MBIA INC
Form 10-K
March 08, 2006
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United States

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2005

or

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from __________ to __________

Commission file number 1-9583

MBIA INC.

(Exact name of registrant as specified in its charter)

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

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

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

Title of each class	Name of each exchange on which registered
Common Stock, par value $1 per share	**New York Stock Exchange**
MBIA Capital/Claymore Managed Duration Investment Grade Municipal Fund	**New York Stock Exchange**

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

None

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

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (Section 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10 -K. x

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨

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

The aggregate market value of the voting stock held by non-affiliates of the Registrant as of June 30, 2005 was $7,949,618,222.

As of March 1, 2006, 134,008,680 shares of Common Stock, par value $1 per share, were outstanding.

Documents incorporated by reference. Portions of the Definitive Proxy Statement of the Registrant, which will be filed on or before March 31, 2006, are incorporated by reference into Parts I and III.

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INTRODUCTORY NOTE

In the fourth quarter of 2005, MBIA Inc. (the Company) restated it consolidated financial statements as of and for the years ended December 31, 2004, 2003, 2002, 2001, 2000, 1999 and 1998, and the Notes related thereto, as further discussed in Note 2: Restatement Of Consolidated Financial Statements in the Notes to Consolidated Financial Statements of MBIA Inc. and Subsidiaries included in Part II, Item 8 and Management s Discussion and Analysis of Financial Condition and Results of Operations included in Part II, Item 7.

In connection with potential settlements of investigations by the Securities and Exchange Commission (the SEC) and the New York Attorney General s Office (NYAG) regarding agreements entered into by its subsidiary, MBIA Insurance Corporation, in 1998 with AXA Re Finance S.A. (ARF), Muenchener Rueckversicherungs-Gesellshaft (Munich Re) and Converium Re (previously known as Zurich Reinsurance North America) in connection with losses incurred by MBIA Insurance Corporation on insured bonds issued by Allegheny Health, Education and Research Foundation (AHERF), as announced on March 8, 2005, the Company restated its financial statements with respect to the agreements with Converium Re. At that time, the Company believed that the accounting for the agreements with ARF and Munich Re was appropriate under Statement of Financial Accounting Standards (SFAS) 113, Accounting and Reporting for Reinsurance of Short-Duration and Long-Duration Contracts. As announced on November 8, 2005, the Company restated its financial statements for the agreements with ARF and Munich Re, made in connection with the potential settlements, to correct and restate its accounting for these agreements because, taking into account developments in the regulatory investigations since March and further accounting analyses, these agreements did not satisfy the risk transfer requirements for reinsurance accounting under SFAS 113. As a result, the Company restated its previously issued financial statements to reflect the agreements with Munich Re and ARF under deposit accounting in accordance with Statement of Position (SOP) 98-7, Deposit Accounting: Accounting for Insurance and Reinsurance Contracts That Do Not Transfer Risk instead of under reinsurance accounting. The Company also corrected and restated its 2004 statutory financial statements because they did not satisfy the requirements for reinsurance accounting under Regulation 108 of the New York State Insurance Department (NYSID).

Additionally, in the third quarter of 2005, the Company completed a detailed review of its derivative instruments for which it applied shortcut method hedge accounting under SFAS 133, Accounting for Derivative Instruments and Hedging Activities , as amended. Shortcut method hedge accounting allows the assumption that the change in fair value of a hedged item exactly offsets the change in fair value of the related derivative. After completing its review, the Company determined that certain hedging relationships did not meet every technical aspect of shortcut method hedge accounting, although, such hedging relationships would have qualified for basic hedge accounting. Since the documentation that the Company prepared was designed to support shortcut method hedge accounting, it was not sufficient to support basic hedge accounting. As a result, the Company must account for these derivatives, from 2001 to the present, as if they were not part of hedging relationships, which requires the change in fair value of these derivatives to be reflected in the Company s income statement without an offsetting change in fair value of the hedged items. The Company restated its financial statements to correct the accounting for these derivatives for the year ended December 31, 2001 and subsequent periods through June 30, 2005. As of October 1, 2005, all of the subject hedging relationships met the requirements for basic hedge accounting and have been recorded as such in the Company s financial statements for the year ended December 31, 2005.

The restatements were included in the Company s Amendment No. 1 to Form 10-K filed on Form 10-K/A with the SEC on November 14, 2005 (the Amended Annual Report). For a further discussion of the restatements of the Company s financial statements, see the Amended Annual Report as well as Management s Discussion and Analysis of Financial Condition and Results of Operation Restatement of Consolidated Financial Statements in Part II, Item 7 and Note 2: Restatement Of Consolidated Financial Statements in the Notes to Consolidated Financial Statements of MBIA Inc. and Subsidiaries in Part II, Item 8.

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PART I

Item 1. Business

MBIA Inc. (MBIA or the Company) was incorporated as a business corporation under the laws of the state of Connecticut in 1986. The Company is engaged in providing financial guarantee insurance, investment management services and municipal and other services to public finance and structured finance clients on a global basis. Financial guarantee insurance provides an unconditional and irrevocable guarantee of the payment of the principal of, and interest or other amounts owing on, insured obligations when due. The Company conducts its financial guarantee business through its wholly owned subsidiary MBIA Insurance Corporation (MBIA Corp.) and provides investment management products and financial services through its wholly owned subsidiary MBIA Asset Management, LLC (MBIA Asset Management).

MBIA Corp. is the successor to the business of the Municipal Bond Insurance Association (the Association) which began writing financial guarantees for municipal bonds in 1974. MBIA Corp. is the parent of MBIA Insurance Corp. of Illinois (MBIA Illinois) and Capital Markets Assurance Corporation (CapMAC), both financial guarantee companies that were acquired by MBIA Corp. MBIA Corp. also owns MBIA Assurance S.A. (MBIA Assurance), a French insurance company, and MBIA UK Insurance Limited (MBIA UK), a financial guarantee insurance company licensed in the United Kingdom. MBIA UK and MBIA Assurance write financial guarantee insurance in the member countries of the European Union. Generally, throughout the text, references to MBIA Corp. include the activities of its subsidiaries, MBIA UK, MBIA Assurance, MBIA Illinois and CapMAC.

MBIA Corp. primarily insures financial obligations which are sold in the new issue and secondary markets. It also provides financial guarantees for debt service reserve funds. As a result of the Triple-A ratings assigned to insured obligations, the principal economic value of financial guarantee insurance is the lower interest cost of an insured obligation relative to the same obligation on an uninsured basis. In addition, for complex financings and for obligations of issuers that are not well-known by investors, insured obligations receive greater market acceptance than uninsured obligations.

MBIA Corp. issues financial guarantees for municipal bonds, asset-backed and mortgage-backed securities, investor-owned utility bonds, bonds backed by publicly or privately funded public purpose projects, bonds issued by sovereign and sub-sovereign entities and obligations collateralized by diverse pools of corporate loans and credit default swaps, and also pools of corporate and asset-backed bonds, both in the new issue and secondary markets. The municipal obligations that MBIA Corp. insures include tax-exempt and taxable indebtedness of states, counties, cities, utility districts and other political subdivisions, as well as airports, higher education and health care facilities and similar authorities and obligations issued by private entities that finance projects that serve a substantial public purpose. The asset-backed and structured finance obligations insured by MBIA Corp. typically consist of securities that are payable from or which are tied to the performance of a specified pool of assets that in most cases have a defined cash flow, such as residential and commercial mortgages, proceeds of insurance policies, a variety of consumer loans, corporate loans and bonds, trade and export receivables, equipment, aircraft and real property leases, and infrastructure projects.

MBIA Corp. also insures privately issued bonds used for the financing of public purpose projects which are primarily located overseas and include toll roads, bridges, airports, public transportation facilities and other types of infrastructure projects that serve a substantial public purpose. While in the United States projects of this nature are financed through the issuance of tax-exempt bonds by special purpose, government sponsored tax-exempt entities, the general absence of tax-advantaged financing, among other reasons, has led to the transfer of the operation of many such public purpose projects to the private sector. Generally, the private entities operate under a concession agreement with the sponsoring government agency, which maintains a level of regulatory oversight and control over the project.

MBIA Corp. has Triple-A financial strength ratings from Standard and Poor s Corporation (S&P), which the Association received in 1974; from Moody s Investors Service, Inc. (Moody s), which the Association received in 1984; from Fitch, Inc. (Fitch), which MBIA Corp. received in 1995; and from Rating and Investment Information, Inc. (RII), which MBIA Corp. received in 1998. Both MBIA Assurance and MBIA UK have Triple-A financial strength ratings from S&P, Moody s and Fitch. Obligations which are guaranteed by MBIA Corp., MBIA Assurance and MBIA UK are rated Triple-A primarily based on these financial strength ratings. Both S&P and Moody s have also continued the Triple-A rating on MBIA Illinois and CapMAC guaranteed bond issues. The Triple-A ratings are important to the operation of the Company s business and any reduction in these ratings could have a material adverse effect on MBIA Corp. s ability to compete and could also have a material adverse effect on the business, operations and financial results of the Company.

MBIA Asset Management offers cash management, customized asset management and investment consulting services to local governments, school districts and other institutional clients. It offers fixed-income asset management services for the investment portfolios of the Company, MBIA Corp. and other affiliates and also for third-party clients. MBIA Asset Management raises funds for investment management through the

issuance of investment agreements, which are issued by the Company and guaranteed by MBIA Corp., to states and municipalities and as part of asset-backed or structured securities for the investment of bond proceeds and other

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funds. It also raises funds through the issuance of medium-term notes (MTNs) which are issued by its affiliate MBIA Global Funding, LLC (GFL) and guaranteed by MBIA Corp. MBIA Asset Management invests the proceeds of the investment agreements and MTNs in high quality eligible investments both in the United States and abroad. MBIA Asset Management offers these services and products through MBIA Municipal Investors Service Corporation (MBIA-MISC), MBIA Investment Management Corp. (IMC), MBIA Capital Management Corp. (CMC), GFL, Euro Asset Acquisition Limited (EAAL) and MBIA Asset Management UK Limited (AM-UK).

MBIA Asset Management also administers three multi-seller conduit financing vehicles, Triple-A One Funding Corp., Meridian Funding Company, LLC and Polaris Funding Company, LLC (together, the Conduits) through MBIA Asset Finance, LLC. The Conduits provide funding for multiple customers through special purpose vehicles that issue primarily commercial paper and MTNs.

MBIA MuniServices Company (MuniServices) provides revenue enhancement services and products, such as discovery, audit, collections/recovery and information (data) services, to state and local governments. Through MuniServices the Company also owns Capital Asset Holdings GP, Inc. and certain affiliated entities (collectively, Capital Asset). Capital Asset was in the business of acquiring and servicing tax liens. The Company has subsequently exited the tax lien business and Capital Asset s primary activity is servicing a tax lien securitization insured by MBIA Corp.

Statements included in this Form 10-K which are not historical or current facts are forward-looking statements made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. The words believe, anticipate, project, plan, expect, intend, will likel or will continue, and similar expressions identify forward-looking statements. These statements are subject to certain risks and uncertainties that could cause actual results to differ materially from historical earnings and those presently anticipated or projected. We wish to caution readers not to place undue reliance on any such forward-looking statements, which speak only as of their respective dates. The following are some of the factors that could cause actual results to differ materially from estimates contained in or underlying the Company s forward-looking statements: (1) fluctuations in the economic, credit, interest rate or foreign currency environment in the United States or abroad; (2) level of activity within the national and international credit markets; (3) competitive conditions and pricing levels; (4) legislative or regulatory developments; (5) technological developments; (6) changes in tax laws; (7) the effects of mergers, acquisitions and divestitures; and (8) uncertainties that have not been identified at this time. The Company undertakes no obligation to publicly correct or update any forward-looking statement if it later becomes aware that such result is not likely to be achieved.

MBIA Corp. Insured Portfolio

At December 31, 2005, the net par amount outstanding on MBIA Corp. s insured obligations (including insured obligations of MBIA Illinois, MBIA Assurance, MBIA UK and CapMAC, but excluding $15.6 billion of MBIA insured investment agreements and MTNs for MBIA Asset Management) was $585 billion. Net insurance in force, which includes all insured debt service, at December 31, 2005 was $889 billion. Net insurance in force, which is net of cessions to reinsurers, is also net of other reimbursement agreements that relate to certain contracts under which MBIA Corp. is entitled to reimbursement of losses on its insured portfolio but which do not qualify as reinsurance under accounting principles generally accepted in the United States of America (GAAP).

Because MBIA Corp. generally guarantees to the holder of the underlying obligation the timely payment of amounts due on such obligation in accordance with its original payment schedule, in the case of a default on an insured obligation, payments under the insurance policy cannot be accelerated against MBIA Corp., except in certain limited circumstances, unless MBIA Corp. consents to the acceleration. Otherwise, MBIA Corp. is required to pay principal, interest or other amounts only as originally scheduled payments come due. However, MBIA Corp. may from time to time insure obligations under credit default swaps which by their terms require that termination payments be paid at the time of the default of the underlying reference obligation(s). Termination payments are generally calculated by deducting the market value of the reference obligation on the termination date from the specified amount of the reference obligation. The Company estimates that the liquidity needs arising from future termination payments are modest due to MBIA Corp. s strategy of insuring such obligations with high levels of subordination and credit enhancement.

MBIA Corp. seeks to maintain a diversified insured portfolio and has designed the insured portfolio to manage and diversify risk based on a variety of criteria including revenue source, issue size, type of asset, industry concentrations, type of bond and geographic area. As of December 31, 2005, MBIA Corp. had 27,081 policies outstanding (excluding 1,026 policies relating to MBIA Asset Management transactions guaranteed by MBIA Corp.). These policies are diversified among 10,717 credits, which MBIA Corp. defines as any group of issues supported by the same revenue source.

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The table below sets forth information with respect to the original par amount insured per issue in MBIA Corp. s portfolio as of December 31, 2005:

MBIA Corp. Original Par Amount Per Issue as of December 31, 2005 (1) (2)

Original Par Amount Written Per Issue	Number of Issues Outstanding	% of Total Number of Issues Outstanding	Net Par Amount Outstanding (In billions)	% of Net Par Amount Outstanding
Less than $10 million	17,238	63.6%	$ 46.2	7.9%
$10-25 million	4,062	15.0	53.2	9.1
$25-50 million	2,457	9.1	66.4	11.4
$50-100 million	1,627	6.0	82.4	14.1
Greater than $100 million	1,697	6.3	336.8	57.5
Total	27,081	100.0%	$ 585.0	100.0%

(1) Excludes $15.6 billion relating to investment agreements and MTNs issued by affiliates of MBIA Asset Management and guaranteed by MBIA Corp.

(2) Net of reinsurance and other reimbursement agreements. The reimbursement agreements result in a $7.2 billion reduction of outstanding par.

MBIA Corp. underwrites its policies on the assumption that the insurance will remain in force until maturity of the insured obligations. MBIA Corp. estimates that the average life (as opposed to the stated maturity) of its insurance policies in force at December 31, 2005 was 10.4 years. The average life was determined by applying a weighted-average calculation, using the remaining years to maturity of each insured obligation and weighting them on the basis of the remaining debt service insured. No assumptions were made for any future refundings of insured issues. Average annual insured debt service on the portfolio at December 31, 2005 was $69.5 billion.

MBIA Corp. writes financial guarantees for municipal issuers in the United States. Municipal bonds consist of both taxable and tax-exempt bonds and notes that are issued by states, cities, political subdivisions, utility districts, airports, health care institutions, higher educational facilities, housing authorities and other similar agencies, as well as private entities that issue obligations to fund projects that serve a substantial public purpose. These types of obligations are supported by taxes, assessments, fees or tariffs related to use of projects, lease payments or other similar types of revenue streams. MBIA Corp. also guarantees structured finance and asset-backed obligations. In general, structured finance obligations are secured by or payable from a specific pool of assets having an ascertainable future cash flow. MBIA Corp. also insures payments due under credit and other derivatives, including termination payments that may become due upon the occurrence of certain events.

MBIA Corp. also insures privately issued bonds used for the financing of public purpose projects, which are primarily located overseas and that include toll roads, bridges, airports, public transportation facilities and other types of infrastructure projects serving a substantial public purpose. While in the United States, projects of this nature are primarily financed through the issuance of tax-exempt bonds by special purpose, government sponsored tax-exempt entities, the general absence of tax-advantaged financing, among other reasons, has led to the transfer of the operation of many such public purpose projects to the private sector. Generally, the private entities operate under a concession agreement with the sponsoring government agency, which maintains a level of regulatory oversight and control over the project.

Structured finance obligations are either undivided interests in the related assets, or debt obligations collateralized by the related assets. Structured finance transactions are often structured such that the insured obligations benefit from some form of credit enhancement to cover credit risks such as over-collateralization, subordination, excess cash flow or first loss protection. Structured finance obligations contain certain risks including asset risk, which relates to the amount and quality of asset coverage, structural risk, which relates to the extent to which the transaction structure protects the interests of the investors from the bankruptcy of the originator of the underlying assets or the issuer of the

securities, and servicer risk, which relates to problems with the transaction servicer (the entity which is responsible for collecting the cash flow from the asset pool) that could affect the servicing of the underlying assets. In general, the asset risk is addressed by sizing the asset pool and its associated protection level based on the historical and expected future performance of the assets. Structural risks primarily involve bankruptcy risks, such as whether the sale of the assets by the originator to the issuer would be upheld in the event of the bankruptcy or insolvency of the originator and whether the servicer of the assets may be required to delay the remittance of any cash collections held by it or received by it after the time it becomes subject to bankruptcy or insolvency proceedings. Structured finance transactions are usually structured to insulate the investors from the bankruptcy or insolvency of the entity that originated the underlying assets, as well as from the bankruptcy or insolvency of the servicer, and to minimize the likelihood of the bankruptcy or insolvency of the issuer of the obligation. The ability

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of the servicer to properly service and collect on the underlying assets is also a factor in determining future asset performance. MBIA Corp. addresses these issues through its servicer due diligence and underwriting guidelines, its formal credit review and approval process and its post-closing servicing review and monitoring.

Outside of the United States, sovereign and sub-sovereign issuers, structured finance issuers, utilities and other issuers, including private issuers who are financing projects with a substantial public purpose, are increasingly using financial guarantee insurance to guarantee their public finance and structured finance obligations. Ongoing privatization efforts have shifted the burden of financing new projects from the government to the capital markets, where investors can benefit from the security of financial guarantee insurance. There is also growing interest in asset-backed securitization. While the principles of securitization have been increasingly applied in overseas markets, the rate of development in particular countries has varied due to the sophistication of the local capital markets and the impact of financial regulatory requirements, accounting standards and legal systems. It is expected that securitization will continue to expand internationally, at varying rates in each country. MBIA Corp. insures both structured finance and public finance obligations in selected international markets. MBIA Corp. believes that the risk profile of the international business it insures is generally the same as in the United States, but recognizes that there are particular risks related to each country and region. These risks include the legal, economic and political situation, the varying levels of sophistication of the local capital markets and currency exchange risks. MBIA Corp. evaluates and monitors these risks carefully.

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The following table shows the diversification of MBIA Corp. s insured portfolio by bond type:

MBIA Corp. Insured Portfolio by Bond Type

as of December 31, 2005 (1) (2)

(In billions)

	Net Par Amount Outstanding	% of Net Par Amount Outstanding
Bond Type		
Global Public Finance		
United States		
General obligation	$ 157.2	26.9%
Utilities	68.4	11.7
Special revenue	42.4	7.2
Transportation	32.1	5.5
Health care	30.8	5.3
Higher education	21.8	3.7
Housing	15.0	2.6
Investor-owned utilities	9.4	1.6
Total United States	377.1	64.5
Non-United States		
Sovereign	9.0	1.6
Transportation	8.3	1.4
Utilities	4.3	0.7
Investor-owned utilities	3.4	0.6
Sub-sovereign	0.7	0.1
Health care	0.3	0.0
Housing and higher education	0.2	0.0
Total Non-United States	26.2	4.4
Total Global Public Finance	403.3	68.9
Global Structured Finance		
United States		
Collateralized debt obligations	41.9	7.1
Asset-backed:		
Other	12.7	2.2
Auto	9.3	1.6
Credit cards	4.0	0.7
Leasing	0.4	0.1
Mortgage-backed:		
Home equity	17.2	2.9
Other	6.2	1.1
First mortgage	2.7	0.5
Pooled corp. obligations & other	18.3	3.1
Financial risk	1.3	0.2

Total United States	114.0	19.5
Non-United States		
Collateralized debt obligations	37.0	6.3
Mortgage-backed:		
First mortgage	13.0	2.2
Other	4.6	0.8
Home equity	0.6	0.1
Pooled corp. obligations & other	7.0	1.2
Asset-backed:		
Other	3.5	0.6
Leasing	0.6	0.1
Auto	0.3	0.1
Credit cards	0.3	0.1
Financial risk	0.8	0.1
Total Non-United States	67.7	11.6
Total Global Structured Finance	181.7	31.1
Total	$ 585.0	100.0%

(1) Excludes $15.6 billion relating to investment agreements and MTNs issued by affiliates of MBIA Asset Management and guaranteed by MBIA Corp.

(2) Net of reinsurance and other reimbursement agreements. The reimbursement agreements result in a $7.2 billion reduction of outstanding par.

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As of December 31, 2005, of the $585 billion outstanding net par amount of obligations insured, $403.3 billion, or 68.9%, were insured in the global public finance market and $181.7 billion, or 31.1%, were insured in the global structured finance market.

The table below shows the diversification by type of insurance written by MBIA Corp. in each of the last five years:

MBIA Corp. Net Par Amount Written by Bond Type (1)

(In millions)

	2001	2002	2003	2004	2005
Bond Type					
Global Public Finance					
United States					
General obligation	$ 15,848	$ 23,533	$ 25,802	$ 27,753	$ 27,586
Utilities	6,350	8,101	14,058	9,453	10,783
Special revenue	5,567	7,307	8,057	7,425	7,591
Transportation	1,098	3,930	3,877	4,055	5,266
Higher education	2,110	2,026	1,272	2,729	4,370
Housing	2,723	2,318	2,807	1,657	3,248
Health care	1,244	1,655	1,928	1,746	1,609
Investor-owned utilities	1,652	172		1,002	608
Total United States	36,592	49,042	57,801	55,820	61,061
Total Non-United States	2,923	3,280	8,938	4,105	3,102
Total Global Public Finance	39,515	52,322	66,739	59,925	64,163
Global Structured Finance					
United States					
Mortgage backed:					
Home equity	7,206	5,367	2,901	8,793	8,465
Other	2,234	1,429	1,218	1,335	80
First mortgage	2,561	1,049	771	955	708
Corporate debt obligations	10,492	18,476	5,000	8,759	7,830
Pooled corp. obligations & other	3,282	4,109	4,573	6,230	6,324
Asset backed:					
Auto	14,443	7,279	6,264	3,867	4,335
Other	1,958	1,132	874	903	1,610
Credit Cards	8,418	1,787	1,010	1,109	
Leasing	2,307	448	853	304	
Financial risk	149	1,256	212	5	
Total United States	53,050	42,332	23,676	32,260	29,352
Total Non-United States	11,114	17,982	18,385	15,385	17,343
Total Global Structured Finance	64,164	60,314	42,061	47,645	46,695
Total	$ 103,679	$ 112,636	$ 108,800	$ 107,570	$ 110,858

(1)

Par amount insured by year, net of reinsurance and other reimbursement agreements that relate to contracts under which MBIA Corp. is entitled to payment in the event of losses on its insured portfolio but which do not qualify as reinsurance under GAAP.

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MBIA Corp. is licensed to write business in all 50 states, the District of Columbia, Guam, the Northern Mariana Islands, the U.S. Virgin Islands, Puerto Rico, the Kingdom of Spain and the Republic of France. MBIA Assurance is licensed to write business in France and in certain member countries of the European Economic Area. MBIA UK is licensed to write business in the United Kingdom and in member countries of the European Economic Area. The following table sets forth the geographic distribution of MBIA Corp. s net par outstanding, including the ten largest states in the United States:

MBIA Corp. Insured Portfolio Outstanding by Geographic Location

As of December 31, 2005 (1) (2)

	Net Par Amount Outstanding (In billions)	% of Net Par Amount Outstanding
United States		
California	$ 66.9	11.4%
New York	39.9	6.8
Florida	25.5	4.4
Texas	20.7	3.5
New Jersey	18.5	3.2
Illinois	16.6	2.8
Pennsylvania	14.3	2.4
Massachusetts	14.3	2.4
Washington	12.2	2.1
Michigan	12.1	2.1
Sub-Total	241.0	41.1
Other States & Territories	141.6	24.3
Nationally Diversified	108.5	18.5
Total United States	491.1	83.9
Non-United States		
Regional Specific	48.3	8.3
Internationally Diversified	45.6	7.8
Total Non-United States	93.9	16.1
Total	$ 585.0	100.0%

(1) Excludes $15.6 billion relating to investment agreements and MTNs issued by affiliates of MBIA Asset Management and guaranteed by MBIA Corp.

(2) Net of reinsurance and other reimbursement agreements. The reimbursement agreements result in a $7.2 billion reduction of outstanding par.

MBIA Corp. underwriting guidelines limit the net insurance in force for any one insured credit. In addition, MBIA Corp. is subject to both rating agency and regulatory single-risk limits with respect to any insured bond issue. As of December 31, 2005, MBIA Corp. s net par amount outstanding for its ten largest insured public finance credits totaled $23.5 billion, representing 4.0% of MBIA Corp. s total net par amount

outstanding, and the net par outstanding for its ten largest structured finance credits (without aggregating common issuers), was $20.5 billion, representing 3.5% of the total.

MBIA Corp. Insurance Programs

MBIA Corp. offers financial guarantee insurance in both the new issue and secondary markets on a global basis. At present, no new financial guarantee insurance is being offered by MBIA Illinois or CapMAC, but it is possible that either of those entities may insure transactions in the future. MBIA Corp., MBIA UK and MBIA Assurance offer financial guarantee insurance in Europe, Asia, Latin America and other areas outside the United States.

Transactions in the new issue market are sold either through negotiated offerings or competitive bidding. In negotiated transactions, either the issuer or the underwriter purchases the insurance policy directly from MBIA Corp. For municipal bond issues involving competitive bidding, the insurance is offered as an option to the underwriters bidding on the transaction. The successful bidder would then have the option to purchase the insurance.

In the secondary market, MBIA provides credit enhancement through two programs. The RAPSS program (Rapid Asset Protection for Secondary Securities) guarantees the payment of principal and interest on an individual security or class

of securities traded in the secondary market in response to requests from bond traders and investors. Securities insured in the RAPSS program have the benefit of MBIA Corp. s guarantee until maturity. The Portfolio Insurance program enables an investor to insure a specific portfolio of bonds and is offered as an ongoing program with investment banks, financial service companies and conduit sponsors. For each insured portfolio, MBIA Corp. establishes specific underwriting criteria for the inclusion of new assets in the program portfolio. The Portfolio Insurance program is a while-in-trust program which provides the benefits of an MBIA Corp. guarantee to securities only during the time they are held in a particular insured portfolio, although in some cases, MBIA Corp. may offer insurance to maturity for an additional premium.

Operations

The worldwide insurance operations of MBIA Corp. are conducted through the Global Public Finance Division, the Global Structured Finance Division, the Risk Management Division and the Insured Portfolio Management Division. Public Finance and Structured Finance operations outside of the United States are conducted in coordination with the International Division.

The Global Public Finance Division has underwriting authority with respect to certain categories of business up to pre-determined par amounts based on a risk-ranking system. In order to ensure that the guidelines are followed, Risk Management monitors and periodically reviews underwriting decisions made by the Global Public Finance Division and also participates in many transactions depending on the risk ranking. Larger, complex, or unique transactions are also then reviewed and approved at MBIA Corp. s most senior level, the Executive Risk Committee, which consists of the Company s Chairman, the Chief Executive Officer, the President of MBIA Corp., the Chief Risk Officer, the head of the Structured Finance new business division, the head of the Portfolio Management Group within the Risk Management Division, the head of the Insured Portfolio Management Division and the head credit officer in each of the International and Public Finance Divisions.

