



2 3 8 2 5 2 0 1 0 2 2 0 0 0 1 0 0
Audited Financial Reports

**National Public Finance
Guarantee Corporation**
Statutory-Basis Financial Statements
December 31, 2010 and 2009

National Public Finance Guarantee Corporation
Table of Contents
December 31, 2010 and 2009

	Page(s)
Report of Independent Auditors	1-2
Statutory-Basis Financial Statements	
Statements of Admitted Assets, Liabilities and Capital and Surplus.....	3
Statements of Income	4
Statements of Changes in Capital and Surplus.....	5
Statements of Cash Flows.....	6
Notes to Statutory-Basis Financial Statements.....	7-44
Supplemental Schedules	
Summary Investment Schedule.....	45
Supplemental Investment Risks Interrogatories.....	46-51



Report of Independent Auditors

To the Board of Directors and Shareholder of National Public Finance Guarantee Corporation:

We have audited the accompanying statutory statements of admitted assets, liabilities and surplus of National Public Finance Guarantee Corporation (the "Company") as of December 31, 2010 and 2009 and the related statutory statements of income and changes in surplus, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Note 2 to the financial statements, the Company prepared these financial statements using accounting practices prescribed or permitted by the Insurance Department of the State of New York, which practices differ from accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between the statutory basis of accounting and accounting principles generally accepted in the United States of America are material; they are described in note 7.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Company as of December 31, 2010 and 2009, or the results of its operations or its cash flows for the years then ended.

In our opinion, the financial statements referred to above present fairly, in all material respects, the admitted assets, liabilities and surplus of the Company as of December 31, 2010 and 2009, and the results of its operations and its cash flows for the years then ended, on the basis of accounting described in Note 2.

As discussed in Note 1 to the financial statements, in 2009, after receiving regulatory approvals, the Company received capital from its parent and entered into a quota share agreement with an affiliate. Further, as discussed in Note 1 to the financial statements the Company has not written any meaningful new business since 2009.



Our audit was conducted for the purpose of forming an opinion on the basic statutory basis financial statements taken as a whole. The supplemental schedules listed in the attached index of the Company as of December 31, 2010 and for the year then ended are presented for purposes of additional analysis and are not a required part of the basic statutory basis financial statements. The effects on the supplemental schedules listed in the attached index of the variances between the statutory basis of accounting and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material. As a consequence, the supplemental schedules listed in the attached index do not present fairly, in conformity with accounting principles generally accepted in the United States of America, such information of the Company as of December 31, 2010 and for the year then ended. The supplemental schedules listed in the attached index have been subjected to the auditing procedures applied in the audit of the basic statutory basis financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic statutory basis financial statements taken as a whole.

PricewaterhouseCoopers LLP

March 9, 2011

NATIONAL PUBLIC FINANCE GUARANTEE CORPORATION
STATUTORY-BASIS STATEMENTS OF ADMITTED ASSETS, LIABILITIES and CAPITAL and SURPLUS

(Dollars in thousands except share and per share amounts)

	December 31, 2010	December 31, 2009
Admitted Assets		
Investments:		
Fixed maturity securities, at amortized cost (fair value \$5,301,747 and \$5,150,065, respectively)	\$ 5,275,075	\$ 5,055,585
Investments in preferred stock, at carry value which approximates fair value	2,674	-
Securities purchased under agreements to resell (parent)	1,775,000	1,675,000
Short-term investments, at amortized cost which approximates fair value	97,732	121,627
Receivables for securities	289	529
Other invested assets	61,510	-
Total investments	7,212,280	6,852,741
Cash and cash equivalents	9,075	27,629
Total cash and investments	7,221,355	6,880,370
Accrued investment income	60,071	64,855
Current tax receivable	-	3,297
Deferred tax asset	8,158	26,948
Other assets	372	130
Total admitted assets	\$ 7,289,956	\$ 6,975,600
Liabilities, Capital and Surplus		
Liabilities:		
Deferred premium revenue	2,872,590	3,125,504
Loss and loss adjustment expense reserves	95,949	136,024
Contingency reserve	1,473,494	1,403,926
Securities sold under agreements to repurchase (parent)	1,775,000	1,675,000
Current income taxes	114,077	-
Payable for investments purchased	4,261	25,453
Other liabilities	46,865	18,493
Total liabilities	6,382,236	6,384,400
Capital and Surplus:		
Common stock, par value \$30 per share; authorized, issued and outstanding - 500,000 shares	15,000	15,000
Additional paid-in capital	574,441	2,199,345
Unassigned surplus (deficit)	318,279	(1,623,145)
Total capital and surplus	907,720	591,200
Total liabilities, capital and surplus	\$ 7,289,956	\$ 6,975,600

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

NATIONAL PUBLIC FINANCE GUARANTEE CORPORATION
STATUTORY-BASIS STATEMENTS OF INCOME

(Dollars in thousands)

	Years ended December 31	
	2010	2009
Revenues:		
Gross premiums written	\$ 109,600	\$3,509,495
Ceded premiums	0	1,420
Net premiums written	109,600	3,510,915
Decrease (increase) in unearned premiums	252,914	(3,125,504)
Premiums earned	362,514	385,411
Expenses:		
Losses incurred	36,803	5,666
Loss adjustment expenses incurred	15,617	89,435
Other underwriting expenses incurred	75,207	828,360
Gain on reinsurance commutations	(13,364)	(14,462)
Total underwriting expenses	114,263	908,999
Net underwriting gain (loss)	248,251	(523,588)
Investment income:		
Net investment income	221,693	205,453
Net realized capital gains, (less tax of \$16,260 and \$0)	35,296	15,928
Net investment gain (loss)	256,989	221,381
Other income (expense), net	(25)	(8)
Income (loss) before income taxes (after capital gains tax)	505,215	(302,215)
Provision (benefit) for income taxes	96,412	(3,097)
Net income (loss)	\$ 408,803	\$ (299,118)

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

NATIONAL PUBLIC FINANCE GUARANTEE CORPORATION
STATUTORY-BASIS STATEMENTS OF CHANGES IN CAPITAL AND SURPLUS

For the years ended December 31, 2010 and 2009

(Dollars in thousands except share amounts)

	Common Stock		Additional Paid-in Capital	Unassigned Surplus (Deficit)	Total Capital and Surplus
	Shares	Amount			
Balance, January 1, 2009	500,000	\$ 5,000	\$ 123,831	\$ 56,307	\$ 185,138
Net income (loss)	-	-	-	(299,118)	(299,118)
Change in deferred income taxes	-	-	-	622,081	622,081
Change in non-admitted assets	-	-	-	(598,367)	(598,367)
Change in contingency reserve	-	-	-	(1,403,926)	(1,403,926)
Capital contribution from National Holdings	-	-	2,085,230	-	2,085,230
Change in unrealized capital losses	-	-	-	(122)	(122)
Other paid-in capital	-	-	284	-	284
Increase in par value of common stock	-	10,000	(10,000)	-	-
Balance, December 31, 2009	<u>500,000</u>	<u>15,000</u>	<u>2,199,345</u>	<u>(1,623,145)</u>	<u>591,200</u>
Net income (loss)	-	-	-	408,803	408,803
Change in deferred income taxes	-	-	-	(9,765)	(9,765)
Change in non-admitted assets	-	-	-	(6,859)	(6,859)
Change in contingency reserve	-	-	-	(69,568)	(69,568)
Surplus reset (see Note 2)	-	-	(1,623,145)	1,623,145	-
Change in unrealized capital losses	-	-	-	(4,332)	(4,332)
Other paid-in capital	-	-	(1,759)	-	(1,759)
Balance, December 31, 2010	<u>500,000</u>	<u>\$ 15,000</u>	<u>\$ 574,441</u>	<u>\$ 318,279</u>	<u>\$ 907,720</u>

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

NATIONAL PUBLIC FINANCE GUARANTEE CORPORATION
STATUTORY-BASIS STATEMENTS OF CASH FLOWS

(Dollars in thousands)

	Years ended December 31	
	2010	2009
Cash from operations		
Premiums collected, net of reinsurance	\$ 109,600	\$ 3,510,915
Net investment income	253,642	167,677
Miscellaneous expenses	(25)	(9)
Total	363,217	3,678,583
Loss payments (receipt of salvage and subrogation)	74,329	(155,375)
Commissions and loss adjustment expenses paid	80,126	922,676
Federal and foreign income taxes (refunded) paid	(3,297)	1,362
Total	151,158	768,663
Net cash provided by operating activities	212,059	2,909,920
Cash from investments		
Proceeds from investments sold, matured or repaid:		
Fixed-maturity securities	2,233,029	1,750,274
Total investment proceeds	2,233,029	1,750,274
Cost of investments acquired:		
Fixed-maturity securities	2,428,045	6,696,849
Preferred stock	2,668	-
Other invested assets	65,000	-
Increase in payable for investments purchased, net	21,002	24,926
Total investments acquired	2,516,715	6,671,923
Net cash used by investment activities	(283,686)	(4,921,649)
Cash from financing and miscellaneous sources		
Capital contribution from parent	-	2,085,230
Securities under agreement to repurchase	100,072	1,676,286
Other cash (used) applied	29,106	7,398
Net cash provided by financing and miscellaneous sources	129,178	3,768,914
Net change in cash, cash equivalents and short-term investments	57,551	1,757,186
Cash, cash equivalents and short-term investments - beginning of year	1,824,256	67,070
Cash, cash equivalents and short-term investments - end of year	\$ 1,881,807	\$ 1,824,256

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

NATIONAL PUBLIC FINANCE GUARANTEE CORPORATION
NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS
As of and for the years ended December 31, 2010 and 2009

1. Business and Organization

National Public Finance Guarantee Corporation (“National” or “the Company”) is a wholly owned subsidiary of MBIA Inc. through an intermediary holding company, National Public Finance Guarantee Holdings, Inc. (“National Holdings”). Prior to February 17, 2009, National, previously named MBIA Insurance Corporation of Illinois (“MBIA Illinois”), was a wholly owned subsidiary of MBIA Insurance Corporation (“MBIA Corp.”). In February 2009, after receiving the required regulatory approvals, MBIA Corp. transferred the stock of MBIA Illinois to National Holdings. Additionally, National was further capitalized with approximately \$2.1 billion from funds distributed by MBIA Corp. to MBIA Inc. as a dividend and return of capital, which MBIA Inc. contributed to National through National Holdings. Additionally, National increased par value of its common stock from \$10 per share to \$30 per share. As of December 31, 2010, National was rated BBB with a developing outlook by Standard & Poor’s Financial Services, LLC (“S&P”) and Baa1 with a developing outlook by Moody’s Investors Service, Inc. (“Moody’s”).

In February 2009, National and MBIA Corp. entered into a quota share reinsurance agreement effective January 1, 2009 pursuant to which MBIA Corp. ceded all of its United States (“U.S.”) public finance exposure to National and into an assignment agreement under which MBIA Corp. assigned its rights and obligations with respect to the U.S. public finance business that MBIA Corp. had assumed from Financial Guaranty Insurance Corporation (“FGIC”). The exposure transferred to National under the reinsurance and assignment agreements totaled \$553.7 billion of net par outstanding. The reinsurance and assignment enables covered policyholders and certain ceding reinsurers to make claims for payment directly against National in accordance with the terms of these agreements.

In connection with the reinsurance and assignment agreements, MBIA Corp. paid to National approximately \$2.9 billion, which is equal to the statutory net unearned premium and loss and loss adjustment expense reserves, net of a ceding commission, as premium to reinsure the policies covered by these agreements. The ceding commission paid to MBIA Corp. equaled 22% of the net unearned premium reserve ceded. National paid a ceding commission of \$765 million in connection with this transaction.

To provide additional protection to its policyholders, National also issued second-to-pay policies for the benefit of the policyholders covered by the above reinsurance and assignment agreements. These second-to-pay policies, which are direct obligations of National, are held by a trustee and provide that if MBIA Corp. or FGIC, as applicable, do not pay valid claims of their policyholders; the policyholders will then be able to make claims directly against National. MBIA Corp. and FGIC are still ultimately liable for the risk associated with these policies in the event that National is unable to make payment.

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

National has not written any meaningful amount of business since its inception in 2009. The lack of insurance writings reflects the insurance financial strength credit ratings assigned to National. In 2008 and 2009, MBIA Inc. pursued and received approval from the New York State Insurance Department (“NYSID”) to separate MBIA Corp. into two insurance companies, MBIA Corp. and National to meet the market’s demand for municipal bond insurance from municipal-only companies. Along with the NYSID, National is currently vigorously defending litigation seeking to challenge the NYSID’s decision. Litigation over the NYSID’s approval of National’s creation or additional hurdles to achieving high stable ratings may impede National’s ability to write new municipal bond insurance for some time, reducing its long-term ability to generate capital from operations.

NATIONAL PUBLIC FINANCE GUARANTEE CORPORATION
NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS
As of and for the years ended December 31, 2010 and 2009

Recently, many state and local governments that issue some of the obligations the National insures have reported unprecedented budget shortfalls, which could lead to claims on insurance policies issued by the National. Although National's insurance loss reserves are considered reasonable estimates of losses incurred to date, there is a possibility that such losses could increase significantly as a result of unexpected future defaults on insured bonds. Failure to maintain adequate levels of statutory surplus and total statutory capital could lead to intervention by National's insurance regulators in its operations.

On March 1, 2010, National established National Real Estate Holdings of Armonk, LLC, ("NREHA") a wholly owned subsidiary of National in order to purchase MBIA Corp.'s interest in certain real estate for purposes of conducting National's business and leasing to certain affiliates and third-party tenants.

Liquidity

Liquidity risk arises in National's operations when claims on insured exposures result in payment obligations, when operating cash inflows fall due to depressed new business writings, lower investment income, or unanticipated expenses, or when invested assets experience credit defaults or significant declines in fair value.

National's financial guarantee contracts generally cannot be accelerated by a party other than the insurer, thereby mitigating liquidity risk. However, defaults, credit impairments and adverse capital markets conditions such as those currently being experienced, can create payment requirements as National has made irrevocable pledges to pay principal and interest, or other amounts owed on insured obligations, when due. Additionally, National requires cash for the payment of operating expenses. Finally, National also provides liquid assets to MBIA Inc.'s asset/liability products segment through matched repurchase and reverse repurchase agreements to support its business operations and liquidity position.

2. Summary of Significant Accounting Policies

Basis of Presentation

The statutory financial statements of National are presented on the basis of accounting practices prescribed or permitted by the NYSID. The NYSID recognizes only statutory accounting practices prescribed or permitted by the State of New York for determining and reporting the financial condition and results of operations of an insurance company, and determining its solvency under the New York Insurance Law. The National Association of Insurance Commissioners ("NAIC") *Accounting Practices and Procedures Manual* ("NAIC SAP") has been adopted as a component of prescribed or permitted practices by the State of New York. The Commissioner of Insurance has the right to permit other specific practices that deviate from prescribed practices.

NATIONAL PUBLIC FINANCE GUARANTEE CORPORATION
NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS
As of and for the years ended December 31, 2010 and 2009

Effective January 1, 2010, National was granted a permitted practice by the NYSID to reset its unassigned funds (surplus) to zero by netting its negative unassigned surplus of \$1.6 billion against \$2.2 billion of gross paid-in and contributed surplus as summarized in the table below. Total policyholders' surplus was not impacted by this permitted practice.

