MBIA INC
Form 10-Q
November 06, 2018
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United States

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended September 30, 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)**

(914) 273-4545

(Registrant s telephone number, including area code)

Not applicable

(Former name, former address and former fiscal year, if changed since last report)

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 whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See definitions of large accelerated filer, accelerated filer and 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

As of October 31, 2018, 90,690,129 shares of Common Stock, par value $1 per share, were outstanding.

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FORWARD-LOOKING AND CAUTIONARY STATEMENTS

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

The following are some of the 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 our subsidiaries 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 II Other Information, Item 1A included in this Quarterly Report on Form 10-Q. In addition, refer to Note 1: Business Developments and Risks and Uncertainties in the Notes to Consolidated Financial Statements included in this Quarterly Report on Form 10-Q for a discussion of certain risks and uncertainties related to our financial statements.

This quarterly 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 FINANCIAL INFORMATION

Item 1. Financial Statements

MBIA INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (Unaudited)

(In millions except share and per share amounts)

	September 30, 2018	December 31, 2017
Assets		
Investments:		
Fixed-maturity securities held as available-for-sale, at fair value (amortized cost $3,562 and $3,728)	$ 3,533	$ 3,712
Investments carried at fair value	231	200
Investments pledged as collateral, at fair value (amortized cost $32 and $147)	30	148
Short-term investments, at fair value (amortized cost $411 and $589)	411	589
Other investments (includes investments at fair value of $- and $4)	1	6
Total investments	4,206	4,655
Cash and cash equivalents	167	122
Premiums receivable	306	369
Deferred acquisition costs	78	95
Insurance loss recoverable	1,542	511
Other assets	125	128
Assets of consolidated variable interest entities:		
Cash	12	24
Investments held-to-maturity, at amortized cost (fair value $901 and $916)	890	890
Investments carried at fair value	163	182
Loans receivable at fair value	428	1,679
Loan repurchase commitments	415	407
Other assets	29	33
Total assets	**$ 8,361**	**$ 9,095**
Liabilities and Equity		
Liabilities:		
Unearned premium revenue	$ 609	$ 752
Loss and loss adjustment expense reserves	1,033	979
Long-term debt	2,218	2,121
Medium-term notes (includes financial instruments carried at fair value of $123 and $115)	738	765
Investment agreements	314	337
Derivative liabilities	173	262
Other liabilities	196	165
Liabilities of consolidated variable interest entities:		
Variable interest entity notes (includes financial instruments carried at fair value of $709 and $1,069)	1,960	2,289
Total liabilities	**7,241**	**7,670**

Commitments and contingencies (Refer to Note 13: Commitments and Contingencies)				
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		3,155		3,171
Retained earnings		973		1,095
Accumulated other comprehensive income (loss), net of tax of $7 and $16		(206)		(19)
Treasury stock, at cost--192,936,029 and 192,233,526 shares		(3,098)		(3,118)
Total shareholders equity of MBIA Inc.		1,108		1,413
Preferred stock of subsidiary		12		12
Total equity		**1,120**		**1,425**
Total liabilities and equity	**$**	**8,361**	**$**	**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 (Unaudited)