For all transactions done by the Global Structured Finance Division (and all Global Public Finance Transactions without decentralized underwriting approval), MBIA Corp. s review and approval procedure has two stages. The first stage consists of screening, credit review and structuring by the appropriate business unit, in consultation with Risk Management officers. The second stage, consisting of the final review and approval of credit and structure, is performed by an underwriting committee consisting of the head of the applicable business unit, one officer from Risk Management and a third officer from either the Risk Management Division or the Insured Portfolio Management Division. Certain transactions, based on size, complexity, or other factors, are also approved by the Executive Risk Committee.

Premium rates for the Global Public, Global Structured Finance and International Divisions are established by a Pricing Committee with representation from the relevant business unit and from the Pricing Group, which provides pricing and other analysis.

Risk Management

MBIA Corp. s risk culture and policies are set by the Executive Risk Committee, which includes the members of senior management listed above. The Executive Risk Committee periodically approves and reviews, at least annually, the Risk Management systems and processes for measuring and managing credit, market and liquidity risks. The Executive Risk Committee also appoints qualified voters at MBIA Corp. s various committees focused on credit risk, market risk, liquidity exposure and portfolio management. The chairperson of the Executive Risk Committee is also the head of MBIA Corp. s Risk Management Division, which is responsible for developing and implementing MBIA Corp. s underwriting guidelines, policies and procedures to ensure an overall diversified insured portfolio with low risk characteristics.

MBIA Corp. establishes underwriting guidelines based on those aspects of credit quality that it deems important for each category of obligation considered for insurance. For public finance transactions, these aspects may include economic and social trends, debt management, financial management, adequacy of anticipated cash flow, satisfactory legal structure and other security provisions, viable tax and economic bases, adequacy of loss coverage and project feasibility, including a satisfactory consulting engineer s report, if applicable. For structured finance transactions, MBIA Corp. s underwriting guidelines, analysis and due diligence focus on seller/servicer credit and operational quality, the historical and projected performance of the asset pool, and the strength of the structure, including legal segregation of the assets, cash flow analysis, the size and source of first loss protection, asset performance triggers and financial covenants. For all transactions involving a non-U.S. issuer, non-U.S. assets, non-U.S. sources of cash flow or which are not denominated in U.S. dollars also include an assessment of country risk. Most transactions also undergo extensive cash flow analysis and sensitivity testing using scenario-based analysis, Monte Carlo probability analysis or both to examine the impact of remote events on credit performance. MBIA Corp. s underwriting guidelines are subject to periodic review by the Executive Risk Committee, which is responsible for establishing and maintaining underwriting standards and criteria for all insurance products.

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In addition to the risk underwriting officers, the Risk Management Group has several other units. The Credit Analysis Group analyzes and monitors MBIA Corp. s embedded exposure to financial institutions and corporate entities in the form of seller/servicer exposure or as obligors or counterparties on investment contracts, letters of credit, swaps, liquidity and other facilities supporting MBIA Corp. insured issues, and recommends terms and conditions, as well as capacity guidelines for such exposures. The Portfolio Management Group analyzes MBIA Corp. s insured portfolio using various quantitative tools to test for diversity, credit quality, liquidity and other portfolio characteristics and recommends guidelines for risk concentrations and for internal capital requirements. Recommendations for internal capital requirements are based on a portfolio model that measures risk-adjusted capital by transaction, by sector and for the aggregate portfolio. The Portfolio Management Group also monitors all insured exposure for obligor, country, seller/servicer and other concentrations to minimize the impact of any single risk and to ensure compliance with the applicable regulatory and internal guidelines. The Transaction Analytics Group uses various quantitative tools to test and measure stress resistance on transactions and the Market Risk Group measures and assesses market risk factors in the investment management business and any exposure to market risk factors within the insurance business.

Insured Portfolio Management

The Insured Portfolio Management Division (IPM or the IPM Division) is responsible for monitoring MBIA Corp. s outstanding insured obligations. This group s first function is to detect any deterioration in credit quality or changes in the economic, regulatory or political environment which could adversely affect an MBIA Corp. insured issue, including interrupting the timely payment of debt service. If a problem is detected, the group works with the issuer, trustee, bond counsel, servicer, underwriter and other interested parties in an attempt to alleviate or remedy the problem in order to minimize potential defaults. The IPM Division works closely with Risk Management and the applicable business unit to analyze insured issue performance and credit risk parameters.

Once an obligation is insured, MBIA Corp. typically requires the issuer, servicer (if applicable) and the trustee to furnish periodic financial and asset related information, including audited financial statements, to the IPM Division for review. Potential problems uncovered through this review, such as poor financial results, low fund balances, covenant or trigger violations, trustee or servicer problems, or excessive litigation, could result in an immediate surveillance review and an evaluation of possible remedial actions. The IPM Division also monitors general economic and regulatory conditions, state and municipal finances and budget developments and evaluates their impact on issuers.

During the underwriting process, each insured transaction is assigned an internal credit rating. Credits are monitored according to a frequency of review schedule that is based on risk type, internal rating, performance and credit quality. Issues that experience financial difficulties, deteriorating economic conditions, excessive litigation or covenant or trigger violations are placed on the appropriate review list and are subject to surveillance reviews at intervals commensurate to the problem which has been detected. If IPM identifies concerns with respect to the performance of an insured issue it may designate such insured issue as Caution List-Low, Caution List-Medium or Caution List-High based on the nature and extent of these concerns and requires that an increased monitoring and, if needed, a remediation plan be implemented for the related insured issue. The Company does not establish any case basis reserves for credits that are listed as Caution List-Low, Caution List-Medium or Caution List-High . In the event MBIA Corp. determines that it must pay a claim or that a claim is probable and estimable with respect to an insured issue, it places the issue on its Classified List and establishes a case basis reserve for that insured issue. See Losses and Reserves; Remediation below.

There are three areas in the IPM Division. The IPM group which supports the Global Public Finance Division handles all types of domestic and international municipal issues such as general obligation, tax-backed, utility, health care, transportation and special revenue bonds, as well as investor-owned utility and project finance transactions. The IPM group which supports the Global Structured Finance Division is responsible for domestic and international structured finance transactions, including future flow transactions and collateralized debt obligations. Each group is responsible for processing waiver and consent requests and other deal modifications within their areas of responsibility. The third area, the Special Situations Group, is described below.

IPM personnel supporting the Global Public Finance Division review and report on the major credit quality factors, evaluate the impact of new developments on weaker insured credits and carry out remedial activity. In addition, this group performs analysis of financial statements and key operating data on a large-scale basis and maintains various databases for research purposes. This group is also responsible for preparing special reports which include analyses of regional economic trends, proposed tax limitations, the impact of employment trends on local economies, legal developments affecting bond security and the potential impact of events, such as natural disasters or headline events, on the insured portfolio. This unit is also responsible for all health care transactions.

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The IPM unit supporting the Global Structured Finance Division monitors insured structured finance issues, focusing on asset and servicer performance and transaction cash flows. Monitoring of insured issues typically involves review of monthly trustee, servicer and portfolio manager statements, compliance reviews with transaction documents and analysis of cash flow adequacy. Review of issuer and/or servicer performance can include site visits, forensic audits, management meetings and financial statement reviews. For problem credits, the team performs additional specialized cash flow analyses, conducts best practice reviews with servicers and facilitates loss mitigation strategies.

A separate unit within IPM (the Special Situations Group) assists in addressing insured exposures experiencing significant stress. The Special Situations Group is staffed with personnel with knowledge of, expertise in and experience with impaired credit situations. For issues that experience financial difficulties, deteriorating economic conditions, excessive litigation or covenant or trigger violations, the Special Situations Group works in conjunction with the related IPM personnel to assess and monitor the situation and determine the appropriate course of action, including, if necessary, developing and implementing a remediation strategy.

Investment Management Services

The Company also provides the following investment management products and financial services through its wholly owned subsidiary MBIA Asset Management.

MBIA Asset Management offers cash management, customized asset management and investment consulting services to local governments, school districts and other institutional clients through MBIA-MISC, an SEC-registered investment adviser. At December 31, 2005, $2.7 billion or 35% of the pooled investment programs managed or administered by MBIA-MISC have the benefit of commitments by the Company to cover losses incurred by these investment programs as a result of a decline in program asset values below a predetermined level. MBIA-MISC had $12.4 billion in assets under management at December 31, 2005, up 5% from $11.9 billion at December 31, 2004.

MBIA Asset Management offers fixed-income asset management services for the investment portfolios of the Company, MBIA Corp. and other affiliates and also for third-party clients through CMC, an SEC-registered investment adviser and National Association of Securities Dealers (NASD) member firm and through AM-UK, a Financial Services Authority registered investment advisor based in London and formed in November 2004. The market value of assets related to the Company s insurance and corporate investment portfolios managed by CMC were $10.2 billion at December 31, 2005, down 1% from $10.3 billion at December 31, 2004. In addition, CMC and AM-UK provides investment management services for third parties. The market value of CMC and AM-UK s third-party assets under management at December 31, 2005 was $5.5 billion, compared with $4.1 billion at December 31, 2004.

MBIA Asset Management raises funds for investment management through guaranteed investment agreements, which are issued by the Company and guaranteed by MBIA Corp., and which are offered to states and municipalities and as part of asset-backed or structured securities for the investment of bond proceeds and other funds. MBIA Asset Management also raises funds through its affiliate GFL. GFL raises funds for management through the issuance of MTNs with varying maturities (GFL MTNs), which are in turn guaranteed by MBIA Corp. GFL lends the proceeds of these GFL MTN issuances to the Company (GFL Loans). Under agreements between the Company and MBIA Corp., the Company invests the proceeds of the investment agreements and GFL Loans in eligible investments.

At December 31, 2005, principal and accrued interest outstanding on investment agreement and MTN obligations originated by MBIA Asset Management totaled $15.7 billion, compared with $12.5 billion at December 31, 2004. Assets supporting these programs had market values of $15.9 billion and $12.6 billion at December 31, 2005 and December 31, 2004, respectively. These assets are comprised of high-quality securities with an average credit quality rating of Double-A and are pledged to MBIA Corp. in support of its guarantees. MBIA Asset Management manages the programs within a number of risk and liquidity parameters monitored by the rating agencies, and maintains backup liquidity in order to ensure sufficient funds are available to make all payments due on the investment agreement and MTN obligations and to fund operating expenses. In addition, the Company has made a capital investment in these programs, which is available at any time to fund cash needs. In the event that the value of the assets is insufficient to repay the investment agreement and MTN obligations when due, the Company may incur a loss.

The Company manages its balance sheet to protect against a number of risks inherent in its business including liquidity risk, market risk (principally interest rate risk), credit risk, operational risk and legal risk. (See Management s Discussion and Analysis of Financial Condition and Results of Operation Market Risk in Part II, Item 7) The assets supporting the MBIA Asset Management programs are managed with the goal of matching the duration of the invested assets, including hedges, to the duration of the investment agreement and MTN obligations in order to minimize market and liquidity risk.

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MBIA Asset Management uses derivative financial instruments to manage interest rate risk and foreign currency risk. Credit default swaps are entered into as an extension of the group s investment business. Forward delivery agreements are offered and periodically sold to clients. The Company has established policies limiting the amount, type and concentration of such instruments. A source of liquidity risk arises from the ability of some investment agreement counterparties to withdraw moneys on dates other than those specified in the related draw-down schedule. This liquidity risk is somewhat mitigated by provisions in certain of the investment agreements that limit an issuer s ability to draw on the funds and by risk management procedures that require the regular re-evaluation and re-projection of draw-down schedules. Investments are restricted to fixed-income securities with a credit quality such that the overall minimum average portfolio credit quality is maintained at an average credit quality rating of Double-A. Based upon management s projections, MBIA Asset Management maintains liquidity sources which are more than sufficient to meet its projected short-term liquidity needs.

On September 30, 2003, the Company purchased the equity and acquired all controlling interests of the conduit financing vehicles it administers, Triple-A One Funding Corp., Meridian Funding Company, LLC and Polaris Funding Company, LLC (together, the Conduits). The Conduits, which issue primarily commercial paper and MTNs, are now reflected in the consolidated financial statements of the Company. (See Management s Discussion and Analysis of Financial Condition and Results of Operation Investment Management Services in Part II, Item 7).

The Conduits are used by banks and other financial institutions to raise funds for their customers in the capital markets. The Conduits provide funding for multiple customers through special purpose vehicles that issue primarily commercial paper and MTNs. The proceeds from the issuance of the commercial paper or MTNs are used to either make loans to customers which are secured by certain assets or to purchase the assets from the customers. All transactions in the Conduits are insured by MBIA Corp. and are subject to MBIA Corp. s standard underwriting process.

It is the Company s policy to obtain an underlying rating from both Moody s and S&P for each new transaction prior to the execution of such transactions within the Conduits. An underlying rating is the implied rating for the transaction without giving consideration to the MBIA Corp. guarantee. All transactions must be rated investment grade by both S&P and Moody s before they can be purchased into a Conduit. The weighted-average underlying ratings for transactions currently funded in the Conduits were A by S&P and A2 by Moody s at the time such transactions were funded in the Conduits. As set forth in the table below, without giving effect to the MBIA Corp. guarantee for transactions currently funded in the Conduits, the Company estimates that the current weighted-average underlying ratings of all outstanding Conduit transactions were A- by S&P and A3 by Moody s as of December 31, 2005. The ratings in the table below are the lower underlying rating assigned by S&P or Moody s when an underlying rating exists from either rating service, or 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.

Underlying Rating of Conduit Transactions

Without Giving Effect to the MBIA Corp. Guarantee

as of December 31, 2005

	Fair Value (In thousands)	% of Total Conduit Transactions
Credit Quality Rating		
Aaa	$ 213,502	4.79%
Aa	432,254	9.70
A	1,811,929	40.67
Baa	1,998,039	44.84
Below Investment Grade		
	$ 4,455,724	100.00%

As a result of having to adhere to MBIA Corp. s underwriting standards and criteria, Conduit transactions have, in general, the same underlying ratings that similar non-Conduit transactions guaranteed by MBIA Corp. have at the time they are closed. Like all credits underwritten by MBIA Corp., the underlying ratings on Conduit transactions may be downgraded by either one or both rating agencies after they are closed. In general,

the underlying ratings on Conduit transactions have been downgraded no more frequently than similar non-Conduit transactions guaranteed by MBIA Corp.

The Conduits enter into derivative instruments primarily as economic hedges against interest rate and currency risks. It is expected that any change in the market value of the derivative instruments will be offset by a change in the market value of the hedged assets or liabilities. However, because the investments are accounted for as held-to-maturity, no change in market value, with the exception of the change in value of foreign currency assets due to changes in foreign currency rates, is recorded in the Company s

financial statements. Any change in the market value of derivative instruments that are not accounted for as hedges under SFAS 133 will be recorded as net gains or losses on derivative instruments and foreign exchange in the Company s consolidated income statement.

The consolidation of the Conduits has not impacted the Company s liquidity requirements because Triple-A One Funding Corp. has independently entered into liquidity agreements with third-party providers and because the assets and liabilities of Meridian and Polaris are structured on a match-funded basis.

At December 31, 2005, there were $4.6 billion of assets (the majority of which are investments valued at amortized cost) in the Conduits and $4.4 billion of liabilities issued through the Conduits.

Municipal Services

MBIA MuniServices Company (MuniServices) delivers revenue enhancement services and products to public-sector clients nationwide, consisting of discovery, audit, collections/recovery and information (data) services. The municipal services operations also includes Capital Asset Holdings GP, Inc. and certain affiliated entities (Capital Asset), a servicer of delinquent tax certificates.

MuniServices owns Capital Asset, which was in the business of acquiring and servicing tax liens. The Company became a majority owner of Capital Asset in December 1998. MuniServices became 100% owner of Capital Asset in December 2003. During the first two quarters of 1999, the Company attempted to sell its interest in Capital Asset. At the end of the second quarter of 1999, the Company ceased these efforts and decided to limit the activities of Capital Asset primarily to the servicing of the portfolios then being serviced by Capital Asset. In the second quarter of 1999, the Company completed an internal evaluation of Capital Asset s tax lien portfolio, as a result of which the Company determined that it was necessary to write down its investment in Capital Asset by $102 million. In the third quarter of 1999, Capital Asset engaged a specialty servicer of residential mortgages to help manage its business and operations and to assist in administering the tax lien portfolios serviced by Capital Asset and supporting the securitizations insured by MBIA Corp.

In the third quarter of 1999, Capital Asset also completed the refinancing of substantially all of its remaining tax liens. These liens were originally financed through a commercial paper warehouse facility that matured at the end of the third quarter of 1999, which was guaranteed by the Company. The refinancing was accomplished through a securitization transaction in which the tax liens were sold to a qualifying special purpose vehicle which in turn issued notes partially secured by those liens. The proceeds of the securitization were used primarily to extinguish the warehouse facility. This was Capital Asset s third securitization of tax liens, and MBIA Corp. has insured all of the notes issued by these securitizations. These securitizations were structured through the sale by Capital Asset of substantially all of its tax liens to off-balance sheet qualifying special purpose vehicles that were established in connection with these securitizations. The first transaction, done in 1997, had a revolving bank line of credit, guaranteed by MBIA Corp., to purchase subsequent liens against already encumbered real estate if necessary to protect previous securitized lien positions. This first transaction had an original gross par insured of $285.4 million and an available credit line of $70.0 million. The second transaction, done in 1998, also had a revolving bank line of credit, guaranteed by MBIA Corp., for the same purpose. This transaction had an original gross insured par of $175.6 million and an available credit line of $50.0 million. The final transaction, done in 1999, had an original gross par of $196.0 million. On June 30, 2004, in order to reduce ongoing carrying and other costs, a clean-up call was exercised for the Capital Asset Research Funding Series 1997A and Series 1998A tax lien securitizations. The clean-up call provisions permitted the issuer of the bonds to buy back any remaining tax liens when the principal amount of the bonds fell below ten percent of the original principal amount. In connection with the clean-up calls on June 30, 2004, MBIA Corp. paid $51.5 million (net of reinsurance) under its policies to the trustee for the securitizations, which defeased its remaining exposure to these transactions. Additionally, the payment made by MBIA Corp. related to the Capital Asset Research Funding Series 1997A and Series 1998A tax lien securitizations resulted in the Company consolidating the securitizations in its financial statements.

MBIA Corp. currently insures the third Capital Asset securitization, which is not consolidated. This transaction matures in 2008 and has an outstanding balance of $117 million, for which the Company has posted a case basis reserve of $68 million. Because the ultimate collectibility of tax liens is difficult to estimate, there can be no assurance that the case reserves established to date would be sufficient to cover all future claims under this policy. MBIA Corp. will continue to evaluate the performance of the remaining tax lien portfolio and adjust loss reserves or salvage as and when necessary. See Losses and Reserves; Remediation for additional information on the Company s loss reserving process.

Competition

The financial guarantee insurance business is highly competitive. Several other monoline insurance companies compete directly against MBIA Corp. in writing financial guarantee insurance, all of which, like MBIA Corp., have Triple-A financial strength ratings from Moody s and S&P. In addition, there are several other monoline insurance companies which compete with MBIA Corp. in writing financial guarantee insurance as a primary insurer which have lower ratings. MBIA Corp. also competes with composite (multi-line) insurers.

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Financial guarantee insurance also competes with other forms of credit enhancement, including senior-subordinated structures, credit derivatives, over-collateralization, letters of credit and guarantees (for example, mortgage guarantees where pools of mortgages secure debt service payments) provided by banks and other financial institutions, some of which are governmental agencies or have been assigned the highest credit ratings awarded by one or more of the major rating agencies. Letters of credit are most often issued for periods of less than 10 years, although there is no legal restriction on the issuance of letters of credit having longer terms. Thus, financial institutions and banks issuing letters of credit compete directly with MBIA Corp. to guarantee short-term notes and bonds with a maturity of less than 10 years. To the extent that banks providing credit enhancement may begin to issue letters of credit with commitments longer than 10 years, the competitive position of financial guarantee insurers, such as MBIA Corp., could be adversely affected. Letters of credit are also frequently used to assure the liquidity of a short-term put option for a long-term bond issue. This assurance of liquidity effectively confers on such issues, for the short term, the credit standing of the financial institution providing the facility, thereby competing with MBIA Corp. and other financial guarantee insurers in providing interest cost savings on such issues. Other highly rated institutions, including pension funds and government sponsored entities, also offer third-party credit enhancement on asset-backed and municipal obligations. Financial guarantee insurance and other forms of credit enhancement also compete in nearly all instances with the issuer s alternative of foregoing credit enhancement and paying a higher interest rate. If the interest savings from insurance or another form of credit enhancement are not greater than the cost of such credit enhancement, the issuer will generally choose to issue bonds without third-party enhancement.

Certain characteristics of the Triple-A rated financial guarantee insurance business act as barriers-to-entry to potential new competitors. For example, there are minimum capital requirements imposed on a financial guarantee insurance company by the rating agencies to obtain and maintain Triple-A financial strength ratings and these capital requirements may deter other companies from entering this market. However, there can be no assurance that these capital requirements will deter potential competitors from entering this market or that the market may increasingly accept guarantees provided by Double-A or lower rated insurers who have less stringent capital requirements. In addition, under New York law, multi-line insurers are prohibited from writing financial guarantee insurance in New York State. See Part I, Item 1. Business Insurance Regulation. However, there can be no assurance that major multi-line insurers or other financial institutions will not participate in financial guarantee insurance in the future, either directly or through monoline subsidiaries.

Reinsurance

State insurance laws and regulations, as well as the rating agencies who rate MBIA Corp., impose minimum capital requirements on financial guarantee companies, limiting the aggregate amount of insurance and the maximum size of any single risk exposure which may be written. MBIA Corp. decreases the insured exposure in its portfolio and increases its capacity to write new business by using treaty and facultative reinsurance to reduce its gross liabilities on an aggregate and single risk basis. Additionally, MBIA Corp. has entered into agreements under which it is entitled to reimbursement of losses on its insured portfolio but which do not qualify as reinsurance under GAAP.

MBIA Corp. s net retention on the policies it writes varies from time to time depending on its own business needs and the capacity available in the reinsurance market. From its reorganization in December 1986 through December 1987, MBIA Corp. reinsured a portion of each policy through quota and surplus share reinsurance treaties. Each treaty provides reinsurance protection with respect to policies written by MBIA Corp. during the term of the treaty, for the full term of the policy. Under its quota share treaty, MBIA Corp. ceded a fixed percentage of each policy insured. Since 1988, MBIA Corp. has entered into primarily surplus share treaties under which a variable percentage of risk over a minimum size is ceded, subject to a maximum percentage specified in the related treaty. Reinsurance ceded under the treaties is for the full term of the underlying policy.

MBIA Corp. also enters into facultative reinsurance arrangements from time to time primarily in connection with issues which, because of their size, require additional capacity beyond MBIA Corp. s retention and treaty limits. Under these facultative arrangements, portions of MBIA Corp. s liabilities are ceded on an issue-by-issue basis. MBIA Corp. may also use facultative arrangements as a means of managing its exposure to single issuers or counterparties to comply with regulatory and rating agency requirements, as well as internal underwriting and portfolio management criteria.

As a primary insurer, MBIA Corp. is required to honor its obligations to its policyholders whether or not its reinsurers and others perform their agreement obligations to MBIA Corp. The financial position and financial strength rating of all its reinsurers are monitored by MBIA Corp. on a regular basis. The downgrade or default of one or more of the Company s reinsurers is not expected to have a material adverse impact on the Company s ratings, financial condition or results of operations.

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As of December 31, 2005, MBIA Corp. has retained $585 billion or 87.9% of the gross par outstanding of all transactions insured by it and its insurance company affiliates and ceded approximately $80.7 billion or 12.1% under reinsurance contracts with reinsurers and other reimbursement agreements. The amounts of exposure ceded to reinsurers at December 31, 2005 and 2004 by bond type and by geographic location are set forth in Note 22: Reinsurance in the Notes to Consolidated Financial Statements of MBIA Inc. and Subsidiaries.

The following table shows the reinsurers providing reinsurance to MBIA measured by outstanding par ceded to and reinsurance recoverables from reinsurers by rating levels at December 31, 2005:

Reinsurers	Standard & Poor s Rating	Moody s Rating	Percentage of Total Par Ceded	Reinsurance Recoverable (in thousands)
Channel Reinsurance Ltd.	AAA	Aaa	45.19%	$ 4,546
Assured Guaranty Corp.	AAA	Aa1	17.73	23,947
Ram Reinsurance Company, Ltd.	AAA	Aa3	12.20	4,386
Ambac Assurance Corporation	AAA	Aaa	9.40	
Mitsui Sumitomo Insurance Company Ltd.	AA-	Aa3	6.36	2
Swiss Reinsurance Company, Zurich, Switzerland	AA	Aa2	2.81	
Radian Asset Assurance Inc.	AA	Aa3	1.61	7,838
Assured Guaranty Re Ltd.	AA	Aa2	0.82	
Sompo Japan Insurance Inc.	AA-	Aa3	0.81	2
Transatlantic Reinsurance Company	AA-	Aa3	0.59	1,620
Other [1]	A or above	A1 or above	2.40	16,347
Not Currently Rated			0.08	277
Total			100.00%	$ 58,965

[1] Several reinsurers within this category are not rated by Moody s.

While Channel Reinsurance Ltd. (Channel Re) continues to be rated Triple-A, S&P has revised its rating outlook on Channel Re from stable to negative . As discussed below, the Company has an equity interest in both Channel Re and the holding company parent of Ram Reinsurance Company, Ltd. (RAM Re).

The financial strength ratings of certain of MBIA Corp. s reinsurers have been downgraded below Triple-A. While these reinsurers continue to remain on risk for potential losses on ceded insurance exposure, the value of the reinsurance to the Company is decreased due to the increased amounts of capital that MBIA Corp. is required to hold with respect to the ceded risks as a result of the reinsurers downgrade. Generally, MBIA Corp. has the right to terminate a reinsurance agreement when the reinsurer is downgraded below certain agreed-upon thresholds or if the capital credit received by MBIA Corp. for the reinsurance decreases below the agreed-upon thresholds and it may elect to take back ceded business so as to more effectively deploy its capital. However, in the event that MBIA Corp. elects to take back ceded business from a downgraded reinsurer, there can be no assurance that alternative reinsurance capacity will be available or that MBIA Corp. will be able to secure reinsurance on favorable terms. In the event that MBIA Corp. is unable to obtain reinsurance with a highly rated reinsurer, the amount of capital required to maintain MBIA Corp. s Triple-A rating could increase.

The Company has launched several initiatives in the past several years which were aimed at increasing its financial flexibility and Triple-A reinsurance capacity and reducing risks in its insured portfolio. These initiatives include making strategic investments in monoline reinsurers, entering into risk allocation arrangements with government entities and arranging for loss protection through other financial products.

In 2003, the Company invested $25 million for an 11.4% ownership interest in the holding company parent of RAM Re, a financial guarantee reinsurer located in Bermuda rated AAA by S&P and Aa3 by Moody s. The Company s investment, among other things, assisted RAM Re in maintaining its ratings.

In February 2004, the Company, together with RennaissanceRe Holdings, Ltd., Koch Financial Re, Ltd. and Partner Reinsurance Company Ltd., formed Channel Re, a new Bermuda-based financial guarantee reinsurance company rated Triple-A by S&P and Moody s. The Company invested $63.7 million for a 17.4% ownership interest in Channel Re.

In February 2004, MBIA Corp. and Channel Re entered into arrangements whereby Channel Re agreed to provide committed reinsurance capacity to MBIA Corp. at least through June 30, 2008. Under treaty and facultative reinsurance arrangements MBIA Corp. agreed to cede to Channel Re and Channel Re agreed to assume from MBIA Corp. varying percentages of designated policies issued by MBIA Corp. The amount of any policy subject to the committed reinsurance arrangements is based on the type of risk insured and on other factors. The reinsurance arrangements provide Channel Re with certain preferential terms, including those related to ceding commissions. The treaty reinsurance arrangement was renewed in 2005.

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In September 2004, MBIA Corp. entered into an investment guaranty arrangement with a development agency of the United States government which helps domestic private sector businesses manage risks associated with direct foreign investment. In December 2005, MBIA Corp. entered into a facultative reinsurance arrangement with a development agency of a foreign government which promotes exports and assists domestic manufacturing. Under these arrangements, the agencies undertake to indemnify MBIA Corp. for their respective proportionate share of loss on ceded exposures.