In thousands	NAIC SAP	Adjusted for New York State Permitted Practice
Common capital stock	\$ 15,000	\$ 15,000
Gross paid in and contributed surplus	574,441	574,441
Unassigned surplus (deficit)	318,279	318,279
Total policyholders' surplus (as of December 31, 2010)	<u>\$ 907,720</u>	<u>\$ 907,720</u>
Common capital stock	\$ 15,000	\$ 15,000
Gross paid in and contributed surplus	2,199,345	576,200
Unassigned surplus (deficit)	(1,623,145)	-
Total policyholders' surplus (as of December 31, 2009)	<u>\$ 591,200</u>	<u>\$ 591,200</u>

The preparation of financial statements in conformity with Statutory Accounting Principles ("SAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. As additional information becomes available or actual amounts become determinable, the recorded estimates are revised and reflected in operating results. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and demand deposits with banks with an original maturity of less than 90 days. Cash equivalents also include bonds and commercial paper with a maturity of less than 90 days at time of purchase.

Investments

Bonds with an NAIC designation of 1 or 2 that are not backed by other loans are reported at amortized cost. Amortized cost is calculated using the effective interest yield method. For bonds purchased at a price below par value, discounts are accreted over the remaining term of the bond. For bonds purchased at a price above par value, which have call features, premiums are amortized to the call date that produces the lowest yield. For premium bonds that do not have call features, such premium is amortized over the remaining term of the bond.

Investments in bonds with an NAIC designation of 3 to 6 that are not backed by other loans are reported at the lower of amortized cost (as described above) or fair value as determined by the NAIC's Securities Valuation Office ("SVO"). In the event the SVO has not determined the fair value of a security, fair value amounts are determined by using independent market sources, when available, and appropriate valuation methodologies when market quotes are not available. In cases where specific market quotes are unavailable, interpreting market data and estimating market values require considerable judgment by management. Accordingly, the estimates presented are not necessarily indicative of the amount National could realize in the market.

The NAIC adopted Statement of Statutory Accounting Principles ("SSAP") 43R "Loan-backed and Structured Securities - Revised," effective September 30, 2009. SSAP 43R establishes principles for investments in loan-backed

NATIONAL PUBLIC FINANCE GUARANTEE CORPORATION
NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS
As of and for the years ended December 31, 2010 and 2009

and structured securities and increased disclosures regarding other-than-temporarily impaired securities. See “Note 3: Investments” and “Note: 4 Investment Income and Gains and Losses” for further information.

The Company utilizes the retrospective adjustment method to value all loan-backed securities except for interest only securities or securities where the yield has become negative. These securities are valued using the prospective method.

Loan-backed bonds and structured securities with an NAIC designation of 1 or 2 are reported at amortized cost using the effective interest method, including anticipated prepayments at the date of purchase. Changes in the estimated cash flows from the original purchase assumptions are accounted for using the retrospective method. However, the prospective method is used to value interest-only securities or securities where the yield has become negative.

Loan-backed bonds and structured securities with an NAIC designation of 3 through 6 are reported at the lower of amortized cost or fair value as determined by the SVO. In the event the SVO has not determined the fair value of a security, fair value amounts are determined by using independent market sources, when available, and appropriate valuation methodologies when market quotes are not available. In cases where specific market quotes are unavailable, interpreting market data and estimating market values require considerable judgment by management. Accordingly, the estimates presented are not necessarily indicative of the amount National could realize in the market.

Investment income is recorded as earned. All investment income due and accrued with amounts that are over 90 days past due are recorded as non-admitted assets. As of December 31, 2010 and 2009 there were no non-admitted assets for investment income due and accrued. Realized gains and losses on the sale of investments are determined by specific identification and are included in the statement of income as a separate component of revenues. Unrealized gains and losses from the revaluation of bonds and common stocks not valued at amortized cost are credited or charged to unassigned surplus.

Short-term investments and cash equivalents are stated at amortized cost, net of any unrealized foreign exchange gains and losses, which approximates fair value.

National recorded its investment in its subsidiary, NREHA, within “Other invested assets” on its balance sheet. Investments in limited liability companies are reported using an equity method as defined in SSAP 97, “Investments in Subsidiary, Controlled and Affiliated Entities.” The change in policyholders’ surplus is recorded as a component of unrealized capital gains and losses.

Preferred stocks are stated in accordance with SSAP 32 “Investments in Preferred Stock (including investments in preferred stock of subsidiary, controlled, or affiliated entities).” Perpetual preferred stocks with an NAIC designation of P1 and P2 are carried at fair value while perpetual preferred stocks with an NAIC designation of P3 through P6 are carried at the lower of cost or fair value. Redeemable preferred stocks with an NAIC designation of RP1 and RP2 are carried at amortized cost while redeemable preferred stocks with an NAIC designation of RP3 through RP6 are carried at the lower of amortized cost or fair value.

National’s investment portfolio is reviewed quarterly to identify those securities in which fair value is less than amortized cost in order to assess whether such a decline in value is other-than-temporary. An investment is considered for a potential other-than-temporary impairment if it meets any of the following criteria:

- 1) the security’s current fair value is less than current amortized cost by a magnitude of 5% or greater, and the fair value has been less than amortized cost for a period of greater than twelve months; or
- 2) the security’s fair value is less than current amortized cost by a magnitude of 20% or greater.

If any of the above criteria are met, further analysis is performed to determine whether the impairment is other-than-temporary. In assessing whether a decline in value is other-than-temporary, National considers several factors, including but not limited to (a) the magnitude and duration of the decline, (b) credit indicators and reasons for the

NATIONAL PUBLIC FINANCE GUARANTEE CORPORATION
NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS
As of and for the years ended December 31, 2010 and 2009

decline, such as general interest rate or credit spread movements, credit rating downgrades, issuer specific changes in credit spreads, and the financial condition of the issuer, and (c) any guarantees associated with a security such as those provided by financial guarantee insurance companies. Based on this assessment, if National believes that either (a) the investment's fair value will not recover to an amount equal to its amortized cost or (b) National does not have the ability and intent to hold the investment to maturity or until the fair value recovers to an amount at least equal to amortized cost, it will consider the decline in value to be other-than-temporary. If National determines that a decline in the value of an investment is other-than-temporary, the investment is written down to its fair value and a realized loss is recorded in net income.

For loan-backed and structured securities, National estimates cash flows expected to be collected over the life of the security. If National determines that if, based on current information and events, there is a decrease in cash flows expected to be collected (that is they will be unable to collect all cash flows expected at acquisition plus any additional cash flows expected to be collected arising from changes in estimate after acquisition) an other-than-temporary impairment shall be considered to have occurred. For loan-backed securities that management has no intent to sell and believes that it is more likely than not such securities will not be required to be sold prior to recovery, only the credit loss component of the other-than-temporary impairment is recognized as a realized loss, while the rest of the fair value loss is recognized as a reduction to unassigned surplus. If management intends to sell the security or if management believes that it is more likely than not such securities will be required to be sold prior to recovery, the entire amount of the unrealized loss is recognized as a realized loss.

These assessments require management to exercise judgment as to whether an investment is impaired based on market conditions and trends and the availability of relevant data. National did not recognize any other-than-temporary impairments in 2010 or 2009.

The NAIC adopted SSAP 100 "Fair Value Measurements" effective December 31, 2010. See "Note 5: Fair Value of Financial Instruments" for further information regarding valuation methodologies and related disclosures.

Premium Revenue Recognition

In 2010 substantially all of National's written premiums arise from the quota share reinsurance agreement with MBIA Corp., as described in "Note 1: Business and Organization". National's premiums written consist of upfront premiums and installment premiums received and accrued for policies issued in current and prior years. Upfront premiums are earned proportionately to the ratio of scheduled periodic maturity of principal and payment of interest (debt service) to the original total principal and interest insured. Installment premiums are earned on a straight-line basis over each installment period, generally one year or less. Unearned premiums represent the portion of premiums written in prior years that is applicable to the unexpired risk of insured obligations. When an insured obligation is retired early, is called by the issuer, or is in substance paid in advance through a refunding accomplished by placing United States ("U.S.") Government securities in escrow, the remaining unearned premium is earned at that time, since there is no longer risk to National. The amounts earned from refundings were \$152 million and \$169 million in 2010 and 2009, respectively. As the outstanding principal of an installment-based policy is paid down by the issuer of a National-insured obligation, less premium is collected and recognized by National. Additionally, National may receive premiums upon the early termination of installment-based policies, which are earned when received.

Premiums ceded to reinsurers reduce the amount of earned premium National will recognize from its insurance policies. For both upfront and installment policies, ceded premium is recognized in earnings in proportion to and at the same time the related gross premium revenue is recognized.

Ceding commission income and expense are recognized in earnings at the same time the related premium is written.

Expenses incurred in connection with the acquisition of new insurance business are charged to operations as incurred. Expenses incurred are reduced for ceding commissions received or receivable, to the extent admissible.

NATIONAL PUBLIC FINANCE GUARANTEE CORPORATION
NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS
As of and for the years ended December 31, 2010 and 2009

National does not utilize anticipated investment income as a factor in the premium deficiency calculation. National had no premium deficiency as of December 31, 2010 or 2009.

Fees and Expense Reimbursements

The Company collects advisory fees in connection with certain transactions. These fees are included as a reduction to "Other Underwriting Expenses Incurred" within the statements of income and represent \$4 million and \$1 million for the years ended December 31, 2010 and 2009, respectively.

Loss and Loss Adjustment Expense ("LAE") Reserves

National's 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 or, in the event that National has the right, at its discretion, to accelerate insured obligations upon default or otherwise, upon such acceleration by National. Loss and LAE reserves are established by National's Loss Reserve Committee, which consists 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.

National recognizes loss reserves on a contract-by-contract basis where an insured event has occurred (i.e., a payment default on the insured obligation) or an insured event is expected in the future based upon credit deterioration which has already occurred and has been identified. Case reserves are measured based on the probability-weighted present value of expected net cash inflows and outflows to be paid under the contract, discounted using a rate equal to the yield-to-maturity of National's fixed-income investment portfolio, excluding cash and cash equivalents and other investments not intended to defease long-term liabilities. The loss reserve is subsequently remeasured each reporting period for expected increases or decreases due to changes in the likelihood of default and potential recoveries. Subsequent changes to the measurement of the loss reserve are recognized as losses incurred in the period of change. Measurement and recognition of loss reserve is reported net of any reinsurance. National estimates the likelihood of possible claims payments and possible recoveries using probability-weighted expected cash flows based on information available as of the measurement date, including market information. The methods for making such estimates are continually reviewed and any adjustments are reflected in the period determined. Once a case basis reserve is established for an insured obligation, National continues to record premium revenue to the extent premiums have been or are expected to be collected on that obligation.

National does not establish loss reserves for all payments due under an insured obligation. Case basis reserves cover the estimated amount of principal and interest National expects to pay on its insured obligations and the costs of settlement and other loss mitigation expenses, net of expected recoveries. National recognizes potential salvage and subrogation recoveries on paid losses based on a similar probability-weighted net cash flow projection discounted using the same rate discussed above, as of the measurement date. Such recovery amounts are reported within "Loss and LAE reserves" on National's balance sheet as a contra liability.

When National becomes entitled to the underlying collateral of an insured obligation under salvage and subrogation rights as a result of a settled claim, it reports this type of salvage and subrogation as a contra liability within "Loss and LAE reserves."

A number of variables are taken into account in establishing specific case basis reserves for individual policies. These variables include 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 underwriting losses for any policy include the state of the economy, changes in interest rates, rates of inflation and the salvage values of specific collateral. Management believes that National's reserves are adequate to cover the 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.

NATIONAL PUBLIC FINANCE GUARANTEE CORPORATION
NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS
As of and for the years ended December 31, 2010 and 2009

Contingency Reserve

A contingency reserve is established for the protection of all policyholders by direct charges to unassigned surplus and is established by National for past business and new business, as follows:

- For policies in force prior to July 1, 1989, National establishes and maintains a contingency reserve equal to 50% of the cumulative earned premiums on such policies.
- For policies written on or after July 1, 1989, a contingency reserve, which represents the greater of 50% of premiums written or a stated percentage of the principal guaranteed dependent on the category of obligation insured, is established over a 15 to 20 year period. The stated percentage ranges from 0.55% on municipal general obligation bonds to 2.5% on certain industrial development bonds and non-investment grade obligations.

Contingency reserves are established and maintained net of collateral and reinsurance. The reserves may be released in the same manner in which they were established and withdrawals, to the extent there may be excess, may be made with either the prior written approval of the Superintendent of the NYSID or upon thirty days prior written notice, depending upon the circumstances specified in Article 69, Section 6903 of the New York Insurance Law. Contingency reserves established for policies which are terminated, matured or net of refundings to the extent that the refunded issue is paid off or secured by obligations, which are directly payable or guaranteed by the U.S. Government, may be released without prior approval or notice. Additionally, as of December 31, 2010 and 2009 in conjunction with the provisions noted above, National has released contingency reserves upon satisfaction of certain conditions of New York State Insurance Law. National continually assesses its contingency reserves to determine if amounts are excessive in relation to the outstanding insured obligations and could potentially release additional contingency reserves in the future upon demonstrating to the satisfaction of NYSID that the amounts are excessive. National's contingency reserve as of December 31, 2010 and 2009 was \$1.5 billion and \$1.4 billion, respectively.

Securities Purchased Under Agreements to Resell and Securities Sold Under Agreements to Repurchase

Securities purchased under agreements to resell and securities sold under agreements to repurchase are accounted for as collateralized transactions and are recorded at book value. It is National's policy to take possession of securities borrowed or purchased under agreements to resell. Repurchase agreements with third parties are primarily entered into for cash management purposes, to invest or obtain cash on a short-term basis, and are only transacted with high-quality dealer firms. National's investment guidelines require that these repurchase agreements to be fully collateralized, with collateral valued at fair value and additional collateral delivered if there is a shortfall. Cash collateral received is invested in short-term investments and the offsetting collateral liability is recorded on the balance sheet. There were no third party repurchase agreement transactions outstanding as of December 31, 2010 and 2009.

National maintains an intercompany repurchase agreement with MBIA Inc., which was approved by the NYSID. Under this agreement, National holds securities subject to agreements to resell (totaling \$1.8 billion and \$1.7 billion as of December 31, 2010 and 2009, respectively) and transfers securities subject to agreements to repurchase of an equal amount. In the event that the value of the securities transferred by either party declines below the amount outstanding under the facility, a transfer of additional securities is required. These agreements reset on a quarterly basis. The interest income related to these agreements was \$12 million and \$29 million, and the interest expense was \$5 million and \$4 million, respectively, for the years ended December 31, 2010 and 2009. The weighted average credit rating of securities pledged to National by MBIA Inc. under this agreement was A as of December 31, 2010. The weighted average credit rating of securities pledged to MBIA Inc. by National under this agreement was Aaa as of December 31, 2010.

NATIONAL PUBLIC FINANCE GUARANTEE CORPORATION
NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS
As of and for the years ended December 31, 2010 and 2009

Income Taxes

Under SSAP 10R “Income Taxes–Revised”, the amount of deferred tax assets that an insurance company could admit was limited to the lesser of deferred tax assets expected to reverse in one year or 10% of adjusted statutory policyholders’ surplus. The Company has not admitted additional deferred tax assets (“DTAs”) pursuant to SSAP 10R, paragraph 10(e) as financial guarantee companies are not permitted to do so.