(In millions except share and per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Revenues:				
Premiums earned:				
Scheduled premiums earned	$ 44	$ 26	$ 96	$ 82
Refunding premiums earned	18	27	42	64
Premiums earned (net of ceded premiums of $1, $1, $4 and $4)	62	53	138	146
Net investment income	31	33	96	122
Fees and reimbursements	17	1	23	9
Change in fair value of insured derivatives:				
Realized gains (losses) and other settlements on insured derivatives	(5)	(7)	(49)	(41)
Unrealized gains (losses) on insured derivatives	4	6	36	(10)
Net change in fair value of insured derivatives	(1)	(1)	(13)	(51)
Net gains (losses) on financial instruments at fair value and foreign exchange	5	(11)	18	(55)
Net investment losses related to other-than-temporary impairments:				
Investment losses related to other-than-temporary impairments	-	(26)	-	(80)
Other-than-temporary impairments recognized in accumulated other comprehensive income (loss)	(1)	(45)	(3)	(4)
Net investment losses related to other-than-temporary impairments	(1)	(71)	(3)	(84)
Net gains (losses) on extinguishment of debt	3	1	3	9
Other net realized gains (losses)	1	(1)	-	36
Revenues of consolidated variable interest entities:				
Net investment income	9	8	25	20
Net gains (losses) on financial instruments at fair value and foreign exchange	12	21	29	2
Other net realized gains (losses)	(33)	-	(126)	28
Total revenues	105	33	190	182
Expenses:				
Losses and loss adjustment	46	205	177	469
Amortization of deferred acquisition costs	9	8	17	23
Operating	18	21	57	82
Interest	52	50	155	148
Expenses of consolidated variable interest entities:				
Operating	3	3	8	8
Interest	22	19	63	55
Total expenses	150	306	477	785
Income (loss) before income taxes	(45)	(273)	(287)	(603)
Provision (benefit) for income taxes	-	(6)	2	965

Net income (loss)	**$**	**(45)**	**$**	**(267)**	**$**	**(289)**	**$**	**(1,568)**
Net income (loss) per common share:								
Basic	$	(0.50)	$	(2.17)	$	(3.24)	$	(12.38)
Diluted	$	(0.50)	$	(2.17)	$	(3.24)	$	(12.38)
Weighted average number of common shares outstanding:								
Basic		89,490,267		122,967,924		89,075,892		126,643,642
Diluted		89,490,267		122,967,924		89,075,892		126,643,642

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

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MBIA INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (Unaudited)

(In millions)

	Three Months Ended September 30, 2018	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
Net income (loss)	$ (45)	$ (267)	$ (289)	$ (1,568)
Other comprehensive income (loss):				
Unrealized gains (losses) on available-for-sale securities:				
Unrealized gains (losses) arising during the period	(4)	16	(61)	20
Provision (benefit) for income taxes	-	7	5	7
Total	(4)	9	(66)	13
Reclassification adjustments for (gains) losses included in net income (loss)	(2)	1	(3)	(4)
Provision (benefit) for income taxes	-	(1)	-	(1)
Total	(2)	2	(3)	(3)
Available-for-sale securities with other-than-temporary impairments:				
Other-than-temporary impairments and unrealized gains (losses) arising during the period	25	40	48	6
Provision (benefit) for income taxes	-	2	-	2
Total	25	38	48	4
Reclassification adjustments for (gains) losses included in net income (loss)	2	4	3	6
Provision (benefit) for income taxes	-	1	-	2
Total	2	3	3	4
Foreign currency translation:				
Foreign currency translation gains (losses)	-	1	2	145
Provision (benefit) for income taxes	-	(1)	-	20
Total	-	2	2	125
Instrument-specific credit risk of liabilities measured at fair value:				
Unrealized gains (losses) arising during the period	28	-	(4)	-
Total	28	-	(4)	-
Total other comprehensive income (loss)	49	54	(20)	143
Comprehensive income (loss)	**$ 4**	**$ (213)**	**$ (309)**	**$ (1,425)**

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

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MBIA INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY (Unaudited)

For The Nine Months Ended September 30, 2018

(In millions except share amounts)

	Common Stock		Additional Paid-in	Retained	Accumulated Other Comprehensive	Treasury Stock		Total Shareholders Equity of	Preferred Stock of Subsidiary		Total
	Shares	Amount	Capital	Earnings	Income (Loss)	Shares	Amount	MBIA Inc.	Shares	Amount	Equity
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)	-	-	-	(289)	-	-	-	(289)	-	-	(289)
Other comprehensive income (loss)	-	-	-	-	(20)	-	-	(20)	-	-	(20)
Share-based compensation	(92,284)	-	5	-	-	(18,412)	-	5	-	-	5
Treasury shares issued for warrant exercises	-	-	(21)	-	-	1,277,620	34	13	-	-	13
Treasury shares acquired under share repurchase program	-	-	-	-	-	(1,961,711)	(14)	(14)	-	-	(14)
Balance, September 30, 2018	**283,625,689**	**$ 284**	**$ 3,155**	**$ 973**	**$ (206)**	**(192,936,029)**	**$ (3,098)**	**$ 1,108**	**1,315**	**$ 12**	**$ 1,120**

