasonably necessary for the operation of their respective businesses as currently being conducted, without conflict with the rights of any other Person, and Schedule 5.19 sets forth a complete and accurate list of all registered IP Rights owned or used by the Borrower and each of its Subsidiaries. To the knowledge of the Borrower, no slogan or other advertising device, product, process, method, substance, part or other material now employed, or now contemplated to be employed, by the Borrower or any of its Subsidiaries infringes upon any rights held by any other Person. No claim or litigation regarding any of the foregoing is pending or, to the knowledge of the Borrower, threatened, which, either individually or in the aggregate, could reasonably be expected to have a Material Adverse Effect.

5.20 Solvency . The Borrower is, individually and together with its Subsidiaries on a consolidated basis, Solvent.

5.21 Casualty, Etc . Neither the businesses nor the properties of the Borrower or any of its Subsidiaries are affected by any fire, explosion, accident, strike, lockout or other labor dispute, drought, storm, hail, earthquake, embargo, act of God or of the public enemy or other casualty (whether or not covered by insurance) that, either individually or in the aggregate, could reasonably be expected to have a Material Adverse Effect.

5.22 Labor Matters . Other than national collective bargaining or similar agreements in the case of non-U.S. employees, there are no collective bargaining agreements or Multiemployer Plans covering the employees of the Borrower or any of its Subsidiaries and neither the Borrower nor any Subsidiary has suffered any strikes, walkouts, work stoppages or other material labor difficulty within the last five years.

5.23 Security Documents . The provisions of the Security Documents are effective to create in favor of the Lender a legal, valid and enforceable first priority Lien (subject to Liens permitted by Section 7.1) on all right, title and interest of the Borrower in the Collateral described therein. Except for filings completed prior to the Closing Date and as contemplated hereby and by the Security Documents, no filing or other action will be necessary to perfect or protect such Liens, other than consents required to enforce the pledge of shares in MBIA UK.

5.24 Insurance Licenses . The Borrower and each Insurance Subsidiary holds all material licenses (including licenses or certificates of authority from applicable Supervisory Authorities), permits or authorizations necessary or otherwise required to transact insurance and reinsurance business (collectively, the " *Insurance Licenses* "). There is (i) no Insurance License that is the subject of a proceeding for suspension, revocation or limitation or any similar proceedings, (ii) no sustainable basis for such a suspension, revocation or limitation, and (iii) to the knowledge of the Borrower, no such suspension, revocation or limitation threatened by any Supervisory Authority, that, in each instance under clauses (i), (ii) and (iii) above and either individually or in the aggregate, has had, or could reasonably be expected to have, a Material Adverse Effect.

5.25 Commutation . Schedule 5.25 sets forth a list that is complete and accurate in all material respects of matters with respect to which the Borrower or any of its Subsidiaries is engaged in remediation efforts, including, without limitation, amendments, compromises or commutations with respect to its insurance obligations and settlements of litigation, whether or not they effect the Subject Collateral.

ARTICLE VI
AFFIRMATIVE COVENANTS

The Borrower hereby agrees that it shall perform and comply with the covenants set forth in this Article until the irrevocable payment in full in cash of all of the Obligations (other than contingent Obligations related to indemnification payments not then due and owing).

6.1 Financial Statements and Reports . The Borrower shall furnish to the Lender:

(a) such information regarding the condition or operations, financial or otherwise, of the Borrower as the Lender may from time to time reasonably request, including,

(i) as soon as available, but in any event within 120 days after the end of each Fiscal Year of the Borrower, a consolidated balance sheet of the Borrower and its Subsidiaries as at the end of such fiscal year, and the related consolidated statements of income or operations, changes in shareholders' equity, and cash flows for such Fiscal Year, setting forth in each case in comparative form the figures for the previous Fiscal Year, all in reasonable detail and prepared in accordance with US GAAP, audited and accompanied by a report and opinion of an independent certified public accountant of nationally recognized standing reasonably acceptable to the Lender (it being agreed that any of the so-called "Big-4" accounting firms is acceptable to the Lender), which report and opinion shall be prepared in accordance with US GAAP.

(ii) as soon as available, but in any event within 60 days after the end of each of the first three Fiscal Quarters of each Fiscal Year of the Borrower, a consolidated balance sheet of the Borrower and its Subsidiaries as at the end of such fiscal quarter, and the related consolidated statements of income or operations, changes in shareholders' equity, and cash flows for such fiscal quarter and for the portion of the Borrower's Fiscal Year then ended, setting forth in each case in comparative form the figures for the corresponding Fiscal Quarter of the previous fiscal year and the corresponding portion of the previous Fiscal Year, all in reasonable detail, certified by the chief executive officer, chief financial officer, treasurer or controller of the Borrower as fairly presenting the financial condition, results of operations, shareholders' equity and cash flows of the Borrower and its Subsidiaries in accordance with US GAAP, subject only to normal year-end audit adjustments and the absence of footnotes;

(iii) as soon as available, but in any event not later than the earlier of (x) the date that such statements are required to be filed with the New York State Department of Financial Services, (y) the date that is five days after the date such statements are actually filed with the New York State Department of Financial Services and (z) the date that is 45 days after the end of each Fiscal Quarter, the financial statements of the Borrower prepared in accordance with Regulated Accounting Principles (the " *Statutory Financial Statements* ") in the form required to be filed with the New York State Department of Financial Services;

(iv) as soon as available, but in any event within 120 days after the end of each Fiscal Year of each of MBIA UK and UK Insurance, a balance sheet of each of MBIA UK and UK Insurance as at the end of such fiscal year, and the related statements of income or operations and changes in shareholders' equity for such Fiscal Year, setting forth in each case in comparative form the figures for the previous Fiscal Year, all in reasonable detail and prepared in accordance with UK GAAP, audited and accompanied by a report and opinion of an independent certified public accountant of nationally recognized standing reasonably acceptable

to the Lender (it being agreed that any of the so-called “Big 4” accounting firms is acceptable to the Lender), which report and opinion shall be prepared in accordance with generally accepted auditing standards and shall not be subject to any “going concern” or like qualification or exception or any qualification or exception as to the scope of such audit;

(b) concurrently with the delivery of the financial statements referred to in Sections 6.1(a)(i) and (ii), (X) a duly completed Compliance Certificate and a duly completed Collateral Calculation Certificate, in each case, signed by a Responsible Officer of the Borrower and (Y) a copy of management’s discussion and analysis with respect to such financial statements;

(c) as soon as available, but in any event not more than 60 days after the end of each Fiscal Year of the Borrower, an annual business plan and budget of the Borrower and its Subsidiaries on a consolidated basis, including forecasts prepared by management of the Borrower, in form reasonably satisfactory to the Lender, of (i) projected consolidated balance sheets for the end of each Fiscal Quarter of such Fiscal Year, (ii) statements of income or operations on a quarterly basis and (iii) cash flows on a monthly basis, in each case of the Borrower and its Subsidiaries for the immediately following fiscal year (including the fiscal year in which the Maturity Date occurs), it being recognized by the Lender that such business plans, budgets and forecasts are not to be viewed as facts and are subject to significant uncertainties and contingencies, many of which are beyond the control of the Borrower and its Subsidiaries, that no assurances can be given that any particular business plan, budget or forecast will be realized, that actual results may vary from projected results and that such differences may be material;

(d) promptly after any request by the Lender, (x) copies of any detailed audit reports, management letters or recommendations submitted to the board of directors (or the audit committee of the board of directors) of the Borrower or any of its Subsidiaries by independent accountants in connection with the accounts or books of the Borrower or any of its Subsidiaries, or any audit of any of them and (y) any other information or materials reasonably requested by the Lender;

(e) promptly after the same are available, copies of each annual report, proxy or financial statement or other report or communication sent to the stockholders of the Borrower, and copies of all annual, regular, periodic and special reports and registration statements which the Borrower may file or be required to file with the SEC under Section 13 or 15(d) of the Securities Exchange Act of 1934, or with any national securities exchange, and in any case not otherwise required to be delivered to the Lender pursuant hereto;

(f) promptly after the furnishing thereof, copies of any statement or report furnished to any holder of debt of the Borrower or any of its Subsidiaries pursuant to the terms of any indenture, loan or credit or similar agreement and not otherwise required to be furnished to the Lender pursuant to Section 6.1;

(g) promptly, and in any event within five Business Days after receipt thereof by the Borrower or any Subsidiary thereof, copies of each notice or other correspondence received from the SEC (or comparable agency in any applicable non-U.S. jurisdiction) concerning any investigation or possible investigation or other inquiry by such agency regarding financial or other operational results of the Borrower or any Subsidiary thereof or any parent entity of the Borrower;

(h) not later than five Business Days after receipt thereof by the Borrower or any Subsidiary thereof, copies of all notices, requests and other documents (including amendments, waivers and other modifications) so received under or pursuant to any instrument, indenture, loan or credit or similar agreement and, from time to time upon request by the Lender, such information and reports regarding the such instruments, indentures and loan and credit and similar agreements as the Lender may reasonably request;

(i) promptly, and in any event within five Business Days after any material discussion relating to the Borrower or any Subsidiary thereof between the Borrower and/or any Subsidiary thereof, on the one hand, and any Governmental Authority exercising regulatory authority thereof, on the other hand, a reasonably detailed summary of all substantive aspects of such discussion;

(j) not more than fifteen days prior to, and not less than five days prior to the first day of each calendar month ending after the Closing Date, projections of the cash flows and cash balances, shown on a monthly basis for each of the six months beginning with such month, of (A) the Borrower, prepared in accordance with Regulated Accounting Principles, (B) the Borrower and its Subsidiaries on a consolidated basis, prepared in accordance with US GAAP, (C) UK Insurance, prepared in accordance with UK GAAP and (D) UK Insurance, prepared in substantially the form of forecasted cash flows prepared by the Borrower and delivered to the Lender on the Closing Date, it being recognized by the Lender that such projections are not to be viewed as facts and are subject to significant uncertainties and contingencies, many of which are beyond the control of the Borrower and its Subsidiaries, that no assurances can be given that any particular projection will be realized, that actual results may vary from projected results and that such differences may be material;

(k) Prompt notice of:

(i) the occurrence of any Potential Event of Default or Event of Default;

(ii) any matter that has resulted or could reasonably be expected to result in a Material Adverse Effect, including (i) breach or non-performance of, or any default under, a Contractual Obligation of the Borrower or any Subsidiary thereof; (ii) any dispute, litigation, investigation, proceeding or suspension between the Borrower or any Subsidiary and any Governmental Authority; or (iii) the commencement of, or any material development in, any litigation or proceeding affecting the Borrower or any Subsidiary, including pursuant to any applicable Environmental Laws;

(iii) the occurrence of any ERISA Event that could reasonably be expected to have or result in a Material Adverse Effect; and

(iv) any material change in accounting policies or financial reporting practices by the Borrower or any Subsidiary thereof.

Each notice pursuant to Section 6.1(k) shall be accompanied by a statement of a Responsible Officer of the Borrower setting forth details of the occurrence referred to therein and stating what action the Borrower has taken and proposes to take with respect thereto. Each notice pursuant to Section 6.1(k)(i) shall describe with particularity any and all provisions of this Agreement and any other Loan Document that have been breached.

6.2 Payments of Obligations . The Borrower shall, and shall cause its Subsidiaries to pay and discharge as the same shall become due and payable, all its material obligations and liabilities, including (a) all material tax liabilities, assessments and governmental charges or levies upon it or its properties or assets, unless the same are being contested in good faith by appropriate proceedings diligently conducted and adequate reserves in accordance with US GAAP are being maintained by the Borrower or such Subsidiary; (b) all lawful claims which, if unpaid, would by law become a Lien upon its property (other than a Permitted Lien); and (c) all Indebtedness, as and when due and payable, in excess of the Threshold Amount, but subject to any subordination provisions contained in any instrument or agreement evidencing such Indebtedness; *provided, however* , that the Borrower and its Subsidiaries shall not be required to pay any such tax, assessment, charge, levy, claim or Indebtedness which is being contested in good faith by appropriate proceedings and as to which adequate reserves have been established in accordance with GAAP, unless the failure to make any such payment could give rise to an immediate right to foreclose on a Lien securing such amounts.

6.3 Further Assurances . (x) The Borrower shall, and shall cause its Subsidiaries to do and perform, from time to time, any and all acts (and execute any and all documents) as may be necessary or as may be reasonably requested by the Lender in order to effect the purposes of the Loan Documents, including, without limitation, to: (a) correct any material defect or error that may be discovered in any Loan Document or in the execution, acknowledgment, filing or recordation thereof, and (b) do, execute, acknowledge, deliver, record, re-record, file, re-file, register and re-register any and all such further acts, deeds,

certificates, assurances and other instruments as the Lender may reasonably require from time to time in order to (i) carry out more effectively the purposes of the Loan Documents, (ii) to the fullest extent permitted by applicable law, subject any the Borrower's or any of its Subsidiaries' properties, assets, rights or interests to the Liens now or hereafter intended to be covered by any of the Security Documents, (iii) perfect and maintain the validity, effectiveness and priority of any of the Security Documents and any of the Liens intended to be created thereunder and (iv) assure, convey, grant, assign, transfer, preserve, protect and confirm more effectively unto the Lender the rights granted or now or hereafter intended to be granted to the Lender under any Loan Document or under any other instrument executed in connection with any Loan Document to which the Borrower or any of its Subsidiaries is or is to be a party. The Borrower shall, within ten Business Days after the Closing Date, deliver to the Lender documentation evidencing the perfection under the laws of England and Wales of the Lender's security interest in the capital stock of MBIA UK and (B) customary legal opinions of English counsel to the Lender related to the foregoing, in each case in form and substance reasonably satisfactory to the Lender.

6.4 Maintenance of Existence . The Borrower shall, and cause each of its Subsidiaries to: (a) maintain in full force and effect its legal existence and good standing under the Applicable Laws of its jurisdiction of organization and carry on its business in substantially the same manner and in substantially the same fields as such business is now carried on and maintained; (b) take all reasonable action to maintain all rights, privileges, permits, licenses and franchises necessary or desirable in the normal conduct of its business, except to the extent that failure to do so could not reasonably be expected to have a Material Adverse Effect; and (c) preserve or renew all of its registered patents, trademarks, trade names and service marks, the non-preservation of which could reasonably be expected to have a Material Adverse Effect.

6.5 Maintenance of Properties . The Borrower shall, and shall cause each of its Subsidiaries to: (i) maintain, preserve and protect all of its material properties and equipment necessary in the operation of its business in good working order and condition, ordinary wear and tear excepted; (ii) make all necessary repairs thereto and renewals and replacements thereof except where the failure to do so could not reasonably be expected to have a Material Adverse Effect; and (iii) use the standard of care typical in the industry in the operation and maintenance of its facilities.

6.6 Maintenance of Insurance . The Borrower shall, and shall cause each of its Subsidiaries to: maintain with financially sound and reputable insurance companies not Affiliates of the Borrower insurance with respect to its properties and business against loss or damage of the kinds customarily insured against by similarly sized Persons engaged in the same or similar business, of such types and in such amounts as are customarily carried under similar circumstances by such other Persons.

6.7 Compliance with Laws . The Borrower shall, and shall cause each of its Subsidiaries to comply in all material respects with the requirements of all Applicable

Law, except, as to matters which have been disclosed publicly or to the Lender in the financial statements of the Borrower prior to the Closing Date, where the failure to comply therewith could not reasonably be expected to have a Material Adverse Effect.

6.8 Books and Records . The Borrower shall, and shall cause each of its Subsidiaries to: (a) maintain proper books of record and account, in which full, true and correct entries in conformity with US GAAP consistently applied shall be made of all financial transactions and matters involving the assets and business of the Borrower or such Subsidiary, as the case may be, and (b) maintain such books of record and account in material conformity with all applicable requirements of any Governmental Authority having regulatory jurisdiction over the Borrower or such Subsidiary, as the case may be.

6.9 Inspection Rights . Permit representatives and independent contractors of the Lender to visit and inspect any of its properties, to examine its corporate, financial and operating records, and make copies thereof or abstracts therefrom, and to discuss its affairs, finances and accounts with its directors, officers, and independent public accountants, all at the expense of the Borrower and at such reasonable times during normal business hours and upon reasonable advance notice to the Borrower (*provided* that the Lender shall give the Borrower an opportunity to participate in any and all such discussions), but no more frequently than four times per year unless an Event of Default has occurred and is continuing; *provided, however* , that when an Event of Default exists the Lender (or any of its representatives or independent contractors) may do any of the foregoing at the expense of the Borrower at any time during normal business hours and without advance notice.

6.10 Compliance with Environmental Laws . Except as could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect, the Borrower shall, and shall cause each of its Subsidiaries to use commercially reasonable efforts to comply and cause all lessees and other Persons operating or occupying its properties to comply, in all material respects, with all applicable Environmental Laws; obtain and renew all Environmental Permits necessary for its operations and properties; and conduct any investigation, study, sampling and testing, and undertake any cleanup, removal, remedial or other action necessary to remove and clean up all Hazardous Materials from any of its properties, in accordance with the requirements of all Environmental Laws, if required; provided, however, that neither the Borrower nor any of its Subsidiaries shall be required to undertake any such cleanup, removal, remedial or other action to the extent that its obligation to do so is being contested in good faith and by proper proceedings and appropriate reserves are being maintained with respect to such circumstances in accordance with US GAAP.

6.11 Material Contracts . The Borrower shall, and shall cause each of its Subsidiaries to perform and observe all the terms and provisions of each material Contractual Obligation to be performed or observed by it, maintain each such material Contractual Obligation in full force and effect, enforce each such material Contractual Obligation in accordance with its terms.

ARTICLE VII
NEGATIVE COVENANTS

Until the irrevocable payment in full in cash of all of the Obligations (other than contingent Obligations related to indemnification payments not then due and owing), the Borrower hereby agrees that it shall not, nor shall it permit any of its Subsidiaries to, directly or indirectly:

7.1 Liens . Create, incur, assume or suffer to exist any Lien upon any of its property, assets or revenues, whether now owned or hereafter acquired, or sign or file or suffer to exist under the Uniform Commercial Code of any jurisdiction a financing statement that names the Borrower or any of its Subsidiaries as debtor, or assign any accounts or other right to receive income, other than the following (each a " *Permitted Lien* "):

(a) Liens created pursuant to any Security Document;

(b) Liens existing on the date hereof and listed on Schedule 5.6(b) and any modifications, replacements, renewals or extensions thereof, provided that (i) the property covered thereby is not changed, (ii) the amount secured or benefited thereby is not increased except as contemplated by Section 7.2(c), (iii) the direct or any contingent obligor with respect thereto is not changed, and (iv) any renewal, modification or extension of the obligations secured or benefited thereby is permitted by Section 7.2(c);

(c) Liens for taxes not yet due or which are being contested in good faith and by appropriate proceedings diligently conducted, if adequate reserves with respect thereto are maintained on the books of the applicable Person in accordance with US GAAP;

(d) carriers', warehousemen's, mechanics', materialmen's, repairmen's, landlord's or other like Liens arising in the ordinary course of business which are not overdue for a period of more than 30 days or which are being contested in good faith and by appropriate proceedings diligently conducted, if adequate reserves with respect thereto are maintained on the books of the applicable Person;

(e) pledges or deposits in the ordinary course of business in connection with workers' compensation, unemployment insurance and other social security legislation, other than any Lien imposed by ERISA;

(f) Liens (A) of a collecting bank arising under Section 4-208 of the Uniform Commercial Code on items in the course of collection, and (B) in favor of a banking institution arising as a matter of law encumbering deposits (including the right of set-off) and which are within the general parameters customary in the banking industry;

(g) pledges or deposits of cash and Permitted Investments securing deductibles, self-insurance, co-payment, co-insurance, retentions and similar obligations to providers of insurance in the ordinary cause of business consistent with past practice;

(h) deposits to secure the performance of leases, licenses, subleases or sublicenses (other than Indebtedness) incurred in the ordinary course of business consistent with past practice which do not interfere in any material respect with the business of the Borrower or any of its Subsidiaries;

(i) Liens arising from precautionary Uniform Commercial Code financing statements regarding, and any interest or title of a licensor, lessor or sublessor under, operating leases;

(j) [reserved];

(k) pledges or deposits of cash and Permitted Investments of any Subsidiary securing obligations to landlords under operating leases where such Subsidiary is the tenant, securing performance by the tenant, in each case in the ordinary course of business consistent with past practice;

(l) deposits to secure the performance of bids, trade contracts and leases (other than Indebtedness), statutory obligations, surety and appeal bonds, performance bonds and other obligations of a like nature incurred in the ordinary course of business;

(m) easements, rights-of-way, restrictions and other similar encumbrances affecting real property which, in the aggregate, are not substantial in amount, and which do not in any case materially detract from the value of the property subject thereto or materially interfere with the ordinary conduct of the business of the applicable Person;

(n) Liens securing judgments for the payment of money not constituting an Event of Default under Section 8.1(h); and

(o) other Liens affecting property with an aggregate fair value not to exceed $1,000,000, provided that no such Lien shall extend to or cover any Collateral.

7.2 Indebtedness . Create, incur, assume or suffer to exist any Indebtedness, except:

(a) Indebtedness of any Subsidiary of the Borrower owed to the Borrower or another Subsidiary of the Borrower, which Indebtedness is otherwise permitted under the provisions of Section 7.3 , provided that all such Indebtedness which is owed by the Borrower shall be subordinated to the Obligations on terms satisfactory to the Lender in its sole discretion;

(b) Indebtedness under the Loan Documents;

(c) [reserved];

(d) Guarantees by the Borrower or any of its Subsidiaries of Indebtedness of any of their respective officers and employees in respect of moving and relocation and travel expenses of such Persons, in each case in the ordinary course of business consistent with past practice;

(e) [reserved];

(f) [reserved];

(g) Indebtedness arising from the honoring by a bank or other financial institution of a check, draft or similar instrument drawn against insufficient funds in the ordinary course of business; provided that such Indebtedness is extinguished within five Business Days of its incurrence;

(h) Indebtedness representing deferred compensation to employees of the Borrower and its Subsidiaries in the ordinary course of business consistent with past practice;

(i) [reserved];

(j) [reserved];

(k) Indebtedness outstanding on the date hereof and listed on Schedule 7.2 and any refinancings, refundings, renewals or extensions thereof; provided that the amount of such Indebtedness is not increased at the time of such refinancing, refunding, renewal or extension except by an amount equal to a reasonable premium or other reasonable amount paid, and fees and expenses reasonably incurred, in connection with such refinancing and the direct or any contingent obligor with respect thereto is not changed, as a result of or in connection with such refinancing, refunding, renewal or extension; and provided, further, that the terms relating to principal amount, amortization, maturity, collateral (if any) and subordination (if any), and other material terms taken as a whole, of any such refinancing, refunding, renewing or extending Indebtedness, and of any agreement entered into and of any instrument issued in connection therewith, are no less favorable in any material respect to the Borrower and its Subsidiaries or the Lender than the terms of any agreement or instrument governing the Indebtedness being refinanced, refunded, renewed or extended and the interest rate applicable to any such refinancing, refunding, renewing or extending Indebtedness does not exceed the then applicable market interest rate, provided that all such Indebtedness under this clause (k) which is owed by the Borrower to any Affiliate of the Borrower shall be subordinated to the Obligations on terms satisfactory to the Lender in its sole discretion; and

(l) Indebtedness of the Borrower and its Subsidiaries not otherwise permitted by this Section 7.2 incurred after the Closing Date in an aggregate principal amount not to exceed $1,000,000 at any time outstanding; *provided* that no Potential Event of Default or Event of Default shall have occurred and be continuing immediately before and immediately after giving effect to such incurrence.

7.3 Investments . Make or hold any Investments, except:

(a) Investments held by the Borrower and its Subsidiaries in the form of Permitted Investments;

(b) advances to officers, directors and employees of the Borrower and Subsidiaries in the ordinary course of business consistent with past practice, for travel, entertainment, relocation and analogous ordinary business purposes;

(c) Investments by any of the Subsidiaries of the Borrower in the Borrower or any of its wholly owned Subsidiaries;

(d) Guarantees permitted by Section 7.2;

(e) [reserved];

(f) Investments consisting of extensions of credit in the nature of accounts receivable or notes receivable arising from the grant of trade credit in the ordinary course of business, and Investments received in satisfaction or partial satisfaction thereof from financially troubled account debtors to the extent reasonably necessary in order to prevent or limit loss; and

(g) Investments existing on the date hereof and set forth on Schedule 7.3.

7.4 Dissolution . Suffer or permit dissolution or liquidation of itself either in whole or in part.

7.5 Consolidations, Mergers and Sales of Assets . Consolidate or merge with or into, or sell, lease or otherwise transfer all or any substantial part of their assets to, any other Person, provided that any Subsidiary of the Borrower may consolidate or merge with or into, or sell, lease or otherwise transfer all or any substantial part of their assets to the Borrower or any Subsidiary of the Borrower.

7.6 Dispositions . Make any Disposition or enter into any agreement to make any Disposition, except:

(a) Dispositions of obsolete or worn out property, whether now owned or hereafter acquired, in the ordinary course of business;

(b) Dispositions of inventory in the ordinary course of business;

(c) licenses of IP Rights in the ordinary course of business and consistent with past practice;

(d) the Borrower and its Subsidiaries may liquidate or sell Permitted Investments;

(e) leases, subleases, licenses or sublicenses of property in the ordinary course of business consistent with past practice and which do not materially interfere with the business of the Borrower and its Subsidiaries;

(f) [reserved];

(g) Dispositions in the ordinary course of business consistent with past practice consisting of the abandonment of IP Rights which, in the reasonable good faith determination of the Borrower, are not material to the conduct of the business of the Borrower or any of its Subsidiaries;

(h) [reserved];

(i) Dispositions of equipment or real property to the extent that (i) such property is exchanged for credit against the purchase price of similar replacement property or (ii) the proceeds of such Disposition are reasonably promptly applied to the purchase price of such replacement property;

(j) Dispositions of property by any Subsidiary to the Borrower or to a wholly-owned Subsidiary;

(k) Dispositions of (i) immaterial Subsidiaries of the Borrower organized in Mexico or (ii) Investments owned by MBIA UK and its Subsidiaries for fair market value;

(l) Dispositions permitted by Section 7.5 ; and

(m) Dispositions by the Borrower and its Subsidiaries not otherwise permitted under this Section 7.6; *provided* that (A) the consideration therefor is at least 75% cash and is paid at the time of the closing of such Disposition; (B) each such Disposition is in an arms'-length transaction; (C) no portion of the assets or property subject to such Disposition shall consist of Collateral; (D) no Potential Event of Default or Event of Default shall have occurred and be continuing immediately before or immediately after giving effect to such transaction; and (E) the Borrower shall use the proceeds of such Dispositions in compliance with Section 2.4(b)(iii) hereof;

provided , however , that any Disposition pursuant to Section 7.6(a) through Section 7.6(m) shall be for no less than fair market value.

7.7 Restricted Payments . Declare or make, directly or indirectly, any Restricted Payment, or incur any obligation (contingent or otherwise) to do so, or issue or sell any Equity Interests, except that, so long as no Potential Event of Default shall have occurred and be continuing at the time of any action described below or would result therefrom:

(a) each Subsidiary of the Borrower may make Restricted Payments to the Borrower and any Subsidiaries of the Borrower, ratably according to their respective holdings of the type of Equity Interest in respect of which such Restricted Payment is being made;

(b) the Borrower and each Subsidiary may declare and make dividend payments or other distributions payable solely in the common stock or other common Equity Interests of such Person.

7.8 Use of Proceeds . Use proceeds of the Loans (i) directly or indirectly, for the purpose, whether immediate, incidental or ultimate, of purchasing or carrying any Margin Stock, or (ii) for any purpose in violation of any Applicable Law or regulation.

7.9 Change in Fiscal Year; Accounting Policies . (a) Permit the last day of its Fiscal Year to end on a day other than December 31 or change its method of determining its Fiscal Quarters; or (b) make any change in accounting policies or reporting practices, except as required by US GAAP, Regulated Accounting Principles or UK GAAP, as applicable.

7.10 Transactions with Affiliates . Enter into any transaction of any kind with any Affiliate thereof (other than, in the case of any Subsidiary of the Borrower (including MBIA UK and its Subsidiaries), with any other Subsidiary of the Borrower), whether or not in the ordinary course of business.

7.11 Burdensome Agreements . Enter into or permit to exist any Contractual Obligation (other than this Agreement or any other Loan Document) that (a) limits the ability (i) of any Subsidiary of the Borrower to make Restricted Payments to the Borrower or any Subsidiary thereof or to otherwise transfer property to or invest in the Borrower or any Subsidiary thereof, except for any agreement in effect on the date hereof and set forth on Schedule 7.11 or (ii) of the Borrower or any Subsidiary thereof to create, incur, assume or suffer to exist Liens on property of such Person; or (b) requires the grant of a Lien to secure an obligation of such Person if a Lien is granted to secure another obligation of such Person, except in each case for prohibitions or restrictions existing under or by reason of:

(a) this Agreement, and the other Loan Documents;

(b) Applicable Law; and

(c) customary non-assignment provisions pursuant to leases (other than Indebtedness) or licensing agreements entered into by the Borrower or any of its Subsidiaries, in each case entered into in the ordinary course of business and consistent with past practices.

7.12 Financial Covenants .

(a) Required Coverage . At all times, the value of the Subject Collateral (as calculated in a manner described with the definition of Collateral Calculation Certificate) shall be in excess of the Required Coverage.

(b) Minimum Statutory Capital . Permit the Statutory Capital of the Borrower to be less than an amount equal to $750,000,000.

7.13 Prepayments of Indebtedness . Prepay, redeem, purchase, defease or otherwise satisfy prior to the scheduled maturity thereof in any manner, or make any payment of principal, interest or fees or any other payment on, any Indebtedness (including the Surplus Notes), except (a) the payment of the Loans in accordance with the terms of this Agreement and (b) refinancings and refundings of Indebtedness set forth in Schedule 7.2 in compliance with Section 7.2(c) .

7.14 Amendments of Organization Documents . Amend any of its Organization Documents in any manner or to any extent that would reasonably be expected to be adverse to the Lender, or any of the Lender's rights hereunder.

7.15 Change of Business . Engage in any material extent in any business other than those businesses conducted by it on the date hereof or any business reasonably related or incidental thereto.

7.16 Commutations . Other than with respect to (a) insurance obligations and settlements of insurance with such counterparties as the Borrower and Lender may agree, as to which no such limitation shall apply, and (b) with respect to MBIA UK and its Subsidiaries, consummate any remediation efforts, including, without limitation, amendments, compromises or commutations with respect to its insurance obligations and settlements of litigation, whether or not they effect the Subject Collateral, to the extent that any amounts paid or transferred by the Borrower and its Subsidiaries as consideration therefor or in connection therewith since the Closing Date would exceed $500,000,000 in the aggregate, provided that, notwithstanding the foregoing, the Borrower may not, without the written consent of the Lender, consummate any remediation efforts, including, without limitation, amendments, compromises or commutations with respect to its insurance obligations and settlements of litigation, whether or not they effect the Subject Collateral, if, (x) after giving effect thereto and to any borrowings of Loans in connection therewith, the aggregate principal amount of Loans outstanding would exceed $200,000,000 or (y) after giving effect thereto, all remediation efforts, including, without limitation, amendments, compromises or commutations with respect to its insurance obligations and settlements of litigation, taken as a whole since the Closing Date, would, cumulatively, have reduced the Statutory Capital of the Borrower by $100,000,000 or more.

ARTICLE VIII
EVENTS OF DEFAULT/REMEDIES

8.1 Events of Default . If any of the following events (each an " *Event of Default* ") shall occur and be continuing:

(a) the Borrower fails to (i) pay when and as required to be paid herein any amount of principal of any Loan, (ii) pay within three Business Days after the same becomes due, any interest on any Loan or any fee due hereunder when and as required to be paid pursuant to the terms hereof, or (iii) pay within five Business Days after the same becomes due any other amount due from it hereunder or any other Loan Document;

(b) any representation or statement made or deemed to be made by the Borrower in any Loan Document or in any notice, certificate or other document to be delivered thereunder shall have been incorrect or misleading when made;

(c) the Borrower fails to perform or observe any term, covenant or agreement contained in any of Section 6.1, 6.4, 6.7, 6.9 or Article VII ;

(d) the Borrower fails duly to perform or comply with any other covenant or agreement (not specified in Section 8.1(a) or (c) above) contained in any Loan Document and such failure continues for fifteen days;

(e) (i) the Borrower or any Subsidiary thereof (A) fails to make any payment when due (whether by scheduled maturity, required prepayment, acceleration, demand, or otherwise) in respect of any Indebtedness (other than Indebtedness hereunder and Indebtedness under Swap Contracts) having an aggregate principal amount (including un-drawn committed or available amounts and including amounts owing to all creditors under any combined or syndicated credit arrangement) of more than the Threshold Amount, or (B) fails to observe or perform any other agreement or condition relating to any such Indebtedness or Guarantee or contained in any instrument or agreement evidencing, securing or relating thereto, or any other event occurs, the effect of which default or other event is to cause, or to permit the holder or holders of such Indebtedness or the beneficiary or beneficiaries of such Guarantee (or a trustee or agent on behalf of such holder or holders or beneficiary or beneficiaries) to cause, with the giving of notice if required, such Indebtedness to be demanded or to become due or to be re-purchased, prepaid, defeased or redeemed (automatically or otherwise), or an offer to repurchase, prepay, defease or redeem such Indebtedness to be made, prior to its stated maturity, or such Guarantee to become payable or cash collateral in respect thereof to be demanded; or (ii) there occurs under any Swap Contract an Early Termination Date (as defined in such Swap Contract) resulting from (A) any event of default under such Swap Contract as to which the Borrower

or any Subsidiary thereof is the Defaulting Party (as defined in such Swap Contract) or (B) any Termination Event (as defined in such Swap Contract) under such Swap Contract as to which the Borrower or any Subsidiary thereof is an Affected Party (as defined in such Swap Contract) and, in either event, the Swap Termination Value owed by the Borrower or such Subsidiary as a result thereof is greater than the Threshold Amount;

(f) the Borrower or any Subsidiary thereof becomes unable or admits in writing its inability or fails generally to pay its debts as they become due, or any writ or warrant of attachment or execution or similar process is issued or levied against all or any material part of the property of the Borrower or any of its Subsidiaries and is not released, vacated or fully bonded within 30 days after its issue or levy;

(g) the Borrower or any Subsidiary thereof institutes or consents to the institution of any proceeding under any Debtor Relief Law, or makes an assignment for the benefit of creditors; or applies for or consents to the appointment of any receiver, trustee, custodian, conservator, liquidator, rehabilitator or similar officer for it or for all or any material part of its property; or any receiver, trustee, custodian, conservator, liquidator, rehabilitator or similar officer is appointed without the application or consent of such Person and the appointment continues undischarged or unstayed for 30 calendar days; or any proceeding under any Debtor Relief Law relating to any such Person or to all or any material part of its property is instituted without the consent of such Person and continues undismissed or unstayed for 30 calendar days; or an order for relief is entered in any such proceeding; or

(h) there is entered against the Borrower or any Subsidiary thereof (i) one or more final judgments or orders for the payment of money in an aggregate amount (as to all such judgments and orders) exceeding the Threshold Amount (to the extent not covered by independent third-party insurance as to which the insurer is rated at least “A” by A.M. Best Company, has been notified of the potential claim and does not dispute coverage), or (ii) any one or more non-monetary final judgments that have, or could reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect and, in either case, (A) enforcement proceedings are commenced by any creditor upon such judgment or order, or (B) there is a period of 10 consecutive days during which a stay of enforcement of such judgment, by reason of a pending appeal or otherwise, is not in effect; or

(i) an ERISA Event occurs with respect to a Pension Plan or Multiemployer Plan which has resulted or could reasonably be expected to result in a Material Adverse Effect; or

(j) any provision of any Loan Document, at any time after its execution and delivery and for any reason other than as expressly permitted hereunder or thereunder or satisfaction in full of all the Obligations, ceases to be in full force and effect; or the Borrower or any other Person contests in any manner the validity or enforceability of any provision of any Loan Document; or the Borrower denies that it has any further liability or obligation under any provision of any Loan Document, or purports to revoke, terminate or rescind any provision of any Loan Document; or

(k) any of the Security Documents (or any Lien on any Collateral purported to be created or perfected thereunder) shall, for any reason, cease to be in full force and effect (or, in the case of any Lien on any Collateral, cease to be a perfected first priority Lien) or be declared to be null and void, or the validity or enforceability thereof shall be contested by the Borrower or the Borrower shall deny that it has any or further liability or obligation thereunder (or with respect thereto);

(l) there occurs any Change of Control; or

(m) any one or more Insurance Licenses of the Borrower or any Insurance Subsidiary shall be suspended, limited or terminated or shall not be renewed, or any other action shall be taken by any Governmental Authority, and such suspension, limitation, termination, non-renewal or action, either individually or in the aggregate, has had, or could reasonably be expected to have, a Material Adverse Effect;

the Lender may, in its sole discretion, by notice to the Borrower terminate its obligation to make Loans hereunder or declare the unpaid principal amount of all outstanding Loans, all interest accrued and unpaid thereon, and all other Obligations owing or payable under the Loan Documents to be immediately due and payable, without presentment, demand, protest or other notice of any kind, all of which are hereby expressly waived by the Borrower; *provided* that, upon the occurrence of any event specified in paragraph (f) or (g), the obligation of the Lender to make Loans automatically shall terminate and the unpaid principal amount of all outstanding Loans and all interest and other Obligations owing or payable under the Loan Documents automatically shall become due and payable without further act of the Lender.

8.2 Rights Not Exclusive . The rights provided for in the Loan Documents are cumulative and are not exclusive of any other rights, powers, privileges or remedies provided by Applicable Law or in equity, or under any other document now existing or hereafter arising.

ARTICLE IX
MISCELLANEOUS

9.1 Amendments and Waivers . None of the terms or provisions of this Agreement or any other Loan Document may be waived, amended, supplemented or otherwise modified except by a written instrument executed by the Borrower and the Lender, or, in the event that, at any time, there is more than one Lender, a written instrument executed by the Borrower and the Required Lenders (as defined below) with such prior approval, and each such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given; provided that no such amendment, waiver or consent shall:

(a) waive any condition set forth in Article IV without the written consent of each Lender;

(b) extend or increase the Commitment Amount or Loans of any Lender (or reinstate any Commitment Amount or Loans terminated pursuant to this Agreement) without the written consent of such Lender;

(c) postpone any date fixed by this Agreement or any other Loan Document for (i) any scheduled payment (which, for the avoidance of doubt, excludes mandatory prepayments) of principal, interest, fees or other amounts due to the Lenders (or any of them) hereunder or under such other Loan Document without the written consent of each Lender entitled to such payment or (ii) any scheduled reduction of the aggregate Commitment Amount hereunder or under any other Loan Document without the written consent of each Lender;

(d) reduce the principal of, or the rate of interest specified herein on, any Loan, or any fees or other amounts payable hereunder or under any other Loan Document without the written consent of each Lender entitled to such amount; provided, however, that only the consent of the Required Lenders shall be necessary to amend the definition of "Default Rate";

(e) change Section 9.7(f) in a manner that would alter the pro rata sharing of payments required thereby without the written consent of each Lender;

(f) change any provision of this Section 9.1, including the definition of "Required Lenders", or any other provision hereof specifying the number or percentage of Lenders required to amend, waive or otherwise modify any rights hereunder or make any determination or grant any consent hereunder; or

(g) release all or substantially all of the Collateral in any transaction or series of related transactions, without the written consent of each Lender.

For purposes of this Section 9.1, " *Required Lenders* " means, as of any date of determination, Lenders holding more than 50% of the sum of the total used and unused Commitment Amount then outstanding (after giving effect to any reductions thereto from time to time pursuant to the terms of this Agreement).

Notwithstanding anything to the contrary set forth in this Agreement, including this Section 9.1, or any other Loan Document, in connection with, or in order to facilitate, any assignments of the rights or benefits of the Lender hereunder, Blue Ridge Investments, L.L.C. may in its sole discretion, amend this Agreement and any other Loan Document

without the consent of any other Person, including the Borrower, in order to (i) provide for customary agency and defaulting lender provisions, including without limitation to address the transfer of any rights, obligations and duties of the Lender to one or more agents, and (ii) reflect the appointment of such agent(s) and the assignment of the Loans to more than one Lender, such provisions to be generally consistent with the provisions of Blue Ridge Investments, L.L.C.'s or, at Blue Ridge Investments L.L.C.'s option, Bank of America, N.A.'s standard documentation for syndicated loan facilities. In the event of such amendment, the Borrower agrees to pay Blue Ridge Investments, L.L.C. an annual administrative agent fee in an amount consistent with that charged by Blue Ridge Investments, L.L.C. or Bank of America, N.A. to borrowers of similar creditworthiness pursuant to similar credit facilities. Within three Business Days of any such amendment, Blue Ridge Investments, L.L.C. shall provide the Borrower with a copy thereof, and such amendment shall automatically be effective, conclusive and binding on the Borrower and each other party to the amended Loan Documents in all respects.

9.2 Notices .

(a) All notices and other communications in connection with this Agreement and the other Loan Documents shall, unless otherwise stated herein, be in writing (including facsimile or other electronic transmission) and mailed, faxed or delivered to the address or facsimile number of each of the parties hereto as set out below or at such other address as shall be designated by such party in a written notice to the Borrower or the Lender, as the case may be:

(i) If to the Lender (in the case of notices described in Section 2.3, 2.4, 2.8 and 2.9):

Global Credit Operations
Bank of America Merrill Lynch
101 N Tryon Street
Charlotte, NC 28255
Telephone No.: 980-386-7891
Attention: Nora Moss
E-mail: nora.a.moss@baml.com

(ii) If to the Lender (in all other cases):

Blue Ridge Investments, L.L.C.
214 N Tryon Street
Charlotte, NC 28255
NC1-027-14-01
Attention: John Hiebendahl
Facsimile: 704-208-1210

With a copy to (which shall not constitute notice) to:

Bank of America Corporation
50 Rockefeller Plaza, 7 th Floor
New York, NY 10020-1605
Attention: Christopher J. Garvey
Associate General Counsel and Senior Vice President

(iii) If to the Borrower:

MBIA Insurance Corporation
113 King Street
Armonk, New York 10504
Attention: Chief Financial Officer
Telephone No: 914-765-3925
Facsimile No: 914-765-3393
E-mail: chuck.chaplin@mbia.com

With a Copy to:

MBIA Insurance Corporation
113 King Street
Armonk, New York 10504
Attention: General Counsel
Telephone No: 914-765-3945
Facsimile No: 914-765-3919
E-mail: ram.wertheim@mbia.com

(b) All such notices, requests and communications shall be effective (i) if transmitted by fax or other electronic communication, when transmitted in legible form upon confirmation of receipt, and (ii) if sent by an internationally-recognized overnight courier service or otherwise delivered, with courier or delivery costs prepaid, upon receipt thereof by the recipient thereof; provided that if notices or other communication sent to an e-mail address is not sent during the normal business hours of the recipient, such notice or communication shall be deemed to have been sent at the opening of business on the next Business Day for the recipient.