National files its U.S. Corporation Income Tax Return as a member of MBIA Inc. consolidated group and participates in the MBIA tax sharing agreement under which National is allocated its share of the consolidated tax liability or tax benefit as determined under the tax sharing agreement. To the extent that the consolidated tax liability of the Parent Company and its subsidiaries is less than National’s tax liability on a separate company basis, the difference would be held in escrow for two years in the event National were to incur a tax loss which could be carried back. Current tax losses not carried back on a separate return basis would be compensated for under the terms of the tax sharing agreement. Intercompany tax balances are settled annually following the Parent Company’s filing of its federal income tax return.

The provision for federal income taxes is based on income from operations. Deferred income taxes are provided based on temporary differences between the financial reporting and tax bases of recording assets and liabilities.

Reclassifications

Certain reclassifications have been made to prior year balances in order to conform to the current year presentation.

3. Investments

The Company’s investment objective is to optimize long-term, after-tax returns while emphasizing the preservation of capital through maintenance of high-quality investments with adequate liquidity. The Company’s investment policies limit the amount of credit exposure to any one issuer. The fixed-maturity portfolio comprises high quality taxable and tax-exempt investments of diversified maturities.

The following tables set forth the book adjusted/carry value and fair value of the fixed-maturity securities included in the investment portfolio of National, as of December 31, 2010 and 2009. Fair value is based upon valuations adopted and approved by the SVO of the NAIC. If the fair value of a security is not available from the SVO, an independent third-party source is used.

<u>In thousands</u>	As of December 31, 2010			
	Book Adjusted/ Carry Value	Gross		Fair Value
		Unrealized Gains	Unrealized Losses	
U.S. Governments	\$ 593,886	\$ 6,722	\$ (4,425)	\$ 596,183
States, Territories and possessions	411,537	1,712	(13,236)	400,013
Political Subdivisions of states, Territories and Possessions	681,747	5,568	(17,227)	670,088
Special Revenue and Special Assessment Obligations	3,122,835	66,142	(36,235)	3,152,742
Industrial and Miscellaneous	436,529	18,387	(3,956)	450,960
Hybrid Securities	28,541	3,220	-	31,761
Total fixed-maturity investments	<u>\$ 5,275,075</u>	<u>\$ 101,751</u>	<u>\$ (75,079)</u>	<u>\$ 5,301,747</u>
Preferred stock	2,667	8	(1)	2,674
Total fixed-maturity investments and stock	<u>\$ 5,277,742</u>	<u>\$ 101,759</u>	<u>\$ (75,080)</u>	<u>\$ 5,304,421</u>

NATIONAL PUBLIC FINANCE GUARANTEE CORPORATION
NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS
As of and for the years ended December 31, 2010 and 2009

In thousands	As of December 31, 2009			
	Book Adjusted/ Carry Value	Gross		Fair Value
		Unrealized Gains	Unrealized Losses	
U.S. Governments	\$ 768,472	\$ 4,540	\$ (9,812)	\$ 763,200
States, Territories and possessions	375,868	2,583	(3,476)	374,975
Political Subdivisions of states, Territories and Possessions	569,733	7,700	(7,991)	569,442
Special Revenue and Special Assessment Obligations	3,016,229	94,003	(10,536)	3,099,696
Industrial and Miscellaneous	297,383	15,161	(872)	311,672
Hybrid Securities	27,900	3,180	-	31,080
Total fixed-maturity investments	<u>\$ 5,055,585</u>	<u>\$ 127,167</u>	<u>\$ (32,687)</u>	<u>\$ 5,150,065</u>
Preferred stock	-	-	-	-
Total fixed-maturity investments and stock	<u>\$ 5,055,585</u>	<u>\$ 127,167</u>	<u>\$ (32,687)</u>	<u>\$ 5,150,065</u>

Fixed-maturity investments carried at book adjusted/ carry value of \$5 million and \$7 million as of December 31, 2010 and 2009, respectively, were on deposit with various regulatory authorities to comply with insurance laws. The fair value of those fixed maturities was \$6 million and \$8 million as of December 31, 2010 and 2009, respectively.

The following table sets forth the distribution by contractual maturity of National's fixed-maturity investments at book adjusted/ carry value and fair value at December 31, 2010. Contractual maturities may differ from expected maturities because borrowers may have the right to call or prepay obligations.

In thousands	Book Adjusted / Carry Value	Fair Value
Due in one year or less	\$ 229,562	\$ 231,375
Due after one year through five years	883,150	909,492
Due after five years through ten years	1,213,897	1,187,453
Due after ten years through fifteen years	255,668	253,229
Due after fifteen years through twenty years	312,944	319,162
Due after twenty years	907,950	914,749
Mortgage-backed	1,471,904	1,486,287
Total fixed-maturity investments	<u>\$ 5,275,075</u>	<u>\$ 5,301,747</u>

NATIONAL PUBLIC FINANCE GUARANTEE CORPORATION
NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS
As of and for the years ended December 31, 2010 and 2009

The following tables set forth the gross unrealized losses of the National's fixed-maturity and stock investments as of December 31, 2010 and 2009. The tables have segregated investments that have been in a continuous unrealized loss position for less than 12 months from those that have been in a continuous unrealized loss position for twelve months or longer.

In thousands	As of December 31, 2010					
	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Governments	\$ 286,655	\$ (4,425)	\$ -	\$ -	\$ 286,655	\$ (4,425)
All Other Governments	-	-	-	-	-	-
States, Territories and Possessions	161,249	(7,634)	130,997	(5,602)	292,246	(13,236)
Political Subdivisions of States, Territories and Possessions	221,887	(9,497)	143,779	(7,730)	365,666	(17,227)
Special Revenue and Special Assessment Obligations	1,279,130	(26,083)	238,681	(10,152)	1,517,811	(36,235)
Industrial and Miscellaneous	151,696	(3,956)	-	-	151,696	(3,956)
Total fixed-maturity investments	\$ 2,100,617	\$ (51,595)	\$ 513,457	\$ (23,484)	\$ 2,614,074	\$ (75,079)
Preferred stock	1,308	(1)	-	-	1,308	(1)
Total	\$ 2,101,925	\$ (51,596)	\$ 513,457	\$ (23,484)	\$ 2,615,382	\$ (75,080)

In thousands	As of December 31, 2009					
	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Governments	\$ 393,864	\$ (9,812)	\$ -	\$ -	\$ 393,864	\$ (9,812)
All Other Governments	-	-	-	-	-	-
States, Territories and Possessions	184,006	(2,919)	10,110	(557)	194,116	(3,476)
Political Subdivisions of States, Territories and Possessions	254,812	(7,991)	-	-	254,812	(7,991)
Special Revenue and Special Assessment Obligation	517,221	(10,448)	1,879	(88)	519,100	(10,536)
Industrial and Miscellaneous	22,025	(872)	-	-	22,025	(872)
Total fixed-maturity investments	\$ 1,371,928	\$ (32,042)	\$ 11,989	\$ (645)	\$ 1,383,917	\$ (32,687)
Preferred stock	-	-	-	-	-	-
Total	\$ 1,371,928	\$ (32,042)	\$ 11,989	\$ (645)	\$ 1,383,917	\$ (32,687)

As of December 31, 2010, National's fixed-maturity and stock investment portfolios had a gross unrealized loss of approximately \$75 million. There were 51 securities that were in an unrealized loss position for a continuous twelve-month period or longer with an aggregate unrealized loss position of \$23 million. Among the 51 securities, the book value of 11 securities exceeded market value by more than 5%.

As of December 31, 2009, National's fixed-maturity and stock investment portfolios had a gross unrealized loss of approximately \$33 million. There were two securities that were in an unrealized loss position for a continuous twelve-month period or longer with an aggregate unrealized loss position of \$1 million. One of the two securities had unrealized losses in which the book value exceeded market value by more than 5%.

NATIONAL PUBLIC FINANCE GUARANTEE CORPORATION
NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS
As of and for the years ended December 31, 2010 and 2009

The following tables set forth the gross unrealized losses of the Company's loan-backed securities as of December 31, 2010 and 2009. The tables have segregated loan backed securities that have been in a continuous unrealized loss position for less than twelve months from those that have been in a continuous unrealized loss position for twelve months or longer.

<u>In thousands</u>	As of December 31, 2010					
	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Single class mortgage-backed securities	\$ 719,591	\$ (10,825)	\$ -	\$ -	\$ 719,591	\$ (10,825)
Multi-class residential mortgage-backed securities	32,796	(146)	-	-	32,796	(146)
Multi-class commercial mortgage-backed/ asset-backed securities	39,782	(1,076)	-	-	39,782	(1,076)
Total loan-backed securities	<u>\$ 792,169</u>	<u>\$ (12,047)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 792,169</u>	<u>\$ (12,047)</u>

<u>In thousands</u>	As of December 31, 2009					
	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Single class mortgage-backed/asset-backed securities	\$ 274,654	\$ (2,414)	\$ -	\$ -	\$ 274,654	\$ (2,414)
Multi-class residential mortgage-backed securities	2,169	(91)	-	-	2,169	(91)
Total loan-backed securities	<u>\$ 276,823</u>	<u>\$ (2,505)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 276,823</u>	<u>\$ (2,505)</u>

National has evaluated whether the unrealized losses in its investment portfolios were other-than-temporary considering the circumstances that gave rise to the unrealized losses, along with National's ability and intent to hold these securities to maturity or until such time as to recover an amount equal to their amortized cost. See "Note 2: Summary of Significant Accounting Policies" for further information regarding the analysis performed in determining if a security is other-than-temporarily impaired. National did not recognize a transition adjustment as part of the adoption of SSAP 43R in 2010.

Based on its evaluation, during 2010, National did not recognize an other-than-temporary impairment on any securities. National determined that the unrealized losses on securities in its portfolio were temporary in nature because its impairment analysis, including projected future cash flows, indicated that the Company would be able to recover the amortized cost of impaired assets. The Company also concluded that it has both the ability and intent to hold these securities until their fair values recover to an amount at least equal to amortized cost or to maturity.

NATIONAL PUBLIC FINANCE GUARANTEE CORPORATION
NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS
As of and for the years ended December 31, 2010 and 2009

4. Investment Income and Gains and Losses

The following table presents National's net investment income for the years ended December 31, 2010 and 2009.

<u>In thousands</u>	<u>Years ended December 31,</u>	
	<u>2010</u>	<u>2009</u>
Fixed-maturity	\$ 220,865	\$ 184,046
Short-term investments	7,306	26,433
Gross investment income	\$ 228,171	\$ 210,479
Investment expenses	6,478	5,026
Net investment income	<u>\$ 221,693</u>	<u>\$ 205,453</u>

All investment income due and accrued with amounts that are over 90 days past due are non-admitted. As of December 31, 2010 and 2009 there were no non-admitted assets for investment income due and accrued.

Net realized gains (losses) from fixed-maturity investment security sales are primarily generated as a result of the ongoing management of the Company's investments portfolio. In 2010, net realized gains from the sale of fixed-maturity investments were \$52 million compared with net realized gains of \$16 million in 2009. There were no other-than-temporary impairments in 2010 or 2009.

The following table presents net realized gains and losses for the years ended December 31, 2010 and 2009:

<u>In thousands</u>	<u>Years ended December 31,</u>	
	<u>2010</u>	<u>2009</u>
Fixed-maturity:		
Gains	\$ 56,955	\$ 21,714
Losses	(5,399)	(5,786)
Net	<u>\$ 51,556</u>	<u>\$ 15,928</u>

5. Fair Value of Financial Instruments

For financial instruments recorded at their carrying amount, the estimated fair value amounts of financial instruments shown in the following table have been determined by the Company using available market information and appropriate valuation methodologies. In certain instances, considerable judgment may be required to interpret market data in order to develop estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amount the Company could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amount.

For assets and liabilities recorded on the balance sheet at fair value, SSAP 100, "Fair Value Measurements" establishes a disclosure hierarchy for inputs used in measuring fair value. Observable inputs are those the Company believes that market participants would use in pricing the asset or liability developed based on market data. Unobservable inputs are those that reflect the Company's beliefs about the assumptions market participants would use in pricing the asset or liability developed based on the best information available. The hierarchy is broken down into three levels based on the observability and reliability of inputs as follows:

- Level 1-Valuations based on quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.

NATIONAL PUBLIC FINANCE GUARANTEE CORPORATION
NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS
As of and for the years ended December 31, 2010 and 2009

- Level 2-Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly. If the asset or liability has a specified (contractual) term, a level 2 input must be observable for substantially the full term of the asset or liability.
- Level 3-Valuations based on inputs that are unobservable and supported by little or no market activity and that are significant to the overall fair value measurement.

Valuation Methodologies

Fixed-maturity securities and Short-term investments - Fixed-maturity securities and short-term investments with an NAIC designation of 1 and 2 are carried at amortized cost while fixed-maturity securities and short-term investments with an NAIC designation of 3 through 6 are carried at the lower of cost or fair value.

Fair value of fixed-maturity securities and short-term investments with an NAIC designation of 1 and 2 are generally provided by the NAIC SVO published market prices. If NAIC SVO published market prices are not available, the fair value is determined using an independent third-party pricing service which maximizes observable inputs, including price quotations of recent trades of same or similar securities. When observable price quotations are not available, fair value is determined based on cash flow models with yield curves, bond or single name credit default swap spreads and diversity scores as key inputs. These bonds are generally categorized in Level 2 of the fair value hierarchy; in instances where significant inputs are unobservable, they are categorized in Level 3 of the hierarchy.

Preferred stock - Perpetual preferred stocks with an NAIC designation of P1 and P2 are carried at fair value while perpetual preferred stocks with an NAIC designation of P3 through P6 are carried at the lower of cost or fair value. Redeemable preferred stocks with an NAIC designation of RP1 and RP2 are carried at amortized cost while redeemable preferred stocks with an NAIC designation of RP3 through RP6 are carried at the lower of amortized cost or fair value. The fair value of perpetual preferred stocks that are disclosed on the balance sheet are based upon the market prices published by the NAIC SVO, if available. If the NAIC SVO published market price is not available, an independent third-party source is used.

Other invested assets - National recorded its investment in its subsidiary, NREHA, within “Other invested assets” on its balance sheet. Investments in limited liability companies are reported using an equity method as defined in SSAP 97, “Investments in Subsidiary, Controlled and Affiliated Entities.” The change in policyholders’ surplus is recorded as a component of unrealized capital gains and losses.

Cash and cash equivalents, Accrued investment income, Receivable for investments sold and Payable for investments purchased - The carrying amounts of these items are a reasonable estimate of their fair value.

Securities purchased under agreements to resell - The fair value of securities purchased under agreements to resell are determined based on the underlying securities received that back the repurchase agreements.

Deferred premium revenue - The fair value of the Company’s deferred premium revenue is based on the unearned premium reserve on policies net of prepaid reinsurance premiums plus the present value of premium receivables. The carrying amount of deferred premium revenue represents the unamortized balance of premiums collected.