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 (Unaudited)

(In millions)

	Nine Months Ended September 30, 2018	2017
Cash flows from operating activities:		
Premiums, fees and reimbursements received	$ 73	$ 41
Investment income received	162	193
Insured derivative commutations and losses paid	(49)	(41)
Financial guarantee losses and loss adjustment expenses paid	(367)	(744)
Proceeds from recoveries and reinsurance	46	100
Operating and employee related expenses paid	(68)	(103)
Interest paid, net of interest converted to principal	(119)	(139)
Income taxes (paid) received	(1)	-
Net cash provided (used) by operating activities	(323)	(693)
Cash flows from investing activities:		
Purchases of available-for-sale investments	(1,684)	(1,146)
Sales of available-for-sale investments	1,647	1,300
Paydowns and maturities of available-for-sale investments	245	392
Purchases of investments at fair value	(142)	(199)
Sales, paydowns and maturities of investments at fair value	162	270
Sales, paydowns and maturities (purchases) of short-term investments, net	269	67
Paydowns and maturities of loans receivable	365	202
Consolidation of variable interest entities	-	18
Deconsolidation of variable interest entities	(7)	-
(Payments) proceeds for derivative settlements	(19)	(58)
Collateral (to) from counterparties	-	4
Capital expenditures	-	(1)
Other investing	-	(23)
Net cash provided (used) by investing activities	836	826
Cash flows from financing activities:		
Proceeds from investment agreements	9	13
Principal paydowns of investment agreements	(30)	(57)
Principal paydowns of medium-term notes	(62)	(55)
Proceeds from the MBIA Corp. Financing Facility	-	328
Principal paydowns of variable interest entity notes	(382)	(311)
Purchases of treasury stock	(15)	(98)
Other financing	-	(4)
Net cash provided (used) by financing activities	(480)	(184)
Net increase (decrease) in cash and cash equivalents	33	(51)
Cash and cash equivalents beginning of period	146	187
Cash and cash equivalents end of period	$ 179	$ 136

Reconciliation of net income (loss) to net cash provided (used) by operating activities:				
Net income (loss)	$	(289)	$	(1,568)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:				
Change in:				
Premiums receivable		54		34
Deferred acquisition costs		18		22
Unearned premium revenue		(142)		(149)
Loss and loss adjustment expense reserves		50		615
Insurance loss recoverable		(192)		(781)
Accrued interest payable		113		81
Accrued expenses		(10)		(26)
Unrealized (gains) losses on insured derivatives		(36)		10
Net (gains) losses on financial instruments at fair value and foreign exchange		(47)		53
Other net realized (gains) losses		126		(64)
Deferred income tax provision (benefit)		1		961
Interest on variable interest entities, net		14		26
Other operating		17		93
Total adjustments to net income (loss)		(34)		875
Net cash provided (used) by operating activities	$	(323)	$	(693)
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 (Unaudited)

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 primarily operated through National Public Finance Guarantee Corporation (National) and its international and structured finance insurance business is primarily operated through MBIA Insurance Corporation and its subsidiaries (MBIA Corp.).

Refer to Note 10: 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 actively pursue writing 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 S.A. de C.V. (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 September 30, 2018, there were no warrants outstanding.

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 strong financial resources, while protecting the interests of all of its policyholders. Certain state and local governments and territory obligors that National insures remain 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.