MBIA Corp. may also look to reduce risks embedded in its insured portfolio by entering into derivative transactions or other types of hedging arrangements. In December 2004, MBIA Corp. executed a $550.8 million capital markets transaction in which it hedged a portion, or $275.8 million at closing, of the credit and market risk associated with its synthetic CDO portfolio. In 2004, MBIA Corp. received approval from the NYS Insurance Department for a derivative use plan which authorizes MBIA Corp. to hedge certain risks through the use of derivative instruments and may look to enter into hedging transactions to reduce risks on an individual and portfolio-wide basis.

In 1998, three reinsurers, Converium Reinsurance (North America) Inc. (Converium), AXA Re Finance S.A. (ARF) and Muenchener Rueckversicherungs-Gesellshaft (Munich Re) paid MBIA Corp. $170 million under three separate agreements (each, an Excess-of-Loss Agreement and, collectively, the Excess-of-Loss Agreements) in connection with losses MBIA Corp. incurred on $265 million of MBIA-insured bonds issued by the Pittsburgh-based Alleghany Health, Education and Research Foundation (AHERF). The Excess-of-Loss Agreements were structured as three successive excess-of-loss facilities that aggregated to $170 million. Under the Excess-of-Loss Agreements, Converium paid MBIA Corp. $70 million and Munich Re and ARF each paid MBIA Corp. $50 million.

In connection with the arrangements for the Excess-of-Loss Agreements, MBIA Corp. entered into quota share agreements with Munich Re, ARF and Converium (each a Quota Share Agreement and, collectively, the Quota Share Agreements). Under the Quota Share Agreements, MBIA Corp. agreed to cede to the three reinsurers new business written with an aggregate par sufficient to generate $297 million in gross premiums over a six year period ending October 1, 2004. Of the $297 million in premiums to be ceded under the Quota Share Agreements, MBIA Corp. agreed to cede to Converium cash premiums equal to $102 million, to ARF adjusted gross premiums of $97 million and to Munich Re adjusted gross premiums of $98 million over this period.

Under separate agreements, to which MBIA Corp. was not a party, Converium reinsured directly and indirectly to ARF (the Converium-ARF Retrocession Agreements) the risk that it had assumed from MBIA Corp. under its Quota Share Agreements with MBIA Corp. for losses in excess of $13.1 million. ARF contended that, in connection with its agreement to assume this risk from Converium under the Converium-ARF Retrocession Agreements, there was an oral agreement with MBIA Corp. under which MBIA Corp. would replace ARF as a reinsurer to Converium by no later than October 2005.

In October 2004, MBIA Corp. commuted and assumed from ARF the policies that ARF had assumed directly under its Quota Share Agreements with MBIA Corp. discussed above (the MBIA-ARF Agreements). At the same time, MBIA Corp. also assumed from ARF all of the risk that ARF assumed from Converium under the Converium-ARF Retrocession Agreements. AXA RE, S.A (AXA RE), ARF s parent, in turn agreed to reinsure MBIA Corp. for all losses in excess of $96.9 million assumed by MBIA Corp. from ARF under the Converium-ARF Retrocession Agreements up to an aggregate amount of $90 million. ARF paid MBIA Corp. $10 million for assuming from it the risk under the Converium-ARF Retrocession Agreements, and MBIA Corp. paid AXA RE $1 million for reinsuring MBIA Corp. for all losses in excess of $96.9 million assumed by MBIA Corp. from ARF under the Converium-ARF Retrocession Agreements up to an aggregate amount of $90 million.

In addition to the $10 million that MBIA Corp. received as described above, MBIA Corp. received approximately $19.5 million related to the commutation of the MBIA-ARF Agreement, consisting of statutory unearned premium reserves of $42.5 million less refunded ceding commissions of $13.9 million and fees of $9.1 million. In addition, MBIA Corp. will receive future installment premiums with a present value of approximately $21.5 million in connection with the commuted policies. As a result of this transaction, MBIA Corp. reassumed $21.3 billion in aggregate insured par. The commutation of the MBIA-ARF Agreement and the assumption by MBIA Corp. from ARF of the risk under the Converium-ARF Retrocession Agreements were done in order, among other reasons, to settle and resolve the disputes with ARF regarding the alleged oral agreement. In addition, MBIA Corp. entered into these agreements and agreed to assume the related policies due to the fact that it no longer received rating agency capital credit in connection with the exposures ceded to ARF and Converium because ARF no longer has a financial strength rating and the financial strength rating of Converium had been downgraded.

In October 2004, the Company s management recommended that the Audit Committee of the Company s Board of Directors undertake an investigation of the Excess-of-Loss Agreements and the Quota Share Agreements, including whether an oral agreement existed between MBIA Corp. and ARF that MBIA Corp. would assume the risk that Converium retroceded to ARF under the Converium-ARF Retrocession Agreements. The Audit Committee retained outside counsel and initiated an investigation in October 2004. On March 8, 2005, the Company announced that it was restating its financial statements for 1998 and subsequent years to correct the accounting for the transactions with Converium based on, among other considerations, a determination by the outside

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counsel investigation that it appeared likely that an oral agreement or understanding with ARF was made in 1998. The Company reflected this correction in the consolidated financial statements of its original Annual Report on Form 10-K for the year ended December 31, 2004. At that time, the Company believed that the accounting for the Excess-of-Loss Agreements and Quota Share Agreements with Munich Re and ARF was appropriate under SFAS 113.

On November 8, 2005, the Company announced its decision to correct and restate its previously issued financial statements for 1998 and subsequent years in connection with potential settlements of investigations by the SEC and the NYAG regarding the Excess-of-Loss Agreements and the Quota Share Agreements entered into with Munich Re and ARF. For a further discussion of the restatement of the Company s Financial Statements refer to Management s Discussion and Analysis of Financial Condition and Results of Operation in Part II, Item 7 and Note 2: Restatement Of Consolidated Financial Statements in the Notes to Consolidated Financial Statements of MBIA Inc. and Subsidiaries in Part II, Item 8.

MBIA Corp. has entered into a reinsurance agreement with MBIA UK providing for MBIA Corp. s reimbursement of the losses incurred by MBIA UK in excess of a specified threshold and a net worth maintenance agreement in which MBIA Corp. agrees to maintain the net worth of MBIA UK, to remain its sole shareholder and not to pledge its shares. Under the reinsurance agreement, MBIA Corp. has agreed to reimburse MBIA UK on an excess-of-loss basis for losses incurred in each calendar year for net retained insurance liability, subject to certain contract limitations. Under the net worth maintenance agreement, MBIA Corp. agrees to maintain a minimum capital and surplus position at MBIA UK in accordance with United Kingdom and New York State legal requirements.

MBIA Corp. and MBIA Assurance have also entered into a reinsurance agreement providing for MBIA Corp. s reimbursement of the losses incurred by MBIA Assurance in excess of a specified threshold and a net worth maintenance agreement in which MBIA Corp. agrees to maintain the net worth of MBIA Assurance, to remain its sole shareholder and not to pledge its shares. Under the reinsurance agreement, MBIA Corp. has agreed to reimburse MBIA Assurance on an excess-of-loss basis for losses incurred in each calendar year for net retained insurance liability, subject to certain contract limitations. Under the net worth maintenance agreement, MBIA Corp. agrees to maintain a minimum capital and surplus position in accordance with French and New York State legal requirements.

MBIA Corp. and MBIA Illinois have entered into a reinsurance agreement under which MBIA Corp. reinsured 100% of all business written by MBIA Illinois, net of cessions by MBIA Illinois to third-party reinsurers, in exchange for MBIA Illinois transfer of the assets underlying the related unearned premium and contingency reserves. Pursuant to such reinsurance agreement, MBIA Corp. reinsured all of the net exposure of $30.9 billion, or approximately 68% of the gross debt service outstanding, of the municipal bond insurance portfolio of MBIA Illinois, the remaining 32% having been previously ceded to treaty and facultative reinsurers of MBIA Illinois. In 1990, 10% of this portfolio was ceded back to MBIA Illinois to comply with regulatory requirements. Effective January 1, 1999, MBIA Corp. and MBIA Illinois entered into a replacement reinsurance agreement whereby MBIA Corp. agreed to accept as reinsurance from MBIA Illinois 100% of the net liabilities and other obligations of MBIA Illinois, for losses paid on or after that date, thereby eliminating the 10% retrocession arrangement previously in place.

MBIA Corp. and CapMAC have entered into a reinsurance agreement, effective April 1, 1998, under which MBIA Corp. has agreed to reinsure 100% of the net liability and other obligations of CapMAC in exchange for CapMAC s payment of a premium equal to the ceded reserves and contingency reserves. Pursuant to such reinsurance agreement with CapMAC, MBIA Corp. reinsured all of CapMAC s then-current net exposure of $31.6 billion, or approximately 78% of CapMAC s gross debt service then outstanding, the remaining 22% having been previously ceded to treaty and facultative reinsurers of CapMAC.

Investments and Investment Policy

The Finance Committee of the Board of Directors of the Company approves the Company s general investment objectives and policies, and also reviews more specific investment guidelines. CMC manages all of MBIA Corp. s consolidated investment portfolios and substantially all of the Company s investment portfolios. Investment objectives, policies and guidelines related to CMC s investment activity on behalf of MBIA Corp. and its insurance company affiliates are also subject to review and approval by the respective Investment Committees of the Boards of Directors of MBIA Corp. and each of its insurance company affiliates.

To continue to provide strong capital resources and claims-paying capabilities for its insurance operations, the investment objectives and policies for insurance operations set quality and preservation of capital as the primary objective, subject to an appropriate degree of liquidity. Maximization of after-tax investment income and investment returns is an important but secondary objective. The insurance operations assets are managed by CMC subject to an agreement between CMC and MBIA Corp. and its subsidiaries.

Investment objectives, policies and guidelines related to MBIA Asset Management s investment agreement and other businesses are also subject to review and approval by the Finance Committee of the Board of Directors and the Executive Market Risk

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Committee, which includes various members of senior management. The primary investment objectives of MBIA Asset Management in these businesses are to preserve capital, to achieve an investment duration that closely approximates the expected duration of related liabilities, and to maintain appropriate liquidity.

The Company s consolidated investment portfolio as shown on its balance sheet at December 31, 2005 was $32.2 billion, of which $5.8 billion represented held-to-maturity investments at amortized cost. The information and tables contained below relate to the Company s consolidated investment portfolio (the Investment Portfolio).

For the year ending December 31, 2005, approximately 66% of the Company s net income was derived from after-tax earnings on its investment portfolio. The following table sets forth investment income and related data for the years ending December 31, 2003, 2004 and 2005:

Investment Income of the Company

(In thousands)

	2003	2004	2005
Investment income before expenses (1)	$ 839,948	$ 1,044,041	$ 1,357,541
Investment expenses	332,546	455,635	743,257
Net investment income before income taxes	507,402	588,406	614,284
Net realized gains (losses)	80,668	104,206	(7,867)
Total investment income before income taxes	$ 588,070	$ 692,612	$ 606,417
Total investment income after income taxes	$ 445,560	$ 517,395	$ 466,473

(1) Includes taxable and tax-exempt interest income.

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The tables below set forth the composition of the Company s investment portfolios. The references to Insurance in the tables below refer to the investment portfolio assets held by the Company s insurance operations, the references to Investment Management Services refers to investment portfolio assets held by the Company s investment management services operations and the references to Investments Held-to-maturity refer to assets held in the Conduits and certain variable interest entities. The weighted-average yields in the tables reflect the nominal yield on market value as of December 31, 2005, 2004 and 2003.

Investment Portfolio by Security Type

as of December 31, 2005

	Insurance		Investment Management Services		Investments Held-to-maturity	
	Fair Value (in thousands)	Weighted Average Yield (1)	Fair Value (in thousands)	Weighted Average Yield (1)	Fair Value (in thousands)	Weighted Average Yield (1)
Investment Category						
Fixed-income investments:						
Long-term bonds:						
Taxable bonds:						
U.S. Treasury & Agency obligations	$ 222,634	4.43%	$ 93,058	4.74%	$	%
GNMAs	183,212	5.28	82,149	5.17		
Other mortgage & asset-backed securities	1,328,851	5.56	6,082,367	4.63	911,253	3.48
Corporate obligations	1,746,580	5.59	8,722,090	5.17	4,823,082	3.21
Foreign obligations (2)	403,539	3.93	231,907	5.17		
Total	3,884,816	5.33	15,211,571	4.95	5,734,335	3.25
Tax-exempt bonds:						
State & municipal	5,379,889	4.19				
Total long-term investments	9,264,705	4.67	15,211,571	4.95	5,734,335	3.25
Short-term investments (3)	945,121	3.88	733,160	4.15		
Total fixed-income investments	10,209,826	4.24%	15,944,731	4.92%	5,734,335	3.25%
Other investments (4)	234,927					
Total investments	$ 10,444,753		$ 15,944,731		$ 5,734,335	

(1) Prospective market yields as of December 31, 2005. Yield on tax-exempt bonds is presented on a taxable bond equivalent basis using a 35% federal income tax rate.

(2) Consists of U.S. dollar denominated and other foreign government and corporate securities.

(3) Taxable and tax-exempt investments, including bonds with a remaining effective maturity of less than one year.

(4) Consists of equity investments and other fixed-income investments; yield information not meaningful.

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Investment Portfolio by Security Type

as of December 31, 2004

	Insurance		Investment Management Services		Investments Held-to-maturity	
	Fair Value (in thousands)	Weighted Average Yield (1)	Fair Value (in thousands)	Weighted Average Yield (1)	Fair Value (in thousands)	Weighted Average Yield (1)
Investment Category						
Fixed-income investments:						
Long-term bonds:						
Taxable bonds:						
U.S. Treasury & Agency obligations	$ 410,038	3.64%	$ 221,777	4.88%	$	%
GNMAs	138,989	5.05	81,278	4.42		
Other mortgage & asset-backed securities	1,473,126	5.16	3,924,261	2.12	419,188	3.00
Corporate obligations	1,715,933	4.97	5,565,288	4.59	7,116,599	2.49
Foreign obligations (2)	607,604	4.74	1,543,882	3.87		
Total	4,345,690	4.88	11,336,486	3.68	7,535,787	2.52
Tax-exempt bonds:						
State & municipal	4,728,599	3.88				
Total long-term investments	9,074,289	4.36	11,336,486	3.68	7,535,787	2.52
Short-term investments (3)	1,160,107	2.51	1,245,085	2.22		
Total fixed-income investments	10,234,396	3.87%	12,581,571	3.54%	7,535,787	2.52%
Other investments (4)	261,865					
Total investments	$ 10,496,261		$ 12,581,571		$ 7,535,787	

(1) Prospective market yields as of December 31, 2004. Yield on tax-exempt bonds is presented on a taxable bond equivalent basis using a 35% federal income tax rate.

(2) Consists of U.S. dollar denominated and other foreign government and corporate securities.

(3) Taxable and tax-exempt investments, including bonds with a remaining effective maturity of less than one year.

(4) Consists of equity investments and other fixed-income investments; yield information not meaningful.

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Investment Portfolio by Security Type

as of December 31, 2003

	Insurance		Investment Management Services		Investments Held-to-Maturity	
	Fair Value (in thousands)	Weighted Average Yield (1)	Fair Value (in thousands)	Weighted Average Yield (1)	Fair Value (in thousands)	Weighted Average Yield (1)
Investment Category						
Fixed-income investments:						
Long-term bonds:						
Taxable bonds:						
U.S. Treasury & Agency obligations	$ 232,964	4.21%	$ 230,293	4.60%	$	%
GNMAs	69,583	3.42	40,324	4.04		
Other mortgage & asset-backed securities	1,107,682	4.02	3,068,440	2.98	414,850	2.14
Corporate obligations	1,974,044	4.48	3,841,142	4.63	8,540,323	1.55
Foreign obligations (2)	468,151	4.40	1,285,341	4.46		
Total	3,852,424	4.30	8,465,540	4.01	8,955,173	2.12
Tax-exempt bonds:						
State & municipal	4,771,740	3.55				
Total long-term investments	8,624,164	3.89	8,465,540	4.01	8,955,173	2.12
Short-term investments (3)	975,836	2.32	937,640	1.32		
Total fixed-income investments	9,600,000	3.73%	9,403,180	3.75%	8,955,173	2.12%
Other investments (4)	357,346					
Total investments	$ 9,957,346		$ 9,403,180		$ 8,955,173	

(1) Prospective market yields as of December 31, 2003. Yield on tax-exempt bonds is presented on a taxable bond equivalent basis using a 35% federal income tax rate.

(2) Consists of U.S. dollar denominated and other foreign government and corporate securities.

(3) Taxable and tax-exempt investments, including bonds with a remaining effective maturity of less than one year.

(4) Consists of equity investments and other fixed-income investments; yield information not meaningful.

The duration of the insurance fixed-income portfolio was 5.3 years as of December 31, 2005 and December 31, 2004. The average maturity of the insurance fixed-income portfolio, excluding short-term investments, as of December 31, 2005 and December 31, 2004 was 7.96 years and 8.46 years, respectively.

The table below sets forth the distribution by contractual maturity of the Company s consolidated fixed-income investments. Contractual maturity may differ from expected maturity because the borrowers may have the right to call or prepay obligations.

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Fixed-Income Investments by Maturity

as of December 31, 2005

	Insurance		Investment Management Services		Investments Held-to-Maturity	
	Fair Value (In thousands)	% of Total Fixed-Income Investments	Fair Value (In thousands)	% of Total Fixed-Income Investments	Fair Value (In thousands)	% of Total Fixed-Income Investments
Within 1 year	$ 783,311	7.7%	$ 673,879	4.2%	$	%
Beyond 1 year but within 5 years	1,116,383	10.9	4,305,433	27.0	3,072,261	53.6
Beyond 5 years but within 10 years	2,213,029	21.7	3,667,527	23.0	825,466	14.4
Beyond 10 years but within 15 years	1,760,220	17.2	1,068,154	6.7	23,333	0.4
Beyond 15 years but within 20 years	694,069	6.8	835,405	5.2		
Beyond 20 years	2,298,886	22.5	3,981,244	25.0	902,022	15.7
Mortgage-backed	1,343,928	13.2	1,413,089	8.9	911,253	15.9
Total fixed-income investments	$ 10,209,826	100.0%	$ 15,944,731	100.0%	$ 5,734,335	100.0%

The credit quality distribution of the Company s fixed-income investments, which is based on ratings from Moody s (or from alternate rating sources, such as S&P, for a small percentage of securities that are not rated by Moody s), is presented in the following table:

Fixed-Income Investments by Credit Quality Rating

as of December 31, 2005 (1)

	Insurance		Investment Management Services		Investments Held-to-Maturity	
	Fair Value (In thousands)	% of Total Fixed-Income Investments	Fair Value (In thousands)	% of Total Fixed-Income Investments	Fair Value (In thousands)	% of Total Fixed-Income Investments
Aaa	$ 6,660,482	68%	$ 9,776,610	62%	$ 213,502	4%
Aa	1,921,187	20	3,010,035	19	910,865	16
A	1,103,850	11	2,964,670	19	2,611,929	45
Baa	55,862	1	85,149	0	1,998,039	35
Below Investment Grade			9,996	0		
Not Rated	2,513	0	0			
Total	$ 9,743,894	100%	$ 15,846,460	100%	$ 5,734,335	100%

(1) Excludes short-term investments with an original maturity of less than one year, but includes bonds having a remaining effective maturity of less than one year.

The Company s Investment Portfolio includes investments that are insured by MBIA Corp. (MBIA Insured Investments). As of December 31, 2005, MBIA Insured Investments, excluding Conduit investments, at fair value represented $4.4 billion or 14% of the total Investment Portfolio. Conduit investments represented $4.5 billion or 14% of the total Investment Portfolio. As set forth in the table below, without giving effect to the MBIA Corp. guarantee of the MBIA Insured Investments in the Investment Portfolio, as of December 31, 2005, based on the actual or estimated underlying ratings (i) the weighted average rating of the Investment Portfolio would be in the Double-A range, (ii) the weighted average rating of just the MBIA Insured Investments in the Investment Portfolio would be in the Single-A range and (iii) approximately 1% of the Investment Portfolio would be rated below investment grade.

Without giving effect to the MBIA guarantee of the MBIA Insured Investments, the underlying ratings (those given to an investment without the benefit of the MBIA Corp. guarantee) of the MBIA Insured Investments as of December 31, 2005 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 table below are the lower underlying rating assigned by S&P or Moody s when an underlying rating exists from either rating service, or 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.

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MBIA Insured Investments by Credit Quality Rating

Without Giving Effect to the MBIA Corp. Guarantee

as of December 31, 2005

Underlying Ratings Scale (In thousands)	Insurance Portfolio	Investment Management Services Portfolio	Held-to-Maturity Investment Portfolio	Total
Aaa	$ 9,716	$ 478,784	$ 213,502	$ 702,002
Aa	233,642	209,400	432,254	875,296
A	624,185	965,835	1,811,929	3,401,949
Baa	285,871	1,291,230	1,998,039	3,575,140
Below Investment Grade	107,047	155,198		262,245
Total	$ 1,260,461	$ 3,100,447	$ 4,455,724	$ 8,816,632

For a discussion surrounding the methodology used by financial guarantee insurance companies to account for investments similar to MBIA Insured Investments, see Part I, Item 1B. Unresolved Staff Comments.

Insurance Regulation

MBIA Corp. is licensed to do insurance business in, and is subject to insurance regulation and supervision by, the State of New York (its state of incorporation), the 49 other states, the District of Columbia, Guam, the Northern Mariana Islands, the U.S. Virgin Islands, Puerto Rico, the Kingdom of Spain, the United Kingdom and the Republic of France. MBIA Assurance is licensed to do insurance business in France and is subject to regulation under the corporation and insurance laws of the Republic of France. MBIA Assurance has used the provisions of the EC Third Non-life Insurance Directive (No. 92/49/EEC) to operate in the United Kingdom and in some of the other European Economic Area jurisdictions, both on a services and branch basis and is, to a limited extent, subject to supervision by the United Kingdom s Financial Services Authority. MBIA UK is licensed to do insurance business in the United Kingdom and is subject to the insurance regulation and supervision of the United Kingdom s Financial Services Authority. MBIA UK has used the provisions of the EC Third Non-life Insurance Directive to provide cross border services in all jurisdictions in the European Economic Area.

The extent of state insurance regulation and supervision varies by jurisdiction, but New York, Illinois and most other jurisdictions have laws and regulations prescribing minimum standards of solvency, including minimum capital requirements, and business conduct which must be maintained by insurance companies. These laws prescribe permitted classes and concentrations of investments. In addition, some state laws and regulations require the approval or filing of policy forms and rates. MBIA Corp. is required to file detailed annual financial statements with the NYSID and similar supervisory agencies in each of the other jurisdictions in which it is licensed. The operations and accounts of MBIA Corp. are subject to examination by these regulatory agencies at regular intervals.

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

As a financial guarantee insurer, MBIA Corp. is required by the laws of New York, California, Connecticut, Florida, Illinois, Iowa, Maryland, New Jersey and Wisconsin to maintain contingency reserves on its municipal bond, asset-backed securities and other financial guarantee liabilities. Under New Jersey, Illinois and Wisconsin regulations, contributions by such an insurer to its contingency reserves are required to equal 50% of earned premiums on its municipal bond business. Under New York law, such an insurer is required to contribute to contingency

reserves 50% of premiums as they are earned on policies written prior to July 1, 1989 (net of reinsurance), and, with respect to policies written on and after July 1, 1989, must make contributions over a period of 15 or 20 years (based on issue type), or until the contingency reserve for such insured issues equals the greater of 50% of premiums written for the relevant category of insurance or a percentage of the principal guaranteed, varying from 0.55% to 2.5%, depending upon the type of obligation guaranteed (net of collateral reinsurance, refunding, refinancings and certain insured securities). California, Connecticut, Florida, Iowa and Maryland laws impose a generally similar requirement, and in California the insurance commissioner can require an insurer to maintain additional reserves if the commissioner determines that the insurer s reserves are inadequate. In each of these states, MBIA Corp. may apply for release of portions of the contingency reserves in certain circumstances.

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The laws and regulations of these states also limit both the aggregate and individual securities risks that MBIA Corp. may insure on a net basis based on the type of obligations insured. California, Connecticut, Florida, Illinois, Maryland and New York, among other things, limit insured average annual debt service on insured municipal bonds with respect to a single entity and backed by a single revenue source (net of qualifying collateral and reinsurance) to 10% of policyholders surplus and contingency reserves. California, Connecticut, Florida, Illinois, Maryland and New York also limit the net insured unpaid principal on a municipal bond issued by a single entity and backed by a single revenue source to 75% of policyholders surplus and contingency reserves. California, Connecticut, Maryland and New York, among other things, require that the lesser of the insured average debt service and the insured unpaid principal (reduced by the extent to which unpaid principal of the supporting assets and, for New York and California, provided the insured risk is investment grade, exceed the insured unpaid principal), divided by nine, on each issue of asset-backed securities issued by a single entity shall not exceed 10% of policyholders surplus and contingency reserves, while Florida limits insured unpaid principal for any one risk to 10% of policyholders surplus and contingency reserves. In New Jersey, Virginia and Wisconsin, the average annual debt service on any single issue of municipal bonds (net of reinsurance) is limited to 10% of policyholders surplus. Other states that do not explicitly regulate financial guarantee or municipal bond insurance do impose single risk limits which are similar in effect to the foregoing.

Under New York, California, Connecticut, Florida, Illinois, Maryland, New Jersey and Wisconsin law, aggregate insured unpaid principal and interest under policies insuring municipal bonds (in the case of New York, California, Connecticut, Florida, Illinois and Maryland, net of reinsurance) are limited to certain multiples of policyholders surplus and contingency reserves. New York, California, Connecticut, Florida, Illinois, Maryland and other states impose a 300:1 limit for insured municipal bonds, although more restrictive limits on bonds of other types do exist. For example, New York, California, Connecticut, Florida and Maryland impose a 100:1 limit for certain types of non-municipal bonds. Under New York, California, Connecticut, Florida, Maryland and New Jersey law, aggregate insured unpaid principal and interest under policies insuring asset-backed securities (again, in the case of New York, California, Connecticut, Florida and Maryland, net of reinsurance) are limited to certain multiples of policyholders surplus and contingency reserves. New York, Maryland, California, Connecticut, and other states impose a 150:1 limit for insured investment grade asset-backed securities, although more restrictive limits on asset-backed securities of other types exist. For example, New York, California, Connecticut, Florida and Maryland impose a 50:1 limit for non-investment grade asset-backed securities.

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

Prior approval by the NYSID is required for any entity seeking to acquire control of the Company, MBIA Corp., or CapMAC. Prior approval by the Illinois Department of Insurance is required for any entity seeking to acquire control of the Company, MBIA Corp., MBIA Illinois, or CapMAC. In many states, including New York and Illinois, control is presumed to exist if 10% or more of the voting securities of the insurer are owned or controlled by an entity, although the supervisory agency may find that control in fact does or does not exist when an entity owns or controls either a lesser or greater amount of securities.

The laws of New York regulate the payment of dividends by MBIA Corp. and provide that a New York domestic stock property/casualty insurance company (such as MBIA Corp.) may not declare or distribute dividends except out of statutory earned surplus. New York law provides that the sum of (i) the amount of dividends declared or distributed during the preceding 12-month period and (ii) the dividend to be declared may not exceed the lesser of (a) 10% of policyholders surplus, as shown by the most recent statutory financial statement on file with the NYSID, or (b) 100% of adjusted net investment income for such 12-month period (the net investment income for such 12-month period plus the excess, if any, of net investment income over dividends declared or distributed during the two-year period preceding such 12-month period), unless the New York Superintendent of Insurance approves a greater dividend distribution based upon a finding that the insurer will retain sufficient surplus to support its obligations and writings. See Note 17: Dividends and Capital Requirements in the Notes to Consolidated Financial Statements of MBIA Inc. and Subsidiaries in Part II, Item 8.

The foregoing dividend limitations are determined in accordance with Statutory Accounting Practices (SAP), which generally produce statutory earnings in amounts less than earnings computed in accordance with GAAP. Similarly, policyholders surplus, computed on a SAP basis, will normally be less than net worth computed on a GAAP basis. See Note 10: Statutory Accounting Practices in the Notes to Consolidated Financial Statements of MBIA Inc. and Subsidiaries for additional information.