Loss and LAE reserves - The carrying amount is composed of the present value of the expected cash flows for specifically identified claims. Therefore, the carrying amount is a reasonable estimate of the fair value of the reserve.

Securities sold under agreements to repurchase - The fair value of securities sold under agreements to repurchase are determined based on the underlying securities provided that back the repurchase.

The following table presents the carrying value and fair value of financial instruments reported on the Company’s Consolidated Balance Sheets as of December 31, 2010 and December 31, 2009:

NATIONAL PUBLIC FINANCE GUARANTEE CORPORATION
NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS
As of and for the years ended December 31, 2010 and 2009

<u>In thousands</u>	<u>As of December 31, 2010</u>		<u>As of December 31, 2009</u>	
	<u>Carrying Amount</u>	<u>Estimated Fair Value</u>	<u>Carrying Amount</u>	<u>Estimated Fair Value</u>
Assets:				
Bonds	\$ 5,275,075	\$ 5,301,747	\$ 5,055,585	\$ 5,150,065
Investments in preferred stock	2,674	2,707	-	-
Securities purchased under agreements to resell	1,775,000	1,955,413	1,675,000	1,849,577
Short-term investments	97,732	97,732	121,627	121,627
Other invested assets	61,510	61,510	-	-
Cash and cash equivalents	9,075	9,075	27,629	27,629
Accrued investment income	60,071	60,071	64,855	64,855
Liabilities:				
Deferred premium revenue	\$ 2,872,590	\$ 3,130,798	\$ 3,125,504	\$ 3,395,713
Loss and LAE reserves	95,949	95,949	136,024	136,024
Securities sold under agreements to repurchase	1,775,000	1,803,658	1,675,000	1,849,577
Payable for investments purchased	4,261	4,261	25,453	25,453

Fair Value Measurements

The following fair value hierarchy table presents information about the Company's assets measured at fair value on a recurring basis as of December 31, 2010. There were no liabilities measured at fair value for the year ended December 31, 2010:

<u>In thousands</u>	<u>Fair Value Measurements at Reporting Date Using</u>			
	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>	<u>Balance as of December 31, 2010</u>
Assets:				
Investments:				
Fixed-maturity investments:				
Political Subdivisions of states, Territories and Subdivisions	\$ -	\$ -	\$ 21,598	\$ 21,598
Special Revenue and Special Assessment Obligations	-	856	9,929	10,785
Industrial and Miscellaneous	-	4,961	-	4,961
Preferred Stock	-	2,674	-	2,674
Total assets	\$ -	\$ 8,491	\$ 31,527	\$ 40,018

Level 3 Analysis

Level 3 assets were \$32 million as of December 31, 2010, and represented approximately 79% of total assets measured at fair value.

The following table presents information about Level 3 assets measured at fair value for the year ended December 31, 2010. There were no liabilities measured at fair value for the year ended December 31, 2010. Gains and losses reported in this table may include changes in fair value that are attributable to both observable and unobservable inputs.

NATIONAL PUBLIC FINANCE GUARANTEE CORPORATION
NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS
As of and for the years ended December 31, 2010 and 2009

Fair Value Measurements in (Level 3) of the Fair Value Hierarchy for the Year Ended December 31, 2010

In thousands	Balance as of December 31, 2009	Transfers in Level 3	Transfers (out) of Level 3	Total Gains / (Losses) Included in Net Income	Purchases, Issuances and Settlements	Balance as of December 31, 2010
Assets:						
Fixed-maturity securities	\$ -	\$ -	\$ -	\$ (1,409)	\$ 32,936	\$ 31,527
Securities purchased under agreement to resell	-	-	-	-	-	-
Total assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (1,409)</u>	<u>\$ 32,936</u>	<u>\$ 31,527</u>

There were no Level 3 assets or liabilities in National's portfolio as of December 31, 2009. Additionally, there were no assets transferred from level 2 to level 3 as of December 31, 2010. All Level 1, 2 and 3 designations are made at the end of each accounting period.

As of December 31, 2010, fixed-maturity securities carried at fair value primarily consist of a portfolio of municipal lease investments. The portfolio is comprised of investments in lease-related obligations, including lease agreements, financing agreements or debt obligations backed by leases or lease revenues and other similar obligations of U.S. state or local governmental or quasi-governmental authorities (the "Municipal Lease Obligations"). The Municipal Lease Obligations represent an investment grade portfolio with low history of default, short tenor and yield generally higher than that of comparable municipal bonds with similar characteristics.

NATIONAL PUBLIC FINANCE GUARANTEE CORPORATION
NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS
As of and for the years ended December 31, 2010 and 2009

6. Income Taxes

The components of DTAs and deferred tax liabilities (“DTLs”) are as follows. References to paragraphs are those within SSAP 10R “Income Taxes - Revised.”

in thousands	12/31/2010			12/31/2009			Change		
	Ordinary	Capital	Total	Ordinary	Capital	Total	Ordinary	Capital	Total
Gross Deferred Tax Assets	620,666	-	620,666	621,617	-	621,617	(951)	-	(951)
Statutory Valuation Allowance Adjustment	-	-	-	-	-	-	-	-	-
Adjusted Gross Deferred Tax Assets	620,666	-	620,666	621,617	-	621,617	(951)	-	(951)
Deferred Tax Liabilities	(8,349)	-	(8,349)	(54)	-	(54)	(8,295)	-	(8,295)
Subtotal (Net Deferred Tax Assets)	612,317	-	612,317	621,563	-	621,563	(9,246)	-	(9,246)
Deferred Tax Assets Nonadmitted	604,159	-	604,159	595,007	(392)	594,615	9,152	392	9,544
Net Admitted Deferred Tax Assets	8,158	-	8,158	26,556	392	26,948	(18,398)	(392)	(18,790)

in thousands	12/31/2010			12/31/2009			Change		
	Ordinary	Capital	Total	Ordinary	Capital	Total	Ordinary	Capital	Total
SSAP No. 10R, Paragraphs 10.a., 10.b., and 10.c.:									
Admitted Deferred Tax Assets	8,158	-	8,158	1,118	392	1,510	7,040	(392)	6,648
Admitted Assets	-	-	-	25,438	-	25,438	(25,438)	-	(25,438)
Adjusted Statutory Surplus *	8,349	-	8,349	54	-	54	8,295	-	8,295
Total Adjusted Capital from DTAs	16,507	-	16,507	26,610	392	27,002	(10,103)	(392)	(10,495)

* As reported on the statutory balance sheet for the most recently filed statement with the domiciliary state commissioner adjusted in accordance with SSAP No.10R, Paragraph 10bii

National has no unrecognized DTLs for amounts described in SSAP 10R paragraph 6d., and paragraph 31 of accounting principles for income taxes.

Income tax expense differs from the amount obtained by applying the federal statutory rate of 35%. Current income taxes incurred consist of the following major components:

in thousands	12/31/2010	12/31/2009	Change
Current Income Tax			
Federal	96,412	(3,444)	99,856
Foreign	-	-	-
Subtotal	\$ 96,412	\$ (3,444)	99,856
Federal income tax on net capital gains	16,260	-	16,260
Utilization of capital loss carry-forwards	-	-	-
Other	-	347	(347)
Federal income taxes incurred	\$ 112,672	\$ (3,097)	115,769

NATIONAL PUBLIC FINANCE GUARANTEE CORPORATION
NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS
As of and for the years ended December 31, 2010 and 2009

The tax effects of temporary difference that give rise to significant portions of DTAs and DTLs are as follows:

<u>in thousands</u>	<u>12/31/2010</u>	<u>12/31/2009</u>	<u>Change</u>
Deferred Tax Assets:			
Ordinary:			
Loss Reserves	\$ -	\$ -	\$ -
Unearned premium reserve	101,560	110,364	(8,804)
Contingency Reserve	515,723	491,374	24,349
Investments	519	-	519
Deferred acquisition costs	-	-	-
Policyholder dividends accrual	-	-	-
Fixed assets	-	-	-
Compensation and benefits accrual	534	369	165
FX Gains/Losses	-	-	-
Receivables - nonadmitted	-	-	-
Net operating loss carry-forward	-	19,365	(19,365)
Tax credit carry-forward	-	-	-
Other (including items <5% of total ordinary tax assets)	2,304	91	2,213
Subtotal	<u>620,640</u>	<u>621,563</u>	<u>(923)</u>
Statutory valuation allowance adjustment	-	-	-
Nonadmitted	<u>604,159</u>	<u>595,007</u>	<u>9,152</u>
Admitted ordinary deferred tax assets	<u>16,481</u>	<u>26,556</u>	<u>(10,075)</u>
Capital:			
Statutory valuation allowance adjustment	-	-	-
Nonadmitted	-	(392)	392
Admitted capital deferred tax assets	<u>-</u>	<u>392</u>	<u>(392)</u>
Admitted deferred tax assets	<u>16,481</u>	<u>26,948</u>	<u>(10,467)</u>
Deferred Tax Liabilities:			
Ordinary:			
Other (including items <5% of total ordinary tax liabilities)	<u>8,323</u>	<u>-</u>	<u>8,323</u>
Deferred tax liabilities	<u>8,323</u>	<u>-</u>	<u>8,323</u>
Net deferred tax assets/liabilities	<u><u>8,158</u></u>	<u><u>26,948</u></u>	<u><u>(18,790)</u></u>

Please note that the contingency reserve balance as of December 31, 2009 reflects an audit adjustment. For further detail, please refer to "Note 16: Reconciliation to Previously Reported Amounts."

In 2009, the Company established a DTA related to contingency reserves. Deferred taxes on contingency reserves must be established to the extent corresponding tax and loss bonds ("T&L") are not purchased. The Company has no tax and loss bonds.

NATIONAL PUBLIC FINANCE GUARANTEE CORPORATION
NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS
As of and for the years ended December 31, 2010 and 2009

The provision for federal income taxes incurred is different from that which would be obtained by applying the statutory federal income tax rate to income before income taxes. The significant items causing this difference are as follows:

<u>In thousands</u>	<u>Amount</u>	<u>Tax Effect</u>	<u>Tax Rate</u>
Income before taxes	\$ 521,474	\$ 182,516	35%
Tax exempt interest and dividend received deduction	(104,984)	(36,744)	-7%
Meals and entertainment	23	8	0%
Nondeductible transaction costs	2,500	875	0%
Excessive remuneration	-	-	0%
Other	-	-	0%
Taxable income	419,013	146,655	28%
Prior year adjustment		131	0%
Foreign tax credit		-	0%
Foreign tax		-	0%
Contingency reserve		(24,349)	-5%
Other items		(0)	0%
Taxable income		122,437	23%
Federal income tax incurred (benefit)		112,672	22%
Change in net deferred income tax		9,765	2%
Total statutory income tax		122,437	23%

At December 31, 2010 National did not have any net operating loss, capital loss or minimum tax carryforwards.

The following table presents income tax expense for 2008, 2009 and 2010 that is available for the recoupment in the event of future net losses:

<u>In thousands</u>	<u>Ordinary</u>	<u>Capital</u>	<u>Total</u>
<u>Year</u>			
2008	\$ -	\$ -	\$ -
2009	-	-	-
2010	96,412	16,260	112,672
Total	\$ 96,412	\$ 16,260	\$ 112,672

National does not have any deposits admitted under Section 6603 of the Internal Revenue Service Code.

National files its U.S. Corporation Income Tax Return as a member of MBIA Inc. consolidated group and participates in the MBIA tax sharing agreement under which National is allocated its share of the consolidated tax liability or tax benefit as determined under the tax sharing agreement. To the extent that the consolidated tax liability of the Parent Company and its subsidiaries is less than National's tax liability on a separate company basis, the difference would be held in escrow for two years in the event National were to incur a tax loss which could be carried back. Intercompany tax balances are settled annually following the Parent Company's filing of its federal income tax return.

NATIONAL PUBLIC FINANCE GUARANTEE CORPORATION
NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS
As of and for the years ended December 31, 2010 and 2009

MBIA Inc.
CAH Asset Holdings, Inc.
Capital Markets Assurance Corporation
Capmac Holdings, Inc.
Capmac Investment Management
Cutwater Colorado Investor Services Corporation
MBIA Capital Corporation
Cutwater Asset Management Corporation
MBIA Insurance Corporation
MBIA Investment Management Corporation
Cutwater Investors Service Corporation
MBIA Services Company
Municipal Issuers Service Corporation
Municipal Tax Collection Bureau, Inc.
National Real Estate Holdings of Armonk, LLC
National Public Finance Guarantee Holdings, Inc.
Optinuity Alliance Resource Corporation
Latam Capital Advisors, Inc.
Triple-A One Funding Corporation

7. Reconciliation of Statutory Accounting to GAAP-Basis Accounting

The accompanying statutory-basis financial statements have been prepared in conformity with NAIC SAP, which differs in some respects from accounting principles generally accepted in the United States of America (“GAAP”). The more significant of these differences are as follows:

- upfront premiums are earned on a SAP basis proportionate to the scheduled periodic maturity of principal and payment of interest (“debt service”) to the original total principal and interest insured. Additionally, under SAP, installment premiums are earned on a straight-line basis over each installment period generally one year or less. Under GAAP, National recognizes and measures premium revenue over the period of the contract in proportion to the amount of insurance protection provided. Upfront and installment premium revenue is measured by applying a constant rate to the insured principal amount outstanding in a given period to recognize a proportionate share of the premium received or expected to be received on a financial guarantee insurance contract. Additionally, under GAAP, installment premiums receivable are recorded at the present value of the premiums due or expected to be collected over the period of the insurance contract using a discount rate which reflects the risk-free rate at the inception of the contract;
- under SAP, acquisition costs are charged to operations as incurred rather than GAAP’s requirement to defer and amortize the costs as the related premiums are earned;
- a contingency reserve is computed on the basis of statutory requirements and is not permitted under GAAP;
- loss reserves are reported net of insurance loss recoverables and are discounted using a rate equal to the yield-to-maturity of National’s fixed-income portfolio, excluding cash and cash equivalents and other investments not intended to defease long-term liabilities. Under GAAP, loss reserves are discounted using a risk-free rate as of the measurement date and are reported net of the unearned premium revenue and gross of insurance recoverables which are reported as an asset;

NATIONAL PUBLIC FINANCE GUARANTEE CORPORATION
NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS
As of and for the years ended December 31, 2010 and 2009

- salvage and subrogation generally are recorded as a reduction to loss and LAE reserves for GAAP and statutory reporting. In certain instances under GAAP, the Company records salvage and subrogation, including insurance loss recoverables, as an asset. This would occur, for example, when the Company becomes entitled to the underlying collateral of an insured credit under salvage and subrogation rights as a result of a claim payment and the recovery of such salvage is reasonable and estimable;
- assets and liabilities relating to reinsurance are reported on a net basis. Therefore, incurred losses and LAE are reported net of reinsurance recoverables and deferred premiums are reported net of prepaid reinsurance premium. Under GAAP, these reinsurance balances are required to be shown on a gross basis as an asset;
- certain assets, which consist primarily of deferred tax assets and prepaid expenses described as “non-admitted,” are charged directly to unassigned surplus under SAP. There were non-admitted assets of \$605 million and \$597 million at December 31, 2010 and 2009, respectively. Under GAAP, these amounts are typically reflected as assets;
- changes in net deferred income taxes are recognized as a separate component of gains and losses in surplus. Under GAAP, changes in National’s net deferred income tax balances are either recognized as a component of net income or other comprehensive income depending on how the underlying pre-tax impact is reflected;
- investments in bonds are generally carried at amortized cost under SAP. Accordingly, unrealized changes in fair value are not reflected in the statutory-based statements of income and changes in capital and surplus or the statutory statements of admitted assets, liabilities and capital and surplus. Bonds not qualified to be carried at amortized cost are carried at fair value as required by the NAIC with the differences between these values recorded directly to unassigned surplus net of adjustment for deferred federal income taxes, rather than recording the difference in unrealized gains and losses through shareholders’ equity;
- under SAP, upon the transformation of National, investments were transferred from MBIA Corp. to National at fair market value, under GAAP these investments were transferred at book value; and
- the statements of cash flows reconcile to cash and cash equivalents under GAAP rather than cash, cash equivalents and short-term investments. In addition, under SAP, cash flows from operations are reported consistent with the statement of income.
- subsidiary financial data is not consolidated and the results of operations of subsidiary companies are charged or credited directly to surplus as part of unrealized capital gains and losses. Under GAAP, subsidiaries are consolidated.