In particular, 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. Although Puerto Rico has tried to address its challenges

through various fiscal policies, it continues to experience significant fiscal stress. On January 1, 2018 and July 1, 2018, Puerto Rico defaulted on scheduled debt service for National insured bonds and National paid gross claims in the aggregate of $276 million. 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 the Federal Emergency Management Agency and other federal agencies. 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 evolving role of the Financial Oversight and Management Board for Puerto Rico (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.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

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

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 other 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 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 cash to meet its obligations.

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 2005-1, Limited (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 September 30, 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 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. or result in a liquidation or similar proceeding of MBIA Mexico. 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 5: Loss and Loss Adjustment Expense Reserves for additional information about MBIA Corp. s recoveries.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

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

Corporate Liquidity

Subsequent to September 30, 2018, National declared and paid a dividend of $108 million to its ultimate parent, MBIA Inc. Also, subsequent to September 30, 2018, National purchased from MBIA Inc., certain MBIA Inc. 5.700% Senior Notes due 2034 and certain MBIA Inc. 7.000% Debentures due 2025 that were previously repurchased by MBIA Inc. and had not been retired, resulting in an increase to MBIA Inc. s liquidity of $41 million. 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 which 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 also insured by MBIA Corp. could result in claims on MBIA Corp.

Note 2: Significant Accounting Policies

The Company has disclosed its significant accounting policies in Note 2: Significant Accounting Policies in the Notes to Consolidated Financial Statements included in the Company s Annual Report on Form 10-K for the year ended December 31, 2017. The following significant accounting policies provide an update to those included in the Company s Annual Report on Form 10-K.

Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X and, accordingly, do not include all of the information and disclosures required by accounting principles generally accepted in the United States of America (GAAP) for annual periods. These statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Annual Report on Form 10-K for the year ended December 31, 2017. The accompanying consolidated financial statements have not been audited by an independent registered public accounting firm in accordance with the standards of the Public Company Accounting Oversight Board (U.S.), but in the opinion of management such financial statements include all adjustments, consisting only of normal recurring adjustments, necessary for the fair statement of the Company s consolidated financial position and results of operations. All material intercompany balances and transactions have been eliminated.

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

The results of operations for the three and nine months ended September 30, 2018 may not be indicative of the results that may be expected for the year ending December 31, 2018. The December 31, 2017 consolidated balance sheet was derived from audited financial statements, but does not include all disclosures required by GAAP for annual periods. Certain amounts have been reclassified in the prior year s 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 statement of cash flows as required under 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 statement 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.

During the third quarter of 2018, the Company corrected an error related to the second quarter of 2018 of $3 million and an error related to the first quarter of 2017 of $3 million, which, in aggregate, reduced the third quarter of 2018 s net loss by $6 million. The first quarter of 2017 error related to a gain on the extinguishment of debt and the second quarter of 2018 error related to a benefit on losses and loss adjustment expense. The Company evaluated the materiality of these errors in accordance with Securities and Exchange Commission (SEC) Staff Accounting

Bulletin No. 99, Materiality, and SEC Staff Accounting Bulletin No. 108, Considering the Effects of Prior Year Misstatements When Quantifying Misstatements in Current Year Financial Statements, and concluded that these errors, individually and in the aggregate, were immaterial to the three months ended September 30, 2018 and the prior periods to which these errors relate.

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

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, Revenue from Contracts with Customers (Topic 606). 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 available-for-sale (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 accumulated other comprehensive income (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 September 30, 2018 and December 31, 2017, the Company had a full valuation allowance against its deferred tax asset.

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.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 3: Recent Accounting Pronouncements (continued)

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 is currently evaluating its lease commitments and expects an increase in its total assets and total liabilities on its consolidated balance sheet reflecting the recognition of its right-of-use asset and lease liability, respectively. The gross up of the assets and liabilities is expected to have no impact on the Company s statement of operations. Refer to Note 13: 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.

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.

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

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.

