MBIA INC
Form 10-K
February 28, 2019
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2018

or

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

Commission File Number 1-9583

MBIA INC.

(Exact name of registrant as specified in its charter)

Connecticut	**06-1185706**
(State of incorporation)	**(I.R.S. Employer Identification No.)**
1 Manhattanville Road, Suite 301, Purchase, New York	**10577**
(Address of principal executive offices)	**(Zip Code)**

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

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

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

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

None

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

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

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

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

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company
	Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The aggregate market value of the voting stock held by non-affiliates of the Registrant as of June 30, 2018 was $794,245,161.

As of February 21, 2019, 89,622,622 shares of Common Stock, par value $1 per share, were outstanding.

Documents incorporated by reference:

Portions of the Definitive Proxy Statement of the Registrant for its 2018 Annual Meeting, which will be filed on or before March 31, 2019, are incorporated by reference into Part III of this Form 10-K.

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FORWARD-LOOKING AND CAUTIONARY STATEMENTS

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

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

- increased credit losses or impairments on public finance obligations that National Public Finance Guarantee Corporation (National) insures issued by state, local and territorial governments and finance authorities and other providers of public services, located in the U.S. or abroad, that are experiencing fiscal stress;

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

- a disruption in the cash flow from National or an inability to access the capital markets and our exposure to significant fluctuations in liquidity and asset values in the global credit markets as a result of collateral posting requirements;

- our ability to fully implement our strategic plan;

- the possibility that MBIA Insurance Corporation will have inadequate liquidity or resources to timely pay claims as a result of higher than expected losses on certain insured transactions or as a result of a delay or failure in collecting expected recoveries, which could lead the New York State Department of Financial Services (NYSDFS) to put MBIA Insurance Corporation into a rehabilitation or liquidation proceeding under Article 74 of the New York Insurance Law and/or take such other actions as the NYSDFS may deem necessary to protect the interests of MBIA Insurance Corporation s policyholders;

- deterioration in the economic environment and financial markets in the United States or abroad, real estate market performance, credit spreads, interest rates and foreign currency levels; and

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

The above factors provide a summary of and are qualified in their entirety by the risk factors discussed under Risk Factors in Part I, Item 1A of this annual Report on Form 10-K. The Company encourages readers to review these risk factors in their entirety.

This annual report of MBIA Inc. also includes statements of the opinion and belief of MBIA management which may be forward-looking statements subject to the preceding cautionary disclosure. Unless otherwise indicated herein, the basis for each statement of opinion or belief of MBIA management in this report is the relevant industry or subject matter experience and views of certain members of MBIA s management. Accordingly, MBIA cautions readers not to place undue reliance on any such statements, because like all statements of opinion or belief they are not statements of fact and may prove to be incorrect. We undertake no obligation to publicly correct or update any statement of opinion or belief if the Company later becomes aware that such statement of opinion or belief was not or is not then accurate. In addition, readers are cautioned that each statement of opinion or belief may be further qualified by disclosures set forth elsewhere in this report or in other disclosures by MBIA.

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PART I

Item 1. Business

As used in this Annual Report on Form 10-K, (i) MBIA, the Company, we, our and us refer to MBIA Inc., a Connecticut corporation incorporated in 1986, together with its subsidiaries, and (ii) unless otherwise indicated or the context otherwise requires, references to MBIA Corp. are (i) for any references relating to the period ended January 10, 2017, to MBIA Insurance Corporation, together with its subsidiaries, MBIA UK Insurance Limited (MBIA UK), and MBIA Mexico S.A. de C.V (MBIA Mexico) and (ii) for any references relating to the period after January 10, 2017, to MBIA Insurance Corporation together with MBIA Mexico.

OVERVIEW

The Company s primary objectives are ensuring that adequate liquidity exists at MBIA Inc. to satisfy all of its outstanding obligations, mitigating losses at National and MBIA Corp., including National s exposures to insured debt obligations of the Commonwealth of Puerto Rico and certain of its instrumentalities (Puerto Rico), as described further herein, and maximizing recoveries on paid insurance claims. The Company may also pursue strategic alternatives that could enhance shareholder value.

MBIA s primary business has been to provide financial guarantee insurance to the United States public finance markets through our indirect, wholly-owned subsidiary, National Public Finance Guarantee Corporation (National). National s financial guarantee insurance policies provide investors with unconditional and irrevocable guarantees of the payment of the principal, interest or other amounts owing on insured obligations when due. National has ceased pursuing the writing of new financial guarantee policies, and its primary activity today is to provide ongoing surveillance of its existing insured portfolio of $57.9 billion gross par outstanding as of December 31, 2018.

MBIA has also provided financial guarantee insurance in the international and structured finance markets through its subsidiary MBIA Corp. As of December 31, 2018, MBIA Corp. s total insured gross par outstanding was $11.9 billion. Effective on January 10, 2017, MBIA Corp. s wholly-owned subsidiary, MBIA UK (Holdings) Limited (MBIA UK Holdings), the parent company to MBIA UK, sold MBIA UK, to Assured Guaranty Corp. (Assured), a subsidiary of Assured Guaranty Ltd. We do not expect MBIA Corp. to write any significant new policies in the foreseeable future. Given MBIA Corp. s capital structure and business prospects, we do not expect its financial performance to have a material impact on MBIA Inc. Refer to Results of Operations Capital Resources in Part II, Item 7 of this Form 10-K for a further discussion of MBIA Corp. s insurance statutory capital.

MBIA Services Corporation (MBIA Services), also owned by MBIA Inc., is a service company which provides support services such as surveillance, risk management, legal, accounting, treasury and information technology, among others, to our businesses on a fee-for-service basis.

MBIA Inc. Capital Management

The Company manages its capital and liquidity in order to ensure that it can service its debt and other financial obligations and pay its operating expenses while maintaining an adequate cushion against potential adverse events. MBIA Inc. has consistently received dividends from National and releases from the tax escrow account over the past several years and currently maintains a stable liquidity position which is expected to allow it to service its obligations over the next several years without needing to access the capital markets. Our capital management strategies include enhancing shareholder value by (i) having the Company or National repurchase outstanding MBIA Inc. common shares when management deems such actions are appropriate, taking into account the price of the stock, anticipated liquidity needs, and other relevant factors and (ii) retiring our unsecured and MBIA Global Funding, LLC (GFL) debt through calls and repurchases at prices that create economic benefit to the Company.

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Item 1. Business (continued)

During 2018, the Company and National collectively repurchased 5.8 million shares at a cost of $48 million under the repurchase authorization approved by the Board in November of 2017. During 2017, the Company and National collectively repurchased 43 million shares at a cost of $325 million under repurchase authorizations approved by the Board in February of 2016 and June of 2017. During 2016, the Company and National collectively repurchased 16.6 million shares at a cost of $105 million under repurchase authorizations approved by the Board in October of 2015 and February of 2016. At each time of repurchase, management and the Board viewed such use of available capital as the best alternative for capital management.

Unsecured debt includes MBIA Inc. s senior notes and medium-term notes (MTNs) issued by its subsidiary, GFL. During 2018, the Company repurchased $78 million and paid $17 million par value related to GFL debt maturities. During 2017, the Company repurchased $160 million and paid $38 million par value related to GFL debt maturities.

In each of the fourth quarters of 2018 and 2017, National declared and paid dividends of $108 million and $118 million, respectively, to its ultimate parent, MBIA Inc. In addition, during the first quarters of 2019 and 2018, MBIA Inc. received $56 million and $18 million, respectively, in cash from an escrow account held by MBIA Inc. under the MBIA group s tax sharing agreement as described further under Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity Corporate Liquidity in Part II, Item 7 of this Form 10-K. In addition, in 2018, $90 million was returned to National as a result of its 2017 financial results.

National Risk Mitigation

National s most significant risk is credit risk in its large and diverse insured portfolio of domestic public finance credits. National s risk mitigation strategy is premised on proactive portfolio management, including surveillance of financial performance and covenant compliance, the exercise of creditor rights, remediation and in select cases workouts of distressed credits. National s approach generally focuses on the early detection of stress and proactive intervention, though its rights and its ability to take certain actions on a particular credit will always be case-specific. As part of its remediation efforts, National may elect to facilitate and participate in refinancings of existing credit exposures where the new transaction will have the anticipated effect of improving the issuer s ability to service its debt and strengthen National s legal security or covenant package. National may also seek to purchase its own insured obligations as part of an overall risk mitigation strategy, subject to internal and regulatory limitations.

Presently, the most distressed credits in National s portfolio are obligations issued by Puerto Rico. As described further herein, four of these credits, the Commonwealth s General Obligation Bonds, the Puerto Rico Sales Tax Financing Corporation (COFINA), the Puerto Rico Highways and Transportation Authority (PRHTA) and the Puerto Rico Electric Power Authority (PREPA) have been placed into bankruptcy-like processes under Title III of the Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA). For additional information relating to the risks arising from National s Puerto Rico exposures, refer to the Insured Portfolio Loss Related Risk Factors section in Part I, Item 1A of this Form 10-K.

MBIA Corp. Risk Mitigation

MBIA Corp. has not written a meaningful amount of new business since 2008 as a result of declining financial capacity, ratings downgrades and regulatory limitations placed on its business. Since that time it has experienced considerable stress as a result of unprecedented levels of loss in its structured finance insurance business, primarily in its residential mortgage-backed securities (RMBS), commercial mortgage-backed securities (CMBS) pools, and collateralized debt obligation (CDO) portfolios. As a result, since 2008, MBIA Corp. s strategy has focused primarily on recovering losses on insured transactions, reducing future expected economic losses in the insured portfolio through commutations and other risk mitigation strategies, and managing liquidity. Refer to Note 6: Loss and Loss Adjustment Expense in the Notes to Consolidated Financial Statements in Part II, Item 8 of this Form 10-K for further information regarding loss reserves and recoveries.

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Item 1. Business (continued)

Our liquidity and capital forecasts, and projected collections of recoveries, for MBIA Corp., reflect resources that we expect to be adequate to pay expected insurance claims. However, there can be no assurance that MBIA Corp. will realize its expected recoveries in full or on its projected timeframe. Refer to Risk Factors-MBIA Corp. Risk Factors-Continuing elevated loss payments and delay or failure in realizing expected recoveries on insured transactions may materially and adversely affect MBIA Insurance Corporation s statutory capital and its ability to meet liquidity needs and could cause the New York State Department of Financial Services (the NYSDFS) to put MBIA Insurance Corporation into a rehabilitation or liquidation proceeding if the NYSDFS concludes that MBIA Insurance Corporation will not be able to pay expected insurance claims, in Part I, Item 1A of this Form 10-K. Given the separation of MBIA Inc. and MBIA Corp. as distinct legal entities, the absence of any cross defaults between the entities, and the lack of reliance by MBIA Inc. on MBIA Corp. for the receipt of dividends, we do not believe that a rehabilitation or liquidation proceeding of MBIA Insurance Corporation by the NYSDFS would have any significant long-term liquidity impact on MBIA Inc.

OUR INSURANCE OPERATIONS

Our U.S. public finance insurance portfolio is managed through National, and our international and structured finance insurance portfolios are managed through MBIA Corp. We do not expect National or MBIA Corp. to write new business for the foreseeable future.

We have been compensated for our insurance policies by insurance premiums that were paid upfront or on an installment basis. Our financial guarantee insurance was offered in both the new issue and secondary markets. In addition, we have provided financial guarantees or sureties to debt service reserve funds. The primary risk in our insurance operations is that of adverse credit performance in the insured portfolio. When writing new business we sought to maintain a diversified insured portfolio and have insured transactions with the aim of managing and diversifying risk based on a variety of criteria including revenue source, issue size, type of asset, industry concentrations, type of bond and geographic location. Despite this objective, there can be no assurance that we will avoid losses on multiple credits as a result of a single event or series of events.

Because we generally guarantee to the holder of an insured obligation the timely payment of amounts due on the obligation in accordance with its original payment schedule, in the case of a default or other triggering event, payments under the insurance policy generally cannot be accelerated against us unless we consent to the acceleration. In the event of a default, however, we may have the right, in our sole discretion, to accelerate the obligations and pay them in full. Otherwise, we are required to pay principal, interest or other amounts only as scheduled payments come due, even if the holders are permitted by the terms of the insured obligations to have the full amount of principal, accrued interest or other amounts due, declared due and payable immediately in the event of a default.

Our payment obligations after a default vary by deal and by insurance type. Our public finance insurance generally insures scheduled interest and principal. Our structured finance policies generally insure (i) timely interest and ultimate principal; (ii) ultimate principal only at final maturity; or, (iii) payments upon settlement of individual collateral losses as they occur after any deductible or subordination has been exhausted. With respect to the insurance of certain derivative transactions, including credit default swap (CDS) contracts written in the international and structured finance insurance segment, in certain circumstances, including the occurrence of certain insolvency or payment defaults under the CDS contracts, the CDS contracts may be subject to termination by the counterparty, triggering a claim for the fair value of the contract. Our U.S. public finance segment did not write insurance in CDS form and therefore its policies do not feature this potential trigger.

In the event of a default in the payment of principal, interest or other insured amounts by an issuer, the insurance company will make funds available in the insured amount generally within one to three business days following notification. Longer timeframes may apply for international transactions. Generally, our insurance companies provide for this payment upon receipt of proof of ownership of the obligations due, as well as upon receipt of instruments appointing the insurer as agent for the holders and evidencing the assignment of the rights of the holders with respect to the payments made by the insurer or other appropriate documentation.

Item 1. Business (continued)

National Insured Portfolio

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

As of December 31, 2018, National had $57.9 billion of insured gross par outstanding on U.S. public finance obligations covering 3,662 policies and diversified among 2,105 credits, which we define as any group of issues supported by the same revenue source. Insurance in force, which includes all insured debt service, as of December 31, 2018 was $111.5 billion.

All of the policies were underwritten on the assumption that the insurance will remain in force until maturity or early retirement of the insured obligations. National estimates that the average life of its domestic public finance insurance policies in force as of December 31, 2018 was 10 years. The average life was determined by applying a weighted average calculation, using the remaining years to contractual maturity and weighting them on the basis of the remaining debt service insured. No assumptions were made for any future refundings, early redemptions or terminations of insured issues. Average annual insured debt service on the portfolio as of December 31, 2018 was $6.7 billion.

National s underwriting guidelines limited the insurance in force for any one insured credit, and for other categories such as geography. In addition, National is subject to regulatory single-risk limits with respect to any insured bond issue. See the Insurance Regulation section below for a description of these regulatory requirements. As of December 31, 2018, National s gross par amount outstanding for its ten largest insured U.S. public finance credits totaled $10.1 billion, representing 17.4% of National s total U.S. public finance gross par amount outstanding. Refer to Note 13: Insurance in Force in the Notes to Consolidated Financial Statements in Part II, Item 8 of this Form 10-K for further information regarding the Company s insured portfolio.

MBIA Corp. Insured Portfolio

MBIA Corp. s insured portfolio consists of policies that insure various types of international public finance and global structured finance obligations that were sold in the new issue and secondary markets or are referenced in CDS contracts. International public finance obligations include bonds and loans extended to entities located outside of the U.S., including utilities, infrastructure projects and sovereign-related and sub-sovereign issuers, such as regions, authorities or their equivalent as well as sovereign owned entities that might be supported by a sovereign state, region or authority. Sovereign-related includes Private Finance Initiative transactions that involve private entities that receive contractual payments for providing services to public sector entities. Global structured finance obligations include asset-backed transactions and financing of commercial activities that are typically secured by undivided interests or collateralized by the related assets or cash flows or, in the case of certain CDS transactions, reference the underlying obligations. Certain policies cover payments potentially due under CDS, including termination payments that may become due in certain circumstances, including the occurrence of certain insolvency or payment defaults under the CDS or derivative contracts by the insured counterparty or by the guarantor.

As of December 31, 2018, MBIA Corp. had 348 policies outstanding in its insured portfolio. In addition, MBIA Corp. had 52 insurance policies outstanding relating to liabilities issued by MBIA Inc. and its subsidiaries, which are described further under the section Affiliated Financial Obligations Insured by MBIA Corp. below. MBIA Corp. s total policies in its insured portfolio are diversified among 220 credits, which we define as any group of policies supported by the same revenue source.

As of December 31, 2018, the gross par amount outstanding of MBIA Corp. s insured obligations (excluding $1.0 billion of insured affiliated financial obligations and $36.0 billion of U.S. public finance debt ceded to National), was $11.9 billion. Insurance in force for the above portfolio, which includes all insured debt service, as of December 31, 2018 was $16.5 billion.

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Item 1. Business (continued)

MBIA Corp. estimates that the average life of its international and structured finance insurance policies in force as of December 31, 2018 is 8 years. The average life was determined by applying a calculation using the remaining years to contractual maturity for international public finance obligations and estimated maturity for structured finance obligations and weighting them on the basis of the remaining debt service insured. No assumptions were made for any future refundings, early redemptions or terminations of insured issues. Average annual insured debt service on the portfolio as of December 31, 2018 was $1.4 billion. Refer to Note 13: Insurance in Force in the Notes to Consolidated Financial Statements in Part II, Item 8 of this Form 10-K for further information regarding the Company s insured portfolio.

Affiliated Financial Obligations Insured by MBIA Corp.

Prior to 2008, MBIA Inc. provided customized investment agreements and one of its subsidiaries, GFL, issued MTNs with varying maturities. Each of these obligations is guaranteed by MBIA Corp. GFL lent the proceeds of its GFL MTN issuances to MBIA Inc. As a result of ratings downgrades of MBIA Corp., MBIA Inc. is required to post collateral for the remaining investment agreements. Since the ratings downgrades of MBIA Corp. that began in 2008, we have not issued new MTNs or investment agreements. The investment agreements are currently fully collateralized with high quality assets. We believe the outstanding investment agreements and MTNs and corresponding asset balances will continue to decline over time as the liabilities mature, terminate, or are repurchased by the Company.

In January of 2017, MBIA Corp. executed a financing facility (the Facility) with affiliates of certain holders of 14% Fixed-to-Floating Rate Surplus Notes of MBIA Corp. (collectively, the Senior Lenders), and with MBIA Inc., pursuant to which the Senior Lenders have provided $325 million of senior financing and MBIA Inc. has provided $38 million of subordinated financing to MZ Funding LLC (MZ Funding), a newly formed wholly-owned subsidiary of the Company, which in turn lent the proceeds of such financing to MBIA Corp. MBIA Corp. issued financial guarantee insurance policies insuring MZ Funding s obligations under the Facility. Refer to Note 10: Debt in the Notes to Consolidated Financial Statements in Part II, Item 8 of this Form 10-K for information on the Facility.

Risk Management

Our largest risk is the credit exposure in our insured portfolio. The Company s credit risk management and remediation functions are managed through committees and units that oversee risks in ongoing portfolio surveillance and remediation. The Company s Insured Portfolio Management Division (IPM) monitors and remediates domestic and international public finance and structured risks. National and MBIA Corp. each has its own risk and investment committees that review their respective portfolio and investment-related decisions.

The Company s Risk Oversight Committee (the Risk Oversight Committee) reviews material transactions and provides firm-wide review of policies and decisions related to credit, market, operational, legal, financial and business risks. The Company and its subsidiaries respective Loss Reserve Committees review loss reserving activity.

The Company s Board of Directors and related Committees, including Audit, and Finance and Risk, oversee risks faced by the Company and its subsidiaries. The Board regularly evaluates and discusses emerging risks and risks associated with strategic initiatives. On an annual basis, the Board also evaluates and approves the Company s risk tolerance policy. The purpose of the risk tolerance policy is to define the types and amounts of risks the Company is prepared to accept. The assessment includes risks associated with credit, capital adequacy, market, liquidity, legal, operations and technology. This policy provides the basis upon which risk criteria and procedures are developed and seeks to have these applied consistently across the Company.

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

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Item 1. Business (continued)

The Finance and Risk Committee oversees the Company s credit risk governance framework, market risk, liquidity risk and other material financial risks. The Finance and Risk Committee oversees these risks by monitoring the Company s: (i) capital and liquidity, (ii) proprietary investment portfolios, (iii) exposure to changes in the market value of assets and liabilities, (iv) credit exposures in the Insured Portfolios, and (v) financial risk policies and procedures, including regulatory requirements and limits.

The Company has a designated Model Governance Team. Given the significance of models in the Company s surveillance and remediation activities, financial reporting and corporate treasury operations, the Company established a Model Governance Policy to enhance the consistency, reliability, maintenance and transparency of its models so that model risk can be mitigated on an enterprise-wide basis. The Model Governance Team is responsible for the Model Governance Policy as well as other Model Governance related initiatives.

Insurance Surveillance and Remediation

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

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

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

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

A key to our ongoing monitoring is early detection of deterioration in either obligor credit quality or macroeconomic or market factors that could adversely impact an insured credit. If deterioration is detected, analysts generally evaluate possible remedial actions and, in the event of significant stress, we may develop and implement a remediation strategy. The nature of any remedial action is based on the type of insured issue and the nature and scope of the event giving rise to the remediation. In most cases, as part of any such remedial activity, we work with the issuer, trustee, legal counsel, financial advisors, servicer, other creditors, underwriters and/or other related parties to reduce chances of default and the potential severity of loss if a default should occur.

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Item 1. Business (continued)

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

Credit Risk Models

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

Market Risk Assessment

We measure and assess market risk on a consolidated basis as well as at the holding company and subsidiaries on a stand-alone basis. Key market risks are changes in interest rates, credit spreads and foreign exchange rates. We use various models and methodologies to test exposure under market stress scenarios, including parallel and non-parallel shifts in the yield curve, changes in credit spreads, and changes in foreign exchange rates. We also analyze stressed liquidity scenarios and stressed counterparty exposures. The analyses are used in testing investment portfolio guidelines. The Risk Oversight Committee and the Finance and Risk Committee of the Company s Board of Directors receive periodic reports on market risk.

Operational Risk Assessment

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

Losses and Reserves

Loss and loss adjustment expense (LAE) reserves are established by Loss Reserve Committees in each of our operating insurance companies and are reviewed by our executive Loss Reserve Committee, which consists of members of senior management. The Company s loss and LAE reserves as of December 31, 2018 represent case basis reserves and estimates for LAE to be incurred. Case basis reserves represent the Company s estimate of expected losses to be paid under its insurance contracts, net of potential recoveries and discounted using a current risk-free interest rate, for contracts where the estimated loss amount exceeds the unearned premium revenue on the related insurance contract. The Company estimates expected losses net of potential recoveries using the present value of probability-weighted estimated loss payments and recoveries, discounted at a rate equal to the risk-free rate applicable to the currency and weighted average remaining life of the insurance contract as required by accounting principles for financial guarantee contracts. We record case basis loss reserves on insured obligations which have defaulted or are expected to default during the remaining life of the obligation.

Item 1. Business (continued)

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

Reinsurance

We currently have third-party reinsurance agreements in place covering 3% of our insured par outstanding. At this time we do not intend to utilize reinsurance to decrease the insured exposure in our portfolio; however, we may, from time to time, look to enter into transactions to reduce risks embedded in our insured portfolios on an individual and portfolio-wide basis.

Intercompany Reinsurance Arrangements

MBIA Corp. and National are parties to a reinsurance agreement pursuant to which National reinsures certain public finance financial guarantee policies originally written by MBIA Corp., as well as an assignment agreement under which MBIA Corp. assigned to National its rights and obligations under public finance financial guarantee policies of Financial Guaranty Insurance Company (FGIC) which were originally reinsured by MBIA Corp., and ultimately novated to National pursuant to a novation agreement between National and FGIC effective August of 2013. In addition, National entered into second-to-pay policies covering the policies covered by each of these agreements. The reinsurance agreement pursuant to which MBIA Corp. had reinsured the FGIC public finance guarantee policies was terminated in 2013 in connection with the novation to National of the policies covered by the agreement.

MBIA Insurance Corporation maintains a reinsurance agreement and net worth maintenance agreement with MBIA Mexico pursuant to which MBIA Insurance Corporation reinsures 100% of the business underwritten by MBIA Mexico and agrees to maintain the amount of capital in MBIA Mexico required by applicable law or regulation, subject to certain New York State regulatory requirements as well as certain contract restrictions.

Insurance Regulation

National and MBIA Insurance Corporation are incorporated in and subject to primary insurance regulation and supervision by the State of New York. MBIA Corp. s Spanish Branch is subject to local regulation in Spain. MBIA Mexico is organized and subject to primary regulation and supervision in Mexico. The Company s insurance subsidiaries are also licensed to issue financial guarantee policies in multiple jurisdictions as needed to conduct their business activities.

The extent of state and national insurance regulation and supervision varies by jurisdiction, but New York, Spain, Mexico and most other jurisdictions have laws and regulations prescribing minimum standards of solvency, including minimum capital requirements, and business conduct which must be maintained by insurance companies, and if our insurance companies fail to meet such requirements our regulators may impose certain remedial actions. Among other regulated conduct, these laws and regulations prescribe permitted classes and concentrations of investments. In addition, some state laws and regulations require the approval or filing of policy forms and rates. MBIA Insurance Corporation and National each are required to file detailed annual financial statements with the NYSDFS and similar supervisory agencies in each of the other jurisdictions in which it is licensed. The operations and accounts of the insurance companies are subject to examination by regulatory agencies at regular intervals. In addition to being subject to the insurance laws in the jurisdictions in which we operate, as a condition to obtaining required insurance regulatory approvals to enter into certain transactions and take certain other corporate actions, including the release of excessive contingency reserves in MBIA Insurance Corporation described below under Contingency Reserves and entry into the asset swap between MBIA Inc. and National described under Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity Corporate Liquidity in Part II, Item 7 of this Form 10-K, MBIA Inc. and its operating insurance subsidiaries have and may in the future agree to provide notice to the NYSDFS or other applicable regulators prior to entering into transactions or taking other corporate actions (such as paying dividends when applicable statutory tests are satisfied) that would not otherwise require regulatory approval.

Item 1. Business (continued)

New York Insurance Regulation

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

New York State Dividend Limitations

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

National declared and paid a dividend of $108 million to its ultimate parent, MBIA Inc., during the fourth quarter of 2018.

Due to its significant earned surplus deficit, MBIA Insurance Corporation has not had the statutory capacity to pay dividends since December 31, 2009 and is not expected to have any statutory capacity to pay any dividends for the foreseeable future. In connection with MBIA Insurance Corporation obtaining approval from the NYSDFS to release excessive contingency reserves as of September 30, 2011, December 31, 2011 and March 31, 2012, MBIA Corp. agreed that it would not pay any dividends without receiving prior approval from the NYSDFS. The foregoing dividend limitations are determined in accordance with statutory accounting principles (U.S. STAT).

Contingency Reserves

As financial guarantee insurers, our domestic insurance companies are required by the laws and regulations of New York and other states to maintain, as applicable, contingency reserves on their municipal bond, asset-backed securities (ABS) or other financial guarantee liabilities. Under New York law, a financial guarantee insurance company is required to contribute to contingency reserves 50% of premiums as they are earned on policies written prior to July 1, 1989 (net of reinsurance), and, with respect to policies written on and after July 1, 1989, such an insurer must make contributions over a period of 15 or 20 years (based on issue type), or until the contingency reserve for such insured issues equals the greater of 50% of premiums written for the relevant category of insurance or a percentage of the principal guaranteed, varying from 0.55% to 2.5%, depending upon the type of obligation guaranteed (net of collateral, reinsurance, refunding, refinancings and certain insured securities). Other states maintain similar requirements. The contribution to, and maintenance of, the contingency reserve limits the amount of earned surplus that might otherwise be available for the payment of dividends. In each state, our domestic insurance companies may apply for release of portions of their contingency reserves in certain circumstances.

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Item 1. Business (continued)

Risk Limits

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

National is in compliance with the relevant aggregate and single risk limits. During 2018 and 2017, MBIA Insurance Corporation reported single risk limit overages to the NYSDFS due to changes in its statutory capital. MBIA Insurance Corporation is in compliance with its aggregate risk limits as of December 31, 2018.

Holding Company Regulation

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

Change of Control

Prior approval by the NYSDFS is required for any entity seeking to acquire, directly or indirectly, control of National or MBIA Insurance Corporation. In many states, including New York, control is presumed to exist if 10% or more of the voting securities of the insurer are owned or controlled, directly or indirectly, by an entity, although the insurance regulator may find that control in fact does or does not exist when an entity owns or controls either a lesser or greater amount of securities. MBIA Insurance Corporation would require the prior approval of MBIA Mexico s regulator in order to transfer the shares it currently holds in MBIA Mexico.