NATIONAL PUBLIC FINANCE GUARANTEE CORPORATION
NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS
As of and for the years ended December 31, 2010 and 2009

The following is a reconciliation of statutory policyholders' and surplus to shareholders' equity on a GAAP-basis for National:

In thousands	As of December 31,	
	2010	2009
Statutory policyholders' surplus	\$ 907,720	\$ 591,200
Premium revenue recognition	273,454	189,155
Deferral of acquisition costs	599,862	661,790
Investments including unrealized gains (losses)	47,249	94,597
Contingency reserves	1,473,494	1,403,926
Loss reserves	(48,175)	(5,806)
Deferred income taxes, net	(788,508)	(788,788)
Derivative assets and liabilities	(10,252)	(8,667)
Goodwill	31,371	31,371
Non admitted assets and other items	605,229	596,737
GAAP-basis shareholder's equity	<u>\$ 3,091,444</u>	<u>\$ 2,765,515</u>

The following is a reconciliation of statutory net income to net income presented on a GAAP-basis for the Company:

In thousands	Years ended December 31,	
	2010	2009
Statutory net income (loss)	\$ 408,803	\$ (299,118)
Premium revenue recognition	83,128	177,308
Amortization of acquisition costs	(86,041)	(116,130)
Change in fair value of insured derivatives	468	786
Investments income including realized gains (losses)	11,544	18,958
Ceding commission expense	24,086	772,102
Losses incurred	(20,102)	1,199
Deferred income taxes	(37,247)	(167,911)
Other	(4,134)	(1,029)
GAAP-basis net income	<u>\$ 380,505</u>	<u>\$ 386,165</u>

8. Capital and Surplus and Dividend Restrictions

National is subject to insurance regulations and supervision of the State of New York (its state of incorporation) and all U.S. and non-U.S. jurisdictions in which it is licensed to conduct insurance business. The extent of insurance regulation and supervision varies by jurisdiction, but New York and most other jurisdictions have laws and regulations prescribing minimum standards of solvency and business conduct, which must be maintained by insurance companies. Among other things, these laws prescribe permitted classes and concentrations of investments and limit both the aggregate and individual securities risks that National may insure on a net basis based on the type of obligations insured. In addition, some insurance laws and regulations require the approval or filing of policy forms and rates. National is required to file detailed annual financial statements with the NYSID and similar supervisory agencies in other jurisdictions in which it is licensed. The operations and accounts of National are subject to examination by regulatory agencies at regular intervals

As of December 31, 2010 National had 500,000 common shares authorized, issued and outstanding, with a par value of \$30 per share.

NATIONAL PUBLIC FINANCE GUARANTEE CORPORATION
NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS
As of and for the years ended December 31, 2010 and 2009

National had no preferred stock outstanding as of December 31, 2010.

New York State insurance law regulates the payment of dividends by financial guarantee insurance companies and provides that such companies may not declare or distribute dividends except out of statutory earned surplus. Under New York State insurance law, 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.

During the second quarter of 2010, National received approval from the NYSID to reset its unassigned surplus to zero as of January 1, 2010. Previously, National had an unassigned surplus deficit principally as a result of the 2009 reinsurance transaction between National and MBIA Corp. whereby National reinsured MBIA Corp.'s U.S. public finance business. Under New York State insurance law, without prior approval of the Superintendent of the NYSID, financial guarantee insurance companies can pay dividends from earned surplus, which is a component of unassigned surplus, subject to meeting minimum capital requirements. The reset provides National with dividend capacity of \$91 million as of December 31, 2010. National did not declare or pay any dividends in 2010 or 2009. At the current time, the Company does not intend to declare dividends. In October 2010, the plaintiffs in the Transformation litigation initiated a court proceeding challenging the approval of the surplus reset. Refer to "Note 13: Contingencies and Commitments" for further information on the Transformation litigation.

As a result of the establishment of National and the reinsurance of the MBIA Corp. and FGIC portfolios by National, National exceeded as of the closing date certain single and aggregate risk limits under New York insurance law. National obtained a waiver of such limits from the insurance department of its domiciliary state. In connection with the waiver, National submitted a plan to the applicable insurance departments to achieve compliance with the applicable regulatory limits. Under the plan, it agreed not to write new financial guarantee insurance for certain issuers until they were in compliance with their single risk limits and agreed to take commercially reasonable steps, including considering reinsurance, the addition of capital and other risk mitigation strategies, in order to comply with the regulatory single and aggregate risk limits. As a condition to granting the waiver, the NYSID required that, upon written notice from the NYSID, National would cease writing new financial guarantee insurance if it were not in compliance with the risk limitation requirements by December 31, 2009. To date, National has not received such written notice from the NYSID. National continues to work with the NYSID to achieve compliance with the single and aggregate risk limits.

National has no restrictions on unassigned surplus as of December 31, 2010. National owns no common stock in affiliates or for special purposes as of December 31, 2010. National has not undergone a reorganization or quasi-reorganization.

The portion of unassigned fund (surplus) represented by cumulative net unrealized capital gains and losses is \$5 million after deducting applicable deferred taxes of \$519 thousand. Additionally, the portion of unassigned funds (surplus) represented by non-admitted assets is \$605 million.

NATIONAL PUBLIC FINANCE GUARANTEE CORPORATION
NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS
As of and for the years ended December 31, 2010 and 2009

9. Loss and Loss Adjustment Expense Reserves

For the year ended December 31, 2010 and 2009, National incurred \$52 million and \$95 million, respectively, of loss and LAE. Net loss and LAE during 2010 principally related to a not-for-profit transaction, a health care transaction, a student loan transaction and a housing transaction. Net loss and LAE during 2009 principally related to a student loan transaction and a housing transaction. Total net paid activity for the year ended December 31, 2010 and 2009 was \$92 million and \$138 million, respectively. Net paid activity during 2010 was primarily related to a health care transaction and a gaming transaction for which National expects to be fully reimbursed. Net paid activity during 2009 was primarily related to a student loan transaction and the remediation of a housing transaction. A summary of the components of the liability for loss and LAE reserves are shown in the following table:

In thousands	As of December 31,	
	2010	2009
Gross loss and LAE reserves, January 1	\$ 136,024	\$ 179,316
Less: Reinsurance recoverable	-	-
Net loss and LAE reserves, January 1	136,024	179,316
Incurred losses and LAE related to:		
Current year	28,871	89,458
Prior years	23,549	5,643
Total incurred losses and LAE	52,420	95,101
Paid losses and LAE related to:		
Current year	52,283	116,880
Prior years	40,212	21,513
Total paid losses and LAE	92,495	138,393
Net loss and LAE reserves, December 31	95,949	136,024
Add: Reinsurance recoverable	-	-
Gross loss and LAE reserves, December 31	<u>\$ 95,949</u>	<u>\$ 136,024</u>

National establishes new case basis reserves in accordance with the policy described in “Note 2: Summary of Significant Accounting Policies.”

National’s Portfolio Surveillance Division (“PSD”) monitors National’s outstanding insured obligations with the objective of minimizing losses. PSD meets this objective by identifying issuers that, because of deterioration in credit quality or changes in the economic, regulatory or political environment, are at a heightened risk of defaulting on debt service of obligations insured by National. In such cases, PSD works with the issuer, trustee, bond counsel, servicer, underwriter and other interested parties in an attempt to alleviate or remedy the problem and avoid defaults on debt service payments. PSD works closely with National’s Risk Management function and the applicable business unit to analyze insured obligation performance and credit risk parameters, both before and after an obligation is insured.

Once an obligation is insured, National typically requires the issuer, servicer (if applicable) and the trustee to furnish periodic financial and asset-related information, including audited financial statements, to PSD for review. PSD also monitors publicly available information related to insured obligations. Potential problems uncovered through this review include poor financial results, low fund balances, covenant or trigger violations and trustee or servicer problems or other events that could have an adverse impact on the insured obligation, could result in an immediate surveillance

NATIONAL PUBLIC FINANCE GUARANTEE CORPORATION
NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS
As of and for the years ended December 31, 2010 and 2009

review and an evaluation of possible remedial actions. PSD also monitors and evaluates the impact on issuers of general economic conditions, current and proposed legislation and regulations, as well as state and municipal finances and budget developments.

Insured obligations are monitored periodically. The frequency and extent of such monitoring is based on the criteria and categories described below. Insured obligations that are judged to merit more frequent and extensive monitoring or remediation activities due to a deterioration in the underlying credit quality of the insured obligation or the occurrence of adverse events related to the underlying credit of the issuer are assigned to a surveillance category (“Caution List-Low,” “Caution List-Medium,” “Caution List-High,” or “Classified List”) depending on the extent of credit deterioration or the nature of the adverse events. PSD monitors insured obligations assigned to a surveillance category more frequently and, if needed, develops a remediation plan to address any credit deterioration.

National does not establish any case basis reserves for insured obligations that are assigned to “Caution List-Low,” “Caution List-Medium,” or “Caution List-High.” In the event National expects to pay a claim with respect to an insure transaction, it places the insured transaction on its “Classified List” and establishes a case basis reserve. The following provides a description of each surveillance category:

“Caution List – Low” - Includes issuers where debt service protection is adequate under current and anticipated circumstances. However, debt service protection and other measures of credit support and stability may have declined since the transaction was underwritten and the issuer is less able to withstand further adverse events. Transactions in this category generally require more frequent monitoring than transactions that do not appear within a surveillance category. PSD subjects issuers in this category to heightened scrutiny.

“Caution List – Medium” - Includes issuers where debt service protection is adequate under current and anticipated circumstances, although adverse trends have developed and are more pronounced than for “Caution List – Low.” Issuers in this category may have breached one or more covenants or triggers. These issuers are more closely monitored by PSD but generally take remedial action on their own.

“Caution List – High” - Includes issuers where more proactive remedial action is needed but where no defaults on debt service payments are expected. Issuers in this category exhibit more significant weaknesses, such as low debt service coverage, reduced or insufficient collateral protection or inadequate liquidity, which could lead to debt service defaults in the future. Issuers in this category have breached one or more covenants or triggers and have not taken conclusive remedial action. For these issuers, PSD adopts a remediation plan and takes more proactive remedial actions.

“Classified List” - Includes all insured obligations where National has paid a claim or where a claim payment is expected. It also includes insured obligations where a significant LAE payment has been made, or is expected to be made, to mitigate a claim payment. This may include property improvements, bond purchases and commutation payments. Generally, PSD is actively remediating these credits where possible, including restructurings through legal proceedings, usually with the assistance of specialist counsel and advisors.

NATIONAL PUBLIC FINANCE GUARANTEE CORPORATION
NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS
As of and for the years ended December 31, 2010 and 2009

The following table provides information about the financial guarantees and related claim liability included in each of National's surveillance categories as of December 31, 2010:

\$ in millions	Surveillance Categories				
	Caution List Low	Caution List Medium	Caution List High	Classified List	Total
Number of policies	159	19	5	39	222
Number of issues ⁽¹⁾	11	8	5	15	39
Remaining weighted average contract period (in years)	14.70	9.47	14.69	12.95	13.27
Gross insured contractual payments outstanding:					
Principal	\$ 1,188	\$ 371	\$ 46	\$ 1,106	\$ 2,711
Interest	1,808	195	38	1,128	3,169
Total	<u>\$ 2,996</u>	<u>\$ 566</u>	<u>\$ 84</u>	<u>\$ 2,234</u>	<u>\$ 5,880</u>
Gross claim liability	\$ -	\$ -	\$ -	\$ 933	\$ 933
Less:					
Gross potential recoveries	-	-	-	805	805
Discount, net	-	-	-	1	1
Reinsurance	-	-	-	-	-
Plus:					
Loss adjustment expense reserves	-	-	-	(31)	(31)
Net claim liability	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 96</u>	<u>\$ 96</u>
Net unearned premium reserve	\$ 27	\$ 8	\$ -	\$ 33	\$ 68

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

The following table presents changes in National's loss and LAE reserve for the year ended December 31, 2010. Changes in the loss and LAE reserve attributable to the accretion of the discount on the loss reserves, changes in discount rates, changes in the timing and amounts of estimated payments and recoveries and changes in assumptions are recorded in "Losses and LAE" in National's statement of income. LAE reserves are expected to be settled within a one year period and are not discounted. As of December 31, 2010 and 2009, the rate used to discount the claim liability was 4.19% and 5.09%, respectively.

In millions									
Loss and LAE Reserve as of December 31, 2009	Loss Payments	Accretion of Claim Liability	Changes in Discount Rate	Changes in Timing of Payments	Changes in Amount of Net Payments	Changes in Assumptions	Changes in LAE Reserves	Reinsurance	Loss and LAE Reserve as of December 31, 2010
\$ 136	\$ (73)	\$ 7	\$ 2	\$ 3	\$ (3)	\$ 28	\$ (4)	\$ -	\$ 96

NATIONAL PUBLIC FINANCE GUARANTEE CORPORATION
NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS
As of and for the years ended December 31, 2010 and 2009

10. Insurance in Force

National's insurance in force represents the aggregate amount of the insured principal of, and interest or other amounts owing on insured obligations. National's ultimate exposure to credit loss in the event of nonperformance by the issuer of the insured obligation is represented by the Insurance in Force in the tables that follow. Substantially all insurance in force is from the quota share agreement with MBIA Corp. and the reassignment of the FGIC U.S. public finance book, as described in "Note 1: Business and Organization".

National provides unconditional and irrevocable guarantees of the payment of the principal of, and interest or other amounts owing on, insured obligations when due or, in the event National has the right at its discretion to accelerate insured obligations upon default or otherwise, upon National's acceleration. The creditworthiness of each issuer of an insured obligation is evaluated prior to the issuance of insurance, and each insured obligation must comply with National's underwriting guidelines. Further, the payments to be made by the issuer on the bonds or notes may be backed by a pledge of revenues, reserve funds, letters of credit, investment contracts or collateral in the form of mortgages or other assets. The right to such funds or collateral would typically become National's upon the payment of a claim by National.