Consolidated VIEs

The carrying amounts of assets and liabilities of consolidated VIEs were $1.9 billion and $2.0 billion, respectively, as of September 30, 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 May of 2018, the Court overseeing the Zohar Funds Bankruptcy Cases approved the Zohar Bankruptcy Settlement, which concerns two entities that the Company had consolidated as VIEs. As a result, in the second quarter of 2018, 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 the third quarter of 2018, three VIEs were deconsolidated. No additional VIEs were consolidated during the nine months ended September 30, 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.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 4: Variable Interest Entities (continued)

Nonconsolidated VIEs

The following tables present the total assets of nonconsolidated VIEs in which the Company holds a variable interest as of September 30, 2018 and December 31, 2017, through its insurance operations. The following tables also present the Company s maximum exposure to loss for nonconsolidated VIEs and carrying values of the assets and liabilities for its interests in these VIEs as of September 30, 2018 and December 31, 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.

	September 30, 2018						
			Carrying Value of Assets			Carrying Value of Liabilities	
In millions	VIE Assets	Maximum Exposure to Loss	Investments(1)	Premiums Receivable(2)	Insurance Loss Recoverable(3)	Unearned Premium Revenue(4)	Loss and Loss Adjustment Expense Reserves(5)
Insurance:							
Global structured finance:							
Mortgage-backed residential	$ 5,879	$ 3,251	$ 18	$ 20	$ 143	$ 18	$ 356
Mortgage-backed commercial	131	59	-	-	-	-	-
Consumer asset-backed	4,514	586	-	2	1	1	10
Corporate asset-backed	3,854	1,377	-	9	839	11	10
Total global structured finance	14,378	5,273	18	31	983	30	376
Global public finance	15,058	2,296	-	9	-	12	-
Total insurance	$ 29,436	$ 7,569	$ 18	$ 40	$ 983	$ 42	$ 376

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

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

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

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

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

			December 31, 2017				
			Carrying Value of Assets			Carrying Value of Liabilities	
In millions	**VIE Assets**	**Maximum Exposure to Loss**	**Investments[1]**	**Premiums Receivable[2]**	**Insurance Loss Recoverable[3]**	**Unearned Premium Revenue[4]**	**Loss and Loss Adjustment Expense Reserves[5]**
Insurance:							
Global structured finance:							
Mortgage-backed residential	$ 7,295	$ 3,741	$ 19	$ 22	$ 172	$ 20	$ 396
Mortgage-backed commercial	216	94	-	-	-	-	-
Consumer asset-backed	5,010	981	-	4	1	3	10
Corporate asset-backed	2,418	1,645	-	13	-	14	-
Total global structured finance	14,939	6,461	19	39	173	37	406
Global public finance	15,568	2,524	-	10	-	14	-
Total insurance	$ 30,507	$ 8,985	$ 19	$ 49	$ 173	$ 51	$ 406

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

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

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

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

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

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 5: Loss and Loss Adjustment Expense Reserves

U.S. Public Finance Insurance

U.S. public finance insured transactions consist of municipal bonds, including tax-exempt and taxable indebtedness of U.S. political subdivisions, 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. The Company estimates future losses by using probability-weighted cash flow scenarios that are customized to each insured transaction. Future loss estimates consider debt service due for each insured transaction, which includes par outstanding and interest due, as well as recoveries for such payments, if any. Gross par outstanding for capital appreciation bonds represents the par amount at the time of issuance of the insurance policy.

Certain local governments remain under financial and budgetary stress and a few have filed for protection under Title 11 of the United States Code (the Bankruptcy Code), or have entered into state statutory proceedings established to assist municipalities in managing through periods of severe fiscal stress. In the case of Puerto Rico, certain credits that the Company insures have filed petitions for covered instrumentalities under Title III of the Puerto Rico Oversight, Management and Economic Stability Act (PROMESA), which incorporates by reference provisions from the Bankruptcy Code. This could lead to an increase in defaults by such entities on the payment of their obligations and losses or impairments in greater amounts on the Company s insured transactions. The filing for protection under the Bankruptcy Code or entering state statutory proceedings does not necessarily result in a default or indicate that an ultimate loss will occur. Refer to Note 1: Business Development and Risk and Uncertainties , for further information on the Company s Puerto Rico exposures.