Insurance Guarantee Funds

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

INVESTMENTS AND INVESTMENT POLICY

Investment objectives, policies and guidelines related to the Company s businesses are generally subject to review and approval by the Finance and Risk Committee of the Board of Directors. Investment objectives, policies and guidelines related to investment activity on behalf of our insurance companies are also subject to review and approval by the respective Investment Committee of their Boards of Directors or similar body.

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Item 1. Business (continued)

Insight Investment manages the proprietary investment portfolios of the Company and its subsidiaries in accordance with the guidelines adopted for each such portfolio. The agreements with Insight Investment provide generally that Insight Investment will have the exclusive right to manage the fixed-income investment portfolios of the Company and its subsidiaries until December 31, 2019 and guarantee certain minimum revenues thereunder. The agreements are subject to early termination under certain conditions including if certain performance objectives are not met. Subsequent to December 31, 2018, the Company reached an agreement in principle to extend the contract with Insight Investment, with modifications, beyond its current term.

To continue to optimize capital resources and provide for claims-paying capabilities, the investment objectives and policies of our operations are tailored to reflect their various strategies and operating conditions. The investment objectives of National set preservation of capital as the primary objective, subject to an appropriate degree of liquidity, and optimization of after-tax income and total return as secondary objectives. The investment objectives of MBIA Corp. are primarily to maintain adequate liquidity to meet claims-paying and other corporate needs and secondarily to maximize after-tax income within defined investment risk limits. The investment objectives of the corporate segment are to provide sufficient liquidity to meet maturing liabilities and, in the case of the investment agreement business collateral posting obligations, while maximizing the total long-term return.

RATING AGENCIES

In the fourth quarter of 2017, both S&P and Kroll Bond Rating Agency (Kroll) withdrew their financial strength ratings on MBIA Inc. and its subsidiaries, National and MBIA Corp, as contracted, following notice from the Company terminating the agreements by which both rating agencies agreed to provide financial strength ratings. Prior to withdrawal of their respective ratings Kroll downgraded the rating of National from AA+ to AA with a negative outlook and S&P affirmed the National A with a stable outlook. Also in the fourth quarter of 2017, MBIA Inc., on behalf of its subsidiaries, National and MBIA Corp, provided similar notice to Moody s Investors Services (Moody s) terminating the agreement by which Moody s agreed to provide financial strength ratings to MBIA Inc., National, MBIA Corp. and MBIA Mexico. In January of 2018, Moody s downgraded the rating of National from A3 with a negative outlook to Baa2 with a stable outlook. Similarly, Moody s downgraded the rating of MBIA Inc. from Ba1 with a negative outlook to Ba3 with a stable outlook. The rating of MBIA Corp. was affirmed at Caa1 with a developing outlook. The rating of MBIA Mexico was affirmed at Caa1/B3.mx with a developing outlook. Moody s, at its discretion and in the absence of a contract with the Company, continues to maintain ratings on MBIA Inc. and its subsidiaries.

CAPITAL FACILITIES

The Company does not currently maintain a capital facility. For a discussion of the Company s capital resources refer to Capital Resources in Part II, Item 7 of this Form 10-K.

FINANCIAL INFORMATION

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

EMPLOYEES

As of December 31, 2018, the Company had 96 employees. None of the Company s employees are covered by collective bargaining agreements. The Company considers its employee relations to be satisfactory.

Item 1. Business (continued)

AVAILABLE INFORMATION

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

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

The Company is providing public access to certain non-confidential information regarding the assets securing the facility extended by its subsidiary, MZ Funding LLC (MZ Funding), on the Company s MZ Funding web page. It will also make available certain confidential information subject to the execution of a non-disclosure agreement. Instructions for accessing the information are available on the MZ Funding web page. A description of the MZ Funding facility, as well as several documents pertaining thereto, including, among others, the Senior Note Indenture, the Credit Agreement, and the Security Agreement, can be found on the Form 8-K filed by the Company on January 10, 2017, available on the Company s website at www.mbia.com.

EXECUTIVE OFFICERS OF THE REGISTRANT

The executive officers of the Company and their present ages and positions with the Company as of February 28, 2019 are set forth below:

Name	Age	Position and Term of Office
William C. Fallon	59	Chief Executive Officer and Director (executive officer since July 2005)
Anthony McKiernan	49	Executive Vice President and Chief Financial Officer (executive officer since August 2011)
Jonathan C. Harris	47	General Counsel and Secretary (executive officer since September 2017)
Daniel M. Avitabile	45	Assistant Vice President, and President and Chief Risk Officer of MBIA Corp. (executive officer since September 2017)
Adam T. Bergonzi	55	Assistant Vice President and Chief Risk Officer of National (executive officer since September 2017)
Christopher H. Young	46	Assistant Vice President, and Chief Financial Officer of National (executive officer since September 2017)
Joseph R. Schachinger	50	Controller (executive officer since May 2017)

William C. Fallon was elected as a Director of the Company in May 2017, and appointed as Chief Executive Officer in September 15, 2017. Prior to being named Chief Executive Officer and Director, Mr. Fallon served as President, Chief Operating Officer, and Vice President of the Company and head of the Global Structured Finance Division.

Mr. Fallon also serves as President and Chief Executive Officer of National. From July of 2005 to March 1, 2007, Mr. Fallon was Vice President of the Company and head of Corporate and Strategic Planning. Prior to joining the Company in 2005, Mr. Fallon was a partner at McKinsey & Company and co-leader of that firm s Corporate Finance and Strategy Practice.

Anthony McKiernan was named Executive Vice President and Chief Financial Officer on May 1, 2012 and March 11, 2016, respectively. Immediately prior to those appointments Mr. McKiernan was Vice President and Chief Portfolio Officer of the Company. Mr. McKiernan is also Chairman and Chief Financial Officer of MBIA Corp. Mr. McKiernan joined MBIA in 2000 as a vice president in the Credit Analytics Group, and managed the Corporate Insured Portfolio Management Group prior to becoming the Head of the Structured Finance Insured Portfolio Management Group in 2007.

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Item 1. Business (continued)

The Board of Directors of MBIA Inc. appointed Mr. Fallon to the office set forth opposite his name above on September 15, 2017 and appointed Mr. McKiernan to the offices set forth opposite his name above on May 1, 2012 and March 11, 2016.

Jonathan C. Harris is General Counsel and Secretary of the Company. Prior to being named General Counsel and Secretary, Mr. Harris served as Assistant Vice President and Head of Litigation. Mr. Harris joined the Company as Head of Litigation in 2009. Prior to joining the Company, Mr. Harris was litigation counsel at Lehman Brothers, and practiced in the litigation department of Willkie Farr & Gallagher. The Board of Directors of MBIA Inc. appointed Mr. Harris to the offices set forth opposite his name above on May 3, 2017.

Daniel M. Avitabile is an Assistant Vice President of the Company and President and Chief Risk Officer of MBIA Corp. Prior to being named Chief Risk Officer in 2016, Mr. Avitabile managed MBIA Corp. s Special Situations Group, which was responsible for remediation and commutation activity. Mr. Avitabile has worked at MBIA since 2000, where he has held positions in insured portfolio management, remediation, corporate strategy and structured finance new business. Prior to joining MBIA, he held positions at The Chase Manhattan Bank and State Street Bank. The Board of Directors of MBIA Inc. and MBIA Insurance Corporation appointed Mr. Avitabile to the offices set forth opposite his name above on February 13, 2018, September 15, 2017 and March 11, 2016, respectively.

Adam T. Bergonzi is an Assistant Vice President of the Company and Chief Risk Officer of National, overseeing all of National s risk and insured portfolio management activities. Prior to being named Chief Risk Officer of National in 2010 when he rejoined the Company, Mr. Bergonzi was employed at Municipal and Infrastructure Assurance Corporation, which he co-founded and served as its Chief Risk Officer, from 2008 to 2010. The Board of Directors of MBIA Inc. and National Public Finance Guarantee Corporation appointed Mr. Bergonzi to the offices set forth opposite his name above on May 3, 2016 and November 15, 2010, respectively.

Christopher H. Young is an Assistant Vice President of the Company and Chief Financial Officer of National. Prior to being named National s Chief Financial Officer in March of 2009, from 2001 to 2009, Mr. Young worked at MBIA Insurance Corporation in a variety of Structured Finance positions and in Corporate Strategy. The Board of Directors of MBIA Inc. and National Public Finance Guarantee Corporation appointed Mr. Young to the offices set forth opposite his name above on February 13, 2018 and March 5, 2009, respectively.

Joseph R. Schachinger is the Company s Controller. Prior to being named Controller in May of 2017, since 2009 Mr. Schachinger served as Deputy Controller. The Board of Directors of MBIA Inc. appointed Mr. Schachinger to the office set forth opposite his name above on May 3, 2017.

Item 1A. Risk Factors

References in the risk factors to the Company are to MBIA Inc., together with its domestic and international subsidiaries. References to we, our and us are to MBIA Inc. or the Company, as the context requires. Our risk factors are grouped into categories and are presented in the following order: Insured Portfolio Loss Related Risk Factors , Legal, Regulatory and Other Risk Factors , Capital, Liquidity and Market Related Risk Factors and MBIA Corp. Risk Factors. Risk factors are generally listed in order of significance within each category.

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Item 1A. Risk Factors (continued)

Insured Portfolio Loss Related Risk Factors

Some of the state, local and territorial governments and finance authorities and other providers of public services, located in the U.S. or abroad, that issued public finance obligations we insured are experiencing fiscal stress that could result in increased credit losses or impairments on those obligations.

Although the financial condition of many state, local and territorial governments and finance authorities that issued the obligations we insured has improved since the financial crisis, some issuers continue to report fiscal stress that has resulted in a significant increase in taxes and/or a reduction in spending or other measures in efforts to satisfy their financial obligations. In particular, certain jurisdictions have significantly underfunded pension liabilities which are placing additional stress on their finances and are particularly challenging to restructure either through negotiation or under Chapter 9 of the United States Bankruptcy Code. If the issuers of the obligations in our public finance portfolio are unable to raise taxes, or increase other revenues, cut spending, reduce liabilities, and/or receive state or federal assistance, we may experience losses or impairments on those obligations, which could materially and adversely affect our business, financial condition and results of operations. The financial stress experienced by certain municipal issuers could result in the filing of Chapter 9 proceedings in states where municipal issuers are permitted to seek bankruptcy protection. In these proceedings, which remain rare, the resolution of bondholder claims (and by extension, those of bond insurers) may be subject to legal challenge by other creditors.

The Commonwealth of Puerto Rico and certain of its instrumentalities (Puerto Rico) are experiencing fiscal stress and constrained liquidity due to, among other things, Puerto Rico s structural budget imbalances, no access to the capital markets, a prolonged stagnating local economy, net migration of people out of Puerto Rico and high debt burdens. On June 30, 2016, after passage by the United States Congress, the President of the United States signed into law the Puerto Rico Oversight, Management and Economic Stability Act (PROMESA). PROMESA provides a statutory framework for the creation of an independent oversight board (the Oversight Board) with powers relating to, among other things, the development and implementation of fiscal plans for Puerto Rico, as well as collective action and judicial processes separate from the Federal Bankruptcy Code by which Puerto Rico may restructure its debt on a consensual or non-consensual basis.

In 2017, the Oversight Board certified and filed in the District Court of Puerto Rico bankruptcy like petitions under Title III of PROMESA for the Commonwealth of Puerto Rico as well as certain of its instrumentalities, specifically, Puerto Rico Sales Tax Financing Corporation (COFINA), Puerto Rico Electric Power Authority (PREPA) and Puerto Rico Highway and Transportation Authority (PRHTA). On February 4, 2019, the District Court entered an order approving the confirmation of the Plan of Adjustment for COFINA, including the settlement agreement between the Commonwealth and COFINA. The effective date of the Plan was February 12, 2019. While National has entered into a voluntary mediation process with the Oversight Board and Puerto Rico in connection with the GO Bonds and certain other insured Puerto Rico credits, there can be no assurance that National will be able to avoid a non-voluntary outcome in the Title III proceedings which could result in unanticipated losses to National which could be material.

On February 15, 2019, the United States Court of Appeals for the First Circuit issued its decision on the appeal by Aurelius Investments LLC and other appellants seeking to dismiss the Title III proceedings as unconstitutional. In its decision, the First Circuit agreed with appellants that the process PROMESA provides for the appointment of Board member is unconstitutional under the U.S. Constitution s Appointments Clause. Notwithstanding that holding, the First Circuit affirmed Judge Swain s denial of appellants motions to dismiss the Title III petitions, concluding that the

Board s constitutional infirmity did not alter or impair the validity of the Board s past acts, and stayed its mandate for 90 days to allow the President and the Senate to validate the currently defective appointments or reconstitute the Board in accordance with the Appointments Clause. During the 90-day stay, the Board continues to operate as it does currently.

Item 1A. Risk Factors (continued)

Puerto Rico continues in its efforts to rebuild its infrastructure and to otherwise recover from the impact of Hurricane Maria in 2017, aided in part by Federal Emergency Management Agency and other federal agencies. The extent and duration of such aid is inherently uncertain. In 2018, as part of the Title III proceedings under PROMESA, the Commonwealth of Puerto Rico submitted several draft fiscal plans to the Oversight Board, each of which purported to reflect the government s expected economic outlook for Puerto Rico over a five year period after taking into account, among other factors: (i) the negative impact of Hurricane Maria, (ii) mitigating impact of disaster relief assistance, (iii) changes to revenue and expense measures, and (iv) the impact of structural reforms. On October 23, 2018, the Oversight Board voted to certify the most recent Commonwealth fiscal plan, which reflects a $17.0 billion surplus over a six-year period assuming some levels of debt service. This fiscal plan remains subject to further adjustment, however, and in any event, will ultimately be subjected to a confirmation hearing at which the Court will be asked to approve a Plan of Adjustment addressing distributions for each insured credit. The current plan, or any revisions thereto, can provide no assurance that National will fully recover past amounts paid or future amounts that may be covered under our insurance policies. In addition, the necessary and greater involvement of the federal government, through its actions to deliver disaster relief and other support services, in addition to the evolving role of the Oversight Board and the role of Puerto Rico in its own recovery, heightens political risk in connection with the restructuring of legacy debt. This risk could lead the Oversight Board, the Commonwealth of Puerto Rico or the federal government to seek to extract greater concessions from creditors based on the uncertainty of Puerto Rico s long-term recovery prospects. In this event, losses at National on select Puerto Rico exposures could increase materially.

As of December 31, 2018, National had $3.3 billion of gross insured par outstanding ($3.8 billion of gross insured par outstanding when including accreted interest on insured capital appreciation bonds) related to Puerto Rico. Puerto Rico may be unable or unwilling to pay their obligations as and when due, in which case National would be required to pay claims of unpaid principal and interest when due under its insurance policies, which could be material. Prior to Puerto Rico filing their Title III bankruptcy proceedings, National paid claims on defaulted Puerto Rico debt in the amount of $197 million. Since that time, Puerto Rico defaulted on scheduled debt service for National insured bonds and National paid gross claims in the aggregate of $494 million through 2018. On January 1, 2019, Puerto Rico also defaulted on scheduled debt service for National insured bonds and National paid gross claims in the aggregate of $65 million. Inclusive of the January 1, 2019 claims, National has paid total gross claims in the aggregate of $756 million related to Puerto Rico. While National will seek to recover any claim payments it makes under its guarantees, there is no assurance that it will be able to do so or in the amounts reflected in its financial statements. To the extent that its claims payments are ultimately substantially greater than its claims recoveries, National would experience losses on those obligations, which could materially and adversely affect our business, financial condition and results of operations. Refer to the U.S. Public Finance Insurance Puerto Rico Exposures section in Part II, Item 7 of this Form 10-K for additional information on our Puerto Rico exposures.

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

Our insurance companies issued financial guarantee policies that insure the financial performance of the obligations guaranteed over an extended period of time, in some cases over more than 30 years, and which are unconditional and irrevocable. Under substantially all of our policies, we do not have a right to cancel the policy. We do not use actuarial approaches that are customarily used by other types of insurance companies to determine our loss reserves. The establishment of the appropriate level of loss reserves is an inherently uncertain process involving numerous assumptions, estimates and subjective judgments by management, and therefore, there can be no assurance that future net claims in our insured portfolio will not exceed our loss reserves. If our loss reserves are not adequate to cover actual losses, our results of operations and financial condition could be materially adversely affected. We use financial models to project future net claims on our insured portfolio, including insured credit derivatives, and to establish loss reserves and estimate impairments and related recoveries. There can be no assurance that the future loss projection and impairments based on these models will ultimately reflect the actual losses and impairment and recovery that we experience. Additionally, small changes in the assumptions underlying these estimates could significantly impact loss expectations. For example, our loss reserves are discounted to a net present value reflecting our general obligation to pay claims over time and not on an accelerated basis. Risk-free rates are used to discount our loss reserves under accounting principles generally accepted in the U.S., and the yield-to-maturity of each insurer s investment fixed-income portfolio (excluding cash and cash equivalents and other investments not intended to defease long-term liabilities) as of year-end is used to discount each insurer s loss reserves under statutory accounting principles. Accordingly, changes in the risk-free rates or the yield in our insurance companies fixed-income investment portfolios may materially impact loss reserves.

Item 1A. Risk Factors (continued)

Political and economic conditions in the United States, the Eurozone and elsewhere may materially adversely affect our business and results of operations.

As a financial guarantee company, our insured exposures and our results of operations can be materially affected by general political and economic conditions, both in the U.S. and around the world. General global unrest, including without limitation the potential exit of the United Kingdom from the European Union, as well as fraud, terrorism, catastrophic events, natural disasters, pandemics or similar events could disrupt the economy in the U.S. and other countries where we have insured exposure or operate our businesses. In certain jurisdictions outside the U.S. we face higher risks of governmental intervention through nationalization or expropriation of assets, changes in regulation, an inability to enforce our rights in court or otherwise and corruption, which may cause us to incur losses on the exposures we insure or reputational harm.

Budget deficits at all levels of government in the U.S., recessions, increases in corporate, municipal, sovereign, sub-sovereign or consumer default rates and other general economic conditions may adversely impact the performance of our insured portfolios and the Company s investment portfolio. In addition, we are exposed to correlation risk as a result of the possibility that multiple credits will experience losses as a result of any such event or series of events, in particular exposures that are backed by revenues from business and personal travel, such as aircraft securitizations and bonds backed by hotel taxes.

Financial modeling involves uncertainty over ultimate outcomes, which makes it difficult to estimate liquidity, potential claims payments, loss reserves and fair values.

The Company uses third-party and internal financial models to estimate liquidity, potential claims payments, loss reserves and fair values. We use internal financial models to conduct liquidity stress-scenario testing to ensure that we maintain cash and liquid securities sufficient to meet our payment requirements. These measurements are performed on a legal entity and operating segment basis. We also rely on financial models, generated internally and supplemented by models generated by third parties, to estimate factors relating to the highly complex securities we insure, including future credit performance of the underlying assets, and to evaluate structures, rights and our potential obligations over time. We also use internal models for ongoing insurance portfolio monitoring and to estimate case basis loss reserves and, where applicable, to report our obligations under our contracts at fair value. We may supplement such models with third-party models or use third-party experts to consult with our internal modeling specialists. Both internal and external models are subject to model risk and information risk, and there can be no assurance that the inputs into the models received from third parties will be accurate or that the models themselves are accurate or comprehensive in estimating our liquidity, potential future paid claims, related loss reserves and fair values or that they are similar to methodologies employed by our competitors, counterparties or other market participants. Estimates of our claims payments, in particular, may materially impact our liquidity position. We may make changes to our estimated claims payments, loss reserves or fair value models from time to time. These changes could materially impact our financial results.

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

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

Legal, Regulatory and Other Risk Factors

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

The financial guarantee insurance industry has historically been and will continue to be subject to the direct and indirect effects of governmental regulation, including insurance laws, securities laws, tax laws, legal precedents and accounting rules affecting asset-backed and municipal obligations, as well as changes in those laws. Also, the failure to comply with applicable laws and regulations could expose our insurance companies, their directors or shareholders to fines, the loss of their insurance licenses, and the inability to engage in certain business activity, as the case may be. These laws also limit investors ability to affect a takeover or business combination without the approval of our insurance regulators.

Item 1A. Risk Factors (continued)

Changes to laws and regulations, or the interpretation thereof could subject our insurance companies to increased loss reserves and capital requirements or more stringent regulation generally, which could materially adversely affect our financial condition and results of operations. Finally, changes to accounting standards and regulations may require modifications to our accounting methodology, both prospectively and for prior periods; such changes could have an adverse impact on our reported financial results and/or make it more difficult for investors to understand the economics of our business and may thus influence the types or volume of business that we may choose to pursue.

Our insurance companies could become subject to regulatory action.

Our insurance companies are subject to various statutory and regulatory restrictions that require them to maintain qualifying investments to support their reserves and required minimum surplus. Furthermore, our insurance companies may be restricted from making commutation or other payments if doing so would cause them to fail to meet such requirements, and the NYSDFS may impose other remedial actions on us as described further below to the extent our insurance companies do not meet such requirements.

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

In addition to the Superintendent s authority to commence a rehabilitation or liquidation proceeding, if the Superintendent finds that the liabilities of MBIA Insurance Corporation exceed its admitted assets, the Superintendent could use its authority under Section 1310 of the NYIL to order MBIA Insurance Corporation to cease making claims payments (a 1310 Order). Continuing elevated loss payments and delay or failure in realizing expected recoveries as well as certain other factors may materially and adversely affect MBIA Insurance Corporation s liquidity and its ability to timely meet its insurance obligations, and could cause the NYSDFS to put MBIA Insurance Corporation into a rehabilitation or liquidation proceeding, or issue a 1310 Order, if it does not believe MBIA Insurance Corporation will be able to pay expected claims. See Risk Factor An MBIA Insurance Corporation rehabilitation or liquidation proceeding could accelerate certain of the Company s other obligations and have other adverse consequences under MBIA Corp. Risk Factors for the potential impacts of an MBIA Insurance Corporation rehabilitation or liquidation proceeding, or a 1310 Order.

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

We depend heavily on our information technology and other operational systems and on the integrity and timeliness of data we use to run our businesses. These systems may fail to operate properly or become disabled as a result of events or circumstances wholly or partly beyond our control. Further, we face the risk of operational and technology failures by others, including various financial intermediaries, vendors and parties to which we outsource the provision of services or business operations. If this risk is realized, we may experience operational difficulties, increased costs and other adverse effects on our business.

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

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

Item 1A. Risk Factors (continued)

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

As further set forth in Note 20: Commitments and Contingencies in the Notes to Consolidated Financial Statements of MBIA Inc. and Subsidiaries in Part II, Item 8 of this Form 10-K, the Company and/or its subsidiaries are named as defendants in certain litigations, and in the ordinary course of business, may be a defendant in or party to a new or threatened legal action. Although the Company intends to vigorously defend against any current or future action, there can be no assurance that it will prevail in any such action, and any adverse ultimate outcome could result in a loss and/or have a material adverse effect on our reputation, business, results of operations or financial condition.

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

The Company s success substantially depends upon its ability to attract and retain qualified employees and upon the ability of its senior management and other key employees to implement its business strategy. The Company believes there are only a limited number of available qualified executives in the business lines in which the Company operates. The Company relies substantially upon the services of William C. Fallon, Chief Executive Officer, and other senior executives. There is no assurance that the Company will be able to retain the services of key executives. While the Company has a succession plan for key executives and does not expect the departure of any key executives to have a material adverse effect on its operations, there can be no assurance that the loss of the services of any of these individuals or other key members of the Company s management team would not adversely affect the implementation of its business strategy.

An ownership change under Section 382 of the Internal Revenue Code could have materially adverse tax consequences.

In connection with transactions in our shares from time to time, we may in the future experience an ownership change within the meaning of Section 382 of the Internal Revenue Code. In general terms, an ownership change may result from transactions increasing the aggregate ownership of certain stockholders in our stock by more than 50 percentage points over a testing period (generally three years). If an ownership change were to occur, our ability to use certain tax attributes, including certain losses, credits, deductions or tax basis, may be limited. On May 2, 2018, MBIA Inc. s shareholders ratified an amendment to the Company s By-Laws, which had been adopted earlier by MBIA Inc. s Board of Directors. The amendment places restrictions on certain acquisitions of Company stock that otherwise may have increased the likelihood of an ownership change within the meaning of Section 382. The amendment generally prohibits a person from becoming a Section 382 five-percent shareholder by acquiring, directly or by attribution, 5% or more of the outstanding shares of the Company s common stock and will generally restrict existing Section 382 five-percent shareholders from increasing their ownership interest under Section 382 by more than one percentage point over their percentage stock ownership immediately prior to the effective date of the amendment or, if lower, their percentage thereafter. Nevertheless, there can be no assurance that MBIA Inc. will not undergo an ownership change at a time when these limitations could have a materially adverse effect on the Company s financial condition.

Changes in U.S. federal income tax law could materially adversely affect the value of the Company s net deferred tax asset.

MBIA Inc. carries a net deferred tax asset whose value is calculated by application of the federal corporate taxation rates in effect at the time of determination. Changes in applicable U.S. tax laws and regulations, or their interpretation and application, including the possibility of retroactive effect, could affect our net deferred tax asset. As a result of the Company having established a full valuation allowance against its net deferred tax asset in 2017, any adjustment to the Company s net deferred tax asset, will likely result in a corresponding change to the Company s valuation allowance, resulting in no impact to the Company s balance sheet or income statement.

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Item 1A. Risk Factors (continued)

Ineffective internal controls, including internal control over financial reporting, could materially and adversely affect our business, financial condition, results of operations and reputation.

We cannot be certain that we will not identify control deficiencies or material weaknesses in the future. If we fail to remediate a material weakness or fail to otherwise maintain effective internal control over financial reporting in the future, such failure could result in a material misstatement of our annual or quarterly financial statements that would not be prevented or detected on a timely basis and which could cause investors and other users to lose confidence in our financial statements, limit our ability to raise capital and have a negative effect on the trading price of our common stock. Additionally, failure to remediate a material weakness or otherwise failing to maintain effective internal control over financial reporting may materially and adversely affect our business, financial condition, results of operations and reputation, and could impair our ability to timely file our periodic reports with the SEC, subject us to litigation and regulatory actions and cause us to incur substantial additional costs in future periods relating to the implementation of remedial measures.

As of and for the year ended December 31, 2018, we have identified a material weakness in the process used to estimate our loss reserves and recoveries related to residential mortgage-backed securities (RMBS) insured by MBIA Insurance Corporation. Remediation of this material weakness is still in process, and although the Company plans to complete this remediation process as quickly as possible, it cannot at this time estimate when the remediation will be completed. This control deficiency did not result in a material misstatement of our consolidated financial statements in this or any prior filed Annual Report on Form 10-K or quarterly report on Form 10-Q, and the Company s independent auditor has issued an unqualified opinion on the financial statements included in this Form 10-K. See Part II, Item 9A, Controls and Procedures in this Annual Report on Form 10-K for a discussion of the material weakness.

Any failure or delay in the remediation of the material weakness could result in material misstatements of accounts or disclosures related to our loss and loss adjustment expense reserves, insurance loss recoverable, losses and loss adjustment expenses and related financial disclosures in future periods that would result in a material misstatement of our annual or interim consolidated financial statements that would not be prevented or detected, and there can be no assurance that we will be successful in avoiding such failure or delay.

Capital, Liquidity and Market Related Risk Factors

We are a holding company and rely to a significant degree on cash flow from our principal operating subsidiary. A disruption in these cash flows or an inability to access third-party capital could materially and adversely affect our business, operating results and financial condition and ultimately adversely affect liquidity.

As a holding company, MBIA Inc. is largely dependent on dividends and payments under our tax sharing agreement from one or more of its operating subsidiaries to pay principal and interest on our indebtedness and operating expenses, among other items. We expect that for the foreseeable future National will be the primary source of dividends and tax sharing agreement payments. National is subject to various statutory and regulatory restrictions, applicable to insurance companies generally, that limit the amount of cash dividends, loans and advances that it may pay. See New York State Dividend Limitations in Part 1, Item 1 and Note 14: Insurance Regulations and Dividends in the Notes to Consolidated Financial Statements of MBIA Inc. and Subsidiaries in Part II, Item 8 of this Form 10-K for a further discussion of dividends.