National maintains underwriting guidelines based on those aspects of credit quality that it deems important for each category of obligation considered for insurance. These include economic and social trends, debt and 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. National also analyzes the quality of asset pools, as well as their historical and projected performance. The strength of a structure, including legal segregation of the assets, cash flow analysis, the size and source of first loss protection, asset performance triggers and financial covenants are also reviewed. Such guidelines are subject to periodic review by a senior risk committee, which is responsible for establishing the criteria for National's underwriting standards, as well as maintaining these standards in its insurance operations.

As of December 31, 2010, insurance in force had an expected maturity range of 1-46 years. The distribution of Insurance in Force by geographic location as of December 31, 2010 and 2009 respectively, is presented in the following table:

NATIONAL PUBLIC FINANCE GUARANTEE CORPORATION
NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS
As of and for the years ended December 31, 2010 and 2009

In billions	As of December 31,			
	2010		2009	
	Insurance in Force	% of Insurance in Force	Insurance in Force	% of Insurance in Force
Geographic Location				
California	\$ 144.1	18.6%	\$ 157.6	18.2%
New York	72.4	9.3%	81.1	9.4%
Florida	57.8	7.4%	65.2	7.5%
Texas	49.7	6.4%	53.7	6.2%
Illinois	46.0	5.9%	51.3	5.9%
New Jersey	34.3	4.4%	39.2	4.5%
Washington	26.9	3.5%	29.3	3.4%
Pennsylvania	24.8	3.2%	29.6	3.4%
Michigan	24.3	3.1%	26.7	3.1%
Massachusetts	20.9	2.7%	23.8	2.80%
Subtotal	501.2	64.5%	557.5	64.4%
Nationally diversified	9.3	1.2%	10.3	1.2%
Other states	266.9	34.3%	297.5	34.4%
Total	\$ 777.4	100.0%	\$ 865.3	100.0%

NATIONAL PUBLIC FINANCE GUARANTEE CORPORATION
NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS
As of and for the years ended December 31, 2010 and 2009

The insurance in force by type of bond is presented in the following table:

In billions	As of December 31,			
	2010		2009	
	Insurance	% of	Insurance	% of
Bond Type	in Force	in Force	in Force	in Force
General obligations	\$ 278.7	35.9%	\$ 308.4	35.6%
General obligations - lease	60.2	7.7%	65.9	7.6%
Municipal utilities	138.8	17.9%	154.2	17.8%
Tax-backed	98.9	12.7%	108.3	12.5%
Transportation	84.5	10.9%	93.4	10.8%
Higher education	42.5	5.5%	47.4	5.5%
Health care	21.4	2.7%	28.6	3.3%
Military housing	20.5	2.6%	21.8	2.5%
Investor-owned utilities ⁽¹⁾	13.5	1.7%	15.2	1.8%
Municipal housing	11.0	1.4%	12.1	1.4%
Student loans	3.6	0.5%	5.9	0.7%
Other ⁽²⁾	3.8	0.5%	4.1	0.5%
Total	\$ 777.4	100.0%	\$ 865.3	100.0%

⁽¹⁾ - Includes investor owned utilities, industrial development and pollution control revenue bonds.

⁽²⁾ - Includes certain non-profit enterprises and stadium related financing.

Ceded Exposure

Reinsurance enables National to cede exposure for purposes of syndicating risk and increasing its capacity to write new business while complying with its single risk and credit guidelines. When a reinsurer is downgraded by one or more of the rating agencies, less capital credit is given to National under rating agency models and the overall value of the reinsurance to National is reduced. National generally retains the right to reassume the business ceded to reinsurers under certain circumstances, including a reinsurer's rating downgrade below specified thresholds.

The aggregate amount of insurance in force ceded by National directly to reinsurers under reinsurance agreements was \$6 million and \$9 million as of December 31, 2010 and 2009, respectively. Under National's reinsurance agreement with MBIA Insurance Corporation, if a reinsurer of MBIA Insurance Corporation is unable to pay claims ceded by MBIA Insurance Corporation, National will assume liability for such ceded claim payments. As of December 31, 2010, the total amount of insurance in force for which National would be liable in the event that the reinsurers of MBIA Corp. were unable to meet their obligations is \$6.6 billion. For FGIC policies assigned to National from MBIA Insurance Corporation, National maintains the right to receive third-party reinsurance totaling \$18.3 billion.

NATIONAL PUBLIC FINANCE GUARANTEE CORPORATION
NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS
As of and for the years ended December 31, 2010 and 2009

Premium Summary

The components of net premiums written and earned, including premiums assumed from and ceded to other insurers and reinsurers are set forth in the following table:

In thousands	Years Ended December 31,		Years Ended December 31,	
	2010		2009	
	Written	Earned	Written	Earned
Direct	\$ 22	\$ 292	\$ 35	\$ 850
Assumed	109,578	362,238	3,509,460	384,752
Gross	109,600	362,530	3,509,495	385,602
Ceded	-	(16)	1,420	(191)
Net	\$ 109,600	\$ 362,514	\$ 3,510,915	\$ 385,411

Ceding commissions received from or paid to reinsurers, before deferrals and net of returned ceding commissions, were expense of \$24 million and \$772 million in 2010 and 2009, respectively.

The maximum amount of return commission, which would have been due reinsurers if all reinsurance contracts were canceled with the return of the unearned premium reserve, would be income of \$624 million and \$772 million as of December 31, 2010 and 2009, respectively. The direct unearned premium reserve at December 31, 2010 and 2009 was \$0.6 million and \$0.9 million, respectively.

National received a \$13 million and \$15 million volatility premium payment from MBIA Corp. related to gains on third-party reinsurance commutations on U.S. public finance policies that were ceded to National in 2010 and 2009, respectively. During the third quarter of 2010, MBIA Corp. ceded all of the U.S. public finance exposure commuted from Channel Reinsurance Ltd. (“Channel Re”), which totaled \$7.8 billion.

11. Information Concerning Parent and Affiliates

National is a wholly owned subsidiary of National Holdings, which is domiciled in the State of Delaware. All outstanding common shares of National Holdings are owned by its parent company, MBIA Inc., a holding company domiciled in the State of Connecticut. National did not declare or pay any dividends during 2010 or 2009. National owns no shares directly or indirectly of an upstream intermediate entity or its ultimate parent, MBIA Inc. Additionally, National does not have an investment in a foreign subsidiary. In 2010 substantially all of National’s written premiums arise from the quota share reinsurance agreement with MBIA Corp., as described in “Note 1: Business and Organization”.

On March 1, 2010, National established NREHA, a wholly owned subsidiary of National as a result of purchasing MBIA Corp.’s interest in real estate. NREHA purchased the real estate for purpose of conducting National’s business and leasing to certain affiliates and third-party tenants. Refer to “Note 2: Summary of Significant Accounting Policies” for a description of National’s accounting policy for its investment in this subsidiary.

The purchase price of the above mentioned property of \$65 million was based on the fair value of the real estate at the time of purchase as determined, in part, through assessments made by independent third parties. Concurrent to the purchase, NREHA entered into lease arrangements with MBIA Corp. and certain other affiliates. The lease rates are based on market rates a third-party would charge for similar arrangements as determined, in part, through assessments made by independent third parties. The purchase by NREHA and sale by MBIA Corp., as well as the lease arrangements, were non-disapproved by the NYSID.

NATIONAL PUBLIC FINANCE GUARANTEE CORPORATION
NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS
As of and for the years ended December 31, 2010 and 2009

In the first quarter of 2010, National entered into a Master Services Agreement (“MSA”) with a newly formed affiliate service company, Optinuity Alliance Resources Corporation (“Optinuity”), dated January 1, 2010, which was approved by the NYSID. As a result of the MSA, Optinuity provides various support services including management, legal, accounting, treasury, information technology, among others, on a fee-for-service basis, to National. The fee for the year ended December 31, 2010 was \$21 million.

National’s investment portfolio is managed by Cutwater Asset Management Corp (“Cutwater-AMC”, formerly known as MBIA Capital Management Corp.), a wholly owned subsidiary of Cutwater Holdings, LLC, (formerly known as MBIA Asset Management, LLC). Cutwater-AMC provides bond management services for MBIA Inc. and its affiliates, as well as third-party institutional clients. Revenues for Cutwater-AMC are based on the average market value of National’s investment portfolio in each period. For the year ended December 31, 2010 and 2009 Cutwater AMC charged fees of \$6 million and \$5 million, respectively, to National based on the performance of its investment portfolio. Effective January 1, 2011, Cutwater-AMC assigned the agreement to its affiliate Cutwater Investors Service Corp. in accordance with the terms of the above mentioned agreement.

National entered into an agreement with MBIA Inc. whereby National held securities under agreements to resell of \$1.8 billion and \$1.7 billion as of December 31, 2010 and 2009, respectively. National also transferred securities under agreements to repurchase of \$1.8 billion and \$1.7 billion as of December 31, 2010 and 2009, respectively. These agreements reset on a quarterly basis. The interest income related to these agreements was \$12 million and \$29 million, and the interest expense was \$5 million and \$4 million, respectively, for the years ended December 31, 2010 and 2009.

At December 31, 2010, National reported \$37 million as amounts due to affiliates and \$571 thousand due from affiliates. \$101 thousand of the \$571 is due to its Parent. The terms of the settlement require that these amounts be settled within 90 days.

During the first quarter of 2010, National received \$13 million in excess of payments which were contractually due to National upon the termination of a reinsurance agreement between MBIA Corp. and Mitsui Sumitomo Insurance Co. Ltd. The excess of payment was recognized as a realized gain and reported as “Gain on reinsurance commutations” in the statement of income.

During July 2010, MBIA Corp. commuted all reinsurance arrangements with Channel Re. Simultaneously, MBIA Corp. ceded to National all of the U.S. public finance exposure commuted from Channel Re, which totaled \$7.8 billion of par outstanding.

National had no loans outstanding to any executive officers or directors in 2010 and 2009.

12. Retirement Plans and Deferred Compensation

National participates in its parent company’s pension plan, which covers substantially all employees. The pension plan is a qualified non-contributory defined contribution plan to which National contributes 10% of each eligible employee’s annual compensation. Annual compensation for determining such contributions consists of base salary, bonus and commissions, as applicable. Pension benefits vest over a five-year period with 20% vested after two years, 60% vested after three years, 80% vested after four years and 100% vested after five years. Pension expense related to the qualified pension plan for the years ended December 31, 2010 and 2009 was \$871 thousand and \$635 thousand, respectively.

National’s parent company has a qualified profit sharing/401(k) plan in which it participates. The plan is a voluntary contributory plan that allows eligible employees to defer compensation for federal income tax purposes under Section 401(k) of the Internal Revenue Code of 1986, as amended. Employees may contribute, through payroll deductions, up to 25% of eligible compensation. National matches employee contributions up to the first 5% of such compensation and are made in the form of cash, whereby participants may direct the match to an investment of their choice. The benefit of National’s contributions vest over a five-year period with 20% vested after two years, 60% vested after three

NATIONAL PUBLIC FINANCE GUARANTEE CORPORATION
NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS
As of and for the years ended December 31, 2010 and 2009

years, 80% vested after four years and 100% vested after five years. Generally, a participating employee is entitled to distributions from the plan upon termination of employment, retirement, death or disability. Participants who qualify for distribution may receive a single lump sum, transfer assets to another qualified plan or individual retirement account, or receive a series of specified installment payments. Profit sharing/401(k) expense related to the qualified profit-sharing/401(k) plan for the years ended December 31, 2010 and 2009 was \$345 thousand and \$306 thousand, respectively.

In addition to the above two plans, National also participates in its parent company's non-qualified deferred compensation plan. Contributions to the above plans that exceed limitations established by federal regulations are then contributed to the non-qualified deferred compensation plan. The non-qualified pension expense for the years ended December 31, 2010 and 2009 was \$194 thousand and \$214 thousand, respectively. The non-qualified profit-sharing/401(k) expense for the years ended December 31, 2010 and 2009 was \$77 thousand and \$120 thousand, respectively.

National participates in its parent company's 2005 Omnibus Incentive Plan (the "Omnibus Plan"), as amended May 7, 2009. The Omnibus Plan may grant any type of award including stock options, performance shares, performance units, restricted stock, restricted stock units and dividend equivalents. Following the effective date of the Omnibus Plan, no new options or awards were granted under any of the prior plans authorized by the MBIA Inc. shareholders.

The stock option component of the Omnibus Plan enables key employees to acquire shares of MBIA Inc. common stock. The stock option grants, which may be awarded every year, provide the right to purchase shares of MBIA Inc. common stock at the fair value of the stock on the date of grant. Options are exercisable as specified at the time of grant depending on the level of the recipient (generally four or five years) and expire either seven or ten years from the date of grant (or shorter if specified or following termination of employment).

Under the restricted stock component of the Omnibus Plan, certain employees are granted restricted shares of MBIA Inc.'s common stock. These awards have a restriction period lasting three, four or five years depending on the type of award, after which time the awards fully vest. During the vesting period these shares may not be sold. Restricted stock may be granted to all employees. The majority of restricted stock is granted to employees from the vice-president level up to and including the chief executive officer.

MBIA Inc. maintains voluntary retirement benefits, which provide certain benefits to all of National's eligible employees upon retirement. A description of these benefits is included in MBIA Inc.'s proxy statement. One of the components of the retirement program, for those employees that are retirement eligible, is to continue to vest all outstanding stock options and restricted share awards linked to growth in modified book value beyond the retirement date in accordance with the original vesting terms and to immediately vest all outstanding time-based restricted share grants

National's proportionate share of compensation cost for its participation in its parent company's stock option program for the year ended December 31, 2010 was a negative expense of \$353 thousand. The negative expense was due to the cancellation and expense reversal of forfeited stock option awards. National's proportionate share of compensation cost related to the stock option program for the year ended December 31, 2009 was \$284 thousand. National's proportionate share of compensation cost related to the restricted stock program for the years ended December 31, 2010 and 2009 was \$122 thousand and \$298 thousand, respectively.

During 2010 and 2009, National granted deferred cash-based long-term incentive awards. These grants have a vesting period of either three or five years, after which time the award fully vests. Payment is generally contingent upon the employee's continuous employment with National through the payment date. The deferred cash awards are granted to employees from the vice-president level up. Compensation expense related to the deferred cash awards was \$619 thousand and \$803 thousand for the years ended December 31, 2010 and 2009, respectively.

NATIONAL PUBLIC FINANCE GUARANTEE CORPORATION
NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS
As of and for the years ended December 31, 2010 and 2009

13. Contingencies and Commitments

In the normal course of operating its business, National may be involved in various legal proceedings. Additionally, MBIA Inc. together with its subsidiaries (“MBIA”) may be involved in various legal proceedings that directly or indirectly impact National.

MBIA has received subpoenas or informal inquiries from a variety of regulators regarding a variety of subjects. MBIA has cooperated fully with each of these regulators and has or is in the process of satisfying all such requests. MBIA may receive additional inquiries from these or other regulators and expects to provide additional information to such regulators regarding their inquiries in the future.