International and Structured Finance Insurance

The international and structured finance insurance segment s case basis reserves and insurance loss recoveries recorded in accordance with GAAP do not include estimates for a policy insuring a credit derivative or on financial guarantee VIEs that are eliminated in consolidation. The policy insuring a credit derivative contract is accounted for as a derivative and is carried at fair value in the Company s consolidated financial statements under GAAP. The fair value of an insured credit derivative contract is influenced by a variety of market and transaction-specific factors that may be unrelated to potential future claim payments under the Company s insurance policies. In the absence of credit impairments on an insured credit derivative contract or the early termination of such contract at a loss, the cumulative unrealized losses recorded from this contract should reverse before or at the maturity of the contract. As the Company s insured credit derivative has similar terms, conditions, risks, and economic profiles to its financial guarantee insurance policies, the Company evaluates it for impairment, under statutory accounting principles, in the same way that it estimates loss and loss adjustment expense (LAE) for its financial guarantee policies. Refer to Note 8: Derivative Instruments for a further discussion of the Company s use of derivatives and their impact on the Company s consolidated financial statements.

RMBS Case Basis Reserves (Financial Guarantees)

The Company s RMBS reserves and recoveries relate to financial guarantee insurance policies, excluding those on consolidated VIEs. The Company s first-lien RMBS case basis reserves primarily relate to RMBS backed by alternative A-paper and subprime mortgage loans. The Company s second-lien RMBS case basis reserves relate to RMBS backed by home equity lines of credit and closed-end second mortgages. The Company calculated RMBS case basis reserves as of September 30, 2018 for both first and second-lien RMBS transactions using a process called the Roll Rate Methodology. The Roll Rate Methodology is a multi-step process using databases of loan level information, proprietary internal cash flow models, and commercially available models to estimate potential losses and recoveries on insured bonds. Refer to Note 6: Loss and Loss Adjustment Expense Reserves in the Notes to Consolidated Financial Statements included in the Company s Annual Report on Form 10-K for the year ended December 31, 2017, for additional information regarding the Company s Roll Rate Methodology for its RMBS case basis reserves.

The Company monitors portfolio performance on a monthly basis against projected performance, reviewing delinquencies, roll rates, and prepayment rates (including voluntary and involuntary). However, loan performance remains difficult to predict and losses may exceed expectations. In the event of a material deviation in actual performance from projected performance, the Company would increase or decrease the case basis reserves accordingly.

RMBS Recoveries

The Company primarily records two types of recoveries related to insured RMBS exposures: excess spread that is generated from the trust structures in the insured transactions; and second-lien put-back claims related to those mortgage loans whose inclusion in an insured securitization failed to comply with representations and warranties (ineligible loans).

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

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

Excess Spread

Excess spread within insured RMBS securitizations is the difference between interest inflows on mortgage loan collateral and interest outflows on the insured RMBS notes. The aggregate amount of excess spread depends on the future loss trends, which include future delinquency trends, average time to charge-off/liquidate delinquent loans, the future spread between Prime and the LIBOR interest rates, and borrower refinancing behavior (which may be affected by changes in the interest rate environment) that results in voluntary prepayments. Minor deviations in loss trends and voluntary prepayments may substantially impact the amounts collected from excess spread. Excess spread also includes subsequent recoveries on previously charged-off loans associated with insured second-lien RMBS securitizations.

Second-lien Put-Back Claims Related to Ineligible Loans

The Company has settled the majority of the Company s put-back claims relating to the inclusion of ineligible loans in securitizations it insured. Only its claims against Credit Suisse remain outstanding. Credit Suisse has challenged the Company s assessment of the ineligibility of individual mortgage loans and the dispute is the subject of litigation for which there is no assurance that the Company will prevail. The Company s settlement amounts on its prior put-back claims have been consistent with the put-back recoveries that had been included in the Company s financial statements at the times preceding the settlements. Based on the Company s assessment of the strength of its contractual put-back rights against Credit Suisse, as well as on its prior settlements with other sellers/servicers and success of other monolines put-back settlements, the Company believes it will prevail in enforcing its contractual rights and that it is entitled to collect the full amount of its incurred losses.