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

Investment Management Services Regulation

Subsidiaries of MBIA Asset Management are subject to various federal and state securities and investment regulation. As an SEC-registered investment adviser and an NASD member firm, CMC is subject to the requirements of the Investment Advisers Act of 1940, a Federal statute which regulates registered investment advisers, and to NASD rules and regulations. As an advisor to registered mutual fund investment companies, CMC is also responsible for compliance with the Investment Company Act of 1940. As sponsor/administrator of pooled investment programs, MBIA-MISC is subject to the requirements of the Investment Advisers Act of 1940, as well as certain state laws governing the operation of and permitted investments in local government investment pools in the various states. The activities of AM-UK are subject to supervision by the United Kingdom s Financial Services Authority.

Losses and Reserves; Remediation

MBIA Corp. establishes both loss and loss adjustment expense reserves to cover non-specific unallocated losses on its insured portfolio and specific case basis reserves with respect to actual and potential losses under specific insurance policies. The unallocated loss and loss adjustment expense reserve (ULR) and specific case basis reserves are established by MBIA Corp. s Loss Reserve Committee, which includes the Company s Chief Executive Officer, Chief Financial Officer, Chief Risk Officer, head of IPM and other members of senior management.

The unallocated loss reserve is established on an undiscounted basis with respect to MBIA Corp. s entire insured portfolio. MBIA Corp. s unallocated loss reserve represents its estimate of losses that have occurred or are probable as a result of credit deterioration in MBIA Corp. s insured portfolio but which have not yet been specifically identified and applied to specific insured obligations. The unallocated loss reserve is increased on a quarterly basis using a formula that applies a loss factor to MBIA Corp. s scheduled net earned premium for the respective quarter. Each quarter MBIA Corp. calculates its provision for the unallocated loss reserve as a fixed percentage of scheduled net earned premium. Annually, the Loss Reserve Committee evaluates the appropriateness of the loss factor. In performing this evaluation, the Loss Reserve Committee considers the composition of MBIA Corp. s insured portfolio by municipal sector, structured asset class, remaining maturity and credit quality, along with the latest industry data, including historical default and recovery experience for the relevant sectors of the fixed-income market, in order to determine if a trend is developing that indicates the loss factor should be increased or decreased. The Loss Reserve Committee reviews the results of its annual evaluation over a period of several years to determine whether any long-term trends are developing. Since 2002, the Company calculated its provision for unallocated loss reserve as 12% of scheduled net earned premium. The Company s additions to specific case basis reserves in the years ending December 31, 2005 and December 31, 2004 exceeded the amounts reserved for by applying the 12% loss factor to scheduled net earned premium for those years. The Loss Reserve Committee is continuing to monitor this trend and evaluate whether an adjustment to the Company s current loss factor is appropriate. However, if a catastrophic or very unusual loss occurred, the Loss Reserve Committee would consider increasing the loss factor in order to maintain an adequate level of reserves. (See Management s Discussion and Analysis of Financial Condition and Results of Operation Losses and Loss Adjustment Expenses (LAE) in Part II, Item 7).

When a case basis reserve is established, MBIA Corp. reclassifies the estimated amount from its unallocated loss reserve in an amount equal to the specific case basis loss reserve. Therefore, the amount of available unallocated loss reserve at the end of each period is reduced by the actual case basis reserves established in the same period. In the event that case basis reserves develop at a significantly faster or slower rate than anticipated by applying the loss factor to net scheduled earned premium, MBIA Corp. will perform a qualitative evaluation with respect to the adequacy of the remaining unallocated loss reserve. In performing this evaluation, MBIA Corp. considers the anticipated amounts of future transfers to existing case basis reserves, as well as the likelihood those policies for which case basis reserves have not been established will require case basis reserves at a faster or slower rate than initially expected.

MBIA Corp. establishes new case basis reserves with respect to a specific insurance policy when the Loss Reserve Committee determines that (i) a claim has been made or is probable in the future with respect to such policy based on specific credit events that have occurred and (ii) the amount of the ultimate loss that MBIA will incur under such policy can be reasonably estimated. The amount of the case basis reserve with respect to any policy is based on the net present value of the expected ultimate losses and loss adjustment expense payments that MBIA Corp. expects to pay with respect to such policy, net of expected recoveries under salvage and subrogation rights. For years ending after December 31, 2002, the amount of the expected loss, net of expected recoveries, is discounted based on a discount rate equal to the actual yield of the fixed-income portfolio held by the Company s insurance

subsidiaries at the end of the preceding fiscal quarter. Prior to 2003 MBIA Corp. used a flat discount rate. MBIA Corp. believes this yield is an appropriate rate of return for calculating the present value of its reserves as it reflects the rate of return on the assets supporting future claim payments by MBIA Corp. When a case basis reserve is established for an insured obligation, MBIA Corp. continues to record premium revenue until it believes that premiums will no longer be collected on that obligation.

A number of variables are taken into account in establishing specific case basis reserves for individual policies. These variables include the creditworthiness of the underlying issuer of the insured obligation, whether the obligation is secured or unsecured and the expected recovery rates on the insured obligation, the projected cash flow or market value of any assets that support the insured obligation and the historical and projected loss rates on such assets. Factors that may affect the actual ultimate realized losses for any policy include the state of the economy, changes in interest rates, rates of inflation and the salvage values of specific collateral. The methodology used by the Company for determining when a case basis reserve is established may differ from other financial guarantee insurance companies, as well as from other property and casualty insurance enterprises.

The Financial Accounting Standards Board (FASB) staff is considering whether additional guidance with respect to accounting for financial guarantee insurance should be provided and has agreed to consider the accounting by insurers for financial guarantee insurance. As part of this project, the FASB will consider several aspects of the insurance accounting model for financial guarantee insurers, including loss recognition and reserve methodology. (See Management s Discussion and Analysis of Financial Condition and Results of Operation Losses and Loss Adjustment Expenses (LAE) in Part II, Item 7).

The IPM Division is responsible for monitoring MBIA Corp. insured issues. The level and frequency of MBIA Corp. s monitoring of any insured issue depends on the type, size, rating and performance of the insured issue. If IPM identifies concerns with respect to the performance of an insured issue it may designate such insured issue as Caution List-Low, Caution List-Medium or Caution List-High based on the nature and extent of these concerns and requires that an increased monitoring and, if needed, a remediation plan be implemented for the related insured issue.

In the event MBIA Corp. determines that it must pay a claim or that a claim is probable and estimable with respect to an insured issue, it places the issue on its Classified List and establishes a case basis reserve for that policy. As of December 31, 2005, MBIA Corp. had 38 issues on the Classified List for which it has established $453.9 million in aggregate net case reserves.

At December 31, 2005, case basis reserves established for three credits, a health care facility in Pennsylvania, Enhanced Equipment Trust Certificates insured by MBIA Corp. and one tax lien transaction, comprised $316.6 million of the $453.9 million in total case basis reserves for future claims. The remaining case basis reserves are related to various insured obligations including collateralized debt obligations, mortgage-backed securities and obligations backed by manufactured housing. For more information on these insured issues and other insured exposes, see Management s Discussion and Analysis of Financial Condition and Results of Operation Losses and Loss Adjustment Expenses (LAE) in Part II, Item 7.

Both MBIA Illinois and CapMAC currently do not write new business. MBIA Corp. has reinsured their respective net liabilities on financial guarantee insurance business and maintains required reserves in connection therewith.

Management believes that MBIA Corp. s reserves, calculated on a GAAP and SAP basis, are adequate to cover the ultimate net cost of claims. However, because the reserves are based on management s judgment and estimates, there can be no assurance that the ultimate liability will not exceed such estimates.

In an effort to mitigate losses, IPM is regularly involved in the ongoing remediation of credits that may involve, among other things, waivers or renegotiations of financial covenants or triggers, waivers of contractual provisions, the granting of consents, and the taking of various other remedial actions. The nature of any remedial action is based on the type of the insured issue and the nature and scope of the event giving rise to the remediation. In most cases, as part of any such remedial activity, MBIA Corp. is able to improve its security position and to obtain concessions from the issuer of the insured bonds. From time to time, the issuer of an MBIA Corp. insured bond may, with the consent of MBIA Corp., restructure the insured bonds by extending the term, increasing or decreasing the par amount or decreasing the related interest rate, with MBIA Corp. insuring the restructured bonds. If, as the result of a restructuring, MBIA Corp. estimates that it will suffer an ultimate loss on the restructured issue, MBIA Corp. will record a case basis reserve for the restructured issue or, if it has already recorded a case basis reserve, it will re-evaluate the impact of the restructuring on the posted reserve and adjust the size of the reserve accordingly.

From inception, MBIA Corp. has had 82 insured issues requiring claim and/or liquidity payments. There are currently ten additional insured issues for which case loss reserves have been established for expected future claims but for which claims have not yet been paid. The Company s experience is that early detection and continued involvement by IPM are crucial in avoiding or minimizing potential draws on the related

insurance policy. There can be no assurance, however, that there will be no material losses in the future in respect of any issues guaranteed by MBIA Corp., MBIA UK, MBIA Assurance, MBIA Illinois or CapMAC or that the amount of reserves will be adequate to cover such losses.

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MBIA Corp. Insurance Policies

Virtually all of the insurance policies issued by MBIA Corp. provide an unconditional and irrevocable guarantee of the payment to a designated paying agent for the holders of the insured obligations of an amount equal to the principal of, and interest or other amounts due on, the insured obligations that have not been paid. In the event of a default in payment of principal, interest or other insured amounts by an issuer, MBIA Corp. promises to make funds available in the amount of the default generally on the next business day following notification. MBIA Corp. has a Fiscal Agency Agreement with a bank which provides for this payment upon receipt of proof of ownership of the obligations due, as well as upon receipt of instruments appointing the insurer as agent for the holders and evidencing the assignment of the rights of the holders with respect to the payments made by the insurer. Even if the holders are permitted by the terms of the insured obligations to have the full amount of principal, accrued interest or other amounts due, declared due and payable immediately in the event of a default, MBIA Corp. is required to pay only the amounts scheduled to be paid, but not in fact paid, on each originally scheduled payment date. However, MBIA Corp. may from time to time insure obligations that are backed by credit default swaps which by their terms require that termination payments be paid at the time of the default of the underlying reference obligation(s). Termination payments are generally calculated by deducting the market value of the reference obligation on the termination date from the specified amount of the reference obligation. The Company estimates that the liquidity needs arising from future termination payments are modest due to MBIA Corp. s strategy of insuring such obligations with high levels of subordination and credit enhancement.

Rating Agencies

Moody s, S&P, Fitch and RII perform periodic reviews of MBIA Corp. and other companies providing financial guarantee insurance. Their reviews generally focus on the insurer s operations, financial conditions, underwriting guidelines, policies and procedures and on the underlying insured portfolio. Additionally, each rating agency has its own criteria as to exposure limits and capital requirements for financial guarantors.

The rating agencies have confirmed their Triple-A financial strength ratings assigned to MBIA Corp., CapMAC, MBIA Illinois, MBIA Assurance and MBIA UK in every year since those ratings were first assigned. The ratings for MBIA Illinois and CapMAC are based in significant part on the reinsurance agreements between MBIA Corp. and MBIA Illinois and MBIA Corp. and CapMAC, respectively. The ratings of MBIA UK and MBIA Assurance are based in significant part on the reinsurance agreements and net worth maintenance agreements MBIA Corp. has entered into with both MBIA UK and MBIA Assurance. See Part I, Item 1. Business-Reinsurance.

Capital Facilities

MBIA Corp. is party to a Credit Agreement, dated as of December 29, 1989 (the Credit Agreement), with various highly-rated banks to provide MBIA Corp. with an unconditional, irrevocable line of credit to cover losses in excess of a specified amount with respect to its public finance policies. The line of credit is available to be drawn upon by MBIA Corp., in an amount up to $450 million, after MBIA Corp. has incurred cumulative losses (net of any recoveries) in excess of $500 million or 5% of average annual debt service in respect of MBIA Corp. s public finance policies. The obligation to repay loans made under the Credit Agreement is a limited recourse obligation of MBIA Corp. payable solely from, and secured by a pledge of, recoveries realized on defaulted insured public finance obligations, from certain pledged installment premiums and other collateral. Borrowings under the Credit Agreement are repayable on the expiration date of the Credit Agreement.

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The current expiration date of the Credit Agreement is March 31, 2015. The Credit Agreement contains covenants that, among other things, restrict MBIA Corp. s ability to encumber assets or merge or consolidate with another entity.

MBIA Corp. has access to $400 million of Money Market Committed Preferred Custodial Trust securities (CPCT Securities) issued by eight trusts which were created for the primary purpose of issuing CPCT Securities and investing the proceeds in high quality commercial paper or short-term U.S. Government obligations. MBIA Corp. has a put option to sell to the trusts the perpetual preferred stock of MBIA Corp. If MBIA Corp. exercises its put option, the trusts will transfer the proceeds to MBIA Corp. in exchange for the preferred stock that will be held by the trusts. The trusts are vehicles for providing MBIA Corp. the opportunity to access new capital at its sole discretion through the exercise of the put options. The trusts are rated AA by S&P and Aa2 by Moody s. To date, MBIA Corp. has not exercised its put options under any of these arrangements.

On April 14, 2005, the Company and MBIA Corp. entered into a $500 million five-year unsecured revolving credit facility with a syndicate of banks. The facility replaced a previous facility comprised of two bank lines, a $167 million facility with a term of 364 days (which expired on its stated termination date) and a $333 million facility with a five-year term (which remained in place but which was extended for one year and increased to $500 million). The credit facility contains covenants that, among other things, restrict the Company s ability to encumber assets or merge or consolidate with another entity and require that the Company maintain a minimum net worth and a maximum debt-to-capital ratio. The expiration date for the facility is April 14, 2010. As of December 31, 2005, there were no balances outstanding under this facility.

Employees

As of February 27, 2006, the Company had 626 employees, 396 in MBIA Corp., 114 in MBIA Asset Management and 116 in MuniServices. No employee is covered by a collective bargaining agreement. The Company considers its employee relations to be satisfactory.

Available Information

The Company maintains a website at www.mbia.com. The Company is not including the information on its website as a part of, nor is it incorporating such information by reference into, this Form 10-K. The Company makes available through its website, free of charge, all of its SEC filings, including its annual Form 10-K, any of its quarterly filings on Form 10-Q and any current reports on Form 8-K, as soon as is reasonably practicable after these materials have been filed with the SEC. All such filings were timely posted to the website in 2005.

Executive Officers

The executive officers of the Company and their present ages and positions with the Company as of February 28, 2006 are set forth below.

Name	Age	Position and Term of Office
Joseph W. Brown	57	Chairman (officer since January, 1999)
Gary C. Dunton	50	President and Chief Executive Officer (officer since January, 1998)
Neil G. Budnick	51	Vice President (officer since 1992)
Ram D. Wertheim	51	Vice President, Secretary and General Counsel (officer since January, 2000)
Kevin D. Silva	52	Vice President and Chief Administrative Officer (officer since 1995)
Ruth M. Whaley	49	Vice President and Chief Risk Officer (officer since 1999)
Andrea E. Randolph	53	Vice President and Chief Technology Officer (officer since January, 2004)
Nicholas Ferreri	45	Vice President and Chief Financial Officer (officer since May, 2004)
Mark S. Zucker	57	Vice President (officer since November, 2000)
Mitchell I. Sonkin	53	Vice President (officer since April, 2004)
Clifford D. Corso	44	Vice President (officer since September, 2004)
Christopher E. Weeks	45	Vice President (officer since July, 2004)
Thomas G. McLoughlin	45	Vice President (officer since February, 2005)
William C. Fallon	46	Vice President (officer since July, 2005)
Willard I. Hill, Jr.	50	Vice President and Chief Compliance Officer (officer since January, 2006)

Joseph W. Brown is Chairman of the Company (effective January 7, 1999) and a director of the Company. Prior to joining the Company in January 1999, Mr. Brown was Chairman of the Board of Talegen Holdings, Inc. Mr. Brown served as Chief Executive Officer of the Company from January 1999 to May 2004.

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Gary C. Dunton is President and Chief Executive Officer of the Company and a director of the Company. Mr. Dunton has served as President of the Company since 1999 and served as Chief Operating Officer from 2000 to 2004. Mr. Dunton was, prior to joining the Company as an officer, a director of the Company and President of the Family and Business Insurance Group, USF&G Insurance.

Neil G. Budnick is Vice President of the Company and President of MBIA Corp. Mr. Budnick has been primarily involved in the insurance operations area of MBIA Corp. since joining the Company in 1983 and served as Chief Financial Officer from January 1999 to May 2004.

Ram D. Wertheim is Vice President, Secretary and General Counsel of the Company. From February of 1998 until January, 2000, he served in various capacities in the Structured Finance Division. Mr. Wertheim was, until February of 1998, the General Counsel of CapMAC Holdings Inc.

Kevin D. Silva is Vice President and Chief Administrative Officer of the Company. He has been in charge of the Management Services Division of MBIA Corp. since joining the Company in late 1995.

Ruth M. Whaley is Vice President and Chief Risk Officer of the Company. She was, until February of 1998, the Chief Underwriting Officer of CapMAC Holdings Inc.

Andrea E. Randolph is Vice President and Chief Technology Officer of the Company. Ms. Randolph was the Director of Infrastructure and Operations in the Information Technology Division of MBIA Corp. from February 2000 to January 2004, when she was named the Company s Chief Technology Officer. Prior to joining MBIA Corp. in February 2000, she was Director of Information Technology Corporate Investment Division at MetLife.

Nicholas Ferreri is Vice President and Chief Financial Officer of the Company. Until May of 2004 he was in charge of global public finance in MBIA Corp. s IPM Division and previously served in various capacities in MBIA Corp. s treasury and pricing groups. Prior to joining the Company in 1997, Mr. Ferreri was with Moody s Investors Service and Ernst & Young.

Mark D. Zucker is Vice President of the Company and head of the Structured Finance Division. Prior to joining the Company in March 2000, Mr. Zucker was Chief Credit Officer Investment Banking at Rabobank International.

Mitchell I. Sonkin is Vice President of the Company and head of the IPM Division. Prior to joining the Company in April 2004, Mr. Sonkin was senior partner and co-chair of the Financial Restructuring Group of the international law firm of King & Spalding.

Christopher E. Weeks is Vice President of the Company and head of the International Division. Mr. Weeks has served in various capacities since joining the Company in 1995, most recently as the business manager in MBIA Corp. s Structured Finance Division responsible for CDO and secondary markets activity.

Clifford D. Corso is Vice President of the Company, the Company s Chief Investment Officer and the president of MBIA Asset Management. He joined the Company in 1994 and has served as Chief Investment Officer since 2000.

Thomas G. McLoughlin is Vice President of the Company and head of the Public Finance Division. Since joining MBIA Corp. in 1994, he has been primarily involved in the public finance area.

William C. Fallon is Vice President of the Company and head of Corporate and Strategic Planning. Prior to joining the Company in 2005, Mr. Fallon was a partner at McKinsey & Company and co-leader of that firm s Corporate Finance and Strategy Practice.

Willard I. Hill, Jr. is Vice President and Chief Compliance Officer of the Company. Prior to being named Chief Compliance Officer in December 2005, Mr. Hill was in charge of equity investor relations, a position he has held since joining the Company in 2004. Previously, Mr. Hill was president of the government deferred compensation and domestic emerging markets business at ING US Financial Services. From 1980 to 2000, Mr. Hill held various positions at Aetna.

In February 2005, John Pizzarelli resigned as head of MBIA Corp. s Public Finance Division and was replaced by Thomas G. McLoughlin. Previously, Mr. McLoughlin had been the head of the Global Transportation and Infrastructure Group in MBIA Corp. s Public Finance Division.

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Item 1A. Risk Factors

In addition to the other information contained in this Form 10-K, the following risk factors should be considered carefully when evaluating the Company and its business. The Company s business, financial condition and results of operations could be materially adversely affected by any of these risks. Additional risks not presently known to us or that we currently deem immaterial individually may also adversely affect our business, financial condition and results of operations.

Reduction in MBIA Corp. s Financial Strength Ratings Would Materially and Adversely Affect Future Business

MBIA Corp. s ability to attract new business and to compete with other Triple-A rated financial guarantors is largely dependent on the Triple-A financial strength ratings assigned to it by the major rating agencies and the financial enhancement rating assigned by S&P. MBIA Corp. intends to comply with the requirements imposed by the rating agencies to maintain such ratings; however, no assurance can be given that these requirements will not change or that, even if MBIA Corp. complies with these requirements, one or more of such rating agencies will not lower or withdraw its financial strength ratings of MBIA Corp. or place MBIA Corp. on negative outlook, indicating that a downgrade may be considered in the future. MBIA Corp. s ability to attract new business and to compete with other Triple-A rated financial guarantors, and its results of operations and financial condition, would be materially adversely affected by any reduction, or suggested possibility of reduction, in its ratings. See Part I, Item 1. Business - Rating Agencies.

Competition May Have an Adverse Effect on MBIA Corp. s Business

The businesses engaged in by MBIA Corp. are highly competitive. MBIA Corp. faces competition from other financial guarantee insurance companies, other providers of third-party credit enhancement, such as multi-line insurance companies, credit derivative and swap providers and banks, and alternative financing structures that do not employ third-party credit enhancement. Increased competition, either in terms of price, alternative structures, or the emergence of new providers of credit enhancement, could have an adverse effect on MBIA Corp. s business. See Part I, Item 1. Business - Competition.

Market and Other Factors May Cause Investors and/or Issuers to Decrease Demand for MBIA Corp. s Products

The demand for financial guarantee insurance depends upon many factors, some of which are beyond the control of MBIA Corp. While all the major financial guarantee insurers have Triple-A financial strength ratings from the major rating agencies, investors may from time to time distinguish among financial guarantors on the basis of various factors, including size, insured portfolio concentration and financial performance. These distinctions may result in differentials in trading levels for securities insured by particular financial guarantors which, in turn, may provide a competitive advantage to those financial guarantors with better trading characteristics. In addition, various investors may, due to regulatory or internal guidelines, lack additional capacity to purchase securities insured by certain financial guarantors, which may provide a competitive advantage to guarantors with fewer insured obligations outstanding. Distinctions in trading values or investor capacity constraints that do not favor MBIA Corp. would have an adverse effect on MBIA Corp. s ability to attract new business at appropriate pricing levels.

Changes in Interest Rates Could Adversely Affect Financial Condition and Future Business

Increases in prevailing interest rate levels can adversely affect the value of the Investment Portfolio and, therefore, the Company s financial condition. In the event that investments must be sold in order to make payments on insured exposures, such investments would likely be sold at discounted prices. Additionally, increasing interest rates could lead to increased credit stress on transactions in MBIA Corp. s insured portfolio.

Prevailing interest rate levels can affect demand for financial guarantee insurance. Lower interest rates are typically accompanied by narrower spreads between insured and uninsured obligations. The purchase of insurance during periods of relatively narrower interest rate spreads will generally provide lower cost savings to the issuer than during periods of relatively wider spreads. These lower cost savings could be accompanied by a corresponding decrease in demand for financial guarantee insurance. Increased interest rates may decrease attractiveness for issuers to enter into capital markets transactions, resulting in a corresponding decreasing demand for financial guarantee insurance.

Demand for Financial Guarantee Insurance Would Decline if Investors Confidence in Financial Guarantor Financial Strength Declined

The perceived financial strength of financial guarantee insurers also affects demand for financial guarantee insurance. Should a major financial guarantee insurer, or the industry generally, have its financial strength rating lowered, or suffer for some other reason deterioration in investors confidence, demand for financial guarantee insurance may be reduced significantly.

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Regulatory Change Could Adversely Affect MBIA Corp. s Ability to Enter into Future Business

The financial guarantee insurance industry has historically been and will continue to be subject to the direct and indirect effects of governmental regulation, including insurance laws, securities laws, tax laws and legal precedents affecting asset-backed and municipal obligations, as well as changes in those laws. Failure to comply with applicable laws and regulations could expose MBIA Corp. to fines, the loss of its insurance licenses, and the inability to engage in certain business activity. In addition, future legislative, regulatory or judicial changes could adversely affect MBIA Corp. s ability to pursue its business, materially impacting our financial results. See Business Insurance Regulation in Part I, Item 1 for a description of current insurance regulations affecting MBIA Corp.

The Company has announced that it was in discussions with the SEC, the NYAG and the NYSID regarding potential settlements of their investigations into agreements entered into by MBIA Corp. in connection with the AHERF matter. In connection with the potential settlements with these regulators, the Company restated its financial statements for prior periods and accrued $75 million for the total amount the Company estimates, based on discussions to date, it will have to pay in connection with such settlements. To date, no settlements have been approved by the regulatory agencies. No assurance can be given that any settlements with the Company s regulators will be approved or that any settlement, if approved, will not have additional or different terms, which terms could have an adverse impact on the Company s business, prospects or financial condition. See Legal Proceedings in Part I, Item 3 for more information on the regulatory investigation.

Revenues Would Be Adversely Impacted Due to Decline in Realization of Installment Premiums

Due to the installment nature of a significant percentage of its premium income, MBIA Corp. has an embedded future revenue stream. The amount of installment premiums actually realized by MBIA Corp. could be reduced in the future due to factors such as early termination of insurance contracts or accelerated prepayments of underlying obligations. Such a reduction would result in lower revenues and would have an adverse effect on the Company s future financial position.

Adverse Results from Investment Management Services Activities Can Adversely Affect the Company s Financial Position

The Company s Investment Management Services businesses have grown as a proportion of its overall business (see Part I, Item 1. Business-Investment Management Services). Events that negatively affect the performance of the Investment Management Services businesses could have a negative effect on the overall performance of the Company, separate and distinct from the performance of the Company s financial guarantee business.

The Company s Investment Management Services businesses manage several asset-liability programs which enable the Company to earn a spread between the income earned on a portfolio of assets and the interest costs associated with the liabilities incurred to fund the purchase of such assets. These asset-liability programs are managed within a number of risk and liquidity parameters, but there can be no assurance that such parameters are adequate to prevent a decline in the value of the assets or a decline in investment income such that the programs will be unable to service outstanding liabilities. Any resulting loss could have an adverse impact on the Company s financial position.

Ability to Expand Investment Management Services Activities or Enter into Business Lines May Be Limited by Rating Agencies and/or Others

A rating agency has indicated that it will examine the non-core activities carried on by financial guaranty insurance company affiliates (such as the investment management and related services and sponsored MTN programs carried on by the Company s Investment Management Services businesses) and their impact on the overall credit profile of affiliated financial guarantors. In the event that a negative view of such activities exists, the Company may elect to delay or forego opportunities to grow its non-core business in the future and/or curtail its current investment management services operations.

Loss Reserves May Not Be Adequate to Cover Potential Losses

The financial guarantees issued by MBIA Corp. insure the financial performance of the obligations guaranteed over an extended period of time, in some cases over 30 years, under policies that MBIA Corp. has, in most circumstances, no right to cancel. As a result of the lack of statistical loss data due to the low level of losses in MBIA Corp. s financial guarantee business and in the financial guarantee industry in general, particularly in the structured asset-backed area, MBIA Corp. does not use traditional actuarial approaches to determine its loss reserves. Instead, an unallocated loss reserve is established in an amount deemed adequate to cover the expected levels of losses and loss adjustment expense on MBIA Corp. s overall portfolio. The size of the unallocated loss reserve is determined by a formula, the components of which are reviewed regularly. The establishment of the appropriate level of loss reserves is an inherently uncertain process involving numerous estimates and subjective judgments by management, and therefore, there can be no assurance that actual losses in MBIA Corp. s insured portfolio will not

exceed its loss reserves. Losses from future defaults,

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depending on their magnitude, could exceed loss reserves and therefore, have an adverse effect on the results of operations and financial condition of MBIA Corp. See Part I, Item 1. Business - Losses and Reserves; Remediation.

Unanticipated Catastrophic Events and Operational Risks May Adversely Impact MBIA Corp. s Insured Portfolio and Future Business

The Company s insurance operations underwrite and assess credit and other risks using internal models which are based on historical performance and default rates, as well as the Company s reasonable expectation of future performance. The Company manages its insurance and other exposures in an attempt to minimize the severity and impact of unexpected events. There can be no assurance, however, that the Company s internal models and portfolio management policies adequately assess and address the risk of unforeseen events, unexpectedly catastrophic events or the impact of risks with a severity significantly higher than those previously experienced, or that the assumptions which underlie the Company s internal models and policies are accurate. There can be no assurance that the Company will not incur material losses if such unforeseen, catastrophic or high severity events occur. In addition, even in the absence of unforeseen, catastrophic or high severity events, there can be no assurance that the Company s internal models, portfolio management policies and other internal systems and processes (or models, tools and services provided by third-parties) will be properly utilized or implemented in the normal operation of the Company s business. Any failure of such processes, models and systems and/or employee misconduct or fraud could have an adverse impact on the Company s business and financial condition.