We may also from time to time seek to raise capital from external sources. The Company s access to external sources of financing, as well as the cost of such financing would be influenced by various factors, which could include (i) the long-term debt ratings of the Company, (ii) expected dividends from our subsidiaries, (iii) the financial condition and business prospects of our insurance companies and (iv) the perceptions of the financial strength of MBIA Inc. and our insurance companies. There can be no assurance that an inability to obtain adequate capital on favorable terms, or at all, would not adversely affect our business, operating results and financial condition.

Consequently, our inability to maintain access to capital on favorable terms could have an adverse impact on our ability to pay losses and debt obligations, to pay dividends on our capital stock, to pay principal and interest on our indebtedness, to pay our operating expenses and to make capital investments in our subsidiaries. In addition, future capital raises for equity or equity-linked securities could result in dilution to the Company s shareholders. In addition, some securities that the Company could issue, such as preferred stock or securities issued by the Company s operating subsidiaries may have rights, preferences and privileges that are senior to those of its common shares.

Item 1A. Risk Factors (continued)

MBIA Inc. has substantial indebtedness, and may incur additional indebtedness, which could adversely affect our financial condition, and/or our ability to obtain financing in the future, react to changes in our business and/or satisfy our obligations.

As of December 31, 2018, MBIA Inc. had $722 million of medium-term note liabilities, $577 million of Senior Notes liabilities and $311 million of investment agreement liabilities. Our substantial indebtedness and other liabilities could have material consequences because:

- we may be unable to obtain additional financing, should such a need arise, which may limit our ability to satisfy obligations with respect to our debt;
- a large portion of MBIA Inc. s financial resources must be dedicated to the payment of principal and interest on our debt, thereby reducing the funds available to use for other purposes;
- it may be more difficult for us to satisfy our obligations to our creditors, resulting in possible defaults on, and acceleration of, such debt;
- we may be more vulnerable to general adverse economic and industry conditions;
- our ability to refinance debt may be limited or the associated costs may increase;
- our flexibility to adjust to changing market conditions could be limited, and
- we are exposed to the risk of fluctuations in interest rates and foreign currency exchange rates because a portion of our liabilities are at variable rates of interest or denominated in foreign currencies.

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

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

The level of interest rates and foreign currency exchange rates could materially and adversely affect our financial condition.

Increases in prevailing interest rate levels can adversely affect the value of our investment portfolios and, therefore, our financial condition. In the event that investments must be sold in order to make payments on insured exposures or other liabilities, such investments would likely be sold at discounted prices. Increases in interest rates also adversely affect the values of investments collateralizing our investment agreement liabilities in our corporate operations, which would require the Company to post additional collateral to its counterparties. Additionally, in the insurance operations, increasing interest rates could lead to increased credit stress on transactions in our insured portfolio, while a decline in interest rates could result in larger loss reserves on a present value basis.

Lower interest rates can result in lower net interest income since a substantial amount of assets are now held in cash and cash equivalents given the increased focus on liquidity. Lower interest rates would also adversely impact the value of our interest rate swap contracts in our corporate operations, and would require the Company to post additional collateral to its counterparties.

Further, a number of our interest rate swap contracts and financial investments are indexed to LIBOR, and the assets or liabilities related to the insured credit transactions may be indexed to LIBOR, as the applicable reference rate. In July 2017, The U.K. Financial Conduct Authority announced that after 2021, it will no longer persuade or require banks to submit rates for LIBOR. This announcement, among other developments, has resulted in uncertainty about the future of LIBOR, and the potential or actual discontinuance of LIBOR as a benchmark rate may adversely affect the value of, return on and trading market for our financial assets and liabilities that are based on or are linked to LIBOR. Furthermore, there can be no assurance that we and other market participants will be adequately prepared for an actual discontinuation of LIBOR which could have an unpredictable impact on contractual mechanics that could also produce an adverse economic impact.

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Item 1A. Risk Factors (continued)

In addition, the Company is exposed to foreign currency exchange rate fluctuation risk in respect of assets and liabilities denominated in currencies other than U.S. dollars. In addition to insured liabilities denominated in foreign currencies, some of the remaining liabilities in our corporate segment are denominated in currencies other than U.S. dollars and the assets of our corporate segment are predominantly denominated in U.S. dollars. Accordingly, the weakening of the U.S. dollar versus foreign currencies could substantially increase our potential obligations and statutory capital exposure. Conversely, the Company makes investments denominated in a foreign currency and the weakening of the foreign currency versus the U.S. dollar will diminish the value of such non-U.S. dollar denominated asset. Exchange rates have fluctuated significantly in recent periods and may continue to do so in the future, which could adversely impact the Company s financial position, results of operations and cash flows.

MBIA Corp. Risk Factors

As described further and for the reasons stated herein, we believe that MBIA Corp. will not provide significant economic or shareholder value to MBIA Inc. For additional information on MBIA Corp., refer to Results of Operations International and Structured Finance Insurance in Part II, Item 7 of this Form 10-K. Additionally, also as described further herein, given the separation of MBIA Inc. and MBIA Corp. as distinct legal entities, the absence of any cross defaults between the entities, and the lack of reliance by MBIA Inc. on MBIA Corp. for the receipt of dividends, we do not believe that a rehabilitation or liquidation proceeding of MBIA Insurance Corporation by the NYSDFS would have any significant long-term impact on the financial condition or liquidity of MBIA Inc. However, there can be no assurance that the financial condition or a rehabilitation or liquidation proceeding of MBIA Insurance Corporation would not have an adverse impact on MBIA Inc. The risk factors described below with respect to MBIA Corp. are set forth for that reason, as well as for an independent understanding of the risks to MBIA Corp.

Continuing elevated loss payments and delay or failure in realizing expected recoveries on insured transactions may materially and adversely affect MBIA Insurance Corporation s statutory capital and its ability to meet liquidity needs and could cause the NYSDFS to put MBIA Insurance Corporation into a rehabilitation or liquidation proceeding if the NYSDFS concludes that MBIA Insurance Corporation will not be able to pay expected claims.

MBIA Insurance Corporation is particularly sensitive to the risk that it will not have sufficient capital or liquid resources to meet contractual payment obligations when due or to make settlement payments in order to terminate insured exposures to avoid losses. While management s expected liquidity and capital forecasts for MBIA Insurance Corporation reflect adequate resources to pay expected claims, there are risks to the capital and liquidity forecasts as MBIA Insurance Corporation s remaining insured exposures and its expected salvage recoveries are potentially volatile. Such volatility exists in the amount of excess spread and put-back recoverable that MBIA Insurance Corporation may collect, its ability to recover the approximately $919 million in aggregate claims it paid in respect of the insured notes issued by Zohar CDO 2003-1, Limited and Zohar II 2005-1 CDO (collectively, the Zohar Claims Payments), and the exposure in its remaining insured portfolio, which could deteriorate and result in significant additional loss reserves and claim payments, including claims on insured exposures that in some cases may require large bullet payments.

MBIA Insurance Corporation has also entered into a financing facility, which is described in more detail under the Liquidity MBIA Corp. Liquidity section in Part II, Item 7 of this Form 10-K (the Facility), with affiliates of certain holders of its 14% Fixed-to-Floating Rate Surplus Notes (collectively, the Senior Lenders), and with the Company, pursuant to which the Senior Lenders have provided $325 million of senior financing and the Company has provided $38 million of subordinated financing.

MBIA Insurance Corporation believes that the primary source of funds for the repayment of its obligations under the Facility and for reimbursement for the Zohar Claims Payments will come from the liquidation or refinancing of the loans made to, and equity interests in, companies purportedly controlled by the sponsor and former collateral manager of the Zohar CDOs referenced above (collectively, the Zohar Collateral).

While MBIA Insurance Corporation believes there will be sufficient recoveries on the Zohar Collateral to both repay amounts due under the Facility and to substantially reimburse it for the Zohar Claims Payments, there is significant uncertainty with respect to the realizable value of the Zohar Collateral. If the amount of recoveries on the Zohar Collateral is not sufficient to repay amounts due under the Facility on or before its maturity date and to reimburse MBIA Insurance Corporation for a substantial portion of the Zohar Claims Payments, MBIA Insurance Corporation would likely incur substantial additional losses, which could materially impair its statutory capital and liquidity.

Item 1A. Risk Factors (continued)

MBIA Insurance Corporation believes that if the NYSDFS concludes at any time that MBIA Insurance Corporation will not be able to satisfy its obligations under the Facility and under its other issued policies, the NYSDFS would likely put MBIA Insurance Corporation into a rehabilitation or liquidation proceeding under Article 74 of the NYIL and/or take such other actions as the NYSDFS may deem necessary to protect the interests of MBIA Insurance Corporation s policyholders. The determination to commence such a proceeding or take other such actions is within the exclusive control of the NYSDFS. The NYSDFS enjoys broad discretion in this regard, and any determination they may make would not be limited to consideration of the matters described above. As noted, however, given the separation of MBIA Inc. and MBIA Corp. as distinct legal entities, the absence of any cross defaults between the entities, and the lack of reliance by MBIA Inc. on MBIA Corp. for the receipt of dividends, we do not believe that a rehabilitation or liquidation proceeding of MBIA Insurance Corporation by the NYSDFS would have any significant long-term liquidity impact on MBIA Inc.

MBIA Corp. insures certain transactions that continue to perform poorly and increased losses or a delay or failure in collecting expected recoveries may materially and adversely affect its financial condition and results of operations.

MBIA Corp. insures certain structured finance transactions that remain volatile and could result in additional losses, which could be substantial. MBIA Corp. has also recorded significant loss reserves on its RMBS, CMBS and CDO exposures, and there can be no assurance that these reserves will be sufficient, in particular if the economy deteriorates. These transactions are also subject to servicer risks, which relates to problems with the transaction s servicer that could adversely affect performance of the underlying assets. Furthermore, MBIA Corp. has recorded substantial expected recoveries on certain RMBS, and the timing and amount of those recoveries are subject to risk. Any delay or failure in collecting expected recoveries may materially and adversely affect MBIA Corp. s financial condition and results of operations. As of December 31, 2018, it recorded expected receipts of $150 million on a pre-VIE elimination basis (on a present value basis) from excess spread (the difference between interest inflows on assets and interest outflows on liabilities) in our RMBS transactions, in reimbursement of our past and future expected claims. Of this amount, $148 million is included in Insurance loss recoverable and $2 million is included in Loss and loss adjustment expense reserves on the Company s consolidated balance sheets. The amount of excess spread depends on future interest rates and borrower refinancing and defaults. There can be no assurance that this recovery will be received in its entirety or in the expected timeframe. In addition, the Company has recorded a recovery on a transaction containing ineligible loans securitized by Credit Suisse. The Company is pursuing recovery of its losses on this transaction in a litigation in which its assessment of the ineligibility of individual mortgage loans has been challenged by Credit Suisse, and there is no assurance that the Company s determinations will prevail, or that the Company will be successful in collecting its estimated recoveries in the anticipated timeframe. The litigation may take several years to resolve, during which time we will continue to be required to pay losses on the subject transaction, which may exceed the reserves established for the transaction.

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

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

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

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

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Item 1A. Risk Factors (continued)

- The payment of installment premiums due to National from MBIA Insurance Corporation under the reinsurance agreement between National and MBIA Insurance Corporation (Refer to Item 1, Our Insurance Operations , Reinsurance for a description of the agreement) could be disrupted, delayed or subordinated to the claims of policyholders of MBIA Insurance Corporation;

- CDS and other derivative counterparties may seek to terminate derivative contracts insured by MBIA Insurance Corporation and make market-based damage claims (irrespective of whether actual credit-related losses are expected under the underlying exposure);

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

- Unplanned costs on MBIA Inc., as well as significant additional expenses for MBIA Insurance Corporation arising from the appointment of a rehabilitator or liquidator, as receiver, and payment of the fees and expenses of the advisors to such rehabilitator or liquidator.

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

Due to the installment nature of a significant percentage of its premium income, MBIA Corp. has an embedded future revenue stream. The amount of installment premiums actually realized by MBIA Corp. could be reduced in the future due to factors such as early termination of insurance contracts, accelerated prepayments of underlying obligations, commutation of existing financial guarantee insurance policies or non-payment. Such a reduction would result in lower revenues and reduced liquidity.

Item 1B. Unresolved Staff Comments

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

Item 2. Properties

The Company maintains office space located in Purchase, New York, in which the Company, National, MBIA Corp., and MBIA Services Corporation have their headquarters. The Company also leases office space in New York, New York; San Francisco, California; and Mexico City, Mexico. The Company generally believes that these facilities are adequate and suitable for its current needs.

Item 3. Legal Proceedings

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

Item 4. Mine Safety Disclosures

Not applicable.

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Part II

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

The Company s common stock is listed on the New York Stock Exchange under the symbol MBI. As of February 21, 2019, there were 307 shareholders of record of the Company s common stock. The Company did not pay cash dividends on its common stock during 2018 or 2017. For information on the ability for certain subsidiaries of the Company to transfer funds to the Company in the form of cash dividends or otherwise, refer to Item 1. Business Insurance Regulation in this annual report.

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

On February 23, 2016, the Company s Board of Directors authorized the repurchase by the Company or National of up to $100 million of its outstanding shares under a new share repurchase authorization. As of December 31, 2017, there was no remaining authorized capacity under the February 23, 2016 repurchase program.

On June 27, 2017, the Company s Board of Directors authorized the repurchase by the Company or National of up to $250 million of its outstanding shares under a new share repurchase authorization. This program replaced the approximately $13 million remaining under the Board s February 23, 2016 authorization. As of December 31, 2017, there was no remaining authorized capacity under the June 27, 2017 repurchase program.

On November 3, 2017, the Company s Board of Directors authorized the repurchase by the Company or National of up to $250 million of its outstanding shares under a new share repurchase authorization. During 2018, 5.8 million shares were repurchased at a cost of approximately $48 million and an average price of $8.21 under the November 3, 2017 repurchase program.

The table below presents repurchases made by the Company or National in each month during the fourth quarter of 2018. See Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters in Part III for a further discussion of securities authorized for issuance under long-term incentive plans.

Month	Total Number of Shares Purchased[1]	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan	Maximum Amount That May Be Purchased Under the Plan (in millions)
October	117	9.91		$ 236
November	168,340	9.01	168,215	234
December	3,712,775	8.69	3,712,641	202

(1) Includes 117 shares in October, 125 shares in November and 134 shares in December purchased in open market transactions as investments in the Company s non-qualified deferred compensation plan.

As of December 31, 2018, 283,625,689 shares of Common Stock of the Company, par value $1 per share, were issued and 89,821,713 shares were outstanding.

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

Stock Performance Graph The following graph compares the cumulative total shareholder return (rounded to the nearest whole dollar) of our common stock, the S&P 500 Index (S&P 500 Index) and the S&P 500 Financials Sector Index (S&P Financials Index) for the last five fiscal years. The graph assumes a $100 investment at the closing price on December 31, 2013 and reinvestment of dividends in the security/index on the respective dividend payment dates without commissions. This graph does not forecast future performance of our common stock.

	2013	2014	2015	2016	2017	2018
MBIA Inc. Common Stock	100.00	79.90	54.27	89.61	61.31	74.71
S&P 500 Index	100.00	113.68	115.24	129.02	157.17	150.27
S&P Financials Index	100.00	115.18	113.38	139.17	169.98	147.82

Source: Bloomberg Finance L.P.

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Item 6. Selected Financial Data

In millions except per share amounts	2018	2017	2016	2015	2014
Summary Statement of Operations Data:					
Premiums earned	$ 162	$ 201	$ 300	$ 372	$ 397
Net investment income	130	154	152	152	179
Net change in fair value of insured derivatives	(25)	(51)	(19)	129	459
Net gains (losses) on financial instruments at fair value and foreign exchange	(17)	(24)	84	63	78
Net investment losses related to other-than-temporary impairments	(5)	(106)	(5)	(13)	(15)
Other net realized gains (losses)		31	(282)	17	28
Revenues of consolidated variable interest entities	(111)	185	31	128	101
Total revenues	162	433	294	853	1,270
Losses and loss adjustment	63	683	220	123	133
Operating	71	106	137	140	195
Interest	206	197	197	199	210
Expenses of consolidated variable interest entities	98	85	39	52	47
Total expenses	458	1,094	633	564	629
Income (loss) before income taxes	(296)	(661)	(339)	289	641
Net income (loss)	(296)	(1,605)	(338)	180	569
Net income (loss) per common share:					
Basic	$ (3.33)	$ (13.50)	$ (2.54)	$ 1.06	$ 2.94
Diluted	$ (3.33)	$ (13.50)	$ (2.54)	$ 1.06	$ 2.76
Summary Balance Sheet Data:					
Investments and cash and cash equivalents	4,294	4,777	5,796	6,814	7,559
Total assets of consolidated variable interest entities	1,726	3,215	2,672	5,378	5,041
Total assets	8,076	9,095	11,137	14,836	16,263
Unearned premium revenue	587	752	958	1,591	1,986
Loss and loss adjustment expense reserves	934	979	541	516	506
Long-term debt	2,249	2,121	1,986	1,889	1,789
Medium-term notes	722	765	895	1,016	1,201
Investment agreements	311	337	399	462	547
Derivative liabilities	199	262	299	314	437
Total liabilities of consolidated variable interest entities	1,744	2,289	2,241	5,096	4,804
Total equity	1,132	1,425	3,239	3,741	3,950
Book value per share	$ 12.46	$ 15.44	$ 23.87	$ 24.61	$ 20.47
Insurance Statistical Data:					
Debt service outstanding	$ 128,069	$ 154,945	$ 235,899	$ 326,612	$ 437,778
Gross par amount outstanding	69,761	87,031	141,225	202,661	277,481

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Item 6. Selected Financial Data (continued)

Quarterly Financial Information (unaudited):

	2018				
In millions except per share amounts	**First**	**Second**	**Third**	**Fourth**	**Full Year[(1)]**
Premiums earned	$ 40	$ 36	$ 62	$ 24	$ 162
Net investment income	31	34	31	34	130
Net change in fair value of insured derivatives	(5)	(7)	(1)	(12)	(25)
Net gains (losses) on financial instruments at fair value and foreign exchange	(9)	22	5	(35)	(17)
Net investment losses related to other-than-temporary impairments	(1)	(1)	(1)	(2)	(5)
Other net realized gains (losses)	(1)		1		
Revenues of consolidated variable interest entities	12	(72)	(12)	(39)	(111)
Total revenues	73	12	105	(28)	162
Losses and loss adjustment	72	59	46	(114)	63
Operating	20	19	18	14	71
Interest	51	52	52	51	206
Expenses of consolidated variable interest entities	22	24	25	27	98
Total expenses	169	158	150	(19)	458
Income (loss) before income taxes	(96)	(146)	(45)	(9)	(296)
Net income (loss)	(98)	(146)	(45)	(7)	(296)
Net income (loss) per common share:					
Basic	$ (1.12)	$ (1.64)	$ (0.50)	$ (0.08)	$ (3.33)
Diluted	$ (1.12)	$ (1.64)	$ (0.50)	$ (0.08)	$ (3.33)

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

	2017				
In millions except per share amounts	**First**	**Second**	**Third**	**Fourth**	**Full Year[(1)]**
Premiums earned	$ 49	$ 44	$ 53	$ 55	$ 201
Net investment income	52	37	33	32	154
Net change in fair value of insured derivatives	(53)	3	(1)		(51)
Net gains (losses) on financial instruments at fair value and foreign exchange	17	(61)	(11)	31	(24)
Net investment losses related to other-than-temporary impairments	(2)	(11)	(71)	(22)	(106)
Other net realized gains (losses)	3	34	(1)	(5)	31
Revenues of consolidated variable interest entities	1	20	29	135	185
Total revenues	77	72	33	251	433

Losses and loss adjustment	94	170	205	214	683
Operating	29	32	21	24	106
Interest	48	50	50	49	197
Expenses of consolidated variable interest entities	19	22	22	22	85
Total expenses	197	282	306	309	1,094
Income (loss) before income taxes	(120)	(210)	(273)	(58)	(661)
Net income (loss)	(72)	(1,229)	(267)	(37)	(1,605)
Net income (loss) per common share:					
Basic	$ (0.55)	$ (9.78)	$ (2.17)	$ (0.39)	$ (13.50)
Diluted	$ (0.55)	$ (9.78)	$ (2.17)	$ (0.39)	$ (13.50)

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

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

The following discussion and analysis of financial condition and results of operations of MBIA Inc. should be read in conjunction with the consolidated financial statements and notes thereto included in this Form 10-K. In addition, this discussion and analysis of financial condition and results of operations includes statements of the opinion of MBIA Inc. s management which may be forward-looking statements made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These statements are subject to certain risks and uncertainties that could cause actual results to differ materially from historical earnings and those presently anticipated or projected. Refer to Forward-Looking Statements and Risk Factors in Part I, Item 1A of this Form 10-K for a further discussion of risks and uncertainties.

INTRODUCTION

MBIA Inc., together with its consolidated subsidiaries, (collectively, MBIA , the Company , we , us , or our) opera within the financial guarantee insurance industry. MBIA manages its business within three operating segments: 1) United States (U.S.) public finance insurance; 2) corporate; and 3) international and structured finance insurance. Our U.S. public finance insurance portfolio is managed through National Public Finance Guarantee Corporation (National), our corporate segment is managed through MBIA Inc. and several of its subsidiaries, including our service company, MBIA Services Corporation (MBIA Services) and our international and structured finance insurance business is primarily managed through MBIA Insurance Corporation and its subsidiaries (MBIA Corp.). Effective on January 10, 2017, MBIA Corp. s wholly-owned subsidiary, MBIA UK (Holdings) Limited (MBIA UK Holdings), sold its operating subsidiary, MBIA UK Insurance Limited (MBIA UK), to Assured Guaranty Corp. (Assured), a subsidiary of Assured Guaranty Ltd. References to MBIA Inc. generally refer to activities within our corporate segment and, unless otherwise indicated or the context otherwise requires, references to MBIA Corp. are (i) for any references relating to the period ended January 10, 2017, to MBIA Insurance Corporation, together with its subsidiaries, MBIA UK, and MBIA Mexico S.A. de C.V (MBIA Mexico) and (ii) for any references relating to the period after January 10, 2017, to MBIA Insurance Corporation together with MBIA Mexico.

National s primary objective is to maximize the economics of our existing insured portfolio through effective surveillance and remediation activity and by managing its investment portfolio. Our corporate segment consists of general corporate activities, including providing support services to MBIA s operating subsidiaries and asset and capital management. MBIA Corp. s primary objectives are to satisfy all claims by its policyholders and to maximize future recoveries, if any, for its senior lending and surplus note holders, and then its preferred stock holders. MBIA Corp. is executing this strategy by, among other things, pursuing various actions focused on maximizing the collection of recoveries and reducing and mitigating potential losses on its insurance exposures. We do not expect National or MBIA Corp. to write new business.

EXECUTIVE OVERVIEW

2018 Events

The following is a summary of notable 2018 events:

On January 1, 2018 and July 1, 2018, the Commonwealth of Puerto Rico and certain of its instrumentalities (Puerto Rico), defaulted on scheduled debt service for National insured bonds. National paid gross claims in the aggregate of $276 million during 2018. On January 1, 2019, Puerto Rico also defaulted on scheduled debt service for National insured bonds and National paid gross claims in the aggregate of $65 million. As of December 31, 2018, National had $3.3 billion of gross insured par outstanding ($3.8 billion of gross insured par outstanding when including accreted interest on insured capital appreciation bonds (CABs)) related to Puerto Rico. Refer to the U.S. Public Finance Insurance Puerto Rico Exposures section for additional information on our Puerto Rico exposures.

On March 11, 2018, the then-director of Zohar CDO 2003-1, Limited (Zohar I) and Zohar II 2005-1, Limited (Zohar II) placed those funds into voluntary bankruptcy proceedings in federal bankruptcy court in the District of Delaware. On May 21, 2018, the Court granted the Zohar funds motion to approve a settlement (the Zohar Bankruptcy Settlement) which established a process by which the debtor funds, through an independent director and a chief restructuring officer, will work with the original sponsor of the funds to monetize the assets of the debtor funds (the Zohar Assets) and repay creditors, including MBIA Corp. In addition, the procedures set forth in the Zohar Bankruptcy Settlement provides for a stay of all pending litigation between the parties for a minimum of fifteen months. Notwithstanding the Zohar Bankruptcy Settlement, there can be no assurance that the value of the Zohar Assets will be sufficient to permit MBIA Corp. to recover all or substantially all of the payments it made on Zohar I and Zohar II.

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

EXECUTIVE OVERVIEW (continued)

In April and June of 2018, the holder of certain MBIA Inc. warrants exercised its right to purchase, in total, 11.85 million shares of MBIA Inc. common stock at an exercise price of $9.59 per share. As a result, the Company issued a total of 1.3 million shares of MBIA Inc. common stock to the holder in accordance with the cashless settlement provision of the warrants. As of December 31, 2018, there were no warrants outstanding.

Financial Highlights

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

	Years Ended December 31,		
In millions except for per share amounts	**2018**	**2017**	**2016**
Net income (loss)	$ (296)	$ (1,605)	$ (338)
Net income (loss) per diluted share	(3.33)	(13.50)	(2.54)
Adjusted net income (loss)(1)	(38)	(410)	30
Adjusted net income (loss) per diluted share(1)	(0.42)	(3.45)	0.23
Cost of shares repurchased	48	325	105

(1) Adjusted net income (loss) and adjusted net income (loss) per diluted share are non-GAAP measures. Refer to the following Results of Operations section for a discussion of adjusted net income (loss) and adjusted net income (loss) per diluted share and a reconciliation of GAAP net income (loss) to adjusted net income (loss) and GAAP net income (loss) per diluted share to adjusted net income (loss) per diluted share.

	As of December 31,	
In millions except per share amounts	**2018**	**2017**
Shareholders equity of MBIA Inc.	$ 1,119	$ 1,413
Book value per share	12.46	15.44
Adjusted book value per share(1)	27.38	28.77

(1) Adjusted book value per share is a non-GAAP measure. Refer to the following Results of Operations section for a discussion of adjusted book value and a reconciliation of GAAP book value per share to adjusted book value per

share.

Economic and Financial Market Trends

The U.S. economy continued to improve during the fourth quarter of 2018. The labor market remained strong and economic activity continued to increase steadily. In addition, U.S. home prices across the country have continued their upward trend, however, the rate of home price increases has slowed recently. Household spending has continued to increase while growth in business fixed investment has moderated from the pace achieved earlier in the year.

The Federal Open Market Committee (FOMC) increased its target for the federal funds rate in December of 2018 by 25 basis points citing the economic factors of a strong labor market and solid economic growth along with relatively low inflation. The FOMC stated that it will assess various economic factors including labor market developments, inflation stresses and domestic and international environments relative to its objectives of maximum employment and 2% inflation. At its January 2019 meeting, the FOMC emphasized patience with respect to future adjustments to the federal funds target rate based on global economic and financial developments.

Economic and financial market trends could impact the Company s financial results. Many states and municipalities have experienced growing tax collections that resulted from increased economic activity and higher assessed property valuations. Economic improvement at the state and local level strengthens the credit quality of the issuers of our insured municipal bonds, improves the performance of our insured U.S. public finance portfolio and could reduce the amount of National s potential incurred losses. In addition, higher projected interest rates could yield increased returns on our Company s investment portfolio. Also, a decrease in oil prices could have a positive impact on certain sales taxes to the extent consumer spending increases as a result. However, some states and municipalities may experience a decrease in revenues if their economies are reliant on the oil and gas industries.

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

CRITICAL ACCOUNTING ESTIMATES

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

Loss and Loss Adjustment Expense Reserves

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

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

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

Refer to Note 6: Loss and Loss Adjustment Expense Reserves in the Notes to Consolidated Financial Statements for a comprehensive discussion of our loss reserves and recoveries, including critical accounting estimates used in the determination of these amounts.

Valuation of Financial Instruments

We have categorized our financial instruments measured at fair value into the three-level hierarchy according to accounting guidance for fair value measurements and disclosures based on the significance of pricing inputs to the measurement in its entirety. Fair value measurements of financial instruments that use quoted prices in active markets for identical assets or liabilities are generally categorized as Level 1, fair value measurements of financial instruments that use quoted prices in markets that are not active where significant inputs are observable are generally categorized as Level 2, and fair value measurements of financial instruments where significant inputs are not observable are generally categorized as Level 3. We categorize our financial instruments based on the lowest level category at which we can generate reliable fair values. The determination of reliability requires management to exercise judgment. The degree of judgment used to determine the fair values of financial instruments generally correlates to the degree that pricing is not observable.