Refer to Note 6: Loss and Loss Adjustment Expense Reserves in the Notes to Consolidated Financial Statements included in the Company s Annual Report on Form 10-K for the year ended December 31, 2017, and Note 13: Commitments and Contingencies for further information about the Company s litigation with Credit Suisse.

CDO Reserves and Recoveries

The Company also has loss and LAE reserves on certain transactions within its collateralized debt obligations (CDO) portfolio, primarily its multi-sector CDO asset class that was insured in the form of financial guarantee policies. MBIA s insured multi-sector CDOs are transactions that include a variety of collateral ranging from corporate bonds to structured finance assets (which includes, but are not limited to, RMBS-related collateral, multi-sector and corporate CDOs).

Zohar Recoveries

MBIA Corp. will seek to recover the payments it made (plus interest and expenses) with respect to Zohar I and Zohar II. MBIA Corp. anticipates that the primary source of the recoveries will come from the monetization of the Zohar Assets as anticipated in the Zohar Bankruptcy Settlement. Since the second quarter of 2018, the Company no longer consolidates the Zohar funds as VIEs and estimated recoveries from Zohar I and Zohar II are included in Insurance loss recoverable on the Company s consolidated balance sheets. As of March 31, 2018 and December 31, 2017, the fair value of the assets of Zohar I and Zohar II are included in Loans receivable at fair value under Assets of consolidated variable interest entities on the Company s consolidated balance sheets. Refer to Note 1: Business Developments and Risks and Uncertainties for additional information about the estimated Zohar recoveries. Notwithstanding the procedures agreed to in 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.

Failure to recover a substantial amount of such payments could impede MBIA Corp. s ability to make payments when due on other policies. MBIA Corp. believes that if the 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 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.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

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

Summary of Loss and LAE Reserves and Recoveries

The Company s loss and LAE reserves and recoveries before consolidated VIE eliminations, along with amounts that were eliminated as a result of consolidated VIEs, which are included in the Company s consolidated balance sheets as of September 30, 2018 and December 31, 2017 are presented in the following table:

In millions	As of September 30, 2018 Balance Sheet Line Item		As of December 31, 2017 Balance Sheet Line Item	
	Insurance loss recoverable	Loss and LAE reserves	Insurance loss recoverable	Loss and LAE reserves
U.S. Public Finance Insurance	$ 554	$ 634	$ 333	$ 512
International and Structured Finance Insurance:				
Before VIE eliminations(1)	1,457	628	1,478	710
VIE eliminations(1)	(469)	(229)	(1,300)	(243)
Total international and structured finance insurance	988	399	178	467
Total	$ 1,542	$ 1,033	$ 511	$ 979

(1) - Includes loan repurchase commitments of $415 million and $407 million as of September 30, 2018 and December 31, 2017, respectively.

Changes in Loss and LAE Reserves

The Company s recoveries are based on either salvage rights, the rights conferred to MBIA through the transactional documents (inclusive of the insurance agreements), or subrogation rights embedded within financial guarantee insurance policies. Expected salvage and subrogation recoveries, as well as recoveries from other remediation efforts, reduce the Company s claim liability. Once a claim payment has been made, the claim liability has been satisfied and MBIA s right to recovery is no longer considered an offset to future expected claim payments, the right to recovery is recorded as a salvage asset. The amount of recoveries recorded by the Company is limited to paid claims plus the present value of projected estimated future claim payments. As claim payments are made, the recorded amount of potential recoveries may exceed the remaining amount of the claim liability for a given policy. The gross claim liability and gross potential recoveries reflect the elimination of claim liabilities and potential recoveries related to VIEs consolidated by the Company.