Increased Rating Agency Capital Charges May Adversely Impact Future Business

Individual credits in MBIA Corp. s insured portfolio (including potential new credits) are assessed a rating agency capital charge based on a variety of factors including the nature of the credits, their underlying ratings and their expected and actual performance. In the event of an actual or perceived deterioration in creditworthiness, a reduction in the underlying rating or a change in the rating agency capital methodology, the Company may be required to hold more of its capital in reserve against credits in its insured portfolio, regardless of whether losses actually occur, or against potential new business. There can be no assurance that the Company s capital position will be adequate to meet such increased reserve requirements or that the Company will be able to secure additional capital, especially at a time of actual or perceived deterioration in creditworthiness of new or existing credits. Unless the Company was able to increase its amount of available capital, an increase in capital charges could reduce the amount of capital available to pay claims and support MBIA Corp. s Triple-A ratings and could have an adverse affect on MBIA Corp. s ability to write new business.

Potential Impact of General Economic and Geopolitical Conditions May Adversely Affect MBIA Corp. s Business Prospects and Insured Portfolio

Changes in general economic conditions can adversely impact the Company s business. Recessions, increases in corporate, municipal or consumer default rates, changes in interest rates, changes in law or regulation and other general economic and geopolitical conditions could adversely impact the Company s prospects for future business, as well as the performance of MBIA Corp. s insured portfolio and the Investment Portfolio.

General global unrest could disrupt the economy in this country and around the world and could have a direct material adverse impact on certain industries and on general economic activity. The Company has exposure in certain sectors that could suffer increased delinquencies and defaults as a direct result of these types of events. The Company s exposure to domestic and international airports and to domestic enhanced equipment trust certificate aircraft securitizations have experienced increased stress as a result of global events since 2001, including a downgrading of the ratings and the bankruptcy of some of the underlying issuers, and could experience further stress in the event of general global unrest in the future. Other exposures that depend on revenues from business and personal travel, such as bonds backed by hotel taxes and car rental fleet securitizations, have experienced or may experience increased levels of delinquencies and default. In addition, certain other sectors in which the Company has insured exposure, such as consumer loan securitizations (e.g., home equity, auto loan and credit card transactions), have experienced increased delinquencies and defaults in the underlying pools of loans and could experience further defaults in the event of future global unrest. To the extent that certain corporate sectors may be vulnerable to credit deterioration and increased defaults in the event of future global unrest, collateralized debt obligations backed by pools of corporate debt issuances in those stressed sectors could also be adversely impacted.

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

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An Inability to Access Capital Could Adversely Affect Liquidity and Impact Ability to Write New Business

The Company s access to external sources of financing, as well as the cost of such financing, is dependent on various factors, including the long term debt ratings of the Company and the perceptions of the financial strength of MBIA Corp. The Company s debt ratings are influenced by numerous factors, either in absolute terms or relative to our peer group such as financial leverage, balance sheet strength, capital structure and earnings trends. If the Company cannot obtain adequate capital on favorable terms or at all, the Company s business, operating results and financial condition could be adversely affected.

MBIA Corp. has entered into credit facilities with third-party providers in order to supplement its capital position. When evaluating the Company s overall capital position, the rating agencies evaluate the financial strength of these providers, as well as their perceived willingness to fund these facilities if drawn. In the event that the ratings of these capital providers are reduced or withdrawn, the amount of capital credit the Company receives for these facilities would decline. There can be no assurance that the ratings of such providers will not decline in the future, that replacement providers will be available or, in the absence of a rating decline, that the rating agencies would not decrease the amount of capital credit they assign to the Company for such soft capital facilities. The inability to obtain adequate replacement capital on favorable terms or at all could have an adverse impact on the Company s business and financial condition.

Regulatory Regime and Changes to Accounting Rules May Adversely Impact Financial Results Irrespective of Business Operations

The Company applies fair value accounting for the portion of MBIA Corp. s business executed in credit derivative form as required by SFAS 133 and changes in fair value are recognized immediately in earnings. Therefore, any increases or decreases in the fair value of these credit derivatives will have an immediate corresponding impact on reported earnings. As changes in fair value can be caused by factors unrelated to the performance of the Company s business such as general market conditions and perceptions of credit risk, as well as events affecting particular insured credit default swap exposures, the application of fair value accounting may cause the Company s earnings to be more volatile than would be suggested by the actual performance of the Company s business operations. In addition, due to the complexity of fair value accounting and the application of SFAS 133, future amendments or interpretations of SFAS 133 may cause the Company to modify its accounting methodology in a manner which may have an adverse impact on the Company s financial results.

In addition, accounting standard and regulatory changes may require modifications to the Company s accounting methodology, both prospectively and for prior periods and such changes could have an adverse impact on the Company s financial results. As discussed in Part I, Item 1B. Unresolved Staff Comments below, the SEC and the FASB are considering the accounting methodology to be applied by financial guarantee industry participants for claims liability recognition, premium recognition, amortization of deferred policy acquisition costs and financial guarantee enhanced securities held for sale in guarantor investment portfolios. Until any final determination is reached, the Company intends to apply its existing methodology. There can be no certainty, however, that the SEC or the FASB will not require the Company to modify its current methodology, either on a going-forward basis or for prior periods. Any required modification of the Company s existing methodology, either with respect to these issues or other issues in the future, could have an impact on the Company s results of operations.

Item 1B. Unresolved Staff Comments

The Company s Investment Portfolio includes fixed income investments that were insured by MBIA Corp. at the time such obligations were issued (MBIA Insured Investments). As of December 31, 2005, MBIA Insured Investments, (excluding Conduit investments) amounted to $4.4 billion, or 14% of the Company s total Investment Portfolio. MBIA Insured Investments are accounted for as available-for-sale in the Investment Portfolio and recorded at fair value, which includes the value of the MBIA Corp. guarantee. Beginning in January 2005, several financial guarantee industry participants, including the Company, have received written comments from the SEC staff regarding the proper accounting treatment for financial guarantee enhanced securities held for sale in the investment portfolio of the financial guarantor who provided the enhancement for the portfolio security, or in the case of MBIA Corp., MBIA Insured Investments. Recent discussions with the SEC staff suggest that the SEC staff s tentative view of the appropriate accounting for MBIA Insured Investments is to extinguish a portion of the contingent guarantee obligation related to the amount acquired. The Company cannot predict how the SEC staff will resolve this issue and the resulting impact on the Company s consolidated financial statements. Until the issue is resolved, the Company intends to apply its existing methodology. There can be no certainty, however, that the SEC will not require the Company to modify its methodology, either on a going-forward basis or for prior periods. For more information on the accounting methodology applied to investments in the Company s Investment Portfolio, see Note 3: Significant Accounting Policies Investments in the Notes to Consolidated Financial Statements of MBIA Inc. and Subsidiaries included in Part II, Item 8.

As a result of discussions in January and February 2005 between the SEC staff and several financial guarantee industry participants, including MBIA Corp., regarding differences in loss reserve recognition practices among these participants, the Company understood that the FASB staff

would consider whether additional guidance with respect to accounting for financial guarantee insurance should be provided. In June 2005, the FASB decided to add to its agenda a project to consider the accounting by

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insurers for financial guarantee insurance. As part of this project the FASB will consider several aspects of the insurance accounting model for financial guarantee insurers, including claims liability recognition, premium recognition and the related amortization of deferred policy acquisition costs. The Company cannot currently assess how the FASB s and SEC staff s ultimate resolution of this issue will impact MBIA Corp. s loss reserving policy or the effect it might have on recognizing premium revenue and policy acquisition costs. When the FASB or the SEC reaches a conclusion on this issue, the Company and its financial guarantor peers may be required to change some aspects of its loss reserving policies and the potential changes could extend to premium and expense recognition. Until the issue is resolved, the Company intends to continue to apply its existing policy with respect to the establishment of both case basis and unallocated loss reserves and the recognition of premium revenue and policy acquisition costs. A further description of the Company s loss reserving policy is included in Note 3: Significant Accounting Policies in the Notes to Consolidated Financial Statements of MBIA Inc. and Subsidiaries in Part II, Item 8.

Item 2. Properties

MBIA Corp. owns the 265,000 square foot office building on approximately 18 acres of property in Armonk, New York, in which the Company, MBIA Corp. and MBIA Asset Management have their headquarters. The Company has over the past several years added approximately 20 additional acres adjacent to its current headquarters in order to provide an ability to expand its headquarters as needed. MBIA Corp. also has offices with 39,900 square feet of rental space in New York, New York, San Francisco, California, Paris, France, Madrid, Spain, Sydney, Australia, London, England, Milan, Italy, and Tokyo, Japan. MuniServices has a total of 30,390 square feet of rental space in Washington, D.C., Detroit, Michigan, Philadelphia, Pennsylvania, Bensalem, Pennsylvania and five locations in California. Capital Asset rents 21,690 square feet for its offices in Pittsburgh, Pennsylvania, Palm Beach, Florida and Hingham, Massachusetts. MBIA Asset Management has 7,500 square feet of office space in Denver, Colorado. The Company believes that these facilities are adequate and suitable for its current needs.

Item 3. Legal Proceedings

In the normal course of operating its businesses, the Company may be involved in various legal proceedings. Various trusts that have been insured by MBIA Corp., and that own first and second mortgages have been named in lawsuits alleging that the originator of the mortgages, together with other trusts that are not insured and other entities that own first and second mortgages, violated state and federal truth in lending laws. In most of these cases the originators of the loans are no longer in business, and the plaintiffs are alleging that the current owners of the mortgages, including the MBIA insured trusts, are liable for the alleged violations of the originator as assignees of the mortgages. MBIA Corp. has not been named as a defendant in any of these lawsuits. The Company believes that the insured trusts will ultimately prevail in the litigation. We do not expect there to be any material losses in the trusts as a result of these lawsuits, but no assurances can be given as to the potential outcome of these actions.

In July 2002, MBIA Corp. filed suit against Royal Indemnity Company (Royal), in the United States District Court for the District of Delaware, to enforce insurance policies that Royal issued on certain vocational student loan transactions that MBIA Corp. insured. To date, claims in the amount of approximately $352 million have been made under the Royal policies with respect to loans that have defaulted. MBIA Corp. expects that there will be additional claims made under the policies with respect to student loans that may default in the future. Royal has filed an action seeking a declaration that it is not obligated to pay on its policies. If Royal does not honor its policies, MBIA Corp. will be required to make payment on the notes it insured, and will incur material losses under its policies. In October 2003, the court granted MBIA Corp. s motion for summary judgment and ordered Royal to pay all claims under its policies. Royal appealed the order, and pledged $389 million of investment grade collateral to MBIA Corp. to secure the entire amount of the judgment, with interest, and has agreed to post additional security for future claims and interest. The Federal District Court has ordered Royal to comply with the pledge agreement.

On October 3, 2005, the Court of Appeals for the Third Circuit upheld the decision of the United States District Court for the District of Delaware enforcing the Royal insurance policies and remanded the case to the District Court for a determination of whether the Royal policies cover all losses claimed under the policies. In particular, the Court of Appeals directed the District Court to consider whether the Royal policies cover losses resulting from the misappropriation rather than from defaults by students. MBIA Corp. believes that the Royal policies cover losses even if they result from misappropriations of student payments, but in any event it appears that all or substantially all of the claims made under the Royal policies relate to defaults by students rather than misappropriation of funds. Therefore, MBIA Corp. expects Royal to be required to pay all or substantially all of the claims made under its policies and to be reimbursed for any payments MBIA Corp. made under its policies. Royal has requested that the case be reheard *en banc*.

MBIA Corp. believes that it will prevail in the litigation with Royal and will have no ultimate loss on these policies, although there can be no assurance that MBIA Corp. will in fact prevail. If MBIA Corp. does not prevail in the litigation and Royal does not make payments on the Royal policies, MBIA Corp. expects to incur material losses under its policies. MBIA Corp. does not believe, however, that any such losses will have a

material adverse effect on its financial condition.

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In November 2004, the Company received identical document subpoenas from the SEC and the NYAG requesting information with respect to non-traditional or loss mitigation insurance products developed, offered or sold by the Company to third parties from January 1, 1998 to the present. While the subpoenas did not identify any specific transaction, subsequent conversations with the SEC and the NYAG revealed that the investigation included the arrangements entered into by MBIA Corp. in 1998 in connection with the bankruptcy of the Delaware Valley Obligated Group, an entity that is part of AHERF.

On March 9, 2005, the Company received a subpoena from the U.S. Attorney s Office for the Southern District of New York (U.S. Attorney) seeking information related to the agreements it entered into in connection with the AHERF loss. Thereafter, the Company has received additional subpoenas, substantively identical to each other, and additional informal requests, from the SEC and the NYAG for documents and other information.

On August 19, 2005, the Company received a Wells Notice from the SEC indicating that the staff of the SEC is considering recommending that the SEC bring a civil injunctive action against the Company alleging violations of federal securities laws arising from MBIA s action to retroactively reinsure losses it incurred from the AHERF bonds MBIA had guaranteed, including, but not limited to, its entering into excess of loss agreements and quota share agreements with three separate counterparties.

On November 8, 2005, the Company announced that it was in discussions with the SEC, the NYAG and the NYSID regarding potential settlements of their investigations into agreements entered into by MBIA Corp. in connection with the AHERF matter. In connection with the potential settlements, the Company announced that it was restating its financial statements to correct and restate its GAAP and statutory accounting for 1998 and subsequent years as discussed in Note 2: Restatement Of Consolidated Financial Statements in the Notes to Consolidated Financial Statements of MBIA Inc. and Subsidiaries in Part II, Item 8 and Restatement of Consolidated Financial Statements in Management s Discussion and Analysis of Financial Condition and Results of Operations in Part II, Item 7. In connection with the proposed settlements, the Company accrued $75 million for the total amount the Company estimates, based on discussions to date, it will have to pay in connection with any settlements.

The Company has been cooperating, and is continuing to cooperate fully with the investigations by the SEC, the NYAG, the NYSID and the U.S. Attorney. To date, no settlements have been approved by the regulatory agencies, and no assurance can be given that any settlements will be approved. Any settlements may have additional or different terms.

The Company has been named as a defendant in a consolidated private securities litigation suit: *In re MBIA Inc. Securities Litigation*; (Case No. 05 CV 03514(LLS); S.D.N.Y.) (filed October 3, 2005). Joseph W. Brown, the Company s Chairman and former Chief Executive Officer, Gary C. Dunton, the Company s Chief Executive Officer, Nicholas Ferreri, the Company s Chief Financial Officer, Neil G. Budnick, a Vice President of the Company and the Company s former Chief Financial Officer and Douglas C. Hamilton, the Company s Controller were also named as defendants in the suit, as were former Chairman and Chief Executive Officer David H. Elliot and former Executive Vice President, Chief Financial Officer and Treasurer Julliette S. Tehrani. The plaintiffs assert claims under Section 10(b) of the Securities Exchange Act of 1934 (the Exchange Act), Rule 10b-5 promulgated thereunder, and Section 20(a) of the Exchange Act. The lead plaintiffs act as representatives for a class consisting of purchasers of the Company s stock during the period from August 5, 2003 to March 30, 2005 (the Class Period). The allegations contained in the lawsuit include, among other things, violations of the federal securities laws arising out of the Company s allegedly false and misleading statements about its financial condition and the nature of the arrangements entered into by MBIA Corp. in connection with the AHERF loss. The plaintiffs allege that, as a result of these misleading statements or omissions, the Company s stock traded at artificially inflated prices. These lawsuits seek unspecified compensatory damages in connection with purchases by members of the class of the Company s stock at such allegedly inflated prices during the Class Period. The Company does not expect the outcome of the private securities litigation to have a material adverse affect on its financial condition, although the outcome is uncertain and no assurance can be given that the Company will not suffer a loss.

Certain officers of the Company and certain members of the Company s Board of Directors have been named as defendants in a shareholder derivative action filed on behalf of the Company in the Supreme Court of New York, Westchester County on November 9, 2005: *Robert Purvis, Derivatively on Behalf of Nominal Defendant MBIA, Inc. v. Joseph W. Brown, Neil G. Budnick, C. Edward Chaplin, David C. Clapp, Clifford D. Corso, Gary C. Dunton, Claire L. Gaudiani, Daniel P. Kearney, Laurence H. Meyer, Debra J. Perry, John A. Rolls, and Ruth M. Whaley* (Case No. 20099-05). The plaintiff asserts claims for the benefit of the Company to redress injuries suffered by the Company as a result of alleged breaches of fiduciary duties by the named defendants in connection with the Company s accounting for certain transactions, including the AHERF loss. In addition, the plaintiff alleges that the officer defendants were unjustly enriched as a result of such alleged breach. The lawsuit seeks disgorgement to the Company of compensation granted to such officers, legal costs and unspecified equitable relief to remedy defendant s breaches of fiduciary duties.

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.

Item 4. Submission of Matters to a Vote of Security Holders

Not Applicable.

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PART II

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

The Company s common stock is listed on the New York Stock Exchange under the symbol MBI. As of March 1, 2006 there were 948 shareholders of record of the Company s common stock. The information concerning dividends on the Company s common stock is under Item 1. Business Insurance Regulation in this annual report.

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

	2005			2004		
	Sales Price		Cash Dividends	Sales Price		Cash Dividends
Quarter Ended	**High**	**Low**	**Declared**	**High**	**Low**	**Declared**
March 31	$ 63.33	$ 52.10	$ 0.24	$ 67.34	$ 58.90	$ 0.20
June 30	61.35	49.07	0.28	64.90	54.30	0.24
September 30	63.23	54.75	0.28	59.14	52.55	0.24
December 31	64.00	54.15	0.28	65.21	53.43	0.24

The Company expects to continue its policy of paying regular dividends, although there is no assurance as to future dividends because they depend on future earnings, capital requirements, and financial condition.

From time to time, the Company repurchases shares of its common stock when, in the opinion of management, it is economically advantageous to do. In August 1999, the Company s Board of Directors authorized the repurchase of up to 11.25 million shares of the Company s common stock (after adjusting for the 2001 stock split). In July 2004, the Company completed the repurchase of all 11.25 million shares and received authorization from its Board of Directors to repurchase 1 million shares under a new repurchase program. On August 5, 2004, the Board of Directors authorized the repurchase of an additional 14 million shares of its common stock in connection with the new repurchase program. The Company will only repurchase shares of its common stock under the repurchase program when it feels that it is economically attractive to do so and in conformity with regulatory and rating agency guidelines.

The table below sets forth repurchases made by the Company in each month during the fourth quarter of 2005, all of which were purchased by the Company for settling awards under the Company s long-term incentive plans.

Month	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan	Maximum Number of Shares That May Yet Be Purchased Under the Plan
October	1,707	$ 57.84	0	4,995,900
November	38,962	61.95	0	4,995,900
December	35,649	60.69	0	4,995,900

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Item 6. Selected Financial Data

Selected Financial and Statistical Data

MBIA Inc. and Subsidiaries

Dollars in millions except per share amounts	*2005*	*2004*	*2003*	*2002*	*2001*
GAAP Summary Income Statement Data:					
Insurance:					
Gross premiums written	**$ 985**	$ 1,117	$ 1,269	$ 952	$ 865
Premiums earned	**843**	850	773	618	547
Net investment income	**492**	474	438	433	413
Total insurance expenses	**294**	273	256	217	203
Insurance income	**1,056**	1,208	1,166	818	795
Investment management services income	**131**	48	55	34	38
Corporate loss	**(173)**	(84)	(59)	(64)	(63)
Income from continuing operations before income taxes	**1,016**	1,173	1,163	789	765
Net income	**711**	**843**	**825**	**585**	**570**
Basic EPS:					
Income from continuing operations	**5.31**	**5.92**	**5.74**	**3.99**	**3.82**
Net income	**5.30**	**5.94**	**5.75**	**3.99**	**3.84**
Diluted EPS:					
Income from continuing operations	**5.19**	**5.80**	**5.68**	**3.96**	**3.80**
Net income	**5.18**	**5.82**	**5.69**	**3.96**	**3.81**
GAAP Summary Balance Sheet Data:					
Fixed-maturity investments	**24,476**	20,411	17,090	15,154	13,674
Held-to-maturity investments	**5,765**	7,540	8,891		
Short-term investments	**1,678**	2,405	1,913	1,728	707
Other investments	**235**	262	357	213	135
Total assets	**34,561**	33,036	30,301	18,796	16,172
Deferred premium revenue	**3,185**	3,211	3,080	2,755	2,565
Loss and LAE reserves	**722**	749	712	638	595
Investment agreements	**10,806**	8,679	6,959	6,388	6,055
Commercial paper	**860**	2,599	2,640		
Medium-term notes	**7,542**	6,944	7,092	842	
Long-term debt	**1,210**	1,333	1,022	1,033	805
Shareholders equity	**6,592**	6,559	6,150	5,369	4,653
Book value per share	**49.17**	47.05	42.75	37.10	31.37
Dividends declared per common share	**1.120**	0.960	0.800	0.680	0.600
Financial Ratios:					
Loss and LAE ratio	**10.0%**	10.0%	10.0%	10.5%	11.1%
Underwriting expense ratio	**24.9**	22.2	23.2	24.5	26.0
Combined ratio	**34.9**	32.2	33.2	35.0	37.1
Net debt service outstanding [1]	**$ 889,019**	**$ 890,222**	**$ 835,774**	**$ 781,589**	**$ 722,408**
Net par amount outstanding [1]	**$ 585,003**	**$ 585,575**	**$ 541,026**	**$ 497,343**	**$ 452,409**

(1) Net of reinsurance and other reimbursement arrangements not accounted for as reinsurance.

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

FORWARD-LOOKING AND CAUTIONARY STATEMENTS

This annual report of MBIA Inc. (MBIA or the Company) 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, intend, will likely result, looking forward or will continue, and similar expressions identify forward-looking state 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. 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:

- fluctuations in the economic, credit, interest rate or foreign currency environment in the United States (U.S.) and abroad;
- level of activity within the national and international credit markets;
- competitive conditions and pricing levels;
- legislative or regulatory developments;
- technological developments;
- changes in tax laws;
- the effects of mergers, acquisitions and divestitures; and
- uncertainties that have not been identified at this time.

The Company undertakes no obligation to publicly correct or update any forward-looking statement if it later becomes aware that such results are not likely to be achieved.

OVERVIEW

MBIA is a leading provider of financial guarantee products and specialized financial services. MBIA provides innovative and cost-effective products and services that meet the credit enhancement, financial and investment needs of its public- and private-sector clients worldwide. MBIA manages its activities primarily through three principal business operations: insurance, investment management services and municipal services. The Company s corporate operations include revenues and expenses that arise from general corporate activities and not from one of the Company s three principal business operations.

MBIA s insurance operations are principally conducted through MBIA Insurance Corporation and its subsidiaries (MBIA Corp.). MBIA Insurance Corporation has Triple-A financial strength ratings from Standard and Poor s Corporation (S&P), Moody s Investors Service, Inc. (Moody s), Fitch, Inc. and Rating and Investment Information, Inc. Additionally, MBIA Insurance Corporation s insurance subsidiaries have Triple-A financial strength ratings from at least S&P and Moody s. MBIA Corp. issues financial guarantees for municipal bonds, asset-backed and mortgage-backed securities, investor-owned utility bonds, bonds backed by publicly or privately funded public-purpose projects, bonds issued by sovereign and sub-sovereign entities, obligations collateralized by diverse pools of corporate loans and credit default swaps and pools of corporate and asset-backed bonds, both in the new issue and secondary markets. The financial guarantees provide an unconditional and irrevocable guarantee of the payment of principal and interest on insured obligations when due.

MBIA s investment management services operations provide an array of products and services to the public, not-for-profit and corporate sectors. Such products and services are provided primarily through wholly owned subsidiaries of MBIA Asset Management, LLC and include cash management, discretionary asset management and fund administration services and investment agreement, medium-term note and commercial paper programs related to funding assets for third-party clients and for investment purposes.

MBIA s municipal services operations provide revenue enhancement services and products to public-sector clients nationwide, consisting of discovery, audit, collections/recovery and information services through MBIA MuniServices Company and its wholly owned subsidiaries. Additionally, the municipal services operations include Capital Asset Holdings GP, Inc. and certain affiliated entities (Capital Asset), a servicer of delinquent tax certificates.

The Company s results of operations for the years ended December 31, 2005, 2004 and 2003 are discussed in the Results of Operations section included herein.

MBIA Inc. and Subsidiaries

Management s Discussion and Analysis

of Financial Condition and Results of Operations (Continued)

RESTATEMENT OF CONSOLIDATED FINANCIAL STATEMENTS

On November 8, 2005, MBIA announced its decision to correct and restate its previously issued financial statements for 1998 and subsequent years in connection with potential settlements of investigations by the Securities and Exchange Commission (SEC) and the New York Attorney General s Office (NYAG) regarding agreements entered into by its subsidiary, MBIA Corp., in 1998. On November 12, 2005, MBIA filed with the SEC Amendment No. 1 on Form 10-K/A to its Form 10-K for the year ended December 31, 2004 to reflect the restatement of its financial statements as of and for the years ended December 31, 2004, 2003, 2002, 2001, 2000, 1999 and 1998.

In 1998, three reinsurers, Converium Reinsurance (North America) Inc. (Converium), AXA Re Finance S.A. (ARF) and Muenchener Rueckversicherungs-Gesellshaft (Munich Re) paid the Company $170 million under three separate agreements (the Excess-of-Loss Agreements) in connection with losses the Company incurred on $265 million of MBIA-insured bonds issued by the Alleghany Health, Education and Research Foundation (AHERF). The Excess-of-Loss Agreements were structured as three successive excess-of-loss facilities that aggregated to $170 million. Under the Excess-of-Loss Agreements, Converium paid the Company $70 million, and Munich Re and ARF each paid the Company $50 million.

In connection with the arrangements for the Excess-of-Loss Agreements, the Company entered into quota share agreements with Munich Re, ARF and Converium (each a Quota Share Agreement and, collectively, the Quota Share Agreements). Under the Quota Share Agreements, the Company agreed to cede to the three reinsurers new business written with an aggregate par sufficient to generate $297 million in gross premiums over a six year period ending October 1, 2004. Of the $297 million in premiums to be ceded under the Quota Share Agreements, the Company agreed to cede to Converium cash premiums equal to $102 million, to ARF adjusted gross premiums of $97 million and to Munich Re adjusted gross premiums of $98 million over this period.

On March 8, 2005, the Company announced its decision to restate its financial statements for 1998 and subsequent years to correct the accounting for the agreements with Converium and reflected this correction in the consolidated financial statements of its original Annual Report on Form 10-K for the year ended December 31, 2004. At that time, the Company believed that the accounting for the Excess of Loss Agreements and Quota Share Agreements with Munich Re and ARF was appropriate under Statement of Financial Accounting Standards (SFAS) 113, Accounting and Reporting for Reinsurance of Short-Duration and Long-Duration Contracts.

The restatement of the Company s financial statements for the Munich Re and ARF Excess-of-Loss and Quota Share Agreements, made in connection with the potential settlements, corrects and restates its accounting for these agreements because, taking into account developments in the regulatory investigations since March and further accounting analyses, they did not satisfy the risk transfer requirements for reinsurance accounting under SFAS 113. As a result, the Company restated its financial statements issued prior to September 30, 2005 to reflect the Excess-of-Loss and Quota Share Agreements with Munich Re and ARF under deposit accounting in accordance with Statement of Position (SOP) 98-7, Deposit Accounting: Accounting for Insurance and Reinsurance Contracts That Do Not Transfer Risk instead of under reinsurance accounting. The Company also corrected and restated its 2004 statutory financial statements for the Munich Re and ARF Excess-of-Loss and Quota Share Agreements because they did not satisfy the requirements for reinsurance accounting under Regulation 108 of the New York State Insurance Department (NYSID). The restatements did not have a significant effect on the Company s financial position.