On July 23, 2008, the City of Los Angeles filed a complaint in the Superior Court of the State of California, County of Los Angeles, against a number of financial guarantee insurers, including MBIA. At the same time and subsequently, additional complaints against MBIA and nearly all of the same co-defendants were filed by the City of Stockton, the City of Oakland, the City and County of San Francisco, the County of San Mateo, the County of Alameda, the City of Los Angeles Department of Water and Power, the Sacramento Municipal Utility District, the City of Sacramento, the City of Riverside, the Los Angeles World Airports, the City of Richmond, Redwood City, the East Bay Municipal Utility District, the Sacramento Suburban Water District, the City of San Jose, the County of Tulare, the Regents of the University of California, Contra Costa County, the Redevelopment Agency of the City of Riverside, and the Public Financing Authority of the City of Riverside, The Olympic Club, the Jewish Community Center of San Francisco and the Redevelopment Agency of San Jose. These cases are, or are expected to become, part of a coordination proceeding in Superior Court, San Francisco County, before Judge Richard A. Kramer, referred to as the Ambac Bond Insurance Cases, which names as defendants MBIA, AMBAC Assurance Corp., Syncora Guarantee, Inc. f/k/a XL Capital Assurance Inc., Financial Security Assurance, Inc., Assured Guaranty Corp., Financial Guaranty Insurance Company, and CIFG Assurance North America, Inc., Fitch Inc., Fitch Ratings, Ltd., Fitch Group, Inc., Moody’s Corporation, Moody’s Investors Service, Inc., The McGraw-Hill Companies, Inc., and Standard & Poor’s Financial Services LLC.

The claims as they now stand allege participation by all defendants in a conspiracy in violation of California’s antitrust laws to maintain a dual credit rating scale that misstated the credit default risk of municipal bond issuers and not-for-profit issuers and thus created market demand for bond insurance. Plaintiffs also allege that the individual bond insurers participated in risky financial transactions in other lines of business that damaged each bond insurer’s financial condition (thereby undermining the value of each of their guaranties), and each failed adequately to disclose the impact of those transactions on their financial condition. In addition to the statutory antitrust claim, plaintiffs asserts common law theories in breach of contract, breach of the covenant of good faith and fair dealing, fraud, negligent misrepresentation, negligence, and unjust enrichment. The non-municipal plaintiffs also allege a California unfair competition cause of action. Defendants’ demurrers were filed on September 17, 2010 and plaintiffs’ opposition to demurrers were filed on October 22, 2010. On November 30, 2010, prior to the hearing on the demurrers, the credit rating agency defendants removed the seven actions in which they were named to the United States District Court for the Northern District of California. On December 8, 2010, defendant Ambac Assurance Corp. removed the remaining actions. On January 31, 2011, the district court granted plaintiffs motion to remand the cases back to San Francisco Superior Court.

On July 23, 2008, the City of Los Angeles filed a separate complaint in the Superior Court, County of Los Angeles, naming as defendants MBIA and other financial institutions, and alleging fraud and violations of California’s antitrust laws through bid-rigging in the sale of guaranteed investment contracts and what plaintiff calls “municipal derivatives” to municipal bond issuers. The case was removed to federal court and transferred by order dated November 26, 2008, to the Southern District of New York for inclusion in the multidistrict litigation *In re Municipal Derivatives Antitrust Litigation*, M.D.L. No. 1950. Complaints making the same allegations against MBIA and nearly all of the same co-defendants were then, or subsequently, filed by the County of San Diego, the City of Stockton, the County of San Mateo, the County of Contra Costa, Los Angeles World Airports, the Redevelopment Agency of the City of Stockton, the Public Financing Authority of the City of Stockton, the County of Tulare, the Sacramento Suburban Water District, Sacramento Municipal Utility District, the City of Riverside, the Redevelopment Agency of the City of Riverside, the

NATIONAL PUBLIC FINANCE GUARANTEE CORPORATION
NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS
As of and for the years ended December 31, 2010 and 2009

Public Financing Authority of the City of Riverside, Redwood City, the East Bay Municipal Utility District, the Redevelopment Agency of the City and County of San Francisco, the City of Richmond, the City of San Jose, the San Jose Redevelopment Agency, the State of West Virginia, Los Angeles Unified School District and three not-for-profit retirement community operators, Active Retirement Community, Inc. d/b/a Jefferson's Ferry, Kendal on Hudson, Inc. and Paconic Landing at Southhold Inc. These cases have all been added to the multidistrict litigation. Plaintiffs in all of the cases assert federal and either California or New York state antitrust claims. In February, 2010, MBIA moved to dismiss the then-existing complaints and, on April 28, 2010, Judge Victor Marrero denied the motion. MBIA's motion for reconsideration was denied on May 3, 2010. MBIA has answered some of the complaints, denying the material allegations, and is preparing to answer the others. MBIA is also preparing to answer amended versions of some of the complaints.

On March 12, 2010, the City of Phoenix, Arizona filed a complaint in the United States District Court for the District of Arizona against MBIA Inc., Ambac Assurance Corp. and Financial Guaranty Insurance Company relating to insurance premiums charged on municipal bonds issued by the City of Phoenix between 2004 and 2007. Plaintiff's complaint alleges pricing discrimination under Arizona insurance law and unjust enrichment. MBIA Inc. filed its answer on May 28, 2010.

On April 5, 2010, Tri-City Healthcare District, a California public healthcare legislative district, filed a complaint in the Superior Court of California, County of San Francisco, against MBIA Inc., MBIA Corp., National, certain MBIA Inc. employees (collectively for this paragraph, "MBIA"), various financial institutions and law firms. Tri-City subsequently filed three amended complaints. The Third Amendment Complaint, filed on January 26, 2011, purports to state 10 causes of action against MBIA for, among other things, fraud, negligent misrepresentation, breach of contract, breach of the implied covenant of good faith and fair dealing, and violation of the California False Claims Act arising from Tri-City Healthcare District's investment in auction rate securities. On February 17, 2011, MBIA filed its demurrer to the Third Amended Complaint.

On March 11, 2009, a complaint was filed in the United States District Court of the Southern District of New York against MBIA Inc. and its subsidiaries, MBIA Corp. and National, entitled Aurelius Capital Master, Ltd. et al. v. MBIA Inc. et al., 09-cv-2242 (S.D.N.Y.). The lead plaintiffs, Aurelius Capital Master, Ltd., Aurelius Capital Partners, LP, Fir Tree Value Master Fund, L.P., Fir Tree Capital Opportunity Master Fund, L.P., and Fir Tree Mortgage Opportunity Master Fund, L.P. (the "Aurelius Plaintiffs"), purport to be acting as representatives for a class consisting of all holders of securities, instruments, or other obligations for which MBIA Corp., before February 18, 2009, issued financial guarantee insurance other than United States municipal/governmental bond securities. The complaint alleges that certain of the terms of the transactions entered into by MBIA Inc. and its subsidiaries, which were approved by the New York State Department of Insurance, constituted fraudulent conveyances under §§ 273, 274 and 276 of New York Debtor and Creditor Law and a breach of the implied covenant of good faith and fair dealing under New York common law. The Complaint seeks, inter alia, (a) a declaration that the alleged fraudulent conveyances are null and void and set aside, (b) a declaration that National is responsible for the insurance policies issued by MBIA Corp. up to February 17, 2009, and (c) an award of damages in an unspecified amount together with costs, expenses and attorneys' fees in connection with the action. On February 11, 2010, Judge Sullivan entered an order denying MBIA's motion to dismiss. On January 20, 2011, in light of the Appellate Division of the New York State Supreme Court's order dismissing the ABN AMRO Bank N.V. et al. v. MBIA Inc. et al. discussed below, Judge Sullivan stayed this action pending plaintiffs appeal to the New York State Court of Appeals.

On April 6, 2009, a complaint was filed in the Court of Chancery for the State of Delaware entitled Third Avenue Trust and Third Avenue Variable Series Trust v. MBIA Insurance Corp. and MBIA Insurance Corp. of Illinois, CA 4486-UCL. Plaintiffs allege that they are holders of approximately \$400 million of surplus notes issued by MBIA Corp. (for purposes of this section, the "Notes") in January 2008. The complaint alleges (Count I) that certain of the Transactions breached the terms of the Notes and the Fiscal Agency Agreement dated January 16, 2008 pursuant to which the Notes were issued. The complaint also alleges that certain transfers under the Transactions were fraudulent in that they allegedly left MBIA Corp. with "unreasonably small capital" (Count II), "insolvent" (Count III), and were made with an "actual intent to defraud" (Count IV). The complaint seeks a judgment (a) ordering the defendants to unwind the Transactions (b) declaring that the Transactions constituted a fraudulent conveyance, and (c) damages in an unspecified

NATIONAL PUBLIC FINANCE GUARANTEE CORPORATION
NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS
As of and for the years ended December 31, 2010 and 2009

amount. On October 28, 2009, Vice Chancellor Strine entered an order dismissing the case without prejudice. On December 21, 2009, plaintiffs re-commenced the action in New York State Supreme Court. On February 10, 2011, the New York County Commercial Division announced that Hon. O. Peter Sherwood has been assigned to the case to replace Justice Yates, who has resigned.

On May 13, 2009, a complaint was filed in the New York State Supreme Court against MBIA Inc. and its subsidiaries, MBIA Corp. and National, entitled ABN AMRO Bank N.V. et al. v. MBIA Inc. et al. The plaintiffs, a group of domestic and international financial institutions, purport to be acting as holders of insurance policies issued by MBIA Corp. directly or indirectly guaranteeing the repayment of structured finance products. The complaint alleges that certain of the terms of the transactions entered into by MBIA Inc. and its subsidiaries, which were approved by the New York State Department of Insurance, constituted fraudulent conveyances and a breach of the implied covenant of good faith and fair dealing under New York law. The complaint seeks a judgment (a) ordering the defendants to unwind the Transactions, (b) declaring that the Transactions constituted a fraudulent conveyance, (c) declaring that MBIA Inc. and National are jointly and severally liable for the insurance policies issued by MBIA Corp., and (d) ordering damages in an unspecified amount. On February 17, 2010, the court denied defendants' motion to dismiss. On January 11, 2011, the Appellate Division of the New York State Supreme Court reversed the lower court's ruling and dismissed the complaint. On January 20, 2011, plaintiffs filed a Notice of Appeal to the New York State Court of Appeals. Argument has been scheduled for May 31, 2011. On February 10, 2011, the New York County Commercial Division announced that Hon. O. Peter Sherwood has been assigned to the case to replace Justice Yates, who has resigned. Seven of the original nineteen plaintiffs have dismissed their claims, several of which dismissals were related to the commutation of certain of their MBIA Corp. insured exposures.

On June 15, 2009, the same group of domestic and international financial institutions who filed the above described plenary action in New York State Supreme Court filed a proceeding pursuant to Article 78 of New York's Civil Practice Law and Rules in New York State Supreme Court, entitled ABN AMRO Bank N.V. et al. v. Eric Dinallo, in his capacity as Superintendent of the New York Insurance State Department, the New York State Insurance Department, MBIA Inc. et al. In its motions to dismiss the three above-referenced plenary actions, MBIA Inc. argued that an Article 78 proceeding is the exclusive forum in which a plaintiff may raise any challenge to the Transformation approved by the Superintendent of the Department of Insurance. The petition seeks a judgment (a) declaring void and to annul the approval letter of the Superintendent of the Department of Insurance, (b) to recover dividends paid in connection with the Transactions, (c) declaring that the approval letter does not extinguish plaintiffs' direct claims against MBIA Inc. and its subsidiaries in the plenary action described above. MBIA and the New York State Insurance Department filed their answering papers to the Article 78 Petition on November 24, 2009 and argued that based on the record and facts, approval of Transformation and its constituent transactions was neither arbitrary nor capricious nor in violation of New York Insurance Law. As described above, seven of the original nineteen plaintiffs have dismissed their claims. Submission of all papers relating to the original petition are scheduled to be completed by May 30, 2011. On February 10, 2011, the New York County Commercial Division announced that Hon. O. Peter Sherwood has been assigned to the case to replace Justice Yates, who has resigned.

On October 22, 2010, a similar group of domestic and international financial institutions who filed the above described Article 78 proceeding and related plenary action in New York State Supreme Court filed an additional proceeding pursuant to Article 78 of New York's Civil Practice Law & Rules in New York State Supreme Court, entitled Barclays Bank PLC et. al. v. James Wrynn, in his capacity as Superintendent of the New York State Insurance Department, the New York State Insurance Department, MBIA Inc. et al. This petition challenges the New York State Insurance Department's June 22, 2010 approval of National's restatement of earned surplus. On February 10, 2011, the New York County Commercial Division announced that Hon. O. Peter Sherwood has been assigned to the case to replace Justice Yates, who has resigned. The proceeding is currently stayed.

MBIA and National are defending against the aforementioned actions and expect ultimately to prevail on the merits. There is no assurance, however, that they will prevail in these actions. Adverse rulings in these actions could have a material adverse effect on National's ability to implement its strategy and on its business, results of operations and financial condition.

NATIONAL PUBLIC FINANCE GUARANTEE CORPORATION
NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS
As of and for the years ended December 31, 2010 and 2009

There are no other material lawsuits pending or, to the knowledge of National, threatened, to which National is a party.

National does not issue life insurance policies and therefore is not subject to guaranty fund assessments.

National has not recognized any gain contingencies subsequent to the balance sheet date.

National does not have any claims related extra contractual obligation and bad faith losses stemming from lawsuits.

National has no other contingencies that would have a material effect on the financial statements.

14. Premium Revenue

National has not recorded unearned premium related to future installment payments nor has it recorded premiums receivable on installment contracts at December 31, 2010. The following table presents a roll forward of National's undiscounted premiums receivable for the year ended December 31, 2010 as if all installment premium contracts were received on an upfront basis.

<u>In thousands</u>		<u>Adjustments</u>				
Premiums	Premium	Premiums	Changes in	Premiums	Reinsurance	
Receivable as of	Payments	from New	Expected Term of	Receivable as of	Premiums	
December 31,	Received	Business	Policies	December 31,	Payable as of	
2009		Written		2010	December 31,	
					2010	
\$ 492,038	\$ (20,873)	\$ -	\$ (17,101)	\$ 4,080	\$ 458,144	\$ -

NATIONAL PUBLIC FINANCE GUARANTEE CORPORATION
NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS
As of and for the years ended December 31, 2010 and 2009

The following table presents the undiscounted future amount of premiums expected to be collected and the period in which those collections are expected to occur:

In thousands	Expected Collection of Premiums
<u>Three months ended:</u>	
March 31, 2011	\$ 2,881
June 30, 2011	4,965
September 30, 2011	4,997
December 31, 2011	7,462
 <u>Twelve months ended:</u>	
December 31, 2012	22,340
December 31, 2013	19,722
December 31, 2014	19,452
December 31, 2015	19,082
 <u>Five years ended:</u>	
December 31, 2020	91,242
December 31, 2025	75,763
December 31, 2030 and thereafter	190,238
Total	<u>\$ 458,144</u>

NATIONAL PUBLIC FINANCE GUARANTEE CORPORATION
NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS
As of and for the years ended December 31, 2010 and 2009

The following table presents the unearned premium revenue balance and the future expected premiums earned revenue as of and for the periods presented:

<u>In thousands</u>	Unearned Premium Revenue	Expected Future Premium Earnings		Estimated Earnings of Future Premium Collections	Total Expected Future Premium Earnings
		Upfront	Installments		
December 31, 2010	2,872,631				
<u>Three months ended:</u>					
March 31, 2011	2,826,654	40,671	5,306	812	46,789
June 30, 2011	2,783,048	39,862	3,744	1,880	45,486
September 30, 2011	2,725,403	55,312	2,333	3,166	60,811
December 31, 2011	2,681,102	43,575	726	4,694	48,995
<u>Twelve months ended:</u>					
December 31, 2012	2,501,392	178,046	1,664	20,115	199,825
December 31, 2013	2,329,928	170,175	1,289	19,872	191,336
December 31, 2014	2,164,002	164,611	1,315	19,609	185,535
December 31, 2015	2,002,195	159,698	2,109	19,553	181,360
<u>Five years ended:</u>					
December 31, 2020	1,289,513	708,439	4,243	92,350	805,032
December 31, 2025	761,979	523,835	3,699	78,041	605,575
December 31, 2030 and thereafter	-	747,930	14,049	198,052	960,031
Total		<u>\$ 2,832,154</u>	<u>\$ 40,477</u>	<u>\$ 458,144</u>	<u>\$ 3,330,775</u>

15. Subsequent Events

Subsequent events have been considered through March 9, 2011, the date upon which the audited statutory financial statements were available to be issued.