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

CRITICAL ACCOUNTING ESTIMATES (continued)

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

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

Instruments that trade infrequently and, therefore, have little or no price transparency are classified within Level 3 of the fair value hierarchy. Also included in Level 3 are financial instruments that have significant unobservable inputs deemed significant to the instrument s overall fair value. Level 3 assets represented approximately 12% and 30% of total assets measured at fair value on a recurring basis as of December 31, 2018 and 2017, respectively. Level 3 liabilities represented approximately 65% and 41% of total liabilities measured at fair value on a recurring basis as of December 31, 2018 and 2017, respectively.

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

RECENT ACCOUNTING PRONOUNCEMENTS

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

RESULTS OF OPERATIONS

Summary of Consolidated Results

The following table presents a summary of our consolidated financial results for the years ended December 31, 2018, 2017 and 2016:

	Years Ended December 31,		
In millions except for per share amounts	**2018**	**2017**	**2016**

Total revenues	$ 162	$ 433	$ 294
Total expenses	458	1,094	633
Income (loss) before income taxes	(296)	(661)	(339)
Provision (benefit) for income taxes		944	(1)
Net income (loss)	$ (296)	$ (1,605)	$ (338)
Net income (loss) per common share:			
Basic	$ (3.33)	$ (13.50)	$ (2.54)
Diluted	$ (3.33)	$ (13.50)	$ (2.54)
Weighted average number of common shares outstanding:			
Basic	89,013,711	118,930,282	133,001,088
Diluted	89,013,711	118,930,282	133,001,088

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

RESULTS OF OPERATIONS (continued)

2018 vs. 2017

The decrease in consolidated total revenues was primarily due to (i) decreases in revenues of consolidated variable interest entities VIEs) due to the 2018 deconsolidation of two VIEs following the Zohar Bankruptcy Settlement and eight other consolidated VIEs, (ii) lower gains related to changes in the fair values of consolidated VIEs, (iii) an increase in net realized losses from the sales of securities from the ongoing management of our U.S. public finance insurance investment portfolio and (iv) lower net premiums earned due to higher refunding activity in 2017. These unfavorable variances were partially offset by lower net investment losses related to other-than-temporary impairments (OTTI).

Consolidated total expenses for the years ended December 31, 2018 and 2017 included $63 million and $683 million, respectively, of net insurance loss and LAE. This decrease in loss and LAE was primarily due to lower losses incurred on certain Puerto Rico credits and insured first and second-lien residential mortgage-backed securities (RMBS) in 2018.

The provision (benefit) for income taxes decreased for 2018 compared with 2017 primarily due to the establishment of a full valuation allowance against the Company s net deferred tax asset in 2017. Refer to the following Taxes section and Note 11: Income Taxes in the Notes to Consolidated Financial Statements for further information about this valuation allowance on our net deferred tax asset.

2017 vs. 2016

The increase in consolidated total revenues was primarily due to an impairment loss related to the sale of MBIA UK recorded in 2016, gains related to changes in the fair values of assets of consolidated VIEs and warrants on MBIA Inc. stock and a realized gain related to the settlement of litigation, partially offset by foreign exchange losses on Euro denominated liabilities due to the weakening of the U.S. dollar, an increase in net investment losses related to OTTI and lower net premiums earned due to higher refunding activity in 2016. The increase in OTTI related to several impaired securities for which a loss was recognized as the difference between a security s amortized cost and fair value.

Consolidated total expenses for the years ended December 31, 2017 and 2016 included $683 million and $220 million, respectively, of net insurance losses and LAE. This increase was principally due to higher losses incurred on certain Puerto Rico exposures and insured first-lien RMBS in 2017.

The provision (benefit) for income taxes increased for 2017 compared with 2016 primarily due to the establishment of a full valuation allowance against the Company s net deferred tax asset in 2017. Refer to the following Taxes section and Note 11: Income Taxes in the Notes to Consolidated Financial Statements for further information about this valuation allowance on our net deferred tax asset.

Non-GAAP Adjusted Net Income (Loss)

In addition to our results prepared in accordance with GAAP, we also analyze the operating performance of the Company using adjusted net income (loss), and adjusted net income (loss) per diluted common share, both non-GAAP measures. Since adjusted net income (loss) is used by management to assess performance and make business decisions, we consider adjusted net income (loss) and adjusted net income (loss) per diluted common share fundamental measures of periodic financial performance which are useful in understanding our results. Adjusted net income (loss) and adjusted net income (loss) per diluted common share are not substitutes for net income (loss) and net income (loss) per diluted common share determined in accordance with GAAP, and our definitions of adjusted net income (loss) and adjusted net income (loss) per diluted common share may differ from those used by other companies.

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

RESULTS OF OPERATIONS (continued)

Adjusted net income (loss) and adjusted net income (loss) per diluted common share include the after-tax results of the Company and remove the after-tax results of our international and structured finance insurance segment, comprising the results of MBIA Corp. which given its capital structure and business prospects, we do not expect its financial performance to have a material impact on MBIA Inc., as well as the following:

Elimination of the impact of mark-to-market gains (losses) on financial instruments that primarily include interest rate swaps and hybrid financial instruments. Also eliminated are the mark-to-market gains (losses) on warrants issued by the Company. All of these amounts fluctuate based on market interest rates, credit spreads, MBIA Inc. s common stock price and other market factors.

Elimination of foreign exchange gains (losses) on the remeasurement of certain assets and liabilities and transactions in non-functional currencies. Given the possibility of volatility in foreign exchange markets, we exclude the impact of foreign exchange gains (losses) to provide a measurement of comparability of adjusted net income (loss).

Elimination of gains (losses) on the sale of investments, net investment losses related to OTTI and net gains (losses) on extinguishment of debt since the timing of these transactions are subject to management s assessment of market opportunities and capital liquidity positions.

Elimination of the tax provision as a result of establishing a full valuation allowance against the Company s net deferred tax asset in the second quarter of 2017. Subsequent to the second quarter of 2017, the Company applies a zero effective tax rate for federal income tax purposes to its pre-tax adjustments.

The following table presents our adjusted net income (loss) and adjusted net income (loss) per diluted common share and provides a reconciliation of GAAP net income (loss) to adjusted net income (loss) for the years ended December 31, 2018, 2017 and 2016:

	Years Ended December 31,		
In millions, except share and per share amounts	**2018**	**2017**	**2016**
Net income (loss)	$ (296)	$ (1,605)	$ (338)
Less: adjusted net income adjustments:			
Income (loss) before income taxes of our international and structured finance insurance segment and eliminations	(278)	(185)	(475)

Adjustments to income before income taxes of our U.S. public finance insurance and corporate segments:			
Mark-to-market gains (losses) on financial instruments[1]	16	64	12
Foreign exchange gains (losses)[1]	21	(63)	11
Net gains (losses) on sales of investments[1]	(13)	14	60
Net investment losses related to OTTI	(5)	(106)	(5)
Net gains (losses) on extinguishment of debt	3	28	5
Other net realized gains (losses)	(2)	(3)	(5)
Adjusted net income adjustment to the (provision) benefit for income tax[2]		(944)	29
Adjusted net income (loss)	$ (38)	$ (410)	$ 30
Adjusted net income (loss) per diluted common share	$ (0.42)[3]	$ (3.45)[3]	$ 0.23[4]

(1) Reported within Net gains (losses) on financial instruments at fair value and foreign exchange on the Company s consolidated statements of operations.

(2) Reported within Provision (benefit) for income taxes on the Company s consolidated statements of operations.

(3) Adjusted net income (loss) per diluted common share is calculated by taking adjusted net income (loss) divided by GAAP weighted average number of diluted common shares outstanding.

(4) Adjusted net income (loss) per diluted common share is calculated by taking adjusted net income (loss) divided by the weighted average number of diluted common shares outstanding, which includes the GAAP diluted weighted average number of common shares of 133,001,088 and the dilutive effect of common stock equivalents of 444,557 shares.

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

RESULTS OF OPERATIONS (continued)

Non-GAAP Adjusted Book Value Per Share

In addition to book value per share, we also analyze adjusted book value per share (ABV), a non-GAAP measure. We consider ABV a measure of fundamental value of the Company and the change in ABV an important measure of financial performance. We have presented ABV per share to allow investors and analysts to evaluate the Company using the same measure that MBIA s management regularly uses to measure financial performance and value. ABV is not a substitute for and should not be viewed in isolation of GAAP book value, and our definition of ABV may differ from that used by other companies.

In the second quarter of 2018, as part of our periodic review of the components of ABV, we decided to further adjust the unearned premium revenue component of ABV by removing the amount that is used in the GAAP calculation of our insurance loss reserves. Under GAAP, only the amount of expected insurance losses in excess of unearned premium revenue for an insurance policy is recorded as a loss reserve and reflected in book value. By excluding from ABV the amount of unearned premium revenue that reduces expected losses recorded under GAAP, we are reflecting the full amount of expected losses for each insurance policy with loss reserves in ABV. Previously reported ABV of $29.32 as of December 31, 2017 was revised to $28.77 to conform to the current approach.

ABV adjusts the GAAP book value of MBIA Inc. to remove the book value of MBIA Corp. and adjusts for certain items which the Company believes will reverse from GAAP book value through GAAP earnings and comprehensive income, as well as add in the impact of certain items which the Company believes will be realized in GAAP book value in future periods. The Company has limited such adjustments to those items that it deems to be important to fundamental value and performance and for which the likelihood and amount can be reasonably estimated. ABV is defined as total shareholders equity of MBIA Inc., as reported under GAAP, adjusted for the following items:

Book value of MBIA Corp. We remove the GAAP book value of MBIA Corp., which given its capital structure and business prospects, we do not expect its financial performance to have a material impact on MBIA Inc. For the periods presented, MBIA Corp. s GAAP book value is negative resulting in a positive adjustment in the below reconciliation.

Net unrealized (gains) losses on available-for-sale (AFS) securities We remove net unrealized gains and losses on AFS securities recorded in accumulated other comprehensive income since they will reverse from GAAP book value when such securities mature. Gains and losses from sales and OTTI of AFS securities are recorded in book value through earnings and reflected in adjusted book value.

Net unearned premium revenue in excess of expected losses Net unearned premium revenue in excess of expected losses consists of the financial guarantee unearned premium revenue of National in excess of expected insurance losses, net of reinsurance and deferred acquisition costs. In accordance with GAAP, a loss reserve on a financial guarantee policy is only recorded when expected losses exceed the amount of unearned premium revenue recorded for that policy. As a result, we only add to GAAP book value the amount of unearned premium revenue in excess of expected losses for each policy so that ABV reflects the full amount of our expected losses. The Company s net unearned premium revenue will be recognized in GAAP book value in future periods, however, actual amounts could differ from estimated amounts used in our ABV due to such factors as credit defaults and policy terminations, among others.

Since the Company has a full valuation allowance against its net deferred tax asset, the book value per share adjustments to ABV were adjusted by applying a zero effective tax rate.

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

RESULTS OF OPERATIONS (continued)

As of December 31, 2018, ABV per share was $27.38, a decrease from $28.77 as of December 31, 2017. The decrease in ABV per share was primarily driven by losses incurred on certain Puerto Rico exposures, partially offset by a decrease in common shares outstanding from the share repurchases made by the Company during 2018. The following table provides a reconciliation of book value per share to ABV per share:

In millions except share and per share amounts	**As of December 31, 2018**	**As of December 31, 2017**
Total shareholders equity of MBIA Inc.	$ 1,119	$ 1,413
Common shares outstanding	89,821,713	91,484,447
Book value per share	$ 12.46	$ 15.44
Book value per share adjustments:		
Remove negative book value of MBIA Corp.	10.93	8.84
Remove net unrealized (gains) losses on available-for-sale securities included in other comprehensive income (loss)	0.46	0.26
Add net unearned premium revenue in excess of expected losses	3.53	4.23
Total book value per share adjustments	14.92	13.33
Adjusted book value per share	$ 27.38	$ 28.77

U.S. Public Finance Insurance

Our U.S. public finance insurance portfolio is managed through National. The financial guarantees issued by National provide unconditional and irrevocable guarantees of the payment of the principal of, and interest or other amounts owing on, insured obligations when due or, in the event National has exercised, at its discretion, the right to accelerate the payment under its policies upon the acceleration of the underlying insured obligations due to default or otherwise. National s guarantees insure municipal bonds, including tax-exempt and taxable indebtedness of U.S. political subdivisions, as well as utility districts, airports, healthcare institutions, higher educational facilities, student loan issuers, housing authorities and other similar agencies and obligations issued by private entities that finance projects that serve a substantial public purpose. Municipal bonds and privately issued bonds used for the financing of public purpose projects are generally supported by taxes, assessments, user fees or tariffs related to the use of these projects, lease payments or other similar types of revenue streams. As of December 31, 2018, National had total insured gross par outstanding of $57.9 billion.

National continues to monitor and remediate its existing insured portfolio and will seek opportunities to enhance shareholder value using its substantial financial resources, while protecting the interests of all policyholders. Certain state and local governments and territory obligors that National insures are experiencing financial and budgetary stress. This could lead to an increase in defaults by such entities on the payment of their obligations and losses or impairments on a greater number of the Company s insured transactions. In particular, Puerto Rico is experiencing significant fiscal stress and constrained liquidity due to, among other things, Puerto Rico s structural budget imbalance, the lack of access to the capital markets, a stagnating local economy, net migration of people out of Puerto Rico and a high debt burden. Refer to the U.S. Public Finance Insurance Puerto Rico Exposures section for additional information on our Puerto Rico exposures. We continue to monitor and analyze these situations and other stressed credits closely, and the overall extent and duration of stress affecting our insured credits remains uncertain.

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

RESULTS OF OPERATIONS (continued)

The following table presents our U.S. public finance insurance segment results for the years ended December 31, 2018, 2017 and 2016:

	Years Ended December 31,			Percent Change	
In millions	**2018**	**2017**	**2016**	**2018 vs. 2017**	**2017 vs. 2016**
Net premiums earned	$ 95	$ 174	$ 236	-45%	-26%
Net investment income	111	113	119	-2%	-5%
Fees and reimbursements	2	2	2	%	%
Net gains (losses) on financial instruments at fair value and foreign exchange	(21)	21	72	n/m	-71%
Net investment losses related to other-than-temporary impairments	(5)	(106)	(4)	-95%	n/m
Other net realized gains (losses)		(4)	2	-100%	n/m
Total revenues	182	200	427	-9%	-53%
Losses and loss adjustment	91	499	74	-82%	n/m
Amortization of deferred acquisition costs	21	39	49	-46%	-20%
Operating	41	69	60	-41%	15%
Total expenses	153	607	183	-75%	n/m
Income (loss) before income taxes	$ 29	$ (407)	$ 244	-107%	n/m

n/m Percent change not meaningful.

NET PREMIUMS EARNED Net premiums earned on financial guarantees represent gross premiums earned net of premiums ceded to reinsurers, and include scheduled premium earnings and premium earnings from refunded issues. The decrease in net premiums earned for the year ended December 31, 2018 compared with 2017 resulted from decreases in refunded premiums earned of $55 million and scheduled premiums earned of $24 million. The decrease in net premiums earned for 2017 compared with 2016 resulted from decreases in refunded premiums of $41 million and scheduled premiums earned of $21 million. Refunding activity over the past several years has accelerated premium earnings in prior years and reduced the amount of scheduled premiums that would have been earned in the current year. Scheduled premium earnings declined due to the refunding and maturity of insured issues in prior years.

NET GAINS (LOSSES) ON FINANCIAL INSTRUMENTS AT FAIR VALUE AND FOREIGN EXCHANGE The unfavorable change in net gains (losses) on financial instruments at fair value and foreign exchange for 2018 compared with 2017 was principally due to an increase in net realized losses in an overall higher interest rate environment in 2018. In 2017, net realized gains primarily resulted from the sales of securities as a result of favorable market conditions. In 2016, net realized gains were primarily due to generating liquidity for anticipated claim payments on certain Puerto Rico exposures.

NET INVESTMENT LOSSES RELATED TO OTHER-THAN-TEMPORARY IMPAIRMENTS Net investment losses related to OTTI for 2018, 2017 and 2016 were primarily related to impaired securities for which losses were recognized as the difference between a security s amortized cost and fair value or recovery value. This OTTI resulted from liquidity concerns, credit rating downgrades and other adverse financial conditions of the issuers.

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

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

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

RESULTS OF OPERATIONS (continued)

The following table presents information about our U.S. public finance insurance losses and LAE expenses for the years ended December 31, 2018, 2017 and 2016:

	Years Ended December 31,			Percent Change	
In millions	**2018**	**2017**	**2016**	**2018 vs. 2017**	**2017 vs. 2016**
Losses and LAE related to actual and expected payments[1]	$ 97	$ 513	$ 75	-81%	n/m
Recoveries of actual and expected payments	(1)	1		n/m	n/m
Gross losses incurred	96	514	75	-81%	n/m
Reinsurance	(5)	(15)	(1)	-67%	n/m
Losses and loss adjustment expenses	$ 91	$ 499	$ 74	-82%	n/m

(1) Losses and LAE with respect to Puerto Rico exposures reflect the expected losses and LAE payments net of expected recoveries on such payments.

n/m Percent change not meaningful.

For the years ended December 31, 2018, 2017 and 2016, losses and LAE primarily related to certain Puerto Rico exposures.

The following table presents information about our U.S. public finance insurance loss and LAE reserves and recoverables as of December 31, 2018 and 2017:

In millions	**December 31, 2018**	**December 31, 2017**	**Percent Change**
Assets:			
Insurance loss recoverable	$ 571	$ 333	71%
Reinsurance recoverable on paid and unpaid losses[1]	16	12	33%
Liabilities:			
Gross loss and LAE reserves[2]	568	531	7%
Expected recoveries on unpaid losses	(17)	(19)	-11%

Loss and LAE reserves	$	551	$	512	8%
Insurance loss recoverable ceded[3]	$	15	$	12	25%

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

(2) Puerto Rico exposures are reflected net of expected recoveries on such reserves.

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

Insurance loss recoverable as of December 31, 2018 increased compared with December 31, 2017 primarily as a result of expected recoveries related to claims paid on certain Puerto Rico exposures in 2018. Loss and LAE reserves as of December 31, 2018 increased compared with December 31, 2017 primarily as a result of increases in expected payments net of expected recoveries related to certain Puerto Rico exposures.

POLICY ACQUISITION COSTS AND OPERATING EXPENSES U.S. public finance insurance segment expenses for the years ended December 31, 2018, 2017 and 2016 are presented in the following table:

	Years Ended December 31,			Percent Change	
In millions	**2018**	**2017**	**2016**	**2018 vs. 2017**	**2017 vs. 2016**
Gross expenses	$ 41	$ 70	$ 62	-41%	13%
Amortization of deferred acquisition costs	$ 21	$ 39	$ 49	-46%	-20%
Operating	41	69	60	-41%	15%
Total insurance expenses	$ 62	$ 108	$ 109	-43%	-1%

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

RESULTS OF OPERATIONS (continued)

Gross expenses represent total insurance expenses before the deferral of any policy acquisition costs. Gross expenses decreased for 2018 compared with 2017 primarily due to decreases in compensation expense and rating agency fees. Gross expenses increased for 2017 compared with 2016 primarily due to severance related expenses associated with a headcount reduction.

Amortization of deferred acquisition costs decreased for 2018 compared with 2017 and 2016 due to higher refunding activity in prior years. When an insured obligation refunds, we accelerate any remaining deferred acquisition costs associated with the policy covering the refunded insured obligation. We did not defer a material amount of policy acquisition costs during 2018, 2017 or 2016.

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

The following table presents the credit quality distribution of National s U.S. public finance outstanding gross par insured as of December 31, 2018 and 2017. CABs are reported at the par amount at the time of issuance of the insurance policy. All ratings are as of the period presented and represent S&P underlying ratings, where available. If transactions are not rated by S&P, a Moody s equivalent rating is used. If transactions are not rated by either S&P or Moody s, an internal equivalent rating is used.

	Gross Par Outstanding			
In millions	**December 31, 2018**		**December 31, 2017**	
Rating	**Amount**	**%**	**Amount**	**%**
AAA	$ 3,108	5.4%	$ 3,271	4.6%
AA	22,162	38.3%	28,354	39.4%
A	18,495	32.0%	23,530	32.7%
BBB	9,166	15.8%	10,870	15.1%
Below investment grade	4,934	8.5%	5,903	8.2%
Total	$ 57,865	100.0%	$ 71,928	100.0%

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

RESULTS OF OPERATIONS (continued)

U.S. Public Finance Insurance Puerto Rico Exposures

The following is a summary of exposures within the insured portfolio of our U.S. public finance insurance segment related to Puerto Rico as of December 31, 2018.

In millions	Gross Par Outstanding	Gross Par Outstanding Plus CABs Accreted Interest	Debt Service Outstanding	National Internal Rating
Puerto Rico Electric Power Authority (PREPA)	$ 1,089	$ 1,089	$ 1,516	d
Puerto Rico Commonwealth GO	598[1]	605	754	d
Puerto Rico Public Buildings Authority (PBA)[2]	182	182	256	d
Puerto Rico Highway and Transportation Authority Transportation Revenue (PRHTA)	523	523	936	d
Puerto Rico Highway and Transportation Authority Subordinated Transportation Revenue (PRHTA)	27	27	38	d
Puerto Rico Sales Tax Financing Corporation (COFINA)[3]	684[1]	1,204	4,170	d
Puerto Rico Highway and Transportation Authority Highway Revenue (PRHTA)	66[1]	68	92	d
University of Puerto Rico System Revenue	79	79	112	d
Inter American University of Puerto Rico Inc.	21	21	28	a3
Total	$ 3,269	$ 3,798	$ 7,902[4]	

(1) Includes CABs that reflect the gross par amount at the time of issuance of the insurance policy.

(2) Additionally secured by the guarantee of the Commonwealth of Puerto Rico.

(3) As a result of the confirmation order for the COFINA Plan of Adjustment on February 4, 2019, National s COFINA gross par outstanding, gross par outstanding plus CABs accreted interest and debt service outstanding declined by approximately $211 million, $365 million and $1.3 billion, respectively.

(4) As a result of debt service payments made as of January 1, 2019, National s total Puerto Rico debt service outstanding declined by $67 million.

On June 30, 2016, the Puerto Rico Oversight, Management and Economic Stability Act (PROMESA), was signed into law by the President of the United States. PROMESA provides both for the creation of an independent oversight board (the Oversight Board) with powers relating to the development and implementation of a fiscal plan for Puerto Rico as well as a court-supervised process that allows Puerto Rico to restructure its debt if voluntary agreements cannot be reached with creditors through a collective action process.

On May 3, 2017, the Oversight Board certified and filed a petition under Title III of PROMESA for Puerto Rico with the District Court of Puerto Rico thereby commencing a bankruptcy-like case for Puerto Rico. Under a separate petition, the Oversight Board also commenced a Title III case for COFINA on May 5, 2017. Subsequently, the Oversight Board also certified and filed voluntary petitions under Title III of PROMESA for several other municipalities, including PRHTA and PREPA on May 21, 2017 and July 2, 2017, respectively.

On February 15, 2019, the United States Court of Appeals for the First Circuit issued its decision on the appeal by Aurelius Investments LLC and other appellants seeking to dismiss the Title III proceedings as unconstitutional. In its decision, the First Circuit agreed with appellants that the process PROMESA provides for the appointment of Board member is unconstitutional under the U.S. Constitution s Appointments Clause. Notwithstanding that holding, the First Circuit affirmed Judge Swain s denial of appellants motions to dismiss the Title III petitions, concluding that the Board s constitutional infirmity did not alter or impair the validity of the Board s past acts, and stayed its mandate for 90 days to allow the President and the Senate to validate the currently defective appointments or reconstitute the Board in accordance with the Appointments Clause. During the 90-day stay, the Board continues to operate as it does currently.

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

RESULTS OF OPERATIONS (continued)

As a result of prior defaults, various stays and the Title III cases, Puerto Rico failed to make certain scheduled debt service payments for National insured bonds. As a consequence, National has paid gross claims in the aggregate amount of $691 million relating to general obligation (GO) bonds, PBA bonds PREPA bonds and PRHTA bonds through 2018. On January 1, 2019, Puerto Rico also defaulted on scheduled debt service for National insured bonds and National paid gross claims in the aggregate of $65 million. Inclusive of the January 1, 2019 claims, National has paid total gross claims in the aggregate of $756 million related to Puerto Rico.

Status of Puerto Rico s Fiscal Plans

In 2018, the Puerto Rico government submitted several draft fiscal plans to the Oversight Board, which purported to reflect the government s expected economic outlook for Puerto Rico over a five year period after integrating four additional key drivers into the prior projections that had formed the basis of previous fiscal plan submissions: (i) the negative impact of Hurricane Maria, (ii) mitigating impact of disaster relief assistance, (iii) changes to revenue and expense measures, and (iv) impact of structural reforms.

On October 23, 2018, the Oversight Board voted to certify the Commonwealth fiscal plan, as amended. This certified fiscal plan reflects a $17.0 billion surplus over a six-year period as compared to $7.2 billion in the government s prior fiscal plan.

On September 7, 2018, COFINA submitted a revised fiscal plan, that incorporated changes and explanations required by the Oversight Board. On October 18, 2018, the Oversight Board voted to certify the COFINA fiscal plan, as amended.

On May 25, 2018, National submitted proofs of claim in the Commonwealth, COFINA, PRHTA, and PREPA Title III Cases on account of its rights and remedies relating to the GO, PBA, COFINA, PRHTA and PREPA bonds that it insures and/or owns.

COFINA

The Oversight Board filed a Plan of Adjustment and Disclosure Statement on October 19, 2018. The Plan of Adjustment is the culmination of efforts by interested parties to resolve the Commonwealth-COFINA dispute over the ownership of the territory s sales and use taxes. The Plan of Adjustment reflects the settlement of the Commonwealth-COFINA dispute by allocating an amount up to 53.65% of the Pledged Sales Tax Base Amount in any given year to COFINA and the balance (46.35%) of the annual Pledged Sales Tax Base Amount to the Commonwealth. The Plan of Adjustment further provided for senior COFINA bondholders to receive a 93.0% recovery on their prepetition bond claims and subordinate bondholders to receive approximately 56.4% of their prepetition claims. In addition, to compensate bondholders for the cost of negotiating and executing the Plan Support Agreement (PSA), bondholders that are party to the PSA received, subject to certain exceptions, a pro rata share of additional cash in an amount equal to 2.0% of the aggregate amount of existing COFINA bond claims. A hearing regarding the Commonwealth s motion for approval of the Settlement Agreement and to confirm the Plan of

Adjustment was held on January 16 and 17, 2019 in San Juan, Puerto Rico. The Court took confirmation of the Plan of Adjustment and approval of the Settlement Agreement under advisement and directed the parties to submit supplementation in support of the relief requested at the Confirmation Hearing by January 21, 2019 and supplemental briefing by January 24, 2019 supporting the authority of the Court to determine the substantive validity of the new COFINA bond legislation and resolve constitutional challenges to the COFINA structure, among other things. A confirmation order was issued on February 4, 2019 and the closing occurred on February 12, 2019.

As part of the Plan of Adjustment, National tendered and commuted $182 million market value of National insured COFINA bonds it owned for new uninsured COFINA bonds, which in conjunction with other tendered and commuted bonds, resulted in a reduction to National s insured exposure to COFINA. In the aggregate, as a result of National-insured bondholders, including National, choosing to receive uninsured COFINA bonds, and the distribution of cash to trust certificate holders, National s COFINA gross par outstanding, gross par outstanding plus CABs accreted interest and debt service outstanding declined by approximately $211 million, $365 million and $1.3 billion, respectively.

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

RESULTS OF OPERATIONS (continued)

PREPA

National s largest exposure to Puerto Rico, by gross par outstanding, is to PREPA. Initial attempts to reach a consensual restructuring for PREPA were rejected by the Oversight Board in June 2017 and PREPA entered Title III restructuring on July 2, 2017.

PREPA sustained heavy damage to its infrastructure from the two September 2017 hurricanes and in particular from Hurricane Maria. Its generating assets, located along the coast sustained only minor damage but damage to the transmission and distribution infrastructure was extensive. Lack of power had a knock-on effect of disabling telecommunication and water systems as well. Restoration efforts are being coordinated by the U.S. Army Corps of Engineers under contract with the Federal Emergency Management Agency (FEMA); monies from FEMA are expected to finance the reconstruction effort.