9.3 No Waiver; Cumulative Remedies . No delay, indulgence, omission or other act of the Lender shall be deemed to be a waiver of any right, remedy, power or privilege of the Lender under this Agreement nor shall the Lender by any such act be deemed to have acquiesced in any Potential Event of Default or Event of Default or in any breach of any of the terms and conditions of this Agreement. No single or partial exercise of any right,

remedy, power or privilege hereunder or under any other Loan Document shall preclude any other or further exercise thereof or the exercise of any other right, remedy, power or privilege. A waiver by the Lender of any right, remedy, power or privilege under this Agreement or any other Loan Document on any one occasion shall not be construed as a bar to any right or remedy which the Lender would otherwise have on any future occasion. The rights, titles, interests, liens, securities and remedies provided in this Agreement and the other Loan Documents are cumulative, may be exercised singly or concurrently and are not exclusive of any rights or remedies provided by law.

9.4 Costs and Expenses .

(a) All costs and expenses of the parties hereto, including fees, charges and disbursements of counsel, incurred in connection with preparing for, negotiating, entering into and carrying out this Agreement and performing and consummating the transactions contemplated by this Agreement shall be paid by the Person incurring such costs and expenses.

(b) All costs and expenses, including fees and disbursements of counsel, incurred in connection with the enforcement or protection of the Lender's rights (A) in connection with this Agreement and the other Loan Documents, including its rights under this Section, or (B) in connection with the Loans made hereunder, including all such out-of-pocket expenses incurred during any workout, restructuring or negotiations in respect of such Loans, shall be paid by the Borrower.

9.5 Indemnity .

(a) The Borrower shall indemnify the Lender and each Related Party thereof (each such Person being called an " *Indemnitee* ") against, and hold each Indemnitee harmless from, any and all losses, claims, damages, liabilities and related out-of-pocket expenses (including the reasonable fees, charges and disbursements any counsel for any Indemnitee), incurred by or asserted against any Indemnitee arising out of, in connection with, or as a result of (i) the execution or delivery of this Agreement or any agreement or instrument contemplated hereby, the performance by the parties hereto of their respective obligations hereunder or the consummation of the transactions contemplated hereby, (ii) any Loan or the use of the proceeds therefrom or (iii) any actual or prospective claim, litigation, investigation or proceeding relating to any of the foregoing, whether based on contract, tort or any other theory and regardless of whether any Indemnitee is a party thereto and whether brought by the Borrower, its equityholders, its directors, its creditors or any third party; provided that such indemnity shall not, as to any Indemnitee, be available to the extent that such losses, claims, damages, liabilities or related expenses are determined by a court of competent jurisdiction by final and nonappealable judgment to have resulted from the gross negligence or willful misconduct of such Indemnitee. Without limiting the provisions of Section 3.1(c), this Section 9.5(a) shall not apply with respect to Taxes.

(b) To the fullest extent permitted by applicable law, the Borrower shall not assert, and hereby waives, any claim against any Indemnitee, on any theory of liability, for special, indirect, consequential or punitive damages (as opposed to direct or actual damages) arising out of, in connection with, or as a result of, this Agreement, any other Loan Document or any agreement or instrument contemplated hereby, the transactions contemplated hereby or thereby, any Loan or the use of the proceeds thereof. No Indemnitee referred to in subsection (a) above shall be liable for any damages arising from the use by unintended recipients of any information or other materials distributed to such unintended recipients by such Indemnitee through telecommunications, electronic or other information transmission systems in connection with this Agreement or the other Loan Documents or the transactions contemplated hereby or thereby other than for direct or actual damages resulting from the gross negligence or willful misconduct of such Indemnitee as determined by a final and nonappealable judgment of a court of competent jurisdiction.

(c) All amounts due under this Section 9.5 shall be payable not later than ten Business Days after demand therefor.

(d) The agreements in this Section shall survive the termination of the commitments and the repayment, satisfaction or discharge of all the other Obligations.

9.6 Payments Set Aside . If the Borrower (or another Person on the Borrower's behalf) makes a payment on its Obligations under the Loan Documents, or the Lender exercises its right of set-off, and such payment or the proceeds of such set-off or any part thereof subsequently is invalidated, declared to be fraudulent or preferential, set aside or required (including pursuant to any settlement entered into by the Lender in its discretion) to be repaid to the Borrower, a trustee, receiver or any other Person in connection with any Insolvency Proceeding or otherwise, then, to the extent of such recovery, the obligation or part thereof originally intended to be satisfied shall be revived and continued in full force and effect as if such payment had not been made or such set-off had not occurred.

9.7 Successors and Assigns .

(a) Assignments Generally. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective authorized successors and assigns; *provided* that the Borrower may not assign or transfer any of its rights or obligations under this Agreement without the prior written consent of the Lender; *provided* that Optinuity Alliance Resources Corporation may act as the Borrower's agent hereunder, to do and perform, on behalf of the Borrower, any and every act and thing required or necessary to be done hereunder; *provided further* that the Borrower shall remain solely responsible for compliance with its obligations hereunder

(b) Assignments by Lender . The Lender may at any time assign or transfer any of its rights or benefits under this Agreement to an Eligible Assignee. On the effective

date of such assignment: (i) the assignee thereunder shall have the rights and obligations of a “Lender” hereunder to the extent such rights and obligations hereunder have been assigned to it pursuant to an assignment agreement and shall thereafter be a party hereto and a “Lender” for all purposes hereof; (ii) the assigning Lender thereunder shall, to the extent that rights and obligations hereunder have been assigned thereby pursuant to such assignment agreement, relinquish its rights (other than any rights which survive the termination hereof) and be released from its obligations hereunder; (iii) if any such assignment occurs after the issuance of the Note hereunder, the assigning Lender shall, upon the effectiveness of such assignment or as promptly thereafter as practicable, surrender its Note for cancellation, and thereupon the Borrower shall issue and deliver new Note, if so requested by the assignee and/or assigning Lender, to such assignee and/or to such assigning Lender, with appropriate insertions, to reflect the new outstanding Loans of the assignee and/or the assigning Lender. Notwithstanding anything to the contrary in this Agreement, the Lender shall not assign or transfer (including by way of participation) any of its rights or benefits under this Agreement to a Person who is not a “ *United States person* ” within the meaning of Section 7701(a)(3) of the Code. The Borrower shall maintain a register for the recordation of the name and address of the Lender, and principal amounts (and stated interest) of the Loans owing to, the Lender pursuant to the terms hereof from time to time (the “ *Register* ”). The entries in the Register shall be conclusive absent manifest error, and the Borrower and the Lender shall treat each Person whose name is recorded in the Register pursuant to the terms hereof as a Lender hereunder for all purposes of this Agreement. The Register shall be available for inspection by the Lender at any reasonable time and from time to time upon reasonable prior notice. In addition, at any time that a request for a consent for a material or other substantive change to the Loan Documents is pending, the Lender may request and receive from the Borrower a copy of the Register.

(c) Security Interests . Any Lender may at any time pledge or assign a security interest in all or any portion of its rights under this Agreement (including under the Note, if any) to secure obligations of such Lender, including any pledge or assignment to secure obligations to a Federal Reserve Bank; provided that no such pledge or assignment shall release such Lender from any of its obligations hereunder or substitute any such pledgee or assignee for such Lender as a party hereto.

(d) Participations . Any Lender may at any time, without the consent of, or notice to, the Borrower, sell participations to any Person (other than a natural person or the Borrower or any of the Borrower’s Affiliates or Subsidiaries) (each, a “ *Participant* ”) in all or a portion of such Lender’s rights and/or obligations under this Agreement (including all or a portion of its Commitment Amount and/or the Loans owing to it); provided that (i) such Lender’s obligations under this Agreement shall remain unchanged, (ii) such Lender shall remain solely responsible to the other parties hereto for the performance of such obligations and (iii) the Borrower and any other Lenders shall continue to deal solely and directly with such Lender in connection with such Lender’s rights and obligations under

this Agreement. Any agreement or instrument pursuant to which a Lender sells such a participation shall provide that such Lender shall retain the sole right to enforce this Agreement and to approve any amendment, modification or waiver of any provision of this Agreement; provided that such agreement or instrument may provide that such Lender will not, without the consent of the Participant, agree to any amendment, waiver or other modification described in the first proviso to Section 9.1 that affects such Participant. Subject to the following paragraph (e) of this Section, the Borrower agrees that each Participant shall be entitled to the benefits of Sections 2.11 and 3.1 to the same extent as if it were a Lender. Each Participant also agrees to be subject to paragraph (f) of this Section as though it were a Lender. Each Lender that sells a participation shall, acting solely for this purpose as a non-fiduciary agent of the Borrower, maintain a register on which it enters the name and address of each Participant and the principal amounts (and stated interest) of each Participant's interest in the Loans or other obligations under the Loan Documents (the " *Participant Register* "); provided that no Lender shall have any obligation to disclose all or any portion of the Participant Register (including the identity of any Participant or any information relating to a Participant's interest in any commitments, loans or its other obligations under any Loan Document) to any Person except to the extent that such disclosure is necessary to establish that such commitment, loan or other obligation is in registered form under Section 5f.103-1(c) of the United States Treasury Regulations. The entries in the Participant Register shall be conclusive absent manifest error, and the Lender shall treat each Person whose name is recorded in the Participant Register as the owner of such participation for all purposes of this Agreement notwithstanding any notice to the contrary. For the avoidance of doubt, the Borrower shall have no responsibility for maintaining a Participant Register.

(e) Limitations upon Participant Rights. A Participant shall not be entitled to receive any greater payment under Section 3.1 or 3.3 than the applicable Lender would have been entitled to receive with respect to the participation sold to such Participant, unless the sale of the participation to such Participant is made with the Borrower's prior written consent.

(f) Sharing of Payments . If any Lender shall, by exercising any right of setoff or counterclaim or otherwise, obtain payment in respect of (a) Obligations due and payable to such Lender hereunder and under the other Loan Documents at such time in excess of its ratable share of payments on account of the Obligations due and payable to all Lenders hereunder and under the other Loan Documents at such time obtained by all the Lenders at such time or (b) Obligations owing (but not due and payable) to such Lender hereunder and under the other Loan Documents at such time in excess of its ratable share (according to the proportion of (i) the amount of such Obligations owing (but not due and payable) to such Lender at such time to (ii) the aggregate amount of the Obligations owing (but not due and payable) to all Lenders hereunder at such time) of payment on account of the Obligations owing (but not due and payable) to all Lenders hereunder and under the other Loan Documents at such time obtained by all of the Lenders at such time, then the

Lender receiving such greater proportion shall (a) notify the other Lenders of such fact, and (b) purchase (for cash at face value) participations in the Loans of the other Lenders, or make such other adjustments as shall be equitable, so that the benefit of all such payments shall be shared by the Lenders ratably in accordance with the aggregate amount of Obligations then due and payable to the Lenders or owing (but not due and payable) to the Lenders, as the case may be, provided that:

(i) if any such participations or subparticipations are purchased and all or any portion of the payment giving rise thereto is recovered, such participations or subparticipations shall be rescinded and the purchase price restored to the extent of such recovery, without interest; and

(ii) the provisions of this Section shall not be construed to apply to (A) any payment made by the Borrower pursuant to and in accordance with the express terms of this Agreement or (B) any payment obtained by a Lender as consideration for the assignment of or sale of a participation in any of its Loans to any assignee or participant, other than to the Borrower or any Affiliate thereof (as to which the provisions of this Section shall apply). The Borrower consents to the foregoing and agrees, to the extent it may effectively do so under applicable law, that any Lender acquiring a participation pursuant to the foregoing arrangements may exercise against the Borrower setoff and counterclaim with respect to such participation as fully as if such Lender were a direct creditor of the Borrower in the amount of such participation.

9.8 Counterparts . This Agreement may be signed in any number of counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument. Delivery of an executed counterpart of this Agreement by facsimile or other electronic transmission shall be as effective as delivery of a manually executed counterpart.

9.9 Severability . The holding by any court of competent jurisdiction that any remedy pursued by the Lender hereunder is unavailable or unenforceable shall not affect in any way the ability of the Lender to pursue any other remedy available to it. In the event any provision of this Agreement shall be held illegal, invalid or unenforceable by any court of competent jurisdiction, the parties hereto agree that such provision shall be ineffective only to the extent of such illegality, invalidity or unenforceability without invalidating the remainder of such provision or any other provisions of this Agreement and shall not invalidate or render unenforceable such provision in any other jurisdiction.

9.10 No Third Parties Benefited . This Agreement is made and entered into for the sole protection and legal benefit of the parties hereto, and their permitted successors and assigns, and no other Person shall be a direct or indirect legal beneficiary of, or have any direct or indirect cause of action or claim in connection with, this Agreement.

9.11 Governing Law; Waiver of Jury Trial .

(a) **THIS AGREEMENT AND, EXCEPT AS OTHERWISE SET FORTH THEREIN, THE OTHER LOAN DOCUMENTS, AND THE RIGHTS AND OBLIGATIONS OF THE PARTIES HEREUNDER AND THEREUNDER, SHALL BE GOVERNED BY, AND CONSTRUED AND INTERPRETED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK WITHOUT REGARD TO THE RULES OF CONFLICTS OF LAWS (OTHER THAN SECTION 5-1401 AND SECTION 5-1402 OF THE NEW YORK GENERAL OBLIGATIONS LAW).**

(b) **EACH OF THE PARTIES HERETO HEREBY KNOWINGLY, VOLUNTARILY, AND INTENTIONALLY IRREVOCABLY WAIVES (TO THE EXTENT PERMITTED BY APPLICABLE LAW) ANY RIGHTS IT MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY LITIGATION BASED HEREON, OR ARISING OUT OF, UNDER, OR IN CONNECTION WITH, THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT, OR ANY COURSE OF CONDUCT, COURSE OF DEALING, STATEMENTS (WHETHER VERBAL OR WRITTEN), OR ACTIONS OF THE BORROWER. EACH PARTY HERETO (A) CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PERSON HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PERSON WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER AND (B) ACKNOWLEDGES THAT IT AND THE OTHER PARTIES HERETO HAVE BEEN INDUCED TO ENTER INTO THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION.**

9.12 Submission to Jurisdiction, Etc . By execution and delivery of this Agreement, the Borrower irrevocably and unconditionally:

(a) submits for itself and its property in any legal action or proceeding against it arising out of or in connection with this Agreement or any other Loan Document, or for recognition and enforcement of any judgment in respect thereof, to the exclusive jurisdiction of the Supreme Court of the State of New York and the United States District Court for the Southern District of New York, in each case sitting in the Borough of Manhattan, and appellate courts from any thereof;

(b) consents that any such action or proceeding may be brought in or removed to such courts, and waives any objection, or right to stay or dismiss any action or proceeding, that it may now or hereafter have to the venue of any such action or proceeding in any such court or that such action or proceeding was brought in an inconvenient court and agrees not to plead or claim the same;

(c) agrees that service of process in any such action or proceeding may be effected by mailing a copy thereof by registered or certified mail (or any substantially similar form of mail), postage prepaid, to the Borrower at its address specified in Section 9.2 or at such other address of which the Lender shall have been notified pursuant thereto;

(d) agrees that nothing herein shall (*i*) affect the right of the Lender to effect service of process in any other manner permitted by law or (*ii*) limit the right of the Lender to commence proceedings against or otherwise sue the Borrower or any other Person in any other court of competent jurisdiction nor shall the commencement of proceedings in any one or more jurisdictions preclude the commencement of proceedings in any other jurisdiction (whether concurrently or not) if, and to the extent, permitted by the Applicable Law; and

(e) agrees that judgment against it in any such action or proceeding shall be conclusive and may be enforced in any other jurisdiction within or without the United States by suit on the judgment or otherwise as provided by law, a certified or exemplified copy of which judgment shall be conclusive evidence of the fact and amount of the Borrower's obligation.

9.13 Entire Agreement . The Loan Documents embody the entire agreement and understanding among the parties hereto, and supersede all prior or contemporaneous agreements and understandings of such Persons, verbal or written, relating to the subject matter hereof and thereof.

9.14 Independence of Covenants . All covenants under this Agreement and the other Loan Documents shall be given independent effect so that if a particular action or condition is not permitted by any of such covenants, the fact that it would be permitted by an exception to, or would otherwise be within the limitations of, another covenant shall not avoid the occurrence of a Potential Event of Default or an Event of Default if such action is taken or condition exists.

9.15 No Partnership, Etc . The Lender and the Borrower intend that the relationship between them shall be solely that of creditor and debtor and the Lender does not have any fiduciary relationship with or duty to the Borrower arising out of or in connection with this Agreement or the other Loan Documents. In connection with all aspects of each transaction contemplated hereby (including in connection with any amendment, waiver or other modification hereof or of any other Loan Document), the Borrower acknowledges and agrees, and acknowledges its Affiliates' understanding, that: (i) (A) the Borrower has consulted its own legal, accounting, regulatory and tax advisors to the extent it has deemed appropriate, and (B) the Borrower is capable of evaluating, and understands and accepts, the terms, risks and conditions of the transactions contemplated hereby and by the other Loan Documents; (ii) (A) the Lender is and has been acting solely as a principal and, except as expressly agreed in writing by the relevant parties, has not been, is not, and will not be acting as an advisor, agent or fiduciary for the Borrower or any of its Affiliates, or any other Person and (B) the Lender has no obligation to the Borrower or any of its Affiliates with respect to the transactions contemplated hereby except those obligations

expressly set forth herein and in the other Loan Documents; and (iii) the Lender and its respective Affiliates may be engaged in a broad range of transactions that involve interests that differ from those of the Borrower and its Affiliates, and the Lender has no obligation to disclose any of such interests to the Borrower or any of its Affiliates. To the fullest extent permitted by law, the Borrower hereby waives and releases any claims that it may have against the Lender with respect to any breach or alleged breach of agency or fiduciary duty in connection with any aspect of any transaction contemplated hereby. Nothing contained in this Agreement or any other Loan Document shall be deemed or construed to create a partnership, tenancy-in-common, joint tenancy, joint venture or co-ownership by or between the Lender and the Borrower or any other Person. The Lender shall not in any way be responsible or liable, under the Loan Documents, for the debts, losses, obligations or duties of the Borrower or any other Person. Nothing in the Loan Documents shall be deemed to modify in any way any other agreements between the Borrower and the Lender.

9.16 Treatment of Certain Information; Confidentiality . The Lender agrees to maintain the confidentiality of the Information (as defined below), except that Information may be disclosed: (i) to its Affiliates and to it and its Related Parties (it being understood that the Persons to whom such disclosure is made will be informed of the confidential nature of such Information and instructed to keep such Information confidential); (ii) to the extent required or requested by any regulatory authority purporting to have jurisdiction over such Person or its Related Parties (including any self-regulatory authority, such as the National Association of Insurance Commissioners); (iii) to the extent required by Applicable Law or regulations or by any subpoena or similar legal process; (iv) to any other party hereto; (v) in connection with the exercise of any remedies hereunder or under any other Loan Document or any action or proceeding relating to this Agreement or any other Loan Document or the enforcement of rights hereunder or thereunder; (vi) subject to an agreement containing provisions substantially the same as those of this Section, to any assignee of any of the Lender's rights and obligations under this Agreement or any Eligible Assignee invited to be a Lender; (vii) with the consent of the Borrower or (viii) to the extent such Information (A) becomes publicly available other than as a result of a breach of this Section or (B) becomes available to the Lender or any of its Affiliates on a non-confidential basis from a source other than the Borrower or its Affiliates that is not to the knowledge of the Lender subject to confidentiality obligations owed to the Borrower or any of its Affiliates. For purposes of this Section, "Information" means all information received from the Borrower or any of its Affiliates relating to the Borrower or any of its Affiliates or any of their respective businesses, other than any such information that is available to the Lender on a non-confidential basis prior to disclosure by the Borrower or such Affiliate. Any Person required to maintain the confidentiality of Information as provided in this Section shall be considered to have complied with its obligation to do so if such Person has exercised the same degree of care to maintain the confidentiality of such Information as such Person would accord to its own confidential information.

9.17 USA PATRIOT Act . The Lender hereby notifies the Borrower that pursuant to the requirements of the USA PATRIOT Act it is required to obtain, verify and record information that identifies the Borrower, which information includes the name and address of the Borrower and other information that will allow the Lender to identify the Borrower in accordance with the USA PATRIOT Act. The Borrower shall, promptly following a request by the Lender, provide all documentation and other information that the Lender requests in order to comply with its ongoing obligations under applicable "know your customer" an anti-money laundering rules and regulations, including the USA PATRIOT Act.

9.18 Collateral Agent . Each Lender hereby irrevocably appoints Blue Ridge Investments, L.L.C. to act on its behalf as the collateral agent (and Blue Ridge Investments, L.L.C. hereby accepts such appointment) under the Security Documents for purposes of acquiring, holding and enforcing any and all Liens on Collateral granted by the Borrower to secure any of the Obligations, together with such powers and discretion as are reasonably incidental thereto, and authorizes such collateral agent to take such actions on its behalf and to exercise such powers as are delegated to such collateral agent by the terms hereof or thereof, together with such actions and powers as are reasonably incidental thereto. The provisions of this Section 9.18 are solely for the benefit of each Lender and such collateral agent, and the Borrower shall not have rights as a third party beneficiary of any of such provisions. In this connection, such collateral agent and any co-agents, sub-agents and attorneys-in-fact appointed by such collateral agent for purposes of holding or enforcing any Lien on the Collateral (or any portion thereof) granted under the Security Documents, or for exercising any rights and remedies thereunder at the direction of the Lender, shall be entitled to the benefits of all provisions of Section 9.5 , as though such collateral agent, co-agents, sub-agents and attorneys-in-fact were a Lender under the Loan Documents) as if set forth in full herein with respect thereto.

9.19 Survival of Representations and Warranties . All representations and warranties made hereunder and in any other Loan Document or other document delivered pursuant hereto or thereto or in connection herewith or therewith shall survive the execution and delivery hereof and thereof. Such representations and warranties have been or will be relied upon by the Lender, regardless of any investigation made by the Lender or on its behalf and notwithstanding that the Lender may have had notice or knowledge of any Default at the time it extended any credit hereunder, and shall continue in full force and effect as long as any Loan or any other obligation hereunder shall remain unpaid or unsatisfied.

[THE REMAINDER OF THIS PAGE IS INTENTIONALLY BLANK]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed and delivered by their proper and duly authorized officers as of the day and year first above written.

MBIA INSURANCE CORPORATION,
as Borrower

By: /s/ C. Edward Chaplin
Name: C. Edward Chaplin
Title: Chief Financial Officer

BLUE RIDGE INVESTMENTS, L.L.C.
as Lender

By: /s/ Neil Cotty
Name: Neil Cotty
Title: Executive Vice President

EXHIBIT A
TO LOAN AGREEMENT

FORM OF NOTE

$500,000,000 Dated: • , 2013

FOR VALUE RECEIVED, the undersigned, MBIA Insurance Corporation, a stock insurance company organized under the laws of the State of New York (the " *Borrower* "), HEREBY PROMISES TO PAY to Blue Ridge Investments, L.L.C. or its registered assigns (the " *Lender* ") the principal sum of $500,000,000 or, if less, the aggregate principal amount of the Loans (as defined below) made by the Lender to the Borrower pursuant to the Loan Agreement outstanding on the Maturity Date (as defined in the Loan Agreement).

The Borrower promises to pay interest on the unpaid principal amount of each Loan from the date of such Loan until such principal amount is paid in full, at such interest rates, and payable at such times, as are specified in the Loan Agreement.

Each Loan owing to the Lender by the Borrower pursuant to the Loan Agreement, and all payments made on account of principal thereof, shall be recorded by the Lender and, prior to any transfer hereof, endorsed on the grid attached hereto which is part of this Note.

This promissory note is the Note referred to in, and is entitled to the benefits of, the Loan Agreement dated as of May 6, 2013 (the " *Loan Agreement* ") between the Borrower and the Lender. The Loan Agreement, among other things, (*i*) provides for the making of Loans by the Lender to the Borrower from time to time in an aggregate amount not to exceed the Dollar amount first above mentioned, the indebtedness of the Borrower resulting from each such Loan being evidenced by this note, and (*ii*) contains provisions for acceleration of the maturity hereof upon the happening of certain stated events and also for prepayments on account of principal hereof prior to the maturity hereof upon the terms and conditions therein specified.

MBIA INSURANCE CORPORATION

By: _____
Name:
Title:

LOANS AND PAYMENTS OF PRINCIPAL

Date	Amount of Loan	Amount of Principal Paid	Unpaid Principal Balance	Notation Made by

EXHIBIT B
TO LOAN AGREEMENT

FORM OF
NOTICE OF BORROWING

Date: •

To: Blue Ridge Investments, L.L.C. (" *Blue Ridge* ")

Ladies and Gentlemen:

The undersigned refers to the Loan Agreement, dated as of May 6, 2013 (as amended from time to time, the " *Loan Agreement* "), between MBIA Insurance Corporation (" *MBIA* "), as Borrower, and Blue Ridge, as Lender (terms defined therein being used herein as therein defined) and hereby gives you notice irrevocably, pursuant to Section 2.3 of the Loan Agreement, of the request of the Loan specified below:

(a) The aggregate amount of the requested Loan is $ • .

(b) The requested Loan is to consist of [Base Rate][LIBOR] Loans.

(c) If the requested Loan is to consist of LIBOR Loans, the initial Interest Rate Period for such Loans will be[one (1)] [three (3)] [six (6)] months.

(d) The Business Day for the making of the requested Loan is • (the " *Borrowing Date* ").

(e) The Loan shall be made by deposit to [INCLUDE DISBURSEMENT INSTRUCTIONS].

The Borrower certifies that the following statements are true on the date hereof, and will be true on the Borrowing Date, both before and after giving effect to the Loan and to the application of the proceeds therefrom:

(i) the representations and warranties of the Borrower contained in Article V of the Loan Agreement and each other Loan Document are true and correct in all material respects as if made on and as of the date hereof and will be true and correct in all material respects on the Borrowing Date as if made on and as of that date (except to the extent such representations and warranties expressly relate to an earlier date, in which case they are true and correct as of such date), and

(ii) no Potential Event of Default or Event of Default exists or will result from such Borrowing.

[(iii) the proceeds of such Borrowing are to be used by the Borrower to meet the Borrower's ordinary course liquidity needs within 30 days of such Borrowing Date.]

As of the date hereof and as of the Borrowing Date the conditions set forth in Section 4.2 will be satisfied.

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MBIA INSURANCE CORPORATION

By: _____
Name:
Title:

[INTENTIONALLY OMITTED]

EXHIBIT D
TO LOAN AGREEMENT

FORM OF
COLLATERAL CALCULATION CERTIFICATE

Date: •

To: Blue Ridge Investments, L.L.C. (" *Blue Ridge* ")

Ladies and Gentlemen:

The undersigned refers to the Loan Agreement, dated as of May 6, 2013 (as amended from time to time, the " *Loan Agreement* "), between MBIA Insurance Corporation (" *MBIA* "), as Borrower, and Blue Ridge, as Lender (terms defined therein being used herein as therein defined).

I, • , hereby certify that I am the duly elected, qualified and acting [Chief Financial Officer/Treasurer/Controller] of MBIA. I further certify to Blue Ridge that (*i*) set forth below is MBIA's good faith calculation of the notional amount of the Subject Collateral as of • , 20 • , calculated as required by the Loan Agreement, and (*ii*) since such date, no event or circumstance has occurred that would reasonably be expected to have a material adverse effect on any of the amounts reflected below.

($ in thousands)

Excess Spread Salvage Collateral	$
Installment Premium Collateral	$
Put-Back Recoveries (Net of Other Reserves)	$
(Gross: $)	
(Reflected on Statutory Balance Sheet as a Contra-liability: $)	
Total	$

MBIA INSURANCE CORPORATION

By: _____
Name:
Title:

EXHIBIT E
TO LOAN AGREEMENT

FORM OF
CONVERSION/CONTINUATION NOTICE

Date: •

To: Blue Ridge Investments, L.L.C. (" *Blue Ridge* ")

Ladies and Gentlemen:

The undersigned refers to the Loan Agreement, dated as of May 6, 2013 (as amended from time to time, the " *Loan Agreement* "), between MBIA Insurance Corporation (" *MBIA* "), as Borrower, and Blue Ridge, as Lender (terms defined therein being used herein as therein defined) and hereby gives you notice irrevocably, pursuant to Section 2.9 of the Loan Agreement, of the request to convert a Loan as follows:

(a) The Loan to be converted consist of [Base Rate][LIBOR] Loans in the aggregate principal amount of $ which were initially advanced to the Borrower on .

(b) Such borrowing is to be converted into a Loan consisting of the following Interest Period: .

(c) The date of the requested conversion is to be .

For each conversion of a Loan consisting of Base Rate Loans to LIBOR Loans, the Borrower hereby certifies to the Lender that, on the date of this Conversion/ Continuation Notice, and after giving effect to the requested conversion no Potential Event of Default or Event of Default exists or will result from such requested conversion.

MBIA INSURANCE CORPORATION

By: _____
Name:
Title:

EXHIBIT F
TO LOAN AGREEMENT

FORM OF
COMPLIANCE CERTIFICATE

Date: •

To: Blue Ridge Investments, L.L.C. (" *Blue Ridge* ")

Ladies and Gentlemen:

The undersigned refers to the Loan Agreement, dated as of May 6, 2013 (as amended from time to time, the " *Loan Agreement* "), between MBIA Insurance Corporation (" *MBIA* "), as Borrower, and Blue Ridge, as Lender (terms defined therein being used herein as therein defined).

The undersigned Responsible Officer of the Borrower hereby certifies as of the date hereof that he/she is the of the Borrower, and that, as such, he/she is authorized to execute and deliver this Certificate to the Lender on behalf of the Borrower, and that:

[Use following paragraphs for fiscal year-end financial statements]

1. Attached hereto as Schedule 1 are the year-end audited financial statements required by Section 6.1(a)(i) of the Loan Agreement for the fiscal year of the Borrower and its Subsidiaries ended as of the above date, together with the report and opinion of its independent certified public accountant required by Section 6.1(a) of the Loan Agreement.

2. Attached hereto as Schedule 2 are the year-end audited financial statements required by Section 6.1(a)(iv) of the Loan Agreement for the fiscal year of each of MBIA UK and UK Insurance ended as of the above date, together with the report and opinion of its independent certified public accountant required by Section 6.1(a)(iv) of the Loan Agreement.

[Use following paragraphs for interim financial statements]

1. Attached hereto as Schedule 1 are the unaudited financial statements required by Section 6.1(a)(ii) of the Loan Agreement for the fiscal quarter of the Borrower ended as of the above date. Such financial statements fairly present the consolidated financial condition, results of operations and cash flows of the Holdings and its Subsidiaries in accordance with US GAAP as at such date and for such period, subject only to normal year-end audit adjustments and the absence of footnotes.

2. [reserved]

[Use following paragraphs for all financial statements]

3. The undersigned has reviewed and is familiar with the terms of the Loan Agreement and has made, or has caused to be made under his/her supervision, a detailed review of the transactions and condition (financial or otherwise) of the Borrower and its Subsidiaries during the accounting period covered by the attached financial statements.

4. A review of the activities of the Borrower and its Subsidiaries during such fiscal period has been made under the supervision of the undersigned with a view to determining whether during such fiscal period the Borrower performed and observed all their respective obligations under the Loan Documents, and

[select one:]

[to the best knowledge of the undersigned during such fiscal period, the Borrower and its Subsidiaries performed and observed each covenant and condition of the Loan Documents applicable to them, and no Default or Event of Default has occurred and is continuing.]

—or—

[the following covenants or conditions have not been performed or observed and the following is a list of each such Default or Event of Default and its nature and status:]

5. The financial covenant analyses and information set forth on Schedule 3 as of, and for, the period referred to therein attached hereto are true and accurate on and as of the date of this Certificate.

IN WITNESS WHEREOF, the undersigned has executed this Certificate as of , .

MBIA INSURANCE CORPORATION

By: _____
Name:
Title:

For the Fiscal Quarter / Year ended

Schedule 3
to the Compliance Certificate
($ in thousands)

I. Section 7.12(a)—Required Coverage Covenant

A. Subject Collateral	
1. Excess Spread Salvage Collateral	$
2. Installment Premium Collateral	$
3. Put-Back Recoveries (Net of Other Reserves)	$
(Gross: $)	
(Reflected on Statutory Balance Sheet as a Contra-liability: $)	
Subject Collateral	$
(Lines I.A.1 + 2 + 3)	
B. Required Coverage	
$1,000,000,000	$

Section 7.12(a) Covenant : Subject Collateral must be greater than Required Coverage.

II. Section 7.12(b)—Minimum Statutory Capital Covenant

A. Statutory Capital	
1. Policyholders' surplus	$
2. Contingency reserves [1]	$
Statutory Capital (Lines II.A.1 + 2)	$
B. Minimum Statutory Capital	$

Section 7.12(b) Covenant : Statutory Capital must be greater than or equal to Minimum Statutory Capital.

[1] Both policyholders' surplus and contingency reserves must be determined in a manner consistent with that used in preparing the Audited Statutory Financial Statements

Exhibit 10.2

EXECUTION VERSION

SECURITY AGREEMENT

between

MBIA INSURANCE CORPORATION,
as Borrower

and

BLUE RIDGE INVESTMENTS, L.L.C.,

as Secured Party

Dated as of May 6, 2013

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SECURITY AGREEMENT (this " *Agreement* ") dated as of May 6, 2013, between MBIA INSURANCE CORPORATION, a stock insurance corporation organized under the laws of the State of New York (the " *Borrower* "), and BLUE RIDGE INVESTMENTS, L.L.C., a Delaware limited liability company, as collateral agent for the Loan Agreement Secured Parties (as hereinafter defined) (the " *Secured Party* ").

PRELIMINARY STATEMENTS

A. In connection with the Settlement Agreement, the Loan Agreement Secured Parties and the Borrower agreed to enter into the Loan Agreement.

B. Pursuant to the Loan Agreement, the Lender has agreed to make loans to the Borrower from time to time upon the terms and subject to the conditions set forth in the Loan Agreement.

C. It is a condition precedent to the obligation of the Lender under the Loan Agreement to make loans to the Borrower that (*i*) the Borrower shall agree to secure the prompt and complete payment and performance when due of the Secured Obligations pursuant to the Security Documents and (*ii*) the Borrower and the Secured Party shall execute and deliver this Agreement.

NOW, THEREFORE, in consideration of the foregoing premises and other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, Borrower hereby agrees with the Secured Party as follows:

ARTICLE I

DEFINITIONS

1.1 Certain Defined Terms .

(a) All capitalized terms used herein but not otherwise defined herein shall have the respective meanings given to such terms in Article I of the Loan Agreement. The rules of construction set forth in Article I of the Loan Agreement shall govern this Agreement.

(b) The following terms have the meanings assigned to them in Article 9 of the UCC in effect on the date of this Agreement: Account, Chattel Paper, Commercial Tort Claim, Deposit Account, Document, Electronic Chattel Paper, Equipment, Fixtures, General Intangible, Goods, Instrument, Inventory, Investment Property, Letter of Credit, Letter-of-Credit Right, Payment Intangible, Proceeds, Registered Organization, Securities Account, Software and Supporting Obligation.

(c) In addition to the terms defined in the Loan Agreement, the preamble and the preliminary statements, the following terms used herein shall have the respective meanings set forth below:

" *Agreement* " has the meaning assigned thereto in the preamble.

" *Collateral* " has the meaning assigned thereto in Section 2.1.

" *Excess Spread Salvage Collateral* " has the meaning assigned thereto in Section 2.1(c).

" *Excluded Agreement* " has the meaning assigned thereto in Section 2.2(a)(i).

" *Installment Premium Collateral* " has the meaning assigned thereto in Section 2.1(b).

" *Loan Agreement* " means the Loan Agreement dated as of the date hereof, among the Borrower and the Loan Agreement Secured Parties, as the same may from time to time be amended, modified or supplemented.

" *Loan Agreement Secured Parties* " means each Lender from time to time party to the Loan Agreement and any agent appointed thereunder on behalf of such Lender.

" *Put-Back Recoveries* " has the meaning assigned to it in Section 2.1(a).

" *Secured Obligations* " means the Obligations (as defined in the Loan Agreement).

" *Secured Party* " shall have the meaning assigned thereto in the preamble hereof.

" *Uniform Commercial Code* " or " *UCC* " means the Uniform Commercial Code as adopted and in effect in the State of New York, unless the context requires a reference to a different jurisdiction.

ARTICLE II

GRANT OF SECURITY INTEREST

2.1 Grant of Security Interest . The Borrower, to secure the payment and performance of the Secured Obligations, grants to the Secured Party a security interest in all of the following property, whether now or hereafter existing, owned or acquired by the Borrower (collectively, the " *Collateral* "):

(a) the Borrower's right to be reimbursed for all claims paid or payable on any insured residential mortgage backed securities (including, without limitation, those which

are identified in Section 1 of Schedule A) as a result of recoveries arising from satisfaction by various originators of such securities of their obligations to buy back ineligible loans, whether effected in the ordinary course or through any legal enforcement action, including any settlements of any such action (" *Put-Back Recoveries* ");

(b) all installment premiums received after the date hereof by the Borrower, or that the Borrower now is or hereafter becomes entitled to receive, in respect of all of the Borrower's financial guaranty insurance policies outstanding (" *Installment Premium Collateral* ");

(c) all of the Borrower's salvage or subrogation recoveries that the Borrower now owns or hereafter acquires that result from excess interest or other income generated in any residential mortgage backed securities insured by the Borrower (including, without limitation, those more particularly identified in Section 2 of Schedule A) (" *Excess Spread Salvage Collateral* ");

(d) Investment Property comprised of 65% of the voting capital stock in MBIA UK (Holdings) Limited;

(e) all books and records, in whatever form or medium, that evidence or contain information relating to all other items of Collateral or that are otherwise necessary or helpful in the collection thereof or realization thereon in the possession or under the control of the Borrower, and

(f) Proceeds and products of the foregoing, including, but not limited to, all rents, profits, income and benefits, and all accessions to, substitutions for and replacements of all or any part of any Collateral.

2.2 Exceptions .

(a) The Borrower does not grant any security interest in, and the term "Collateral" does not include, the following property to the extent relating to the Collateral:

(i) each Instrument, Chattel Paper, General Intangible, copyright license, patent license, trademark license and other contract or agreement that is with, or issued by, a Person that is not an affiliate of the Borrower, but only while, and only to the extent that, the grant of a security interest pursuant to this Agreement would result in a default or penalty under, or a breach or termination of, such Instrument, Chattel Paper, General Intangible, copyright license, patent license, trademark license or contract or agreement, except, in each case, to the extent that, pursuant to the UCC or other applicable law, the grant of a security interest therein can be made without resulting in a default or penalty thereunder or breach or termination thereof (each, an " *Excluded Agreement* ");

(ii) property that is held in the nature of a security deposit by or on behalf of the Borrower in the ordinary course of business and that must be held for or returned to the applicable counterparty under applicable law or pursuant to a contractual obligation;

(iii) property to the extent a security interest in such assets would result in material adverse tax consequences as reasonably determined by the Borrower; and

(iv) any property to the extent that such grant of a security interest is prohibited by any Applicable Law of a Governmental Authority; provided that this clause (iv) shall not exclude the pledge of the capital stock in MBIA UK (Holdings) Limited.

ARTICLE III

REPRESENTATIONS OF THE BORROWER

3.1 Representations Concerning the Borrower . The Borrower represents as of the Closing Date that:

(a) Borrower's Name .

(i) Schedule B attached hereto correctly sets forth the Borrower's full and correct legal name, type of organization, jurisdiction of organization, organizational identification number, if any, chief executive office and principal place of business and mailing address as of the Closing Date.

(ii) During the five year period preceding the Closing Date, the Borrower has not, except as set forth in Schedule B or to the extent permitted pursuant to the terms hereof, (v) changed its location (as defined in Section 9-307 of the Uniform Commercial Code); (w) changed its name, or used any other name; (x) been the surviving entity in a merger; (y) acquired any business or (z) become a "new debtor" (as defined in the Uniform Commercial Code) with respect to a currently effective security agreement entered into by another Person.

3.2 Representations Concerning the Collateral . The Borrower represents that:

(a) Title; No Other Liens . The Borrower owns each item of the Collateral free and clear of Liens, except for Permitted Liens and Liens created under this Agreement and the other Loan Documents. There is not, on file or of record in any public office, any security agreement, financing statement, form of Lien or other public notice similar in effect, with respect to any of the Collateral, except such as may have been filed or are of record with respect to Permitted Liens and Liens created under this Agreement and the other Loan Documents, filings and records listed on Schedule C and filings with respect to which termination statements and other necessary releases shall be filed on the Closing Date or promptly thereafter. The Borrower has full power and authority to grant the security interests in and to the Collateral under this Agreement.

(b) Perfected, First Priority Liens .

(i) This Agreement is effective to create a valid and enforceable security interest in the Collateral in favor of the Secured Party, for the benefit of the Loan Agreement Secured Parties, to secure the payment and performance of the Secured Obligations.

(ii) The security interest created pursuant to this Agreement (A) will be a perfected security interest in the Collateral in favor of the Secured Party, for the benefit of the Loan Agreement Secured Parties, and (B) will be prior to all other Liens of all other Persons other than Permitted Liens, and enforceable as such as against all other Persons.

(c) Certain Collateral Disclosures . Except in each case as set forth on Schedule D, as of the Closing Date, none of the Collateral constitutes Chattel Paper, Letter-of-Credit Rights, Commercial Tort Claims or Documents.

3.3 Survival of Representations and Warranties . All representations and warranties made hereunder and in any document, certificate or statement delivered pursuant hereto or thereto or in connection herewith or therewith shall survive the execution and delivery of this Agreement and the making of the Loans under the Loan Agreement.

3.4 As to Capital Securities of the Subsidiaries, Investment Property .

(a) As of the Closing Date, the capital stock and equity interests required to be pledged hereunder by the Borrower consist of the number and type of shares of capital stock (in the case of issuers that are corporations) or the percentage and type of other equity interests (in the case of issuers other than corporations) as described in Schedule E. All of such capital stock and equity interests have been duly and validly issued and are fully paid and nonassessable (or, in the case of partnership, limited liability company or similar equity interests, not subject to any capital call or other additional capital requirement) and not subject to any preemptive rights, warrants, options or similar rights or restrictions in favor of third parties or any contractual or other restrictions upon transfer. As to each issuer thereof, the capital stock or equity interests pledged hereunder constitute 100% of the outstanding capital stock of or other equity interests in such issuer, except as set forth in Schedule E.