Refer to “Note 13: Contingencies and Commitments” for information about legal proceedings that commenced after December 31, 2010.

16. Reconciliation to Previously Reported Amounts

For the year ended December 31, 2010, National did not have any adjustment to amounts previously reported in the Company’s Annual Statement.

NATIONAL PUBLIC FINANCE GUARANTEE CORPORATION
NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS
As of and for the years ended December 31, 2010 and 2009

The accompanying financial statements reflect an adjustment to amounts previously reported in the Company's Annual Statement as of and for the year ended December 31, 2009. This schedule reconciles the audited financial statements to the Annual Statement filed with the NYSID related to adjustments to contingency reserves, special surplus related to SSAP 10R and intercompany balances. The impact of these adjustments is presented in the following table:

In thousands	As Reported in the 2009 Annual Statement	As Reported in the 2009 Audited Financial Statements
Statement of Admitted Assets, Liabilities and Policyholders' Surplus:		
Deferred tax asset	\$ 39,949	\$ 26,948
Total assets	6,988,601	6,975,600
Contingency reserve	1,355,960	1,403,926
Other liabilities	17,230	18,493
Total liabilities	6,335,171	6,384,400
Special surplus	13,001	-
Unassigned surplus	(1,573,916)	(1,623,145)
Total capital and surplus	\$ 653,430	\$ 591,200

SUMMARY INVESTMENT SCHEDULE

Investment Categories	Gross Investment Holdings		Admitted Assets as Reported in the Annual Statement	
	1 Amount	2 Percentage	3 Amount	4 Percentage
1. Bonds:				
1.1 U.S. treasury securities	197,111,327	2.730	197,111,327	2.730
1.2 U.S. government agency obligations (excluding mortgage-backed securities):				
1.21 Issued by U.S. government agencies	12,608,805	0.175	12,608,805	0.175
1.22 Issued by U.S. government sponsored agencies	0	0.000	0	0.000
1.3 Non-U.S. government (including Canada, excluding mortgage-backed securities)	0	0.000	0	0.000
1.4 Securities issued by states, territories, and possessions and political subdivisions in the U.S.:				
1.41 States, territories and possessions general obligations	411,537,264	5.699	411,537,264	5.699
1.42 Political subdivisions of states, territories and possessions and political subdivisions general obligations	681,747,072	9.441	681,747,072	9.441
1.43 Revenue and assessment obligations	2,115,430,650	29.294	2,115,430,650	29.294
1.44 Industrial development and similar obligations	49,928,830	0.691	49,928,830	0.691
1.5 Mortgage-backed securities (includes residential and commercial MBS):				
1.51 Pass-through securities:				
1.511 Issued or guaranteed by GNMA	384,166,153	5.320	384,166,153	5.320
1.512 Issued or guaranteed by FNMA and FHLMC	955,951,717	13.238	955,951,717	13.238
1.513 All other	0	0.000	0	0.000
1.52 CMOs and REMICs:				
1.521 Issued or guaranteed by GNMA, FNMA, FHLMC or VA	36,950,501	0.512	36,950,501	0.512
1.522 Issued by non-U.S. Government issuers and collateralized by mortgage-backed securities issued or guaranteed by agencies shown in Line 1.521	14,501,504	0.201	14,501,504	0.201
1.523 All other	36,180,373	0.501	36,180,373	0.501
2. Other debt and other fixed income securities (excluding short term):				
2.1 Unaffiliated domestic securities (includes credit tenant loans and hybrid securities)	343,651,522	4.759	343,651,522	4.759
2.2 Unaffiliated non-U.S. securities (including Canada)	35,308,996	0.489	35,308,996	0.489
2.3 Affiliated securities	0	0.000	0	0.000
3. Equity interests:				
3.1 Investments in mutual funds	0	0.000	0	0.000
3.2 Preferred stocks:				
3.21 Affiliated	0	0.000	0	0.000
3.22 Unaffiliated	2,673,650	0.037	2,673,650	0.037
3.3 Publicly traded equity securities (excluding preferred stocks):				
3.31 Affiliated	0	0.000	0	0.000
3.32 Unaffiliated	0	0.000	0	0.000
3.4 Other equity securities:				
3.41 Affiliated	0	0.000	0	0.000
3.42 Unaffiliated	0	0.000	0	0.000
3.5 Other equity interests including tangible personal property under lease:				
3.51 Affiliated	0	0.000	0	0.000
3.52 Unaffiliated	0	0.000	0	0.000
4. Mortgage loans:				
4.1 Construction and land development	0	0.000	0	0.000
4.2 Agricultural	0	0.000	0	0.000
4.3 Single family residential properties	0	0.000	0	0.000
4.4 Multifamily residential properties	0	0.000	0	0.000
4.5 Commercial loans	0	0.000	0	0.000
4.6 Mezzanine real estate loans	0	0.000	0	0.000
5. Real estate investments:				
5.1 Property occupied by company	0	0.000	0	0.000
5.2 Property held for production of income (including \$ 0 of property acquired in satisfaction of debt)	0	0.000	0	0.000
5.3 Property held for sale (including \$ 0 property acquired in satisfaction of debt)	0	0.000	0	0.000
6. Contract loans	0	0.000	0	0.000
7. Receivables for securities	342,491	0.005	289,679	0.004
8. Cash, cash equivalents and short-term investments	1,881,806,351	26.059	1,881,806,351	26.059
9. Other invested assets	61,510,341	0.852	61,510,341	0.852
10. Total invested assets	7,221,407,547	100.000	7,221,354,735	100.000



SUPPLEMENT FOR THE YEAR 2010 OF THE National Public Finance Guarantee Corporation
SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES
 For The Year Ended December 31, 2010
 (To Be Filed by April 1)

Of The National Public Finance Guarantee Corporation
 Address (City, State and Zip Code) Armonk, NY 10504-1610
 NAIC Group Code 00528 NAIC Company Code 23825 Employer's ID Number 37-6025608

The Investment Risks Interrogatories are to be filed by April 1. They are also to be included with the Audited Statutory Financial Statements.
 Answer the following interrogatories by reporting the applicable U. S. dollar amounts and percentages of the reporting entity's total admitted assets held in that category of investments.

- Reporting entity's total admitted assets as reported on Page 2 of this annual statement \$ 7,289,955,528
- Ten largest exposures to a single issuer/borrower/investment.

	<u>1</u> Issuer	<u>2</u> Description of Exposure	<u>3</u> Amount	<u>4</u> Percentage of Total Admitted Assets
2.01	New York, NYC Muni Water Fin Auth	Special Revenue	\$ 108,330,672	1.5 %
2.02	County of Miami-Dade FL	Special Revenue	\$ 96,615,917	1.3 %
2.03	Salt River Project Agricultura	Special Revenue	\$ 68,095,936	0.9 %
2.04	National Real Estate Holdings of Armonk, LLC	Any Other Class of Assets - Affiliate	\$ 61,510,341	0.8 %
2.05	State of Washington	States, Territories, Possessions	\$ 61,134,335	0.8 %
2.06	Metro Washington DC Airport	Special Revenue	\$ 60,641,086	0.8 %
2.07	General Electric Capital Corp	Industrial and Miscellaneous	\$ 57,785,080	0.8 %
2.08	New York State Dormitory Authority	Special Revenue	\$ 54,612,886	0.7 %
2.09	State of Minnesota	States, Territories, Possessions	\$ 52,893,868	0.7 %
2.10	Florida State Board of Education	Political Subdivisions of States, Territ	\$ 50,541,695	0.7 %

- Amounts and percentages of the reporting entity's total admitted assets held in bonds and preferred stocks by NAIC rating.

	<u>Bonds</u>		<u>Preferred Stocks</u>	
	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>
3.01	NAIC-1 \$ 6,981,500,238	95.8 %	3.07 P/RP-1 \$ 2,673,650	0.0 %
3.02	NAIC-2 \$ 126,939,198	1.7 %	3.08 P/RP-2 \$ 0	0.0 %
3.03	NAIC-3 \$ 6,854,497	0.1 %	3.09 P/RP-3 \$ 0	0.0 %
3.04	NAIC-4 \$ 0	0.0 %	3.10 P/RP-4 \$ 0	0.0 %
3.05	NAIC-5 \$ 0	0.0 %	3.11 P/RP-5 \$ 0	0.0 %
3.06	NAIC-6 \$ 32,515,320	0.4 %	3.12 P/RP-6 \$ 0	0.0 %

- Assets held in foreign investments:

- Are assets held in foreign investments less than 2.5% of the reporting entity's total admitted assets? Yes No
 If response to 4.01 above is yes, responses are not required for Interrogatories 5 – 10
- Total admitted assets held in foreign investments \$ 0 0.0 %
- Foreign-currency-denominated investments \$ 0 0.0 %
- Insurance liabilities denominated in that same foreign currency \$ 0 0.0 %

SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES (cont.)

- 5. Aggregate foreign investment exposure categorized by NAIC sovereign rating:
- 6. Largest foreign investment exposures by country, categorized by the country's NAIC sovereign rating:

- 7. Aggregate unhedged foreign currency exposure \$ 1 2 0 0.0 %
- 8. Aggregate unhedged foreign currency exposure categorized by NAIC sovereign rating:
- 9. Largest unhedged foreign currency exposures by country, categorized by the country's NAIC sovereign rating:
- 10. Ten largest non-sovereign (i.e. non-governmental) foreign issues:

SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES (cont.)

11. Amounts and percentages of the reporting entity's total admitted assets held in Canadian investments and unhedged Canadian currency exposure:
- 11.01 Are assets held in Canadian investments less than 2.5% of the reporting entity's total admitted assets? Yes No
- If response to 11.01 is yes, detail is not required for the remainder of Interrogatory 11.
12. Report aggregate amounts and percentages of the reporting entity's total admitted assets held in investments with contractual sales restrictions.
- 12.01 Are assets held in investments with contractual sales restrictions less than 2.5% of the reporting entity's total admitted assets?..... Yes No
- If response to 12.01 is yes, responses are not required for the remainder of Interrogatory 12.
13. Amounts and percentages of admitted assets held in the ten largest equity interests:
- 13.01 Are assets held in equity interest less than 2.5% of the reporting entity's total admitted assets? Yes No
- If response to 13.01 above is yes, responses are not required for the remainder of Interrogatory 13.

SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES (cont.)

14. Amounts and percentages of the reporting entity's total admitted assets held in nonaffiliated, privately placed equities:
- 14.01 Are assets held in nonaffiliated, privately placed equities less than 2.5% of the reporting entity's total admitted assets? Yes [X] No []
- If response to 14.01 above is yes, responses are not required for the remainder of Interrogatory 14.
15. Amounts and percentages of the reporting entity's total admitted assets held in general partnership interests:
- 15.01 Are assets held in general partnership interests less than 2.5% of the reporting entity's total admitted assets? Yes [X] No []
- If response to 15.01 is yes, responses are not required for the remainder of Interrogatory 15.
16. Amounts and percentages of the reporting entity's total admitted assets held in mortgage loans:
- 16.01 Are mortgage loans reported in Schedule B less than 2.5% of the reporting entity's total admitted assets? Yes [X] No []
- If response to 16.01 above is yes, responses are not required for the remainder of Interrogatory 16 and Interrogatory 17.

SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES (cont.)

18. Amounts and percentages of the reporting entity's total admitted assets held in each of the five largest investments in real estate:

18.01 Are assets held in real estate reported less than 2.5% of the reporting entity's total admitted assets? Yes [X] No []

If response to 18.01 above is yes, responses are not required for the remainder of Interrogatory 18.

19. Report aggregate amounts and percentages of the reporting entity's total admitted assets held in investments held in mezzanine real estate loans:

19.01 Are assets held in investments held in mezzanine real estate loans less than 2.5% of the reporting entity's total admitted assets? Yes [X] No []

If response to 19.01 above is yes, responses are not required for the remainder of Interrogatory 19.

SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES (cont.)

20. Amounts and percentages of the reporting entity's total admitted assets subject to the following types of agreements:

	<u>At Year-end</u>			<u>At End of Each Quarter</u>		
	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	
20.01 Securities lending agreements (do not include assets held as collateral for such transactions)	\$ 0	0.0 %	\$ 0	\$ 0	\$ 0	
20.02 Repurchase agreements	\$ 1,775,000,000	24.3 %	\$ 1,675,000,000	\$ 1,775,000,000	\$ 1,775,000,000	
20.03 Reverse repurchase agreements	\$ 0	0.0 %	\$ 0	\$ 0	\$ 0	
20.04 Dollar repurchase agreements	\$ 0	0.0 %	\$ 0	\$ 0	\$ 0	
20.05 Dollar reverse repurchase agreements	\$ 0	0.0 %	\$ 0	\$ 0	\$ 0	

21. Amounts and percentages of the reporting entity's total admitted assets for warrants not attached to other financial instruments, options, caps, and floors.

	<u>Owned</u>			<u>Written</u>		
	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	
21.01 Hedging	\$ 0	0.0 %	\$ 0	\$ 0	\$ 0	
21.02 Income generation	\$ 0	0.0 %	\$ 0	\$ 0	\$ 0	
21.03 Other	\$ 0	0.0 %	\$ 0	\$ 0	\$ 0	

22. Amounts and percentages of the reporting entity's total admitted assets of potential exposure for collars, swaps, and forwards:

	<u>At Year-end</u>			<u>At End of Each Quarter</u>		
	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	
22.01 Hedging	\$ 0	0.0 %	\$ 0	\$ 0	\$ 0	
22.02 Income generation	\$ 0	0.0 %	\$ 0	\$ 0	\$ 0	
22.03 Replications	\$ 0	0.0 %	\$ 0	\$ 0	\$ 0	
22.04 Other	\$ 0	0.0 %	\$ 0	\$ 0	\$ 0	

23. Amounts and percentages of the reporting entity's total admitted assets of potential exposure for futures contracts:

	<u>At Year-end</u>			<u>At End of Each Quarter</u>		
	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	
23.01 Hedging	\$ 0	0.0 %	\$ 0	\$ 0	\$ 0	
23.02 Income generation	\$ 0	0.0 %	\$ 0	\$ 0	\$ 0	
23.03 Replications	\$ 0	0.0 %	\$ 0	\$ 0	\$ 0	
23.04 Other	\$ 0	0.0 %	\$ 0	\$ 0	\$ 0	