The PREPA revised Fiscal Plan certified on August 1, 2018 calls for a wholesale transformation of PREPA to at least a partially privatized entity. Specifics regarding implementation and the impact on creditors were not detailed or readily apparent in the Plan. Advisors to the Oversight Board have taken steps to assess investor interest for privatization.

Separately, the government of Puerto Rico enacted its own privatization legislation which proposes the sale and privatization of generating assets and concessionaire agreement for transmission and distribution assets. Many important details remain under development. In October 2018 the Commonwealth issued a request for qualifications seeking to identify interested parties for a potential concession or other management arrangement of the transmission and distribution assets of PREPA. To date no further developments have been reported. Separately the Puerto Rican Senate passed legislation in December 2018 to establish the regulatory and legislative framework to govern such an arrangement; that Bill awaits action in the Puerto Rican House.

The Governor appointed four new Board members and a new CEO was named on July 18, 2018. On December 21, 2018, the Governor appointed three independent directors to the Board bringing the total to seven; the elected consumer member has not been seated.

On July 30, 2018, PREPA, the Oversight Board, the Puerto Rico Fiscal Agency and Financial Advisory Authority (AAFAF) and the Governor announced a preliminary restructuring support agreement with certain members of the Ad Hoc Group of bondholders. National is not a party to that agreement. This preliminary agreement has not been finalized and the parties continue to extend certain expiration dates.

On October 3, 2018, National, together with Assured Guaranty Corp., Assured Guaranty Municipal Corp., and Syncora Guarantee Inc. (collectively, Movants) filed a motion in the Title III case for PREPA for relief from the automatic stay to allow Movants to exercise their statutory right to have a receiver appointed at PREPA. Movants argue that PREPA s long history of mismanagement and politicization has harmed, and will continue to harm, all of its stakeholders, including creditors and the people of Puerto Rico. Movants write that a Receiver is necessary to ensure that PREPA is managed in the best interests of all of its constituents. Discovery in connection with Movants motion is ongoing; the current trial date is set for May of 2019.

PRHTA

On May 21, 2017, the Oversight Board commenced a Title III case for PRHTA. On June 3, 2017, National, together with Assured and Assured Guaranty Municipal Corp., filed an adversary proceeding seeking to enforce the special revenue protections of the Bankruptcy Code which are incorporated into PROMESA. These provisions ensure, among other things, that (i) current tax and toll revenues remain subject to liens and (ii) the automatic stay resulting from a filing of a Title III petition does not stay or limit application of these pledged special revenues to the repayment of PRHTA debt. On January 30, 2018, the court granted motions to dismiss the adversary proceeding. The plaintiffs appealed this decision to the United States Court of Appeals for the First Circuit and oral argument was held on November 5, 2018 in San Juan, Puerto Rico. No decision has been rendered.

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

RESULTS OF OPERATIONS (continued)

Additionally, on June 20, 2017, AAFAF informed Bank of New York, as fiscal agent for the PRHTA bonds, that due to the Title III case, the funds in the debt service reserve account in AAFAF s view were not property of the bondholders and that Bank of New York should not disburse these funds to bondholders on July 1, 2017. The parties agreed that such funds would be held by the Bank of New York and disbursement of such funds would be addressed in the pending adversary proceeding.

Other

Other than Inter American University of Puerto Rico Inc., S&P, Fitch Ratings and/or Moody s have downgraded the ratings of all Puerto Rico issuers to below investment grade with a negative outlook due to ongoing economic pressures, which will weigh on Puerto Rico s ability to meet debt and other funding obligations, potentially driving bondholder recovery rates lower as restructuring the island s debt burden unfolds.

On January 10, 2019, the University of Puerto Rico (the University) received notification from the Middle States Commission on Higher Education placing the University s 11 institutions on show cause status. The University had until the end of January 2019 to submit requested reports and argue why its accreditation should not be revoked. On January 14, 2019, the University submitted audited financial statements, among other things, to the accreditation agency. While it continues to evaluate the University s situation, there are several options that accreditation agency may take, which include withdrawing the accreditation, reaffirming the accreditation, or keeping the University under show cause status.

The following table presents our scheduled gross debt service due on our Puerto Rico insured exposures as of December 31, 2018, for each of the subsequent five years ending December 31 and thereafter:

	2019	2020	2021	2022	2023	Thereafter	Total
Puerto Rico Electric Power Authority (PREPA)	$ 177	$ 115	$ 140	$ 140	$ 137	$ 807	$ 1,516
Puerto Rico Commonwealth GO	154	223	82	19	14	262	754
Puerto Rico Public Buildings Authority (PBA)	24	10	24	9	26	163	256
Puerto Rico Highway and Transportation Authority Transportation Revenue (PRHTA)	27	26	27	27	36	793	936
Puerto Rico Highway and Transportation Authority Subordinated Transportation Revenue (PRHTA)	1	1	1	9	1	25	38
Puerto Rico Sales Tax Financing Corporation (COFINA)						4,170	4,170
Puerto Rico Highway and Transportation Authority Highway Revenue (PRHTA)	16	16	3	2	4	51	92
University of Puerto Rico System Revenue	7	7	7	6	12	73	112

Inter American University of Puerto Rico Inc.	2	3	3	3	3	14	28
Total	$ 408	$ 401	$ 287	$ 215	$ 233	$ 6,358	$ 7,902

Corporate

Our corporate segment consists of general corporate activities, including providing support services to MBIA Inc. s subsidiaries and asset and capital management. Support services are provided by our service company, MBIA Services, and include, among others, management, legal, accounting, treasury, information technology, and insurance portfolio surveillance, on a fee-for-service basis. Capital management includes activities related to servicing obligations issued by MBIA Inc. and its subsidiaries, MBIA Global Funding, LLC (GFL) and MBIA Investment Management Corp. (IMC). MBIA Inc. issued debt to finance the operations of the MBIA group. GFL raised funds through the issuance of medium-term notes (MTNs) with varying maturities, which were in turn guaranteed by MBIA Corp. GFL lent the proceeds of these MTN issuances to MBIA Inc. IMC, along with MBIA Inc., provided customized investment agreements, guaranteed by MBIA Corp., for bond proceeds and other public funds for such purposes as construction, loan origination, escrow and debt service or other reserve fund requirements. The Company has ceased issuing new MTNs and investment agreements and the outstanding liability balances and corresponding asset balances have declined over time as liabilities matured, terminated or were called or repurchased. All of the debt within the corporate segment is managed collectively and is serviced by available liquidity.

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

RESULTS OF OPERATIONS (continued)

The following table summarizes the consolidated results of our corporate segment for the years ended December 31, 2018, 2017 and 2016:

	Years Ended December 31,			Percent Change	
In millions	**2018**	**2017**	**2016**	**2018 vs. 2017**	**2017 vs. 2016**
Net investment income	$ 37	$ 37	$ 33	%	12%
Fees	39	53	49	-26%	8%
Net gains (losses) on financial instruments at fair value and foreign exchange	22	(32)	(14)	n/m	129%
Net investment losses related to other-than-temporary impairments			(1)	%	-100%
Net gains (losses) on extinguishment of debt	3	28	5	-89%	n/m
Other net realized gains (losses)	(2)	(4)	(5)	-50%	-20%
Total revenues	99	82	67	21%	22%
Operating	50	62	83	-19%	-25%
Interest	95	89	92	7%	-3%
Total expenses	145	151	175	-4%	-14%
Income (loss) before income taxes	$ (46)	$ (69)	$ (108)	-33%	-36%

n/m Percent change not meaningful.

FEES The decrease in fees for 2018 compared with 2017 was primarily due to a decrease in fees paid by our U.S. public finance insurance and international and structured finance insurance segments for administrative and other services.

NET GAINS (LOSSES) ON FINANCIAL INSTRUMENTS AT FAIR VALUE AND FOREIGN EXCHANGE The favorable change in net gains (losses) on financial instruments at fair value and foreign exchange for 2018 compared with 2017 was primarily due to foreign exchange gains on Euro denominated liabilities from the strengthening of the U.S. dollar, partially offset by unfavorable changes in the fair value of the warrants issued on MBIA Inc. common stock as a result of the increase in the stock price, which were exercised during the second quarter of 2018.

The unfavorable change for 2017 compared with 2016 was primarily due to foreign exchange losses on Euro denominated liabilities from the weakening of the U.S. dollar, partially offset by favorable changes in the fair value of the warrants issued on MBIA Inc. common stock, a decrease in net losses on the sales of investments and an increase in gains from our interest rate swaps. The changes in the fair value of warrants were primarily attributable to a decrease in the price of MBIA Inc. s common stock and changes in volatility, which are used in the valuation of the warrants.

NET GAINS (LOSSES) ON EXTINGUISHMENT OF DEBT The decrease in net gains on extinguishment of debt for 2018 compared with 2017 was primarily due to a decrease in gains from purchases, at discounts, of MTNs issued by the Company. The increase in net gains on extinguishment of debt for 2017 compared with 2016 was primarily due to an increase in gains from purchases, at discounts, of MTNs issued by the Company.

OPERATING EXPENSES Operating expenses decreased for 2018 compared with 2017 and 2016 primarily due to decreases in compensation expense, primarily as a result of lower headcount.

INTEREST EXPENSE Interest expense increased for 2018 compared with 2017 due to the purchase by National in the fourth quarter of 2017 of $129 million principal amount of MBIA Inc. 5.700% Senior Notes due 2034 that were previously repurchased by MBIA Inc. and had not been retired. Interest expense decreased for 2017 compared with 2016 due to the maturities and repurchases of debt obligations issued by the Company.

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

RESULTS OF OPERATIONS (continued)

International and Structured Finance Insurance

Our international and structured finance insurance portfolios are managed through MBIA Corp. The financial guarantees issued by MBIA Corp. generally provide unconditional and irrevocable guarantees of the payment of the principal of, and interest or other amounts owing on, non-U.S. public finance and global structured finance insured obligations when due or, in the event MBIA Corp. has the right, at its discretion, to accelerate insured obligations upon default or otherwise. Effective on January 10, 2017, MBIA Corp. s wholly-owned subsidiary, MBIA UK Holdings, sold its operating subsidiary, MBIA UK, to Assured.

MBIA Corp. has insured sovereign-related and sub-sovereign bonds, privately issued bonds used for the financing of utilities, toll roads, bridges, airports, public transportation facilities, and other types of infrastructure projects serving a substantial public purpose. Global structured finance and asset-backed obligations typically are securities repayable from cash flows generated by a specified pool of assets, such as residential and commercial mortgages, insurance policies, consumer loans, corporate loans and bonds, trade and export receivables, and leases for equipment, aircraft and real estate property. MBIA Insurance Corporation insures the investment contracts written by MBIA Inc., and if MBIA Inc. or such subsidiaries were to have insufficient assets to pay amounts due upon maturity or termination, MBIA Insurance Corporation would be required to make such payments under its insurance policies. MBIA Insurance Corporation also insured debt obligations of other affiliates, including GFL, IMC and MZ Funding LLC (MZ Funding). MBIA Corp. has also written insurance policies guaranteeing the obligations under credit default swap (CDS) contracts of an affiliate, LaCrosse Financial Products, LLC and certain other derivative contracts. Certain policies cover payments potentially due under CDS, including termination payments that may become due in certain circumstances, including the occurrence of certain insolvency or payment defaults under the CDS or derivative contracts by the insured counterparty or by the guarantor. We no longer insure new credit derivative contracts except for transactions related to the restructuring or reduction of existing derivative exposure. MBIA Insurance Corporation provides reinsurance to MBIA Mexico.

MBIA Corp. has contributed to the Company s net operating loss (NOL) carryforward, which is used in the calculation of our consolidated income taxes. If MBIA Corp. becomes profitable, it is not expected to make any tax payments under our tax sharing agreement. Refer to Note 11: Income Taxes in the Notes to Consolidated Financial Statements for further information about taxes. Based on MBIA Corp. s current projected earnings and our expectation that it will not write new business, we believe it is unlikely that MBIA Corp. will generate significant income in the near future. As a result of MBIA Corp. s capital structure and business prospects, we do not expect its financial performance to have a material impact on MBIA Inc.

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

RESULTS OF OPERATIONS (continued)

The following table presents our international and structured finance insurance segment results for the years ended December 31, 2018, 2017 and 2016:

	Years Ended December 31,			Percent Change	
In millions	**2018**	**2017**	**2016**	**2018 vs. 2017**	**2017 vs. 2016**
Net premiums earned	$ 78	$ 44	$ 84	77%	-48%
Net investment income	6	21	12	-71%	75%
Fees and reimbursements	47	57	72	-18%	-21%
Change in fair value of insured derivatives:					
Realized gains (losses) and other settlements on insured derivatives	(56)	(51)	(40)	10%	28%
Unrealized gains (losses) on insured derivatives	31		21	n/m	-100%
Net change in fair value of insured derivatives	(25)	(51)	(19)	-51%	n/m
Net gains (losses) on financial instruments at fair value and foreign exchange	(18)	(17)	30	6%	n/m
Other net realized gains (losses)	2	39	(279)	-95%	-114%
Revenues of consolidated VIEs:					
Net investment income	35	27	31	30%	-13%
Net gains (losses) on financial instruments at fair value and foreign exchange	25	130		-81%	n/m
Other net realized gains (losses)	(171)	28		n/m	n/m
Total revenues	(21)	278	(69)	-108%	n/m
Losses and loss adjustment	(28)	184	146	-115%	26%
Amortization of deferred acquisition costs	31	43	56	-28%	-23%
Operating	21	30	44	-30%	-32%
Interest	129	119	115	8%	3%
Expenses of consolidated VIEs:					
Operating	11	10	14	10%	-29%
Interest	93	80	25	16%	n/m
Total expenses	257	466	400	-45%	17%
Income (loss) before income taxes	$ (278)	$ (188)	$ (469)	48%	-60%

n/m Percent change not meaningful.
As of December 31, 2018, MBIA Corp. s total insured gross par outstanding was $11.9 billion.

On January 20, 2017, MBIA Corp. was presented with and fully satisfied a claim of $770 million on an insurance policy it had written insuring certain notes issued by Zohar II. In order to satisfy the claim, MBIA Corp. used approximately $60 million from its own resources and executed the following two related transactions: 1) MBIA UK Holdings sold its operating subsidiary, MBIA UK, and made a cash payment of $23 million, to Assured, in exchange for the receipt by MBIA UK Holdings of certain Zohar II notes owned by Assured, which had an aggregate outstanding principal amount of $347 million as of January 10, 2017, which notes were distributed as a dividend to MBIA Corp. upon completion of the sale of MBIA UK; and 2) MBIA Corp. executed a financing facility (the Facility) with affiliates of certain holders of 14% Fixed-to-Floating Rate Surplus Notes of MBIA Corp. (collectively, the Senior Lenders), and with MBIA Inc., pursuant to which the Senior Lenders provided $325 million of senior financing and MBIA Inc. provided $38 million of subordinated financing to MZ Funding.

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

RESULTS OF OPERATIONS (continued)

NET PREMIUMS EARNED Our international and structured finance insurance segment generates net premiums from insurance policies accounted for as financial guarantee contracts. Certain premiums are eliminated in our consolidated financial statements as a result of the Company consolidating VIEs. In addition, we generate net premiums from insured credit derivatives that are included in Realized gains (losses) and other settlements on insured derivatives on our consolidated statements of operations. The following table provides net premiums earned from our financial guarantee contracts for the years ended December 31, 2018, 2017 and 2016:

	Years Ended December 31,			Percent Change	
In millions	**2018**	**2017**	**2016**	**2018 vs. 2017**	**2017 vs. 2016**
Net premiums earned:					
Non-U.S.	$ 68	$ 34	$ 69	100%	-51%
U.S.	10	10	15	-%	-33%
Total net premiums earned	$ 78	$ 44	$ 84	77%	-48%
VIEs (eliminated in consolidation)	$ 7	$ 8	$ 7	-13%	14%

Net premiums earned represent gross premiums earned net of premiums ceded to reinsurers, and include scheduled premium earnings and premium earnings from refunded issues. Net premiums earned increased for 2018 compared with 2017 primarily due to the acceleration of premiums related to the termination of several international public finance policies in 2018. Net premiums earned decreased for 2017 compared with 2016 primarily due to decreases in scheduled premiums as a result of the sale of MBIA UK on January 10, 2017 and from the maturity and early settlements of insured transactions with no writings of new insurance policies.

NET INVESTMENT INCOME The increase in net investment income for 2017 compared with 2016 was primarily related to the accretion on certain Zohar II notes received in exchange for the sale of MBIA UK to Assured on January 10, 2017.

FEES AND REIMBURSEMENTS The decreases in fees and reimbursements for 2018 compared with 2017 was due to a decrease in ceding commission income partially offset by an increase in waiver and consent fees. The decrease in fees and reimbursements for 2017 compared to 2016 was primarily due to decreases in termination and waiver and consent fees related to the ongoing management of our international and structured finance insurance business and ceding commission income as a result of refunding activity. Due to the transaction-specific nature inherent in fees and reimbursements, these revenues can vary significantly from period to period.

NET CHANGE IN FAIR VALUE OF INSURED DERIVATIVES Realized losses on insured derivatives include payments made net of premiums and fees earned and salvage received. Premiums earned related to insured credit derivatives will decrease over time as a result of settlements prior to maturity and amortization. For 2018, 2017 and 2016, realized losses on insured derivatives resulted from claim payments on commercial mortgage-backed securities exposures.

For 2018, unrealized gains on insured derivatives were principally the result of par amortization, partially offset by unfavorable changes in spreads/prices on the underlying collateral. For 2016, unrealized gains on insured derivatives were principally the result of a decline in the weighted average life on transactions, favorable changes in spreads/prices on the underlying collateral and a reversal of unrealized losses due to commutations, partially offset by the effects of MBIA s nonperformance risk on its derivative liabilities.

As of December 31, 2018 and 2017, the fair value of MBIA Corp. s insured CDS liability was $33 million and $63 million, respectively. As of December 31, 2018, MBIA Corp. had $70 million of gross par outstanding on an insured credit derivative compared with $127 million as of December 31, 2017.

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

RESULTS OF OPERATIONS (continued)

NET GAINS (LOSSES) ON FINANCIAL INSTRUMENTS AT FAIR VALUE AND FOREIGN EXCHANGE The net losses on financial instruments and foreign exchange for 2018 were primarily related to losses from foreign currency revaluations on Chilean Unidad de Fomento denominated premium receivables due to the strengthening of the U.S. dollar, partially offset by the revaluation of loss reserves on Mexican denominated policies as a result of the strengthening of the U.S. dollar. The net losses on financial instruments and foreign exchange for 2017 were primarily related to unfavorable mark-to-market fluctuations on derivatives. The net gains on financial instruments at fair value and foreign exchange for 2016 were primarily related to gains from foreign currency revaluation of Chilean Unidad de Fomento and Euro denominated premium receivables and realized foreign exchange gains from the liquidation of an investment portfolio in the United Kingdom.

OTHER NET REALIZED GAINS (LOSSES) Other net realized gains (losses) for 2017 were primarily related to the settlement of litigation. Other net realized gains (losses) for 2016 related to the loss recorded to adjust the carrying value of MBIA UK to its fair value less costs to sell prior to its sale.

REVENUES OF CONSOLIDATED VIEs For 2018, total revenues of consolidated VIEs were losses of $111 million compared with gains of $185 million for 2017 and $31 million for 2016. The decrease in revenues of consolidated VIEs for 2018 compared with 2017 was primarily due to the deconsolidation of two VIEs in 2018 from the Zohar Bankruptcy Settlement which resulted in a loss of $93 million and the deconsolidation of eight other VIEs in 2018 which resulted in a loss of $78 million. The loss from the Zohar Bankruptcy Settlement resulted from the difference between the fair value of the VIE assets that were deconsolidated and our estimate of salvage and subrogation recoveries from those VIEs under insurance accounting. We elected to record at fair value certain instruments that are consolidated under accounting guidance for consolidation of VIEs, and as such, changes in fair value are reflected in earnings. The increase in revenues of consolidated VIEs for 2017 compared with 2016 was primarily the result of gains related to changes in the fair value of assets within certain VIEs

LOSSES AND LOSS ADJUSTMENT EXPENSES Our international and structured finance insurance insured portfolio management group is responsible for monitoring international and structured finance insured obligations. The level and frequency of monitoring of any insured obligation depends on the type, size, rating and our assessed performance of the insured issue. Refer to Note 6: Loss and Loss Adjustment Expense Reserves in the Notes to Consolidated Financial Statements for a description of the Company s loss reserving policy and additional information related to its loss reserves.

Summary of Financial Guarantee Insurance Losses and LAE

The following table presents information about our financial guarantee insurance losses and LAE recorded in accordance with GAAP for the years ended December 31, 2018, 2017 and 2016:

Percent Change

In millions	Years Ended December 31, 2018	2017	2016	2018 vs. 2017	2017 vs. 2016
Losses and LAE related to actual and expected payments[1]	$ (11)	$ 125	$ 110	-109%	14%
Recoveries of actual and expected payments	(17)	66	35	-126%	89%
Gross losses incurred	(28)	191	145	-115%	32%
Reinsurance		(7)	1	-100%	n/m
Losses and loss adjustment expenses[2]	$ (28)	$ 184	$ 146	-115%	26%

(1) Loss and LAE with respect to Zohar II exposure reflect the expected loss and LAE payments net of expected recoveries on such payments.

(2) As a result of consolidation of VIEs, these amounts include the elimination of a loss and LAE benefit of $17 million for 2018 and losses and LAE expenses of $29 million for 2017 and 2016.

n/m Percent change not meaningful

For 2018, losses and LAE benefit primarily related to a decrease in expected payments on second-lien RMBS and an increase in actual and expected collections related to certain collateralized debt obligations (CDOs). This was partially offset by an increase in expected payments on insured first-lien RMBS transactions.

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

RESULTS OF OPERATIONS (continued)

For 2017, losses and LAE primarily related to increases in expected payments on insured first and second-lien RMBS transactions and decreases in projected recoveries primarily related to the mortgage insurance settlement with Old Republic Insurance Corporation.

For 2016, losses and LAE primarily related to increases in expected payments on insured first and second-lien RMBS transactions and decreases in projected collections from excess spread within insured second-lien RMBS securitizations, partially offset by decreases in expected payments related to CDOs.

Refer to Note 6: Loss and Loss Adjustment Expense Reserves in the Notes to Consolidated Financial Statements for further information about our insurance loss recoverable and loss and LAE reserves. The following table presents information about our insurance loss recoverable and reserves as of December 31, 2018 and 2017.

In millions	**December 31, 2018**	**December 31, 2017**	**Percent Change**
Assets:			
Insurance loss recoverable	$ 993	$ 178	n/m
Reinsurance recoverable on paid and unpaid losses[1]	5	5	-%
Liabilities:			
Gross loss and LAE reserves	385	482	-20%
Expected recoveries on unpaid losses	(2)	(16)	-88%
Loss and LAE reserves	$ 383	$ 466	-18%

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

n/m Percent change not meaningful

Payment of claims totaling $919 million in November of 2015 and January of 2017, on MBIA Corp. s policies insuring certain notes issued by Zohar I and Zohar II entitles MBIA Corp. to reimbursement of such amounts plus interest and expenses and/or to exercise certain rights and remedies to seek recovery of such amounts. Since the second quarter of 2018, the Company no longer consolidates Zohar I and Zohar II as VIEs and estimated recoveries from these transactions are included in Insurance loss recoverable on the Company s consolidated balance sheet. As of December 31, 2017, the fair value of the assets of Zohar I and Zohar II were included in Loans receivable and other instruments at fair value under Assets of consolidated variable interest entities on the Company s consolidated balance sheet. Refer to Note 1: Business Developments and Risks and Uncertainties in the Notes to Consolidated Financial Statements for additional information regarding the estimated Zohar recoveries.

POLICY ACQUISITION COSTS AND OPERATING EXPENSES International and structured finance insurance segment expenses for the years ended December 31, 2018, 2017 and 2016 are presented in the following table:

	Years Ended December 31,			Percent Change	
In millions	**2018**	**2017**	**2016**	**2018 vs. 2017**	**2017 vs. 2016**
Gross expenses	$ 22	$ 31	$ 45	-29%	-31%
Amortization of deferred acquisition costs	$ 31	$ 43	$ 56	-28%	-23%
Operating	21	30	44	-30%	-32%
Total insurance expenses	$ 52	$ 73	$ 100	-29%	-27%

Gross expenses represent total insurance expenses before the deferral of any policy acquisition costs. Gross expenses decreased for 2018 compared with 2017 and 2016 primarily due to decreases in compensation expense. Operating expenses decreased for 2018 compared with 2017 and 2016 primarily due to decreases in gross expenses.

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

RESULTS OF OPERATIONS (continued)

The decreases in the amortization of deferred acquisition costs for 2018 compared with 2017 and 2016 were due to higher refunding activity in prior years. We did not defer a material amount of policy acquisition costs during 2018, 2017 or 2016. Policy acquisition costs in these periods were primarily related to ceding commissions and premium taxes on installment policies written in prior periods.

INTEREST EXPENSE OF CONSOLIDATED VIEs For 2018 and 2017, total interest expense of consolidated VIEs increased compared with 2016 primarily due to interest expense from the Facility. Refer to Note 10: Debt in the Notes to Consolidated Financial Statements for further information about the Facility.

International and Structured Finance Insurance Portfolio Exposures

Credit Quality

The credit quality of our international and structured finance insured portfolio is assessed in the same manner as our U.S. public finance insured portfolio. As of December 31, 2018 and 2017, 31% and 33%, respectively, of our international and structured finance insured portfolio was rated below investment grade, before giving effect to MBIA s guarantees, based on MBIA s internal ratings, which are generally more current than the underlying ratings provided by S&P and Moody s for this subset of our insured portfolio.

Selected Portfolio Exposures

The following is a summary of selected significant exposures within our residential mortgage insured portfolio of our international and structured finance insurance segment. In addition, as of December 31, 2018, MBIA Corp. insured $363 million of CDOs and related instruments. We may experience considerable incurred losses and future expected payments in certain of these sectors. There can be no assurance that the loss reserves recorded in our financial statements will be sufficient or that we will not experience losses on transactions on which we currently have no loss reserves, in particular if the economy deteriorates. We may seek to purchase, directly or indirectly, obligations guaranteed by MBIA Corp. or seek to commute policies. The amount of insurance exposure reduced, if any, and the nature of any such actions will depend on market conditions, pricing levels from time to time, and other considerations. In some cases, these activities may result in a reduction of loss reserves, but in all cases they are intended to limit our ultimate losses and reduce the future volatility in loss development on the related policies. Our ability to purchase guaranteed obligations and to commute policies will depend on management s assessment of available liquidity.

Residential Mortgage Exposure

MBIA Corp. insures mortgage-backed securities (MBS) backed by residential mortgage loans, including second-lien RMBS transactions (revolving home equity lines of credit (HELOC) loans and closed-end second (CES) mortgages). MBIA Corp. also insures MBS backed by first-lien alternative A-paper (Alt-A) and subprime mortgage loans directly through RMBS securitizations. There was considerable stress and deterioration in the mortgage market since 2008 reflected by heightened delinquencies and losses, particularly related to mortgage loans originated during 2005, 2006 and 2007.

The following table presents the gross par outstanding of MBIA Corp. s total direct RMBS insured exposure as of December 31, 2018 and 2017. Amounts include the gross par outstanding related to transactions that the Company consolidates under accounting guidance for VIEs.

In millions	**Gross Par Outstanding as of**		
Collateral Type	**December 31, 2018**	**December 31, 2017**	**Percent Change**
HELOC Second-lien	$ 511	$ 975	-48%
CES Second-lien	591	1,037	-43%
Alt-A First-lien(1)	983	1,078	-9%
Subprime First-lien	439	512	-14%
Prime First-lien	15	19	-21%
Total	$ 2,539	$ 3,621	-30%

(1) Includes international exposure of $245 million as of December 31, 2018 and 2017.

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

RESULTS OF OPERATIONS (continued)

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

Reinsurance enables the Company to cede exposure for purposes of syndicating risk. The Company generally retains the right to reassume the business ceded to reinsurers under certain circumstances, including a reinsurer s rating downgrade below specified thresholds. Currently, we do not intend to use reinsurance to decrease the insured exposure in our portfolio. Refer to Note 13: Insurance in Force in the Notes to Consolidated Financial Statements for a further discussion about reinsurance agreements.