Additionally, in the third quarter of 2005, the Company completed a detailed review of its derivative instruments for which it applied shortcut method hedge accounting under SFAS 133, Accounting for Derivative Instruments and Hedging Activities , as amended. Shortcut method hedge accounting allows the assumption that the change in fair value of a hedged item exactly offsets the change in fair value of the related derivative. After completing its review, the Company determined that certain hedging relationships did not meet every technical aspect of shortcut method hedge accounting, although, such hedging relationships would have qualified for basic hedge accounting. Since the documentation that the Company prepared was designed to support shortcut method hedge accounting, it was not sufficient to support basic hedge accounting. As a result, the Company must account for these derivatives, from 2001 through September 30, 2005, as if they were not part of hedging relationships, which requires the change in fair value of these derivatives to be reflected in the Company s income statement without an offsetting change in fair value of the hedged items. The Company has restated its financial statements to correct the accounting for these derivatives for the year ended December 31, 2001 and subsequent periods through June 30, 2005. As of October 1, 2005, all of the subject hedging relationships

met the requirements for basic hedge accounting and have been recorded as such in the Company s financial statements for the year ended December 31, 2005.

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The following table presents the effects of the ARF, Munich Re and derivative accounting restatement on the consolidated financial statements of the Company for the three months ended March 31, 2005 and June 30, 2005. The effect of the Converium restatement was reflected in the previously issued consolidated financial statements of the Company for these periods.

	As of and For the Three Months Ended March 31, 2005		As of and For the Three Months Ended June 30, 2005	
In thousands except per share information	**Previously Reported**	**Restated**	**Previously Reported**	**Restated**
Consolidated Statement of Income Data:				
Ceded premiums	$ (35,688)	$ (32,126)	$ (33,641)	$ (31,622)
Net premiums written	246,931	250,493	215,324	217,343
Increase in deferred premium revenue	(40,693)	(39,648)	(6,391)	(3,958)
Scheduled premiums earned	169,873	173,760	177,207	180,902
Refunding premiums earned	36,365	37,085	31,726	32,483
Premiums earned	206,238	210,845	208,933	213,385
Net gains (losses) on derivative instruments and foreign exchange-insurance	(6,075)	(6,072)	4,119	4,002
Total insurance revenues	325,945	330,555	339,264	343,599
Losses and loss adjustment expenses	20,385	20,851	21,265	21,708
Amortization of deferred acquisition costs	16,293	16,657	16,506	16,858
Operating expenses	29,166	30,262	32,268	33,261
Total insurance expenses	65,844	67,770	70,039	71,827
Insurance income	260,101	262,785	269,225	271,772
Net gains (losses) on derivative instruments and foreign exchange-IMS	11,178	27,421	(3,439)	(27,395)
Investment management services income	36,812	53,055	15,372	(8,584)
Income from continuing operations before income taxes	277,706	296,633	261,312	239,903
Provision for income taxes	77,202	83,826	73,722	66,229
Income from continuing operations	200,504	212,807	187,590	173,674
Net income	$ 200,504	$ 212,807	$ 187,590	$ 173,674
Basic EPS:				
Income from continuing operations	$ 1.46	$ 1.55	$ 1.40	$ 1.30
Net income	$ 1.46	$ 1.55	$ 1.40	$ 1.30
Diluted EPS:				
Income from continuing operations	$ 1.43	$ 1.52	$ 1.37	$ 1.27
Net income	$ 1.43	$ 1.52	$ 1.37	$ 1.27
Consolidated Balance Sheet Data:				
Deferred acquisition costs	$ 371,932	$ 417,454	$ 383,006	$ 428,613
Prepaid reinsurance premiums	462,390	427,028	451,113	418,184
Reinsurance recoverable on unpaid losses	33,202	34,091	42,869	41,671
Derivative assets	270,648	270,485	252,637	252,544
Other assets	282,295	281,406	253,843	255,041
Total assets	33,756,665	33,766,662	34,784,595	34,797,180
Loss and loss adjustment expense reserves	755,563	778,064	667,570	690,801
Investment agreements	9,316,470	9,318,116	10,005,780	9,998,534

Deferred income taxes, net	573,849	563,551	661,184	654,888
Derivative liabilities	428,360	427,334	484,842	484,003
Other liabilities	381,426	397,724	396,596	412,019
Total liabilities	27,320,654	27,349,775	28,197,097	28,221,370
Retained earnings	5,377,327	5,361,923	5,527,063	5,497,743
Accumulated other comprehensive income	500,516	496,796	630,628	648,260
Total shareholders equity	$ 6,436,011	$ 6,416,887	$ 6,587,498	$ 6,575,810

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The restatement of the Company s financial statements did not have a material effect on its financial condition and MBIA does not expect the restatement to have any impact on its ratings or on the Triple-A ratings of MBIA Insurance Corporation. The following information presented in Management s Discussion and Analysis of Financial Condition and Results of Operations gives effect to the restatement.

CRITICAL ACCOUNTING ESTIMATES

The Company prepares its financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP). The following accounting estimates are viewed by management to be critical because they require significant judgment on the part of management. Financial results could be materially different if alternate methodologies were used or if management modified its assumptions.

LOSSES AND LOSS ADJUSTMENT EXPENSES The financial guarantees issued by MBIA Corp. insure scheduled payments of principal and interest due on various types of financial obligations against a payment default on such payments by the issuers of the obligations. Loss and LAE reserves are established by the Company s Loss Reserve Committee, which is comprised of members of senior management, and require the use of judgment and estimates with respect to the occurrence, timing and amount of a loss on an insured obligation.

The Company establishes two types of loss and loss adjustment expense (LAE) reserves for non-derivative financial guarantees: an unallocated loss reserve and case basis reserves. The unallocated loss reserve is established with respect to the Company s entire insured portfolio. The Company s unallocated loss reserve represents the Company s estimate of losses that have or are probable to occur as a result of credit deterioration in the Company s insured portfolio but which have not yet been specifically identified and applied to specific insured obligations.

Each quarter the Company calculates its provision for the unallocated loss reserve as a fixed percent of scheduled net earned premium. Annually, the Loss Reserve Committee evaluates the appropriateness of this fixed percent loss factor. In performing this evaluation, the Loss Reserve Committee considers the composition of the Company s insured portfolio by municipal sector, structured asset class, remaining maturity and credit quality, along with the latest industry data, including historical default and recovery experience for the relevant sectors of the fixed-income market in order to determine if a trend is developing that indicates the loss factor should be increased or decreased. In addition, the Company considers its own historical loss activity and how those losses develop over time. The Loss Reserve Committee reviews the results of its annual evaluation over a period of several years to determine whether any long-term trends are developing. The Company s additions to specific case basis reserves in the years ended December 31, 2005 and 2004 exceeded the 12% loss factor currently used by the Company. The Loss Reserve Committee is continuing to monitor this trend and evaluate whether an adjustment to the Company s current loss factor is appropriate. However, if a catastrophic or very unusual loss occurred, the Loss Reserve Committee would consider taking an immediate charge through Losses and loss adjustment expenses and possibly also increasing the loss factor in order to maintain an adequate level of loss reserves. Since 2002, the Company calculated its provision for the unallocated loss reserve as 12% of scheduled net earned premium.

Significant changes to any variables on which the 12% loss factor is based, over an extended period of time, would likely result in an increase or decrease in the Company s loss factor with a corresponding increase or decrease in the amount of the Company s loss and loss adjustment expense provision. For example, as external and internal statistical data are applied to the various sectors of the Company s insured portfolio, a shift in business written toward sectors with high default rates would likely increase the loss factor, while a shift toward sectors with low default rates would likely decrease the loss factor. Additionally, increases in statistical default rates relative to the Company s insured portfolio and in the Company s actual loss experience or decreases in statistical recovery rates and in the Company s actual recovery experience would likely increase the Company s loss factor. Conversely, decreases in statistical default rates relative to the Company s insured portfolio and in the Company s actual loss experience or increases in statistical recovery rates and in the Company s actual recovery experience would likely decrease the Company s loss factor. During the years ended December 31, 2005, 2004 and 2003, the Company calculated its provision for the unallocated loss reserve of $84 million, $85 million and $77 million, respectively. This provision represents loss and loss adjustment expenses as reported on the Company s income statement.

The Company establishes specific reserves in an amount equal to the Company s estimate of identified or case basis reserves with respect to specific policies. A number of variables are taken into account in establishing specific case basis reserves for individual policies that depend primarily on the nature of the underlying insured obligation. These variables include the nature and creditworthiness of the underlying issuer of the insured obligation, whether the obligation is secured or unsecured and the expected recovery rates on the insured obligation, the projected cash flow or market value of any assets that support the insured obligation and the historical and projected loss rates on such assets. Factors that may affect the actual ultimate realized losses for any policy include the state of the economy, changes in interest rates, rates of inflation and the salvage values of specific collateral. The Company does not believe that changes to these factors would materially change the amount of the Company s case basis loss reserves, with the exception of significant changes in salvage values of specific collateral. However, the Company does not believe that significant changes in salvage values of specific collateral are reasonably likely to occur.

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Management s Discussion and Analysis

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The Company s total loss reserves of $722 million represent a small fraction of its outstanding net debt service insured of $889 billion. However, management believes that these reserves are adequate to cover ultimate net losses. Given that the reserves are based on estimates, there can be no assurance that the ultimate liability will not exceed such estimates resulting in the Company recognizing additional loss and loss adjustment expense in earnings. While the underlying principles applied to loss reserving are consistent across the financial guarantee industry, differences exist with regard to the methodology and measurement of loss reserves. Alternate methods may produce different estimates than the method used by the Company. Additionally, the accounting for non-derivative financial guarantee loss reserves is possibly subject to change. See Note 3: Significant Accounting Policies in the Notes to Consolidated Financial Statements for a description of the Company s loss and loss adjustment expense accounting policy.

PREMIUM REVENUE RECOGNITION Upfront premiums are earned in proportion to the expiration of the related insured par while installment premiums are earned on a straight-line basis over each installment period, generally one year or less. Therefore, for transactions in which the premium is received upfront, premium earnings are greater in the earlier periods when there is a higher amount of par outstanding. The upfront premiums are apportioned to individual sinking fund payments of a bond issue according to an amortization schedule. After the premiums are allocated to each scheduled sinking fund payment, they are earned on a straight-line basis over the period of that sinking fund payment. Accordingly, deferred premium revenue represents the portion of premiums written that is applicable to the unexpired risk of insured bonds and notes. When an MBIA-insured issue is retired early, is called by the issuer, or is in substance paid in advance through a refunding accomplished by placing U.S. Government securities in escrow, the remaining deferred premium revenue is earned at that time since there is no longer risk to the Company.

The effect of the Company s upfront premium earnings policy is to recognize greater levels of upfront premiums in the earlier years of each policy insured, thus matching revenue recognition with exposure to the underlying risk. Recognizing premium revenue on a straight-line basis over the life of each policy without allocating premiums to the sinking fund payments would materially affect the Company s financial results. Premium earnings would be more evenly recorded as revenue throughout the period of risk than under the current method, but the Company does not believe that the straight-line method would appropriately match premiums earned to the Company s exposure to the underlying risk. Therefore, the Company believes its upfront premium earnings methodology is the most appropriate method to recognize its upfront premiums as revenue. The premium earnings methodology used by the Company is similar to that used throughout the financial guarantee industry.

VALUATION OF FINANCIAL INSTRUMENTS The fair market values of financial instruments held or issued by the Company are determined through the use of available market data and widely accepted valuation methods. Market data is retrieved from a variety of third-party data sources for input into the Company s valuation systems. Valuation systems are determined based on the characteristics of transactions and the availability of market data. The fair values of financial assets and liabilities are primarily calculated from quoted dealer market prices. However, dealer market prices may not be available for certain types of contracts that are infrequently purchased and sold. For these contracts, the Company may use alternate methods for determining fair values, such as dealer market quotes for similar contracts or cash flow modeling. Alternate valuation methods generally require management to exercise considerable judgment in the use of estimates and assumptions, and changes to certain factors may produce materially different values. In addition, actual market exchanges may occur at materially different amounts.

The Company s financial instruments categorized as assets are mainly comprised of investments in debt and equity instruments. The majority of the Company s debt and equity investments are accounted for in accordance with SFAS 115, Accounting for Certain Investments in Debt and Equity Securities. SFAS 115 requires that all debt instruments and certain equity instruments be classified in the Company s balance sheet according to their purpose and, depending on that classification, be carried at either amortized cost or fair market value. Quoted market prices are generally available for these investments. However, if a quoted market price is not available, a price is derived from internally developed models which use available market data. Equity investments outside the scope of SFAS 115 are accounted for under cost or equity method accounting principles. Other financial assets that require fair value reporting or disclosures within the Company s financial notes are valued based on underlying collateral or the Company s estimate of discounted cash flows.

MBIA regularly monitors its investments in which fair value is less than amortized cost in order to assess whether such a decline in value is other than temporary and, therefore, should be reflected as a realized loss in net income. Such an assessment requires the Company to determine the cause of the decline and whether the Company possesses both the ability and intent to hold the investment to maturity or until the value

recovers to an amount at least equal to amortized cost. Additionally, this assessment requires management to exercise judgment as to whether an investment is impaired based on market conditions and trends and the availability of relevant data. See Note 13: Investment Income and Gains and Losses in the Notes to Consolidated Financial Statements for further information regarding other than temporary losses recorded in net income.

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The Company s financial instruments categorized as liabilities primarily consist of obligations related to its asset/liability products, conduit medium-term note and conduit commercial paper programs, and debt issued for general corporate purposes. These liabilities are typically recorded at their face value adjusted for premiums or discounts. The fair values of such instruments are generally not reported within the Company s financial statements, but rather in the accompanying notes. However, financial liabilities that qualify as part of hedging arrangements under SFAS 133 are recorded at their fair values in the Company s balance sheet with respect to those risks being hedged. MBIA has instituted cash flow modeling techniques to estimate the value of its liabilities that qualify as hedged obligations under SFAS 133 based on current market data. Other financial liabilities that require fair value reporting or disclosures within the Company s notes to its financial statements are valued based on underlying collateral, the Company s estimate of discounted cash flows or quoted market values for similar transactions.

The Company s exposure to derivative instruments is created through contracts into which it directly enters and through third-party contracts it insures. The majority of MBIA s exposure to derivative instruments, measured by notional values, is related to certain synthetic collateralized debt obligations (CDOs) that it insures. These contracts meet the definition of a derivative under SFAS 133 but effectively represent an alternate form of financial guarantee execution. The fair values of the Company s derivative instruments are estimated using various valuation models that conform to industry standards. The Company utilizes both vendor-developed and proprietary models, based on the complexity of transactions. Dealer market quotes are typically obtained for regularly traded contracts and provide the best estimate of fair value for those contracts. However, when reliable dealer market quotes are not available, the Company uses a variety of market data relative to the type and structure of derivative contracts entered into by the Company. Several of the more significant types of market and contract data that influence the Company s valuation models include interest rates, credit quality ratings, credit spreads, default probabilities and diversity scores. The data is obtained from third-party sources and is reviewed for reasonableness and applicability to the Company s derivative portfolio. The fair value of the Company s derivative portfolio may be materially affected by changes in existing market data, the availability of new or improved market data, changes in specific contract data or enhancements to the Company s valuation models resulting from new market practices.

MBIA expects to hold all derivative instruments to their contractual maturity. Upon maturity of a contract, the unrealized value recorded in the Company s financial statements will be zero. However, in the unlikely event circumstances require the termination and settlement of a contract prior to maturity, any unrealized gain or loss will be realized.

The Company has dedicated resources to the development and ongoing review of its valuation models and has instituted procedures for the approval and control of data inputs. In addition, regular reviews are performed to ensure that the Company s valuation models are appropriate and produce values reflective of the current market environment. See Note 27: Fair Value of Financial Instruments in the Notes to Consolidated Financial Statements for additional information on the various types of instruments entered into by MBIA and a comparison of carrying values as reported in the Company s balance sheet to estimated fair values.

GOODWILL Under SFAS 142, Goodwill and Other Intangible Assets, goodwill and intangible assets with indefinite lives are no longer amortized but instead tested for impairment at least annually. The standard includes a two-step process aimed at determining the amount, if any, by which the carrying value of a reporting unit exceeds its fair value and should be charged as an expense through net income.

In performing its impairment test, the Company determined that the best measure of the fair value of the insurance reporting segment is its book value adjusted for the after-tax effects of net deferred premium revenue less deferred acquisition costs, the present value of installment premiums and a provision for losses to arrive at an adjusted book value. Adjusted book value is a common measure used by analysts to determine the value of financial guarantee companies.

In performing the impairment test for the investment management services operations, the fair values of the reporting segments were determined using a multiple of earnings before income tax, depreciation and amortization (EBITDA), as this is a common measure of fair value in the investment management industry. The multiple was determined based on a review of current industry valuation practices.

The Company performed its annual impairment testing of goodwill as of January 1, 2005 and January 1, 2006. On both dates, the fair values of the reporting segments exceeded their carrying values indicating that goodwill was not impaired. Alternate valuation methods would have likely produced different fair values. However, the Company believes that the valuation methods used provided the best estimates of fair value.

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RESULTS OF OPERATIONS

SUMMARY OF CONSOLIDATED RESULTS

The following table presents highlights of the Company s consolidated financial results for 2005, 2004 and 2003. Items listed under Other per share information (effect on net income) are items that management commonly identifies for the readers of its financial statements because they are a by-product of the Company s operations or due to general market conditions beyond the control of the Company.

In millions except per share amounts	2005	2004	2003
Revenues:			
Insurance	$ 1,350	$ 1,481	$ 1,423
Investment management services	910	538	412
Municipal services	25	27	27
Corporate	16	8	24
Gross revenues from continuing operations	2,301	2,054	1,886
Expenses:			
Insurance	295	273	256
Investment management services	780	491	357
Municipal services	22	26	26
Corporate	188	92	84
Gross expenses from continuing operations	1,285	882	723
Provision for income taxes	304	332	340
Income from continuing operations, net of tax	712	840	823
Income (loss) from discontinued operations, net of tax	(1)	3	2
Net income	$ 711	$ 843	$ 825
Net income per share information:*			
Net income	$ 5.18	$ 5.82	$ 5.69
Other per share information (effect on net income):			
Penalties and disgorgement	$ (0.52)		
Accelerated premium earned from refunded issues	$ 0.61	$ 0.59	$ 0.54
Net realized gains (losses)	$ (0.04)	$ 0.47	$ 0.36
Net gains (losses) on derivative instruments and foreign exchange	$ 0.18	$ (0.01)	$ 0.43
Income (loss) from discontinued operations	$ (0.01)	$ 0.02	$ 0.01

* All per share calculations are diluted.

Consolidated revenues from continuing operations increased 12% to $2.3 billion in 2005 from $2.1 billion in 2004. The growth in consolidated revenues was primarily due to a substantial increase in investment management services interest income resulting from growth in asset/liability products. Offsetting the increase in investment management services revenues was a decrease in insurance revenues resulting from a decline in gains on investment securities. Consolidated expenses from continuing operations increased 46% to $1.3 billion in 2005 from $882 million in 2004. This increase was principally due to an increase in investment management services interest expense, which was commensurate with the

increase in interest income, and estimated penalties and disgorgement related to the potential settlement of regulatory investigations of the Company. Net income for 2005 of $711 million was down 16% from $843 million for 2004. Net income per share was $5.18 for 2005 compared with $5.82 for 2004, an 11% decrease.

Consolidated revenues from continuing operations for 2004 were $2.1 billion compared with $1.9 billion for 2003, a 9% increase. The growth in consolidated revenues was primarily due to increases in insurance premium earnings and investment income, investment management services medium-term note program revenues and the full-year impact of the consolidation of conduit revenues. Consolidated expenses for 2004 were $882 million compared with $723 million for 2003, a 22% increase. This increase was primarily due to an increase in investment management services medium-term note program interest and operating expenses and the full year impact of the consolidation of conduit expenses. Net income for 2004 of $843 million was up 2% from $825 million recorded in 2003. Net income per share for 2004 was $5.82 compared with $5.69 for 2003, also a 2% increase.

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The Company s book value at December 31, 2005 was $49.17 per share, up 5% from $47.05 at December 31, 2004. The increase was principally driven by income from operations, which was somewhat offset by the effect of repurchasing shares into treasury stock at prices above the Company s book value per share. Book value per share has shown steady growth over the past three years with a three-year compound average growth rate of 10%.

INSURANCE OPERATIONS

The Company s insurance operations are principally comprised of the activities of MBIA Corp. MBIA Corp. issues financial guarantees for municipal bonds, asset-backed and mortgage-backed securities, investor-owned utility bonds, bonds backed by publicly or privately funded public purpose projects, bonds issued by sovereign and sub-sovereign entities, obligations collateralized by diverse pools of corporate loans and credit default swaps and pools of corporate and asset-backed bonds, both in the new issue and secondary markets.

The municipal obligations that MBIA Corp. insures include tax-exempt and taxable indebtedness of states, counties, cities, utility districts and other political subdivisions, as well as airports, higher education and healthcare facilities and similar authorities and obligations issued by private entities that finance projects which serve a substantial public purpose. The asset-backed and structured finance obligations insured by MBIA Corp. typically consist of securities that are payable from or which are tied to the performance of a specified pool of assets that, in most cases, have a defined cash flow. Securities of this type include residential and commercial mortgages, a variety of consumer loans, corporate loans and bonds, trade and export receivables, aircraft, equipment and real property leases, and infrastructure projects.

Revenues from the Company s insurance operations decreased 9% to $1.35 billion in 2005 compared with $1.48 billion in 2004. The decline in insurance operations revenues was primarily the result of a decrease in net gains from investment securities and, to a lesser extent, a decrease in advisory fee income and net gains on derivative instruments. Net investment income increased 4%, partially offsetting the overall decline in revenues. Insurance expenses, which consist of loss and LAE, the amortization of deferred acquisition costs and operating costs, increased 8% to $295 million in 2005 compared with $273 million in 2004. Loss and LAE and the amortization of deferred acquisition costs remained relatively flat. Operating costs increased largely due to loss prevention costs, costs associated with the Company s Money Market Committed Preferred Custodial Trust securities (CPCT securities), consulting services and a decrease in the rate at which compensation and other costs are deferred as policy acquisition costs. Gross insurance expenses (expenses before ceding commission income and the deferral or amortization of acquisition costs) increased 3% in 2005 compared with 2004.

In 2004, revenues from insurance operations of $1.48 billion increased 4% compared with 2003. The growth in insurance operations revenues in 2004 was due to increases in earned premiums, net investment income and net realized gains offset by decreases in advisory fee income and net gains on derivative instruments. Insurance expenses increased 7% in 2004 compared with 2003. Loss and LAE and the amortization of deferred acquisition costs both increased in line with the increase in earned premiums. Operating expenses increased 3%, principally due to higher compensation costs, premiums related to the renewal of directors and officers liability insurance and loss prevention costs. Gross insurance expenses for 2004 increased 1% compared with 2003.

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The Company s gross premiums written (GPW), net premiums written (NPW) and net premiums earned for the last three years are presented in the following table:

In millions	2005	2004	2003	Percent Change 2005 vs. 2004	Percent Change 2004 vs. 2003
Gross premiums written:					
U.S.	$ 710	$ 737	$ 862	(4)%	(15)%
Non-U.S.	275	380	407	(28)%	(7)%
Total	$ 985	$ 1,117	$ 1,269	(12)%	(12)%
Net premiums written:					
U.S.	$ 658	$ 683	$ 765	(4)%	(11)%
Non-U.S.	200	275	310	(27)%	(11)%
Total	$ 858	$ 958	$ 1,075	(10)%	(11)%
Net premiums earned:					
U.S.	$ 620	$ 637	$ 615	(3)%	4%
Non-U.S.	223	213	158	5%	35%
Total	$ 843	$ 850	$ 773	(1)%	10%

GPW reflects premiums received and accrued for in the period and does not include the present value of future cash receipts expected from installment premium policies originated during the period. GPW was $985 million in 2005, down 12% from 2004.

NPW, which represents gross premiums written net of premiums ceded to reinsurers, decreased 10% to $858 million in 2005 from $958 million in 2004. The decline in 2005 was a result of the decline in GPW, slightly offset by a reduction in premiums ceded to reinsurers. Premiums ceded to reinsurers from all insurance operations were $127 million, $159 million and $194 million for 2005, 2004 and 2003, respectively. Reinsurance enables the Company to cede exposure and comply with its single risk and credit guidelines, although the Company continues to be primarily liable on the insurance policies it underwrites.

Net premiums earned include scheduled premium earnings as well as premium earnings from refunded issues. Net premiums earned in 2005 of $843 million decreased 1% over 2004 due to a 2% decrease in refunded premiums earned and a 1% decrease in scheduled premiums earned. The decrease in refunded premiums earned resulted from a modest slow down in refinancing activity in the municipal market from historically high levels.

In 2004, GPW decreased 12% compared with 2003, reflecting declines in both U.S and non-U.S. business. NPW decreased 11% compared with 2003, resulting from the decline in GPW, slightly offset by lower cession rates on U.S. business. The growth in net premiums earned in 2004 compared with 2003 reflects the increase in new business written in past years, increased refundings and a decline in the use of reinsurance.

MBIA evaluates the premium rates it charges for insurance guarantees through the use of internal and external rating agency quantitative models. These models assess the Company s premium rates and return on capital results on a risk adjusted basis. In addition, market research data is used to evaluate pricing levels across the financial guarantee industry for comparable risks. Although pricing has been acceptable in 2004 and 2005, the Company, along with the industry, experienced significant price increases over the period from 1998 through 2003. The Company s pricing levels indicate continued acceptable trends in overall portfolio profitability under all models, and the Company believes the pricing charged for its insurance products produces results that meet its long-term return on capital targets.

CREDIT QUALITY Financial guarantee 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, the Company obtains, when available, the underlying rating of the insured obligation before the benefit of its insurance policy from nationally recognized rating agencies (Moody s, S&P and Fitch, Inc.). All references to insured credit quality distributions contained herein reflect the underlying rating levels from these third-party sources. Other companies within the financial guarantee industry may report credit quality information based upon internal ratings that would not be comparable to MBIA s presentation.

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The credit quality of business insured during 2005 remained relatively high as 81% of total insured credits were rated A or above, before giving effect to MBIA s guarantee, compared to 76% in 2004 and 81% in 2003. At December 31, 2005, 81% of the Company s outstanding book of business was rated A or above before giving effect to MBIA s guarantee, up from 80% at December 31, 2004.

GLOBAL PUBLIC FINANCE MARKET MBIA s premium writings and premium earnings in both the new issue and secondary global public finance markets are shown in the following table:

Global Public Finance				**Percent Change**	
In millions	**2005**	**2004**	**2003**	**2005 vs. 2004**	**2004 vs. 2003**
Gross premiums written:					
U.S.	$ 450	$ 458	$ 570	(2)%	(20)%
Non-U.S.	119	208	263	(43)%	(21)%
Total	$ 569	$ 666	$ 833	(15)%	(20)%
Net premiums written:					
U.S.	$ 431	$ 439	$ 530	(2)%	(17)%
Non-U.S.	83	145	215	(43)%	(33)%
Total	$ 514	$ 584	$ 745	(12)%	(22)%
Net premiums earned:					
U.S.	$ 389	$ 400	$ 371	(3)%	8%
Non-U.S.	106	95	65	12%	46%
Total	$ 495	$ 495	$ 436	0%	14%

Global public finance GPW decreased 15% over 2004. This decrease reflects a drop in European business as significantly fewer transactions came to market during 2005, despite growth in the Latin American and Australian markets. U.S. GPW declined 2% over 2004. Although U.S. GPW declined slightly, it was positively impacted by steady flow business, particularly within the military housing and transportation sectors. NPW decreased 12% to $514 million in 2005 as a result of the decrease in GPW and a lower cession rate. The overall cession rate for business written during 2005 was 10% compared with 12% in 2004. The decrease in the overall cession rate was principally due to a decline in U.S. business ceded. Global public finance net premiums earned were $495 million in both 2005 and 2004. An increase in scheduled net premiums earned from non-U.S. business was offset by a decline in refunded premiums earned from U.S. business.

In 2004, global public finance GPW and NPW decreased 20% and 22%, respectively, over 2003. The decrease in GPW was primarily due to a significant decline in first quarter U.S. production and third quarter U.S. and non-U.S. production, which resulted from lower market issuance, increased competition and lower overall pricing. In 2004, the cession rate on total global public finance business written was 12%, which increased from an 11% cession rate in 2003. The increase in the 2004 cession rate resulted from an increase in non-U.S. business ceded. The greater decline in NPW compared with the decline in GPW was a result of the increase in cessions to reinsurers. Global public finance net premiums earned increased 14% over 2003. This growth reflects earnings generated from increased levels of U.S. and non-U.S. business written over the last several years and a 10% increase in refunded premiums earned.