(b) The Borrower shall deliver all certificated securities constituting Collateral held by the Borrower to the Secured Party on, or within 7 Business Days after, the Closing Date, together with duly executed undated blank stock powers, or other equivalent instruments of transfer reasonably acceptable to the Secured Party.

(c) With respect to uncertificated securities constituting Collateral in excess of $100,000 owned by the Borrower, the Borrower has caused the issuer thereof either to (i) register the Secured Party as the registered owner of such security or (ii) agree in an authenticated record with the Borrower and the Secured Party that, if an Event of Default has occurred and is continuing, such issuer will comply with instructions with respect to such security originated by the Secured Party without further consent of the Borrower.

ARTICLE IV

COVENANTS

4.1 Covenants Relating to Collateral . From the Closing Date until the payment in full of the Secured Obligations, the Borrower covenants and agrees as follows:

(a) Preservation and Protection of Security Interests .

(i) The Borrower shall maintain the security interests created by this Agreement as first priority perfected security interests and shall take all further action that may be necessary or that the Secured Party may request in order to perfect, preserve, protect and defend such security interests against the claims and demands of all Persons or to enable the Secured Party to exercise and enforce its rights and remedies hereunder.

(b) Further Documentation; Pledge of Instruments and Chattel Paper .

(i) In addition to the authorizations granted to the Secured Party under Section 6.4, the Borrower authorizes the Secured Party to file any financing or continuation statements under the Uniform Commercial Code in effect in any jurisdiction with respect to the Liens created hereby that it deems appropriate for the purpose of establishing or maintaining the perfection of such Liens.

(ii) All Instruments and tangible Chattel Paper now owned or hereafter acquired by the Borrower that constitute part of the Collateral shall be promptly delivered to and held by the Secured Party pursuant hereto and shall be in suitable form for transfer by delivery to the Secured Party, and the Secured Party shall, promptly upon request of the Borrower, make appropriate arrangements for making any such Instrument delivered by the Borrower available to the Borrower for purposes of presentation, collection or renewal (any such arrangement to be effected, to the extent deemed appropriate to the Secured Party, against trust receipt or like document); *provided* that so long as no Potential Event of Default or Event of Default shall have occurred and be continuing, the Borrower may retain for collection any Instrument not exceeding $100,000 in principal amount received by it in the ordinary course of business that constitutes part of the Collateral. At any time

while a Potential Event of Default or Event of Default is continuing, the Secured Party shall have the right, at any time in its discretion and without notice to the Borrower, to transfer to or to register in its name or in the name of any of its nominees any or all of the Collateral so delivered.

(c) Electronic Chattel Paper and Transferable Records .

If the Borrower at any time holds or acquires an interest in any Electronic Chattel Paper, or any "transferable record," as that term is defined in Sections 201 of the federal Electronic Signatures in Global and National Commerce Act, or in Section 16 of the Uniform Electronic Transactions Act as in effect in any relevant jurisdiction, that constitutes part of the Collateral, the Borrower shall promptly notify the Secured Party thereof and, at the request and option of the Secured Party, shall take such action as the Secured Party may reasonably request to vest in the Secured Party control of such electronic chattel paper under Section 9-105 of the UCC, or control of such transferable record under Section 201 of the federal Electronic Signatures in Global and National Commerce Act, or Section 16 of the Uniform Electronic Transactions Act, as so in effect in such jurisdiction. The Secured Party agrees with the Borrower that the Secured Party will arrange, pursuant to procedures satisfactory to the Secured Party and so long as such procedures will not result in the Secured Party's loss of control, for the Borrower to make alterations to the electronic chattel paper or transferable record that it is permitted to make as a party in control under Section 9-105 of the UCC as the case may be, Section 201 of the federal Electronic Signatures in Global and National Commerce Act or Section 16 of the Uniform Electronic Transactions Act for a party without loss of control, unless an Event of Default has occurred and is continuing or would occur after taking into account any action by the Borrower with respect to such electronic chattel paper or transferable record.

(d) Letter-of-Credit Rights . If the Borrower is at any time a beneficiary under a Letter-of-Credit now or hereafter issued in favor of the Borrower that constitutes part of the Collateral, the Borrower shall promptly notify the Secured Party thereof and, at the request and option of the Secured Party, the Borrower shall, pursuant to an agreement in form and substance satisfactory to the Secured Party, either (*x*) arrange for the issuer and any confirmer of such Letter-of-Credit to consent to an assignment to the Secured Party of the proceeds of any drawing under the Letter-of-Credit or (*y*) arrange for the Secured Party to become the transferee beneficiary of the Letter-of-Credit, with the Secured Party agreeing, in each case, that the proceeds of any drawing under the Letter-of-Credit are to be paid to the Borrower unless a Potential Event of Default or Event of Default has occurred or is continuing, in which case they shall be deposited into an account designated by the Secured Party and held as part of the Collateral.

(e) Maintenance of Records . The Borrower shall keep and maintain at its own cost and expense satisfactory and complete records of the Collateral, including a record of all payments received and all credits granted with respect to the Accounts constituting part of the Collateral.

(f) Compliance with Contractual Obligations . The Borrower shall perform and comply with all its obligations under any agreement, contract, policy, instrument or document evidencing or related to any part of the Collateral.

(g) Limitation on Liens on Collateral . The Borrower shall not create, incur or permit to exist, will defend the Collateral against, and will take such other action as is necessary to remove, any Lien on any part of the Collateral, other than the Liens created hereby or by the other Loan Documents and Permitted Liens, and will defend the right, title and interest of the Secured Party in and to any part of the Collateral against the claims and demands of all persons whomsoever.

(h) Limitations on Dispositions of Collateral . The Borrower may make Dispositions of any part of the Collateral to the extent and solely to the extent it is not expressly prohibited from doing so in the Loan Agreement.

(i) Further Identification of Collateral . The Borrower shall keep and maintain at its own cost and expense satisfactory and complete records of the Collateral and furnish to the Secured Party from time to time such statements and schedules further identifying and describing the Collateral, and such other reports in connection with the Collateral, as the Secured Party may reasonably request, all in reasonable detail.

(j) Changes in Locations, Name, etc . The Borrower shall neither change its type of organization, jurisdiction of organization, change the location of its chief executive office (or, if applicable, its sole place of business), cease to be a Registered Organization nor change its name, identity, organizational identification number or corporate structure unless, in any such case, the Borrower (i) shall have given the Secured Party at least 30 days' prior written notice thereof and (ii) prior to effecting any such change, shall have taken such actions as may be necessary or, upon the request of the Secured Party, advisable to continue the validity, perfection and priority of the Liens granted pursuant hereto.

(k) Governmental Obligors . The Borrower shall use its commercially reasonable efforts to obtain any required consents which may be necessary to establish the validity or perfection of the Secured Party's security interest in the Collateral the obligor of which is a Governmental Authority.

(l) Deposit Accounts . At any time an Event of Default has occurred and is continuing, the Borrower shall deposit into an account designated by the Secured Party all cash proceeds from any part of the Collateral, to be held as additional Collateral.

(m) Investment Property . If the Borrower holds any certificated securities that constitute part of the Collateral, the Borrower shall promptly endorse, assign and deliver the same to the Secured Party, accompanied by such instruments of transfer or assignment duly executed in blank as the Secured Party may from time to time specify. If any securities now or hereafter acquired by the Borrower that constitute part of the Collateral are uncertificated and are issued to the Borrower or its nominee directly by the issuer thereof, the Borrower shall immediately notify the Secured Party thereof and, at the Secured Party's request, pursuant to an agreement, in form and substance satisfactory to the Secured Party, either (i) cause the issuer to agree to comply with instructions from the Secured Party as to such securities, without further consent of the Borrower or such nominee or (ii) arrange for the Secured Party to become the registered owner of the securities. If any securities, whether certificated or uncertificated, or other Investment Property now or hereafter acquired by the Borrower that are part of the Collateral are held by the Borrower or its nominee through a securities intermediary (as defined in Section 8 102 of the UCC) or commodity intermediary (as defined in Section 9 102 of the UCC), the Borrower shall immediately notify the Secured Party thereof and, at the Secured Party's request, cause such securities intermediary or (as the case may be) commodity intermediary to enter into a control agreement with the Secured Party, in form and substance satisfactory to the Secured Party, and take all other steps deemed necessary by the Secured Party to perfect the security interest of the Secured Party in such securities or other Investment Property, all pursuant to Sections 9 106 and 9 314 of the UCC or other applicable law governing the perfection of the Secured Party's security interest in such securities or other Investment Property.

(n) Voting Rights; Dividends, etc . The Borrower agrees:

(i) promptly upon receipt of notice of the occurrence and continuance of an Event of Default from the Secured Party and without any request therefor by the Secured Party, so long as such Event of Default shall continue, to deliver (properly endorsed where required hereby or requested by the Secured Party) to the Secured Party all dividends and distributions with respect to Investment Property constituting Collateral, all interest, principal, other cash payments on Payment Intangibles, and all Proceeds of the Collateral, in each case thereafter received by the Borrower, all of which shall be held by the Secured Party as additional Collateral; and

(ii) with respect to Collateral consisting of general partnership interests or limited liability company interests, to promptly modify its Organization Documents to admit the Secured Party as a general partner or member, as applicable, promptly upon the occurrence and continuance of an Event of Default and so long as the Secured Party has notified the Borrower of the Secured Party's intention to exercise its voting power under this clause,

(A) that the Secured Party may exercise (to the exclusion of the Borrower) the voting power and all other incidental rights of ownership with respect to any Investment

Property constituting Collateral and the Borrower hereby grants the Secured Party an irrevocable proxy, exercisable under such circumstances, to vote such Investment Property; and

(B) to promptly deliver to the Secured Party such additional proxies and other documents as may be necessary to allow the Secured Party to exercise such voting power.

All dividends, distributions, interest, principal, cash payments, Payment Intangibles and Proceeds that may at any time and from time to time be held by the Borrower, but which the Borrower is then obligated to deliver to the Secured Party, shall, until delivery to the Secured Party, be held by the Borrower separate and apart from its other property in trust for the Secured Party. The Secured Party agrees that unless an Event of Default shall have occurred and be continuing and the Secured Party shall have given the notice referred to in clause (ii), the Borrower will have the exclusive voting power with respect to any Investment Property constituting Collateral and the Secured Party will, upon the written request of the Borrower, promptly deliver such proxies and other documents, if any, as shall be reasonably requested by the Borrower which are necessary to allow the Borrower to exercise that voting power; provided that no vote shall be cast, or consent, waiver, or ratification given, or action taken by the Borrower that would impair any such Collateral or be inconsistent with or violate any provision of any Loan Document.

(o) Expenses .

(i) Without limiting the Borrower's obligations under the Loan Documents or other documents, the Borrower hereby agrees to promptly pay all fees, costs and expenses (including reasonable documented attorneys' fees and expenses) incurred in connection with (x) enforcing or preserving any of the Secured Party's or the Loan Agreement Secured Parties' rights under this Agreement or any other Security Document and the Liens in favor of the Secured Party, for the benefit of the Loan Agreement Secured Parties, and (y) collecting, enforcing, retaking, holding, preparing for disposition, processing and disposing of the Collateral. The Borrower agrees to pay, and to save the Secured Party and the Loan Agreement Secured Parties harmless from, any and all liabilities with respect to, or resulting from any delay in paying, any and all stamp, excise, sales or other taxes which may be payable or determined to be payable with respect to any of the Collateral or in connection with any of the transactions contemplated by this Agreement.

(ii) If the Borrower fails to promptly pay any portion of the above costs, fees and expenses when due or to perform any other obligation of the Borrower under this Agreement, the Secured Party may, at its option, but shall not be required to, pay or perform the same and charge the Borrower's account for all fees, costs and expenses incurred therefor, and the Borrower agrees to reimburse the Secured Party therefor on demand. All sums so paid or incurred by the Secured Party for any of the foregoing, any

and all other sums for which the Borrower may become liable under this Agreement and all fees, costs and expenses (including attorneys' fees, legal expenses and court costs) incurred by the Secured Party in enforcing or protecting the security interests or any of their rights or remedies under this Agreement shall be payable on demand, shall constitute Secured Obligations, shall bear interest until paid at the highest rate provided in the Loan Agreement and shall be secured by the Collateral. The agreements in this Section 4.1(o) shall survive repayment of the Secured Obligations and all other amounts payable under the Loan Agreement and the other Loan Documents.

(p) Accounts . Except as otherwise provided in this Section 4.1, the Borrower shall continue to collect, at its own expense, all amounts due or to become due to the Borrower with respect to Accounts that constitute part of the Collateral and, at any time an Event of Default has occurred and is continuing, deposit all such amounts in a deposit account designated by the Secured Party to be held as Collateral. In connection with such collections, the Borrower may take (and, at the Secured Party's direction during the continuance of any Potential Event of Default or Event of Default, shall take) such action as the Borrower or the Secured Party may deem necessary or advisable to enforce collection of the Accounts that are part of the Collateral. The Borrower shall not give any account debtor any deduction in respect of the amount due under any such Account, except in the ordinary course of business or as the Borrower may otherwise advise the Secured Party in writing.

(q) General Intangibles . The Borrower shall use commercially reasonable efforts to obtain any consents, waivers or agreements necessary to enable the Secured Party to exercise remedies under this Agreement with respect to any of the Borrower's rights under any General Intangibles that constitute part of the Collateral.

ARTICLE V

REMEDIAL PROVISIONS

5.1 Notice to Account Debtors .

(a) Notice of Assignment . Upon the request of the Secured Party at any time after the occurrence and during the continuance of an Event of Default, the Borrower shall notify the account debtors on the Accounts that constitute part of the Collateral and the obligors of any other Collateral that the applicable Accounts and other Collateral have been assigned to the Secured Party and that payments in respect thereof shall be made directly to the Secured Party. At any time and from time to time after the occurrence and during the continuance of an Event of Default, the Secured Party may in its own name or in the name of others communicate with account debtors on the Accounts and the obligors of any other Collateral to verify with such debtors, to the Secured Party's satisfaction, the existence, amount and terms of any Accounts or obligations of such obligors.

(b) No Liability of Secured Party under Accounts or other Collateral . The Borrower shall remain liable under each of the Accounts to observe and perform all the conditions and obligations to be observed and performed by it thereunder, in accordance with the terms of any agreement giving rise thereto. The Secured Party does not have any obligation or liability under any Account that constitutes part of the Collateral (or any agreement giving rise thereto) or any other agreement, contract, instrument or document related to the Collateral by reason of or arising out of this Agreement or the receipt by the Secured Party of any payment relating to such Account or Collateral pursuant hereto. The Secured Party is not obligated hereunder in any manner: (i) to perform any of the obligations of the Borrower under or pursuant to any Account (or any agreement giving rise thereto) or any agreement, contract, instrument or other document related to the Collateral, (ii) to make any payment, (iii) to make any inquiry as to the nature or the sufficiency of any payment received by it or as to the sufficiency of any performance by any party under any Account (or any agreement giving rise thereto) or any agreement, contract, instrument or other document related to the Collateral, (iv) to present or file any claim, (v) to take any action to enforce any performance or (vi) to collect the payment of any amounts which may have been assigned to it or to which it may be entitled at any time.

5.2 Proceeds . If an Event of Default occurs and is continuing, (a) all Proceeds of any Collateral received by the Borrower consisting of cash, checks and other near-cash items shall be held by the Borrower in trust for the Secured Party, segregated from other funds of the Borrower, and at the request of the Secured Party shall, forthwith upon receipt by the Borrower, be turned over to the Secured Party in the exact form received by the Borrower (duly endorsed by the Borrower to the Secured Party, if required by the Secured Party), and (b) any and all such Proceeds received by the Secured Party (whether from the Borrower or otherwise) may, in the sole discretion of the Secured Party, be held by the Secured Party as collateral security for the Secured Obligations (whether matured or unmatured), and at any time thereafter when an Event of Default has occurred and is continuing may be applied by the Secured Party against all of the Obligations then due and owing in accordance with the provisions of Section 2.8(c) of the Loan Agreement. Any balance of such Proceeds remaining after the payment in full of the Loans and all of the other Secured Obligations then due and owing shall be paid over to the Borrower or to whomsoever may be lawfully entitled to receive the same.

5.3 Remedies Generally .

(a) If an Event of Default occurs and is continuing, the Secured Party may exercise all rights and remedies provided for herein or otherwise available to it, by law, in equity or otherwise, including all rights and remedies of a secured party under the UCC and, to the extent permitted by Applicable Law and subject to any required Governmental Approval, all other rights and remedies granted to it in this Agreement or in any other Loan Document, including, but not limited to, the right, to the maximum extent permitted

by Applicable Law, to exercise all voting, consensual and other powers of ownership pertaining to the Collateral as if the Secured Party were the sole and absolute owner of the Collateral (and the Borrower agrees to take all such action as may be necessary to give effect to such right).

(b) Without limiting the generality of Section 5.3(a), the Secured Party, without demand of performance or other demand, presentment, protest, advertisement or notice of any kind (except any notice required by law referred to below) to or upon the Borrower or any other person (all and each of which demands, defenses, advertisements and notices are hereby waived), may if an Event of Default occurs and is continuing promptly (i) collect, receive, appropriate and realize upon the Collateral, or any part thereof; (ii) require the Borrower to, and the Borrower shall, assemble the Collateral and make it available to the Secured Party at such place or places designated by the Secured Party's request; (iii) take possession of the Borrower's original books and records, obtain access to the Borrower's data processing equipment, computer hardware and software relating to the Collateral and use all of the foregoing and the information contained therein in any manner the Secured Party deems appropriate; (iv) make any compromise or settlement it deems appropriate with respect to any of the Collateral and may extend the time of payment, arrange for payment in installments, or otherwise modify the terms of, all or any part of the Collateral; (v) in its name or in the name of the Borrower or otherwise, demand, sue for, collect and receive any money or property at any time payable or receivable on account of or in exchange for all or any part of the Collateral, but shall be under no obligation to do so; or (vi) sell, lease, assign, grant an option or options to purchase, or otherwise dispose of and deliver the Collateral or any part thereof (or contract to do any of the foregoing), in one or more parcels at a public or private sale(s), at any exchange, broker's board or office of the Secured Party or elsewhere upon such terms and conditions as it may deem advisable and at such prices as it may deem best, for cash or on credit or for future delivery without assumption of any credit risk. The Secured Party shall have the right, upon any such sale, to purchase the whole or any part of the Collateral so sold, free of any right or equity of redemption in the Borrower, which right or equity is hereby waived and released. The Secured Party may, without notice or publication, adjourn any public or private sale or cause the same to be adjourned from time to time by announcement at the time and place fixed for the sale, and such sale may be made at any time or place to which the sale may be so adjourned.

(c) If any notice of a proposed sale or other disposition of Collateral shall be required by law, such notice shall be deemed reasonable and proper if given at least 10 days before such sale or other disposition. The Secured Party shall not be obligated to make any sale of Collateral regardless of notice of sale having been given. The Secured Party may disclaim any warranties that might arise in connection with the sale, lease, license or other disposition of the Collateral and shall have no obligation to provide any warranties at such time. The Secured Party may adjourn any public or private sale from time to time by announcement at the time and place fixed therefor, and such sale may,

without further notice, be made at the time and place to which it was so adjourned. To the extent permitted by Applicable Law, the Borrower waives all claims, damages and demands it may acquire against the Secured Party arising out of the Secured Party's exercise of any rights hereunder

(d) For purposes of this Agreement, a written agreement to purchase the Collateral or any portion thereof will be treated as a sale thereof; the Secured Party will be free to carry out such sale pursuant to such agreement and the Borrower will not be entitled to the return of the Collateral or any portion thereof subject thereto, notwithstanding the fact that after the Secured Party enters into such an agreement all Events of Default were remedied and the Secured Obligations paid in full. As an alternative to exercising the power of sale conferred upon it in this Agreement, the Secured Party may proceed by a suit or suits at law or in equity to foreclose on the Collateral under this Agreement and to sell the Collateral or any portion thereof pursuant to a judgment or decree of a court or courts having competent jurisdiction or pursuant to a proceeding by a court-appointed receiver. Any sale pursuant to the provisions of this Section is deemed to conform to the commercially reasonable standards as provided in Section 9-610(b) of the New York UCC or its equivalent in other jurisdictions.

(e) The Borrower acknowledges and agrees that a breach of any of the covenants contained in Article III, Article IV and Article VI of this Agreement will cause irreparable injury to the Secured Party and that the Secured Party has no adequate remedy at law in respect of such breaches and therefore agrees, without limiting the right of the Secured Party to seek and obtain specific performance of other obligations of the Borrower contained in this Agreement, that the covenants of the Borrower contained in the Articles referred to in this Section shall be specifically enforceable against the Borrower, and the Borrower waives and agrees not to assert any defenses against an action for specific performance except for a defense that no default has occurred giving rise to the Secured Obligations becoming due and payable prior to their stated maturities.

5.4 Deficiency . The Borrower shall remain liable for any deficiency if the proceeds of any sale or other disposition of the Collateral are insufficient to pay all of the then outstanding Secured Obligations, including the reasonable fees and disbursements of any attorneys employed by the Secured Party to collect such deficiency.

ARTICLE VI

SECURED PARTY'S RIGHTS AND SECURED OBLIGATIONS

6.1 Secured Party's Appointment as Attorney-in-Fact .

(a) Powers . The Borrower hereby irrevocably constitutes and appoints the Secured Party and any officer or agent thereof, with full power of substitution, as its true and lawful attorney-in-fact with full irrevocable power and authority in the place and stead of the Borrower and in the name of the Borrower or in its own name, from time to time in the Secured Party's discretion at any time when an Event of Default has occurred and is continuing, for the purpose of carrying out and, in accordance with, the terms of this Agreement, to take any and all appropriate action and to execute any and all documents and instruments the Secured Party may deem necessary or desirable to accomplish the purposes of this Agreement to the extent permitted by Applicable Law. Without limiting the generality of the foregoing, the Borrower hereby gives the Secured Party the power and right, on behalf of the Borrower at any time when an Event of Default has occurred and is continuing, without notice to or assent by the Borrower:

(i) in the name of the Borrower or its own name, or otherwise, to take possession of and endorse and collect any checks, drafts, notes, acceptances or other instruments for the payment of moneys due under any Account, Instrument, Investment Property or General Intangible that are part of the Collateral or with respect to any other Collateral and to file any claim or to take any other action or institute any proceeding in any court of law or equity or otherwise deemed appropriate by the Secured Party for the purpose of collecting any and all such moneys due under any such Account, Instrument, Investment Property or General Intangible or with respect to any such other Collateral whenever payable;

(ii) to assert, either directly or on behalf of the Borrower, any claims the Borrower may have against any other party to any contract, agreement, instrument or other document that is part of the Collateral or to otherwise exercise any right or remedy of the Borrower under any such contract, agreement, instrument or other document (including, without limitation, the right to enforce directly against any obligor of any Collateral all of the Borrower's rights thereunder, to make all demands, to give all notices, and to make all requests required or permitted to be made by the Borrower thereunder) as the Secured Party may deem proper;

(iii) to pay or discharge Taxes and Liens other than Permitted Liens levied or placed on or threatened against the Collateral; and

(iv) (A) to direct any party liable for any payment under any of the Collateral to make payment of any and all moneys due or to become due thereunder directly to the Secured Party or as the Secured Party shall direct; (B) to ask for or demand, collect, and

receive payment of and receipt for, any and all moneys, claims and other amounts due or to become due at any time in respect of or arising out of any Collateral; (C) to sign and endorse any invoices, freight or express bills, bills of lading, storage or warehouse receipts, drafts against debtors, assignments, verifications, notices and other documents in connection with any of the Collateral; (D) to commence and prosecute any suits, actions or proceedings at law or in equity in any court of competent jurisdiction to collect the Collateral or any part thereof and to enforce any other right in respect of any Collateral; (E) to defend any suit, action or proceeding brought against the Borrower with respect to any of the Collateral; (F) to settle, compromise or adjust any suit, action or proceeding described in clause (E) above and, in connection therewith, to give such discharges or releases as the Secured Party may deem appropriate; and (G) generally, to sell, transfer, pledge and make any agreement with respect to or otherwise deal with any of the Collateral as fully and completely as though the Secured Party were the absolute owner thereof for all purposes, and to do, at the Secured Party's option and the Borrower's expense, at any time, or from time to time, all acts and things which the Secured Party deems necessary to protect, preserve or realize upon the Collateral and the Secured Party's Liens thereon and to effect the intent of this Agreement, all as fully and effectively as the Borrower might do.

The Borrower hereby ratifies all that said attorneys shall lawfully do or cause to be done by virtue of this Agreement. All powers of attorney, authorizations and agencies contained in this Agreement are coupled with an interest and shall be irrevocable until the payment in full of the Loans and all of the other Secured Obligations then due and owing and all the security interests in the Collateral of the Borrower created hereby are released.

(b) Other Powers . The Borrower also authorizes the Secured Party, from time to time to execute, in connection with any sale provided for in Article V hereof, any endorsements, assignments or other instruments of conveyance or transfer with respect to the Collateral.

6.2 Performance in Lieu of Borrower . Upon the occurrence and during the continuance of an Event of Default, the Secured Party, without releasing the Borrower from any obligation, covenant or condition hereof, itself may (but shall not be obligated to) make any payment or perform, or cause the performance of, any such obligation, covenant, condition or agreement or any other action in such manner and to such extent as it may deem necessary to protect, perfect or continue the perfection of the security interest granted under this Agreement. Any reasonable costs or expenses incurred by the Secured Party in connection with the foregoing shall be payable by the Borrower to the Secured Party on demand and shall constitute Secured Obligations secured hereby.

6.3 No Duty on the Part of Secured Party . The powers conferred on the Secured Party under this Agreement are solely to protect the Secured Party's interests in the Collateral and shall not impose any duty upon the Secured Party to exercise any such powers. The Secured Party shall be accountable only for amounts that it actually receives

as a result of the exercise of such powers, and neither it nor any of its officers, directors, employees or agents shall be responsible to the Borrower for any act or failure to act under this Agreement.

6.4 Authorization to File Financing Statements .

(a) The Borrower hereby irrevocably authorizes the Secured Party at any time and from time to time, to file such financing statements, continuation statements and other documents in such offices as are or shall be necessary or as the Secured Party may determine to be reasonably appropriate to (i) create, perfect and establish the priority of the Liens granted by this Agreement in any and all of the Collateral, (ii) preserve the validity, perfection or priority of the Liens granted by this Agreement in any and all of the Collateral, (iii) enable the Secured Party to exercise its remedies, rights, powers and privileges under this Agreement, (iv) indicate the Collateral as being of an equal or lesser scope or with greater detail than that included in this Agreement and (v) provide any other information required by Part 5 of Article 9 of the UCC or the Uniform Commercial Code of such other jurisdiction, for the sufficiency or filing office acceptance of any financing statement or amendment, including whether the Borrower is an organization, the type of organization and any organizational identification number issued to the Borrower. The Borrower agrees to furnish any such information to the Secured Party promptly upon the Secured Party's request.

(b) The Borrower acknowledges that it is not authorized to file any amendment or termination statement with respect to any financing statement relating to any security interest granted hereunder without the prior written consent of the Secured Party and agrees that it shall not do so without the prior written consent of the Secured Party, subject to the Borrower's rights under Section 9-509(d)(2) of the UCC.

6.5 Limitation on Duties Regarding Preservation of Collateral . The Secured Party's sole duty with respect to the custody, safekeeping and physical preservation of the Collateral in its possession, under Section 9-207 of the UCC or otherwise, shall be to deal with it in the same manner as the Secured Party deals with similar property for its own account. Neither the Secured Party, nor any of its directors, officers, employees or agents shall be liable for failure to demand, collect or realize upon all or any part of the Collateral or for any delay in doing so or shall be under any obligation to sell or otherwise dispose of any Collateral upon the request of the Borrower or any other person or, except as otherwise provided in this Agreement, to take any other action whatsoever with regard to the Collateral or any part thereof, except for willful misconduct.

6.6 Performance by Secured Party of Borrower's Obligations . If the Borrower fails to perform or comply with any of its obligations contained in this Agreement and the Secured Party, as provided for by the terms of this Agreement, shall itself perform or comply, or otherwise cause performance or compliance with this Agreement (it being understood that the Secured Party shall be under no obligation to perform or comply or

cause performance of compliance with this Agreement), the reasonable expenses of the Secured Party incurred in connection with such performance or compliance and action, together with interest thereon at a rate per annum equal to the Default Rate, shall be payable to the Secured Party on demand and shall constitute Secured Obligations secured hereby.

6.7 Powers Coupled with an Interest . All authorizations and agencies contained in this Agreement with respect to the Collateral are powers coupled with an interest and are irrevocable until payment in full of the Loans and any other Secured Obligations then due and owing.

ARTICLE VII

MISCELLANEOUS

7.1 Amendments in Writing; No Waiver . None of the terms or provisions of this Agreement may be waived, amended, supplemented or otherwise modified except by a written instrument executed by the Borrower and the Secured Party with the prior approval of the Superintendent of the New York State Department of Financial Services.

7.2 Notices . Any notice, approval, request, demand, communication, or distribution shall be sufficiently given and effective if given in accordance with the provisions of Section 9.2 of the Loan Agreement.

7.3 No Waiver; Cumulative Remedies . No delay, indulgence, omission or other act of the Secured Party or any Loan Agreement Secured Party shall be deemed to be a waiver of any right or remedy of the Secured Party or such Loan Agreement Secured Party under this Agreement nor shall the Secured Party or such Loan Agreement Secured Party by any such act be deemed to have acquiesced in any Potential Event of Default or Event of Default or in any breach of any of the terms and conditions of this Agreement. No single or partial exercise of any right, remedy, power or privilege under this Agreement shall preclude any other or further exercise thereof or the exercise of any other right, remedy power or privilege. A waiver by the Secured Party or any Loan Agreement Secured Party of any right, remedy, power or privilege under this Agreement on any one occasion shall not be construed as a bar to any right or remedy which the Secured Party or such Loan Agreement Secured Party would otherwise have on any future occasion. The rights, titles, interests, liens, securities and remedies provided in this Agreement are cumulative, may be exercised singly or concurrently and are not exclusive of any rights or remedies provided by law. The application of the Collateral to satisfy the Secured Obligations pursuant to the terms hereof shall not operate to release the Borrower from its obligations hereunder until payment in full of any deficiency has been made in cash.

7.4 Successors and Assigns . This Agreement shall be binding upon the successors and assigns of the Borrower and shall inure to the benefit of the Secured Party and each Loan Agreement Secured Party and its successors and assigns, except that the Borrower may not assign, transfer or delegate any of its rights or obligations under this Agreement without the prior written consent of the Secured Party; *provided* that Optinuity Alliance Resources Corporation may act as the Borrower's agent hereunder, to do and perform, on behalf of the Borrower, any and every act and thing required or necessary to be done hereunder; *provided further* that the Borrower shall remain solely responsible for compliance with its obligations hereunder. No sales of participations, other sales, assignments, transfers or other dispositions of any agreement governing or instrument evidencing the Secured Obligations or any portion thereof or interest therein shall in any manner impair the Lien granted to the Secured Party, for the benefit of the holders of such Secured Obligations, under this Agreement.

7.5 Counterparts . This Agreement may be signed in any number of counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument. Delivery of an executed counterpart of this Agreement by facsimile or other electronic transmission shall be as effective as delivery of a manually executed counterpart.

7.6 Severability . The holding by any court of competent jurisdiction that any remedy pursued by the Secured Party hereunder is unavailable or unenforceable shall not affect in any way the ability of the Secured Party to pursue any other remedy available to it. In the event any provision of this Agreement shall be held invalid or unenforceable by any court of competent jurisdiction, the parties hereto agree that such provision shall be ineffective only to the extent of such invalidity or unenforceability without invalidating the remainder of such provision or any other provisions of this Agreement and shall not invalidate or render unenforceable such provision in any other jurisdiction.

7.7 Effectiveness . Notwithstanding anything to the contrary provided herein, this Agreement shall become effective upon the Closing Date and shall not be effective prior thereto.

7.8 Further Assurances and Corrective Instruments . To the extent permitted by Applicable Law, Borrower shall, upon the written request of the Secured Party, from time to time, execute, acknowledge and deliver, or cause to be executed, acknowledged and delivered, within a reasonable period after such request, such amendments or supplements hereto, and such further instruments, and take such further actions, as may be necessary in the Secured Party's reasonable judgment to effectuate the intention, performance and provisions hereof.

7.9 Section Headings . The section headings used in this Agreement are for convenience of reference only and are not to affect the construction of this Agreement or be taken into consideration in the interpretation of this Agreement.

7.10 Integration . This Agreement and the other Loan Documents constitute the entire agreement and understanding among the parties hereto and supersede any and all prior agreements and understandings, oral or written, relating to the subject matter of this Agreement.

7.11 Governing Law; Waiver of Jury Trial .

(a) THIS AGREEMENT, AND THE RIGHTS AND OBLIGATIONS OF THE PARTIES HEREUNDER, SHALL BE GOVERNED BY, AND CONSTRUED AND INTERPRETED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK WITHOUT REGARD TO THE RULES OF CONFLICTS OF LAWS (OTHER THAN SECTION 5-1401 AND SECTION 5-1402 OF THE NEW YORK GENERAL OBLIGATIONS LAW), EXCEPT AS REQUIRED BY MANDATORY PROVISIONS OF LAW AND TO THE EXTENT THE VALIDITY OR PERFECTION OF THE SECURITY INTERESTS HEREUNDER, OR THE REMEDIES HEREUNDER, IN RESPECT OF ANY COLLATERAL ARE GOVERNED BY THE LAW OF A JURISDICTION OTHER THAN NEW YORK.

(b) EACH OF THE PARTIES HERETO HEREBY KNOWINGLY, VOLUNTARILY, AND INTENTIONALLY WAIVES (TO THE EXTENT PERMITTED BY APPLICABLE LAW) ANY RIGHTS IT MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY LITIGATION BASED HEREON, OR ARISING OUT OF, UNDER, OR IN CONNECTION WITH, THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT, OR ANY COURSE OF CONDUCT, COURSE OF DEALING, STATEMENTS (WHETHER VERBAL OR WRITTEN), OR ACTIONS OF THE BORROWER. THIS PROVISION IS A MATERIAL INDUCEMENT FOR EACH PARTY TO ENTER INTO THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS.

7.12 Submission to Jurisdiction, Etc . By execution and delivery of this Agreement, the Borrower irrevocably and unconditionally:

(a) submits for itself and its property in any legal action or proceeding against it arising out of or in connection with this Agreement, or for recognition and enforcement of any judgment in respect thereof, to the exclusive jurisdiction of the Supreme Court of the State of New York and the United States District Court for the Southern District of New York, in each case sitting in the borough of Manhattan and appellate courts from any thereof;

(b) consents that any such action or proceeding may be brought in or removed to such courts, and waives any objection, or right to stay or dismiss any action or proceeding, that it may now or hereafter have to the venue of any such action or proceeding in any such court or that such action or proceeding was brought in an inconvenient court and agrees not to plead or claim the same;

(c) agrees that service of process in any such action or proceeding may be effected by mailing a copy thereof by registered or certified mail (or any substantially similar form of mail), postage prepaid, to the Borrower at its address specified in the Loan Agreement or at such other address of which the Secured Party shall have been notified pursuant thereto;

(d) agrees that nothing herein shall (i) affect the right of the Secured Party to effect service of process in any other manner permitted by law or (ii) limit the right of the Secured Party to commence proceedings against or otherwise sue the Borrower or any other Person in any other court of competent jurisdiction nor shall the commencement of proceedings in any one or more jurisdictions preclude the commencement of proceedings in any other jurisdiction (whether concurrently or not) if, and to the extent, permitted by the Applicable Law; and

(e) agrees that judgment against it in any such action or proceeding shall be conclusive and may be enforced in any other jurisdiction within or without the United States by suit on the judgment or otherwise as provided by law, a certified or exemplified copy of which judgment shall be conclusive evidence of the fact and amount of the Borrower's obligation.

7.13 No Partnership; Etc . The Secured Party and the Borrower intend that the relationship between them shall be solely that of creditor and debtor, and the Secured Party does not have any fiduciary relationship with or duty to the Borrower arising out of or in connection with this Agreement. Nothing contained in this Agreement shall be deemed or construed to create a partnership, tenancy-in-common, joint tenancy, joint venture or co-ownership by, between the Secured Party and the Borrower or any other Person. The Secured Party shall not be in any way responsible or liable, under the Loan Documents, for the indebtedness, losses, obligations or duties of the Borrower or any other Person. Nothing in the Loan Documents shall be deemed to modify in any way any other agreements between the Secured Party and the Borrower.

7.14 Additional Security . Without notice to or consent of the Borrower, and without impairment of the security interest and rights granted pursuant to this Agreement, the Secured Party may accept from the Borrower or from any other person, additional security for the Secured Obligations. Neither the granting of the security interest in the Collateral pursuant to this Agreement nor the acceptance of any such additional security shall prevent the Secured Party from resorting, first to such additional security, or, first to the Collateral, in either case without affecting the Secured Party's security interest in the Collateral and the other rights granted to it pursuant to this Agreement.

7.15 Benefits of Agreement . Nothing in this Agreement, express or implied, shall give to any Person, other than the parties hereto and thereto and their successors and permitted assigns hereunder, any benefit or any legal or equitable right or remedy under this Agreement.

7.16 Independence of Covenants . All covenants under this Agreement and the other Loan Documents shall be given independent effect so that if a particular action or condition is not permitted by any of such covenants, the fact that it would be permitted by an exception to, or would otherwise be within the limitations of, another covenant shall not avoid the occurrence of a Potential Event of Default or an Event of Default if such action is taken or condition exists.

7.17 Release of Collateral and Termination .

(a) At such time as (i) the payment in full of the Loans and all of the other Secured Obligations then due and owing shall have occurred and (ii) the Lenders' obligation to make loans under the Loan Agreement shall have been terminated, the Collateral shall be released from the Liens created hereby, and this Agreement and all obligations (other than those expressly stated to survive such termination) of the Secured Party and the Borrower under this Agreement shall terminate and all rights to the Collateral shall revert to the Borrower. Upon request of the Borrower following any such termination, the Secured Party shall deliver (at the sole cost and expense of the Borrower) to the Borrower any Collateral held by the Secured Party under this Agreement, and execute and deliver (at the sole cost and expense of the Borrower) to the Borrower such documents (including without limitation UCC termination statements) as the Borrower shall reasonably request to evidence such termination.

(b) Upon the sale or other disposition of all or any portion of the Collateral to any Person in a transaction permitted by the Loan Documents (including pursuant to any consent to such sale or disposition or release of the security interest in such Collateral pursuant to the terms thereof), and as long as no Event of Default has occurred and is continuing, the security interests created by the Security Documents in such Collateral shall terminate and such Collateral shall be automatically released from the Lien created by the Security Documents; *provided* that, the Secured Party shall continue to have a security interest in the Proceeds of such sold Collateral, which Proceeds shall be treated in accordance with the terms of the Security Documents. Upon any such sale or disposition and release and receipt by the Secured Party of a certificate from the Borrower stating that such sale is permitted by (or the relevant consent has been received under) the Loan Documents, the Secured Party will promptly at the Borrower's request and expense execute and deliver such documents as the Borrower shall reasonably request to evidence the termination of such security interest and the release of such Collateral.

(c) Notwithstanding the foregoing, if at any time a payment of the Loans or any of the other Secured Obligations is rescinded or must otherwise be returned upon the insolvency, bankruptcy or reorganization of the Borrower or otherwise, the provisions of this Agreement and the security interest created hereby shall continue to be effective or be reinstated, as the case may be, all as though such payment had not been made.

IN WITNESS WHEREOF, the Borrower and the Secured Party have caused this Agreement to be duly executed and delivered as of the date first above written.