Taxes

Provision for Income Taxes

The Company s income taxes and the related effective tax rates for the years ended December 31, 2018, 2017 and 2016 are presented in the following table:

	Years Ended December 31,		
In millions	**2018**	**2017**	**2016**
Income (loss) before income taxes	$ (296)	$ (661)	$ (339)
Provision (benefit) for income taxes	$	$ 944	$ (1)
Effective tax rate	0.0%	-142.8%	0.2%

For 2018, our effective tax rate applied to our loss before income taxes was lower than the U.S. statutory tax rate of 21% due to the full valuation allowance on the changes in our net deferred tax asset.

For 2017, our effective tax rate applied to our loss before income taxes was lower than the then U.S. statutory rate of 35% due to the establishment of a full valuation allowance against our net deferred tax asset.

In June of 2017, S&P downgraded the financial strength rating of National, which led the Company to cease its efforts to write new financial guarantee business. In addition to National s cessation of new business activity, there was an increase in loss and LAE due to changes in assumptions on certain Puerto Rico credits. As a result of the increase in loss and LAE, the Company has a three-year cumulative loss, which is considered significant negative evidence in the assessment of its ability to use its net deferred tax asset. In addition, the Company considered all available positive and negative evidence as required by GAAP, to estimate if sufficient taxable income will be generated to use its net deferred tax asset. After considering all positive and negative evidence, including the Company s inability to objectively identify and forecast future sources of taxable income, the Company concluded that it does not have sufficient positive evidence to support its ability to use its net deferred tax asset before it expires. As of December 31, 2018 and 2017, the Company s valuation allowance against its net deferred tax asset was $834 million and $770 million, respectively.

Notwithstanding the full valuation allowance on its net deferred tax asset, the Company believes that it may be able to use some of its net deferred tax asset before the expirations associated with that asset based upon expected earnings at National and potential future sources of taxable income to be identified by the Company. Accordingly, the Company will continue to re-evaluate its net deferred tax asset on a quarterly basis. There is no assurance that the Company will reverse any of its valuation allowance on its net deferred tax asset in the future.

For 2016, our effective tax rate applied to our loss before income taxes was lower than the U.S. statutory rate of 35% primarily due to the provision for deferred taxes on the basis differences of our foreign subsidiary, MBIA UK, which resulted from the change in assertion of MBIA UK paying future dividends over time to calculating deferred taxes on the basis of the sale of MBIA UK and a valuation allowance against certain foreign tax credits.

Refer to Note 11: Income Taxes in the Notes to Consolidated Financial Statements for a further discussion of income taxes, including the valuation allowance against the Company s net deferred tax asset and its accounting for tax uncertainties.

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

CAPITAL RESOURCES

The Company manages its capital resources to minimize its cost of capital while maintaining appropriate claims-paying resources (CPR) for National and MBIA Corp. The Company s capital resources consist of total shareholders equity, total debt issued by MBIA Inc. for general corporate purposes, surplus notes issued by MBIA Corp., and the Facility issued by MZ Funding. Total capital resources were $3.0 billion and $3.2 billion as of December 31, 2018 and 2017, respectively. As of December 31, 2018, MBIA Inc. s investment in subsidiaries totaled $1.9 billion.

In addition to scheduled debt maturities, from time to time, we reduce unsecured debt through calls or repurchases. MBIA Inc. or National may also repurchase outstanding MBIA Inc. common shares when we deem it beneficial to our shareholders. Repurchases of debt and common stock are made in the open market or in private transactions as permitted by securities laws and other legal requirements. We may also choose to redeem debt obligations where permitted by the relevant agreements. Refer to Note 18: Common and Preferred Stock in the Notes to Consolidated Financial Statements for information about MBIA Inc. s and National s share repurchases and Note 10: Debt in the Notes to Consolidated Financial Statements for information about debt repurchases.

MBIA Inc. supports the MTN and investment agreement obligations issued by the Company. We seek to maintain sufficient liquidity and capital resources to meet the Company s general corporate needs and debt service. Based on MBIA Inc. s debt service requirements and expected operating expenses, we expect that MBIA Inc. will have sufficient resources to satisfy its debt obligations and its general corporate needs over time from distributions from its operating subsidiaries; however, there can be no assurance that MBIA Inc. will have sufficient resources to do so. In addition, the Company may also consider raising third-party capital. Refer to Capital, Liquidity and Market Related Risk Factors in Part I, Item 1A of this Form 10-K and the Liquidity Corporate Liquidity section included herein for additional information about MBIA Inc. s liquidity.

Warrants

In April and June of 2018, the holder of certain MBIA Inc. warrants exercised its right to purchase, in total, 11.85 million shares of MBIA Inc. common stock at an exercise price of $9.59 per share. As a result, the Company issued a total of 1.3 million shares of MBIA Inc. common stock to the holder in accordance with the cashless settlement provision of the warrants. As of December 31, 2018, there were no warrants outstanding.

Insurance Statutory Capital

National and MBIA Insurance Corporation are incorporated and licensed in, and are subject to primary insurance regulation and supervision by New York State Department of Financial Services (NYSDFS). MBIA Mexico is regulated by the Comisión Nacional de Seguros y Fianzas in Mexico. MBIA Corp. s Spanish Branch is subject to local regulation in Spain. National and MBIA Insurance Corporation each are required to file detailed annual financial statements, as well as interim financial statements, with the NYSDFS and similar supervisory agencies in each of the other jurisdictions in which it is licensed. These financial statements are prepared in accordance with New York State and the National Association of Insurance Commissioners statements of U.S. STAT and assist our regulators in evaluating minimum standards of solvency, including minimum capital requirements, and business conduct.

National

Capital and Surplus

National reported total statutory capital of $2.5 billion as of December 31, 2018, compared with $2.8 billion as of December 31, 2017. As of December 31, 2018, statutory capital comprised $2.0 billion of policyholders surplus and $522 million of contingency reserves. National had a statutory net loss of $27 million for the year ended December 31, 2018. As of December 31, 2018, National s unassigned surplus was $1.4 billion.

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

CAPITAL RESOURCES (continued)

In order to maintain its New York State financial guarantee insurance license, National is required to maintain a minimum of $65 million of policyholders surplus. National is also required to maintain contingency reserves to provide protection to policyholders in the event of extreme losses in adverse economic events.

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

National had positive earned surplus as of December 31, 2018, from which it may pay dividends, subject to the limitations described above. During 2018, National declared and paid a dividend of $108 million to its ultimate parent, MBIA Inc. We expect the as-of-right declared and paid dividend amounts from National to be limited to prior year net investment income for the foreseeable future.

Claims-Paying Resources (Statutory Basis)

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

National s CPR and components thereto, as of December 31, 2018 and 2017 are presented in the following table:

In millions	As of December 31, 2018	As of December 31, 2017
Policyholders surplus	$ 1,998	$ 2,166
Contingency reserves	522	594
Statutory capital	2,520	2,760

Unearned premiums	496	585
Present value of installment premiums [1]	150	164
Premium resources [2]	646	749
Net loss and LAE reserves [1]	71	227
Salvage reserves	607	387
Gross loss and LAE reserves	678	614
Total claims-paying resources	$ 3,844	$ 4,123

(1) Calculated using a discount rate of 3.67% as of December 31, 2018 and 3.25% as of December 31, 2017.

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

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

CAPITAL RESOURCES (continued)

MBIA Insurance Corporation

Capital and Surplus

MBIA Insurance Corporation reported total statutory capital of $555 million as of December 31, 2018 compared with $464 million as of December 31, 2017. As of December 31, 2018, statutory capital comprised $356 million of policyholders surplus and $199 million of contingency reserves. As of December 31, 2017, statutory capital comprised $237 million of policyholders surplus and $227 million of contingency reserves. For the year ended December 31, 2018, MBIA Insurance Corporation had statutory net income of $134 million. MBIA Insurance Corporation s policyholders surplus included negative unassigned surplus of $1.7 billion and $1.8 billion as of December 31, 2018 and 2017, respectively. MBIA Insurance Corporation s policyholders surplus may be further negatively impacted if future additional insured losses are incurred.

As of December 31, 2018, MBIA Insurance Corporation recognized estimated recoveries on a statutory basis related to put-back claims against Credit Suisse, excess spread recoveries on RMBS and recoveries related to CDOs. There can be no assurance that we will be successful or that we will not be delayed in realizing these recoveries. Refer to Note 6: Loss and Loss Adjustment Expense Reserves in the Notes to Consolidated Financial Statements for additional information about these recoveries.

Under NYIL, MBIA Insurance Corporation is also required to establish a contingency reserve to provide protection to policyholders in the event of extreme losses in adverse economic events. The amount of the reserve is based on the percentage of principal insured or premiums earned, depending on the type of obligation (net of collateral, reinsurance, refunding, refinancings and certain insured securities). Reductions in the contingency reserve may be recognized based on excess reserves and under certain stipulated conditions, subject to the approval of the Superintendent of the NYSDFS. As a result of regulatory approved reductions, MBIA Insurance Corporation s contingency reserves of $199 million as of December 31, 2018 represented reserves on 27 of the 220 outstanding credits insured by MBIA Insurance Corporation.

In order to maintain its New York State financial guarantee insurance license, MBIA Insurance Corporation is required to maintain a minimum of $65 million of policyholders surplus. As of December 31, 2018, MBIA Corp. met the required minimum surplus of $65 million. Under NYIL, MBIA Insurance Corporation is required to invest its minimum surplus and contingency reserves and 50% of its loss reserves and unearned premium reserves in certain qualifying assets. As of December 31, 2018, MBIA Insurance Corporation maintained its minimum requirement of policyholders surplus but did not have enough qualifying assets to support its contingency reserves and 50% of its loss reserves and unearned premium reserves. As of December 31, 2018, MBIA Insurance Corporation was in compliance with its aggregate risk limits under the NYIL, but was not in compliance with certain of its single risk limits. If MBIA Insurance Corporation does not comply with the above mentioned requirements, the NYSDFS may prevent MBIA Insurance Corporation from transacting any new financial guarantee insurance business until it no longer exceeds the limitations.

In connection with MBIA Insurance Corporation obtaining approval from the NYSDFS to release excess contingency reserves in previous periods, MBIA Insurance Corporation agreed that it would not pay any dividends without prior approval from the NYSDFS. Due to its significant earned surplus deficit, MBIA Insurance Corporation has not had the statutory capacity to pay dividends since December 31, 2009. Based on estimated future income, MBIA Insurance Corporation is not expected to have any statutory capacity to pay any dividends.

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

CAPITAL RESOURCES (continued)

The NYSDFS has not approved MBIA Insurance Corporation s requests to make interest payments on MBIA Insurance Corporation s 14% Fixed-to-Floating Rate Surplus Notes due January 15, 2033 (the Surplus Notes) since, and including, the January 15, 2013 interest payment. The NYSDFS has cited both MBIA Insurance Corporation s liquidity and financial condition as well as the availability of free and divisible surplus as the basis for such non-approvals. As of January 15, 2019, the most recent scheduled interest payment date, there was $757 million of unpaid interest on the par amount outstanding of $953 million of the Surplus Notes. Under Section 1307 of the NYIL and the Fiscal Agency Agreement governing the surplus notes, Surplus Note payments may be made only with the prior approval by the NYSDFS and if MBIA Insurance Corporation has sufficient Eligible Surplus , or as we believe, free and divisible surplus as an appropriate calculation of Eligible Surplus. As of December 31, 2018, MBIA Insurance Corporation had free and divisible surplus, of $338 million. There is no assurance the NYSDFS will approve Surplus Note payments, notwithstanding the sufficiency of MBIA Insurance Corporation s liquidity and financial condition. The unpaid interest on the Surplus Notes will become due on the first business day on or after which MBIA Insurance Corporation obtains approval to pay some or all of such unpaid interest. No interest has been accrued or will accrue on the deferred interest.

Claims-Paying Resources (Statutory Basis)

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

MBIA Corp. s CPR and components thereto, as of December 31, 2018 and 2017 are presented in the following table:

In millions	**As of December 31, 2018**	**As of December 31, 2017**
Policyholders surplus	$ 356	$ 237
Contingency reserves	199	227
Statutory capital	555	464
Unearned premiums	109	195
Present value of installment premiums (1) (4)	139	192
Premium resources (2)	248	387

Net loss and LAE reserves [1]	(865)	(792)
Salvage reserves [3]	1,402	1,428
Gross loss and LAE reserves	537	636
Total claims-paying resources	$ 1,340	$ 1,487

(1) Calculated using a discount rate of 5.17% as of December 31, 2018 and 5.20% as of December 31, 2017.

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

(3) This amount primarily consists of expected recoveries related to the Company s CDOs, excess spread and put-backs.

(4) Based on the Company s estimate of the remaining life for its insured exposures.

LIQUIDITY

We use a liquidity risk management framework, the primary objective of which is to match liquidity resources to needs. We monitor our cash and liquid asset resources using cash forecasting and stress-scenario testing. Members of MBIA s senior management meet regularly to review liquidity metrics, discuss contingency plans and establish target liquidity levels. We evaluate and manage liquidity on a legal-entity basis to take into account the legal, regulatory and other limitations on available liquidity resources within the enterprise. The following is a discussion of our liquidity resources and requirements for our holding company and our insurance subsidiaries.

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

LIQUIDITY (continued)

National Liquidity

The primary sources of cash available to National are:

- principal and interest receipts on assets held in its investment portfolio, including proceeds from the sale of assets;
- recoveries associated with insurance loss payments; and
- installment premiums.

The primary uses of cash by National are:

- payments of operating expenses, taxes and funding asset purchases;
- loss payments and LAE on insured transactions; and
- payments of dividends.

As of December 31, 2018 and 2017, National held cash and investments of $3.2 billion and $3.6 billion, respectively, of which $488 million and $228 million, respectively, were cash and cash equivalents or short-term investments comprised of highly rated commercial paper, money market funds and municipal, U.S. agency and corporate bonds.

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

Corporate Liquidity

The primary sources of cash available to MBIA Inc. are:

- dividends from National;
- release of funds under the tax sharing agreement;
- available cash and liquid assets not subject to collateral posting requirements;
- principal and interest receipts on assets held in its investment portfolio, including proceeds from the sale of assets; and
- access to capital markets.

The primary uses of cash by MBIA Inc. are:

- servicing outstanding unsecured corporate debt obligations and MTNs;
- meeting collateral posting requirements under investment agreements and derivative arrangements;
- payments related to interest rate swaps;
- payments of operating expenses; and
- funding share repurchases and debt buybacks.

As of December 31, 2018 and 2017, the liquidity positions of MBIA Inc. were $457 million and $419 million, respectively, and included cash and cash equivalents and other investments comprised of highly rated commercial paper, money market funds and municipal, U.S. government, asset-backed and corporate bonds for general corporate purposes, excluding the amounts held in escrow under its tax sharing agreement.

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

LIQUIDITY (continued)

During the year ended December 31, 2018, $18 million was released to MBIA Inc. under the MBIA group tax sharing agreement and related tax escrow account (Tax Escrow Account). In addition, $90 million was returned to National as a result of National s 2017 financial results. The releases were pursuant to the terms of the tax sharing agreement following the expiration of National s two-year NOL carry-back period under U.S. tax rules. Subsequent to December 31, 2018, $91 million was released from the Tax Escrow Account to MBIA Inc., of which $56 million was in cash, related to deposits made by National for the 2016 tax year. Also, $5 million was returned to National as a result of capital losses incurred in 2018 that can be carried back to prior years. In addition to releases or returns following the expiration of National s two-year NOL carry-back period, from time to time, MBIA Inc. is permitted to withdraw assets from the Tax Escrow Account if the aggregate market value of all assets held in the Tax Escrow Account exceeds the required minimum balance. During 2018, such withdrawals totaled $32 million. There can be no assurance that any future payments under the Tax Escrow Account from subsidiaries will be released to MBIA Inc. due to deductible or creditable tax attributes of those subsidiaries and/or the market value performance of the assets supporting the Tax Escrow Account.

During 2018, National purchased from MBIA Inc. $44 million par value of MBIA Inc. s 5.700% Senior Notes due 2034 at a cost of approximately 70% of par value plus accrued interest and $10 million of MBIA Inc. s 7.000% Debentures due 2025 at a cost of approximately 92% of par value plus accrued interest. These notes had been previously repurchased by MBIA Inc. and had not been retired. This transaction increased MBIA Inc. s liquidity position by a total of $41 million and had no impact to the Company s consolidated balance sheet.

Based on our projections of National s and MBIA Corp. s future earnings and losses, we expect that for the foreseeable future National will be the primary source of payments to MBIA Inc. During 2018, National declared and paid a dividend of $108 million to its ultimate parent, MBIA Inc. There can be no assurance as to the amount and timing of any such future dividends or payments from the tax escrow account under the tax sharing agreement. Also, absent a special dividend subject to the approval of the NYSDFS, we expect the declared and paid dividend amounts from National to be limited to the prior twelve months of net investment income. Refer to the Capital Resources Insurance Statutory Capital section for additional information on payments of dividends. We do not expect MBIA Inc. to receive distributions from MBIA Corp.

Currently, a significant portion of the cash and securities held by MBIA Inc. is pledged against investment agreement liabilities, the Asset Swap (simultaneous repurchase and reverse repurchase agreement) and derivatives, which limits its ability to raise liquidity through asset sales. If the market value or rating eligibility of the assets which are pledged against MBIA Inc. s obligations were to decline, we would be required to pledge additional eligible assets in order to meet minimum required collateral amounts against these liabilities. To mitigate these risks, we seek to maintain cash and liquidity resources that we believe will be sufficient to make all payments due on our obligations and to meet other financial requirements, such as posting collateral. Contingent liquidity resources include: (1) sales of invested assets exposed to credit spread stress risk, which may occur at losses; (2) termination and settlement of interest rate swap agreements; and (3) accessing the capital markets. These actions, if taken, are expected to result in either additional liquidity or reduced exposure to adverse credit spread movements. There can be no assurance that these actions will be sufficient to fully mitigate this risk.

MBIA Corp. Liquidity

The primary sources of cash available to MBIA Corp. are:

- recoveries associated with insurance loss payments;
- installment premiums and fees; and
- principal and interest receipts on assets held in its investment portfolio, including the proceeds from the sale of assets.

The primary uses of cash by MBIA Corp. are:

- loss and LAE or commutation payments on insured transactions;

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

LIQUIDITY (continued)

- repayment of the Facility;
- payments of operating expenses; and
- payment of principal and interest related to its surplus notes, if and to the extent approved by the NYSDFS. Refer to Capital Resources Insurance Statutory Capital for a discussion on the non-approval of requests to the NYSDFS to pay interest on its surplus notes.

As of December 31, 2018 and 2017, MBIA Corp. held cash and investments of $242 million and $271 million, respectively, of which $145 million were cash and cash equivalents or short-term investments comprised of money market funds and municipal, U.S. agency and corporate bonds that were immediately available to MBIA Insurance Corporation.

Insured transactions that require payment in full of the principal insured at maturity could present liquidity risk for MBIA Corp. as any salvage recoveries from such payments could be recovered over an extended period of time after the payment of the principal amount. MBIA Corp. is generally required to satisfy claims within one to three business days, and as a result seeks to identify potential claims in advance through our monitoring process. In order to monitor liquidity risk and maintain appropriate liquidity resources, we use the same methodology as we use to monitor credit quality and losses within our insured portfolio, including stress scenarios. Refer to Note 6: Loss and Loss Adjustment Expense Reserves in the Notes to Consolidated Financial Statements for a discussion of our loss process.

During 2018, MBIA Corp. collected $99 million from insured RMBS transactions related to excess spread recoveries. As of December 31, 2018, MBIA Corp. has expected excess spread recoveries of $150 million, including recoveries related to consolidated VIEs. MBIA Corp. has also recorded expected recovery amounts related to its claims against Credit Suisse for ineligible mortgage loans and recoveries related to CDOs. There can be no assurance that we will be successful or not be delayed in realizing these recoveries.

Advances Agreement

MBIA Inc., National, MBIA Insurance Corporation and certain other affiliates are party to an intercompany advances agreement (the MBIA Advances Agreement). The MBIA Advances Agreement permits National to make advances to MBIA Inc. and other MBIA group companies that are party to the agreement at a rate per annum equal to LIBOR plus 0.25%. The agreement also permits other affiliates to make advances to National or MBIA Insurance Corporation at a rate per annum equal to LIBOR minus 0.10%. Advances by National cannot exceed 3% of its net admitted assets as of the last quarter end. As of December 31, 2018 and 2017, there were no amounts drawn under the agreement.

Consolidated Cash Flows

Information about our consolidated cash flows by category is presented on our consolidated statements of cash flows. The following table summarizes our consolidated cash flows for the years ended December 31, 2018, 2017 and 2016:

	Years Ended December 31,			Percent Change	
In millions	**2018**	**2017**	**2016**	**2018 vs. 2017**	**2017 vs. 2016**
Statement of cash flow data:					
Net cash provided (used) by:					
Operating activities	$ (319)	$ (652)	$ (149)	-51%	n/m
Investing activities	1,206	1,202	2,424	%	-50%
Financing activities	(752)	(589)	(2,535)	28%	-77%
Effect of exchange rate changes on cash and cash equivalents	(1)	(2)	(2)	-50%	%
Cash and cash equivalents beginning of year	146	187	522	-22%	-64%
Reclassification to assets held for sale			(73)	%	-100%
Cash and cash equivalents end of year	$ 280	$ 146	$ 187	92%	-22%

n/m Percent change not meaningful.

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

LIQUIDITY (continued)

Operating activities

Net cash used by operating activities decreased for the year ended December 31, 2018 compared with 2017 primarily due to a decrease in losses and LAE paid of $383 million and a decrease in operating and employee related expenses paid of $47 million, partially offset by a decrease in proceeds from recoveries and reinsurance of $109 million. Net cash used by operating activities increased for the year ended December 31, 2017 compared with 2016 primarily due to an increase in losses and LAE paid of $417 million and a decrease in investment income received of $70 million.

Investing activities

Net cash provided by investing activities increased slightly for the year ended December 31, 2018 compared with 2017 primarily due to an increase in sales, paydowns and maturities (purchases) of short-term investments, net of $487 million, partially offset by an increase in purchases of AFS investments of $454 million. Net cash provided by investing activities decreased for the year ended December 31, 2017 compared with 2016 primarily due to a decrease in net proceeds from paydowns of held-to-maturity investments of consolidated VIEs of $1.8 billion, partially offset by an increase in net proceeds from purchases, sales and paydowns and maturities of available-for-sale investments of $582 million.

Financing activities

Net cash used by financing activities increased for the year ended December 31, 2018 compared with 2017 primarily due to proceeds received from the Facility of $328 million in 2017 and an increase in principal paydowns of VIE notes of $230 million, partially offset by a decrease in purchases of treasury stock of $286 million. Net cash used by financing activities decreased for the year ended December 31, 2017 compared with 2016 primarily due to a decrease in the principal paydowns of consolidated VIE notes of $1.9 billion primarily related to the deconsolidation of VIEs in 2016 and proceeds received from the Facility in 2017, partially offset by an increase in purchases of treasury stock of $220 million.

Investments

The following discussion of investments, including references to consolidated investments, excludes investments reported under Assets of consolidated variable interest entities on our consolidated balance sheets. Investments of VIEs support the repayment of VIE obligations and are not available to settle obligations of MBIA. Our AFS investments comprise high-quality fixed-income securities and short-term investments. Refer to Note 8: Investments in the Notes to Consolidated Financial Statements for detailed discussion about our investments.

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

LIQUIDITY (continued)

The following table presents our investment portfolio as of December 31, 2018 and 2017.

In millions	As of December 31, 2018	As of December 31, 2017	Percent Change
Available-for-sale investments[1]			
U.S. public finance insurance			
Amortized cost	$ 2,704	$ 3,150	-14%
Unrealized net gain (loss)	(64)	(72)	-11%
Fair value	2,640	3,078	-14%
Corporate			
Amortized cost	921	1,078	-15%
Unrealized net gain (loss)	24	49	-51%
Fair value	945	1,127	-16%
International and structured finance insurance			
Amortized cost	192	210	-9%
Unrealized net gain (loss)	4	8	-50%
Fair value	196	218	-10%
Total available-for-sale investments:			
Amortized cost	3,817	4,438	-14%
Unrealized net gain (loss)	(36)	(15)	140%
Total available-for-sale investments at fair value	3,781	4,423	-15%
Investments carried at fair value[2]			
U.S. public finance insurance	198	174	14%
Corporate	73	56	30%
International and structured finance insurance	19		n/m
Total investments carried at fair value	290	230	26%
Other investments at amortized cost:			
U.S. public finance insurance	1	2	-50%

Consolidated investments at carrying value	$	4,072	$	4,655	-13%

(1) Unrealized gains and losses, net of applicable deferred income taxes, are reflected in accumulated other comprehensive income in shareholders equity.

(2) Changes in fair value and realized gains and losses from the sale of these investments are reflected in net income. As a result of the adoption of ASU 2016-01, December 31, 2018 balances include money market securities. As of December 31, 2017, money market securities were reported in AFS investments.

n/m Percent change not meaningful.

The fair value of the Company s investments is based on prices which include quoted prices in active markets and prices based on market-based inputs that are either directly or indirectly observable, as well as prices from dealers in relevant markets. Differences between fair value and amortized cost arise primarily as a result of changes in interest rates and general market credit spreads occurring after a fixed-income security is purchased, although other factors may also influence fair value, including specific credit-related changes, supply and demand forces and other market factors. When the Company holds an AFS investment to maturity, any unrealized gain or loss currently recorded in accumulated other comprehensive income (loss) in the shareholders equity section of the balance sheet is reversed. As a result, the Company would realize a value substantially equal to amortized cost. However, when investments are sold prior to maturity, the Company will realize any difference between amortized cost and the sale price of an investment as a realized gain or loss within its consolidated statements of operations.

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

LIQUIDITY (continued)

Credit Quality

The credit quality distribution of the Company s AFS fixed-maturity investment portfolios, excluding short-term investments, are based on ratings from Moody s and alternate ratings sources, such as S&P or the best estimate of the ratings assigned by the Company, have been used for a small percentage of securities that are not rated by Moody s. As of December 31, 2018, the weighted average credit quality ratings and percentage of investment grade of the Company s AFS fixed-maturity investment portfolios, excluding short-term investments, are presented in the following table:

	U.S. Public Finance Insurance	Corporate	International and Structured Finance Insurance	Total
Weighted average credit quality ratings	A	Aa	Aa	Aa
Investment grade percentage	93%	99%	90%	94%

Insured Investments

MBIA s consolidated investment portfolio includes investments that are insured by various financial guarantee insurers (Insured Investments), including investments insured by National and MBIA Corp. (Company-Insured Investments). When purchasing Insured Investments, the Company s third-party portfolio manager independently assesses the underlying credit quality, structure and liquidity of each investment, in addition to the creditworthiness of the insurer. Insured Investments are diverse by sector, issuer and size of holding. The third-party portfolio manager assigns underlying ratings to Insured Investments without giving effect to financial guarantees based on underlying ratings assigned by Moody s or S&P, when a rating is not published by Moody s. When a Moody s or S&P underlying rating is not available, the underlying rating is based on the portfolio manager s best estimate of the rating of such investment. A downgrade of a financial guarantee insurer has historically had an adverse effect on the fair value of investments insured by the downgraded financial guarantee insurer. If the Company determines that declines in the fair values of Insured Investments are other-than-temporary, the Company will record a realized loss through earnings.

As of December 31, 2018, Insured Investments at fair value represented $438 million or 11% of consolidated investments, of which $342 million or 8% of consolidated investments were Company-Insured Investments. As of December 31, 2018, based on the actual or estimated underlying ratings of our consolidated investment portfolio, without giving effect to financial guarantees, the weighted average rating of only the Insured Investments in the investment portfolio would be in the Baa range. Without giving effect to the National and MBIA Corp. guarantees of the Company-Insured Investments in the consolidated investment portfolio, as of December 31, 2018, based on actual or estimated underlying ratings, the weighted average rating of the consolidated investment portfolio was in the Aa range. The weighted average rating of only the Company-Insured Investments was in the below investment grade range, and investments rated below investment grade in the Company-Insured Investments were 7% of the total consolidated investment portfolio.

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

LIQUIDITY (continued)

Contractual Obligations

The following table summarizes the Company s future estimated cash payments relating to contractual obligations as of December 31, 2018. Estimating these payments requires management to make estimates and assumptions regarding these obligations. The estimates and assumptions used by management are described below. Since these estimates and assumptions are subjective, actual payments in future periods may vary from those reported in the following table. Refer to Note 13: Insurance in Force in the Notes to Consolidated Financial Statements for information about the Company s exposure under insurance contracts.