The credit quality of global public finance business written by the Company in 2005 remained high. Insured credits rated A or above before the Company s guarantee represented 91% of global public finance business written in 2005, compared with 87% in 2004 and 88% in 2003. At December 31, 2005, 83% of the outstanding global public finance book of business was rated A or above before the Company s guarantee, up from 82% at December 31, 2004.

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GLOBAL STRUCTURED FINANCE MARKET MBIA s premium writings and premium earnings in both the new issue and secondary global structured finance markets are shown in the following table:

Global Structured Finance				**Percent Change**	
In millions	**2005**	**2004**	**2003**	**2005 vs. 2004**	**2004 vs. 2003**
Gross premiums written:					
U.S.	$ 260	$ 279	$ 292	(7)%	(4)%
Non-U.S.	156	172	144	(9)%	19%
Total	$ 416	$ 451	$ 436	(8)%	3%
Net premiums written:					
U.S.	$ 227	$ 244	$ 235	(7)%	4%
Non-U.S.	117	130	95	(10)%	37%
Total	$ 344	$ 374	$ 330	(8)%	13%
Net premiums earned:					
U.S.	$ 231	$ 237	$ 244	(3)%	(3)%
Non-U.S.	117	118	93	(1)%	27%
Total	$ 348	$ 355	$ 337	(2)%	5%

Global structured finance GPW decreased 8% in 2005 to $416 million from $451 million in 2004, resulting from decreases in U.S. and non-U.S. business written. The global structured finance sector continues to be adversely impacted by increased competition, tight spreads and greater investor demand for uninsured transactions. However, GPW was positively impacted by business from repeat issuers across all sectors. NPW in 2005 decreased 8% due to the decrease in GPW. The overall cession rate for business written during 2005 and 2004 was 17%. In 2005, global structured finance net premiums earned of $348 million were 2% below 2004. The decrease in net premiums earned resulted from the decline in business written and prepayments and maturities of insured issues.

In 2004, global structured finance GPW increased 3% to $451 million from $436 million in 2003, resulting from an increase in non-U.S. business written. Overall, the global structured finance sector was adversely impacted by tight spreads and greater investor demand for uninsured transactions. NPW for 2004 increased 13% due to the increase in GPW and lower cession rates on both U.S. and non-U.S. business written. The 2004 cession rate on total global structured finance business written was 17%, which declined from a 24% cession rate in 2003. In 2004, global structured finance net premiums earned of $355 million increased 5% over 2003. This increase was driven by higher levels of new non-U.S. business written over the last two years and a declining cession rate.

The credit quality of MBIA s global structured finance insured business written rated A or above, before giving effect to the Company s guarantee, was 69% in 2005, compared with 64% in 2004 and 71% in 2003. At December 31, 2005 and 2004, 77% of the outstanding global structured finance book of business was rated A or above before giving effect to the Company s guarantee.

INVESTMENT INCOME The Company s insurance-related net investment income and ending asset balances at amortized cost for the last three years are presented in the following table:

In millions	2005	2004	2003	Percent Change 2005 vs. 2004	Percent Change 2004 vs. 2003
Pre-tax income	$ 492	$ 474	$ 438	4%	8%
After-tax income	$ 392	$ 376	$ 348	4%	8%
Ending asset balances at amortized cost	$ 9,939	$ 9,201	$ 9,034	8%	2%

The Company s insurance-related net investment income, excluding net realized gains and losses, increased 4% to $492 million from $474 million in 2004. After-tax net investment income also increased 4% in 2005 as the proportion of taxable investments remained relatively consistent with 2004. Growth in investment income has been adversely impacted by the continued low interest rate environment, however, benefited from slightly higher average yields and an increase in average invested assets as a result of a reduction in dividends paid by MBIA Corp. to MBIA Inc. during 2005 as compared with 2004.

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In 2004, insurance-related net investment income, excluding net realized gains and losses, increased 8% to $474 million in 2004, up from $438 million in 2003. After-tax net investment income also increased 8% compared with 2003 as the proportion of taxable investments remained consistent from year to year. The increase in investment income for 2004 was principally the result of an increase in invested assets due to premium collections and reinvested interest. Since the fourth quarter of 2003, a portion of MBIA-administered conduit investment income has been reported as insurance-related net investment income. Excluding investment income related to MBIA-administered conduits, after-tax insurance-related investment income would have increased 6% from 2003.

ADVISORY FEES The Company collects advisory fees in connection with certain transactions. Depending upon the type of fee received and whether it is related to an insurance policy, the fee is either earned when it is due or deferred and earned over the life of the related transaction. Work, waiver and consent, termination, administrative and management fees, and expense reimbursements are earned when the related services are completed. Structuring fees are earned on a straight-line basis over the life of the related insurance policy and commitment fees are earned on a straight-line basis over the commitment period.

In 2005, advisory fee revenues decreased 32% over 2004 to $28 million. The decrease in advisory fees was primarily due to a decline in waiver and consent and commitment fees, as well as a decline in work fees reflecting fewer large complex transactions requiring advisory services. Partially offsetting the decrease in such fees was an increase in expense reimbursements associated with loss prevention efforts. In 2004, advisory fee revenues decreased 30% to $42 million, from $60 million in 2003. This decrease was primarily due to a decline in work fees, resulting from fewer large and complex transactions, and a decline in waiver and consent and structuring fees. Fees earned when due represented 72% of total advisory fee income in 2005, 63% in 2004 and 75% in 2003. Due to the transaction-specific nature inherent in advisory fees, fee revenues can vary significantly from year to year.

NET GAINS AND LOSSES Net realized losses in the insurance operations were $8 million in 2005, compared with net realized gains of $109 million and $48 million in 2004 and 2003, respectively. In 2005, net realized losses were primarily due to $19 million of impairment losses on receivables the Company recorded through salvage and subrogation rights it obtained as a result of claim payments it previously made on insured credits. Partially offsetting the impairment losses were net gains from sales of investment securities. The net realized gains in 2004 were largely due to a $77 million realized gain resulting from the sale of a common stock investment MBIA Corp. purchased in 2002 and $41 million resulting from the termination of certain transactions that were accounted for as deposits. The increase in 2004 was partially offset by an $11 million realized loss resulting from an other-than-temporary impairment of a fixed-maturity security.

Net losses on derivative instruments and foreign exchange in the insurance operations, which primarily represent changes in the market value of the Company s insured credit derivative portfolio, were $4 million in 2005 compared with net gains of $7 million and $104 million in 2004 and 2003, respectively. The 2005 net losses primarily resulted from the reversal of gains recorded in prior years on credit derivatives as transactions approach their maturity and that terminated in 2005, net of foreign currency gains. The 2004 and 2003 net gains were primarily due to an increase in the value of the Company s insured credit derivative portfolio, reflecting a tightening of credit spreads. Gains or losses on derivatives are largely driven by movements in credit spreads affecting the insurance operations insured portfolio of synthetic CDOs. However, credit spreads did not move significantly in 2005 and 2004 relative to 2003.

LOSSES AND LOSS ADJUSTMENT EXPENSES (LAE) The following table shows the case-specific, reinsurance recoverable and unallocated components of the Company s total loss and LAE reserves, as well as its loss provision and case basis activity, at the end of the last three years.

				Percent Change	
				2005 vs. 2004	**2004 vs. 2003**
In millions	**2005**	**2004**	**2003**	**2004**	**2003**

Case-specific:					
Gross	$ 513	$ 435	$ 387	18%	12%
Reinsurance recoverable on unpaid losses	59	35	61	69%	(44)%
Net case reserves	$ 454	$ 400	$ 326	14%	23%
Unallocated	209	314	325	(33)%	(3)%
Net loss and LAE reserves	$ 663	$ 714	$ 651	(7)%	10%
Losses and LAE	$ 84	$ 85	$ 77	(1)%	10%
Case basis activity	$ 189	$ 127	$ 60	49%	112%

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The Company recorded $84 million in loss and LAE in 2005, a slight decrease from 2004. The variance in loss and LAE corresponds to the slight decrease in scheduled net earned premium, as scheduled net earned premium is the base upon which the Company s 12% loss factor is applied. Likewise, the growth in loss and LAE in 2004 compared with 2003 is a direct result of growth in scheduled net earned premium during 2004. At December 31, 2005, the Company had $209 million in unallocated loss reserves, which represent the Company s estimate of losses associated with credit deterioration that has occurred in the Company s insured portfolio and are available for future case-specific activity. During 2004, the unallocated loss reserve was increased by reserves of $32 million related to an agreement with Asian Securitization & Infrastructure Assurance (Pte) Ltd (ASIA Ltd) whereby, as part of the agreement, the Company assumed ASIA Ltd s insurance obligations.

Total case basis activity transferred from the Company s unallocated loss reserve was $189 million in 2005, $127 million in 2004 and $60 million in 2003. During 2005, case basis activity primarily consisted of loss reserves for insured obligations within the aircraft enhanced equipment trust certificates (EETCs), CDO and manufactured housing sectors and within MBIA s guaranteed tax lien portfolios. Case basis activity during 2004 primarily consisted of loss reserves for insured obligations issued by Fort Worth Osteopathic Hospital, MBIA s guaranteed tax lien portfolios, AHERF, an older vintage CDO and a manufactured housing exposure. During 2003, case basis activity included reserves for MBIA s guaranteed tax lien portfolios, losses associated with the guarantee of an older vintage CDO and a Trenwick America Corp. debt obligation.

MBIA established a case loss reserve of $76 million in the fourth quarter of 2005 in connection with $686 million of net par exposure under four insured EETCs secured by 64 aircraft financed by Northwest Airlines. Northwest Airlines filed for bankruptcy protection in September 2005 and, subsequently, did not make scheduled payments on leases supporting outstanding senior debt for 31 aircraft in three of the four MBIA-insured EETCs. MBIA established the case loss reserve based on projected lower lease income related to these leases, the projected revenue from the potential redeployment of certain aircraft and estimated valuations for the aircraft subject to the defaulted leases. Currently, the leases related to the remaining 33 aircraft are performing according to the original contract terms. Temporary extensions are in place to allow Northwest Airlines to continue flying the non-compliant aircraft, with negotiations regarding the future of the aircraft underway at this time.

MBIA continues to closely monitor the manufactured housing sector, which has experienced continued stress during 2005 and 2004. MBIA ceased writing business in this sector, other than through certain CDO transactions, in 2000. At December 31, 2005, the Company had $33 million in case basis reserves, net of reinsurance, covering net insured par outstanding of $580 million on three credits within the manufactured housing sector. The Company had additional manufactured housing exposure of $1.8 billion in net insured par outstanding as of December 31, 2005, of which approximately 45% has been placed on the Company s Caution List-Medium and Caution List-High. An explanation of the Company s Classified List and Caution Lists is provided below.

The Company has significant exposures in its insured portfolio relating to regions impacted by hurricanes Katrina, Rita and Wilma. Insured credits in these regions encompass various types of sectors, including general obligation bonds, tax-backed, healthcare, transportation and higher education, among others. The Company is continuing its communication efforts with issuers, trustees and relevant state officials to evaluate the actual and potential impact that the hurricanes may have on its insured credits. Based on available information, the Company does not currently expect there to be material cases of prolonged nonpayment that would result in unreimbursed losses. As a result, during 2005, MBIA did not establish specific reserves for its exposure to the regions impacted by these hurricanes. To date, MBIA has paid $2 million in claim payments, for which it has been fully reimbursed.

MBIA s Insured Portfolio Management (IPM) Division is responsible for monitoring MBIA insured issues. The level and frequency of MBIA s monitoring of any insured issue depends on the type, size, rating and performance of the insured issue. If IPM identifies concerns with respect to the performance of an insured issue it may designate such insured issue as Caution List-Low, Caution List-Medium or Caution List-High. The designation of any insured issue as Caution List-Medium or Caution List-High is based on the nature and extent of these concerns and requires that an increased monitoring and, if needed, a remediation plan be implemented for the related insured issue.

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In the event MBIA determines that it must pay a claim or that a claim is probable and estimable with respect to an insured issue, it places the issue on its Classified List and establishes a case basis reserve for that insured issue. As of December 31, 2005, MBIA had 38 open case basis issues on its Classified List that had $454 million in aggregate case reserves, net of reinsurance. The Company does not establish any case basis reserves for issues that are listed as Caution List-Low, Caution List-Medium or Caution List-High until such issues are placed on the Company s Classified List.

Included in the Company s case basis reserves are both loss reserves for insured obligations for which a payment default has occurred and MBIA has already paid a claim and also for which a payment default has not yet occurred but a claim is probable and estimable in the future. At December 31, 2005, case basis reserves were comprised of the following:

Dollars in millions	Number of case basis issues	Loss Reserve	Par Outstanding
Gross of reinsurance:			
Issues with defaults	30	$ 379	$ 2,528
Issues without defaults	8	134	1,231
Total gross	38	$ 513	$ 3,759
Net of reinsurance:			
Issues with defaults	30	$ 354	$ 2,179
Issues without defaults	8	100	1,020
Total net	38	$ 454	$ 3,199

When MBIA becomes entitled to the underlying collateral of an insured credit under salvage and subrogation rights as a result of a claim payment, it records salvage and subrogation as an asset. Such amounts are included in the Company s balance sheet within Other assets. As of December 31, 2005 and 2004, the Company had salvage and subrogation of $143 million and $154 million, respectively. The decrease was principally due to $19 million of impairment losses in 2005 on receivables the Company recorded as a result of claim payments it previously made on insured credits.

As a result of discussions in January and February 2005 between the SEC staff and several financial guarantee industry participants, including MBIA, the Financial Accounting Standards Board (FASB) staff is considering whether additional guidance with respect to accounting for financial guarantee insurance should be provided. In June 2005, the FASB decided to add to its agenda a project to consider the accounting by insurers for financial guarantee insurance. As part of this project, the FASB is considering several aspects of the insurance accounting model for financial guarantee insurers, including claims liability recognition, premium recognition and the related amortization of deferred policy acquisition costs. When the FASB or the SEC reaches a conclusion on this issue, the Company and its financial guarantor peers may be required to change some aspects of its loss reserving policies and the potential changes could extend to premium and expense recognition. The Company cannot currently assess how the FASB and SEC staff s ultimate resolution of this issue will impact its loss reserving policy or the effect it might have on recognizing premium revenue and policy acquisition costs. Until the issue is resolved, the Company intends to continue to apply its existing policy with respect to the establishment of both case basis and unallocated loss reserves and the recognition of premium revenue and policy acquisition costs. A further description of the Company s loss reserving policy is included in Note 3: Significant Accounting Policies in the Notes to Consolidated Financial Statements.

RISK MANAGEMENT In an effort to mitigate losses, MBIA is regularly involved in the ongoing remediation of credits that may involve, among other things, waivers or renegotiations of financial covenants or triggers, waivers of contractual provisions, the granting of consents, and the taking of various other remedial actions. The nature of any remedial action is based on the type of the insured issue and the nature and scope of the event giving rise to the remediation. In most cases, as part of any such remedial activity, MBIA is able to improve its security position and to obtain concessions from the issuer of the insured bonds. 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. If, as the result of the restructuring, MBIA estimates that it will suffer an ultimate loss on the restructured obligation, MBIA will record a case basis loss reserve for the restructured obligation or, if it has already recorded a case basis loss reserve, it will re-evaluate the impact of the restructuring on the recorded reserve and adjust the amount of the reserve as appropriate.

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REINSURANCE Reinsurance enables the Company to cede exposure for purposes of increasing its capacity to write new business while complying with its single risk and credit guidelines. The rating agencies continuously review reinsurers providing coverage to the financial guarantee industry. When a reinsurer is downgraded, less capital credit is given to a financial guarantee provider under rating agency models. Over the past several years, most of MBIA s reinsurers have been downgraded and others remain under review. Any reduced capital credit associated with reinsurer downgrades has not and is not expected to have a material adverse effect on the Company. The Company generally retains the right to reassume the business ceded to reinsurers under certain circumstances, including rating downgrades of its reinsurers. The Company also remains liable on a primary basis for all reinsured risk, and although MBIA believes that its reinsurers remain capable of meeting their obligations, there can be no assurance of such in the future.

As of December 31, 2005, the aggregate amount of insured par ceded by MBIA to reinsurers under reinsurance agreements was $73.5 billion. Additionally, the Company has other reimbursement agreements not accounted for as reinsurance, primarily with a Single-A rated reinsurer, covering $7.2 billion of insured par. The following table displays the percentage ceded to and reinsurance recoverable from reinsurers by rating levels:

Reinsurers	Standard & Poor s Rating	Moody s Rating	Percentage of Total Par Ceded	Reinsurance Recoverable (in thousands)
Channel Reinsurance Ltd.	AAA	Aaa	45.19%	$ 4,546
Assured Guaranty Corp.	AAA	Aa1	17.73	23,947
Ram Reinsurance Company, Ltd.	AAA	Aa3	12.20	4,386
Ambac Assurance Corporation	AAA	Aaa	9.40	
Mitsui Sumitomo Insurance Company Ltd.	AA-	Aa3	6.36	2
Swiss Reinsurance Company, Zurich, Switzerland	AA	Aa2	2.81	
Radian Asset Assurance Inc.	AA	Aa3	1.61	7,838
Assured Guaranty Re Ltd.	AA	Aa2	0.82	
Sompo Japan Insurance Inc.	AA-	Aa3	0.81	2
Transatlantic Reinsurance Company	AA-	Aa3	0.59	1,620
Other [(1)]	A or above	A1 or above	2.40	16,347
Not Currently Rated			0.08	277
Total			100.00%	$ 58,965

(1) Several reinsurers within this category are not rated by Moody s.

While Channel Reinsurance Ltd. (Channel Re) continues to be a Triple-A rated reinsurer of MBIA, S&P has revised their outlook on Channel Re from stable to negative in 2005. MBIA does not expect S&P s revised outlook on Channel Re to have a material negative impact on the Company s financial condition or results of operations. Additionally, MBIA owned an equity interest of 17.4% and 11.4% in Channel Re and RAM Holdings Inc., the holding company of Ram Reinsurance Company, Ltd., respectively, at December 31, 2005.

POLICY ACQUISITION COSTS AND OPERATING EXPENSES Expenses that vary with and are primarily related to the production of the Company s insurance business (policy acquisition costs) are deferred and recognized over the period in which the related premiums are earned. If an insured bond issue is refunded and the related premium is earned early, the associated acquisition costs previously deferred are also

recognized early.

Annually, MBIA reviews its insurance-related expenses to determine if there have been any changes in its business or cost structure that would materially change the amount of costs accounted for as policy acquisition costs. If so, the Company conducts a policy acquisition cost study to determine the amount of insurance costs that relate to acquiring new insurance policies and that are deferrable under GAAP. MBIA completed its latest study in July 2005. The current policy acquisition cost study, which was effective beginning with the third quarter of 2005, resulted in a decrease of approximately $9.6 million in deferred policy acquisition costs for the year with a corresponding increase in insurance operating expenses. The change was principally driven by a reduction in the rate at which compensation costs associated with acquiring new insurance policies are deferred. The Company expects the quarterly change to be in the $5 million range going forward. However, policy acquisition costs and operating expenses will be influenced by the level of actual future expenses that qualify for deferral.

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MBIA will recognize a premium deficiency if the sum of the expected loss and loss adjustment expenses and unamortized policy acquisition costs exceed the related unearned premiums. If MBIA was to have a premium deficiency that is greater than unamortized acquisition costs, the unamortized acquisition costs would be reduced by a charge to expense and a liability would be established for any remaining deficiency. Although GAAP permits the inclusion of anticipated investment income when determining a premium deficiency, MBIA currently does not include this in making its determination.

The Company s insurance expenses, as well as its expense ratio, are shown in the following table:

				Percent Change	
				2005 vs.	2004 vs.
In millions	**2005**	**2004**	**2003**	**2004**	**2003**
Gross expenses	$ 266	$ 258	$ 257	3%	1%
Amortization of deferred acquisition costs	$ 67	$ 67	$ 60	0%	10%
Operating expenses	143	122	119	17%	3%
Total insurance operating expenses	$ 210	$ 189	$ 179	11%	5%
Expense ratio	24.9%	22.2%	23.2%		

In 2005, the amortization of deferred acquisition costs remained flat compared with 2004, in line with insurance premiums earned. The amortization of deferred acquisition costs increased 10% in 2004 compared with 2003 resulting from an increase in related premium earnings. At December 31, 2005 and 2004 there was an increase in the ratio of deferred expenses carried as assets on the balance sheet to deferred revenues carried as liabilities on the balance sheet plus the present value of future installment premiums. The increasing ratio in 2004 and 2005 reflects higher costs associated with acquiring new policies relative to the smaller growth in deferred premiums.

Operating expenses increased 17% to $143 million in 2005 from $122 million in 2004. This increase was largely due to loss prevention costs, costs associated with the Company s CPCT securities, consulting services and a decrease in the rate at which compensation costs are deferred as policy acquisition costs. In 2004, operating expenses increased 3% to $122 million from $119 million in 2003 largely due to higher compensation costs related to the expansion of the Company s global operations, premiums related to the renewal of directors and officers liability insurance and loss prevention costs.

Financial guarantee insurance companies use the expense ratio (expenses divided by net premiums earned) as a measure of expense management. The Company s 2005 expense ratio of 24.9% is higher than the 2004 ratio of 22.2% and the 2003 ratio of 23.2% as a result of the 17% increase in operating expenses.

VARIABLE INTEREST ENTITIES The Company provides structured funding and credit enhancement services to global finance clients through the use of certain MBIA-administered, bankruptcy-remote special purpose vehicles (SPVs) and through third-party SPVs. Third-party SPVs are used in a variety of structures guaranteed or managed by MBIA, whereby the Company has risks analogous to those of MBIA-administered SPVs. The Company has determined that such SPVs fall within the definition of a variable interest entity (VIE) under FASB Interpretation No. (FIN) 46(R), Consolidation of Variable Interest Entities (Revised). Under the provisions of FIN 46(R), MBIA must determine whether it has a variable interest in a VIE and if so, whether that variable interest would cause MBIA to be the primary beneficiary.

The primary beneficiary is the entity that will absorb the majority of the expected losses, receive the majority of the expected residual returns, or both, of the VIE and is required to consolidate the VIE.

In the third quarter of 2004, the Company began consolidating two VIEs established in connection with the Capital Asset Research Funding Series 1997A and Series 1998A tax lien securitizations to which the Company provided financial guarantees. The assets of these entities, which are principally reported within Other assets on MBIA s consolidated balance sheet, totaled $2.5 million at December 31, 2005 and $16.8 million at December 31, 2004. Liabilities of the securitizations substantially represented amounts due to MBIA, which were eliminated in consolidation. Additionally, the Company consolidates certain third-party VIEs as a result of financial guarantees provided by the insurance operations. Third-party VIEs assets and liabilities are primarily reported in Investments held-to-maturity and Variable interest entity floating rate notes, respectively, on the face of the Company s balance sheet. The assets and liabilities of these VIEs each totaled $1.3 billion at December 31, 2005 and $600.5 million at December 31, 2004. Consolidation of such VIEs does not increase MBIA s exposure above that already committed to in its insurance policies.

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INVESTMENT MANAGEMENT SERVICES

The Company s investment management services operations provide an array of products and services to the public, not-for-profit and corporate sectors. Such products and services are provided primarily through wholly owned subsidiaries of MBIA Asset Management, LLC (MBIA-AML) and include cash management, discretionary asset management and fund administration services and investment agreement, medium-term note and commercial paper programs related to funding assets for third-party clients and for investment purposes. The investment management services operations are comprised of three operating segments: asset/liability products, which include investment agreements and medium-term notes (MTNs) not related to the conduit programs; advisory services, which consist of third-party and related-party fee-based asset management; and conduit programs. During the third quarter of 2004, the Company completed the sale of the assets of 1838 Investment Advisors, LLC, which comprised the Company s equity advisory services segment. This segment has been reported as a discontinued operation in the Company s financial statements. See Note 16: Discontinued Operations in the Notes to Consolidated Financial Statements for additional information.

In 2005, investment management services revenues of $910 million increased 69% over 2004. Excluding realized gains and losses from investment securities and gains and losses on derivative instruments and foreign exchange, revenues of $866 million increased 57% over 2004. The increase in revenues was primarily attributable to growth in the Company s asset/liability products segment and, to a lesser extent, higher yielding conduit segment assets. Advisory services revenues were also favorable compared to 2004 as a result of growth in managed assets. Total investment management services expenses in 2005 were $780 million, up 59% compared with 2004. This increase was primarily driven by higher interest expense from the growth in asset/liability products activity and higher yielding conduit liabilities, both of which were consistent with the growth in revenues.

In 2004, investment management services total revenues of $538 million increased 31% compared with 2003. Excluding net realized gains or losses and net gains or losses on derivative instruments and foreign exchange, 2004 total revenues increased $148 million, or 37%, compared with 2003 as a result of increased activity in asset/liability products and third-party management of CDO transactions in the advisory services segment. However, profitability in the pooled investment business declined compared with 2003 due to lower fees and an unfavorable geographic mix. Total investment management services expenses in 2004 were $491 million, up 37% compared with 2003 due to higher interest expense from increased asset/liability products activity, which was consistent with the growth in revenues.

Net realized gains from investment securities in the investment management services operations were $1 million in 2005 compared with net realized losses of $4 million in 2004 and net realized gains of $17 million in 2003. Net realized gains and losses in the investment management services operations were generated from the ongoing management of its investment portfolios.

Net gains on derivative instruments and foreign exchange from the investment management services operations in 2005 were $43 million compared with net losses of $10 million and $9 million in 2004 and 2003, respectively. The net gains in 2005 were primarily generated from an increase in U.S. dollar interest rates resulting in higher market values on pay fixed/receive floating U.S. dollar interest rate swaps associated with the asset/liability products and conduit programs. Such swaps economically hedge against interest rate movements but do not qualify for hedge accounting treatment under SFAS 133. Similarly, the net losses on derivative instruments and foreign exchange in 2004 and 2003 were largely due to movements in interest rates on interest rate swaps associated with the asset/liability products and conduit programs.

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Fixed-income ending assets under management as of December 31, 2005, which do not include conduit assets, were $44.2 billion, 13% above the 2004 year-end level and 29% above the 2003 year-end level. Conduit assets are held to their contractual maturities and are originated and managed differently from those held as available-for-sale by the Company or those managed for third parties. The following table summarizes the consolidated investment management services results and assets under management over the last three years:

In millions	2005	2004	2003	Percent Change 2005 vs. 2004	Percent Change 2004 vs. 2003
Interest and fees	$ 866	$ 552	$ 404	57%	37%
Net realized gains (losses)	1	(4)	17	n/m	n/m
Net gains (losses) on derivative instruments and foreign exchange	43	(10)	(9)	n/m	(8)%
Total revenues	910	538	412	69%	31%
Interest expense	705	414	302	70%	37%
Operating expenses	75	77	55	(4)%	40%
Total expenses	780	491	357	59%	37%
Pre-tax income	$ 130	$ 47	$ 55	174%	(13)%
Ending assets under management:					
Fixed-income	$ 44,246	$ 39,129	$ 34,408	13%	14%

n/m Percentage change not meaningful.

The following provides a summary of each of the investment management services businesses by segment. See Note 15: Business Segments for a tabular presentation of the results of the investment management services segments.

Asset/liability products pre-tax income, excluding realized gains and losses from investment securities and gains and losses on derivative instruments and foreign exchange, totaled $56.5 million in 2005, up 48% over 2004. At December 31, 2005, principal and accrued interest outstanding on investment agreement and medium-term note obligations and securities sold under agreements to repurchase totaled $15.7 billion compared to $12.5 billion at December 31, 2004. Assets supporting these agreements had market values of $15.9 billion and $12.6 billion at December 31, 2005 and December 31, 2004, respectively. These assets are comprised of high quality securities with an average credit quality rating of Double-A. In 2004, asset/liability products pre-tax income, excluding net realized losses and foreign currency and derivative losses, totaled $38.1 million compared with $31.3 million in 2003, an increase of 22%.

Advisory services pre-tax income, excluding realized gains and losses from investment securities and gains and losses on derivative instruments and foreign exchange, totaled $19.6 million in 2005, up 19% over 2004. Third-party ending assets under management were $17.9 billion and $16.0 billion at December 31, 2005 and December 31, 2004, respectively. The market values of assets related to the Company s insurance and corporate investment portfolios managed by the investment management services operations at December 31, 2005 were $10.2 billion, slightly down from the balance at December 31, 2004 of $10.3 billion. In 2004, advisory services pre-tax income, excluding realized gains and losses from investment securities and gains and losses on derivative instruments and foreign exchange, totaled $16.5 million compared with $17.3 million in 2003, a 4% decrease.