MBIA INSURANCE CORPORATION ,
as the Borrower

By: /s/ C. Edward Chaplin
Name: C. Edward Chaplin
Title: Chief Financial Officer

BLUE RIDGE INVESTMENTS, L.L.C.,
as the Secured Party

By: /s/ Neil Cotty
Name: Neil Cotty
Title: Executive Vice President

Exhibit 31.1

CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Joseph W. Brown, certify that:

1. I have reviewed the Quarterly Report of MBIA Inc. (the "Company") on Form 10-Q for the period ending March 31, 2013 as filed with the Securities and Exchange Commission on the date hereof (the "Report");

2. Based on my knowledge, this Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Report;

3. Based on my knowledge, the financial statements, and other financial information included in this Report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this Report;

4. The Company's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:

   (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this Report is being prepared;

   (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this Report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this Report based on such evaluation; and

   (d) disclosed in this Report that there were no changes in the Company's internal control over financial reporting that occurred during the Company's first quarter of 2013 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting; and

5. The Company's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and to the audit committee of the board of directors:

   (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and

   (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

/s/ Joseph W. Brown
Joseph W. Brown
Chief Executive Officer
May 9, 2013

Exhibit 31.2

CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, C. Edward Chaplin, certify that:

1. I have reviewed the Quarterly Report of MBIA Inc. (the "Company") on Form 10-Q for the period ending March 31, 2013 as filed with the Securities and Exchange Commission on the date hereof (the "Report");

2. Based on my knowledge, this Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Report;

3. Based on my knowledge, the financial statements, and other financial information included in this Report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this Report;

4. The Company's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:

   (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this Report is being prepared;

   (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this Report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this Report based on such evaluation; and

   (d) disclosed in this Report that there were no changes in the Company's internal control over financial reporting that occurred during the Company's first quarter of 2013 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting; and

5. The Company's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and to the audit committee of the board of directors:

   (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and

   (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

/s/ C. Edward Chaplin
C. Edward Chaplin
Chief Financial Officer
May 9, 2013

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of MBIA Inc. (the "Company") on Form 10-Q for the period ending March 31, 2013 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Joseph W. Brown, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Joseph W. Brown
Joseph W. Brown
Chief Executive Officer
May 9, 2013

Exhibit 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of MBIA Inc. (the "Company") on Form 10-Q for the period ending March 31, 2013 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, C. Edward Chaplin, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ C. Edward Chaplin
C. Edward Chaplin
Chief Financial Officer
May 9, 2013

Exhibit 99.1

NATIONAL PUBLIC FINANCE GUARANTEE CORPORATION AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

As of March 31, 2013 and December 31, 2012
and for the periods ended March 31, 2013 and 2012

NATIONAL PUBLIC FINANCE GUARANTEE CORPORATION AND SUBSIDIARIES
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NATIONAL PUBLIC FINANCE GUARANTEE CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (Unaudited)
(In thousands except share and per share amounts)

	March 31, 2013	December 31, 2012
Assets		
Investments:		
Fixed-maturity securities held as available-for-sale, at fair value (amortized cost $2,326,138 and $2,335,832)	$2,383,510	$ 2,425,240
Investments carried at fair value	191,665	190,321
Investments pledged as collateral, at fair value (amortized cost $487,035 and $487,880)	496,627	501,873
Short-term investments held as available-for-sale, at fair value (amortized cost $260,302 and $175,763)	260,608	176,015
Other investments (amortized cost of $8,562 and $8,662)	16,429	16,216
Total investments	3,348,839	3,309,665
Cash and cash equivalents	222,784	265,409
Securities purchased under agreements to resell	473,500	480,500
Secured loan to an affiliate	1,680,545	1,651,408
Accrued investment income	54,295	54,465
Deferred acquisition costs	379,612	400,970
Premiums receivable	249,507	254,363
Insurance loss recoverable	254,208	248,925
Property and equipment at cost (less accumulated depreciation of $10,626 and $9,725)	60,950	61,719
Receivable for investments sold	2,277	16,457
Other assets	13,688	10,031
Total assets	**$6,740,205**	**$ 6,753,912**
Liabilities and equity		
Liabilities:		
Unearned premium revenue	$1,823,319	$ 1,928,351
Loss and loss adjustment expense reserves	159,799	151,892
Securities sold under agreements to repurchase	473,500	480,500
Current income taxes	47,215	16,418
Deferred income taxes, net	219,942	232,165
Payable for investments purchased	50,427	49,893
Derivative liabilities	7,276	7,336
Other liabilities	14,801	11,653
Total liabilities	**2,796,279**	**2,878,208**
Commitments and contingencies (See Note 9)		
Equity:		
Common stock, par value $30 per share; authorized, issued and outstanding shares—500,000 shares	15,000	15,000
Additional paid-in capital	2,341,459	2,341,599
Retained earnings	1,534,595	1,441,992
Accumulated other comprehensive income (loss), net of tax of $23,798 and $36,598	44,196	67,967
Total shareholder's equity	3,935,250	3,866,558
Noncontrolling interest	8,676	9,146
Total equity	**3,943,926**	**3,875,704**
Total liabilities and equity	**$6,740,205**	**$ 6,753,912**

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

NATIONAL PUBLIC FINANCE GUARANTEE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)
(In thousands)

	Three Months Ended March 31,	
	2013	2012
Revenues:		
Premiums earned:		
Scheduled premiums earned	$ 55,258	$ 57,934
Refunding premiums earned	45,422	42,875
Premiums earned (net of ceded premiums of $0 and $1)	100,680	100,809
Net investment income	49,466	53,909
Fees, reimbursements and other	1,606	1,597
Change in fair value of insured derivatives:		
Realized gains and other settlements on insured derivatives	98	105
Unrealized gains (losses) on insured derivatives	(38)	20
Net change in fair value of insured derivatives	60	125
Net gains (losses) on financial instruments at fair value and foreign exchange	32,280	9,894
Total revenues	184,092	166,334
Expenses:		
Losses and loss adjustment	4,197	14,342
Amortization of deferred acquisition costs	21,479	22,145
Operating	18,043	80,453
Interest expense	4	10
Total expenses	43,723	116,950
Income before income taxes	140,369	49,384
Provision for income taxes	47,742	15,253
Net income	92,627	34,131
Net income attributable to noncontrolling interest	24	108
Net income available to common shareholder	$ 92,603	$ 34,023

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

NATIONAL PUBLIC FINANCE GUARANTEE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (Unaudited)
(In thousands)

	Three Months Ended March 31,	
	2013	2012
Net income (loss)	$ 92,627	$ 34,131
Other comprehensive income (loss):		
Unrealized holding gains (losses) during the period	(9,281)	15,043
Provision (benefit) for income taxes	(3,249)	5,289
Total	(6,032)	9,754
Reclassification adjustments for (gains) losses included in net income (loss)	(27,290)	(3,906)
Provision (benefit) for income taxes	(9,551)	(1,367)
Total	(17,739)	(2,539)
Total other comprehensive income (loss)	(23,771)	7,215
Comprehensive income (loss)	68,856	41,346
Less: comprehensive income (loss) attributable to noncontrolling interests	24	108
Comprehensive income (loss) attributable to common shareholder	$ 68,832	$ 41,238

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

NATIONAL PUBLIC FINANCE GUARANTEE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY (Unaudited)
For The Three Months Ended March 31, 2013
(In thousands except share amounts)

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholder's Equity	Noncontrolling Interest	Total Equity
	Shares	Amount						
Balance, December 31, 2012	**500,000**	**$15,000**	**$2,341,599**	**$1,441,992**	**$ 67,967**	**$3,866,558**	**$ 9,146**	**$3,875,704**
Net income	-	-	-	92,603	-	92,603	24	92,627
Other comprehensive income (loss)	-	-	-	-	(23,771)	(23,771)	-	(23,771)
Share-based compensation, net of tax of $140	-	-	(140)	-	-	(140)	-	(140)
Distributions to noncontrolling interest	-	-	-	-	-	-	(494)	(494)
Balance, March 31, 2013	**500,000**	**$15,000**	**$2,341,459**	**$1,534,595**	**$ 44,196**	**$3,935,250**	**$ 8,676**	**$3,943,926**

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

NATIONAL PUBLIC FINANCE GUARANTEE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
(In thousands)

	Three Months Ended March 31,	
	2013	2012
Cash flows from operating activities:		
Premiums, fees and reimbursements received	$ 3,631	$ 4,481
Return of refunded premiums paid	(1,465)	(9,701)
Investment income received	29,019	41,453
Financial guarantee losses and loss adjustment expenses paid	(1,581)	(12,863)
Proceeds from reinsurance and recoveries	7	-
Operating and employee related expenses paid	(19,511)	(20,142)
Income taxes paid	(16,508)	(34,719)
Net cash used by operating activities	(6,408)	(31,491)
Cash flows from investing activities:		
Purchase of fixed-maturity securities	(527,249)	(264,204)
Sale and redemption of fixed-maturity securities	581,659	309,295
Principal paydown on asset pledged by an affiliate	-	23,700
(Purchase) sale of short-term investments, net	(89,971)	63,630
(Purchase) sale of other investments, net	(67)	1,261
Capital expenditures	(95)	(603)
Net cash (used) provided by investing activities	(35,723)	133,079
Cash flows from financing activities:		
Distributions to noncontrolling interest, net	(494)	(265)
Net cash used by financing activities	(494)	(265)
Net (decrease) increase in cash and cash equivalents	(42,625)	101,323
Cash and cash equivalents—beginning of period	265,409	137,170
Cash and cash equivalents—end of period	$ 222,784	$ 238,493
Reconciliation of net income to net cash used by operating activities:		
Net income	$ 92,627	$ 34,023
Adjustments to reconcile net income to net cash used by operating activities:		
Changes in:		
Accrued investment income	(29,011)	(20,442)
Premiums receivable	4,857	6,529
Deferred acquisition costs	21,357	23,695
Unearned premium revenue	(105,032)	(114,573)
Loss and loss adjustment expense reserves	7,907	12,564
Insurance loss recoverable	(5,283)	(11,082)
Payable to affiliates	(3,399)	1,482
Accrued expenses	2,943	58,804
Current income taxes	30,797	(3,562)
Amortization of bond discounts, net	4,934	4,600
Depreciation	863	885
Net (gains) losses on financial instruments at fair value and foreign exchange	(32,280)	(9,894)
Unrealized (gains) losses on insured derivatives	38	(20)
Deferred income tax provision (benefit)	438	(15,904)
Noncontrolling interest	-	108
Other operating	1,836	1,296
Total adjustments to net income	(99,035)	(65,514)
Net cash used by operating activities	$ (6,408)	$ (31,491)

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

Note 1: Business Developments and Risks and Uncertainties

Summary

National Public Finance Guarantee Corporation is a wholly-owned subsidiary of MBIA Inc. through an intermediary holding company, National Public Finance Guarantee Holdings, Inc. ("National Holdings"). National Real Estate Holdings of Armonk, LLC is a wholly-owned subsidiary of National. National Public Finance Guarantee Corporation and its subsidiaries are referred to as "National."

Through its reinsurance of United States ("U.S.") public finance financial guarantees from MBIA Insurance Corporation and Financial Guaranty Insurance Company ("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 generally are supported by taxes, assessments, user fees or tariffs related to the use of these projects, by lease payments or by other similar types of revenue streams.

Business Developments and Risks and Uncertainties

National has been unable to write meaningful amounts of new insurance business since its formation in 2009, and does not expect to write significant new insurance business prior to an upgrade of its credit ratings. As of March 31, 2013, National was rated BB with a developing outlook by Standard & Poor's Financial Services LLC ("S&P") and Baa2 with a review for downgrade by Moody's Investors Service, Inc. In May of 2013, S&P upgraded National's rating to BBB with a credit watch positive outlook.

In May of 2013, MBIA Inc., together with its subsidiaries MBIA Insurance Corporation and National, entered into a comprehensive settlement agreement and related agreements (the "BofA Settlement Agreement") with Bank of America Corporation and certain of its subsidiaries (collectively, "Bank of America"). Additionally, in May of 2013, MBIA Inc., together with its subsidiaries, MBIA Insurance Corporation and National, entered into a settlement agreement with Societe Generale. As a result of the Bank of America settlement and the Societe Generale settlement, all litigation brought originally by the group of eighteen domestic and international financial institutions, relating to the establishment of National, has been resolved.

MBIA Inc. has put in place agreements that allocate liquidity resources among its entities in order to fund commutations and provide liquidity where needed. Such agreements between National and its affiliates have required the approval of the New York State Department of Financial Services ("NYSDFS"). National's ability to continue to provide its affiliates with liquidity and capital support and to pay dividends to MBIA Inc. will, in most cases, require further approvals from the NYSDFS, and there can be no assurance that National will be able to obtain such approvals. In addition, in connection with providing such approvals, the NYSDFS may require National to agree to take, or refrain from taking, certain actions.

Key Lending Agreements with Affiliates

National has entered into agreements with affiliates, which provide resources to affiliates that are more liquidity constrained, as follows:

National Secured Loan

In 2011, National provided the $1.1 billion secured loan to MBIA Insurance Corporation ("National Secured Loan") in order to enable MBIA Insurance Corporation to fund settlements and commutations of its insurance policies. This loan was approved by the NYSDFS as well as by the boards of directors of MBIA Inc., MBIA Insurance Corporation and National. The National Secured Loan has a fixed annual interest rate of 7% and a maturity date of December 2016. MBIA Insurance Corporation has the option to defer payments of interest when due by capitalizing interest amounts to the loan balance, subject to the collateral value exceeding certain thresholds. MBIA Insurance Corporation has elected to defer the interest payments due under the loan. MBIA Insurance Corporation's obligation to repay the loan is secured by a pledge of collateral having an estimated value in excess of the notional amount of the loan as of March 31, 2013, which collateral comprised the following future receivables of MBIA Insurance Corporation: (i) its right to receive put-back recoveries related to ineligible mortgage loans included in its insured second-lien residential mortgage-backed securities ("RMBS") transactions; (ii) future recoveries on defaulted insured second-lien RMBS transactions resulting from expected excess spread generated by performing loans in such transactions; and (iii) future installment premiums. During 2012, MBIA Insurance Corporation borrowed an additional $443 million under the National Secured Loan with the approval of the NYSDFS at the same terms as the original loan to fund additional commutations of its insurance policies. As of March 31, 2013, the outstanding principal amount, which includes capitalized interest under this loan was $1.7 billion. In connection with the BofA Settlement, MBIA Insurance Corporation repaid the National Secured Loan and extinguished the agreement.

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

Asset Swap

National maintains simultaneous repurchase and reverse repurchase agreements ("Asset Swap") with MBIA Inc. for up to $2.0 billion based on the fair value of securities borrowed. The Asset Swap provides MBIA Inc. with eligible assets to pledge under investment agreements and derivative contracts in MBIA Inc.'s asset/liability products business. As of March 31, 2013, the notional amount utilized under each of these agreements was $474 million and the fair value of collateral pledged by National and MBIA Inc. under these agreements was $497 million and $517 million, respectively. The net average interest rate on these transactions was 0.10% and 0.88% for the three months ended March 31, 2013 and 2012 respectively. The NYSDFS approved the Asset Swap in connection with the re-domestication of National to New York. National has committed to the NYSDFS to use commercially reasonable efforts to reduce the amount of the Asset Swap over time.

Note 2: Significant Accounting Policies

National has disclosed its significant accounting policies in "Note 2: Significant Accounting Policies" in the Notes to Consolidated Financial Statements included in Exhibit 99.1 to MBIA Inc.'s Annual Report on Form 10-K for the year ended December 31, 2012. The following significant accounting policies provide an update to those included under the same captions in Exhibit 99.1 to MBIA Inc.'s Annual Report on Form 10-K.

Basis of Presentation

The accompanying consolidated financial statements are unaudited and include the accounts of National and its wholly-owned subsidiaries. The accompanying unaudited interim consolidated financial statements do not include all of the information and disclosures required by accounting principles generally accepted in the United States of America ("GAAP") for annual periods. These statements should be read in conjunction with National's consolidated financial statements and notes thereto included in Exhibit 99.1 to MBIA Inc.'s Annual Report on Form 10-K for the year ended December 31, 2012. The accompanying consolidated financial statements have not been audited by an independent registered public accounting firm in accordance with the standards of the Public Company Accounting Oversight Board (U.S.), but in the opinion of management such consolidated financial statements include all adjustments, consisting only of normal recurring adjustments, necessary for the fair statement of National's consolidated financial position and results of operations.

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. As additional information becomes available or actual amounts become determinable, the recorded estimates are revised and reflected in operating results.

The results of operations for the three months ended March 31, 2013 may not be indicative of the results that may be expected for the year ending December 31, 2013. The December 31, 2012 consolidated balance sheet was derived from audited financial statements, but does not include all disclosures required by GAAP for annual periods. Certain amounts have been reclassified in prior years' financial statements to conform to the current presentation. Such reclassifications had no impact on total revenues, expenses, assets, liabilities, or shareholder's equity for all periods presented.

Subsequent Events

National evaluated all subsequent events as of May 9, 2013, the date of issuance of the consolidated financial statements, for inclusion in National's consolidated financial statements and/or accompanying notes.

Note 3: Recent Accounting Pronouncements

Recently Adopted Accounting Standards

Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income (ASU 2013-02)

In February 2013, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU" 2013-02, "Comprehensive Income (Topic 220)—Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income" that requires an entity to present information about the amounts reclassified out of accumulated other comprehensive income ("AOCI") by component and to present significant amounts reclassified out of AOCI by the respective line items of net income. The amendment will only affect National's disclosures and will not affect National's consolidated balance sheets, results of operations, or cash flows. National adopted this standard in the first quarter of 2013. Refer to "Note 8: Accumulated Other Comprehensive Income" for these disclosures.

Disclosures about Offsetting Assets and Liabilities (ASU 2011-11)

In December 2011, the FASB issued ASU 2011-11, "Balance Sheet (Topic 210)—Disclosures about Offsetting Assets and Liabilities." ASU 2011-11 creates new disclosure requirements about the nature of National's rights of setoff and related arrangements associated with its financial instruments and derivative instruments. This amendment does not change the existing offsetting eligibility criteria or the permitted balance sheet presentation for those instruments that meet the eligibility criteria. The disclosure requirements are effective for National beginning in the first quarter of 2013. In January 2013, the FASB issued ASU 2013-01, "Balance Sheet (Topic 210)—Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities." ASU 2013-01 clarifies that ASU 2011-11 applies only to derivatives, repurchase agreements and reverse repurchase agreements, and securities borrowing and securities lending transactions that are either offset in accordance with specific criteria contained in the FASB Accounting Standards Codification or subject to a master netting arrangement or similar agreement. National has no financial instruments affected by this standard, therefore, there is no impact on National from the adoption of this standard.

Refer to the Notes to Consolidated Financial Statements of National included in Exhibit 99.1 to MBIA Inc.'s Annual Report on Form 10-K for the year ended December 31, 2012 for further information regarding the effects of recently adopted accounting standards on prior year financial statements.

Note 4: Loss and Loss Adjustment Expense Reserves

For the three months ended March 31, 2013, National recognized $4 million of loss and loss adjustment expense ("LAE").

Refer to "Note 5: Loss and Loss Adjustment Expense Reserves" in the Notes to Consolidated Financial Statements included in Exhibit 99.1 to MBIA Inc.'s Annual Report on Form 10-K for the fiscal year ended December 31, 2012 for information about National's monitoring of outstanding insured obligations and for additional information about its loss reserving process.

Note 4: Loss and Loss Adjustment Expense Reserves (continued)

The following table provides information about the financial guarantees and related claim liability included in each of National's surveillance categories as of March 31, 2013:

	Surveillance Categories				
$ in millions	Caution List Low	Caution List Medium	Caution List High	Classified List	Total
Number of policies	21	7	6	48	82
Number of issues (1)	9	4	6	18	37
Remaining weighted average contract period (in years)	11.2	6.1	12.5	12.9	11.5
Gross insured contractual payments outstanding (2) :					
Principal	$ 818	$ 176	$ 122	$ 842	$1,958
Interest	1,158	62	77	996	2,293
Total	$ 1,976	$ 238	$ 199	$ 1,838	$4,251
Gross claim liability	$ -	$ -	$ -	$ 313	$ 313
Less:					
Gross potential recoveries	-	-	-	389	389
Discount, net	-	-	-	(6)	(6)
Net claim liability (recoverable)	$ -	$ -	$ -	$ (70)	$ (70)
Unearned premium revenue	$ 15	$ 1	$ 2	$ 17	$ 35

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

(2) - Represents contractual principal and interest payments due by the issuer of the obligations insured by National.

The following table provides information about the financial guarantees and related claim liability included in each of National's surveillance categories as of December 31, 2012:

	Surveillance Categories				
$ in millions	Caution List Low	Caution List Medium	Caution List High	Classified List	Total
Number of policies	20	9	7	48	84
Number of issues (1)	9	4	7	18	38
Remaining weighted average contract period (in years)	11.1	7.4	12.8	13.1	11.7
Gross insured contractual payments outstanding (2) :					
Principal	$ 817	$ 190	$ 122	$ 843	$1,972
Interest	1,161	88	80	999	2,328
Total	$ 1,978	$ 278	$ 202	$ 1,842	$4,300
Gross claim liability	$ -	$ -	$ -	$ 310	$ 310
Less:					
Gross potential recoveries	-	-	-	387	387
Discount, net	-	-	-	(6)	(6)
Net claim liability (recoverable)	$ -	$ -	$ -	$ (71)	$ (71)
Unearned premium revenue	$ 12	$ 4	$ 2	$ 18	$ 36

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

(2) - Represents contractual principal and interest payments due by the issuer of the obligations insured by National.

National's potential recoveries are typically based on either salvage rights, the rights conferred to National through the transactional documents (inclusive of the insurance agreement), or subrogation rights embedded within financial guarantee insurance policies. Expected salvage and subrogation recoveries, as well as recoveries from other remediation efforts, reduce National's claim liability. Once a claim payment has been made, the claim liability has been satisfied and National's right to recovery is no longer considered an offset to future expected claim payments, then it is recorded as a salvage asset. The amount of recoveries recorded by National is limited to paid claims plus the present value of projected future claim payments. As claim payments are made, the recorded amount of potential recoveries may exceed the remaining amount of claim liability for a given policy.

Note 4: Loss and Loss Adjustment Expense Reserves (continued)

While National believes it will be successful in realizing recoveries from contractual and other claims, the ultimate amounts recovered may be materially different from those recorded by National given the inherent uncertainty in the manner of resolving the claims (e.g. litigation) and the assumptions used in the required estimation process for accounting purposes which are based, in part, on judgments and other information that are not easily corroborated by historical data or other relevant benchmarks.

The following table presents the components of National's loss and LAE reserves and insurance loss recoverable as reported on National's consolidated balance sheets as of March 31, 2013 and December 31, 2012 for insured obligations within National's "Classified List." The loss reserves (claim liability) and insurance claim loss recoverable included in the following table represent the present value of the probability-weighted future claim payments and recoveries reported in the preceding tables.

In millions	As of March 31, 2013	As of December 31, 2012
Loss reserves (claim liability)	$ 150	$ 143
LAE reserves	10	9
Loss and LAE reserves	$ 160	$ 152
Insurance claim loss recoverable	$ (221)	$ (216)
LAE insurance loss recoverable	(33)	(33)
Insurance loss recoverable	$ (254)	$ (249)

The following table presents changes in National's loss and LAE reserves for the three months ended March 31, 2013. Changes in the loss and LAE reserves attributable to the accretion of the claim liability discount, changes in discount rates, changes in the timing and amounts of estimated payments and recoveries, changes in assumptions and changes in LAE reserves are recorded in "Losses and loss adjustment" expenses in National's consolidated statements of operations. LAE reserves are expected to be settled within a one-year period and are not discounted. The weighted average risk-free rate used to discount the claim liability was 1.76% as of March 31, 2013.

In millions	Changes in Loss and LAE Reserves for Three Months Ended March, 31, 2013								
Gross Loss and LAE Reserve as of December 31, 2012	Loss Payments for Cases with Reserves	Accretion of Claim Liability Discount	Changes in Discount Rates	Changes in Timing of Payments	Changes in Amount of Net Payments	Changes in Assumptions	Changes in Unearned Premium Revenue	Changes in LAE Reserves	Gross Loss and LAE Reserve as of March 31, 2013
$ 152	$ -	$ -	$ -	$ -	$ -	$ 7	$ -	$ 1	$ 160

The increase in case reserves for the three months ended March 31, 2013 primarily related to the change in assumptions on previously established reserves.

The following table presents changes in National's insurance loss recoverable for the three months ended March 31, 2013. Changes in the insurance loss recoverable attributable to the accretion of the discount on the recoverable, changes in discount rates, changes in the timing and amounts of estimated collections, changes in assumptions and the changes in LAE recoverable are recorded in "Losses and loss adjustment" expenses in National's consolidated statements of operations.

In millions	Changes in Insurance Loss Recoverable for the Three Months Ended March 31, 2013							
Insurance Loss Recoverable as of December 31, 2012	Collections for Cases with Recoverables	Accretion of Insurance Loss Recoverable	Changes in Discount Rates	Changes in Timing of Collections	Changes in Amounts of Collections	Changes in Assumptions	Changes in LAE Recoverable	Insurance Loss Recoverable as of March 31, 2013
$ 249	$ -	$ -	$ (1)	$ -	$ -	$ 6	$ -	$ 254

The increase in insurance loss recoverable for the three months ended March 31, 2013 primarily related to the change in assumptions on previously established reserves.

Note 4: Loss and Loss Adjustment Expense Reserves (continued)

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

Costs associated with remediating insured obligations assigned to National's "Caution List—Low," "Caution List—Medium," "Caution List—High" and "Classified List" are recorded as LAE. LAE is primarily recorded as part of National's provision for its loss reserves and included in "Losses and loss adjustment" expense on National's consolidated statements of operations. The following table provides information about the gross expenses related to remedial actions for insured obligations included in National's surveillance categories:

	Three months ended March 31,	
In millions	**2013**	**2012**
Loss adjustment expense incurred, gross	$ 2	$ 3

Note 5: Fair Value of Financial Instruments

Fair value is a market-based measure considered from the perspective of a market participant. Therefore, even when market assumptions are not readily available, National's own assumptions are set to reflect those which it believes market participants would use in pricing an asset or liability at the measurement date. The fair value measurements of financial instruments held or issued by National 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, National uses alternate valuation methods, including either dealer quotes for similar instruments or modeling using market data inputs. The use of alternate valuation methods generally requires considerable judgment in the application of estimates and assumptions, and changes to such estimates and assumptions may produce materially different fair values.

The accounting guidance for fair value measurement establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available and reliable. Observable inputs are those National believes that market participants would use in pricing an asset or liability based on available market data. Unobservable inputs are those that reflect National's beliefs about the assumptions market participants would use in pricing an asset or liability based on the best information available. The fair value hierarchy is broken down into three levels based on the observability and reliability of inputs, as follows:

- Level 1—Valuations based on quoted prices in active markets for identical assets or liabilities that National can access. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail any degree of judgment.
- Level 2—Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly. Level 2 assets include debt securities with quoted prices that are traded less frequently than exchange-traded instruments, securities which are priced using observable inputs and derivative contracts whose values are determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data.
- Level 3—Valuations based on inputs that are unobservable and supported by little or no market activity and that are significant to the overall fair value measurement. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques where significant inputs are unobservable, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

The availability of observable inputs can vary from product to product and period to period and is affected by a wide variety of factors, including the type of product, whether the product is new and not yet established in the marketplace, and other characteristics particular to the product. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, National assigns the level in the fair value hierarchy for which the fair value measurement in its entirety falls, based on the least observable input that is significant to the fair value measurement.

Note 5: Fair Value of Financial Instruments (continued)

1. Financial Instruments

Financial instruments held by National primarily consist of investments in debt securities. Substantially all of National's investments are priced by independent third parties, including pricing services and brokers. Typically National receives one pricing service value or broker quote for each instrument, which represents a non-binding indication of value. National reviews the assumptions, inputs and methodologies used by pricing services to obtain reasonable assurance that the prices used in its valuations reflect fair value. When National believes a third-party quotation differs significantly from its internally developed expectation of fair value, whether higher or lower, National reviews its data or assumptions with the provider. This review includes comparing significant assumptions such as prepayment speeds, default ratios, forward yield curves, credit spreads and other significant quantitative inputs to internal assumptions, and working with the price provider to reconcile the differences. The price provider may subsequently provide an updated price. In the event that the price provider does not update their price, and National still does not agree with the price provided, National will try to obtain a price from another third-party provider, such as a broker, or use an internally developed price which it believes represents the fair value of the investment. The fair values of investments for which internal prices were used were not significant to the aggregate fair value of National's investment portfolio as of March 31, 2013 or December 31, 2012. All challenges to third-party prices are reviewed by staff of National with relevant expertise to ensure reasonableness of assumptions.

In addition to challenging pricing assumptions, National obtains reports from the independent accountants for significant third-party pricing services attesting to the effectiveness of the controls over data provided to National. These reports are obtained annually and are reviewed by National to ensure key controls are applied by the pricing services, and that appropriate user controls are in place at the third-party pricing services organization to ensure proper measurement of the fair values of its investments. In the event that any controls in these reports are deemed as ineffective by independent accountants in these reports as ineffective, National will take the necessary actions to ensure that internal user controls are in place to mitigate the control risks. No deficiencies were noted for significant third-party pricing services used.

2. Internal Review Process

All significant financial instruments are reviewed by committees created by National to ensure compliance with National policies and risk procedures in the development of fair values of financial assets and liabilities. These valuation committees review, among other things, key assumptions used for internally developed prices, significant changes in sources and uses of inputs, including changes in model approaches, and any adjustments from third-party inputs or prices to internally developed inputs or prices. The committees also review any significant impairment or improvements in fair values of the financial instruments from prior periods. From time to time, these committees will reach out to National valuation experts to better understand key methods and assumptions used for the determination of fair value, including understanding significant changes in fair values. These committees are comprised of senior finance team members with the relevant experience in the financial instruments their committee is responsible for. Each quarter, these committees document their agreement with the fair values developed by management of National as reported in the quarterly and annual financial statements.

Valuation Techniques

Valuation techniques for financial instruments measured at fair value or disclosed at fair value are described below.

Fixed-Maturity Securities (including short-term investments) Held as Available-For-Sale, Investments Carried at Fair Value, Investments Pledged as Collateral, and Other Investments

Fixed-maturity securities (including short-term investments) held as available-for-sale ("AFS"), investments carried at fair value, investments pledged as collateral, and other investments include investments in U.S. Treasury and government agencies, foreign governments, corporate obligations, mortgage-backed securities and asset-backed securities ("ABS") (including commercial mortgage-backed securities and collateralized debt obligations ("CDOs")), state and municipal bonds and other investments (including perpetual debt securities, loans receivables and money market mutual funds).

These investments are generally valued based on recently executed transaction prices or quoted market prices. When quoted market prices are not available, fair value is generally determined using quoted prices of similar investments or a valuation model based on observable and unobservable inputs. Inputs vary depending on the type of investment. Observable inputs include contractual cash flows, interest rate yield curves, credit default swap ("CDS") spreads, prepayment and volatility scores, diversity scores, cross-currency basis index spreads, and credit spreads for structures similar to the financial instrument in terms of issuer, maturity and seniority.

Note 5: Fair Value of Financial Instruments (continued)

Investments based on quoted market prices of identical investments in active markets are classified as Level 1 of the fair value hierarchy. Level 1 investments generally consist of U.S. Treasury and government agency and money market securities. Quoted market prices of investments in less active markets, as well as investments which are valued based on other than quoted prices for which the inputs are observable, such as interest rate yield curves, are categorized in Level 2 of the fair value hierarchy. Investments that contain significant inputs that are not observable are categorized as Level 3.

Cash and Cash Equivalents, Receivable for Investments Sold, Accrued Investment Income and Payable for Investments Purchased

The carrying amounts of cash and cash equivalents, receivable for investments sold, accrued investment income and payable for investments purchased approximate their fair values due to the short-term nature and credit worthiness of these instruments.

Securities Purchased Under Agreements to Resell

The fair values of securities purchased under agreements to resell are determined based on the underlying securities posted as collateral for the resell agreements.

Secured Loan to an Affiliate

The fair value of the secured loan is determined as the net present value of expected cash flows from the loan. The discount rate is the yield to maturity of a comparable corporate bond index.

Securities Sold Under Agreements to Repurchase

The fair values of securities sold under agreements to repurchase are determined based on the underlying securities posted as collateral for the repurchase agreements.

Derivative Liabilities

Derivative liabilities are valued using market-based inputs, including interest rate yield curves, foreign exchange rates, and credit spreads. Derivative liabilities are classified as Level 2 within the fair value hierarchy.

Financial Guarantees

Gross Financial Guarantees —The fair value of gross financial guarantees is determined using discounted cash flow techniques based on inputs that include (i) assumptions of expected losses on financial guarantee policies where loss reserves have not been recognized, (ii) amount of losses expected on financial guarantee policies where loss reserves have been established, net of expected recoveries, (iii) the cost of capital reserves required to support the financial guarantee liability, (iv) operating expenses, and (v) discount rates. The CDS spread and recovery rates of a similar municipal bond insurance company are used as the discount rate for National as National does not have a published CDS spread and recovery rate.

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

Ceded Financial Guarantees —The fair value of ceded financial guarantees is determined by applying the percentage ceded to reinsurers to the related fair value of the gross financial guarantees. The carrying value of the ceded financial guarantees consists of prepaid reinsurance premiums as reported within "Other assets" on National's consolidated balance sheets.

Note 5: Fair Value of Financial Instruments (continued)

Fair Value Measurements

The following tables present the fair value of National's assets (including short-term investments) and liabilities measured and reported at fair value on a recurring basis as of March 31, 2013 and December 31, 2012:

	Fair Value Measurements at Reporting Date Using			
In millions	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance as of March 31, 2013
Assets:				
Fixed-maturity investments:				
U.S. Treasury and government agency	$ 311	$ 3	$ -	$ 314
State and municipal bonds	-	1,177	20(1)	1,197
Corporate obligations	-	595	-	595
Mortgage-backed securities:				
Residential mortgage-backed agency	-	881	-	881
Residential mortgage-backed non-agency	-	18	1(1)	19
Commercial mortgage-backed	-	22	1(1)	23
Asset-backed securities:				
Collateralized debt obligations	-	10	10(1)	20
Other asset-backed	-	60	8(1)	68
Total fixed maturity investments	311	2,766	40	3,117
Money market securities	212	-	-	212
Perpetual debt securities	3	8	-	11
Cash and cash equivalents	223	-	-	223
Total assets	$ 749	$ 2,774	$ 40	$ 3,563
Liabilities:				
Derivative liabilities	$ -	$ 7	$ -	$ 7
Total liabilities	$ -	$ 7	$ -	$ 7

(1) - Unobservable inputs are either not developed by National or do not significantly impact the overall fair values of the aggregate financial assets and liabilities.

Note 5: Fair Value of Financial Instruments (continued)

In millions	Fair Value Measurements at Reporting Date Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance as of December 31, 2012
Assets:				
Fixed-maturity investments:				
U.S. Treasury and government agency	$ 340	$ 4	$ -	$ 344
State and municipal bonds	-	1,183	33(1)	1,216
Foreign governments	-	1	-	1
Corporate obligations	-	573	1(1)	574
Mortgage-backed securities:				
Residential mortgage-backed agency	-	936	-	936
Residential mortgage-backed non-agency	-	19	1(1)	20
Commercial mortgage-backed	-	20	1(1)	21
Asset-backed securities:				
Collateralized debt obligations	-	11	6(1)	17
Other asset-backed	-	61	4(1)	65
Total fixed maturity investments	340	2,808	46	3,194
Money market securities	98	-	-	98
Perpetual debt securities	2	5	2(1)	9
Cash and cash equivalents	265	-	-	265
Total assets	$ 705	$ 2,813	$ 48	$ 3,566
Liabilities:				
Derivative liabilities	$ -	$ 7	$ -	$ 7
Total liabilities	$ -	$ 7	$ -	$ 7

(1) - Unobservable inputs are either not developed by National or do not significantly impact the overall fair values of the aggregate financial assets and liabilities.

Level 3 Analysis

Level 3 assets at fair value were $40 million and $48 million as of March 31, 2013 and December 31, 2012, respectively, and represented 1.1% and 1.3%, respectively, of total assets measured at fair value.

Note 5: Fair Value of Financial Instruments (continued)

The following tables present the fair values and carrying values of National's assets and liabilities that are disclosed at fair value but not reported at fair value on National's consolidated balance sheets as of March 31, 2013 and December 31, 2012:

	Fair Value Measurements at Reporting Date Using				
In millions	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value Balance as of March 31, 2013	Carry Value Balance as of March 31, 2013
Assets:					
Securities purchased under agreements to resell	$ -	$ 480	$ 37	$ 517	$ 474
Secured loan to an affiliate	-	1,710	-	1,710	1,681
Receivable for investments sold	2	-	-	2	2
Accrued investment income	25	29	-	54	54
Other investments	-	-	9	9	9
Total assets	$ 27	$ 2,219	$ 46	$ 2,292	$ 2,220
Liabilities:					
Securities sold under agreements to repurchase	$ 51	$ 446	$ -	$ 497	$ 474
Payable for investments purchased	50	-	-	50	50
Total liabilities	$ 101	$ 446	$ -	$ 547	$ 524
Financial Guarantees:					
Gross	$ -	$ -	$ 2,215	$ 2,215	$ 1,729
Ceded	-	-	78	78	-

	Fair Value Measurements at Reporting Date Using				
In millions	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value Balance as of December 31, 2012	Carry Value Balance as of December 31, 2012
Assets:					
Securities purchased under agreements to resell	$ -	$ 412	$ 117	$ 529	$ 481
Secured loan to an affiliate	-	1,685	-	1,685	1,651
Receivable for investments sold	16	-	-	16	16
Accrued investment income	25	29	-	54	54
Other investments	-	-	9	9	9
Total assets	$ 41	$ 2,126	$ 126	$ 2,293	$ 2,211
Liabilities:					
Securities sold under agreements to repurchase	$ 51	$ 451	$ -	$ 502	$ 481
Payable for investments purchased	50	-	-	50	50
Total liabilities	$ 101	$ 451	$ -	$ 552	$ 531
Financial Guarantees:					
Gross	$ -	$ -	$ 2,186	$ 2,186	$ 1,831
Ceded	-	-	77	77	-

Note 5: Fair Value of Financial Instruments (continued)

The following tables present information about changes in Level 3 assets (including short-term investments) measured at fair value on a recurring basis for the periods ended March 31, 2013 and 2012:

Changes in Level 3 Assets and Liabilities Measured at Fair Value on a Recurring Basis for the Three Months Ended March 31, 2013

In millions	Balance, Beginning of Period	Realized Gains / (Losses)	Unrealized Gains / (Losses) Included in Earnings	Unrealized Gains / (Losses) Included in OCI	Foreign Exchange Recognized in OCI or Earnings	Purchases	Issuances	Settlements	Sales	Transfers into Level 3 (1)	Transfers out of Level 3 (1)	Ending Balance	Change in Unrealized Gains (Losses) for the Period Included in Earnings for Assets Still Held as of March 31, 2013
Assets:													
State and municipal bonds	$ 33	$ 2	$ -	$ (1)	$ -	$ -	$ -	$ (1)	$ (13)	$ -	$ -	$ 20	$ -
Corporate obligations	1	-	-	-	-	-	-	(1)	-	-	-	-	-
Residential mortgage-backed non-agency	1	-	-	-	-	-	-	-	-	-	-	1	-
Commercial mortgage-backed	1	-	-	-	-	-	-	-	-	1	(1)	1	-
Collateralized debt obligations	6	-	-	-	-	-	-	(1)	-	6	(1)	10	-
Other asset-backed	4	-	-	-	-	-	-	(1)	-	5	-	8	-
Perpetual debt securities	2	-	-	-	-	-	-	-	-	-	(2)	-	-
Total assets	$ 48	$ 2	$ -	$ (1)	$ -	$ -	$ -	$ (4)	$ (13)	$ 12	$ (4)	$ 40	$ -

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

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

In millions	Balance, Beginning of Period	Realized Gains / (Losses)	Unrealized Gains / (Losses) Included in Earnings	Unrealized Gains / Included in OCI	Foreign Exchange Recognized in OCI or Earnings	Purchases	Issuances	Settlements	Sales	Transfers into Level 3 (1)	Transfers out of Level 3 (1)	Ending Balance	Change in Unrealized Gains (Losses) for the Period Included in Earnings for Assets Still Held as of March 31, 2012
Assets:													
State and municipal bonds	$ 28	$ -	$ -	$ -	$ -	$ -	$ -	$ (1)	$ -	$ -	$ -	$ 27	$ -
Residential mortgage-backed non-agency	5	-	-	-	-	-	-	-	-	-	(1)	4	-
Commercial mortgage-backed	2	-	-	-	-	-	-	-	-	-	(1)	1	-
Collateralized debt obligations	5	-	-	-	-	-	-	-	(2)	1	(1)	3	-
Other asset-backed	8	-	-	-	-	1	-	-	-	2	(2)	9	-
Perpetual debt securities	1	-	-	1	-	-	-	-	-	-	(2)	-	-
Total assets	$ 49	$ -	$ -	$ 1	$ -	$ 1	$ -	$ (1)	$ (2)	$ 3	$ (7)	$ 44	$ -

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

Note 5: Fair Value of Financial Instruments (continued)

Transfers into and out of Level 3 were $12 million and $4 million, respectively, for the three months ended March 31, 2013. Transfers into and out of Level 2 were $4 million and $12 million, respectively, for the three months ended March 31, 2013. Transfers into Level 3 were principally related to CDOs and other ABS where inputs, which are significant to their valuation, became unobservable during the quarter. Transfers out of Level 3 were principally for perpetual bonds, CDOs and commercial mortgage-backed securities where inputs, which are significant to their valuation, became observable during the quarter. These Level 2 inputs included spreads, prepayment speeds, default speeds, default severities, yield curves observable at commonly quoted intervals, and market corroborated inputs.

Transfers into and out of Level 3 were $3 million and $7 million, respectively, for the three months ended March 31, 2012. Transfers into and out of Level 2 were $7 million and $3 million, respectively, for the three months ended March 31, 2012. Transfers into Level 3 were principally related to other ABS and CDOs where inputs, which are significant to their valuation, became unobservable during the quarter. Transfers out of Level 3 were principally for other ABS and equity securities where inputs, which are significant to their valuation, became observable during the quarter. These Level 2 inputs included spreads, prepayment speeds, default speeds, default severities, yield curves observable at commonly quoted intervals, and market corroborated inputs.

There were no transfers in or out of Level 1 during the three months ended March 31, 2013 and 2012. All fair value hierarchy designations are made at the end of each accounting period.

There were no changes and no balances in Level 3 liabilities measured at fair value on a recurring basis for the three months ended March 31, 2013 and 2012.

Note 6: Investments

National's investments include debt and equity securities classified as AFS. Other invested assets designated as AFS are primarily comprised of money market funds.

The following tables present the amortized cost, fair value and corresponding gross unrealized gains and losses for AFS investments in National's investment portfolios as of March 31, 2013 and December 31, 2012:

	March 31, 2013			
In millions	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Fixed-maturity investments:				
U.S. Treasury and government agency	$ 288	$ 1	$ (1)	$ 288
State and municipal bonds	1,149	48	(2)	1,195
Corporate obligations	498	8	(4)	502
Mortgage-backed securities:				
Residential mortgage-backed agency	839	15	(3)	851
Residential mortgage-backed non-agency	13	2	-	15
Commercial mortgage-backed	16	1	-	17
Asset-backed securities:				
Collateralized debt obligations	17	-	-	17
Other asset-backed	54	2	-	56
Total fixed-maturity investments	2,874	77	(10)	2,941
Money market securities	200	-	-	200
Perpetual debt securities	7	1	-	8
Total AFS investments	$ 3,081	$ 78	$ (10)	$3,149

Note 6: Investments (continued)

	December 31, 2012			
In millions	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Fixed-maturity investments:				
U.S. Treasury and government agency	$ 318	$ 1	$ (1)	$ 318
State and municipal bonds	1,142	74	(1)	1,215
Foreign governments	1	-	-	1
Corporate obligations	471	11	(2)	480
Mortgage-backed securities:				
Residential mortgage-backed agency	888	17	-	905
Residential mortgage-backed non-agency	13	2	-	15
Commercial mortgage-backed	14	1	-	15
Asset-backed securities:				
Collateralized debt obligations	13	-	-	13
Other asset-backed	55	2	-	57
Total fixed-maturity investments	2,915	108	(4)	3,019
Money market securities	85	-	-	85
Perpetual debt securities	7	-	-	7
Total AFS investments	$ 3,007	$ 108	$ (4)	$3,111

The following table presents the distribution by contractual maturity of AFS fixed-maturity securities at amortized cost and fair value as of March 31, 2013. Contractual maturity may differ from expected maturity as borrowers may have the right to call or prepay obligations.

In millions	Amortized Cost	Fair Value
Due in one year or less	$ 46	$ 46
Due after one year through five years	404	408
Due after five years through ten years	586	594
Due after ten years through fifteen years	229	240
Due after fifteen years	670	697
Mortgage-backed and asset-backed	939	956
Total fixed-maturity investments	$ 2,874	$ 2,941

Deposited Securities

The fair value of securities on deposit with various regulatory authorities was $6 million as of March 31, 2013 and December 31, 2012. These deposits are required to comply with state insurance laws.