	As of December 31, 2018						
In millions	**2019**	**2020**	**2021**	**2022**	**2023**	**Thereafter**	**Total**
U.S. public finance insurance segment:							
Gross insurance claim obligations(1)	$ 2	$ 1	$ 2	$ 1	$ 1	$ 17	$ 24
Lease liability	3	3	3	3	2	20	34
Corporate segment:							
Long-term debt	37	37	37	298	20	403	832
Investment agreements	18	47	11	11	29	358	474
Medium-term notes	67	7	7	65	7	880	1,033
Lease liability	1						1
International and structured finance insurance segment:							
Surplus notes	839	129	129	129	129	2,131	3,486
Gross insurance claim obligations(1)	82	23	23	18	12	1,024	1,182
MBIA Corp. Financing Facility	80	349					429
Total	$ 1,129	$ 596	$ 212	$ 525	$ 200	$ 4,833	$ 7,495

(1) Amounts on certain policies are presented net of expected recoveries. Excludes intercompany reinsurance agreements.

Gross insurance claim obligations represent the future value of probability-weighted payments MBIA expects to make (before reinsurance and the consolidation of VIEs) under insurance policies for which the Company has recorded loss reserves (financial guarantees) or has estimated credit impairments (insured derivatives). Certain policies included in gross insurance claim obligations are presented net of expected recoveries. The discounted value of estimated payments included in the table, along with probability-weighted estimated recoveries and estimated negotiated early settlements, on policies accounted for as financial guarantee insurance contracts is reported as case basis reserves within Loss and loss adjustment expense reserves on the Company s consolidated balance sheets. Insured derivatives are recorded at fair value and reported within Derivative liabilities on the Company s consolidated balance sheets. Estimated potential claim payments on obligations issued by VIEs consolidated in our international and structured finance insurance segment are included within Gross insurance claim obligations in the preceding table. Obligations of these VIEs are collateralized by assets held by the VIEs, and investors in such obligations do not have recourse to the general credit of MBIA. As of December 31, 2018, VIE notes issued by issuer-sponsored consolidated VIEs totaled $1.7 billion, including $480 million recorded at fair value, and are not considered contractual obligations of MBIA beyond MBIA s insurance claim obligation. The Company s involvement with VIEs is continually reassessed as required by consolidation guidance, and may result in consolidation or deconsolidation of VIEs in future periods. As the Company consolidates and deconsolidates VIEs, the amount of VIE debt obligations recorded on its balance sheet may change significantly.

Long-term debt, investment agreements, MTNs, surplus notes and the MBIA Corp. Financing Facility include principal and interest and exclude premiums or discounts. Liabilities issued at discounts reflect principal due at maturity. Interest payments on floating rate obligations are estimated using applicable forward rates. Principal and interest on callable obligations or obligations that allow investors to withdraw funds prior to legal maturity are based on the expected call or withdrawal dates of such obligations. Liabilities denominated in foreign currencies are presented in U.S. dollars using applicable exchange rates as of December 31, 2018.

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

LIQUIDITY (continued)

Included in international and structured finance insurance segment s surplus notes for 2019 is $743 million of unpaid interest related to the 2013 through 2018 interest payments in which MBIA Insurance Corporation s requests for approval to pay was not approved by the NYSDFS. This deferred interest payment will be due on the first business day on or after which MBIA Insurance Corporation obtains approval to make such payment. No interest will accrue on the deferred interest. There can be no assurance that the NYSDFS will approve any subsequent payments, or that it will approve any payment by the scheduled interest payment date. Refer to Capital Resources MBIA Insurance Corporation section for additional information on MBIA Insurance Corporation s surplus notes and statutory capital. Principal payments under investment agreements are based on expected withdrawal dates. All other principal payments are based on contractual maturity dates.

Item 7A. Q uantitative and Qualitative Disclosures About Market Risk

The Company s market risk exposures relate to changes in interest rates, foreign exchange rates and credit spreads that affect the fair value of its financial instruments, primarily investment securities, MTNs and investment agreement liabilities. The Company s investments are primarily U.S. dollar-denominated fixed-income securities including municipal bonds, U.S. government bonds, corporate bonds, MBS and asset-backed securities. In periods of rising and/or volatile interest rates, foreign exchange rates and credit spreads, profitability could be adversely affected should the Company have to liquidate these securities. The Company minimizes its exposure to interest rate risk, foreign exchange risk and credit spread movement through active portfolio management to ensure a proper mix of the types of securities held and to stagger the maturities of its fixed-income securities.

INTEREST RATE SENSITIVITY

Interest rate sensitivity can be estimated by projecting a hypothetical instantaneous increase or decrease in interest rates. The following table presents the estimated pre-tax change in fair value of the Company s financial instruments as of December 31, 2018 from instantaneous shifts in interest rates:

	Change in Interest Rates					
In millions	**300 Basis Point Decrease**	**200 Basis Point Decrease**	**100 Basis Point Decrease**	**100 Basis Point Increase**	**200 Basis Point Increase**	**300 Basis Point Increase**
Estimated change in fair value	$ 429	$ 242	$ 105	$ (84)	$ (151)	$ (205)

FOREIGN EXCHANGE RATE SENSITIVITY

The Company is exposed to foreign exchange rate risk in respect of liabilities denominated in currencies other than U.S. dollars. Certain liabilities included in our corporate segment are denominated in currencies other than U.S. dollars. The majority of the Company s foreign exchange rate risks is with the Euro. Foreign exchange rate sensitivity can be estimated by projecting a hypothetical instantaneous increase or decrease in foreign exchange rates. The following table presents the estimated pre-tax change in fair value of the Company s financial instruments as of December 31, 2018 from instantaneous shifts in foreign exchange rates:

	Change in Foreign Exchange Rates			
	Dollar Weakens		Dollar Strengthens	
In millions	**20%**	**10%**	**10%**	**20%**
Estimated change in fair value	$ (73)	$ (36)	$ 36	$ 73

Item 7A. Quantitative and Qualitative Disclosures About Market Risk (continued)

CREDIT RATE SENSITIVITY

Credit spread sensitivity can be estimated by projecting a hypothetical instantaneous increase or decrease in credit spreads. The following table presents the estimated pre-tax change in fair value of the Company s financial instruments as of December 31, 2018 from instantaneous shifts in credit spread curves. It was assumed that all credit spreads move by the same amount. It is more likely that the actual changes in credit spreads will vary by security. National s investment portfolio would generally be expected to experience lower credit spread volatility than other investment portfolios since National has higher credit quality and portfolio composition in sectors that have been less volatile historically. The changes in fair value reflect partially offsetting effects as the value of the investment portfolios generally changes in an opposite direction from the liability portfolio.

	Change in Credit Spreads		
In millions	**50 Basis Point Decrease**	**50 Basis Point Increase**	**200 Basis Point Increase**
Estimated change in fair value	$ 60	$ (57)	$ (195)

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Item 8. Financial Statements and Supplementary Data

MBIA INC. AND SUBSIDIARIES

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Refer to Item 6. Selected Financial Data for Supplementary Financial Information

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of MBIA Inc.

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of MBIA Inc. and its subsidiaries (the Company) as of December 31, 2018 and 2017 and the related consolidated statements of operations, of comprehensive income (loss), of changes in shareholders equity and of cash flows for each of the three years in the period ended December 31, 2018, including the related notes and financial statement schedules listed in the index appearing under Item 15(a)(2) (collectively referred to as the consolidated financial statements). We also have audited the Company s internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company did not maintain, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control Integrated Framework (2013) issued by the COSO because a material weakness in internal control over financial reporting existed as of that date related to the Company not designing and maintaining effective controls at a sufficient level of precision to verify the reliability of data, the reasonableness of assumptions and the accuracy of calculations used in its residential mortgage-backed securities loss reserve and recovery models.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis. The material weakness referred to above is described in Management s Report on Internal Control over Financial Reporting appearing under Item 9A. We considered this material weakness in determining the nature, timing, and extent of audit tests applied in our audit of the 2018 consolidated financial statements, and our opinion regarding the effectiveness of the Company s internal control over financial reporting does not affect our opinion on those consolidated financial statements.

Basis for Opinions

The Company s management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in management s report referred to above. Our responsibility is to express opinions on the Company s consolidated financial statements, and on the Company s internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control over Financial Reporting

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

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

/s/ PricewaterhouseCoopers LLP

New York, New York

February 28, 2019

We have served as the Company s auditor since at least 1986. We have not been able to determine the specific year we began serving as auditor of the Company.

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MBIA INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In millions except share and per share amounts)

	December 31, 2018	December 31, 2017
Assets		
Investments:		
Fixed-maturity securities held as available-for-sale, at fair value (amortized cost $3,601 and $3,728)	$ 3,565	$ 3,712
Investments carried at fair value	222	200
Investments pledged as collateral, at fair value (amortized cost $46 and $147)	43	148
Short-term investments, at fair value (amortized cost $241 and $589)	241	589
Other investments (includes investments at fair value of $ and $4)	1	6
Total investments	4,072	4,655
Cash and cash equivalents	222	122
Premiums receivable	296	369
Deferred acquisition costs	74	95
Insurance loss recoverable	1,564	511
Other assets	122	128
Assets of consolidated variable interest entities:		
Cash	58	24
Investments held-to-maturity, at amortized cost (fair value $925 and $916)	890	890
Investments carried at fair value	157	182
Loans receivable and other instruments at fair value	172	1,679
Loan repurchase commitments	418	407
Other assets	31	33
Total assets	**$ 8,076**	**$ 9,095**
Liabilities and Equity		
Liabilities:		
Unearned premium revenue	$ 587	$ 752
Loss and loss adjustment expense reserves	934	979
Long-term debt	2,249	2,121
Medium-term notes (includes financial instruments carried at fair value of $102 and $115)	722	765
Investment agreements	311	337
Derivative liabilities	199	262
Other liabilities	198	165
Liabilities of consolidated variable interest entities:		
	1,744	2,289

Variable interest entity notes (includes financial instruments carried at fair value of $480 and $1,069)				
Total liabilities		**6,944**		**7,670**
Commitments and contingencies (Refer to Note 20)				
Equity:				
Preferred stock, par value $1 per share; authorized shares 10,000,000; issued and outstanding none				
Common stock, par value $1 per share; authorized shares 400,000,000; issued shares 283,625,689 and 283,717,973		284		284
Additional paid-in capital		3,025		3,171
Retained earnings		966		1,095
Accumulated other comprehensive income (loss), net of tax of $8 and $16		(156)		(19)
Treasury stock, at cost 193,803,976 and 192,233,526 shares		(3,000)		(3,118)
Total shareholders equity of MBIA Inc.		1,119		1,413
Preferred stock of subsidiary		13		12
Total equity		**1,132**		**1,425**
Total liabilities and equity	**$**	**8,076**	**$**	**9,095**

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

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MBIA INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(In millions except share and per share amounts)

	Years Ended December 31, 2018	2017	2016
Revenues:			
Premiums earned:			
Scheduled premiums earned	$ 114	$ 107	$ 168
Refunding premiums earned	48	94	132
Premiums earned (net of ceded premiums of $5, $6 and $7)	162	201	300
Net investment income	130	154	152
Fees and reimbursements	25	15	28
Change in fair value of insured derivatives:			
Realized gains (losses) and other settlements on insured derivatives	(56)	(51)	(40)
Unrealized gains (losses) on insured derivatives	31		21
Net change in fair value of insured derivatives	(25)	(51)	(19)
Net gains (losses) on financial instruments at fair value and foreign exchange	(17)	(24)	84
Net investment losses related to other-than-temporary impairments:			
Investment losses related to other-than-temporary impairments		(101)	(1)
Other-than-temporary impairments recognized in accumulated other comprehensive income (loss)	(5)	(5)	(4)
Net investment losses related to other-than-temporary impairments	(5)	(106)	(5)
Net gains (losses) on extinguishment of debt	3	28	5
Other net realized gains (losses)		31	(282)
Revenues of consolidated variable interest entities:			
Net investment income	35	27	31
Net gains (losses) on financial instruments at fair value and foreign exchange	25	130	
Other net realized gains (losses)	(171)	28	
Total revenues	162	433	294
Expenses:			
Losses and loss adjustment	63	683	220
Amortization of deferred acquisition costs	20	23	40

Operating		71		106		137
Interest		206		197		197
Expenses of consolidated variable interest entities:						
Operating		11		10		14
Interest		87		75		25
Total expenses		458		1,094		633
Income (loss) before income taxes		(296)		(661)		(339)
Provision (benefit) for income taxes				944		(1)
Net income (loss)	**$**	**(296)**	**$**	**(1,605)**	**$**	**(338)**
Net income (loss) per common share:						
Basic	$	(3.33)	$	(13.50)	$	(2.54)
Diluted	$	(3.33)	$	(13.50)	$	(2.54)
Weighted average number of common shares outstanding:						
Basic		89,013,711		118,930,282		133,001,088
Diluted		89,013,711		118,930,282		133,001,088

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

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MBIA INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(In millions)

	Years Ended December 31,		
	2018	**2017**	**2016**
Net income (loss)	$ (296)	$ (1,605)	$ (338)
Other comprehensive income (loss):			
Unrealized gains (losses) on available-for-sale securities:			
Unrealized gains (losses) arising during the period	(60)	(22)	28
Provision (benefit) for income taxes	5	(1)	7
Total	(65)	(21)	21
Reclassification adjustments for (gains) losses included in net income (loss)	(5)	2	(1)
Provision (benefit) for income taxes			1
Total	(5)	2	(2)
Available-for-sale securities with other-than-temporary impairments:			
Other-than-temporary impairments and unrealized gains (losses) arising during the period	41	(3)	10
Provision (benefit) for income taxes			4
Total	41	(3)	6
Reclassification adjustments for (gains) losses included in net income (loss)	5	7	4
Provision (benefit) for income taxes		1	1
Total	5	6	3
Foreign currency translation:			
Foreign currency translation gains (losses)	2	146	(94)
Provision (benefit) for income taxes		21	1
Total	2	125	(95)
Instrument-specific credit risk of liabilities measured at fair value:			
Unrealized gains (losses) arising during the period	52		
Total other comprehensive income (loss)	30	109	(67)
Comprehensive income (loss)	**$ (266)**	**$ (1,496)**	**$ (405)**

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

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MBIA INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY

For The Years Ended December 31, 2018, 2017 and 2016

(In millions except share amounts)

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (loss)	Treasury Stock Shares	Treasury Stock Amount	Total Shareholders Equity of MBIA Inc.	Preferred Stock of Subsidiary Shares	Preferred Stock of Subsidiary Amount	Total Equity
Balance, January 1, 2016	**281,833,618**	**$ 282**	**$ 3,138**	**$ 3,038**	**$ (61)**	**(130,303,241)**	**$ (2,668)**	**$ 3,729**	**1,315**	**$ 12**	**$ 3,741**
Net income (loss)				(338)				(338)			(338)
Other comprehensive income (loss)					(67)			(67)			(67)
Share-based compensation, net of tax	2,156,381	2	22			(1,925,990)	(16)	8			8
Treasury shares acquired under share repurchase program						(16,559,937)	(105)	(105)			(105)
Balance, December 31, 2016	**283,989,999**	**$ 284**	**$ 3,160**	**$ 2,700**	**$ (128)**	**(148,789,168)**	**$ (2,789)**	**$ 3,227**	**1,315**	**$ 12**	**$ 3,239**
Net income (loss)				(1,605)				(1,605)			(1,605)
Other comprehensive income (loss)					109			109			109
Share-based compensation, net of tax	(272,026)		11			(402,707)	(4)	7			7
Treasury shares acquired under						(43,041,651)	(325)	(325)			(325)

share repurchase program											
Balance, December 31, 2017	**283,717,973**	**$ 284**	**$ 3,171**	**$ 1,095**	**$ (19)**	**(192,233,526)**	**$ (3,118)**	**$ 1,413**	**1,315**	**$ 12**	**$ 1,425**
ASU 2016-01 transition adjustment				164	(164)						
ASU 2018-02 transition adjustment				3	(3)						
Net income (loss)				(296)				(296)			(296)
Other comprehensive income (loss)					30			30			30
Share-based compensation, net of tax	(92,284)		(125)			2,994,497	132	7			7
Treasury shares issued for warrant exercises			(21)			1,277,620	34	13			13
Treasury shares acquired under share repurchase program						(5,842,567)	(48)	(48)			(48)
Other										1	1
Balance, December 31, 2018	**283,625,689**	**$ 284**	**$ 3,025**	**$ 966**	**$ (156)**	**(193,803,976)**	**$ (3,000)**	**$ 1,119**	**1,315**	**$ 13**	**$ 1,132**

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

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MBIA INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions)

	Years Ended December 31,		
	2018	2017	2016
Cash flows from operating activities:			
Premiums, fees and reimbursements received	$ 86	$ 61	$ 115
Investment income received	205	248	318
Insured derivative commutations and losses paid	(56)	(52)	(43)
Financial guarantee losses and loss adjustment expenses paid	(385)	(768)	(351)
Proceeds from recoveries and reinsurance	61	170	99
Operating and employee related expenses paid	(83)	(130)	(134)
Interest paid, net of interest converted to principal	(146)	(177)	(148)
Income taxes (paid) received	(1)	(4)	(5)
Net cash provided (used) by operating activities	(319)	(652)	(149)
Cash flows from investing activities:			
Purchases of available-for-sale investments	(2,265)	(1,811)	(2,661)
Sales of available-for-sale investments	2,117	2,256	2,412
Paydowns and maturities of available-for-sale investments	329	568	680
Purchases of investments at fair value	(189)	(263)	(199)
Sales, paydowns and maturities of investments at fair value	212	326	260
Sales, paydowns and maturities (purchases) of short-term investments, net	420	(67)	(125)
Sales, paydowns and maturities of held-to-maturity investments			1,799
Paydowns and maturities of loans receivable and other instruments	614	259	261
Consolidation of variable interest entities		18	9
Deconsolidation of variable interest entities	(7)		(8)
(Payments) proceeds for derivative settlements	(24)	(64)	(44)
Collateral (to) from counterparties		4	49
Capital expenditures	(1)	(1)	(1)
Other investing		(23)	(8)
Net cash provided (used) by investing activities	1,206	1,202	2,424
Cash flows from financing activities:			
Proceeds from investment agreements	12	17	19
Principal paydowns of investment agreements	(37)	(75)	(85)
Principal paydowns of medium-term notes	(85)	(157)	(120)
Proceeds from the MBIA Corp. Financing Facility		328	
Principal paydowns of variable interest entity notes	(598)	(368)	(2,234)
Purchases of treasury stock	(44)	(330)	(110)
Other financing		(4)	(5)

Net cash provided (used) by financing activities	(752)	(589)	(2,535)
Effect of exchange rate changes on cash and cash equivalents	(1)	(2)	(2)
Net increase (decrease) in cash and cash equivalents	134	(41)	(262)
Cash and cash equivalents beginning of period	146	187	522
Reclassification to assets held for sale			(73)
Cash and cash equivalents end of period	$ 280	$ 146	$ 187
Reconciliation of net income (loss) to net cash provided (used) by operating activities:			
Net income (loss)	$ (296)	$ (1,605)	$ (338)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:			
Change in:			
Premiums receivable	60	49	75
Deferred acquisition costs	21	22	41
Unearned premium revenue	(165)	(206)	(263)
Loss and loss adjustment expense reserves	(46)	778	29
Insurance loss recoverable	(213)	(681)	(74)
Accrued interest payable	157	116	102
Accrued expenses	(9)	(29)	7
Net investment losses related to other-than-temporary impairments	5	106	5
Unrealized (gains) losses on insured derivatives	(31)		(21)
Net (gains) losses on financial instruments at fair value and foreign exchange	(8)	(106)	(84)
Other net realized (gains) losses	171	(59)	282
Deferred income tax provision (benefit)		940	(5)
Interest on variable interest entities, net	17	35	57
Other operating	18	(12)	38
Total adjustments to net income (loss)	(23)	953	189
Net cash provided (used) by operating activities	$ (319)	$ (652)	$ (149)
Supplementary Disclosure of Consolidated Cash Flow Information			
Non-cash investing activities:			
Non-cash consideration received from the sale of MBIA UK Insurance Limited	$	$ 332	$

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

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 1: Business Developments and Risks and Uncertainties

Summary

MBIA Inc., together with its consolidated subsidiaries, (collectively, MBIA or the Company) operates within the financial guarantee insurance industry. MBIA manages three operating segments: 1) United States (U.S.) public finance insurance; 2) corporate; and 3) international and structured finance insurance. The Company s U.S. public finance insurance business is managed through National Public Finance Guarantee Corporation (National), the corporate segment is operated through MBIA Inc. and several of its subsidiaries, including our service company, MBIA Services Corporation (MBIA Services) and its international and structured finance insurance business is primarily operated through MBIA Insurance Corporation and its subsidiaries (MBIA Corp.). Effective on January 10, 2017, MBIA Corp. s wholly-owned subsidiary, MBIA UK (Holdings) Limited (MBIA UK Holdings), sold its operating subsidiary, MBIA UK Insurance Limited (MBIA UK), to Assured Guaranty Corp. (Assured), a subsidiary of Assured Guaranty Ltd. Refer below for a further discussion of the sale of MBIA UK. Unless otherwise indicated or the context otherwise requires, references to MBIA Corp. are (i) for any references relating to the period ended January 10, 2017, to MBIA Insurance Corporation, together with its subsidiaries, MBIA UK, and MBIA Mexico S.A. de C.V. (MBIA Mexico) and (ii) for any references relating to the period after January 10, 2017, to MBIA Insurance Corporation together with MBIA Mexico.

Refer to Note 12: Business Segments for further information about the Company s operating segments.

Business Developments

Financial Strength Ratings

In June of 2017, Standard & Poor s Financial Services LLC (S&P) downgraded the financial strength rating of National which made it difficult for National to compete with higher-rated competitors. Therefore, at that time, National ceased its efforts to write new financial guarantee business. The Company then terminated its agreements with S&P, Kroll Bond Rating Agency (Kroll) and Moody s Investors Services (Moody s) to provide financial strength ratings to MBIA Inc. and certain of its subsidiaries. S&P and Kroll subsequently withdrew all of their ratings. On January 17, 2018, Moody s downgraded the financial strength rating of National to Baa2 from A3 with a stable outlook, affirmed the financial strength rating of MBIA Corp. at Caa1 with a developing outlook, downgraded MBIA Inc. s rating to Ba3 with a stable outlook from Ba1 with a negative outlook, and affirmed the financial strength rating of MBIA Mexico at Caa1/B3.mx with a developing outlook. Moody s, at its discretion and in the absence of a contract with the Company, continues to maintain ratings on MBIA Inc. and its subsidiaries.

Stock Warrants

In April and June of 2018, the holder of certain MBIA Inc. warrants exercised its right to purchase, in total, 11.85 million shares of MBIA Inc. common stock at an exercise price of $9.59 per share. As a result, the Company issued a total of 1.3 million shares of MBIA Inc. common stock to the holder in accordance with the cashless settlement provision of the warrants. As of December 31, 2018, there were no warrants outstanding.

Sale of MBIA UK

On January 10, 2017, MBIA UK Holdings sold its operating subsidiary, MBIA UK, and made a cash payment of $23 million, to Assured in exchange for the receipt by MBIA UK Holdings of certain notes owned by Assured that were issued by Zohar II 2005-1, Limited (Zohar II) with an aggregate outstanding principal amount of $347 million as of January 10, 2017 (the Sale Transaction). During 2017, the Company recorded a gain of $5 million to adjust the carrying value of MBIA UK to its fair value less costs to sell as of the sale date. These results were reflected in the Company s international and structured finance insurance segment and included in Other net realized gains (losses) on the Company s consolidated statement of operations.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

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

Risks and Uncertainties

The Company s financial statements include estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. The outcome of certain significant risks and uncertainties could cause the Company to revise its estimates and assumptions or could cause actual results to differ from the Company s estimates. The discussion below highlights the significant risks and uncertainties that could have a material effect on the Company s financial statements and business objectives in future periods.

U.S. Public Finance Market Conditions

National continues to surveil and remediate its existing insured portfolio and will seek opportunities to enhance shareholder value using its substantial financial resources, while protecting the interests of all policyholders. Certain state and local governments and territory obligors that National insures are under financial and budgetary stress. This could lead to an increase in defaults by such entities on the payment of their obligations and losses or impairments on a greater number of National s insured transactions. National monitors and analyzes these situations and other stressed credits closely, and the overall extent and duration of this stress is uncertain.

The Commonwealth of Puerto Rico and certain of its instrumentalities (Puerto Rico) are experiencing significant fiscal stress and constrained liquidity due to, among other things, Puerto Rico s structural budget imbalance, the lack of access to the capital markets, a stagnating local economy, net migration of people out of Puerto Rico and a high debt burden. Puerto Rico continues in its efforts to rebuild its infrastructure and to otherwise recover from the impact of Hurricane Maria in 2017, aided in part by Federal Emergency Management Agency and other federal agencies. As part of the Title III proceedings under Puerto Rico Oversight, Management and Economic Stability Act (PROMESA), Puerto Rico submitted several draft fiscal plans and an independent Financial Oversight and Management Board for Puerto Rico (Oversight Board) voted to certify the most recent fiscal plan. The current plan, or any revisions thereto, can provide no assurance that National will fully recover past amounts paid or future amounts that may be covered under its insurance policies. In addition, the extent and duration of such aid is inherently uncertain, and the necessary and greater involvement of the federal government, through its actions to deliver disaster relief and other support services, in addition to the role of the Oversight Board and the role of Puerto Rico in its own recovery, heightens political risk in connection with the restructuring of legacy debt. This risk could lead the Oversight Board, Puerto Rico or the federal government to seek to extract greater concessions from creditors based on the uncertainty of Puerto Rico s long term recovery prospects. In this event, losses at National on select Puerto Rico exposures could increase materially.

Puerto Rico defaulted on scheduled debt service for National insured bonds and National paid gross claims in the aggregate of $276 million during 2018. On January 1, 2019, Puerto Rico also defaulted on scheduled debt service for National insured bonds and National paid gross claims in the aggregate of $65 million.

MBIA Corp. Insured Portfolio

MBIA Corp. s primary objectives are to satisfy all claims by its policyholders and to maximize future recoveries, if any, for its senior lending and surplus note holders, and then its preferred stock holders. MBIA Corp. is executing this strategy by, among other things, pursuing various actions focused on maximizing the collection of recoveries and by reducing potential losses on its insurance exposures. MBIA Corp. s insured portfolio performance could deteriorate and result in additional significant loss reserves and claim payments. MBIA Corp. s ability to meet its obligations is limited by available liquidity and its ability to secure additional liquidity through financing and other transactions. There can be no assurance that MBIA Corp. will be successful in generating sufficient resources to meet its obligations.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

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

Zohar and RMBS Recoveries

Payment of claims totaling $919 million in November of 2015 and January of 2017, on MBIA Corp. s policies insuring the Class A-1 and A-2 notes issued by Zohar CDO 2003-1, Limited (Zohar I) and insuring certain notes issued by Zohar II, entitles MBIA Corp. to reimbursement of such amounts plus interest and expenses and/or to exercise certain rights and remedies to seek recovery of such amounts. MBIA Corp. anticipates that the primary source of the recoveries will come from the monetization of the assets of Zohar I and Zohar II, which include, among other things, loans made to, and equity interests in, companies purportedly controlled by the sponsor and former collateral manager of Zohar I and Zohar II (the Zohar Sponsor) (all the assets of Zohar I and Zohar II, the Zohar Assets). On March 11, 2018, the then-director of Zohar I and Zohar II placed those funds into voluntary bankruptcy proceedings in federal bankruptcy court in the District of Delaware (the Zohar Funds Bankruptcy Cases). On May 21, 2018, the Court granted the Zohar funds motion to approve a settlement (the Zohar Bankruptcy Settlement) which established a process by which the debtor funds, through an independent director and a chief restructuring officer, will work with the original sponsor of the funds to monetize the Zohar Assets and repay creditors, including MBIA Corp. In addition, the Zohar Bankruptcy Settlement provides for a stay of all pending litigation between the parties for a minimum of fifteen months. Subsequent to the Zohar Bankruptcy Settlement, the Company deconsolidated Zohar I and Zohar II as variable interest entities (VIEs or VIE) and, as of December 31, 2018, salvage and subrogation recoveries related to Zohar I and Zohar II are reported within Insurance loss recoverable on the Company s consolidated balance sheet. Refer to Note 4: Variable Interest Entities for additional information about the deconsolidation of the Zohar funds. Notwithstanding the Zohar Bankruptcy Settlement, there can be no assurance that the value of the Zohar Assets will be sufficient to permit MBIA Corp. to recover all or substantially all of the payments it made on Zohar I and Zohar II.