Conduit program pre-tax income, excluding gains and losses on derivative instruments and foreign exchange, totaled $10.7 million in 2005 compared with $7.6 million in 2004 and $0.4 million in 2003. Certain of MBIA s consolidated subsidiaries have invested in MBIA s conduit debt obligations or have received compensation for services provided to MBIA s conduits. As such, MBIA has eliminated intercompany transactions with its conduits from its balance sheet and income statement. After the elimination of such intercompany assets and liabilities, conduit investments and conduit debt obligations were $4.5 billion and $4.2 billion, respectively, at December 31, 2005. The difference between the investments and debt obligations is primarily the result of the elimination of conduit debt owned by other MBIA subsidiaries. The effect of the elimination on the Company s consolidated balance sheet is a reduction of fixed-maturity investments, representing investments in conduit medium-term notes by other MBIA subsidiaries, with a corresponding reduction of conduit medium-term notes.

In October 2005, Moody s announced that it is undertaking a review of the non-core activities of financial guaranty insurance companies in order to assess the impact of such activities on the overall credit profile of financial guarantors. In its announcement,

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Moody s identified non-core activities as including investment management and related services and sponsored medium-term note programs. While Moody s acknowledged that well managed non-core activities can provide certain benefits, it asserted that such activities introduce distinct risks that may contribute to stress at financial guaranty insurance companies. Moody s also noted that significant growth in non-core activities could negatively impact the credit ratings assigned to affected financial guarantors if such growth occurred prior to publishing its findings. Moody s expects to publish a report highlighting its findings upon completion of its review. While MBIA has had discussions with Moody s with respect to its review, the Company cannot predict with certainty the outcome of the review or the effect the outcome will have on MBIA. However, MBIA does not anticipate that the outcome of the review will have a material impact on the Company s ability to grow its investment management services operations.

MUNICIPAL SERVICES

MBIA s municipal services operations are consolidated under MBIA MuniServices Company (MBIA MuniServices) and provide revenue enhancement services and products to public-sector clients nationwide, consisting of discovery, audit, collections/recovery and information (data) services. The municipal services operations also include Capital Asset, a servicer of delinquent tax certificates. MBIA currently insures an unconsolidated Capital Asset securitization, which matures in 2008 and has an outstanding balance of $117 million or $49 million net of existing loss reserves of $68 million. This securitization was structured through the sale by Capital Asset of tax liens to an off-balance sheet qualifying special purpose entity that was established in 1999 in connection with the securitization.

In 2005, the municipal services operations reported pre-tax income of $2.1 million, compared with pre-tax income of $1.6 million in 2004. Revenues decreased by 10% and expenses decreased by 13% due to a decline in the delinquent tax certificate portfolio serviced by Capital Asset as a result of tax certificate redemptions. In addition, revenue enhancement services margins improved in 2005 compared with 2004. Excluding gains and losses on investment securities and derivatives instruments, operating income was $2.1 million in 2005 compared to $1.9 million in 2004 and $1.0 million in 2003.

CORPORATE

The corporate operations consist of net investment income, net realized gains and losses on holding company investment assets, interest expense and corporate expenses. The corporate operations incurred a loss of $173 million, $84 million and $59 million for the years ended 2005, 2004 and 2003, respectively.

In 2005, net investment income increased 97% to $16.6 million, from $8.5 million in 2004. The increase was driven by substantially higher invested assets and a shift to longer term higher yielding investments. The increase in the invested assets resulted from additional debt issued by MBIA Inc. and dividends paid by MBIA Corp. to MBIA Inc. in the fourth quarter of 2004, somewhat offset by share repurchases of the Company s common stock during the first half of 2005. In 2004, net investment income decreased 6% to $8.5 million, from $9.0 million in 2003. The decrease resulted from the Company maintaining a short duration on holding company investments despite an average asset base growth of 35%.

Net realized losses from investment securities in the corporate operations were $1.0 million in 2005 and $0.5 million in 2004 compared with net realized gains of $15 million in 2003. Net realized gains and losses for all periods presented were generated from the ongoing management of the investment portfolios.

The corporate operations incurred interest expense of $91 million, $75 million and $68 million for the years ended 2005, 2004 and 2003, respectively. The increase in interest expense from year to year primarily resulted from the issuance of $350 million of debt, partially offset by the retirement of $50 million of debt, in the fourth quarter of 2004. Additionally, $100 million of debt was retired in the fourth quarter of 2005.

Corporate expenses were $97 million in 2005 compared with $18 million in 2004. The increase was principally due to a $75 million accrual of estimated penalties and disgorgement related to the potential settlement of regulatory investigations, as well as additional legal and consulting costs associated with the investigations. In 2004, corporate expenses increased 18% from 2003 principally due to costs associated with a

Singapore-based insurer in which the Company indirectly invested in and an increase in audit fees.

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TAXES

MBIA s tax policy is to optimize after-tax income by maintaining the appropriate mix of taxable and tax-exempt investments. In general, the effective tax rate fluctuates from time to time as the Company manages its investment portfolio on an after-tax total return basis. The effective tax rate for 2005, including tax related to discontinued operations, increased to 29.9% from 28.4% for 2004. The increase was primarily due to the accrual of regulatory penalties, which are not deductible for purposes of calculating the Company s Federal income taxes. The effective tax rate for 2004 of 28.4% decreased from 29.3% for 2003 as a result of foreign tax credits available from international operations.

On October 22, 2004, The American Jobs Creation Act of 2004 (the Act) was introduced and signed into law. The Act has a provision which allows for a special one-time dividends received deduction of 85% on the repatriation of certain foreign earnings to the U.S. parent with limitations. The Company has completed its evaluation of the repatriation provision and has determined this special one-time dividend will not be claimed.

CAPITAL RESOURCES

The Company carefully manages its capital resources to minimize its cost of capital while maintaining appropriate claims-paying resources to sustain its Triple-A claims-paying ratings. Capital resources are defined by the Company as total shareholders equity, long-term debt issued for general corporate purposes and various soft capital credit facilities. At December 31, 2005, total shareholders equity was $6.6 billion and total long-term debt was $1.2 billion. The Company uses debt financing to lower its overall cost of capital. MBIA maintains debt at levels it considers to be prudent based on its cash flow and total capital (shareholders equity plus long-term debt). The following table shows the Company s long-term debt and the ratio used to measure it:

	2005	2004	2003
Long-term debt (in millions)	$ 1,210	$ 1,333	$ 1,022
Long-term debt to total capital	16%	17%	14%

In August 1999, the Company announced that its board of directors had authorized the repurchase of 11.25 million shares of common stock of the Company, after adjusting for the 2001 stock split. The Company began the repurchase program in the fourth quarter of 1999. In July 2004, the Company completed the repurchase of all 11.25 million shares at an average price of $44.08 per share and received authorization from its board of directors to repurchase 1 million shares under a new repurchase program. On August 5, 2004, the Company s board of directors authorized the repurchase of an additional 14 million shares of common stock in connection with the new repurchase program. As of December 31, 2005, the Company had repurchased a total of 10.0 million shares under the current plan at an average price of $57.25 per share. A total of 5.9 million shares were repurchased in 2005 at an average price of $57.77 per share, all of which were repurchased in the first and second quarters of the year.

The Company has various soft capital credit facilities, such as lines of credit and equity-based facilities at its disposal, which further support its claims-paying resources. At December 31, 2005, MBIA Corp. maintained a $450 million limited recourse standby line of credit facility, reduced from $700 million at December 31, 2004, with a group of major Triple-A rated banks to provide funds for the payment of claims in excess of the greater of $500 million of cumulative claims, net of recoveries, or 5% of average annual debt service with respect to public finance transactions. The agreement is for a ten-year term, amended from a seven-year term, which expires in March 2015.

MBIA Corp. has access to $400 million of CPCT securities issued by eight trusts, which were created for the primary purpose of issuing CPCT securities and investing the proceeds in high quality commercial paper or short-term U.S. Government obligations. MBIA Corp. has a put option to sell to the trusts the perpetual preferred stock of MBIA Corp. If MBIA Corp. exercises its put option, the trusts will transfer the proceeds to MBIA Corp. in exchange for the preferred stock that will be held by the trusts. The trusts are vehicles for providing MBIA Corp. the opportunity to access new capital at its sole discretion through the exercise of the put options. The trusts are rated AA and Aa2 by S&P and Moody s,

respectively. To date, MBIA Corp. has not exercised its put options under any of these arrangements.

From time to time, MBIA accesses the capital markets to support the growth of its businesses. As such, MBIA filed a $500 million registration statement on Form S-3 with the SEC utilizing a shelf registration process. In November 2004, the Company completed its $350 million debt issuance of senior notes and currently has in effect a shelf registration with the SEC for $150 million. This shelf registration permits the Company to issue various debt and equity securities described in the prospectus filed as part of the registration statement.

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LIQUIDITY

Cash flow needs at the parent company level are primarily for dividends to its shareholders and interest payments on its debt. Liquidity and operating cash requirements of the Company are met by its cash flows generated from operations, which were more than adequate in 2005. Management of the Company believes that cash flows from operations will be sufficient to meet the Company s liquidity and operating cash requirements for the foreseeable future.

Cash requirements have historically been met by upstreaming dividend payments from MBIA Corp. to MBIA Inc. In 2005, the Company s operating cash flow from continuing operations totaled $781 million compared with $889 million in 2004 and $1.0 billion in 2003. The majority of net cash provided by operating activities is generated from premium writings and investment income in the Company s insurance operations.

Under New York State insurance law, without prior approval of the superintendent of the state insurance department, financial guarantee insurance companies can pay dividends from earned surplus subject to retaining a minimum capital requirement. In MBIA Corp. s case, regular dividends in any 12-month period cannot be greater than 10% of policyholders surplus as shown on MBIA Corp. s latest filed statutory financial statements. In 2005 and 2004, MBIA Corp. declared and paid regular dividends of $95 million and $372 million, respectively, to MBIA Inc. Additionally, MBIA Corp. declared and paid regular dividends of $280 million to MBIA Inc. in February 2006.

In addition to its regular dividends, in the fourth quarter of 2004 MBIA Corp. declared and paid a special dividend of $375 million to MBIA Inc., which was approved by the NYSID. MBIA Corp. s capital position, relative to its insured exposure, had improved substantially over the past several years as a result of improved premium rates and a higher quality insured portfolio, exceeding both the capital required by New York State insurance law and the rating agencies for purposes of maintaining its Triple-A ratings. The proceeds have been used primarily for share repurchases and general liquidity and other corporate purposes.

The Company has significant liquidity supporting its businesses. At the end of 2005, cash equivalents and short-term investments totaled $1.9 billion. If, for any reason, significant cash flow reductions occur in any of its businesses, MBIA has alternatives for meeting ongoing cash requirements. They include selling or pledging its fixed-income investments in its investment portfolio, tapping existing liquidity facilities and new borrowings.

As a part of MBIA s external borrowing capacity, it maintained two bank lines totaling $500 million as of December 31, 2004. These bank lines were maintained with a group of highly rated global banks and were comprised of a renewable $167 million facility with a term of 364 days and a $333 million facility with a five-year term maturing in April 2009. In April 2005, the $167 million facility expired on its stated expiration date and the $333 million facility was increased to $500 million and the term was extended one year to April 2010. During 2005, there was no balance outstanding under the facility.

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The available-for-sale investment portfolio provides a high degree of liquidity, since it is comprised of readily marketable high-quality fixed-income securities and short-term investments. At year-end 2005, the fair value of the consolidated available-for-sale investment portfolio was $26.4 billion, as shown in the following table:

In millions	2005	2004	Percent Change 2005 vs. 2004
Available-for-sale investments:			
Insurance operations:			
Amortized cost	$ 9,944	$ 9,205	8%
Unrealized net gain (loss)	310	531	(42)%
Fair value	$ 10,254	$ 9,736	5%
Investment management services operations:			
Amortized cost	$ 15,684	$ 12,209	28%
Unrealized net gain (loss)	286	398	(28)%
Fair value	$ 15,970	$ 12,607	27%
Corporate operations:			
Amortized cost	$ 166	$ 731	(77)%
Unrealized net gain (loss)	(1)	4	n/m
Fair value	$ 165	$ 735	(78)%
Total available-for-sale portfolio:			
Amortized cost	$ 25,794	$ 22,145	16%
Unrealized net gain (loss)	595	933	(36)%
Fair value	$ 26,389	$ 23,078	14%

n/m Percentage change not meaningful.

The increase in the amortized cost of insurance-related available-for-sale investments in 2005 was the result of positive cash flow from operations. The increase in the amortized cost of available-for-sale investments in the investment management services operations was the result of growth in the Company s asset/liability products program. Corporate investments decreased in 2005 compared with 2004 due to a decrease in dividends received from the insurance operations while share repurchase activity continued during the first half of 2005.

The fair value of the Company s investments is based on quoted market prices, if available. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities. Differences between fair value and amortized cost arise primarily as a result of changes in interest rates occurring after a fixed-income security is purchased, although other factors influence fair value, including credit-related actions, supply and demand forces and other market factors. When the Company holds its available-for-sale investments to maturity, unrealized gains or losses currently recorded in accumulated other comprehensive income in the shareholders equity section of the balance sheet will

decrease over time as the investments approach maturity. As a result, the Company expects to realize a value substantially equal to amortized cost. However, when investments are sold prior to maturity, the Company will realize any gains or losses in current net income. The Conduit portfolios are considered held-to-maturity, as the Company has the ability and intent to hold these investments to their contractual maturity. Therefore, these portfolios are reported at amortized cost and are not adjusted to reflect unrealized changes in fair value.

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The weighted-average credit quality of the Company s fixed-income portfolios has been maintained at Double-A since its inception. The quality distribution of the Company s fixed-maturity investment portfolios, excluding short-term investments, based on ratings from Moody s as of December 31, 2005 is presented in the following table. 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	Insurance Fair Value	Insurance % of Fixed-Income Investments	Investment Management Services Fair Value	Investment Management Services % of Fixed-Income Investments	Investments Held-to-Maturity Fair Value	Investments Held-to-Maturity % of Fixed-Income Investments	Total Fair Value	Total % of Fixed-Income Investments
Aaa	$ 6,454	70%	$ 9,366	62%	$ 4,456	78%	$ 20,276	67%
Aa	1,843	19%	2,902	19%	479	8%	5,224	17%
A	913	10%	2,873	19%	800	14%	4,586	16%
Baa	50	1%	71				121	
Not rated	5						5	
Total	$ 9,265	100%	$ 15,212	100%	$ 5,735	100%	$ 30,212	100%

MBIA s consolidated investment portfolio includes investments that are insured by MBIA Corp. (MBIA Insured Investments). At December 31, 2005, MBIA Insured Investments, excluding conduit investments, at fair value represented $4.4 billion or 14% of total investments. Conduit investments represented $4.5 billion or 14% of total investments. Without giving effect to the MBIA guarantee of the MBIA Insured Investments in the consolidated investment portfolio, as of December 31, 2005, based on the actual or estimated underlying ratings (i) the weighted average rating of the investment portfolio would be in the Aa range, (ii) the weighted average rating of just the MBIA Insured Investments in the investment portfolio would be in the A range and (iii) less than 1% of the investment portfolio would be rated below investment grade.

The underlying ratings of the MBIA Insured Investments as of December 31, 2005 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 table below are the lower underlying rating assigned by S&P or Moody s when an underlying rating exists from either rating service, or 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.

Underlying Ratings Scale In millions	Insurance Portfolio	Investment Management Services Portfolio	Held-to-Maturity Investment Portfolio	Total

Aaa	$ 10	$ 479	$ 214	$ 703
Aa	234	209	432	875
A	624	966	1,812	3,402
Baa	286	1,291	1,998	3,575
Below Investment Grade	107	155		262
Total	$ 1,261	$ 3,100	$ 4,456	$ 8,817

Typically, conduit programs involve the use of rating agencies in assessing the quality of asset purchases and in assigning ratings to the various programs funded through the conduits. All transactions currently funded in the conduits had an underlying rating of at least investment grade by Moody s and S&P prior to funding. The weighted average underlying rating for transactions currently funded in the conduits was A- by S&P and A3 by Moody s at the time such transactions were funded. MBIA estimates that the current weighted average underlying rating of all outstanding conduit transactions was A- by S&P and A3 by Moody s as of December 31, 2005.

The Company generates significant liquidity from its operations, as described above. Because of its risk management policies and procedures, diversification and reinsurance, the Company believes that the occurrence of an event that would significantly adversely affect liquidity is unlikely.

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CONTRACTUAL OBLIGATIONS

The following table summarizes the Company s contractual obligations as of December 31, 2005. For information on the Company s financial guarantee exposure see Note 21: Net Insurance In Force in the Notes to Consolidated Financial Statements.

	As of December 31, 2005				
		Less than			More than
In thousands	Total	1 Year	1-3 Years	3-5 Years	5 Years
Investment agreements	$ 11,496,336	$ 2,948,794	$ 2,286,956	$ 2,150,588	$ 4,109,998
Commercial paper	861,979	861,979			
Medium-term notes	8,636,276	2,167,872	2,497,416	1,071,372	2,899,616
Variable interest entity floating rate notes	1,280,160	120,405	75,772	60,537	1,023,446
Securities sold under agreements to repurchase	646,343	599,676	46,667		
Long-term debt	1,225,737	14,014	4,550		1,207,173
Gross insurance claim obligations	655,451	147,245	323,297	65,965	118,944
Total	$ 24,802,282	$ 6,859,985	$ 5,234,658	$ 3,348,462	$ 9,359,177

Investment agreements, commercial paper, medium-term notes, variable interest entity floating rate notes, securities sold under agreement to repurchase and long-term debt include accrued interest and exclude premiums or discounts and estimates of future interest payments. Gross insurance claim obligations represent the future value of payments MBIA expects to make, before estimated recoveries and reinsurance, under actual or probable insurance policy claims. The discounted value of such actual or estimated claims, after estimated recoveries, is reported as case basis reserves within loss and loss adjustment expense reserves on the Company s consolidated balance sheet.

MARKET RISK

In general, market risk relates to changes in the value of financial instruments that arise from adverse movements in factors such as interest rates, credit spreads, equity prices and foreign exchange rates. MBIA is exposed mainly to changes in interest rates that affect the fair value of its financial instruments, namely investment securities, investment agreement liabilities, 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, mortgage-backed securities, collateralized mortgage obligations, corporate bonds and asset-backed securities. In periods of rising and/or volatile interest rates, profitability could be adversely affected should the Company have to liquidate these securities. Some mortgage-backed securities are subject to significant prepayment risk in periods of declining interest rates.

MBIA minimizes its exposure to interest rate risk through active portfolio management to ensure a proper mix of the types of securities held and to stagger the maturities of its fixed-income securities. 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 can be estimated by projecting a hypothetical instantaneous increase or decrease in interest rates. As of December 31, 2005, a hypothetical increase in interest rates of 100 and 300 basis points would have resulted in an after-tax decrease in the net fair value of the Company s financial instruments of approximately $322.2 million and $927.7 million, respectively. A decrease in interest rates of 100 and 300 basis points would have resulted in an after-tax increase in the net fair value of the Company s financial instruments of approximately $318.3 million and $952.2 million, respectively.

The effects of changes in investment grade corporate credit spreads on the fair value of the Company s credit derivative transactions will also impact earnings. These transactions primarily consist of synthetic structured credit derivatives guaranteed by MBIA Corp., as well as single name credit default swaps directly entered into by the investment management services operations as part of their asset management activities. Sensitivity to changes in credit spreads for these transactions can be estimated by projecting a hypothetical instantaneous shift in credit spreads. As of December 31, 2005, a hypothetical instantaneous increase in investment grade corporate credit spreads of 25, 50 and 75 basis points would have resulted in an after-tax decrease in the net fair value of the Company s credit derivatives of approximately $6.2 million, $19.5 million and $29.5 million, respectively. Conversely, a hypothetical instantaneous decrease in investment grade corporate credit spreads of 25, 50 and 75 basis points would have resulted in an after-tax increase in the net fair value of the Company s credit derivatives of approximately $3.2 million, $3.5 million and $3.3 million, respectively. Under SFAS 133, if such hypothetical shifts in credit spreads were to occur, the resulting change in the net fair value of the Company s credit derivatives would be recorded within the Company s income statement.

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of Financial Condition and Results of Operations (Continued)

Since the Company is able and primarily expects to hold its fixed-maturity securities and derivative transactions to maturity or until such time unrealized losses reverse, it does not expect to recognize any adverse impact to income or cash flows under the above scenarios.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Information concerning quantitative and qualitiative disclosures about market risk appears in Part II, item 7, Management s Discussion and Analysis of Financial Condition and Results of Operation under the heading Market Risk.

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Item 8. Financial Statements and Supplementary Data
REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

MBIA Inc. and Subsidiaries

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of MBIA Inc.:

We have completed integrated audits of MBIA Inc. s 2005 and 2004 consolidated financial statements and of its internal control over financial reporting as of December 31, 2005, and an audit of its 2003 consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

Consolidated Financial Statements and Financial Statement Schedules

In our opinion, the consolidated financial statements listed in the index appearing under Item 15(a)(1) present fairly, in all material respects, the financial position of MBIA Inc. and its subsidiaries at December 31, 2005 and 2004 and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2005 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedules listed in the index appearing under Item 15(a) (2), present fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedules are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements and financial statement schedules based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Internal Control over Financial Reporting

Also, in our opinion, management s assessment, included in Management s Report on Internal Control over Financial Reporting appearing under Item 9A, that the Company maintained effective internal control over financial reporting as of December 31, 2005 based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on criteria established in *Internal Control - Integrated Framework* issued by the COSO. The Company s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management s assessment and on the effectiveness of the Company s internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management s assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

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Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

New York, NY

March 8, 2006

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Consolidated Balance Sheets MBIA Inc. and Subsidiaries

In thousands except per share amounts	December 31, 2005	December 31, 2004
Assets		
Investments:		
Fixed-maturity securities held as available-for-sale, at fair value (amortized cost $23,189,684 and $18,802,894)	$ 23,747,204	$ 19,679,905
Investments held-to-maturity, at amortized cost (fair value $5,734,335 and $7,535,787)	5,765,182	7,540,218
Investment agreement portfolio pledged as collateral, at fair value (amortized cost $712,054 and $713,704)	729,072	730,870
Short-term investments, at amortized cost (which approximates fair value)	1,678,281	2,405,192
Other investments	234,927	261,865
Total investments	32,154,666	30,618,050
Cash and cash equivalents	233,046	366,236
Accrued investment income	396,048	312,208
Deferred acquisition costs	427,111	406,035
Prepaid reinsurance premiums	407,614	434,968
Reinsurance recoverable on unpaid losses	58,965	34,610
Goodwill	79,406	79,406
Property and equipment, at cost (less accumulated depreciation of $121,165 and $108,848)	109,275	114,692
Receivable for investments sold	74,787	67,205
Derivative assets	326,867	288,564
Other assets	293,609	314,321
Total assets	**$ 34,561,394**	**$ 33,036,295**
Liabilities and Shareholders Equity		
Liabilities:		
Deferred premium revenue	$ 3,185,200	$ 3,211,181
Loss and loss adjustment expense reserves	721,502	748,869
Investment agreements	10,806,277	8,678,768
Commercial paper	859,997	2,598,655
Medium-term notes	7,542,416	6,943,840
Variable interest entity floating rate notes	1,280,160	600,505
Securities sold under agreements to repurchase	646,343	647,104
Short-term debt	58,745	58,745
Long-term debt	1,210,405	1,332,540
Deferred income taxes, net	569,536	599,627
Deferred fee revenue	20,379	26,780
Payable for investments purchased	83,369	94,609
Derivative liabilities	384,611	527,455
Other liabilities	600,810	408,820
Total liabilities	**27,969,750**	**26,477,498**
Shareholders 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 155,601,779 and 155,607,737	156,602	155,608
Additional paid-in capital	1,479,447	1,410,799
Retained earnings	5,747,171	5,187,484
Accumulated other comprehensive income, net of deferred income tax of $238,881 and $321,565	399,381	618,606
Unearned compensation restricted stock	(43,857)	(34,686)
Treasury stock, at cost 22,554,528 and 16,216,405 shares	(1,147,100)	(779,014)

Total shareholders equity		**6,591,644**		**6,558,797**
Total liabilities and shareholders equity	**$**	**34,561,394**	**$**	**33,036,295**

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

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Consolidated Statements of Income MBIA Inc. and Subsidiaries

In thousands except per share amounts	Years ended December 31 2005	2004	2003
Insurance			
Revenues:			
Gross premiums written	$ 984,908	$ 1,116,915	$ 1,268,808
Ceded premiums	(127,107)	(158,831)	(193,889)
Net premiums written	857,801	958,084	1,074,919
Increase in deferred premium revenue	(15,059)	(108,414)	(301,925)
Premiums earned (net of ceded premiums of $151,101, $146,537 and $192,647)	842,742	849,670	772,994
Net investment income	491,857	474,415	437,696
Advisory fees	28,235	41,539	59,719
Net realized gains (losses)	(8,075)	108,874	48,157
Net gains (losses) on derivative instruments and foreign exchange	(4,436)	6,627	104,030
Total insurance revenues	1,350,323	1,481,125	1,422,596
Expenses:			
Losses and loss adjustment	84,274	84,753	77,114
Amortization of deferred acquisition costs	66,577	66,412	60,491
Operating	143,378	122,309	118,584
Total insurance expenses	294,229	273,474	256,189
Insurance income	1,056,094	1,207,651	1,166,407
Investment management services			
Revenues	866,154	551,926	403,990
Net realized gains (losses)	1,384	(4,120)	17,135
Net gains (losses) on derivative instruments and foreign exchange	42,558	(9,670)	(8,995)
Total investment management services revenues	910,096	538,136	412,130
Interest expense	705,340	413,615	302,224
Expenses	74,194	76,912	55,005
Total investment management services expenses	779,534	490,527	357,229
Investment management services income	130,562	47,609	54,901
Municipal services			
Revenues	24,388	27,593	26,814
Net realized gains (losses)	(187)	(81)	139
Net gains (losses) on derivative instruments and foreign exchange	230	(279)	
Total municipal services revenues	24,431	27,233	26,953
Expenses	22,316	25,649	25,857
Municipal services income	2,115	1,584	1,096
Corporate			
Net investment income	16,646	8,446	9,000
Net realized gains (losses)	(989)	(467)	15,237
Interest expense	90,999	74,651	68,368

Corporate expenses	97,481	17,579	14,874
Corporate loss	(172,823)	(84,251)	(59,005)
Income from continuing operations before income taxes	1,015,948	1,172,593	1,163,399
Provision for income taxes	303,869	332,123	340,151
Income from continuing operations	712,079	840,470	823,248
Income (loss) from discontinued operations, net of tax	(1,093)	(602)	2,104
Gain on sale of discontinued operations, net of tax		3,178	
Income (loss) from discontinued operations	(1,093)	2,576	2,104
Net income	**$ 710,986**	**$ 843,046**	**$ 825,352**
Income from continuing operations per common share:			
Basic	**$ 5.31**	**$ 5.92**	**$ 5.74**
Diluted	**$ 5.19**	**$ 5.80**	**$ 5.68**
Net income per common share:			
Basic	**$ 5.30**	**$ 5.94**	**$ 5.75**
Diluted	**$ 5.18**	**$ 5.82**	**$ 5.69**
Weighted-average number of common shares outstanding:			
Basic	134,098,392	141,861,225	143,449,007
Diluted	137,220,731	144,799,513	144,980,396
Gross revenues from continuing operations	2,300,507	2,054,473	1,885,916
Gross expenses from continuing operations	1,284,559	881,880	722,517

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

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Consolidated Statements of Changes in Shareholders Equity MBIA Inc. and Subsidiaries

	For the years ended December 31, 2005, 2004 and 2003									
	Common Stock				Accumulated Other		Unearned	Treasury Stock		
In thousands except per share amounts	Shares	Amount	Additional Paid-in Capital	Retained Earnings	Comprehensive Income (Loss)	Unallocated ESOP Shares	Compensation- Restricted Stock	Shares	Amount	Total Shareholders Equity
Balance, January 1, 2003	**152,555**	**$ 152,555**								