Note 6: Investments (continued)

Impaired Investments

The following tables present the gross unrealized losses related to AFS investments as of March 31, 2013 and December 31, 2012:

	March 31, 2013					
	Less than 12 Months		12 Months or Longer		Total	
		Unrealized		Unrealized		Unrealized
In millions	Fair Value	Losses	Fair Value	Losses	Fair Value	Losses
Fixed-maturity investments:						
U.S. Treasury and government agency	$ 55	$ (1)	$ -	$ -	$ 55	$ (1)
State and municipal bonds	196	(1)	38	(1)	234	(2)
Corporate obligations	250	(4)	1	-	251	(4)
Mortgage-backed securities:						
Residential mortgage-backed agency	403	(3)	-	-	403	(3)
Residential mortgage-backed non-agency	-	-	2	-	2	-
Commercial mortgage-backed	2	-	1	-	3	-
Asset-backed securities:						
Collateralized debt obligations	4	-	-	-	4	-
Other asset-backed	3	-	-	-	3	-
Total fixed-maturity investments	913	(9)	42	(1)	955	(10)
Perpetual debt securities	1	-	-	-	1	-
Total	$ 914	$ (9)	$ 42	$ (1)	$ 956	$ (10)

	December 31, 2012					
	Less than 12 Months		12 Months or Longer		Total	
		Unrealized		Unrealized		Unrealized
In millions	Fair Value	Losses	Fair Value	Losses	Fair Value	Losses
Fixed-maturity investments:						
U.S. Treasury and government agency	$ 68	$ (1)	$ -	$ -	$ 68	$ (1)
State and municipal bonds	63	-	41	(1)	104	(1)
Corporate obligations	189	(2)	3	-	192	(2)
Mortgage-backed securities:						
Residential mortgage-backed agency	172	-	-	-	172	-
Residential mortgage-backed non-agency	-	-	2	-	2	-
Commercial mortgage-backed	3	-	-	-	3	-
Asset-backed securities:						
Collateralized debt obligations	1	-	4	-	5	-
Other asset-backed	4	-	-	-	4	-
Total fixed-maturity investments	500	(3)	50	(1)	550	(4)
Perpetual debt securities	1	-	1	-	2	-
Total	$ 501	$ (3)	$ 51	$ (1)	$ 552	$ (4)

With the weighting applied on the fair value of each security relative to the total fair value, the weighted average contractual maturity of securities in an unrealized loss position as of March 31, 2013 and December 31, 2012 was 19 and 16 years, respectively. As of March 31, 2013 and December 31, 2012, there were 14 and 27 securities, respectively, that were in an unrealized loss position for a continuous twelve month period or longer, of which the fair values of 3 and 7 securities, respectively, were below book value by more than 5%.

Note 6: Investments (continued)

National has evaluated on a security-by-security basis whether the unrealized losses in its investment portfolios were other-than-temporary considering the duration and severity of unrealized losses, the circumstances that gave rise to the unrealized losses, and whether National has the intent to sell the securities or more likely than not will be required to sell the securities before their anticipated recoveries. Based on its evaluation, National determined that the unrealized losses on these securities were temporary in nature because its impairment analysis, including projected discounted future cash flows, indicated that National would be able to recover the amortized cost of impaired assets. National also concluded that it does not have the intent to sell securities in an unrealized loss position and it is more likely than not that it would not have to sell these securities before recovery of their cost basis. In making this conclusion, National examined the cash flow projections for its investment portfolios, the potential sources and uses of cash in its businesses, and the cash resources available to its business other than sales of securities. It also considered the existence of any risk management or other plans as of March 31, 2013 that would require the sale of impaired securities. On a quarterly basis, National re-evaluates the unrealized losses in its investment portfolios to determine whether an impairment loss should be realized in current earnings based on adverse changes in its expectation of cash flows and changes in its intent to sell securities.

Sales of AFS Investments

Gross realized gains and losses are recorded in “Net gains (losses) on financial instruments at fair value and foreign exchange” in the consolidated statements of operations of National. The proceeds and gross realized gains and losses from sales of AFS investments for the three months ended March 31, 2013 and 2012 were as follows:

	Three Months Ended March 31,	
In millions	2013	2012
Proceeds from sales	$ 397	$ 630
Gross realized gains	$ 31	$ 6
Gross realized losses	$ (1)	$ (1)

Note 7: Income Taxes

National’s income taxes and the related effective tax rates for the three months ended March 31, 2013 and 2012 are as follows:

	Three Months Ended March 31,			
In millions	2013		2012	
Income (loss) before income taxes	$ 140		$ 49	
Provision (benefit) for income taxes	$ 48	34.3%	$ 15	30.6%

For the three months ended March 31, 2013 and 2012, National’s effective tax rate was lower than the U.S. statutory rate of 35% primarily due to tax exempt interest, net of proration.

Accounting for Uncertainty in Income Taxes

As of March 31, 2013 and 2012, National did not have any uncertain tax positions and corresponding interest or penalties related to income taxes. National is a member of MBIA Inc.’s consolidated U.S. tax group and its only income tax jurisdiction is the U.S. National also files premium and franchise taxes in various states.

Tax Sharing Arrangement

National files its U.S. Corporation Income Tax Return as a member of MBIA Inc.’s consolidated group. National participates in a tax sharing agreement with MBIA Inc. under which it is allocated its share of consolidated tax liability or tax benefit, determined on a separate company basis. In the three months ended March 31, 2013, National has, under the tax sharing agreement, made a tax payment to MBIA Inc. of $17 million which represented additional tax liability for the tax year ended 2012. National’s payments are being placed in escrow by MBIA Inc. and will remain in escrow until the expiration of a two-year carryback period which would allow National to carryback a separate company tax loss and recover all or a portion of the escrowed funds. After the two year period, the escrow, to the extent not recovered upon carrying back a loss, is released to MBIA Inc. During the first quarter, $115 million was released from escrow.

Note 8: Accumulated Other Comprehensive Income

The following table presents the changes in the components of AOCI for the three months ended March 31, 2013:

In millions	Unrealized Gains (Losses) On AFS Securities, Net [1]
Balance, January 1, 2013	$ 68
Other comprehensive income before reclassification	(6)
Amounts reclassified from AOCI	(18)
Net current period other comprehensive income	(24)
Balance, March 31, 2013	$ 44

(1) - All amounts are presented net of tax. Amounts in parentheses indicate debits.

The following table presents the details of the reclassifications from AOCI for the three months ended March 31, 2013:

In millions

Details about AOCI Components	Amounts Reclassified From AOCI [1]	Affected Line Item on the Consolidated Statements of Operations
Reclassification adjustments on sale of securities		
	$ (27)	Net gains (losses) on financial instruments at fair value and foreign exchange
	9	Provision (benefit) for income taxes
Total reclassifications for the period	$ (18)	Net income (loss)

(1) - Amounts in parentheses indicate debits.

Note 9: Commitments and Contingencies

The following commitments and contingencies provide an update to those discussed in “Note 14: Commitments and Contingencies” in the Notes to Consolidated Financial Statements included in Exhibit 99.1 of MBIA Inc.’s Annual Report on Form 10-K for the year ended December 31, 2012 and should be read in conjunction with the complete descriptions provided in the aforementioned note included in Exhibit 99.1 of Form 10-K. In the normal course of operating its business, National may be involved in various legal proceedings. Additionally, MBIA Inc. together with its subsidiaries (“MBIA”) may be involved in various legal proceedings that directly or indirectly impact National.

Transformation Litigation

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

On March 4, 2013, the court issued a decision dismissing the Article 78 proceeding. On April 2, 2013, the remaining plaintiffs filed a Notice of Appeal to the Appellate Division, First Department. In May of 2013, following the Bank of America and Societe Generale settlements, all plaintiffs in this matter have agreed to dismiss their claims. A Stipulation of Discontinuance will be filed shortly.

ABN AMRO Bank N.V. et al. v. MBIA Inc. et al.; Index No. 601475/2009 (N.Y. Sup. Ct., N.Y. County)

In May of 2013, following the Bank of America and Societe Generale settlements, all plaintiffs in this matter have agreed to dismiss their claims. A Stipulation of Discontinuance will be filed shortly.

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

In May of 2013, following the Bank of America and Societe Generale settlements, all plaintiffs in this matter have agreed to dismiss their claims. A Stipulation of Discontinuance will be filed shortly.

CQS ABS Master Fund Ltd., CQS Select ABS Master Fund Ltd., and CQS ABS Alpha Master Fund Ltd. v. MBIA Inc. et al .; Civil Action No. 12-cv-6840 (R.S.) (S.D.N.Y.)

On March 18, 2013, argument was heard on MBIA’s motion to disqualify plaintiffs’ counsel, White & Case LLP.

Broadbill Partners LP, et al. v. MBIA Inc., et al. ; Index No. 653865/2012 (N.Y. Sup. Ct., N.Y. County)

A hearing on MBIA’s motion to dismiss is scheduled for June 11, 2013.

Note 9: Commitments and Contingencies (continued)

Corporate Litigation

Bank of America v. MBIA Inc. and The Bank of New York Mellon, as Indenture Trustee; Index No. 70444/2012 (N.Y. Sup. Ct., Westchester County)

In May of 2013, the parties reached an agreement to resolve their respective claims in this action. A Stipulation of Discontinuance without Prejudice will be filed shortly.

MBIA Inc. v. Bank of America Corp. and Blue Ridge Investments, L.L.C.; Index No. 51664/2013 (N.Y. Sup. Ct., Westchester County)

In May of 2013, the parties reached an agreement to resolve their respective claims in this action. A Stipulation of Discontinuance without Prejudice will be filed shortly.

Mary Crescente v. Joseph Brown, et al. ; Index No. 17595/2008 (N.Y. Sup. Ct., Westchester County)

On March 25, 2013, a stipulation of discontinuance was filed with the court resolving the litigation.

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

On March 22, 2013, the court granted the Bond Insurer defendants' motion to strike pursuant to California's Anti-SLAPP statute dismissing the plaintiffs' claims under California's Cartwright Act.

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

There are no other material lawsuits pending or, to the knowledge of National, threatened, to which National is a party.

Note 10: Subsequent Events

In May of 2013, MBIA Inc., together with its subsidiaries, MBIA Insurance Corporation and National, entered into the BofA Settlement Agreement with Bank of America. Under the terms of the BofA Settlement Agreement, MBIA Insurance Corporation received a payment of approximately $1.7 billion, consisting of $1.6 billion in cash and $136 million principal amount of MBIA Inc.'s 5.70% Senior Notes due 2034. The payment from Bank of America, including the MBIA Inc. bonds, was used to repay the remaining outstanding balance and accrued interest on the National Secured Loan in accordance with its terms. The National Secured Loan balance of $1.7 billion as of March 31, 2013 was reduced to approximately $1.6 billion prior to the Bank of America settlement as a result of the receipt by MBIA Insurance Corporation of $110 million in settlement of Flagstar Bank's put-back obligation. Among other terms of the BofA Settlement Agreement, Bank of America agreed to dismiss the pending litigation between the parties concerning the restructuring transactions announced by MBIA on February 18, 2009. The NYSDFS advised MBIA Insurance Corporation that the NYSDFS did not object to the BofA Settlement Agreement.

In May of 2013, MBIA Inc., together with its subsidiaries, MBIA Insurance Corporation and National, entered into a settlement agreement with Societe Generale.

As a result of the Bank of America settlement and the Societe Generale settlement, all litigation brought originally by the group of eighteen domestic and international financial institutions, relating to the establishment of National, has been resolved.

Refer to "Note 9: Commitments and Contingencies" for information about legal proceedings that developed after March 31, 2013.

Exhibit 99.2

MBIA INSURANCE CORPORATION AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

As of March 31, 2013 and December 31, 2012
and for the periods ended March 31, 2013 and 2012

MBIA INSURANCE CORPORATION AND SUBSIDIARIES
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MBIA INSURANCE CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (Unaudited)
(In thousands except share and per share amounts)

	March 31, 2013	December 31, 2012
Assets		
Investments:		
Fixed-maturity securities held as available-for-sale, at fair value (amortized cost $499,543 and $708,068)	$ 520,598	$ 730,440
Investments carried at fair value	4,019	3,825
Short-term investments held as available-for-sale, at fair value (amortized cost $224,932 and $157,791)	226,116	158,610
Other investments (includes investments at fair value of $1,561 and $611)	27,087	28,139
Total investments	777,820	921,014
Cash and cash equivalents	433,758	396,788
Accrued investment income	4,659	7,085
Premiums receivable	1,161,036	1,228,381
Deferred acquisition costs	478,490	508,600
Prepaid reinsurance premiums	1,303,660	1,370,711
Insurance loss recoverable	3,876,724	3,648,025
Reinsurance recoverable on paid and unpaid losses	158,533	159,338
Property and equipment, at cost (less accumulated depreciation of $57,353 and $60,186)	1,402	1,633
Receivable for investments sold	55	65
Derivative assets	6,673	6,764
Current income taxes	7,775	7,071
Deferred income taxes, net	1,208,334	1,239,427
Other assets	19,125	19,744
Assets of consolidated variable interest entities:		
Cash	71,556	176,342
Investments held-to-maturity, at amortized cost (fair value of $2,759,203 and $2,674,336)	2,825,600	2,829,200
Fixed-maturity securities at fair value	1,753,006	1,734,774
Loans receivable at fair value	1,819,428	1,880,586
Loan repurchase commitments	1,175,611	1,086,040
Derivative assets	257	333
Total assets	**$17,083,502**	**$ 17,221,921**
Liabilities and Equity (Deficit)		
Liabilities:		
Unearned premium revenue	$ 2,367,640	$ 2,507,839
Loss and loss adjustment expense reserves	769,669	845,573
Reinsurance premiums payable	306,036	313,287
Long-term debt	2,633,200	2,604,063
Deferred fee revenue	388,004	409,458
Derivative liabilities	3,005,725	2,933,229
Other liabilities	437,547	403,315
Liabilities of consolidated variable interest entities:		
Variable interest entity notes (includes financial instruments carried at fair value of $3,595,279 and $3,675,182)	6,420,879	6,504,382
Derivative liabilities	149,322	161,745
Total liabilities	**16,478,022**	**16,682,891**
Commitments and contingencies (See Note 11)		
Equity (deficit):		
Series A non-cumulative perpetual preferred stock, par value $1,000 per share, liquidation value $100,000 per share, authorized—4,000, issued and outstanding—2,759	27,598	27,598
Common stock, par value $220.80 per share; authorized, issued and outstanding—67,936 shares	15,000	15,000
Additional paid-in capital	979,919	981,735
Retained earnings (deficit)	(403,441)	(510,283)
Accumulated other comprehensive income (loss), net of tax of $7,632 and $1,642	(13,596)	24,980
Total equity (deficit)	**605,480**	**539,030**
Total liabilities and equity (deficit)	**$17,083,502**	**$ 17,221,921**

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

MBIA INSURANCE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)
(In thousands)

	Three Months Ended March 31,	
	2013	2012
Revenues:		
Premiums earned:		
Scheduled premiums earned	$ 36,259	$ 47,685
Refunding premiums earned	1,449	4,651
Premiums earned (net of ceded premiums of $62,326 and $66,678)	37,708	52,336
Net investment income	3,106	5,971
Fees and reimbursements	22,447	24,380
Change in fair value of insured derivatives:		
Realized gains (losses) and other settlements on insured derivatives	11,430	(4,102)
Unrealized gains (losses) on insured derivatives	(72,618)	303,387
Net change in fair value of insured derivatives	(61,188)	299,285
Net gains (losses) on financial instruments at fair value and foreign exchange	21,543	18,013
Investment losses related to other-than-temporary impairments:		
Investment losses related to other-than-temporary impairments	-	(1,325)
Other-than-temporary impairments recognized in accumulated other comprehensive income (loss)	-	(37,086)
Net investment losses related to other-than-temporary impairments	-	(38,411)
Other net realized gains (losses)	40	511
Revenues of consolidated variable interest entities:		
Net investment income	12,635	13,319
Net gains (losses) on financial instruments at fair value and foreign exchange	30,756	(31,770)
Total revenues	67,047	343,634
Expenses:		
Losses (recoveries) and loss adjustment	(198,443)	82,666
Amortization of deferred acquisition costs	33,153	26,682
Operating	24,493	54,869
Interest	57,693	53,369
Expenses of consolidated variable interest entities:		
Operating	4,528	6,584
Interest	10,010	10,681
Total expenses	(68,566)	234,851
Income (loss) before income taxes	135,613	108,783
Provision (benefit) for income taxes	28,771	54,282
Net income (loss)	**$ 106,842**	**$ 54,501**

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

MBIA INSURANCE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (Unaudited)
(In thousands)

	Three Months Ended March 31,	
	2013	2012
Net income (loss)	$ 106,842	$ 54,501
Other comprehensive income (loss):		
Unrealized gains (losses) on available-for-sale securities:		
Unrealized gains (losses) during the period	98,517	32,576
Provision (benefit) for income taxes	30,844	5,328
Total	67,673	27,248
Reclassification adjustments for (gains) losses amounts included in net income (loss)	(94,128)	(7,538)
Provision (benefit) for income taxes	(29,823)	(2,638)
Total	(64,305)	(4,900)
Other-than-temporary impairments on available-for-sale securities:		
Other-than-temporary impairments arising during the period	-	-
Provision (benefit) for income taxes	-	-
Total	-	-
Reclassification adjustments for other-than-temporary impairments included in net income (loss)	-	37,086
Provision (benefit) for income taxes	-	12,980
Total	-	24,106
Foreign currency translation	(42,327)	(12,570)
Provision (benefit) for income taxes	(383)	(188)
Total	(41,944)	(12,382)
Total other comprehensive income (loss)	(38,576)	34,072
Comprehensive income (loss)	$ 68,266	$ 88,573

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

MBIA INSURANCE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIT) (Unaudited)
For The Three Months Ended March 31, 2013
(In thousands except share amounts)

	Preferred Stock		Common Stock		Additional Paid-in Capital	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity (Deficit)
	Shares	Amount	Shares	Amount				
Balance, December 31, 2012	**2,759**	**$27,598**	**67,936**	**$15,000**	**$981,735**	**$(510,283)**	**$ 24,980**	**$ 539,030**
Net Income (loss)	-	-	-	-	-	106,842	-	106,842
Other comprehensive income (loss)	-	-	-	-	-	-	(38,576)	(38,576)
Share-based compensation, net of tax of $2,111	-	-	-	-	(1,816)	-	-	(1,816)
Balance, March 31, 2013	**2,759**	**$27,598**	**67,936**	**$15,000**	**$979,919**	**$(403,441)**	**$ (13,596)**	**$ 605,480**

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

MBIA INSURANCE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
(In thousands)

	Three Months Ended March 31,	
	2013	2012
Cash flows from operating activities:		
Premiums, fees and reimbursements received	$ 46,823	$ 48,769
Investment income received	74,141	101,674
Insured derivative losses and commutations paid	(627)	(20,270)
Financial guarantee losses and loss adjustment expenses paid	(113,474)	(159,696)
Proceeds from reinsurance and recoveries	13,156	16,227
Operating and employee related expenses paid	(33,127)	(43,664)
Interest paid	(40,796)	(111,711)
Income taxes received (paid)	288	(160)
Net cash used by operating activities	(53,616)	(168,831)
Cash flows from investing activities:		
Purchase of fixed-maturity securities	(14,240)	(96,010)
Sale and redemption of fixed-maturity securities	191,418	526,899
Proceeds from paydowns on variable interest entity loans	69,249	59,992
Redemptions of held-to-maturity investments	3,600	-
Sale of short-term investments, net	6,059	50,953
(Purchase) sale of other investments, net	(600)	1,178
Payments for derivative settlements	(22,717)	(30,543)
Capital expenditures	-	(234)
Net cash provided by investing activities	232,769	512,235
Cash flows from financing activities:		
Principal paydowns of variable interest entity notes	(246,969)	(288,109)
Net cash used by financing activities	(246,969)	(288,109)
Net (decrease) increase in cash and cash equivalents	(67,816)	55,295
Cash and cash equivalents—beginning of period	573,130	296,484
Cash and cash equivalents—end of period	$ 505,314	$ 351,779
Reconciliation of net income (loss) to net cash used by operating activities:		
Net income (loss)	$ 106,842	$ 54,501
Changes in:		
Accrued investment income	2,427	3,722
Premiums receivable	44,998	38,935
Deferred acquisition costs	30,110	27,076
Unearned premium revenue	(107,954)	(125,900)
Prepaid reinsurance premiums	67,051	75,930
Reinsurance premiums payable	(7,251)	(5,632)
Loss and loss adjustment expense reserves	(75,457)	22,543
Reinsurance recoverable on paid and unpaid losses	805	(2,251)
Insurance loss recoverable	(228,555)	(90,839)
Receivable from affiliates	2,956	(1,504)
Payable to reinsurers on recoverables	5,412	11,228
Accounts receivable	(17)	(1)
Accrued expenses	84,362	39,334
Deferred fee revenue	(21,456)	(24,422)
Current income taxes	(704)	2,577
Amortization (accretion) of bond premiums (discounts), net	314	1,165
Depreciation	229	505
Other net realized (gains) losses	(40)	(511)
Investment losses on other-than-temporary impaired investments	-	38,411
Unrealized (gains) losses on insured derivatives	72,618	(303,387)
Net (gains) losses on financial instruments at fair value and foreign exchange	(52,299)	13,757
Deferred income tax provision (benefit)	30,128	51,588
Share-based compensation	294	373
Other operating	(8,429)	3,971
Total adjustments to net income (loss)	(160,458)	(223,332)
Net cash used by operating activities	$ (53,616)	$ (168,831)

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

Note 1: Business Developments and Risks and Uncertainties

Summary

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

Business Developments

As a result of insured losses during the period from 2007 through March 31, 2013, MBIA Corp. has seen ratings downgrades, a near cessation of new insurance business and increasing liquidity pressure. MBIA Corp. has been unable to write meaningful amounts of new insurance business since 2008 and does not expect to write significant new insurance business prior to an upgrade of its credit ratings. In May of 2013, Standard & Poor's Financial Services LLC ("S&P") upgraded MBIA Insurance Corporation's rating to B with a stable outlook from CCC with a negative outlook.

Bank of America Settlement

In May of 2013, MBIA Inc., together with its subsidiaries, MBIA Corp. and National Public Finance Guarantee Corporation ("National"), entered into a comprehensive settlement agreement and related agreements (the "BofA Settlement Agreement") with Bank of America Corporation and certain of its subsidiaries (collectively, "Bank of America"). Under the terms of the BofA Settlement Agreement, MBIA Corp. received a payment of approximately $1.7 billion, consisting of $1.6 billion in cash and $136 million principal amount of MBIA Inc.'s 5.70% Senior Notes due 2034. In exchange for such payment, MBIA Corp. agreed to dismiss the litigation commenced in September 2008 against Countrywide Home Loans, Inc. ("Countrywide"), among other parties, and later amended to include claims against Bank of America, relating to breaches of representations and warranties on certain MBIA-insured securitizations sponsored by Countrywide. Bank of America and MBIA have also agreed to the commutation of all of the MBIA Corp. policies held by Bank of America, which have a notional insured amount of approximately $7.4 billion, and of which $6.1 billion are policies insuring credit default swaps ("CDS") held by Bank of America referencing commercial real estate exposures. MBIA Corp. will have no further payment obligations under the commuted policies. The New York State Department of Financial Services ("NYSDFS") advised MBIA Corp. that the NYSDFS did not object to the BofA Settlement Agreement.

Under the terms of the BofA Settlement Agreement, Bank of America received a five-year warrant to purchase 9.94 million shares of MBIA common stock at a price of $9.59 per share. Bank of America has also agreed to dismiss the pending litigation between the parties concerning the restructuring transactions announced by MBIA on February 18, 2009 (the "Transformation") and the pending litigation between the parties concerning the senior debt Consent Solicitation completed by MBIA in the fourth quarter of 2012. In addition, Bank of America agreed to withdraw the purported "notice of default" it sent in connection with such Consent Solicitation.

Under the terms of the BofA Settlement Agreement, the dismissals of the litigations referenced above are initially being filed on a "without prejudice" basis. The parties will refile such dismissals on a "with prejudice" basis provided that, within the one-year period following execution of the BofA Settlement Agreement, none of the claims released pursuant to the BofA Settlement Agreement are reinstated and neither party is required to make a payment on any such released claims. MBIA Corp. views the likelihood of such an event as remote, and thus expects that the litigation dismissals will be filed on a "with prejudice" basis at the expiration of such one-year period.

MBIA Corp.'s policies insuring the residential mortgage-backed securities ("RMBS") securitizations originated by Countrywide will continue to be in full force and effect, and MBIA Corp. will continue to make timely payments of principal and interest when due under such policies. Bank of America will have no further representation and warranty liability with respect to the origination of the mortgage loans in the MBIA-insured Countrywide and certain other securitizations.

In addition, MBIA Corp. has entered into a $500 million three-year secured revolving credit agreement with Blue Ridge Investments, L.L.C., an affiliate of Bank of America (the "BofA Secured Loan"). Borrowings may be used for general corporate purposes and will be secured by a pledge of collateral consisting of the following: (i) MBIA Corp.'s right to receive put-back recoveries related to ineligible mortgage loans included in its insured RMBS transactions; (ii) MBIA Corp.'s future recoveries on defaulted insured RMBS transactions resulting from expected excess spread generated by performing loans in such transactions; (iii) MBIA Corp.'s future installment premiums; and (iv) 65% of the voting capital stock in MBIA Corp.'s wholly-owned subsidiary, MBIA UK (Holdings) Limited. The BofA Secured Loan includes a number of provisions that govern MBIA Corp.'s ability to draw on the loan and use the proceeds from the borrowings, limit the amount MBIA Corp. can use to fund commutations without the consent of Bank of America, and require it to prepay borrowings. The loan also includes customary representations and warranties and customary affirmative, negative and financial covenants, including a requirement that MBIA Corp. maintain at least $750 million of statutory capital (defined as policyholders' surplus plus contingency reserves).

The payment from Bank of America, including the MBIA Inc. bonds, was used to repay the remaining outstanding balance and accrued interest on MBIA Corp.'s secured loan from National (the "National Secured Loan") in accordance with its terms. The National Secured Loan balance of $1.7 billion as of March 31, 2013 was reduced to approximately $1.6 billion prior to the Bank of America settlement as a result of the receipt of $110 million in settlement of Flagstar Bank's put-back obligation.

The value of the settlement is consistent with amounts recorded on MBIA Corp.'s statutory balance sheet as of December 31, 2012. MBIA Corp.'s liquidity and capital risk profile has substantially improved as a result of the settlement. While MBIA Corp. has updated its estimates to reflect the BofA Settlement Agreement in its financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") as of and for the three months ended March 31, 2013, certain of the agreements will be accounted for in the second quarter of 2013 as of the settlement date.

Note 1: Business Developments and Risks and Uncertainties (continued)

Societe Generale Settlement

In May of 2013, MBIA Inc., together with its subsidiaries, MBIA Corp. and National, entered into an agreement with Societe Generale pursuant to which MBIA commuted $4.2 billion of gross insured exposure comprising ABS collateralized debt obligations ("CDOs"), structured commercial mortgage-backed securities ("CMBS") pools and commercial real estate ("CRE") CDOs. The amount MBIA paid to Societe Generale in consideration of commuting its insured exposure was consistent with MBIA Corp.'s aggregate statutory loss reserves for the exposures commuted. Also, pursuant to the agreement, Societe Generale agreed to dismiss the pending litigation between the parties concerning the Transformation, which includes any appeals of the decision denying the Article 78 petition and the plenary case.

Transformation Litigation Resolution

As a result of the Bank of America settlement and the Societe Generale settlement, all litigation brought originally by the group of eighteen domestic and international financial institutions, relating to the establishment of National, has been resolved.

Other

MBIA Corp. continues to seek to reduce both the absolute amount and the volatility of its obligations and potential future claim payments through the execution of commutations of insurance policies. The combination of the failure of certain mortgage originators to honor contractual obligations to repurchase ineligible mortgage loans from securitizations MBIA Corp. insured, commutation payments to reduce liabilities and claim payments have placed liquidity pressure on MBIA Corp. The failure of certain mortgage originators to repurchase ineligible mortgages from securitizations MBIA Corp. insured represents significant breaches of their contractual obligations. As of March 31, 2013 and December 31, 2012, cash and liquid assets were $258 million and $345 million, respectively. Management believes MBIA Corp.'s current liquidity position, together with future cash inflows and amounts available under a lending facility, are adequate to make expected future claim payments.

During the three months ended March 31, 2013, MBIA Corp. made $139 million in gross claim payments, and commuted $2.1 billion of gross insured exposure, primarily comprising investment grade corporate CDOs. Subsequent to March 31, 2013, MBIA Corp. agreed to commute an additional $13.4 billion of gross insured exposure, primarily comprising structured CMBS pools, first-lien subprime RMBS, high yield corporate CDOs, CRE CDOs, structured insurance securities, ABS CDOs and first-lien alternative-A RMBS, including the aggregate notional amount of $7.4 billion described above in the "Bank of America Settlement" discussion and the aggregate notional amount of $4.2 billion described above in the "Societe Generale Settlement" discussion.

The reference herein to "ineligible" mortgage loans refers to those mortgage loans that MBIA Corp. 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 MBIA Corp.'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 MBIA Corp.'s assessment of a range of possible collection outcomes. MBIA Corp.'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 MBIA Corp.'s determinations will prevail.

Risks and Uncertainties

MBIA Corp.'s consolidated financial statements include estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. The outcome of certain significant risks and uncertainties could cause MBIA Corp. to revise its estimates and assumptions or could cause actual results to differ from MBIA Corp.'s estimates. While MBIA Corp. believes that it continues to have sufficient capital and liquidity to meet all of its expected obligations, if one or more possible adverse outcomes were to be realized, its statutory capital, financial position, results of operations and cash flows could be materially and adversely affected.

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

- Management's expected liquidity and capital forecasts for MBIA Corp. for 2013 reflect adequate resources to pay expected claims. In addition, MBIA Corp. can borrow under the BofA Secured Loan to pay claims. However, there is risk to the liquidity forecast as MBIA Corp's second-lien RMBS and remaining insured CMBS pools are potentially volatile. There are risks to the capital forecast due to those potential liabilities, potential volatility in the collection of put-back recoverables and potential volatility associated with remaining ABS CDO exposures. Further, the remaining insured portfolio, aside from these exposures, could deteriorate and result in loss reserves and claim payments. Management believes it will have adequate resources to pay expected claims. However, if MBIA Corp. experiences higher than expected claims payments or is unable to commute exposures that represent substantial risk, MBIA Corp. may ultimately have insufficient resources to continue paying claims, which could also cause the NYSDFS to commence a rehabilitation or liquidation proceeding, as per Article 74 of the NYIL, against MBIA Insurance Corporation (an "MBIA Corp. Proceeding"). As a result of the BofA Settlement Agreement, the risk of an MBIA Corp. Proceeding has been significantly reduced;
- Incurred losses from insured RMBS have declined from their peaks. However, due to the large percentage of ineligible mortgage loans included within the MBIA Corp.-insured second-lien portfolio, performance remains difficult to predict and losses could ultimately be in excess of MBIA Corp.'s current estimated loss reserves. In addition, MBIA Corp.'s efforts to recover losses from second-lien RMBS originators could be delayed, settled at amounts below its contractual claims or potentially settled at amounts below those recorded in its consolidated financial statements. Refer to "Note 5: Loss and Loss Adjustment Expense Reserves" for information about MBIA Corp.'s RMBS reserves and recoveries;
- Further economic stress might cause increases in MBIA Corp.'s loss estimates on its remaining exposure, particularly within its higher risk structured CMBS pool, ABS CDO and RMBS exposures. As of March 31, 2013, MBIA Corp.'s CMBS pools and CRE CDOs gross par outstanding, including approximately $6.1 billion of exposure held by Bank of America that was commuted subsequent to March 31, 2013, and ABS CDO gross par outstanding was approximately $17.6 billion and $4.1 billion, respectively. MBIA Corp.'s primary strategy for managing its CMBS pool and ABS CDO exposures has been commutations. MBIA Corp.'s ability to commute insured transactions is limited by available liquidity, including the availability of the BofA Secured Loan and the use of other available financing structures and

liquidity, some of which could be subject to regulatory approval by the NYSDFS. In addition, the BofA Secured Loan includes limits on commutations without Bank of America's consent. There can be no assurance that MBIA Corp. will be able to fund further commutations through borrowings or otherwise. Refer to "Note 5: Loss and Loss Adjustment Expense Reserves" for information about MBIA Corp.'s estimate of losses on its exposures;

Note 1: Business Developments and Risks and Uncertainties (continued)

- As of March 31, 2013, MBIA Corp. was not in compliance with a requirement under NYIL to hold qualifying assets in an amount necessary to satisfy its contingency reserves. MBIA Corp. has reported the deficit and has requested approval from the NYSDFS to release a portion of its contingency reserves as of September 30, 2012, December 31, 2012 and March 31, 2013, but to date has not received approval. In addition, as of March 31, 2013, MBIA Corp. exceeded its aggregate risk limits under NYIL. MBIA Corp. previously filed a formal notification with the NYSDFS regarding the overage and submitted a plan to achieve compliance with its limits. While the NYSDFS has not taken action against MBIA Corp., the NYSDFS may restrict MBIA Corp. from making commutation or other payments or may impose other remedial actions for failing to meet these requirements; and
- In the event the economy and the markets to which MBIA Corp. is exposed do not improve, or decline, the unrealized losses on insured credit derivatives could increase, causing additional stress in MBIA Corp.'s reported financial results. In addition, volatility in the relationship between MBIA Corp.'s credit spreads and those on underlying collateral assets of insured credit derivatives can create significant unrealized gains and losses in MBIA Corp.'s reported results of operations. Refer to "Note 6: Fair Value of Financial Instruments" for information about MBIA Corp.'s valuation of insured credit derivatives.

As a result of the BofA Settlement Agreement, the risk of an MBIA Corp. Proceeding has been significantly reduced. While MBIA Corp. believes it will have adequate resources to pay expected claims, in the event it does not have adequate resources in the future and the NYSDFS were to commence an MBIA Corp. Proceeding, MBIA Corp. may be subject to the following:

- CDS counterparties may seek to terminate CDS contracts insured by MBIA Corp. and MBIA UK Insurance Limited ("MBIA UK") and make market-based damage claims (irrespective of whether actual credit-related losses are expected under the underlying exposure). MBIA Corp. believes that such an acceleration would likely terminate any residual value;
- Medium-term notes ("MTNs") issued by MBIA's subsidiaries, MBIA Global Funding, LLC ("GFL") and Meridian Funding Company, LLC ("Meridian"), which are insured by MBIA Corp., would accelerate. To the extent GFL failed to pay the accelerated amounts under the GFL MTNs or the collateral securing the Meridian MTNs was deemed insufficient to pay the accelerated amounts under the Meridian MTNs, the MTN holders would have policy claims against MBIA Corp. for scheduled payments of interest and principal;
- An MBIA Corp. Proceeding may accelerate certain investment agreements issued by MBIA Inc. including, in some cases, with make-whole payments. To the extent MBIA fails to pay the accelerated amounts under these investment agreements or the collateral securing these investment agreements is deemed insufficient to pay the accelerated amounts due, the holders of the investment agreements would have policy claims against MBIA Corp.;
- Payments under MBIA Corp. insurance policies could be suspended, delayed or reduced, in whole or in part;
- An acceleration of the surplus notes issued by MBIA Corp. and a possible reduction or further delay or suspension of the amounts due;
- MBIA Corp.'s ability to carry out its tax planning strategies. This may cause it to record additional allowances against a portion or all of its deferred tax assets. Refer to "Note 9: Income Taxes" for information about MBIA Corp.'s deferred tax assets. In addition, MBIA Corp. is currently included in the consolidated tax return of MBIA Inc. An MBIA Corp. Proceeding could result in challenges to the tax sharing arrangement among the MBIA affiliates that might adversely affect management's ability to manage taxes efficiently;
- Approval of the rehabilitator and the rehabilitation court (or liquidator and liquidation court, as the case may be) may be required for a variety of actions of importance to MBIA Corp. and its policyholders, including, without limitation, settlement of MBIA Corp.'s put-back litigation and commutation of MBIA Corp.-insured exposures;
- The rehabilitator or liquidator would replace the Board of Directors of MBIA Corp. and take control of the operations and assets of MBIA Corp., which would result in changes to its strategies and management;
- An MBIA Corp. Proceeding would be an event of default under the BofA Secured Loan and, as a result, the loan could be accelerated and Bank of America would have rights to the loan's collateral; and

- MBIA Corp. would be subject to significant additional expenses arising from the appointment of the rehabilitator or liquidator, as receiver, and payment of the fees and expenses of the advisors to such rehabilitator or liquidator.

Key Lending Agreements

MBIA Corp. has entered into lending agreements as follows:

BofA Secured Loan

In connection with the BofA Settlement Agreement in May of 2013, MBIA Corp. and Blue Ridge Investments, L.L.C., an affiliate of Bank of America ("Blue Ridge"), entered into the BofA Secured Loan, pursuant to which Blue Ridge agreed to make revolving loans to MBIA Corp. in an aggregate amount of up to $500 million. The following is a summary of the material terms of the Loan Agreement. This summary is not complete and is subject to the full text of the documents described below.

Use of Proceeds

The proceeds of the BofA Secured Loan can be used for general corporate purposes. Once the BofA Secured Loan outstanding exceeds $50 million, the proceeds must be used for the purpose of meeting ordinary course liquidity requirements expected to arise during the 30 days following such borrowing.

Conditions to Borrowings

Blue Ridge's obligation to make loans is subject to usual and customary conditions precedent, including that on the date of the borrowing (i) no default is continuing or would occur as a result of that borrowing and (ii) the representations and warranties specified in the BofA Secured Loan agreement are true and accurate in all material respects.

Interest Rate and Fees

Loans will bear interest at a rate per annum equal to, at MBIA Corp.'s option, of (i) the adjusted LIBOR rate ("LIBOR Rate Loans") plus an applicable margin, or (ii) the base rate ("Base Rate Loans"), which is determined by reference to the highest of (A) Bank of America's prime rate and (B) the sum of the federal funds effective rate plus ½ of 1.0%, and (C) the adjusted LIBOR rate plus 1.00%, plus an applicable margin. Interest accrues daily and is payable (x) in the case of Base Rate Loans, quarterly in arrears, and (y) in the case of LIBOR Rate Loans, on the last day of each interest period applicable to such LIBOR Rate Loan (unless the interest period is longer than three months, in which case interest is payable on the last day of each three-month period). The applicable margin is 7.50% per annum (in the case of LIBOR Rate Loans) and 6.50% (in the case of Base Rate Loans). With respect to any available but undrawn amounts under the Loan Agreement, MBIA Corp. is obligated to pay a commitment fee on such undrawn amounts of 2.00% per annum.

Security

The Loans are secured by (i) recoveries for claims paid on insured RMBS arising from satisfaction by various originators of such securities of their obligations to buy back ineligible loans ("Put Back Recoveries"), (ii) future installment premiums in respect of all of MBIA Corp.'s outstanding financial guaranty insurance policies, (iii) salvage or subrogation recoveries that result from excess interest or other income generated on performing loans in RMBS insured by MBIA Corp. and (iv) 65% of the voting capital stock of MBIA UK (Holdings) Limited (the collateral described in clauses (ii) and (iii) above, the "Other Prepayment Collateral"). Under the BofA Secured Loan agreement, the value of the collateral described in clauses (i) through (iii) above must at all times be greater than $1.0 billion. As of March 31, 2013, the value of the Collateral was approximately $2.5 billion (after giving effect to the BofA Settlement Agreement and Flagstar Bank settlement).

Scheduled Repayment

The maturity date of the BofA Secured Loan is three years from the closing date, at which time any then outstanding loans will be due and payable.

Mandatory Prepayments

Loans are required to be prepaid (and Blue Ridge's commitments reduced) in an amount equal to the following: (i) 100% of the proceeds of any put-back recoveries and (ii) on and after the first anniversary of the closing date, from the proceeds of any Other Prepayment Collateral in an amount equal to (x) from the first anniversary of the closing date to the second anniversary of the closing date, 50% of such proceeds and (y) from the second anniversary of the closing date to the maturity date, 100% of such proceeds. In addition, loans must be prepaid (and Blue Ridge's commitments reduced) in an amount equal to 100% of the proceeds of certain disposals of assets to the extent exceeding $1 million in aggregate for all such disposals. Finally, loans must be prepaid (but without any commitment reduction) to the extent the proceeds of any borrowing that is a liquidity borrowing are not in fact used for such purposes and have not otherwise been used to repay loans within the required 30-day period.

Representations and Warranties

The BofA Secured Loan agreement contains customary representations and warranties for loan facilities of this type, which are given on the closing date and at each borrowing under the BofA Secured Loan agreement, including with respect to organization of MBIA Corp., power and authority, enforceability of the loan documents, receipt of any necessary governmental approvals, financial condition and solvency, and compliance with laws.

Covenants

The BofA Secured Loan agreement contains certain affirmative and negative covenants which are customary for loan facilities of this type in relation to, among other matters, delivery of financial statements, notice of material events, existence and conduct of business, payment of taxes and other obligations, maintenance of books and records, compliance with all material laws, and maintenance of insurance, and includes a requirement that MBIA Corp. maintain at least $750 million of statutory capital (defined as policyholders' surplus plus contingency reserves).

In addition, MBIA Corp. may not, without Blue Ridge's consent consummate any amendments, compromises or commutations with respect to insurance obligations and settlements of litigation to the extent (x) that payments made in respect of such remediation efforts exceed $500 million in the aggregate, (y) after giving effect thereto and to any borrowings of loans in connection therewith, the aggregate principal amount of loans outstanding would exceed $200 million or (z) after giving effect thereto, all remediation efforts taken as a whole since the closing date, would, cumulatively, have reduced MBIA Corp.'s statutory capital by $100 million or more.

In addition, MBIA Corp. may not prepay, redeem, purchase, defease or otherwise satisfy prior to the scheduled maturity thereof in any manner, or make any payment of principal, interest or fees or any other payment on, any of its indebtedness (including the Surplus Notes), except for payments of the loans, under the BofA Secured Loan agreement and except for certain refinancings and refundings of its indebtedness.

Change of Control

MBIA Corp. may be required to prepay all amounts outstanding under the BofA Secured Loan agreement upon the occurrence of a change of control.

Events of Default

The BofA Secured Loan agreement contains certain events of default which are customary for loan facilities of this type (and with customary cure periods), including failure to pay principal, interest or fees on the loans, misrepresentation, failure to observe covenants or conditions, failure to pay other material indebtedness, insolvency and bankruptcy matters, and unlawfulness or invalidity of the loan documents.