MBIA Corp. also projects to collect excess spread from insured residential mortgage-backed securities (RMBS), and to recover proceeds from Credit Suisse Securities (USA) LLC, DLJ Mortgage Capital, Inc. and Select Portfolio Servicing Inc. (collectively, Credit Suisse) arising from its failure to repurchase ineligible loans that were included in a Credit Suisse sponsored RMBS transaction. However, the amount and timing of these collections and recoveries are uncertain.

Failure to collect a substantial amount of its expected recoveries could impede MBIA Corp. s ability to make payments when due on other policies. MBIA Corp. believes that if the New York State Department of Financial Services (NYSDFS) concludes at any time that MBIA Insurance Corporation will not be able to pay its policyholder claims, the NYSDFS would likely put MBIA Insurance Corporation into a rehabilitation or liquidation proceeding under Article 74 of the New York Insurance Law (NYIL) and/or take such other actions as the NYSDFS may deem necessary to protect the interests of MBIA Insurance Corporation s policyholders. The determination to commence such a proceeding or take other such actions is within the exclusive control of the NYSDFS.

Given the separation of MBIA Inc. and MBIA Corp. as distinct legal entities, the absence of any cross defaults between the entities and the lack of reliance by MBIA Inc. on MBIA Corp. for the receipt of dividends, the Company does not believe that a rehabilitation or liquidation proceeding with respect to MBIA Insurance Corporation would have any significant liquidity impact on MBIA Inc. Such a proceeding could have material adverse consequences for MBIA Corp., including the termination of insured credit default swaps (CDS) and other derivative contracts for which counterparties may assert market-based claims, the acceleration of debt obligations issued by affiliates and insured by MBIA Corp., the loss of control of MBIA Insurance Corporation to a rehabilitator or liquidator, and unplanned costs.

Refer to Note 6: Loss and Loss Adjustment Expense Reserves for additional information about MBIA Corp. s recoveries.

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

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

Corporate Liquidity

Based on the Company s projections of National s dividends, additional anticipated releases under its tax sharing agreement and related tax escrow account (Tax Escrow Account), and other cash inflows, the Company expects that MBIA Inc. will have sufficient cash to satisfy its debt service and general corporate needs. However, MBIA Inc. continues to have liquidity risk that could be triggered by deterioration in the performance of invested assets, interruption of or reduction in dividends or tax payments received from operating subsidiaries, impaired access to the capital markets, as well as other factors, which are not anticipated at this time. Furthermore, failure by MBIA Inc. to settle liabilities that are insured by MBIA Corp. could result in claims on MBIA Corp.

Note 2: Significant Accounting Policies

Basis of Presentation

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. As additional information becomes available or actual amounts become determinable, the recorded estimates are revised and reflected in operating results.

Certain amounts have been reclassified in prior years financial statements to conform to the current presentation. This includes a change in the classification of certain cash receipts and cash payments on the Company s consolidated statements of cash flows as resulting from the adoption of Accounting Standards Update (ASU) 2016-15, Statement of Cash Flows (Topic 230) . This classification change affected Interest paid, net of interest converted to principal , in operating cash flows, and Principal paydowns of investment agreements and Principal paydowns of medium-term notes , in financing cash flows, on the Company s consolidated statements of cash flows for the prior period. Such reclassifications did not materially impact total revenues, expenses, assets, liabilities, shareholders equity, operating cash flows, investing cash flows, or financing cash flows for all periods presented. Refer to Note 3: Recent Accounting Pronouncements for additional recent accounting standards that impact the Company.

Consolidation

The consolidated financial statements include the accounts of MBIA Inc., its wholly-owned subsidiaries and all other entities in which the Company has a controlling financial interest. All intercompany balances and transactions have been eliminated. The Company determines whether it has a controlling financial interest in an entity by first evaluating whether an entity is a voting interest entity or a VIE.

Voting interest entities are entities in which (i) the total equity investment at risk is sufficient to enable an entity to finance its activities independently and (ii) the equity holders have the obligation to absorb losses, the right to receive residual returns and the right to make decisions about the entity s activities. Voting interest entities are consolidated when the Company has a majority voting interest.

VIEs are entities that lack one or more of the characteristics of a voting interest entity. The consolidation of a VIE is required if an entity has a variable interest (such as an equity or debt investment, a beneficial interest, a guarantee, a written put option or a similar obligation) and that variable interest or interests give it a controlling financial interest in the VIE. A controlling financial interest is present when an enterprise has both (a) the power to direct the activities of a VIE that most significantly impact the entity s economic performance and (b) the obligation to absorb losses or the right to receive benefits of the VIE that could potentially be significant to the VIE. The enterprise with the controlling financial interest, known as the primary beneficiary, is required to consolidate the VIE. The Company consolidates all VIEs in which it is the primary beneficiary. The Company elected to apply the fair value option to all financial assets and financial liabilities of certain consolidated VIEs on a VIE-by-VIE basis. Refer to Note 4: Variable Interest Entities for additional information.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 2: Significant Accounting Policies (continued)

Investments

The Company classifies its investments as available-for-sale (AFS), held-to-maturity (HTM), or trading. AFS investments are reported in the consolidated balance sheets at fair value with unrealized gains and losses, net of applicable deferred income taxes, reflected in accumulated other comprehensive income (loss) (AOCI) in shareholders equity. Investments carried at fair value are reported in the consolidated balance sheets at fair value and changes in fair value and realized gains and losses from the sale of these securities are reflected in earnings as part of Net gains (losses) on financial instruments at fair value and foreign exchange. Investments carried at fair value consist of certain investments elected under the fair value option. Short-term investments held as AFS include all fixed-maturity securities with a remaining maturity of less than one year at the date of purchase, commercial paper and money market securities. HTM investments are reported in the consolidated balance sheets at amortized cost. Debt securities are classified as HTM investments when the Company has the ability and intent to hold such investments to maturity. Investment income is recorded as earned. Bond discounts and premiums are amortized using the effective yield method over the remaining term of the securities and reported in Net investment income. For mortgage-backed securities (MBS) and asset-backed securities (ABS), discounts and premiums are amortized using the retrospective method. Realized gains and losses represent the difference between the amortized cost value and the sale proceeds.

Other-Than-Temporary Impairments on Investments

The Company s consolidated statements of operations reflect the full impairment (the difference between a security s amortized cost basis and fair value) on debt securities that the Company intends to sell or would more likely than not be required to sell before the expected recovery of the amortized cost basis. For AFS and HTM debt 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 impairment is recognized in earnings. For AFS securities, the remaining fair value loss is recognized in AOCI, net of applicable deferred income taxes.

The Company s AFS and HTM securities for which the fair value is less than amortized cost are reviewed no less than quarterly in order to determine whether a credit loss exists. This evaluation includes both qualitative and quantitative considerations. In assessing whether a decline in value is related to a credit loss, the Company considers several factors, including but not limited to (a) the magnitude and duration of the decline, (b) credit indicators and the reasons for the 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. Credit loss expectations for ABS and collateralized debt obligations (CDOs) are assessed using discounted cash flow modeling, and the recoverability of amortized cost for corporate obligations is generally assessed using issuer-specific credit analyses.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, demand deposits, and deposits with banks with original maturities of less than three months.

Deferred Acquisition Costs

The Company capitalized and deferred acquisition costs that were directly related to new or renewal insurance business. Acquisition costs are costs to acquire an insurance contract which result directly from and are essential to the insurance contracts transaction and would not have been incurred by the Company had the contract transaction not occurred. Acquisition costs include compensation of employees involved in underwriting, certain rating agency fees, state premium taxes and certain other underwriting expenses, reduced by ceding commission income on premiums ceded to reinsurers. Acquisition costs also included ceding commissions paid by the Company in connection with assuming business from other financial guarantors. Acquisition costs, net of ceding commissions received, related to non-derivative insured financial guarantee transactions are deferred and amortized over the period in which the related premiums are earned.

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 2: Significant Accounting Policies (continued)

Derivatives

Derivative instruments are reported at fair value on the consolidated balance sheets as either assets or liabilities depending on the rights or obligations under the contract, and changes in fair value are reported in the consolidated statements of operations as Net gains (losses) on financial instruments at fair value and foreign exchange or Unrealized gains (losses) on insured derivatives depending on the nature of the derivative. The net change in the fair value of the Company s insured derivatives has two primary components: (i) realized gains (losses) and other settlements on insured derivatives and (ii) unrealized gains (losses) on insured derivatives. Realized gains (losses) and other settlements on insured derivatives include (i) premiums received and receivable on sold CDS contracts, (ii) premiums paid and payable to reinsurers in respect to CDS contracts, (iii) net amounts received or paid on reinsurance commutations, (iv) losses paid and payable to CDS contract counterparties due to the occurrence of a credit event or settlement agreement, (v) losses recovered and recoverable on purchased CDS contracts due to the occurrence of a credit event or settlement agreement and (vi) fees relating to CDS contracts. Unrealized gains (losses) on insured derivatives includes all other changes in fair value of the insured derivative contracts.

In certain instances, the Company purchased or issued securities that contain embedded derivatives that were separated from the host contract and accounted for as derivative instruments. In addition, the Company elected to record at fair value certain financial instruments that contained an embedded derivative that required bifurcation from the host contract and to be accounted for separately as a derivative instrument. These hybrid financial instruments included certain medium-term notes (MTNs) and certain AFS securities. The Company elected to fair value these hybrid financial instruments given the complexity of bifurcating the embedded derivatives.

Refer to Note 9: Derivative Instruments for a further discussion of the Company s use of derivatives and their impact on the Company s consolidated financial statements and Note 7: Fair Value of Financial Instruments for derivative valuation techniques and fair value disclosures.

Fair Value Measurements Definition and Hierarchy

The Company carries certain financial instruments at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement of financial instruments held or issued by the Company are determined through the use of observable market data when available. Market data is obtained from a variety of third-party sources, including dealer quotes. If dealer quotes are not available for an instrument that is infrequently traded, the Company uses alternate valuation methods, including either dealer quotes for similar instruments or pricing models that use market data inputs. The use of alternate valuation methods generally requires considerable judgment in the application of estimates and assumptions and changes to such estimates and assumptions may produce materially different fair values. The Company considers its own nonperformance risk and the nonperformance risk of its counterparties when measuring fair value.

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

Level 1 Valuations based on quoted prices in active markets for identical assets or liabilities that the Company can access. Valuations are based on quoted prices that are readily and regularly available in an active market, with significant trading volumes.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 2: Significant Accounting Policies (continued)

Level 2 Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly. Level 2 assets include debt securities with quoted prices that are traded less frequently than exchange-traded instruments, securities which are priced using observable inputs and derivative contracts whose values are determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data.

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

The availability of observable inputs can vary from financial instrument to financial instrument and period to period depending on the type of instrument, market activity, the approach used to measure fair value, and other factors. The Company categorizes a financial instrument within the fair value hierarchy based on the least observable input that is significant to the fair value measurement. When the inputs used to measure fair value of an asset or a liability are categorized within different levels based on the definition of the fair value hierarchy, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

Refer to Note 7: Fair Value of Financial Instruments for additional fair value disclosures.

Loss and Loss Adjustment Expenses

The Company recognizes loss reserves on a contract-by-contract basis when the present value of expected net cash outflows to be paid under the contract discounted using a risk-free rate as of the measurement date exceeds the unearned premium revenue. A 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 reserves are recognized as loss expense in the period of change. Measurement and recognition of loss reserves are reported gross of any reinsurance. The Company estimates the likelihood of possible claim payments and possible recoveries using probability-weighted expected cash flows based on information available as of the measurement date, including market information. Accretion of the discount on a loss reserve is included in loss expense.

The Company recognizes potential recoveries on paid claims based on probability-weighted net cash inflows present valued at applicable risk-free rates as of the measurement date. Such amounts are reported within Insurance loss recoverable on the Company s consolidated balance sheets. To the extent the Company had recorded potential recoveries in its loss reserves previous to a claim payment, such recoveries are reclassified to Insurance loss recoverable upon payment of the related claim and remeasured each reporting period.

The Company s loss reserve, insurance loss recoverable, and accruals for loss adjustment expense (LAE) incurred are disclosed in Note 6: Loss and Loss Adjustment Expense Reserves.

Long-term Debt

Long-term debt is carried at the principal amount outstanding plus accrued interest and net of unamortized debt issuance costs and discounts. Interest expense is accrued at the contractual interest rate. Debt issuance costs and discounts are amortized and reported as interest expense.

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 2: Significant Accounting Policies (continued)

Medium-Term Notes and Investment Agreements

MTNs and investment agreements are carried at the principal amount outstanding plus accrued interest and net of unamortized discounts or at fair value for certain MTNs. Interest expense is accrued at the contractual interest rate. Discounts are amortized and reported as interest expense.

Financial Guarantee Insurance Premiums

Unearned Premium Revenue and Receivable for Future Premiums

The Company recognizes a liability for unearned premium revenue at the inception of financial guarantee insurance and reinsurance contracts on a contract-by-contract basis. Unearned premium revenue recognized at inception of a contract is measured at the present value of the premium due. For most financial guarantee insurance contracts, the Company receives the entire premium due at the inception of the contract, and recognizes unearned premium revenue liability at that time. For certain other financial guarantee contracts, the Company receives premiums in installments over the term of the contract. Unearned premium revenue and a receivable for future premiums are recognized at the inception of an installment contract, and measured at the present value of premiums expected to be collected over the contract period or expected period using a risk-free discount rate. The expected period is used in the present value determination of unearned premium revenue and receivable for future premiums for contracts where (a) the insured obligation is contractually prepayable, (b) prepayments are probable, (c) the amount and timing of prepayments are reasonably estimable, and (d) a homogenous pool of assets is the underlying collateral for the insured obligation. The Company has determined that substantially all of its installment contracts meet the conditions required to be treated as expected period contracts. The receivable for future premiums is reduced as installment premiums are collected. The Company reports the accretion of the discount on installment premiums receivable as premium revenue and discloses the amount recognized in Note 5: Insurance Premiums. The Company assesses the receivable for future premiums for collectability each reporting period, adjusts the receivable for uncollectible amounts and recognizes any write-off as operating expense, and discloses the amount recognized in Note 5: Insurance Premiums. As premium revenue is recognized, the unearned premium revenue liability is reduced.

Premium Revenue Recognition

The Company recognizes and measures premium revenue over the period of the contract in proportion to the amount of insurance protection provided. 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. A constant rate for each respective financial guarantee insurance contract is calculated as the ratio of (a) the present value of premium received or expected to be received over the period of the contract to (b) the sum of all insured principal amounts outstanding during each period over the term of the contract.

An issuer of an insured financial obligation may retire the obligation prior to its scheduled maturity through refinancing or legal defeasance in satisfaction of the obligation according to its indenture, which results in the Company s obligation being extinguished under the financial guarantee contract. The Company recognizes any remaining unearned premium revenue on the insured obligation as refunding premiums earned in the period the contract is extinguished to the extent the unearned premium revenue has been collected.

Non-refundable commitment fees are considered insurance premiums and are initially recorded under unearned premium revenue in the consolidated balance sheets when received. Once the related financial guarantee insurance policy is issued, the commitment fees are recognized as premium written and earned using the constant rate method. If the commitment agreement expires before the related financial guarantee is issued, the non-refundable commitment fee is immediately recognized as premium written and earned at that time.

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 2: Significant Accounting Policies (continued)

Fee and Reimbursement Revenue Recognition

The Company collects insurance related fees for services performed in connection with certain transactions. Depending upon the type of fee received and whether it is related to an insurance policy, the fee is earned when the related services are completed and the fee is received. Types of fees include work, waiver and consent, and termination fees. The Company adopted Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers (Topic 606) (ASU 2014-09) in the first quarter of 2018 that amends the accounting guidance for recognizing revenue related to fees and reimbursements based on the completion of the performance obligation. The adoption of ASU 2014-09 did not affect the time of recognition or the measurement of fee and reimbursements revenue.

Stock-Based Compensation

The Company recognizes in earnings all stock-based payment transactions at the fair value of the stock-based compensation provided. Refer to Note 16: Long-term Incentive Plans for a further discussion regarding the methodology utilized in recognizing employee stock compensation expense.

Foreign Currency Translation

Financial statement assets and liabilities denominated in foreign currencies are reported in U.S. dollars generally using rates of exchange prevailing as of the balance sheet date and any related translation adjustments resulting from the translation of the financial statements of the Company s non-U.S. operations from its functional currency into U.S. dollars are included in Accumulated other comprehensive income (loss) in shareholders equity. Operating results of the Company s non-U.S. operations are translated at average rates of exchange prevailing during the year. Foreign currency remeasurement gains and losses resulting from transactions in non-functional currencies are recorded in earnings. The Company derecognizes the cumulative translation adjustment reported in Accumulated other comprehensive income (loss) and includes the amount as part of the gain or loss on the sale or liquidation of its investment in a foreign entity in the period in which the sale or liquidation occurs.

Income Taxes

Deferred income taxes are recorded with respect to loss carryforwards and temporary differences between the tax bases of assets and liabilities and the reported amounts in the Company s financial statements that will result in deductible or taxable amounts in future years when the reported amounts of assets and liabilities are recovered or settled. Such temporary differences relate principally to net operating losses (NOLs), accrued surplus note interest, loss reserve deductions, premium revenue recognition, deferred acquisition costs, asset impairments and foreign tax credits. Valuation allowances are established to reduce deferred tax assets to the amount that more likely than not will be realized. Deferred tax assets and liabilities are adjusted for the effect of changes in tax laws and rates in the period in which changes are approved by the relevant authority.

MBIA Inc. and its eligible U.S. subsidiaries file a consolidated federal income tax return. The U.S. income taxes are allocated based on the provisions of the Company s tax sharing agreement which governs the intercompany settlement of tax obligations and benefits. The method of allocation between the members is based upon calculations as if each member filed a separate tax return on its own. Under the Company s tax sharing agreement, each member with a NOL will receive the benefits of its tax losses and credits as it is able to earn them out in the future.

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 2: Significant Accounting Policies (continued)

In establishing a liability for an unrecognized tax benefit (UTB), assumptions may be made in determining whether a tax position is more likely than not to be sustained upon examination by the taxing authority and also in determining the ultimate amount that is likely to be realized. A tax position is recognized only when, based on management s judgment regarding the application of income tax laws, it is more likely than not that the tax position will be sustained upon examination. The amount of tax benefit recognized is based on the Company s assessment of the largest amount of benefit that is more likely than not to be realized on ultimate settlement with the taxing authority. This measurement is based on many factors, including whether a tax dispute may be settled through negotiation with the taxing authority or is only subject to review in the courts. As new information becomes available, the Company evaluates its tax positions, and adjusts its UTB, as appropriate. If the tax benefit ultimately realized differs from the amount previously recognized, the Company recognizes an adjustment of the UTB.

Refer to Note 11: Income Taxes for additional information about the Company s income taxes.

Note 3: Recent Accounting Pronouncements

Recently Adopted Accounting Standards

Revenue from Contracts with Customers (Topic 606) (ASU 2014-09) and *Deferral of the Effective Date (ASU 2015-14)*

In May of 2014, the Financial Accounting Standards Board (FASB) issued ASU 2014-09. ASU 2014-09 amends the accounting guidance for recognizing revenue for the transfer of goods or services from contracts with customers unless those contracts are within the scope of other accounting standards. ASU 2014-09 does not apply to financial guarantee insurance contracts within the scope of Topic 944, Financial Services Insurance. In August of 2015, the FASB issued ASU 2015-14, Revenue from Contracts with Customers (Topic 606) Deferral of the Effective Date. ASU 2015-14 defers the effective date of ASU 2014-09 to interim and annual periods beginning January 1, 2018, and is applied on a retrospective or modified retrospective basis. The Company adopted ASU 2014-09 in the first quarter of 2018 and the adoption of ASU 2014-09 did not affect the Company s consolidated financial statements.

Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities (ASU 2016-01)

In January of 2016, the FASB issued ASU 2016-01, Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. ASU 2016-01 requires certain equity investments other than those accounted for under the equity method of accounting or result in consolidation of the investee to be measured at fair value with changes in fair value recognized in net income, and permits an entity to measure equity investments that do not have readily determinable fair values at cost less any impairment plus or minus adjustments for certain changes in observable prices. An entity is also required to evaluate the need for a valuation allowance on a deferred tax asset related to AFS debt securities in combination with the entity s other deferred tax assets. ASU 2016-01 requires an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability that results from a change in the instrument-specific credit risk for financial liabilities that the entity has elected to measure at fair value in accordance with the fair value option for financial instruments. ASU 2016-01 was effective for interim and annual periods beginning January 1, 2018. As such, the Company reclassed a loss of $162 million from retained earnings to AOCI related to the instrument-specific credit risk portion of financial liabilities measured at fair value in accordance with the fair value option. In addition, the Company reclassed net unrealized gains of $2 million from AOCI to retained earnings related to equity investments. As of December 31, 2018 and 2017, the Company had a full valuation allowance against its deferred tax asset.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 3: Recent Accounting Pronouncements (continued)

Income Statement Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income (ASU 2018-02)

In February of 2018, the FASB issued ASU 2018-02, Income Statement Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. ASU 2018-02 permits, but does not require, the reclassification of the income tax effects of the Tax Cuts and Jobs Act (the Act) from AOCI to retained earnings. ASU 2018-02 is effective for interim and annual periods beginning after December 15, 2018. Early adoption of ASU 2018-02 is permitted and is applied in the period of adoption or retroactively to each period in which the effect of the change in the U.S. federal corporate income tax rate in the Act is recognized. The Company adopted ASU 2018-02 in the first quarter of 2018. As such, the Company reclassed income taxes of $3 million from AOCI to retained earnings. The Company s accounting policy related to releasing income tax effects that are lodged in AOCI is on a portfolio approach basis.

The Company has not adopted any other new accounting pronouncements that had a material impact on its consolidated financial statements.

Recent Accounting Developments

Leases (Topic 842) (ASU 2016-02)

In February of 2016, the FASB issued ASU 2016-02, Leases (Topic 842) , that amends the accounting guidance for leasing transactions. ASU 2016-02 requires a lessee to classify lease contracts as finance or operating leases, and to recognize assets and liabilities for the rights and obligations created by leasing transactions with lease terms more than twelve months. ASU 2016-02 substantially retains the criteria for classifying leasing transactions as finance or operating leases. For finance leases, a lessee recognizes a right-of-use asset and a lease liability initially measured at the present value of the lease payments, and recognizes interest expense on the lease liability separately from the amortization of the right-of-use asset. For operating leases, a lessee recognizes a right-of-use asset and a lease liability initially measured at the present value of the lease payments, and recognizes lease expense on a straight-line basis. ASU 2016-02 is effective for interim and annual periods beginning January 1, 2019 with early adoption permitted, and is applied on a modified retrospective basis.

The Company plans to adopt ASU 2016-02 in its entirety in the first quarter of 2019, using an additional (and optional) modified retrospective transition approach and will recognize and measure all leases that exist at the adoption date. Comparative periods will be presented in accordance with Topic 840, Leases, and do not include any retrospective adjustments to comparative periods to reflect the adoption of ASU 2016-02. Based on the Company s leases as of January 1, 2019, the Company expects to record a right-of-use asset and lease liability of $23 million. The gross up of the assets and liabilities does not have a cumulative effect adjustment to the opening balance of retained earnings and does not impact the Company s statement of operations. Refer to Note 20: Commitments and

Contingencies for information about the Company s lease commitments.

Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments (ASU 2016-13)

In June of 2016, the FASB issued ASU 2016-13, Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. ASU 2016-13 requires financing receivables and other financial assets measured at amortized cost to be presented at the net amount expected to be collected by recording an allowance for credit losses with changes in the allowance recorded as credit loss expense or reversal of credit loss expense based on management s current estimate of expected credit losses each period. ASU 2016-13 does not apply to credit losses on financial guarantee insurance contracts within the scope of Topic 944, Financial Services-Insurance. ASU 2016-13 also requires impairment relating to credit losses on AFS debt securities to be presented through an allowance for credit losses with changes in the allowance recorded in the period of the change as credit loss expense or reversal of credit loss expense. Any impairment amount not recorded through an allowance for credit losses on AFS debt securities is recorded through other comprehensive income. ASU 2016-13 is effective for interim and annual periods beginning January 1, 2020 with early adoption permitted beginning January 1, 2019. ASU 2016-13 is applied on a modified retrospective basis except that prospective application is applied to AFS debt securities with other-than-temporary impairments (OTTI) recognized before the date of adoption. The Company is evaluating the impact of adopting ASU 2016-13.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 3: Recent Accounting Pronouncements (continued)

Fair Value Measurement (Topic 820): Disclosure Framework Changes to the Disclosure Requirements for Fair Value Measurement (ASU 2018-13)

In August of 2018, the FASB issued ASU 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework Changes to the Disclosure Requirements for Fair Value Measurement. ASU 2018-13 modifies the disclosure requirements on fair value measurements. ASU 2018-13 is effective for interim and annual periods beginning January 1, 2020 with early adoption permitted to remove or modify disclosures upon issuance of the standard and delay adoption of the additional disclosures until the effective date. Upon the effective date, certain amendments should be applied prospectively, while others are to be applied retrospectively to all periods presented. The Company is evaluating the impact of adopting ASU 2018-13. Since the amendments of ASU 2018-13 only impact disclosure requirements, the Company does not expect the adoption of ASU 2018-13 to have an impact on its consolidated financial statements.

Note 4: Variable Interest Entities

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

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

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

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 4: Variable Interest Entities (continued)

Consolidated VIEs

The carrying amounts of assets and liabilities of consolidated VIEs were $1.7 billion as of December 31, 2018, and $3.2 billion and $2.3 billion, respectively, as of December 31, 2017. The carrying amounts of assets and liabilities are presented separately in Assets of consolidated variable interest entities and Liabilities of consolidated variable interest entities on the Company s consolidated balance sheets. VIEs are consolidated or deconsolidated based on an ongoing reassessment of controlling financial interest, when events occur or circumstances arise, and whether the ability to exercise rights that constitute power to direct activities of any VIEs are present according to the design and characteristics of these entities. In 2018, the Court overseeing the Zohar Funds Bankruptcy Cases approved the Zohar Bankruptcy Settlement, which concerned two entities that the Company had consolidated as VIEs. As a result, the Company deconsolidated these two VIEs and recorded a $93 million loss within Other net realized gains (losses) under Revenues of consolidated variable interest entities on the Company s consolidated statement of operations. The loss resulted from the difference between the fair value of the VIE assets that were deconsolidated and the Company s current estimate of salvage and subrogation recoveries from those VIEs under insurance accounting. Refer to Note 1: Business Developments and Risks and Uncertainties for further information about the Zohar Bankruptcy Settlement. In 2018, eight other VIEs were deconsolidated. No additional VIEs were consolidated during the year ended December 31, 2018.

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

Nonconsolidated VIEs

The following tables present the Company s maximum exposure to loss for nonconsolidated VIEs and carrying values of the assets and liabilities for its interests in these VIEs in its insurance operations as of December 31, 2018 and 2017. The maximum exposure to loss as a result of MBIA s variable interests in VIEs is represented by insurance in force. Insurance in force is the maximum future payments of principal and interest which may be required under commitments to make payments on insured obligations issued by nonconsolidated VIEs. The Company has aggregated nonconsolidated VIEs based on the underlying credit exposure of the insured obligation. The nature of the Company s variable interests in nonconsolidated VIEs is related to financial guarantees and any investments in obligations issued by nonconsolidated VIEs.

December 31, 2018

		Carrying Value of Assets			Carrying Value of Liabilities	
In millions	Maximum Exposure to Loss	Investments[1]	Premiums Receivable[2]	Insurance Loss Recoverable[3]	Unearned Premium Revenue[4]	Loss and Loss Adjustment Expense Reserves[5]
Insurance:						
Global structured finance:						
Mortgage-backed residential	$ 3,103	$ 17	$ 19	$ 128	$ 17	$ 345
Mortgage-backed commercial	52					
Consumer asset-backed	560		3	1	2	12
Corporate asset-backed	1,338		9	858	10	
Total global structured finance	5,053	&n				