Note 1: Business Developments and Risks and Uncertainties (continued)

National Secured Loan

In 2011, National provided the $1.1 billion National Secured Loan to MBIA Insurance Corporation in order to enable MBIA Insurance Corporation to fund settlements and commutations of its insurance policies. This loan was approved by the NYSDFS as well as by the boards of directors of MBIA Inc., MBIA Insurance Corporation and National Public Finance Guarantee Corporation. The National Secured Loan has a fixed annual interest rate of 7% and a maturity date of December 2016. MBIA Insurance Corporation has the option to defer payments of interest when due by capitalizing interest amounts to the loan balance, subject to the collateral value exceeding certain thresholds. MBIA Insurance Corporation has elected to defer the interest payments due under the loan. MBIA Insurance Corporation's obligation to repay the loan is secured by a pledge of collateral having an estimated value in excess of the notional amount of the loan as of March 31, 2013, which collateral comprised the following future receivables of MBIA Insurance Corporation: (i) its right to receive put-back recoveries related to ineligible mortgage loans included in its insured second-lien RMBS transactions; (ii) future recoveries on defaulted insured second-lien RMBS transactions resulting from expected excess spread generated by performing loans in such transactions; and (iii) future installment premiums. During 2012, MBIA Insurance Corporation borrowed an additional $443 million under the National Secured Loan with the approval of the NYSDFS at the same terms as the original loan to fund additional commutations of its insurance policies. As of March 31, 2013, the outstanding principal amount which includes capitalized interest under this loan was $1.7 billion. In connection with the BofA Settlement, in May 2013, MBIA Insurance Corporation repaid this loan and extinguished the agreement.

MBIA Corp. Secured Loan

MBIA Corp., as lender, maintained a master repurchase agreement with MBIA Inc. ("MBIA Corp. Secured Loan") for the benefit of MBIA Inc.'s asset/liability products business, which totaled $2.0 billion at inception and was scheduled to mature in May 2012, as amended. This loan was repaid in May 2012 and there have been no further draws. The average interest rate on the MBIA Corp. Secured Loan was 2.53% for the three months ended March 31, 2012. Also in May 2012, the NYSDFS approved the maturity extension of the MBIA Corp. Secured Loan facility to May 2013 with a maximum outstanding amount of $450 million. The loan facility expired on May 3, 2013.

Note 2: Significant Accounting Policies

MBIA Corp. has disclosed its significant accounting policies in "Note 2: Significant Accounting Policies" in the Notes to Consolidated Financial Statements included in Exhibit 99.2 to MBIA Inc.'s Annual Report on Form 10-K for the year ended December 31, 2012. The following significant accounting policies provide an update to those included under the same captions in Exhibit 99.2 to MBIA Inc.'s Annual Report on Form 10-K.

Basis of Presentation

The accompanying unaudited consolidated financial statements do not include all of the information and disclosures required by GAAP for annual periods. These statements should be read in conjunction with MBIA Corp.'s consolidated financial statements and notes thereto included in Exhibit 99.2 to MBIA Inc.'s Annual Report on Form 10-K for the year ended December 31, 2012. The accompanying consolidated financial statements have not been audited by an independent registered public accounting firm in accordance with the standards of the Public Company Accounting Oversight Board (U.S.), but in the opinion of management such financial statements include all adjustments, consisting only of normal recurring adjustments, necessary for the fair statement of MBIA Corp.'s consolidated financial position and results of operations. All material intercompany balances and transactions have been eliminated.

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. As additional information becomes available or actual amounts become determinable, the recorded estimates are revised and reflected in operating results.

The results of operations for the three months ended March 31, 2013 may not be indicative of the results that may be expected for the year ending December 31, 2013. The December 31, 2012 consolidated balance sheet was derived from audited financial statements, but does not include all disclosures required by GAAP for annual periods. Certain amounts have been reclassified in prior years' financial statements to conform to the current presentation. Such reclassifications had no impact on total revenues, expenses, assets, liabilities, or shareholders' equity for all periods presented.

Subsequent Events

MBIA Corp. has evaluated all subsequent events as of May 9, 2013, the date of issuance of the consolidated financial statements, for inclusion in MBIA Corp.'s consolidated financial statements and/or accompanying notes.

Note 3: Recent Accounting Pronouncements

Recently Adopted Accounting Standards

Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income (ASU 2013-02)

In February 2013, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2013-02, "Comprehensive Income (Topic 220)—Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income" that requires an entity to present information about the amounts reclassified out of accumulated other comprehensive income ("AOCI") by component and to present significant amounts reclassified out of AOCI by the respective line items of net income. The amendments will only affect MBIA Corp.'s disclosures and will not affect MBIA Corp.'s consolidated balance sheets, results of operations, or cash flows. MBIA Corp. adopted this standard in the first quarter of 2013.

Disclosures about Offsetting Assets and Liabilities (ASU 2011-11)

In December 2011, the FASB issued ASU 2011-11, "Balance Sheet (Topic 210)—Disclosures about Offsetting Assets and Liabilities." ASU 2011-11 creates new disclosure requirements about the nature of MBIA Corp.'s rights of setoff and related arrangements associated with its financial instruments and derivative instruments. This amendment does not change the existing offsetting eligibility criteria or the permitted balance sheet presentation for those instruments that meet the eligibility criteria. The disclosure requirements are effective for MBIA Corp. beginning in the first quarter of 2013. In January 2013, the FASB issued ASU 2013-01, "Balance Sheet (Topic 210)—Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities." ASU 2013-01 clarifies that ASU 2011-11 applies only to derivatives, repurchase agreements and reverse repurchase agreements, and securities borrowing and securities lending transactions that are either offset in accordance with specific criteria contained in the FASB Accounting Standards Codification or subject to a master netting arrangement or similar agreement. These standards will only affect MBIA Corp.'s disclosures and will not affect MBIA Corp.'s consolidated balance sheets, results of operations, or cash flows. MBIA Corp. adopted this standard in the first quarter of 2013.

Refer to the Notes to Consolidated Financial Statements of MBIA Corp. included in Exhibit 99.2 to MBIA Inc.'s Annual Report on Form 10-K for the year ended December 31, 2012 for further information regarding the effects of recently adopted accounting standards on prior year financial statements.

Note 4: Variable Interest Entities

MBIA Corp. provides credit protection to issuers of obligations that may involve issuer-sponsored special purpose entities ("SPEs"). An SPE may be considered a variable interest entity ("VIE") to the extent the SPE's total equity at risk is not sufficient to permit the SPE to finance its activities without additional subordinated financial support or its equity investors lack any one of the following characteristics: (i) the power to direct the activities of the SPE that most significantly impact the entity's economic performance or (ii) the obligation to absorb the expected losses of the entity or the right to receive the expected residual returns of the entity. A holder of a variable interest or interests in a VIE is required to assess whether it has a controlling financial interest, and thus is required to consolidate the entity as primary beneficiary. An assessment of a controlling financial interest identifies the primary beneficiary as the variable interest holder that has both of the following characteristics: (i) the power to direct the activities of the VIE that most significantly impact the entity's economic performance and (ii) the obligation to absorb losses of the entity or the right to receive benefits from the entity that could potentially be significant to the VIE. The primary beneficiary is required to consolidate the VIE. An ongoing reassessment of controlling financial interest is required to be performed based on any substantive changes in facts and circumstances involving the VIE and its variable interests.

MBIA Corp. evaluates issuer-sponsored SPEs initially to determine if an entity is a VIE, and is required to reconsider its initial determination if certain events occur. For all entities determined to be VIEs, MBIA Corp. performs an ongoing reassessment to determine whether its guarantee to provide credit protection on obligations issued by VIEs provides MBIA Corp. with a controlling financial interest. Based on its ongoing reassessment of controlling financial interest, MBIA Corp. determines whether a VIE is required to be consolidated or deconsolidated.

Note 4: Variable Interest Entities (continued)

MBIA Corp. makes its determination for consolidation based on a qualitative assessment of the purpose and design of a VIE, the terms and characteristics of variable interests of an entity, and the risks a VIE is designed to create and pass through to holders of variable interests. MBIA Corp. generally provides credit protection on obligations issued by VIEs, and holds certain contractual rights according to the purpose and design of a VIE. MBIA Corp. may have the ability to direct certain activities of a VIE depending on facts and circumstances, including the occurrence of certain contingent events, and these activities may be considered the activities of a VIE that most significantly impact the entity's economic performance. MBIA Corp. generally considers its guarantee of principal and interest payments of insured obligations, given nonperformance by a VIE, to be an obligation to absorb losses of the entity that could potentially be significant to the VIE. At the time MBIA Corp. determines it has the ability to direct the activities of a VIE that most significantly impact the economic performance of the entity based on facts and circumstances, MBIA Corp. is deemed to have a controlling financial interest in the VIE and is required to consolidate the entity as primary beneficiary. MBIA Corp. performs an ongoing reassessment of controlling financial interest that may result in consolidation or deconsolidation of any VIE.

Nonconsolidated VIEs

The following tables present the total assets of nonconsolidated VIEs in which MBIA Corp. holds a variable interest as of March 31, 2013 and December 31, 2012. The following tables also present MBIA Corp.'s maximum exposure to loss for nonconsolidated VIEs and carrying values of the assets and liabilities for its interests in these VIEs as of March 31, 2013 and December 31, 2012. MBIA Corp. has aggregated nonconsolidated VIEs based on the underlying credit exposure of the insured obligation. The nature of MBIA Corp.'s variable interests in nonconsolidated VIEs is related to financial guarantees, insured CDS contracts and any investments in obligations issued by nonconsolidated VIEs.

	March 31, 2013							
			Carrying Value of Assets			Carrying Value of Liabilities		
In millions	VIE Assets	Maximum Exposure to Loss	Investments [1]	Premiums Receivable [2]	Insurance Loss Recoverable [3]	Unearned Premium Revenue [4]	Loss and Loss Adjustment Expense Reserves [5]	Derivative Liabilities [6]
Insurance:								
Global structured finance:								
Collateralized debt obligations	$ 15,031	$ 10,796	$ -	$ 60	$ 4	$ 53	$ 35	$ 66
Mortgage-backed residential	32,210	12,505	10	72	3,502	70	389	5
Mortgage-backed commercial	4,646	2,328	-	2	-	2	-	-
Consumer asset-backed	5,605	2,990	10	18	-	18	21	-
Corporate asset-backed	18,799	9,309	-	111	13	128	-	-
Total global structured finance	76,291	37,928	20	263	3,519	271	445	71
Global public finance	45,298	20,242	-	202	-	248	4	-
Total insurance	$121,589	$ 58,170	$ 20	$ 465	$ 3,519	$ 519	$ 449	$ 71

(1) - Reported within "Investments" on MBIA Corp.'s consolidated balance sheets.
(2) - Reported within "Premiums receivable" on MBIA Corp.'s consolidated balance sheets.
(3) - Reported within "Insurance loss recoverable" on MBIA Corp.'s consolidated balance sheets.
(4) - Reported within "Unearned premium revenue" on MBIA Corp.'s consolidated balance sheets.
(5) - Reported within "Loss and loss adjustment expense reserves" on MBIA Corp.'s consolidated balance sheets.
(6) - Reported within "Derivative liabilities" on MBIA Corp.'s consolidated balance sheets.

Note 4: Variable Interest Entities (continued)

	December 31, 2012							
			Carrying Value of Assets			Carrying Value of Liabilities		
In millions	VIE Assets	Maximum Exposure to Loss	Investments (1)	Premiums Receivable (2)	Insurance Loss Recoverable (3)	Unearned Premium Revenue (4)	Loss and Loss Adjustment Expense Reserves (5)	Derivative Liabilities (6)
Insurance:								
Global structured finance:								
Collateralized debt obligations	$ 16,925	$ 10,873	$ -	$ 62	$ 5	$ 55	$ 37	$ 74
Mortgage-backed residential	34,061	13,075	11	77	3,278	75	440	4
Mortgage-backed commercial	4,801	2,432	-	2	-	2	-	-
Consumer asset-backed	5,820	3,086	10	19	-	19	21	-
Corporate asset-backed	19,980	9,981	-	123	13	140	-	-
Total global structured finance	81,587	39,447	21	283	3,296	291	498	78
Global public finance	39,259	21,346	-	220	-	267	4	-
Total insurance	$120,846	$ 60,793	$ 21	$ 503	$ 3,296	$ 558	$ 502	$ 78

(1) - Reported within “Investments” on MBIA Corp.‘s consolidated balance sheets.
(2) - Reported within “Premiums receivable” on MBIA Corp.‘s consolidated balance sheets.
(3) - Reported within “Insurance loss recoverable” on MBIA Corp.‘s consolidated balance sheets.
(4) - Reported within “Unearned premium revenue” on MBIA Corp.‘s consolidated balance sheets.
(5) - Reported within “Loss and loss adjustment expense reserves” on MBIA Corp.‘s consolidated balance sheets.
(6) - Reported within “Derivative liabilities” on MBIA Corp.‘s consolidated balance sheets.

The maximum exposure to loss as a result of MBIA Corp.’s variable interests in VIEs is represented by insurance in force. Insurance in force is the maximum future payments of principal and interest, net of cessions to reinsurers, which may be required under commitments to make payments on insured obligations issued by nonconsolidated VIEs.

Consolidated VIEs

The carrying amounts of assets and liabilities of consolidated VIEs were $7.6 billion and $6.6 billion, respectively, as of March 31, 2013, and $7.7 billion and $6.7 billion, respectively, as of December 31, 2012. The carrying amounts of assets and liabilities are presented separately in “Assets of consolidated variable interest entities” and “Liabilities of consolidated variable interest entities” on MBIA Corp.’s consolidated balance sheets. Additional VIEs are consolidated or deconsolidated based on an ongoing reassessment of controlling financial interest, when events occur or circumstances arise, and whether the ability to exercise rights that constitute power to direct activities of any VIEs are present according to the design and characteristics of these entities. No additional VIEs were consolidated or deconsolidated during the three months ended March 31, 2013 and 2012.

Holders of insured obligations of issuer-sponsored VIEs related to MBIA Corp. do not have recourse to the general assets of MBIA Corp. In the event of nonpayment of an insured obligation issued by a consolidated VIE, MBIA Corp. is obligated to pay principal and interest, when due, on the respective insured obligation only. MBIA Corp.’s exposure to consolidated VIEs is limited to the credit protection provided on insured obligations and any additional variable interests held by MBIA Corp.

Note 5: Loss and Loss Adjustment Expense Reserves

Loss and Loss Adjustment Expense Process

As of March 31, 2013, the majority of MBIA Corp.’s case basis reserves and insurance loss recoveries recorded in accordance with GAAP were related to insured second-lien and first-lien RMBS transactions. These reserves and recoveries do not include estimates for policies insuring credit derivatives. Policies insuring credit derivative contracts are accounted for as derivatives and carried at fair value under GAAP. The fair values of insured derivative contracts are influenced by a variety of market and transaction-specific factors that may be unrelated to potential future claim payments under MBIA Corp.’s insurance policies. In the absence of credit impairments on insured derivative contracts or the early termination of such contracts at a loss, the cumulative unrealized losses recorded from fair valuing these contracts should reverse before or at the maturity of the contracts.

Note 5: Loss and Loss Adjustment Expense Reserves (continued)

Notwithstanding the difference in accounting under GAAP for financial guarantee policies and MBIA Corp.'s insured derivatives, insured derivatives have similar terms, conditions, risks, and economic profiles to financial guarantee insurance policies, and, therefore, are evaluated by MBIA Corp. for loss (referred to as credit impairment herein) and loss adjustment expense ("LAE") periodically in a manner similar to the way that loss and LAE reserves are estimated for financial guarantee insurance policies. Credit impairments represent actual payments and collections plus the present value of estimated expected future claim payments, net of recoveries. MBIA Insurance Corporation's expected future claim payments for insured derivatives were discounted using a rate of 5.72%, the same rate it used to calculate its statutory loss reserves as of March 31, 2013. These credit impairments, calculated in accordance with statutory accounting principles ("U.S. STAT"), differ from the fair values recorded in MBIA Corp.'s consolidated financial statements. MBIA Corp. considers its credit impairment estimates as critical information for investors as it provides information about loss payments MBIA Corp. expects to make on insured derivative contracts. As a result, the following loss and LAE process discussion includes information about loss and LAE activity recorded in accordance with GAAP for financial guarantee insurance policies and credit impairments estimated in accordance with U.S. STAT for insured derivative contracts. Refer to "Note 6: Fair Value of Financial Instruments" included herein for additional information about MBIA Corp.'s insured credit derivative contracts.

RMBS Case Basis Reserves and Recoveries (Financial Guarantees)

MBIA Corp.'s RMBS reserves and recoveries relate to financial guarantee insurance policies. MBIA Corp. calculated RMBS case basis reserves as of March 31, 2013 for both second-lien and first-lien RMBS transactions using a process called the "Roll Rate Methodology." The Roll Rate Methodology is a multi-step process using a database of loan level information, a proprietary internal cash flow model, and a commercially available model to estimate expected ultimate cumulative losses on insured bonds. "Roll Rate" is defined as the probability that current loans become delinquent and that loans in the delinquent pipeline are charged-off or liquidated. Generally, Roll Rates are calculated for the previous three months and averaged. The loss reserve estimates are based on a probability-weighted average of three scenarios of loan losses (base case, stress case, and an additional stress case).

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

Second-lien RMBS Reserves

MBIA Corp.'s second-lien RMBS case basis reserves as of March 31, 2013 relate to RMBS backed by home equity lines of credit ("HELOC") and closed-end second mortgages ("CES").

The Roll Rates for 30-59 day delinquent loans and 60-89 day delinquent loans are calculated on a transaction-specific basis. MBIA Corp. assumes that the Roll Rate for 90+ day delinquent loans, excluding foreclosures and Real Estate Owned ("REO") is 95%. The Roll Rates are applied to the amounts in the respective delinquency buckets based on delinquencies as of February 28, 2013 to estimate future losses from loans that are delinquent as of the current reporting period.

Roll Rates for loans that are current as of February 28, 2013 ("Current Roll to Loss") are also calculated on a transaction-specific basis. A proportion of loans reported current as of February 28, 2013 is assumed to become delinquent every month, at a Current Roll to Loss rate that persists at a high level for a time and subsequently starts to decline. A key assumption in the model is the period of time in which MBIA Corp. projects high levels of Current Roll to Loss to persist. MBIA Corp. runs multiple scenarios, each with varying periods of time, for which the high levels of Current Roll to Loss rates persist. Loss reserves are calculated by using a weighted average of these scenarios, with the majority of the probability assigned to stressful scenarios (stress case and additional stress case), where the high levels of Current Roll to Loss rates persist for six or twenty four months before reverting to historic levels. In the base case scenario, MBIA Corp. assumes that the Current Roll to Loss begins to decline immediately and continues to decline over the next six months to 25% of their levels as of February 28, 2013. For example, in the base case, as of February 28, 2013, if the amount of current loans which become 30-59 days delinquent is 10%, and recent performance suggests that 30% of those loans will be charged-off, the Current Roll to Loss for the transaction is 3%. In the base case, it is then assumed that the Current Roll to Loss will reduce linearly to 25% of its original value over the next six months (i.e., 3% will linearly reduce to 0.75% over the six months from March 2013 to August 2013). After that six-month period, MBIA Corp. further reduces the Current Roll to Loss to 0% by early 2014 with the expectation that the performing seasoned loans will eventually result in loan performance reverting to historically low levels of default.

Note 5: Loss and Loss Adjustment Expense Reserves (continued)

In addition, in MBIA Corp.'s loss reserve models for transactions secured by HELOCs, MBIA Corp. considers borrower draw and prepayment rates and factors that could affect the excess spread generated by current loans, which offsets losses and reduces payments. For HELOCs, the current three-month average draw rate is generally used to project future draws on the line. For HELOCs and transactions secured by fixed-rate CES, the three-month average conditional prepayment rate is generally used to start the projection for trends in voluntary principal prepayments. Projected cash flows are also based on an assumed constant basis spread between floating rate assets and floating rate insured debt obligations (the difference between Prime and London Interbank Offered Rate ("LIBOR") interest rates, minus any applicable fees). For all transactions, cash flow models consider allocations and other structural aspects of the transactions, including managed amortization periods, rapid amortization periods and claims against MBIA Corp.'s insurance policy consistent with such policy's terms and conditions. In developing multiple loss scenarios, stress is applied by elongating the Current Roll to Loss rate for various periods, simulating a slower improvement in the transaction performance. The estimated net claims from the procedure above are then discounted using a risk-free rate to a net present value reflecting MBIA Corp.'s general obligation to pay claims over time and not on an accelerated basis. The above assumptions represent MBIA Corp.'s best estimates of how transactions will perform over time.

MBIA Corp. monitors portfolio performance on a monthly basis against projected performance, reviewing delinquencies, Roll Rates, and prepayment rates (including voluntary and involuntary). However, given the large percentage of mortgage loans that were not underwritten by the sellers/servicers in accordance with applicable underwriting guidelines, performance remains difficult to predict and losses may exceed expectations. In the event of a material deviation in actual performance from projected performance, MBIA Corp. would increase or decrease the case basis reserves accordingly. If actual performance were to remain at the peak levels MBIA Corp. is modeling for six months longer than in the probability-weighted outcome, the addition to MBIA Corp.'s second-lien RMBS case basis reserves before considering potential recoveries would be approximately $80 million.

Second-lien RMBS Recoveries

As of March 31, 2013, MBIA Corp. recorded estimated recoveries of $4.0 billion, gross of income taxes, related to second-lien RMBS put-back claims on ineligible mortgage loans, consisting of $2.8 billion included in "Insurance loss recoverable" and $1.2 billion included in "Loan repurchase commitments" presented under the heading "Assets of consolidated variable interest entities" on MBIA Corp.'s consolidated balance sheets. As of March 31, 2013 and December 31, 2012, MBIA Corp.'s estimated recoveries after income taxes calculated at the federal statutory rate of 35%, were $2.6 billion and $2.3 billion, respectively, which was 426% and 432% of the consolidated total shareholders' equity, respectively. These estimated recoveries relate to MBIA Corp.'s put-back claims of ineligible mortgage loans, including put-back claims settled in May of 2013 as part of the Bank of America and Flagstar Bank settlements and put-back claims being disputed by the loan sellers/servicers that are currently subject to litigation initiated by MBIA Corp. to pursue recoveries. While MBIA Corp. believes that it will prevail in enforcing its contractual rights against sellers/servicers with which it has not settled, there is uncertainty with respect to the ultimate outcome. Furthermore, there is a risk that sellers/servicers or other responsible parties might not be able to satisfy their put-back obligations. Such risks are contemplated in the scenarios MBIA Corp. utilizes to calculate recoveries.

MBIA Corp. assesses the financial abilities of the sellers/servicers using external credit ratings and other factors. The impact of such factors on cash flows related to expected recoveries is incorporated into MBIA Corp.'s probability-weighted scenarios. Accordingly, MBIA Corp. has not recognized any recoveries related to its IndyMac Bank, F.S.B. insured exposures and has subsequent to the Residential Capital, LLC ("ResCap") bankruptcy filing revised the indicative scenarios and related probabilities related to ResCap put-back recoveries to contemplate bankruptcy scenario based outcomes. MBIA Corp.'s expected recoveries may be discounted in the future based on additional reviews of the creditworthiness of other sellers/servicers.

MBIA Corp. utilizes probability-weighted scenarios primarily based on the percentage of incurred losses for all sellers/servicers in order to estimate recoveries of ineligible mortgage loans.

On May 14, 2012, ResCap, and its wholly-owned subsidiary companies, Residential Funding Company, LLC ("RFC") and GMAC Mortgage, LLC ("GMAC"), each filed for bankruptcy protection under Chapter 11 of the United States Bankruptcy Code. MBIA Corp. believes that the claims against RFC and GMAC are stronger and better defined than most other unsecured creditor claims as a result of the following reasons:

- MBIA Corp.'s direct contractual relationship between GMAC and RFC related to MBIA Corp.'s second-lien RMBS put-back claims on ineligible mortgage loans;
- MBIA Corp.'s legal claims against RFC and GMAC based on breach of contract and fraud have withstood motions to dismiss; and
- MBIA Corp.'s expert reports submitted in the RFC litigation and subsequent decisions in other cases which have affirmed MBIA Corp.'s claims.

Note 5: Loss and Loss Adjustment Expense Reserves (continued)

MBIA Corp. has modeled scenario-based recoveries which are founded upon the strength of these claims as well as a range of estimated assets available to unsecured creditors of the ResCap companies. As of March 31, 2013, the auction of the servicing platform and specific loans of the ResCap bankruptcy estate, as well as the corresponding sales associated with the auctions, have concluded and closed. However, an actual distribution of proceeds will not occur until a plan detailing the distribution of assets has been approved by the bankruptcy court. Consequently, the outcomes utilized by MBIA Corp. continue to be based upon information that was available to MBIA Corp. as of the filing date.

As of March 31, 2013, MBIA Corp. continues to maintain the same probability-weighted scenarios for its non-GMAC and non-RFC exposures (non-ResCap exposures), which are primarily based on the percentage of incurred losses MBIA Corp. would collect. The non-ResCap recovery estimates incorporate five scenarios that include full recovery of its incurred losses and limited/reduced recoveries due to litigation delays and risks and/or potential financial distress of the sellers/servicers. Probabilities were assigned across these scenarios, with most of the probability weight on partial recovery scenarios.

The sum of the probabilities assigned to all scenarios, both ResCap and non-ResCap, is 100%. Expected cash inflows from recoveries are discounted using the current risk-free discount rates associated with the underlying transaction's cash flows. Excluding Bank of America and Flagstar Bank, this ranged from 0.9% to 2.0%, depending upon the transaction's expected average life, which ranged from 5.5 years to 11.1 years. However, based on MBIA Corp.'s assessment of the strength of its contract claims, MBIA Corp. believes it is entitled to collect and/or assert a claim for the full amount of its incurred losses on these transactions, which totaled $2.1 billion through March 31, 2013, excluding incurred losses related to claims against Bank of America and Flagstar Bank that were settled in May of 2013. MBIA Corp. is entitled to collect interest on amounts paid.

MBIA Corp.'s potential recoveries are typically based on either salvage rights, the rights conferred to MBIA Corp. through the transactional documents (inclusive of the insurance agreement), or subrogation rights embedded within financial guarantee insurance policies. The second-lien RMBS transactions with respect to which MBIA Corp. has estimated put-back recoveries provide MBIA Corp. with such rights. Expected salvage and subrogation recoveries, as well as recoveries from other remediation efforts, reduce MBIA Corp.'s claim liability. Once a claim payment has been made, the claim liability has been satisfied and MBIA Corp.'s right to recovery is no longer considered an offset to future expected claim payments, then it is recorded as a salvage asset. The amount of recoveries recorded by MBIA Corp. is limited to paid claims plus the present value of projected future claim payments. As claim payments are made, the recorded amount of potential recoveries may exceed the remaining amount of the claim liability for a given policy.

MBIA Corp. consistently reviews the approach and assumptions it applies to calculate put-back recoveries. As previously indicated, the relevant transactional documents afford MBIA Corp. the contractual right to put-back ineligible loans. The same transactional documents also provide that MBIA Corp. is entitled to reimbursement of interest on paid claims at a prescribed interest rate. Following Judge Jed Rakoff's decision on February 7, 2013 in the Assured Guaranty v. Flagstar case (Assured Guaranty Municipal Corp. v. Flagstar Bank, 11-cv-02375, U.S. District Court, Southern District of New York (Manhattan)), in which he confirmed Assured Guaranty's analogous right to recover contractual interest in addition to claims paid, MBIA Corp. has refined its put-back recovery assumptions to increase the probability that it will be reimbursed for contractual interest owed on paid claims. Consistent with MBIA Corp.'s probability based put-back recovery calculations it has determined the interest owed contemplating litigation risk, and repayment risk, as well as the potential value in the context of a settlement. MBIA Corp. continues to maintain that in the context of its put-back litigation, MBIA Corp. is entitled to receive interest at the New York State statutory rate, however, it currently calculates its put-back recoveries using the contractual interest rate, which is lower than the New York State statutory rate.

As of March 31, 2013, sellers/servicers have not substituted loans which MBIA Corp. has put-back, and the amount of loans repurchased has been insignificant. The unsatisfactory resolution of these put-backs led MBIA Corp. to initiate litigation against six of the sellers/servicers to enforce their obligations. MBIA Corp. has alleged several causes of action in its complaints, including breach of contract, fraudulent inducement and indemnification. MBIA Corp.'s aggregate $4.0 billion of estimated potential recoveries do not include damages from causes of action other than breach of contract. Irrespective of amounts recorded in its financial statements, MBIA Corp. is seeking to recover and/or assert claims for the full amount of its incurred losses and other damages on these transactions. As of March 31, 2013, MBIA Corp. has not collected any material amounts of cash related to these recoveries. Subsequent to March 31, 2013, MBIA Corp. settled its put-back claims against Bank of America and Flagstar Bank. Refer to Note 1: Business Developments and Risks and Uncertainties included herein for a description of the BofA Settlement Agreement. Additional information on the status of litigation against other sellers/servicers can be found in the "Recovery Litigation" discussion within "Note 11: Commitments and Contingencies."

MBIA Corp. has initiated litigation against six sellers/servicers (most recent filing was January 11, 2013) related to loan put-backs. MBIA Corp. has received five decisions with regard to the respective defendants' motions to dismiss MBIA Corp.'s claims. In each instance, the respective court denied the motion, allowing MBIA Corp. to proceed on, at minimum, its fraud and breach of contract claims. In December 2011, MBIA Corp. reached an agreement with one of the six sellers/servicers with whom it had initiated litigation and that litigation has been dismissed.

Note 5: Loss and Loss Adjustment Expense Reserves (continued)

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

1. the strength of MBIA Corp.'s existing contract claims related to ineligible mortgage loan substitution/repurchase obligations;
2. the settlement of MBIA Corp.'s put-back related claims with Bank of America and Flagstar Bank in May of 2013 and the settlement of Assured Guaranty's and Syncora's put-back related claims with Bank of America;
3. the improvement in the financial strength of certain sellers/servicers due to mergers and acquisitions and/or government assistance, which should facilitate the ability of these sellers/servicers and their successors to comply with required loan repurchase/substitution obligations. MBIA Corp. is not aware of any provisions that explicitly preclude or limit successors' obligations to honor the obligations of original sellers/servicers. MBIA Corp.'s assessment of any credit risk associated with sellers/servicers (or their successors) is reflected in MBIA Corp.'s probability-weighted potential recovery scenarios;
4. evidence of ineligible mortgage loan repurchase/substitution by sellers/servicers for put-back requests made by other harmed parties; this factor is further enhanced by (i) Bank of America's disclosure that it has resolved $8.0 billion of repurchase requests in the fourth quarter of 2010; (ii) the Fannie Mae settlements with Ally Bank announced on December 23, 2010 and with Bank of America (which also involved Freddie Mac) announced on December 31, 2010; and (iii) the Bank of America settlement with Fannie Mae announced on January 7, 2013, which settlement substantially resolves Countrywide repurchase related claims between Bank of America and Fannie Mae;
5. MBIA Corp.'s settlement agreements entered into in 2010, 2011 and 2013 between MBIA Corp. and sponsors of certain MBIA Corp.-insured mortgage loan securitizations in which MBIA Corp. received consideration in exchange for a release relating to its representation and warranty claims against the sponsors. These settlements resolved all of MBIA Corp.'s representation and warranty claims against the sponsors on mutually beneficial terms and in aggregate were slightly more than the recoveries previously recorded by MBIA Corp. related to these exposures;
6. Assured Guaranty's favorable court ruling awarding it $90 million (plus interest, fees and expenses) due to Flagstar Bank's pervasive breach of mortgage representations and warranties;
7. the defendants' failure to win dismissals of MBIA Corp.'s put-back litigations discussed above, allowing MBIA Corp. to continue to pursue its contract and fraud claims;
8. MBIA Corp.'s successful motion in the Countrywide litigation allowing MBIA Corp. to present evidence of liability and damages through the introduction of statistically valid random samples of loans rather than on a loan-by-loan basis and subsequent decisions consistent with that ruling;
9. MBIA Corp.'s successful motion regarding causation in the Countrywide litigation, which provides that MBIA Corp. is not required to establish a direct causal link between Countrywide's misrepresentations and MBIA Corp.'s claims payments made pursuant to the insurance policies at issue, and that MBIA Corp. may seek damages equal to the amount that it has been and will be required to pay under the relevant policies, less premiums received;
10. the April 2, 2013 decision in MBIA Corp.'s Countrywide litigation from the New York State Supreme Court, Appellate Division, First Department, in which the Court endorsed MBIA Corp.'s position that the repurchase provision in the transactional documents, on which MBIA Corp.'s recoveries are based, does not require the loans be delinquent or defaulted to be eligible for repurchase, and that to prevail on the fraud and contract claims, MBIA Corp. need not establish causation tying Countrywide's misrepresentations to MBIA Corp.'s claims payments;
11. Syncora's and Assured Guaranty's successful motions regarding causation in their Federal court put-back litigations with JP Morgan Chase and Flagstar Bank, respectively, which support the ruling on causation in MBIA Corp.'s litigation against Countrywide; and
12. other loan repurchase reserves and/or settlements which have been publicly disclosed by certain sellers/servicers.

Note 5: Loss and Loss Adjustment Expense Reserves (continued)

MBIA Corp. continues to consider all relevant facts and circumstances, including the factors described above, in developing its assumptions on expected cash inflows, probability of potential recoveries (including the outcome of litigation) and recovery period. The estimated amount and likelihood of potential recoveries are expected to be revised and supplemented to the extent there are developments in the pending litigation, new litigation is initiated and/or changes to the financial condition of sellers/servicers occur. While MBIA Corp. believes it will be successful in realizing recoveries from contractual and other claims, the ultimate amounts recovered may be materially different from those recorded by MBIA Corp. given the inherent uncertainty of the manner of resolving the claims (e.g., litigation) and the assumptions used in the required estimation process for accounting purposes which are based, in part, on judgments and other information that are not easily corroborated by historical data or other relevant benchmarks.

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

First-lien RMBS Reserves

MBIA Corp.'s first-lien RMBS case basis reserves as of March 31, 2013, which primarily relate to RMBS backed by alternative A-paper ("Alt-A") and subprime mortgage loans, were determined using the Roll Rate Methodology. MBIA Corp. assumes that the Roll Rate for loans in foreclosure, REO and bankruptcy are 90%, 90% and 75%, respectively. Roll Rates for current, 30-59 day delinquent loans, 60-89 day delinquent loans and 90+ day delinquent loans are calculated on a transaction-specific basis. The Current Roll to Loss rates stay at the February 28, 2013 level for one month before declining to 25% of this level over a 24-month period. Additionally, MBIA Corp. runs scenarios where the 90+ day roll rate to loss is set at 90%. The Roll Rates are applied to the amounts in the respective delinquency buckets based on delinquencies as of February 28, 2013 to estimate future losses from loans that are delinquent as of the current reporting period.

In calculating ultimate cumulative losses for first-lien RMBS, MBIA Corp. estimates the amount of loans that are expected to be liquidated through foreclosure or short sale. The time to liquidation for a defaulted loan is specific to the loan's delinquency bucket with the latest three-month average loss severities generally used to start the projection for trends in loss severities at loan liquidation. The loss severities are reduced over time to account for reduction in the amount of foreclosure inventory, anticipated future increases in home prices, principal amortization of the loan and government foreclosure moratoriums.

ABS CDOs (Financial Guarantees and Insured Derivatives)

MBIA Corp.'s insured ABS CDOs are transactions that include a variety of collateral ranging from corporate bonds to structured finance assets (which includes but are not limited to RMBS related collateral, ABS CDOs, corporate CDOs and collateralized loan obligations). These transactions were insured as either financial guarantee insurance policies or credit derivatives with the majority insured in the form of credit derivatives. Since the fourth quarter of 2007, MBIA Corp.'s insured par exposure within the ABS CDO portfolio has been substantially reduced through a combination of terminations and commutations. Accordingly, as of March 31, 2013, the insured par exposure of the ABS CDO financial guarantee insurance policies and credit derivatives portfolio has declined by approximately 89% of the insured amount as of December 31, 2007.

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

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

As of March 31, 2013, MBIA Corp. established loss and LAE reserves totaling $107 million related to ABS CDO financial guarantee insurance policies after the elimination of $234 million as a result of consolidating VIEs. For the three months ended March 31, 2013, MBIA Corp. had a benefit of $37 million of losses and LAE recorded in earnings related to ABS CDO financial guarantee insurance policies after the elimination of a $2 million benefit as a result of consolidating VIEs. In the event of further deteriorating performance of the collateral referenced or held in ABS CDO transactions, the amount of losses estimated by MBIA Corp. could increase materially.

Note 5: Loss and Loss Adjustment Expense Reserves (continued)

Credit Impairments Related to Structured CMBS Pools, CRE CDOs and CRE Loan Pools (Financial Guarantees and Insured Derivatives)

Most of the structured CMBS pools, CRE CDOs and CRE loan pools insured by MBIA Corp. are accounted for as insured credit derivatives and are carried at fair value in MBIA Corp.'s consolidated financial statements. Since MBIA Corp.'s insured credit derivatives have similar terms, conditions, risks, and economic profiles to its financial guarantee insurance policies, MBIA Corp. evaluates them for impairment in the same way that it estimates loss and LAE for its financial guarantee policies. The following discussion provides information about MBIA Corp.'s process for estimating credit impairments on these contracts using its statutory loss reserve methodology, determined as the present value of the probability-weighted potential future losses, net of estimated recoveries, across multiple scenarios, plus actual payments and collections.

MBIA Corp. has developed multiple scenarios to consider the range of potential outcomes in the CRE market and their impact on MBIA Corp. The approaches require substantial judgments about the future performance of the underlying loans, and include the following:

- The first approach considers the range of commutation agreements achieved since 2010 through March 31, 2013, which included 66 structured CMBS pools, CRE CDOs and CRE loan pool policies totaling $33.1 billion of gross insured exposure. MBIA Corp. considers the range of commutations achieved over the past several years with multiple counterparties. This approach results in an estimated price to commute the remaining policies with price estimates, based on this experience. It is customized by counterparty and is dependent on the level of dialogue with the counterparty and the credit quality and payment profile of the underlying exposure.
- The second approach considers current delinquency rates and uses current and projected net operating income ("NOI") and capitalization rates ("Cap Rates") to project losses under two scenarios. Loans are stratified by size with larger loans being valued utilizing lower Cap Rates than for smaller loans. These scenarios also assume that Cap Rates and NOIs remain flat for the near term and then begin to improve gradually. Additionally, in these scenarios, any loan with a balance greater than $75 million with a debt service coverage ratio ("DSCR") less than 1.0x, or that was reported as being in any stage of delinquency, was reviewed individually so that performance and loss severity could be more accurately determined. Specific loan level assumptions for this large loan subset were then incorporated into these scenarios, as well as specific assumptions regarding certain smaller loans when there appeared to be a material change in the asset's financial or delinquency performance over the preceding six months. As MBIA Corp. continues to increase the level of granularity in its individual loan assessments, it analyzes and adjusts assumptions for loans with certain mitigating attributes, such as no lifetime delinquency, recent appraisals indicating sufficient value and large capital reserve levels. These scenarios project different levels of additional defaults with respect to loans that are current. This approach makes use of the most recent financial statements available at the property level.
- The third approach stratifies loans into buckets based on delinquency status (including a "current" bucket) and utilizes recent Roll Rates actually experienced within each of the commercial mortgage-backed index ("CMBX") series in order to formulate an assumption to predict future delinquencies. Ultimately, this generates losses over a projected time horizon based on the assumption that loss severities will begin to decline from the high levels seen over the past two years. MBIA Corp. further examines those loans referenced in the CMBX indices which were categorized as 90+ days delinquent or in the process of foreclosure and determines the average monthly balance of such loans which were cured. MBIA Corp. then applies the most recent rolling six-month average balance of all such cured loans to all underperforming loans in the 90+ day delinquent bucket or in the foreclosure process (and those projected to roll into late stage delinquency from the current and lesser stage levels of delinquency) and assumes all other loans are liquidated. MBIA Corp. reserves the right to exclude any aberrant data from this analysis and also assumes all loans in the REO category liquidate over the next twelve months.
- The fourth approach is based on a proprietary model developed by reviewing performance data on over 80,000 securitized CRE loans originated between 1992 and 2011. The time period covered during the performance review includes the years 2006 through 2011. MBIA Corp. believes that these five years represent an appropriate time period in which to conduct a performance review because they encompass a period of extreme stress in the economy and the CRE market.

  Based on a review of the data, MBIA Corp. found property type and the DSCR to be the most significant determinants of a loan's default probability, with other credit characteristics less influential. As a result, MBIA Corp. developed a model in which the loans were divided into 168 representative cohorts based on their DSCR and property type. For each of these cohorts, MBIA Corp. calculated the average annual probability of default, and then ran Monte Carlo simulations to estimate the timing of defaults. In addition, the model incorporated the following logic:

  - NOI and Cap Rates were assumed to remain at current levels for loans in MBIA Corp.'s classified portfolio, resulting in no modifications or extensions under the model, other than as described in the next bullet point, to reflect the possibility that the U.S. economy and CRE market could experience no growth for the foreseeable future.

Note 5: Loss and Loss Adjustment Expense Reserves (continued)

- Any valuation estimates obtained by special servicers since a loan's origination as well as MBIA Corp.'s individual large loan level analysis for loans with balances greater than $75 million were incorporated as described in the second approach. However, in the fourth approach no adjustments were made for loans lower than $75 million regardless of any mitigating factors.

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

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

For the three months ended March 31, 2013, MBIA Corp. had a benefit of $8 million of losses and LAE recorded in earnings related to CRE CDO financial guarantee insurance policies. For the three months ended March 31, 2013, additional credit impairments and LAE on structured CMBS pools, CRE CDOs and CRE loan pools were estimated to be $290 million as a result of additional delinquencies and loan level liquidations, as well as continued refinements of MBIA Corp.'s assessment of various commutation possibilities. The majority of the increase relates to a subset of transactions with a single counterparty. The cumulative credit impairments and LAE on structured CMBS pools, CRE CDOs and CRE loan pools were estimated to be $3.9 billion through March 31, 2013. The pace of increases in the delinquency rate has slowed, many loans are being modified and liquidations continue to take place. Some loans were liquidated with minimal losses of 1% to 2%, others experienced near complete losses, and in some cases severities exceeded 100%. These liquidations have led to losses in the CMBS market, and in many cases, have resulted in reductions of enhancement to the individual CMBS bonds referenced by the insured structured CMBS pools. In certain insured transactions, these losses have resulted in deductible erosion. Bond level enhancement and pool level deductibles are structural features intended to mitigate losses to MBIA Corp. However, some of the transactions reference similar rated subordinate tranches of CMBS bonds. When there are broad-based declines in property performance, this leverage can result in rapid deterioration in pool performance. Subsequent to March 31, 2013, a CMBS pool transaction experienced deterioration such that all remaining deductible was eliminated and claims for this transaction were presented to MBIA Corp.

Note 5: Loss and Loss Adjustment Expense Reserves (continued)

Loss and LAE Activity

Financial Guarantee Insurance Losses (Non-Derivative)

MBIA Corp.'s financial guarantee insurance losses and LAE for the three months ended March 31, 2013 are presented in the following table:

Losses and LAE

	Three Months Ended March 31, 2013			
In millions	**Second-lien RMBS**	**First-lien RMBS**	**Other [1]**	**Total**
Losses and LAE related to actual and expected payments	$ 67	$ (12)	$ (57)	$ (2)
Recoveries of actual and expected payments	(220)	(4)	24	(200)
Gross losses incurred	(153)	(16)	(33)	(202)
Reinsurance	-	-	4	4
Losses and LAE	$ (153)	$ (16)	$ (29)	$ (198)

(1) - Primarily financial guarantee ABS CDOs.

The second-lien RMBS losses and LAE related to actual and expected payments included in the preceding table comprise net increases of previously established reserves. The second-lien RMBS recoveries of actual and expected payments include $306 million in recoveries resulting from ineligible mortgage loans included in insured exposures that are subject to contractual obligations by sellers/servicers to repurchase or replace such mortgages, partially offset by a $94 million reduction in excess spread.

The following table provides information about the financial guarantees and related claim liability included in each of MBIA Corp.'s surveillance categories as of March 31, 2013:

	Surveillance Categories				
$ in millions	**Caution List Low**	**Caution List Medium**	**Caution List High**	**Classified List**	**Total**
Number of policies	49	24	6	207	286
Number of issues [1]	29	15	6	138	188
Remaining weighted average contract period (in years)	8.0	4.9	5.4	9.8	8.8
Gross insured contractual payments outstanding: [2]					
Principal	$ 3,769	$ 1,466	$ 165	$ 9,201	$14,601
Interest	2,497	359	48	5,280	8,184
Total	$ 6,266	$ 1,825	$ 213	$14,481	$22,785
Gross claim liability	$ -	$ -	$ -	$ 1,433	$ 1,433
Less:					
Gross potential recoveries	-	-	-	4,261	4,261
Discount, net	-	-	-	235	235
Net claim liability (recoverable)	$ -	$ -	$ -	$ (3,063)	$ (3,063)
Unearned premium revenue	$ 125	$ 22	$ 1	$ 115	$ 263

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

(2) - Represents contractual principal and interest payments due by the issuer of the obligations insured by MBIA Corp.

Note 5: Loss and Loss Adjustment Expense Reserves (continued)

The following table provides information about the financial guarantees and related claim liability included in each of MBIA Corp.'s surveillance categories as of December 31, 2012:

	Surveillance Categories				
$ in millions	**Caution List Low**	**Caution List Medium**	**Caution List High**	**Classified List**	**Total**
Number of policies	49	25	8	204	286
Number of issues [1]	27	15	8	135	185
Remaining weighted average contract period (in years)	8.2	4.0	6.0	9.5	8.6
Gross insured contractual payments outstanding: [2]					
Principal	$ 4,126	$ 1,176	$ 307	$ 9,412	$15,021
Interest	2,690	256	69	5,231	8,246
Total	$ 6,816	$ 1,432	$ 376	$14,643	$23,267
Gross claim liability	$ -	$ -	$ -	$ 1,569	$ 1,569
Less:					
Gross potential recoveries	-	-	-	4,090	4,090
Discount, net	-	-	-	233	233
Net claim liability (recoverable)	$ -	$ -	$ -	$ (2,754)	$ (2,754)
Unearned premium revenue	$ 142	$ 11	$ 2	$ 121	$ 276

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

(2) - Represents contractual principal and interest payments due by the issuer of the obligations insured by MBIA Corp.

The gross claim liability as of March 31, 2013 and December 31, 2012 in the preceding tables represents MBIA Corp.'s estimate of undiscounted probability-weighted future claim payments, which principally relate to insured first-lien and second-lien RMBS transactions and U.S. public finance transactions. The gross potential recoveries represent MBIA Corp.'s estimate of undiscounted probability-weighted recoveries of actual claim payments and recoveries of estimated future claim payments, and principally relate to insured second-lien RMBS transactions. Both amounts reflect the elimination of claim liabilities and potential recoveries related to VIEs consolidated by MBIA Corp.

The following table presents the components of MBIA Corp.'s loss and LAE reserves and insurance loss recoverable as reported on MBIA Corp.'s consolidated balance sheets as of March 31, 2013 and December 31, 2012 for insured obligations within MBIA Corp.'s "Classified List." The loss reserves (claim liability) and insurance claim loss recoverable included in the following table represent the present value of the probability-weighted future claim payments and recoveries reported in the preceding tables.

In millions	**As of March 31, 2013**	**As of December 31, 2012**
Loss reserves (claim liability)	$ 701	$ 786
LAE reserves	69	60
Loss and LAE reserves	$ 770	$ 846
Insurance claim loss recoverable	$ (3,840)	$ (3,610)
LAE insurance loss recoverable	(37)	(38)
Insurance loss recoverable	$ (3,877)	$ (3,648)
Reinsurance recoverable on unpaid losses	$ 152	$ 152
Reinsurance recoverable on LAE reserves	7	6
Reinsurance recoverable on paid losses	-	1
Reinsurance recoverable on paid and unpaid losses	$ 159	$ 159

Note 5: Loss and Loss Adjustment Expense Reserves (continued)

As of March 31, 2013, loss and LAE reserves include $1.1 billion of reserves for expected future payments offset by expected recoveries of such future payments of $280 million. As of December 31, 2012, loss and LAE reserves included $1.2 billion of reserves for expected future payments offset by expected recoveries of such future payments of $320 million. As of March 31, 2013 and December 31, 2012, the insurance loss recoverable principally related to estimated recoveries of payments made by MBIA Corp. resulting from ineligible mortgage loans in certain insured second-lien residential mortgage loan securitizations that are subject to a contractual obligation by the sellers/servicers to repurchase or replace the ineligible mortgage loans and expected future recoveries on second-lien RMBS transactions resulting from expected excess spread generated by performing loans in such transactions. MBIA Corp. expects to be reimbursed for the majority of its potential recoveries related to ineligible mortgage loans by the second half of 2013.

Total paid losses and LAE, net of reinsurance and collections, for the three months ended March 31, 2013 was $100 million, including $84 million related to insured second-lien RMBS transactions. For the three months ended March 31, 2013, the increase in insurance loss recoverable related to paid losses totaled $229 million, and principally related to insured second-lien RMBS transactions.

The following table presents MBIA Corp.'s second-lien RMBS exposure, gross undiscounted claim liability and potential recoveries for amounts excluding consolidated VIEs and amounts related to consolidated VIEs, as of March 31, 2013. All insured transactions reviewed with potential recoveries are included within the "Classified List."

Second-lien RMBS Exposure		Outstanding		Gross Undiscounted	
$ in billions	Issues	Gross Principal	Gross Interest	Claim Liability	Potential Recoveries
Excluding Consolidated VIEs:					
Insured issues designated as "Classified List"	23	$ 4.0	$ 1.5	$ 0.2	$ 3.7
Insured issues reviewed with potential recoveries	16	$ 3.6	$ 1.4	$ 0.2	$ 3.6
Consolidated VIEs:					
Insured issues designated as "Classified List"	12	$ 2.1	$ 0.8	$ 0.1	$ 1.4
Insured issues reviewed with potential recoveries	11	$ 2.0	$ 0.8	$ 0.1	$ 1.4

MBIA Corp. has performed reviews on 30 of the 35 total insured issues designated as "Classified List" and recorded potential recoveries on 27 of those 30 issues, primarily related to five issuers (Countrywide, RFC, GMAC, Flagstar Bank and Credit Suisse). In addition, MBIA Corp. has received consideration on two transactions, including one Alt-A transaction, which have been excluded in the preceding table.

The following table presents changes in MBIA Corp.'s loss and LAE reserves for the three months ended March 31, 2013. Changes in the loss and LAE reserves attributable to the accretion of the claim liability discount, changes in discount rates, changes in the timing and amounts of estimated payments and recoveries, changes in assumptions and changes in LAE reserves are recorded in "Losses and loss adjustment" expenses in MBIA Corp.'s consolidated statements of operations. As of March 31, 2013, the weighted average risk-free rate used to discount MBIA Corp.'s loss reserves (claim liability) was 1.50%. LAE reserves are expected to be settled within a one-year period and are not discounted.

In millions	Changes in Loss and LAE Reserves for the Three Months Ended March 31, 2013								
Gross Loss and LAE Reserves as of December 31, 2012	Loss Payments for Cases with Reserves	Accretion of Claim Liability Discount	Changes in Discount Rates	Changes in Timing of Payments	Changes in Amount of Net Payments	Changes in Assumptions	Changes in Unearned Premium Revenue	Changes in LAE Reserves	Gross Loss and LAE Reserves as of March 31, 2013
$ 846	$ (78)	$ 3	$ (33)	$ 11	$ (1)	$ 18	$ (5)	$ 9	$ 770

The decrease in MBIA Corp.'s gross loss and LAE reserves reflected in the preceding table was primarily due to a decrease in reserves related to loss payments on insured first-lien and second-lien RMBS issues.

Note 5: Loss and Loss Adjustment Expense Reserves (continued)

Current period changes in MBIA Corp.'s estimate of potential recoveries may be recorded as an insurance loss recoverable asset, netted against the gross loss and LAE reserve liability, or both. The following table presents changes in MBIA Corp.'s insurance loss recoverable and changes in recoveries on unpaid losses reported within MBIA Corp.'s claim liability for the three months ended March 31, 2013. Changes in insurance loss recoverable attributable to the accretion of the discount on the recoverable, changes in discount rates, changes in the timing and amounts of estimated collections, changes in assumptions and changes in LAE recoveries are recorded in "Losses and loss adjustment" expenses in MBIA Corp.'s consolidated statements of operations.

		Changes in Insurance Loss Recoverable and Recoveries on Unpaid Losses for the Three Months Ended March 31, 2013							
In millions	Gross Reserve as of December 31, 2012	Collections for Cases with Recoveries	Accretion of Recoveries	Changes in Discount Rates	Changes in Timing of Collections	Changes in Amount of Collections	Changes in Assumptions	Changes in LAE Recoveries	Gross Reserve as of March 31, 2013
Insurance loss recoverable	$ 3,648	$ (9)	$ 11	$ (4)	$ -	$ (53)	$ 285	$ (1)	$ 3,877
Recoveries on unpaid losses	320	-	1	(5)	-	-	(38)	2	280
Total	$ 3,968	$ (9)	$ 12	$ (9)	$ -	$ (53)	$ 247	$ 1	$ 4,157

MBIA Corp.'s insurance loss recoverable increased during 2013 primarily due to changes in assumptions associated with issues outstanding as of December 31, 2012, which related to increases in expected recoveries on ineligible mortgage loans included in insured second-lien residential mortgage securitization exposures that are subject to contractual obligations by sellers/servicers to repurchase or replace such mortgages, partially offset by changes in the amount of collections. Recoveries on unpaid losses decreased primarily due to changes in assumptions.

The following table presents MBIA Corp.'s total estimated recoveries from ineligible mortgage loans included in certain insured second-lien mortgage loan securitizations as of March 31, 2013. The total estimated recoveries from ineligible mortgage loans of $4.0 billion include $2.8 billion recorded as "Insurance loss recoverable" and $1.2 billion recorded as "Loan repurchase commitments" presented under the heading "Assets of consolidated variable interest entities" on MBIA Corp.'s consolidated balance sheets.

In millions							
Total Estimated Recoveries from Ineligible Mortgage Loans as of December 31, 2012	Accretion of Future Collections	Changes in Discount Rates	Recoveries (Collections)	Changes in Amount of Collections	Changes in Assumptions	Total Estimated Recoveries from Ineligible Mortgage Loans as of March 31, 2013
$ 3,583	$ 11	$ (1)	$ -	$ -	$ 374	$ 3,967

MBIA Corp.'s total estimated recoveries from ineligible mortgage loans in the preceding table increased primarily as a result of the modification of the put-back recovery assumptions which increased the probability that MBIA Corp. will be reimbursed for contractual interest owed on paid claims as described within the preceding "Second-lien RMBS Recoveries" section.

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

Note 5: Loss and Loss Adjustment Expense Reserves (continued)

Costs associated with remediating insured obligations assigned to MBIA Corp.'s "Caution List—Low," "Caution List—Medium," "Caution List—High" and "Classified List" are recorded as LAE. LAE is primarily recorded as part of MBIA Corp.'s provision for its loss reserves and included in "Losses and loss adjustment" on MBIA Corp.'s consolidated statements of operations. The following table presents the gross expenses related to remedial actions for insured obligations:

	Three Months Ended March 31,	
In millions	2013	2012
Loss adjustment expense incurred, gross	$ 18	$ 74

Note 6: Fair Value of Financial Instruments

Fair Value Measurement

Fair value is a market-based measure considered from the perspective of a market participant. Therefore, even when market assumptions are not readily available, MBIA Corp.'s own assumptions are set to reflect those which it believes market participants would use in pricing an asset or liability at the measurement date. The fair value measurements of financial instruments held or issued by MBIA Corp. 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, MBIA Corp. uses alternate valuation methods, including either dealer quotes for similar instruments or modeling using market data inputs. The use of alternate valuation methods generally requires considerable judgment in the application of estimates and assumptions, and changes to such estimates and assumptions may produce materially different fair values.

The accounting guidance for fair value measurement establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available and reliable. Observable inputs are those MBIA Corp. believes that market participants would use in pricing an asset or liability based on available market data. Unobservable inputs are those that reflect MBIA Corp.'s beliefs about the assumptions market participants would use in pricing an asset or liability based on the best information available. The fair value hierarchy is broken down into three levels based on the observability and reliability of inputs, as follows:

- Level 1—Valuations based on quoted prices in active markets for identical assets or liabilities that MBIA Corp. can access. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail any degree of judgment.
- Level 2—Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly. Level 2 assets include debt securities with quoted prices that are traded less frequently than exchange-traded instruments, securities which are priced using observable inputs and derivative contracts whose values are determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data.
- Level 3—Valuations based on inputs that are unobservable and supported by little or no market activity and that are significant to the overall fair value measurement. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques where significant inputs are unobservable, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

The availability of observable inputs can vary from product to product and period to period and is affected by a wide variety of factors, including, for example, the type of product, whether the product is new and not yet established in the marketplace, and other characteristics particular to the product. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, MBIA Corp. assigns the level in the fair value hierarchy for which the fair value measurement in its entirety falls, based on the least observable input that is significant to the fair value measurement.

1. Financial Assets (excluding derivative assets)

Financial assets, excluding derivative assets, held by MBIA Corp. primarily consist of investments in debt securities. Substantially all of MBIA Corp.'s investments are priced by independent third parties, including pricing services and brokers. Typically MBIA Corp. receives one pricing service value or broker quote for each instrument, which represents a non-binding indication of value. MBIA Corp. reviews the assumptions, inputs and methodologies used by pricing services to obtain reasonable assurance that the prices used in its valuations reflect fair value. When MBIA Corp. believes a third-party quotation differs significantly from its internally developed expectation of fair value, whether higher or lower, MBIA Corp. reviews its data or assumptions with the provider. This review includes comparing significant assumptions such as prepayment speeds, default ratios, forward yield curves, credit spreads and other significant quantitative inputs to internal assumptions, and working with the price provider to reconcile the differences. The price provider may subsequently provide an updated price. In the event that the price provider does not update their price, and MBIA Corp. still does not agree with the price provided, MBIA Corp. will try to obtain a price from another third-party provider, such as a broker, or use an internally developed price which it believes represents the fair value of the investment. The fair values of investments for which internal prices were used were not significant to the aggregate fair value of MBIA Corp.'s investment portfolio as of March 31, 2013 or December 31, 2012. All challenges to third-party prices are reviewed by staff of MBIA Corp. with relevant expertise to ensure reasonableness of assumptions.

Note 6: Fair Value of Financial Instruments (continued)

In addition to challenging pricing assumptions, MBIA Corp. obtains reports from the independent accountants for significant third-party pricing services attesting to the effectiveness of the controls over data provided to MBIA Corp. These reports are obtained annually and are reviewed by MBIA Corp. to ensure key controls are applied by the pricing services, and that appropriate user controls are in place at the third-party pricing services organization to ensure proper measurement of the fair values of its investments. In the event that any controls in these reports are deemed ineffective by independent accountants, MBIA Corp. will take the necessary actions to ensure that internal user controls are in place to mitigate the control risks. No deficiencies were noted for significant third-party pricing services used.

2. Derivative Assets and Liabilities

MBIA Corp.'s derivative liabilities are primarily insured credit derivatives that reference structured pools of cash securities and CDSs. MBIA Corp. generally insured the most senior liabilities of such transactions, and at the inception of transactions its exposure generally had more subordination than needed to achieve triple-A ratings from credit rating agencies. The types of collateral underlying its insured derivatives consist of cash securities and CDSs referencing primarily corporate, asset-backed, residential mortgage-backed, commercial mortgage-backed, CRE loans, and CDO securities.

MBIA Corp.'s insured credit derivative contracts are non-traded structured credit derivative transactions. Since insured derivatives are highly customized and there is generally no observable market for these derivatives, MBIA Corp. estimates their fair values in a hypothetical market based on internal and third-party models simulating what a similar company would charge to assume MBIA Corp.'s position in the transaction at the measurement date. This pricing would be based on the expected loss of the exposure. MBIA Corp. reviews its valuation model results on a quarterly basis to assess the appropriateness of the assumptions and results in light of current market activity and conditions. This review is performed by internal staff with relevant expertise. If live market spreads or securities prices are observable for similar transactions, those spreads are an integral part of the analysis. New insured transactions that resemble existing (previously insured) transactions, if any, would be considered, as well as negotiated settlements of existing transactions.

MBIA Corp. may from time to time make changes in its valuation techniques if the change results in a measurement that it believes is equally or more representative of fair value under current circumstances.

3. Internal Review Process

All significant financial assets and liabilities, including derivative assets and liabilities, are reviewed by committees created by MBIA Corp. to ensure compliance with MBIA Corp. policies and risk procedures in the development of fair values of financial assets and liabilities. These valuation committees review, among other things, key assumptions used for internally developed prices, significant changes in sources and uses of inputs, including changes in model approaches, and any adjustments from third-party inputs or prices to internally developed inputs or prices. The committees also review any significant impairment or improvements in fair values of the financial instruments from prior periods. From time to time, these committees will reach out to MBIA Corp. valuation experts to better understand key methods and assumptions used for the determination of fair value, including understanding significant changes in fair values. These committees are comprised of senior finance team members with the relevant experience in the financial instruments their committee is responsible for. Each quarter, these committees document their agreement with the fair values developed by management of MBIA Corp. as reported in the quarterly and annual financial statements.

Valuation Techniques

Valuation techniques for financial instruments measured at fair value or disclosed at fair value are described below:

Fixed-Maturity Securities (including short-term investments) Held as Available-For-Sale, Investments (including fixed-maturity securities) Carried at Fair Value, Other Investments, and Investments Held-to-Maturity, at Amortized Cost.

Fixed-maturity securities (including short-term investments) held as available-for-sale ("AFS"), investments carried at fair value, other investments, and investments held-to-maturity ("HTM"), at amortized cost include investments in U.S. Treasury and government agencies, foreign governments, corporate obligations, mortgage-backed and asset-backed securities (including CMBS and CDOs), state and municipal bonds, perpetual debt and equity securities (including money market mutual funds), and loans receivable with an affiliate.

Note 6: Fair Value of Financial Instruments (continued)

These investments are generally valued based on recently executed transaction prices or quoted market prices. When quoted market prices are not available, fair value is generally determined using quoted prices of similar investments or a valuation model based on observable and unobservable inputs. Inputs vary depending on the type of investment. Observable inputs include contractual cash flows, interest rate yield curves, CDS spreads, prepayment and volatility scores, diversity scores, cross-currency basis index spreads, and credit spreads for structures similar to the financial instrument in terms of issuer, maturity and seniority. Unobservable inputs include cash flow projections and the value of any credit enhancement.

The fair value of the HTM investments is determined using discounted cash flow models. Key inputs include unobservable cash flows projected over the expected term of the investment discounted using observable interest rate yield curves of similar securities.

Investments based on quoted market prices of identical investments in active markets are classified as Level 1 of the fair value hierarchy. Level 1 investments generally consist of U.S. Treasury and foreign government and agency investments. Quoted market prices of investments in less active markets, as well as investments which are valued based on other than quoted prices for which the inputs are observable, such as interest rate yield curves, are categorized in Level 2 of the fair value hierarchy. Investments that contain significant inputs that are not observable are categorized as Level 3.

Cash and Cash Equivalents, Receivable for Investments Sold, Accrued Investment Income and Payable for Investments Purchased

The carrying amounts of cash and cash equivalents, receivable for investments sold, accrued investment income and payable for investments purchased approximate fair values due to the short-term nature and credit worthiness of these instruments.

Loans Receivable at Fair Value

Loans receivable at fair value are comprised of loans held by consolidated VIEs consisting of residential mortgage loans, commercial mortgage loans and other whole business loans. Fair values of residential mortgage loans are determined using quoted prices for MBS issued by the respective VIE and adjustments for the fair values of the financial guarantees provided by MBIA Corp. on the related MBS. Fair values of commercial mortgage loans and other whole business loans are valued based on quoted prices of similar collateralized MBS. Loans receivable at fair value are categorized in Level 3 of the fair value hierarchy.

Loan Repurchase Commitments

Loan repurchase commitments are obligations owed by the sellers/servicers of mortgage loans to either MBIA Corp. as reimbursement of paid claims or to the RMBS trusts as defined in the transaction documents. Loan repurchase commitments are assets of the consolidated VIEs. This asset represents the rights of MBIA Corp. against the sellers/servicers for breaches of representations and warranties that the securitized residential mortgage loans sold to the trust to comply with stated underwriting guidelines and for the sellers/servicers to cure, replace, or repurchase mortgage loans. Fair value measurements of loan repurchase commitments represent the amounts owed by the sellers/servicers to MBIA Corp. as reimbursement of paid claims. Loan repurchase commitments are not securities and no quoted prices or comparable market transaction information are observable or available. Loan repurchase commitments at fair value are categorized in Level 3 of the fair value hierarchy. Fair values of loan repurchase commitments are determined using discounted cash flow techniques based on inputs including:

- breach rates representing the rate at which the sellers/servicers failed to comply with stated representations and warranties;
- recovery rates representing the estimates of future cash flows for the asset, including estimates about possible variations in the amount of cash flows expected to be collected;
- expectations about possible variations in the timing of collections of the cash flows; and
- time value of money, represented by the rate on risk-free monetary assets.

Variable Interest Entity Notes

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

Note 6: Fair Value of Financial Instruments (continued)

Long-term Debt

Long-term debt consists of surplus notes and a secured loan from an affiliate. The fair value of the surplus notes is estimated based on quoted market prices for identical or similar securities. The fair value of the secured loan is determined as the net present value of expected cash flows from the loan. The discount rate is the yield to maturity of a comparable corporate bond index. Long-term debt is categorized as Level 2 of the fair value hierarchy.

Insured Credit Derivatives

MBIA Corp. derivative contracts primarily consist of insured credit derivatives which cannot be legally traded and generally do not have observable market prices. MBIA Corp. determines the fair values of insured credit derivatives using valuation models. The fair valuation models are consistently applied from period to period, with refinements to the fair value estimation approach being applied as and when the information becomes available. Negotiated settlements are also considered when determining fair value to provide the best estimate of how another market participant would evaluate fair value.

Approximately 80% of the balance sheet fair value of insured credit derivatives as of March 31, 2013 was valued primarily based on the Binomial Expansion Technique ("BET") Model. Approximately 20% of the balance sheet fair value of insured credit derivatives as of March 31, 2013 was valued primarily based on the internally developed Direct Price Model. An immaterial amount of insured credit derivatives were valued using the dual-default model. The valuation of insured derivatives includes the impact of its credit standing. All of these derivatives are categorized as Level 3 of the fair value hierarchy as their fair value is derived using significant unobservable inputs.

A. Description of the BET Model

1. Valuation Model Overview

The BET Model estimates what a bond insurer would charge to guarantee a transaction at the measurement date, based on the market- implied default risk of the underlying collateral and the remaining structural protection in a deductible or subordination.

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

- Estimates of aggregated collateral losses are calculated by reference to the following (described in further detail under "BET Model Inputs" below):
  - credit spreads of underlying collateral based on actual spreads or spreads on similar collateral with similar ratings, or in some cases, are benchmarked; for collateral pools where the spread distribution is characterized by extremes, MBIA Corp. models each segment of the pool separately instead of using an overall pool average;
  - diversity score of the collateral pool as an indication of correlation of collateral defaults; and
  - recovery rate for all defaulted collateral.
- Allocation of losses to separate tranches of the capital structure according to priority of payments in a transaction.
- The inception-to-date unrealized gain or loss on a transaction is the difference between the original price of the risk (the original market-implied expected loss) and the current price of the risk based on the assumed market-implied expected losses derived from the model.

Additional structural assumptions of the BET Model are:

- Default probabilities are determined by three factors: credit spread, recovery rate after default and the time period under risk.
- Frequencies of defaults are modeled evenly over time.
- Collateral assets are generally considered on an average basis rather than being modeled on an individual basis.
- Collateral asset correlation is modeled using a diversity score, which is calculated based on industry or sector concentrations. Recovery rates are based on historical averages and updated based on market evidence.

Note 6: Fair Value of Financial Instruments (continued)

2. BET Model Inputs

a. Credit spreads

The average spread of collateral is a key input as MBIA Corp. assumes credit spreads reflect the market's assessment of default probability for each piece of collateral. Spreads are obtained from market data sources published by third parties (e.g., dealer spread tables for assets most closely resembling collateral within MBIA Corp.'s transactions) as well as collateral-specific spreads on the underlying reference obligations provided by trustees or market sources. Also, when these sources are not available, MBIA Corp. benchmarks spreads for collateral against market spreads or prices. This data is reviewed on an ongoing basis for reasonableness and applicability to MBIA Corp.'s derivative portfolio. MBIA Corp. also calculates spreads based on quoted prices and on internal assumptions about expected life when pricing information is available and spread information is not.

MBIA Corp. uses the spread hierarchy listed below in determining which source of spread information to use, with the rule being to use CDS spreads where available and cash security spreads as the next alternative.

Spread Hierarchy:

- Collateral-specific credit spreads when observable.
- Sector-specific spread tables by asset class and rating.
- Corporate spreads, including Bloomberg spread tables based on rating.
- Benchmark from most relevant market source when corporate spreads are not directly relevant.

There were some transactions where MBIA Corp. incorporated multiple levels within the hierarchy, including using actual collateral-specific credit spreads in combination with a calculated spread based on an assumed relationship. In those cases, MBIA Corp. classified the transaction as being benchmarked from the most relevant spread source even though the majority of the average spread was from actual collateral-specific spreads. As of March 31, 2013, sector-specific spreads were used in 8% of the transactions valued using the BET Model. Corporate spreads were used in 42% of the transactions and spreads benchmarked from the most relevant spread source were used for 50% of the transactions. The spread source can also be identified by whether or not it is based on collateral weighted average rating factor ("WARF"). No collateral-specific spreads are based on WARF. Sector-specific spreads, corporate spreads and some benchmarked spreads are based on WARF. WARF-sourced and/or ratings-sourced credit spreads were used for 77% of the transactions.

Over time, the data inputs change as new sources become available, existing sources are discontinued or are no longer considered to be reliable or the most appropriate. It is always MBIA Corp.'s objective to use more observable spread hierarchies defined above. However, MBIA Corp. may on occasion move to less observable spread inputs due to the discontinuation of data sources or due to MBIA Corp. considering certain spread inputs no longer representative of market spreads.

b. Diversity Scores

Diversity scores are a means of estimating the diversification in a portfolio. The diversity score estimates the number of uncorrelated assets that are assumed to have the same loss distribution as the actual portfolio of correlated assets. While diversity score is a required input into the BET model, due to current high levels of default within the collateral of the structures, diversity score does not have a significant impact on valuation.

c. Recovery Rate

The recovery rate represents the percentage of par expected to be recovered after an asset defaults, indicating the severity of a potential loss. MBIA Corp. generally uses rating agency recovery assumptions which may be adjusted to account for differences between the characteristics and performance of the collateral used by the rating agencies and the actual collateral in MBIA Corp.-insured transactions. MBIA Corp. may also adjust rating agency assumptions based on the performance of the collateral manager and on empirical market data.

d. Nonperformance Risk

MBIA Corp.'s valuation methodology for insured credit derivative liabilities incorporates MBIA Corp.'s own nonperformance risk. MBIA Corp. calculates the fair value by discounting the market value loss estimated through the BET Model at discount rates which include MBIA Corp.'s CDS spreads as of March 31, 2013. The CDS spreads assigned to each deal are based on the weighted average life of the deal. MBIA Corp. limits the nonperformance impact so that the derivative liability could not be lower than MBIA Corp.'s recovery derivative price multiplied by the unadjusted derivative liability.

Note 6: Fair Value of Financial Instruments (continued)

B. Description of Direct Price Model

1. Valuation Model Overview

The Direct Price Model uses quoted market prices of financial assets correlated to the underlying collateral of the pool of assets backing the liabilities guaranteed by certain insured derivative liabilities. These quoted market prices are adjusted to reflect the unique characteristics of the liabilities of the entities backed by the correlated assets and unique terms of the insured derivative contracts.

2. Model Inputs

- Collateral prices

  Fair value of collateral is based on quoted prices when available. When quoted prices are not available, a matrix pricing grid is used based on security type and rating to determine fair value of collateral, which applies an average based on securities with the same rating and security type categories.

- Interest rates

  The present value of the market-implied potential losses was calculated assuming that MBIA Corp. deferred all principal losses to the legal final maturity. This was done through a cash flow model that calculated potential interest payments in each period and the potential principal loss at the legal final maturity. These cash flows were discounted using the LIBOR flat swap curve.

- Nonperformance risk

  The methodology for calculating MBIA Corp.'s nonperformance risk is the same as used for the BET Model. Due to the current level of MBIA Corp. CDS spread rates and the long tenure of these transactions, the derivative recovery rate was used to estimate nonperformance risk for all transactions marked by this model.

Overall Model Results

As of March 31, 2013 and December 31, 2012, MBIA Corp.'s net insured derivative liability was $3.0 billion and $2.9 billion, respectively, and was primarily related to the fair values of insured credit derivatives based on the results of the aforementioned pricing models. In the current environment the most significant driver of changes in fair value is nonperformance risk. In aggregate, the nonperformance calculation resulted in a pre-tax net insured derivative liability that was $3.2 billion and $4.4 billion lower than the net liability that would have been estimated if MBIA Corp. excluded nonperformance risk in its valuation as of March 31, 2013 and December 31, 2012, respectively. Nonperformance risk is a fair value concept and does not contradict MBIA Corp.'s internal view, based on fundamental credit analysis of MBIA Corp.'s economic condition, that MBIA Corp. will be able to pay all claims when due.

Accrued Interest Expense

The fair value of the accrued interest expense on the surplus notes due 2033 is determined based on the scheduled interest payments discounted by the market's perception of the credit risk related to the repayment of the surplus notes. The credit risk related to the repayment of the surplus notes is based on recent trades of the surplus notes. The deferred interest payment will be due on the first business day on or after which MBIA Corp. obtains approval to make such payment.

The carrying amounts of accrued interest expense on all other long-term debt approximate fair value due to the short-term nature of these instruments.

Financial Guarantees

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

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

Note 6: Fair Value of Financial Instruments (continued)

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

Significant Unobservable Inputs

The following tables provide quantitative information regarding the significant unobservable inputs used by MBIA Corp. for assets and liabilities measured at fair value on a recurring basis as of March 31, 2013 and December 31, 2012. These tables exclude inputs used to measure fair value that are not developed by MBIA Corp., such as broker prices and other third-party pricing service valuations.

In millions	Fair Value as of March 31, 2013	Valuation Techniques	Unobservable Input	Range (Weighted Average)
Assets of consolidated VIEs:				
Loans receivable at fair value	$ 1,819	Quoted market prices adjusted for financial guarantees provided to VIE obligations	Impact of financial guarantee	0% - 21% (4%)
Loan repurchase commitments	1,176	Discounted cash flow	Recovery rates	10% - 75% (46%)
			Breach rates	67% - 94% (78%)
Liabilities of consolidated VIEs:				
Variable interest entity notes	1,918	Quoted market prices of VIE assets adjusted for financial guarantees provided	Impact of financial guarantee	0% - 34% (8%)
Credit derivative liabilities, net:				
CMBS	1,851	BET Model	Recovery rates	21% - 90% (51%)
			Nonperformance risk	20% - 48% (48%)
			Weighted average life (in years)	0.1 - 33.5 (4.3)
			CMBS spreads	1% - 23.5% (13.1%)
Multi-sector CDO	594	Direct Price Model	Nonperformance risk	48% - 48% (48%)
Other	549	BET Model	Recovery rates	42% - 70% (47%)
			Nonperformance risk	37% - 48% (48%)
			Weighted average life (in years)	0.4 - 19.6 (2.8)

Note 6: Fair Value of Financial Instruments (continued)

In millions	Fair Value as of December 31, 2012	Valuation Techniques	Unobservable Input	Range (Weighted Average)
Assets of consolidated VIEs:				
Loans receivable at fair value	$ 1,881	Quoted market prices adjusted for financial guarantees provided to VIE obligations	Impact of financial guarantee	0% -14% (3%)
Loan repurchase commitments	1,086	Discounted cash flow	Recovery rates	10% - 75% (47%)
			Breach rates	66% - 94% (78%)
Liabilities of consolidated VIEs:				
Variable interest entity notes	1,948	Quoted market prices of VIE assets adjusted for financial guarantees provided	Impact of financial guarantee	0% - 23% (6%)
Credit derivative liabilities, net:				
CMBS	1,590	BET Model	Recovery rates	21% - 90% (51%)
			Nonperformance risk	19% - 59% (58%)
			Weighted average life (in years)	0.1 - 5.6 (4.4)
			CMBS spreads	1% - 23% (13%)
Multi-sector CDO	525	Direct Price Model	Nonperformance risk	59% - 59% (59%)
Other	806	BET Model	Recovery rates	42% - 75% (47%)
			Nonperformance risk	42% - 59% (58%)
			Weighted average life (in years)	0.1 - 19.6 (3.0)

Sensitivity of Significant Unobservable Inputs

The significant unobservable input used in the fair value measurement of MBIA Corp.'s loans receivable at fair value of consolidated VIEs is the impact of the financial guarantee. The fair value of loans receivable is calculated by subtracting the value of the financial guarantee from the market value of VIE liabilities. The value of a financial guarantee is estimated by MBIA Corp. as the present value of expected cash payments under the policy. As expected cash payments provided by MBIA Corp. under the insurance policy increase, there is a lower expected cash flow on the underlying loans receivable of the VIE. This results in a lower fair value of the loans receivable in relation to the obligations of the VIE.

The significant unobservable inputs used in the fair value measurement of MBIA Corp.'s loan repurchase commitments of consolidated VIEs are the recovery rates and the breach rates. Recovery rates reflect the estimates of future cash flows reduced for litigation delays and risks and/or potential financial distress of the sellers/servicers. The estimated recoveries of the loan repurchase commitments may differ from the actual recoveries that may be received in the future. Breach rates represent the rate at which the mortgages fail to comply with stated representations and warranties of the sellers/servicers. Significant increases or decreases in the recovery rates and the breach rates would result in significantly higher or lower fair values of the loan repurchase commitments, respectively. Additionally, changes in the legal environment and the ability of the counterparties to pay would impact the recovery rate assumptions, which could significantly impact the fair value measurement. Any significant challenges by the counterparties to MBIA Corp.'s determination of breaches of representations and warranties could significantly adversely impact the fair value measurement. Recovery rates and breach rates are determined independently. Changes in one input will not necessarily have any impact on the other input.

The significant unobservable input used in the fair value measurement of MBIA Corp.'s variable interest entity notes of consolidated VIEs is the impact of the financial guarantee. The fair value of VIE notes is calculated by adding the value of the financial guarantee to the market value of VIE assets. The value of a financial guarantee is estimated by MBIA Corp. as the present value of expected cash payments under the policy. As the value of the guarantee provided by MBIA Corp. to the obligations issued by the VIE increases, the credit support adds value to the liabilities of the VIE. This results in an increase in the fair value of the liabilities of the VIE.

Note 6: Fair Value of Financial Instruments (continued)

The significant unobservable inputs used in the fair value measurement of MBIA Corp.'s CMBS credit derivatives, which are valued using the BET Model, are CMBS spreads, recovery rates, nonperformance risk and weighted average life. The CMBS spread is an indicator of credit risk of the collateral securities. The recovery rate represents the percentage of notional expected to be recovered after an asset defaults, indicating the severity of a potential loss. The nonperformance risk is an assumption of MBIA Corp.'s own ability to pay and whether MBIA Corp. will have the necessary resources to pay the obligations as they come due. Weighted average life is based on MBIA Corp.'s estimate of when the principal of the underlying collateral of the CMBS structure will be repaid. A significant increase in weighted average life can result in an increase or decrease in the fair value of the derivative liability, depending on the discount rate and the timing of significant losses. Any significant increase or decrease in recovery rates or MBIA Corp.'s nonperformance risk would result in a decrease or increase in the fair value of the derivative liabilities, respectively. CMBS spreads, recovery rates, nonperformance risk and weighted average lives are determined independently. Changes in one input will not necessarily have any impact on the other inputs.

The significant unobservable input used in the fair value measurement of MBIA Corp.'s multi-sector CDO credit derivatives, which are valued using the Direct Price Model, is nonperformance risk. The nonperformance risk is an assumption of MBIA Corp.'s own ability to pay and whether MBIA Corp. will have the necessary resources to pay the obligations as they come due. Any significant increase or decrease in MBIA Corp.'s nonperformance risk would result in a decrease or increase in the fair value of the derivative liabilities, respectively.

The significant unobservable inputs used in the fair value measurement of MBIA Corp.'s other credit derivatives, which are valued using the BET Model, are recovery rates, nonperformance risk and weighted average life. The recovery rate represents the percentage of notional expected to be recovered after an asset defaults, indicating the severity of a potential loss. The nonperformance risk is an assumption of MBIA Corp.'s own ability to pay and whether MBIA Corp. will have the necessary resources to pay the obligations as they come due. Weighted average life is based on MBIA Corp.'s estimate of when the principal of the underlying collateral will be repaid. A significant increase in weighted average life can result in an increase or decrease in the fair value of the derivative liability, depending on the discount rate and the timing of significant losses. Any significant increase or decrease in recovery rates or MBIA Corp.'s nonperformance risk would result in a decrease or increase in the fair value of the derivative liabilities, respectively. Recovery rates, nonperformance risk and weighted average lives are determined independently. Changes in one input will not necessarily have any impact on the other inputs.

Note 6: Fair Value of Financial Instruments (continued)

The following tables present the fair value of MBIA Corp.'s assets (including short-term investments) and liabilities measured and reported at fair value on a recurring basis as of March 31, 2013 and December 31, 2012:

	Fair Value Measurements at Reporting Date Using			
In millions	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance as of March 31, 2013
Assets:				
Fixed-maturity investments:				
U.S. Treasury and government agency	$ 244	$ -	$ -	$ 244
State and municipal bonds	-	7	-	7
Foreign governments	110	92	8(1)	210
Corporate obligations	-	221	-	221
Mortgage-backed securities:				
Residential mortgage-backed agency	-	4	-	4
Residential mortgage-backed non-agency	-	28	-	28
Asset-backed securities:				
Collateralized debt obligations	-	1	-	1
Other asset-backed	-	15	5(1)	20
Total fixed-maturity investments	354	368	13	735
Money market securities	12	-	-	12
Perpetual debt and equity securities	-	2	4(1)	6
Cash and cash equivalents	434	-	-	434
Derivative assets:				
Credit derivatives	-	7	-	7
Total derivative assets	-	7	-	7

(1) - Unobservable inputs are either not developed by MBIA Corp. or do not significantly impact the overall fair values of the aggregate financial assets and liabilities.

Note 6: Fair Value of Financial Instruments (continued)

In millions	Fair Value Measurements at Reporting Date Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance as of March 31, 2013
Assets of consolidated VIEs:				
Cash	72	-	-	72
Corporate obligations	-	53	56(1)	109
Mortgage-backed securities:				
Residential mortgage-backed non-agency	-	814	6(1)	820
Commercial mortgage-backed	-	416	28(1)	444
Asset-backed securities:				
Collateralized debt obligations	-	178	57(1)	235
Other asset-backed	-	99	46(1)	145
Loans receivable	-	-	1,819	1,819
Loan repurchase commitments	-	-	1,176	1,176
Total assets	$ 872	$ 1,937	$ 3,205	$ 6,014
Liabilities:				
Derivative liabilities:				
Credit derivatives	$ -	$ 12	$ 2,994	$ 3,006
Total derivative liabilities	-	12	2,994	3,006
Liabilities of consolidated VIEs:				
Variable interest entity notes	-	1,677	1,918	3,595
Derivative liabilities:				
Credit derivatives	-	126	-	126
Currency rate derivatives	-	-	23(1)	23
Total derivative liabilities	-	126	23	149
Total liabilities	$ -	$ 1,815	$ 4,935	$ 6,750

(1) - Unobservable inputs are either not developed by MBIA Corp. or do not significantly impact the overall fair values of the aggregate financial assets and liabilities.

Note 6: Fair Value of Financial Instruments (continued)

In millions	Fair Value Measurements at Reporting Date Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance as of December 31, 2012
Assets:				
Fixed-maturity investments:				
U.S. Treasury and government agency	$ 353	$ -	$ -	$ 353
State and municipal bonds	-	7	-	7
Foreign governments	86	106	3[1]	195
Corporate obligations	-	261	-	261
Mortgage-backed securities:				
Residential mortgage-backed agency	-	3	-	3
Residential mortgage-backed non-agency	-	29	3[1]	32
Asset-backed securities:				
Collateralized debt obligations	-	1	-	1
Other asset-backed	-	16	5[1]	21
Total fixed-maturity investments	439	423	11	873
Money market securities	15	-	-	15
Perpetual debt and equity securities	-	1	4[1]	5
Cash and cash equivalents	397	-	-	397
Derivative assets:				
Credit derivatives	-	7	-	7
Total derivative assets	-	7	-	7

Note 6: Fair Value of Financial Instruments (continued)

In millions	Fair Value Measurements at Reporting Date Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Other Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance as of December 31, 2012
Assets of consolidated VIEs:				
Cash	176	-	-	176
Corporate obligations	-	58	56(1)	114
Mortgage-backed securities:				
Residential mortgage-backed non-agency	-	787	6(1)	793
Commercial mortgage-backed	-	409	7(1)	416
Asset-backed securities:				
Collateralized debt obligations	-	185	66(1)	251
Other asset-backed	-	99	62(1)	161
Loans receivable	-	-	1,881	1,881
Loan repurchase commitments	-	-	1,086	1,086
Total assets	$ 1,027	$ 1,969	$ 3,179	$ 6,175
Liabilities:				
Derivative liabilities:				
Credit derivatives	$ -	$ 12	$ 2,921	$ 2,933
Total derivative liabilities	-	12	2,921	2,933
Liabilities of consolidated VIEs:				
Variable interest entity notes	-	1,727	1,948	3,675
Derivative liabilities:				
Interest rate derivatives	-	141	-	141
Currency rate derivatives	-	-	21(1)	21
Total derivative liabilities	-	141	21	162
Total liabilities	$ -	$ 1,880	$ 4,890	$ 6,770

(1) - Unobservable inputs are either not developed by MBIA Corp. or do not significantly impact the overall fair values of the aggregate financial assets and liabilities.

Level 3 Analysis

Level 3 assets at fair value, as of March 31, 2013 and December 31, 2012 represented approximately 53% and 51%, respectively, of total assets measured at fair value. Level 3 liabilities at fair value, as of March 31, 2013 and December 31, 2012, represented approximately 73% and 72%, respectively, of total liabilities measured at fair value.

Note 6: Fair Value of Financial Instruments (continued)

The following tables present the fair values and carrying values of MBIA Corp.'s assets and liabilities that are disclosed at fair value but not reported at fair value on MBIA Corp.'s consolidated balance sheets as of March 31, 2013 and December 31, 2012:

	Fair Value Measurements at Reporting Date Using				
In millions	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value Balance as of March 31, 2013	Carry Value Balance as of March 31, 2013
Assets:					
Other investments	$ -	$ -	$ 26	$ 26	$ 26
Accrued investment income	5	-	-	5	5
Assets of consolidated VIEs:					
Investments held-to-maturity	-	-	2,759	2,759	2,826
Total assets	$ 5	$ -	$ 2,785	$ 2,790	$ 2,857
Liabilities:					
Long-term debt	$ -	$ 1,929	$ -	$ 1,929	$ 2,633
Accrued interest payable (1)	-	50	-	50	119
Liabilities of consolidated VIEs:					
VIE notes	-	-	2,759	2,759	2,826
Total liabilities	$ -	$ 1,979	$ 2,759	$ 4,738	$ 5,578
Financial Guarantees:					
Gross	$ -	$ -	$ (114)	$ (114)	$ (739)
Ceded	-	-	1,657	1,657	1,462

(1) - Reported within "Other liabilities" on MBIA Corp.'s consolidated balance sheets.

	Fair Value Measurements at Reporting Date Using				
In millions	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value Balance as of December 31, 2012	Carry Value Balance as of December 31, 2012
Assets:					
Other investments	$ -	$ -	$ 28	$ 28	$ 28
Accrued investment income	7	-	-	7	7
Assets of consolidated VIEs:					
Investments held-to-maturity	-	-	2,675	2,675	2,829
Total assets	$ 7	$ -	$ 2,703	$ 2,710	$ 2,864
Liabilities:					
Long-term debt	$ -	$ 1,847	$ -	$ 1,847	$ 2,604
Accrued interest payable (1)	-	39	-	39	90
Liabilities of consolidated VIEs:					
VIE notes	-	-	2,675	2,675	2,829
Total liabilities	$ -	$ 1,886	$ 2,675	$ 4,561	$ 5,523
Financial Guarantees:					
Gross	$ -	$ -	$ (114)	$ (114)	$ (294)
Ceded	-	-	1,442	1,442	1,530

(1) - Reported within "Other liabilities" on MBIA Corp.'s consolidated balance sheets.

Note 6: Fair Value of Financial Instruments (continued)

The following tables present information about changes in Level 3 assets (including short-term investments) and liabilities measured at fair value on a recurring basis for the three months ended March 31, 2013 and 2012:

Changes in Level 3 Assets and Liabilities Measured at Fair Value on a Recurring Basis for the Three Months Ended March 31, 2013

In millions	Balance, Beginning of Period	Realized Gains / (Losses)	Unrealized Gains / (Losses) Included in Earnings	Unrealized Gains / (Losses) Included in OCI	Foreign Exchange Recognized in OCI or Earnings	Purchases	Issuances	Settlements	Sales	Transfers into Level 3 (1)	Transfers out of Level 3 (1)	Ending Balance	Change in Unrealized Gains (Losses) for the Period Included in Earnings for Assets Still Held as of March 31, 2013
Assets:													
Foreign governments	$ 3	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 8	$ (3)	$ 8	$ -
Residential mortgage-backed non-agency	3	-	-	-	-	-	-	(3)	-	-	-	-	-
Other asset-backed	5	-	-	-	-	-	-	-	-	-	-	5	-
Perpetual debt and equity securities	4	-	-	-	-	-	-	-	-	-	-	4	-
Assets of consolidated VIEs:													
Corporate obligations	56	-	(2)	-	-	-	-	(1)	-	3	-	56	-
Residential mortgage-backed non-agency	6	-	6	-	-	-	-	(6)	-	1	(1)	6	1
Commercial mortgage-backed	7	-	1	-	-	-	-	-	-	20	-	28	1
Collateralized debt obligations	66	-	(9)	-	-	-	-	-	-	1	(1)	57	(4)
Other asset-backed	62	-	(14)	-	-	-	-	(2)	-	-	-	46	(9)
Loans receivable	1,881	-	8	-	-	-	-	(70)	-	-	-	1,819	8
Loan repurchase commitments	1,086	-	90	-	-	-	-	-	-	-	-	1,176	90
Total assets	$ 3,179	$ -	$ 80	$ -	$ -	$ -	$ -	$ (82)	$ -	$ 33	$ (5)	$ 3,205	$ 87

In millions	Balance, Beginning of Period	Realized (Gains) / Losses	Unrealized (Gains) / Losses Included in Earnings	Unrealized (Gains) / Losses Included in OCI	Foreign Exchange Recognized in OCI or Earnings	Purchases	Issuances	Settlements	Sales	Transfers into Level 3 (1)	Transfers out of Level 3 (1)	Ending Balance	Change in Unrealized (Gains) Losses for the Period Included in Earnings for Assets Still Held as of March 31, 2013
Liabilities:													
Credit derivative, net	$ 2,921	$ 1	$ 73	$ -	$ -	$ -	$ -	$ (1)	$ -	$ -	$ -	$ 2,994	$ 131
Liabilities of consolidated VIEs:													
VIE notes	1,948	-	123	-	-	-	-	(153)	-	-	-	1,918	123
Currency derivative, net	21	-	(1)	-	3	-	-	-	-	-	-	23	2
Total liabilities	$ 4,890	$ 1	$ 195	$ -	$ 3	$ -	$ -	$ (154)	$ -	$ -	$ -	$ 4,935	$ 256

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

Note 6: Fair Value of Financial Instruments (continued)

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

In millions	Balance, Beginning of Period	Realized Gains / (Losses)	Unrealized Gains / (Losses) Included in Earnings	Unrealized Gains / (Losses) Included in OCI	Foreign Exchange Recognized in OCI or Earnings	Purchases	Issuances	Settlements	Sales	Transfers into Level 3 (1)	Transfers out of Level 3 (1)	Ending Balance	Change in Unrealized Gains (Losses) for the Period Included in Earnings for Assets Still Held as of March 31, 2012
Assets:													
Foreign governments	$ 11	$ -	$ -	$ -	$ 1	$ 6	$ -	$ (6)	$ -	$ -	$ -	$ 12	$ -
Corporate obligations	4	-	-	-	-	-	-	-	-	-	-	4	-
Residential mortgage-backed non-agency	7	-	-	-	-	-	-	(1)	-	-	(2)	4	-
Other asset-backed	42	(101)	-	100	-	-	-	(1)	(6)	-	-	34	-
Assets of consolidated VIEs:													
Corporate obligations	67	-	1	-	-	-	-	(1)	-	6	-	73	2
Residential mortgage-backed non-agency	21	-	5	-	-	-	-	(2)	-	2	(1)	25	4
Commercial mortgage-backed	22	-	1	-	-	-	-	(2)	-	-	(6)	15	-
Collateralized debt obligations	149	-	3	-	-	-	-	-	-	7	-	159	2
Other asset-backed	67	-	3	-	-	-	-	-	-	1	-	71	3
Loans receivable	2,046	-	39	-	-	-	-	(60)	-	-	-	2,025	39
Loan repurchase commitments	1,077	-	(1)	-	-	-	-	-	-	-	-	1,076	(1)
Total assets	$ 3,513	$ (101)	$ 51	$ 100	$ 1	$ 6	$ -	$ (73)	$ (6)	$ 16	$ (9)	$ 3,498	$ 49

In millions	Balance, Beginning of Period	Realized (Gains) / Losses	Unrealized (Gains) / Losses Included in Earnings	Unrealized (Gains) / Losses Beginning OCI	Foreign Exchange Recognized in OCI or Earnings	Purchases	Issuances	Settlements	Sales	Transfers into Level 3 (1)	Transfers out of Level 3 (1)	Ending Balance	Change in Unrealized (Gains) Losses for the Period Included in Earnings for Assets Still Held as of March 31, 2012
Liabilities:													
Credit derivative, net	$ 4,790	$ 20	$ (303)	$ -	$ -	$ -	$ -	$ (20)	$ -	$ -	$ -	$ 4,487	$ (286)
Liabilities of consolidated VIEs:													
VIE notes	2,922	-	141	-	-	-	-	(183)	-	-	-	2,880	141
Credit derivative, net	80	-	2	-	-	-	-	-	-	-	-	82	2
Currency derivative, net	17	-	2	-	-	-	-	-	-	-	-	19	2
Total liabilities	$ 7,809	$ 20	$ (158)	$ -	$ -	$ -	$ -	$ (203)	$ -	$ -	$ -	$ 7,468	$ (141)

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

Transfers into and out of Level 3 were $33 million and $5 million, respectively, for the three months ended March 31, 2013. Transfers into and out of Level 2 were $5 million and $33 million, respectively, for the three months ended March 31, 2013. Transfers into Level 3 were principally related to commercial mortgage-backed securities, foreign government securities and corporate obligations where inputs, which are significant to their valuation, became unobservable during the quarter. Transfers out of Level 3 were principally foreign government securities where inputs, which are significant to their valuation, became observable. These Level 2 inputs included spreads, prepayment speeds, default speeds, default severities, yield curves observable at commonly quoted intervals, and market corroborated inputs. There were no transfers into or out of Level 1.

Note 6: Fair Value of Financial Instruments (continued)

Transfers into and out of Level 3 were $16 million and $9 million, respectively, for the three months ended March 31, 2012. Transfers into and out of Level 2 were $9 million and $16 million, respectively, for the three months ended March 31, 2012. Transfers into Level 3 were principally for corporate obligations and collateralized debt obligations where inputs, which are significant to their valuation, became unobservable during the quarter. Transfers out of Level 3 were principally for commercial mortgage-backed securities where inputs, which are significant to their valuation, became observable during the quarter. These Level 2 inputs included spreads, prepayment speeds, default speeds, default severities, yield curves observable at commonly quoted intervals, and market corroborated inputs. There were no transfers into or out of Level 1.

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

Gains and losses (realized and unrealized) included in earnings relating to level 3 assets and liabilities for the three months ended March 31, 2013 and 2012 are reported on MBIA Corp.'s consolidated statements of operations as follows:

	Three Months Ended March 31, 2013	
In millions	Total Gains (Losses) Included in Earnings	Change in Unrealized Gains (Losses) for the Period Included in Earnings for Assets and Liabilities still held as of March 31, 2013
Revenues:		
Unrealized gains (losses) on insured derivatives	$ (73)	$ (131)
Realized gains (losses) and other settlements on insured derivatives	(1)	-
Revenues of consolidated VIEs:		
Net gains (losses) on financial instruments at fair value and foreign exchange	(42)	(38)
Total	$ (116)	$ (169)

	Three Months Ended March 31, 2012	
In millions	Total Gains (Losses) Included in Earnings	Change in Unrealized Gains (Losses) for the Period Included in Earnings for Assets and Liabilities still held as of March 31, 2012
Revenues:		
Net investment income	$ (5)	$ -
Unrealized gains (losses) on insured derivatives	303	286
Realized gains (losses) and other settlements on insured derivatives	(20)	-
Net investment losses related to other-than-temporary impairments	(96)	-
Revenues of consolidated VIEs:		
Net gains (losses) on financial instruments at fair value and foreign exchange	(94)	(96)
Total	$ 88	$ 190

Fair Value Option

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

Note 6: Fair Value of Financial Instruments (continued)

The following table presents the changes in fair value included in MBIA Corp.'s consolidated statements of operations for the three months ended March 31, 2013 and 2012, for all financial instruments for which the fair value option was elected:

	Net Gains (Losses) on Financial Instruments at Fair Value and Foreign Exchange	
	Three Months Ended March 31,	
In millions	2013	2012
Fixed-maturity securities held at fair value	$ 18	$ (1)
Loans receivable at fair value:		
Residential mortgage loans	(74)	18
Other loans	13	(39)
Loan repurchase commitments	90	-
Long-term debt	81	(11)

The following table reflects the difference between the aggregate fair value and the aggregate remaining contractual principal balance outstanding as of March 31, 2013 and December 31, 2012, for loans and VIE notes for which the fair value option was elected:

	As of March 31, 2013			As of December 31, 2012		
In millions	Contractual Principal Outstanding	Fair Value	Difference	Contractual Principal Outstanding	Fair Value	Difference
Loans receivable at fair value:						
Residential mortgage loans	$ 2,220	$1,660	$ 560	$ 2,307	$1,735	$ 572
Residential mortgage loans (90 days or more past due)	244	54	190	244	54	190
Other loans	22	11	11	22	22	-
Other loans (90 days or more past due)	196	94	102	197	70	127
Total loans receivable at fair value	$ 2,682	$1,819	$ 863	$ 2,770	$1,881	$ 889
VIE notes	$ 8,869	$3,595	$ 5,274	$ 9,079	$3,675	$ 5,404

Substantially all gains and losses included in earnings during the periods ended March 31, 2013 and December 31, 2012 on loans receivable and VIE notes reported in the preceeding tables are attributable to credit risk. This is primarily due to the high rate of defaults on loans and the collateral supporting the VIE notes, resulting in depressed pricing of the financial instruments.

Note 7: Investments

MBIA Corp.'s investments, excluding those elected under the fair value option, include debt and equity securities classified as either AFS or HTM. Other invested assets designated as AFS are primarily comprised of money market funds.

The following tables present the amortized cost, fair value and corresponding gross unrealized gains and losses for AFS and HTM investments in MBIA Corp.'s investment portfolios as of March 31, 2013 and December 31, 2012:

	March 31, 2013			
In millions	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
AFS Investments				
Fixed-maturity investments:				
U.S. Treasury and government agency	$ 243	$ 1	$ -	$ 244
State and municipal bonds	6	1	-	7
Foreign governments	198	12	-	210
Corporate obligations	214	6	-	220
Mortgage-backed securities:				
Residential mortgage-backed agency	4	-	-	4
Residential mortgage-backed non-agency	26	2	-	28
Commercial mortgage-backed	1	-	(1)	-
Asset-backed securities:				
Collateralized debt obligations	1	-	-	1
Other asset-backed	19	1	-	20
Total fixed-maturity investments	712	23	(1)	734
Money market securities	12	-	-	12
Perpetual debt and equity securities	2	-	-	2
Total AFS investments	$ 726	$ 23	$ (1)	$ 748
HTM Investments				
Assets of consolidated VIEs:				
Corporate obligations	$ 2,826	$ 26	$ (93)	$2,759
Total HTM investments	$ 2,826	$ 26	$ (93)	$2,759

Note 7: Investments (continued)

	December 31, 2012			
In millions	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
AFS Investments				
Fixed-maturity investments:				
U.S. Treasury and government agency	$ 352	$ 1	$ -	$ 353
State and municipal bonds	6	1	-	7
Foreign governments	183	13	-	196
Corporate obligations	254	7	-	261
Mortgage-backed securities:				
Residential mortgage-backed agency	2	-	-	2
Residential mortgage-backed non-agency	31	2	-	33
Commercial mortgage-backed	1	-	(1)	-
Asset-backed securities:				
Collateralized debt obligations	1	-	-	1
Other asset-backed	20	1	-	21
Total fixed-maturity investments	850	25	(1)	874
Money market securities	15	-	-	15
Perpetual debt and equity securities	1	-	-	1
Total AFS investments	$ 866	$ 25	$ (1)	$ 890
HTM Investments				
Assets of consolidated VIEs:				
Corporate obligations	$ 2,829	$ 2	$ (157)	$2,674
Total HTM investments	$ 2,829	$ 2	$ (157)	$2,674

Note 7: Investments (continued)

The following table presents the distribution by contractual maturity of AFS and HTM fixed-maturity securities at amortized cost and fair value as of March 31, 2013. Contractual maturity may differ from expected maturity as borrowers may have the right to call or prepay obligations.

	AFS Securities		HTM Securities Consolidated VIEs	
In millions	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$ 209	$ 209	$ -	$ -
Due after one year through five years	384	393	-	-
Due after five years through ten years	59	68	-	-
Due after ten years through fifteen years	-	-	-	-
Due after fifteen years	9	11	2,826	2,759
Mortgage-backed and asset-backed	51	53	-	-
Total fixed-maturity investments	$ 712	$ 734	$ 2,826	$ 2,759

Deposited Securities

The fair value of securities on deposit with various regulatory authorities was $5 million as of March 31, 2013 and December 31, 2012. These deposits are required to comply with state insurance laws.

Impaired Investments

The following tables present the gross unrealized losses related to AFS and HTM investments as of March 31, 2013 and December 31, 2012:

	March 31, 2013					
	Less than 12 Months		12 Months or Longer		Total	
In millions	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
AFS Investments						
Fixed-maturity investments:						
U.S. Treasury and government agency	$ 3	$ -	$ -	$ -	$ 3	$ -
State and municipal bonds	1	-	-	-	1	-
Foreign governments	32	-	-	-	32	-
Corporate obligations	5	-	-	-	5	-
Mortgage-backed securities:						
Residential mortgage-backed non-agency	-	-	5	-	5	-
Commercial mortgage-backed	-	-	1	(1)	1	(1)
Asset-backed securities:						
Other asset-backed	-	-	10	-	10	-
Total fixed-maturity investments	41	-	16	(1)	57	(1)
Total AFS investments	$ 41	$ -	$ 16	$ (1)	$ 57	$ (1)
HTM Investments						
Assets of consolidated VIEs:						
Corporate obligations	$ 311	$ (4)	$1,336	$ (89)	$1,647	$ (93)
Total HTM investments	$ 311	$ (4)	$1,336	$ (89)	$1,647	$ (93)

Note 7: Investments (continued)

	December 31, 2012					
	Less than 12 Months		12 Months or Longer		Total	
In millions	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
AFS Investments						
Fixed-maturity investments:						
U.S. Treasury and government agency	$ 151	$ -	$ -	$ -	$ 151	$ -
State and municipal bonds	1	-	-	-	1	-
Foreign governments	11	-	1	-	12	-
Corporate obligations	8	-	4	-	12	-
Mortgage-backed securities:						
Residential mortgage-backed non-agency	2	-	6	-	8	-
Commercial mortgage-backed	-	-	-	(1)	-	(1)
Asset-backed securities:						
Other asset-backed	-	-	10	-	10	-
Total fixed-maturity investments	173	-	21	(1)	194	(1)
Perpetual debt and equity securities	1	-	-	-	1	-
Total AFS investments	$ 174	$ -	$ 21	$ (1)	$ 195	$ (1)
HTM Investments						
Assets of consolidated VIEs:						
Corporate obligations	$ 297	$ (19)	$1,287	$ (138)	$1,584	$ (157)
Total HTM investments	$ 297	$ (19)	$1,287	$ (138)	$1,584	$ (157)

With the weighting applied on the fair value of each security relative to the total fair value, the weighted average contractual maturity of securities in an unrealized loss position as of March 31, 2013 and December 31, 2012 was 29 and 27 years, respectively. As of March 31, 2013 and December 31, 2012, there were 34 and 36 securities, respectively, that were in an unrealized loss position for a continuous twelve-month period or longer, of which the fair values of 6 securities, for both periods, were below book value by more than 5%.

Other-Than-Temporary Impairments

MBIA Corp. has evaluated on a security-by-security basis whether the unrealized losses in its investment portfolios were other-than-temporary considering duration and severity of unrealized losses, the circumstances that gave rise to the unrealized losses, and whether MBIA Corp. has the intent to sell the securities or more likely than not will be required to sell the securities before their anticipated recovery. Based on its evaluation, MBIA Corp. determined that the unrealized losses on the remaining securities were temporary in nature because its impairment analysis, including projected future cash flows, indicated that MBIA Corp. would be able to recover the amortized cost of impaired assets. MBIA Corp. also concluded that it does not have the intent to sell securities in an unrealized loss position and it is more likely than not that it would not have to sell these securities before recovery of their cost basis. In making this conclusion, MBIA Corp. examined the cash flow projections for its investment portfolios, the potential sources and uses of cash in its businesses, and the cash resources available to its business other than sales of securities. It also considered the existence of any risk management or other plans as of March 31, 2013 that would require the sale of impaired securities. On a quarterly basis, MBIA Corp. re-evaluates the unrealized losses in its investment portfolios to determine whether an impairment loss should be realized in current earnings. Impaired securities that MBIA Corp. intends to sell before the expected recovery of such securities' fair values have been written down to fair value.

Credit Loss Rollforward

The portion of certain other-than-temporary impairments ("OTTI") losses on fixed-maturity securities that does not represent credit losses is recognized in AOCI. For these impairments, the net amount recognized in earnings represents the difference between the amortized cost of the security and the net present value of its projected future discounted cash flows prior to impairment. Any remaining difference between the fair value and amortized cost is recognized in AOCI.

Note 7: Investments (continued)

The following table presents the amount of credit loss impairments recognized in earnings on fixed-maturity securities held by MBIA Corp. as of the dates indicated, for which a portion of the OTTI losses was recognized in AOCI, and the corresponding changes in such amounts. There were no OTTI losses for which a portion was recognized in AOCI for the three months ended March 31, 2013.

In millions Credit Losses Recognized in Earnings Related to Other-Than-Temporary Impairments	Three Months Ended March 31, 2012
Beginning balance	$ 57
Reductions for credit loss impairments previously recognized on securities impaired to fair value during the period (1)	(57)
Ending balance	$ -

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

Sales of AFS Investments

Gross realized gains and losses are recorded in "Net gains (losses) on financial instruments at fair value and foreign exchange" on MBIA Corp.'s consolidated statements of operations. The proceeds and gross realized gains and losses for the three months ended March 31, 2013 and 2012 were as follows:

In millions	Three Months Ended March 31, 2013	2012
Proceeds from sales	$ 130	$ 614
Gross realized gains	$ -	$ 10
Gross realized losses	$ -	$ (1)

Note 8: Derivative Instruments

Overview

MBIA Corp. accounts for derivative instruments in accordance with the accounting principles for derivative and hedging activities, which requires that all such instruments be recorded on MBIA Corp.'s consolidated balance sheets at fair value. Refer to "Note 6: Fair Value of Financial Instruments" for the method used for determining the fair value of derivative instruments.

MBIA Corp. has entered into derivative instruments that it viewed as an extension of its core financial guarantee business but which do not qualify for the financial guarantee scope exception and, therefore, must be recorded at fair value in MBIA Corp.'s consolidated balance sheets. MBIA Corp. insures CDS contracts, primarily referencing corporate, asset-backed, residential mortgage-backed, commercial mortgage-backed, CRE loans, and CDO securities that are intended to be held for the entire term of the contract absent a negotiated settlement with the counterparty.

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

Variable Interest Entities

VIEs consolidated by MBIA Corp. have entered into derivative instruments primarily consisting of interest rate swaps. Interest rate swaps are entered into to hedge the risks associated with fluctuations in interest rates or fair values of certain contracts.

Note 8: Derivative Instruments (continued)

Credit Derivatives Sold

The following tables present information about credit derivatives sold by MBIA Corp. that were outstanding as of March 31, 2013 and December 31, 2012. Credit ratings represent the lower of underlying ratings assigned to the collateral by Moody's, S&P or MBIA.

$ in millions		As of March 31, 2013						
		Notional Value						
Credit Derivatives Sold	Weighted Average Remaining Expected Maturity	AAA	AA	A	BBB	Below Investment Grade	Total Notional	Fair Value Asset (Liability)
Insured credit default swaps	4.9 Years	$10,007	$5,792	$3,109	$11,250	$14,228	$44,386	$(2,960)
Insured swaps	20.7 Years	-	85	2,503	1,609	-	4,197	(8)
All others	32.6 Years	-	-	-	-	195	195	(38)
Total notional		$10,007	$5,877	$5,612	$12,859	$14,423	$48,778	
Total fair value		$ (3)	$ (83)	$ (8)	$ (534)	$ (2,378)		$(3,006)

$ in millions		As of December 31, 2012						
		Notional Value						
Credit Derivatives Sold	Weighted Average Remaining Expected Maturity	AAA	AA	A	BBB	Below Investment Grade	Total Notional	Fair Value Asset (Liability)
Insured credit default swaps	5.1 Years	$10,457	$5,862	$5,253	$11,571	$13,859	$47,002	$(2,858)
Insured swaps	20.8 Years	-	103	2,520	1,627	71	4,321	(7)
All others	1.8 Years	-	-	-	-	195	195	(68)
Total notional		$10,457	$5,965	$7,773	$13,198	$14,125	$51,518	
Total fair value		$ (7)	$ (70)	$ (72)	$ (732)	$ (2,052)		$(2,933)

Internal credit ratings assigned by MBIA on the underlying collateral are derived by MBIA Corp.'s surveillance group. In assigning an internal rating, current status reports from issuers and trustees, as well as publicly available transaction-specific information, are reviewed. Also, where appropriate, cash flow analyses and collateral valuations are considered. The maximum potential amount of future payments (undiscounted) on CDS contracts are estimated as the notional value plus any additional debt service costs, such as interest or other amounts owed on CDS contracts. The maximum amount of future payments that MBIA Corp. may be required to make under these guarantees as of March 31, 2013 is $48.5 billion. This amount is net of $392 million of insured derivatives ceded under reinsurance agreements in which MBIA Corp. economically hedges a portion of the credit and market risk associated with its insured derivatives and offsetting agreements with a counterparty. The maximum potential amount of future payments (undiscounted) on insured swaps are estimated as the notional value of such contracts.

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

Financial Statement Presentation

Insured CDSs and insured swaps are not subject to master netting agreements. VIE derivative assets and liabilities are not presented net of any master netting agreements.

Note 8: Derivative Instruments (continued)

As of March 31, 2013 and December 31, 2012, MBIA Corp. reported derivative assets of $7 million, and derivative liabilities of $3.2 billion and $3.1 billion, respectively, which are shown separately on MBIA Corp.'s consolidated balance sheets. The following table presents the total fair value of MBIA Corp.'s derivative assets and liabilities by instrument and balance sheet location as of March 31, 2013:

In millions		Derivative Assets		Derivative Liabilities	
Derivative Instruments	Notional Amount Outstanding	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Not designated as hedging instruments:					
Insured credit default swaps	$ 44,705	Derivative assets	$ -	Derivative liabilities	$(2,960)
Insured swaps	7,685	Derivative assets	7	Derivative liabilities	(8)
Interest rate swaps -VIE	2,728	Derivative assets-VIE	-	Derivative liabilities-VIE	(126)
Cross currency swaps -VIE	107	Derivative assets-VIE	-	Derivative liabilities-VIE	(23)
All other	195	Derivative assets	-	Derivative liabilities	(38)
All other-VIE	280	Derivative assets-VIE	-	Derivative liabilities-VIE	-
Total derivatives	$ 55,700		$ 7		$(3,155)

The following table presents the total fair value of MBIA Corp.'s derivative assets and liabilities by instrument and balance sheet location as of December 31, 2012:

In millions		Derivative Assets		Derivative Liabilities	
Derivative Instruments	Notional Amount Outstanding	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Not designated as hedging instruments:					
Insured credit default swaps	$ 47,320	Derivative assets	$ -	Derivative liabilities	$(2,858)
Insured swaps	7,890	Derivative assets	7	Derivative liabilities	(7)
Interest rate swaps -VIE	2,728	Derivative assets-VIE	-	Derivative liabilities-VIE	(141)
Cross currency swaps -VIE	110	Derivative assets-VIE	-	Derivative liabilities-VIE	(21)
All other	195	Derivative assets	-	Derivative liabilities	(68)
All other-VIE	280	Derivative assets-VIE	-	Derivative liabilities-VIE	-
Total derivatives	$ 58,523		$ 7		$(3,095)

Note 8: Derivative Instruments (continued)

The following table presents the effect of derivative instruments on the consolidated statements of operations for the three months ended March 31, 2013:

In millions		Net Gain (Loss)
Derivatives Not Designated as Hedging Instruments	**Location of Gain (Loss) Recognized in Income on Derivative**	**Recognized in Income**
Insured credit default swaps	Unrealized gains (losses) on insured derivatives	$ (103)
Insured credit default swaps	Realized gains (losses) and other settlements on insured derivatives	11
Interest rate swaps-VIE	Net gains (losses) on financial instruments at fair value and foreign exchange-VIE	13
Currency swaps-VIE	Net gains (losses) on financial instruments at fair value and foreign exchange-VIE	(1)
All other	Unrealized gains (losses) on insured derivatives	30
Total		$ (50)

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

In millions		Net Gain (Loss)
Derivatives Not Designated as Hedging Instruments	**Location of Gain (Loss) Recognized in Income on Derivative**	**Recognized in Income**
Insured credit default swaps	Unrealized gains (losses) on insured derivatives	$ 301
Insured credit default swaps	Realized gains (losses) and other settlements on insured derivatives	(4)
Non-insured credit default swaps-VIE	Net gains (losses) on financial instruments at fair value and foreign exchange-VIE	(1)
Interest rate swaps-VIE	Net gains (losses) on financial instruments at fair value and foreign exchange-VIE	21
Currency swaps-VIE	Net gains (losses) on financial instruments at fair value and foreign exchange-VIE	(2)
All other	Unrealized gains (losses) on insured derivatives	2
All other-VIE	Net gains (losses) on financial instruments at fair value and foreign exchange-VIE	(1)
Total		$ 316

Note 9: Income Taxes

MBIA Corp.'s income taxes and the related effective tax rates for the three months ended March 31, 2013 and 2012 are as follows:

In millions	Three Months Ended March 31, 2013		Three Months Ended March 31, 2012	
Income (loss) before income taxes	$ 136		$ 109	
Provision (benefit) for income taxes	$ 29	21.3%	$ 54	49.5%

For the three months ended March 31, 2013, MBIA Corp.'s effective tax rate applied to its pre-tax income was less than the U.S. statutory tax rate primarily as a result of non-U.S. earnings taxed at a lower rate. For the three months ended March 31, 2012, MBIA Corp.'s effective tax rate applied to its pre-tax income was greater than the U.S. statutory tax rate primarily as a result of an increase in the valuation allowance.

MBIA Corp. adjusts annual forecasted pre-tax income for mark-to-market income, fair value adjustments, capital gains/losses, and other tax adjustments when projecting its full year 2013 effective tax rate. MBIA Corp. accounted for the discrete items at the federal applicable tax rate after applying the projected full year effective tax rate to its actual three-month results excluding discrete items.

Deferred Tax Asset, Net of Valuation Allowance

MBIA Corp. recognizes deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements or tax returns. Deferred tax assets and liabilities are determined based on the differences between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. The effect of a change in tax rates on tax assets and liabilities is recognized in income in the period that includes the enactment date.

Note 9: Income Taxes (continued)

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

As of March 31, 2013, MBIA Corp. reported a net deferred tax asset of $1.2 billion. The $1.2 billion net deferred tax asset is net of a $59 million valuation allowance. As of March 31, 2013, MBIA Corp. had a valuation allowance against a portion of the deferred tax asset related to capital loss carryforwards and losses from asset impairments as these losses are considered capital losses, have a five-year carryforward period, and once recognized, can only offset capital gain income.

MBIA Corp. has concluded that it is more likely than not that its net deferred tax asset will be realized. MBIA Corp. relied on MBIA Inc.'s tax sharing agreement and the Parent's assurance that it intended for no net operating loss generated by MBIA Corp., to the extent used in consolidation, to expire without compensation. The determination of doubt as to MBIA Corp.'s ability to continue as a going concern does not impact this conclusion.

Accounting for Uncertainty in Income Taxes

MBIA Corp.'s policy is to record and disclose any change in unrecognized tax benefit ("UTB") and related interest and/or penalties to income tax in the consolidated statements of operations. As of March 31, 2013 and 2012, MBIA Corp. did not have any uncertain tax positions and corresponding interest or penalties.

MBIA Corp.'s major tax jurisdictions include the U.S. and the United Kingdom ("U.K."). MBIA and its U.S. subsidiaries file a U.S. consolidated federal income tax return.

The U.K. tax authorities are currently auditing tax years 2005 through 2011. On February 5, 2013 HM Revenue & Customs notified MBIA U.K. of their request for a meeting to discuss the progress of the audit. MBIA U.K. is responding in writing to HMRC prior to setting a meeting date.

As of December 31, 2012, MBIA Corp. had a cumulative net operating loss carryforward of $685 million, which will expire in tax year 2031 and a capital loss carryforward of $161 million, which will expire in tax year 2017.

Tax Sharing Arrangement

MBIA Corp. files its U.S. Corporation Income Tax Return as a member of the MBIA Inc. consolidated group and participates in a tax sharing agreement between MBIA Corp. and MBIA Inc. under which MBIA Corp. is allocated its share of consolidated tax liability or tax benefit as determined on a standalone basis under the tax sharing agreement.

As of March 31, 2013, MBIA Corp. has not made tax payments under this tax sharing agreement for 2013 and 2012. If tax payments had been made, all funds would have been placed in escrow by MBIA Inc. and would remain in escrow until the expiration of a two-year carryback period which would allow MBIA Corp. to carryback a separate company tax loss and recover all or a portion of the escrowed funds.

As of March 31, 2013, MBIA Corp. has not received any payment with respect to tax losses contributed to the consolidated group. MBIA Corp. will receive benefits of its losses as it is able to earn out those losses in the future. However, it is MBIA Inc.'s intention not to allow any tax loss generated by MBIA Corp., to the extent used in consolidation, to expire without compensation.

Note 10: Accumulated Other Comprehensive Income (continued)

The following table presents the changes in the components of AOCI for the three months ended March 31, 2013:

In millions	Unrealized Gains (Losses) On AFS Securities, Net [1]	Foreign Currency Translation, Net [1]	Total [1]
Balance, January 1, 2013	$ 16	$ 9	$ 25
Other comprehensive income before reclassification	67	(42)	25
Amounts reclassified from AOCI	(64)	-	(64)
Net current period other comprehensive income	3	(42)	(39)
Balance, March 31, 2013	$ 19	$ (33)	$ (14)

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

The following table presents the details of the reclassifications from AOCI for the three months ended March 31, 2013:

In millions Details about AOCI Components	Amounts Reclassified From AOCI [1]	Affected Line Item on the Consolidated Statements of Operations
Reclassification adjustment on sale of securities	$ (94)	Net gains (losses) on financial instruments at fair value and foreign exchange
	30	Provision (benefit) for income taxes
Total reclassifications for the period	$ (64)	Net income (loss)

(1) - Amounts in parentheses indicate debits.

Note 11: Commitments and Contingencies

The following commitments and contingencies provide an update to those discussed in “Note 18: Commitments and Contingencies” in the Notes to Consolidated Financial Statements included in Exhibit 99.2 of MBIA Inc.’s Annual Report on Form 10-K for the year ended December 31, 2012, and should be read in conjunction with the complete descriptions provided in the aforementioned note included in Exhibit 99.2 of Form 10-K. In the normal course of operating its business, MBIA Corp. may be involved in various legal proceedings. Additionally, MBIA may be involved in various legal proceedings that directly or indirectly impact MBIA Corp.

Recovery Litigation

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

In May of 2013, the parties reached an agreement to resolve MBIA Corp.’s claims in this action. A Stipulation of Discontinuance without Prejudice will be filed shortly. Refer to “Note 1: Business Developments and Risks and Uncertainties” included herein for a description of the comprehensive settlement agreement.

MBIA Insurance Corp. v. Bank of America Corp.; Countrywide Home Loans, Inc., Countrywide Securities Corp., and Countrywide Financial Corp. et al. ; Case No. BC417572 (Ca. Super. Ct., County of Los Angeles)

In May of 2013, the parties reached an agreement to resolve MBIA Corp.’s claims in this action. A Stipulation of Discontinuance without Prejudice will be filed shortly. Refer to “Note 1: Business Developments and Risks and Uncertainties” included herein for a description of the comprehensive settlement agreement.

MBIA Insurance Corp. v. Federal Deposit Insurance Corporation (in its corporate capacity and as conservator and receiver for IndyMac Federal Bank, F.S.B.); Civil Action No. 09-01011 (ABJ) (D.D.C.)

On March 8, 2013, the United States Court of Appeals for the D.C. Circuit affirmed the district court’s ruling dismissing MBIA Corp.’s amended complaint.

Note 11: Commitments and Contingencies (continued)

MBIA Insurance Corp. v. Credit Suisse Securities (USA) LLC, et al. ; Index No. 603751/2009 (N.Y. Sup. Ct., N.Y. County)

On March 8, 2013, the defendants filed their answer to the amended complaint.

MBIA Insurance Corp. v. J.P. Morgan Securities LLC (f/k/a Bear, Stearns & Co. Inc) ; Index No. 64676/2012 (N.Y. Sup. Ct., County of Westchester)

On November 7, 2012, J.P. Morgan Securities LLC withdrew its motion to dismiss and filed its answer on March 26, 2013.

MBIA Insurance Corp. v. Ally Financial Inc. (f/k/a GMAC, LLC) et al. ; 12-cv-02563 SRN/TNL (D. Minn.)

On February 15, 2013, the defendants filed their motion to dismiss. A hearing on the motion is scheduled for May 31, 2013.

MBIA Insurance Corp. v. Flagstar ABS, LLC, et al. ; 13-cv-0262 (JSR) (S.D.N.Y.)

The parties filed a Stipulation of Discontinuance and Order of Dismissal with Prejudice of this action on May 2, 2013. Under the terms of the settlement, MBIA Corp. dismissed the lawsuit against Flagstar Bank in exchange for $110 million in cash and other consideration.

Transformation Litigation

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

On March 4, 2013, the court issued a decision dismissing the Article 78 proceeding. On April 2, 2013, the remaining plaintiffs filed a Notice of Appeal to the Appellate Division, First Department. In May of 2013, following the Bank of America and Societe Generale settlements, all plaintiffs in this matter have agreed to dismiss their claims. A Stipulation of Discontinuance will be filed shortly. Refer to “Note 1: Business Developments and Risks and Uncertainties” included herein for a description of the settlement agreements.

ABN AMRO Bank N.V. et al. v. MBIA Inc. et al.; Index No. 601475/2009 (N.Y. Sup. Ct., N.Y. County)

In May of 2013, following the Bank of America and Societe Generale settlements, all plaintiffs in this matter have agreed to dismiss their claims. A Stipulation of Discontinuance will be filed shortly. Refer to “Note 1: Business Developments and Risks and Uncertainties” included herein for a description of the settlement agreements.

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

In May of 2013, following the Bank of America and Societe Generale settlements, all plaintiffs in this matter have agreed to dismiss their claims. A Stipulation of Discontinuance will be filed shortly. Refer to “Note 1: Business Developments and Risks and Uncertainties” included herein for a description of the settlement agreements.

CQS ABS Master Fund Ltd., CQS Select ABS Master Fund Ltd., and CQS ABS Alpha Master Fund Ltd. v. MBIA Inc. et al .; Civil Action No. 12-cv-6840 (R.S.) (S.D.N.Y.)

On March 18, 2013, argument was heard on MBIA’s motion to disqualify plaintiffs’ counsel, White & Case LLP.

Broadbill Partners LP, et al. v. MBIA Inc., et al.; Index No. 653865/2012 (N.Y. Sup. Ct., N.Y. County)

On March 15, 2013, the briefing was completed on MBIA’s motion to dismiss.

Corporate Litigation

Bank of America v. MBIA Inc. and The Bank of New York Mellon, as Indenture Trustee ; Index No. 70444/2012 (N.Y. Sup. Ct., Westchester County)

In May of 2013, the parties reached an agreement to resolve their respective claims in this action. A Stipulation of Discontinuance without Prejudice will be filed shortly. Refer to “Note 1: Business Developments and Risks and Uncertainties” included herein for a description of the comprehensive settlement agreement.

MBIA Inc. v. Bank of America Corp. and Blue Ridge Investments, L.L.C.; Index No. 51664/2013 (N.Y. Sup. Ct., Westchester County)

In May of 2013, the parties reached an agreement to resolve their respective claims in this action. A Stipulation of Discontinuance without Prejudice will be filed shortly. Refer to “Note 1: Business Developments and Risks and Uncertainties” included herein for a description of the comprehensive settlement agreement.

Mary Crescente v. Joseph Brown, et al. ; Index No. 17595/2008 (N.Y. Sup. Ct., Westchester County)

On March 25, 2013, a stipulation of discontinuance was filed with the court resolving the litigation.

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

On March 22, 2013, the court granted the Bond Insurer defendants’ motion to strike pursuant to California’s Anti-SLAPP statute dismissing the plaintiffs’ claims under California’s Cartwright Act.

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

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

Note 12: Subsequent Events

On May 6, 2013, MBIA Inc., together with its subsidiaries, MBIA Corp. and National, and BofA entered into a comprehensive settlement agreement, which among other things, resolved litigation between MBIA Corp. and Bank of America and certain of its subsidiaries. Refer to “Note 1: Business Developments and Risks and Uncertainties” for a description of the comprehensive settlement agreement.

In May of 2013, MBIA Inc., together with its subsidiaries, MBIA Corp. and National, entered into an agreement with Societe Generale, which among other things, resolved litigation concerning Transformation. Refer to “Note 1: Business Developments and Risks and Uncertainties” for a description of the agreement.

Refer to “Note 11: Commitments and Contingencies” for information about legal proceedings that developed after March 31, 2013.