The following table presents changes in the Company s loss and LAE reserves for the nine months ended September 30, 2018. Changes in loss reserves attributable to the accretion of the claim liability discount, changes in discount rates, changes in amount and timing of estimated claim payments and recoveries, changes in assumptions and changes in LAE reserves are recorded in Losses and loss adjustment expenses in the Company s consolidated statements of operations. As of September 30, 2018, the weighted average risk-free rate used to discount the Company s loss reserves (claim liability) was 3.03%. LAE reserves are generally expected to be settled within a one-year period and are not discounted. As of September 30, 2018 and December 31, 2017, the Company s gross loss and LAE reserves included $74 million and $66 million, respectively, related to LAE.

In millions	Changes in Loss and LAE Reserves for the Nine Months Ended September 30, 2018							
Gross Loss and LAE Reserves as of December 31, 2017	Loss Payments	Accretion of Claim Liability Discount	Changes in Discount Rates	Changes in Assumptions	Changes in Unearned Premium Revenue	Changes in LAE Reserves	Other[1]	Gross Loss and LAE Reserves as of September 30, 2018
$ 979	$ (344)	$ 18	$ 25	$ 336	$ 12	$ 8	$ (1)	$ 1,033

(1) - Primarily changes in amount and timing of payments.

The increase in the Company s gross loss and LAE reserves during the nine months ended September 30, 2018 was primarily related to certain Puerto Rico exposures and changes in the interest rate environment, partially offset by decreases in insured RMBS and other insured financial guarantee transactions.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

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

Changes in Insurance Loss Recoverable and Recoveries on Unpaid Losses

Current period changes in the Company s estimate of potential recoveries may be recorded as an insurance loss recoverable asset, netted against the gross loss and LAE reserve liability, or both. The following table presents changes in the Company s insurance loss recoverable and changes in recoveries on unpaid losses reported within the Company s claim liability for the nine months ended September 30, 2018. Changes in insurance loss recoverable attributable to the accretion of the discount on the recoverable, changes in discount rates, changes in amount and timing of estimated collections, changes in assumptions and changes in LAE recoveries are recorded in Losses and loss adjustment expenses in the Company s consolidated statements of operations.

	Changes in Insurance Loss Recoverable and Recoveries on Unpaid Losses for the Nine Months Ended September 30, 2018							
In millions	Gross Reserve as of December 31, 2017	Collections for Cases	Accretion of Recoveries	Changes in Discount Rates	Changes in Assumptions	Changes in LAE Recoveries	Other[1]	Gross Reserve as of September 30, 2018
Insurance loss recoverable	$ 511	$ (42)	$ 14	$ (29)	$ 1,084[2]	$ -	$ 4	$ 1,542
Recoveries on unpaid losses [3]	35	-	1	(1)	(8)	(6)	-	21
Total	$ 546	$ (42)	$ 15	$ (30)	$ 1,076	$ (6)	$ 4	$ 1,563

(1) - Primarily changes in amount and timing of collections.

(2) - Includes amounts which have been paid and are expected to be recovered in the future.

(3) - As of September 30, 2018 and December 31, 2017, excludes Puerto Rico recoveries which have been netted against reserves.

The increase in the Company s insurance loss recoverable reflected in the preceding table was primarily due to the re-establishment of recoveries for Zohar I and Zohar II upon deconsolidation during the second quarter of 2018 and to a lesser extent, amounts related to the anticipated recovery of claims paid to certain Puerto Rico credits.

Loss and LAE Activity

For the three months ended September 30, 2018, losses and LAE incurred primarily related to increases in actual and expected payments on Puerto Rico exposures.

For the nine months ended September 30, 2018, losses and LAE incurred primarily related to increases in actual and expected payments on Puerto Rico exposures, partially offset by a decrease on actual and expected payments on insured RMBS transactions.

For the three months ended September 30, 2017, losses and LAE incurred primarily related to increases in actual and expected payments on certain Puerto Rico exposures and decreases in projected collections from mortgage insurance included in the Company s excess spread within its second-lien RMBS transactions from the settlement of litigation regarding insurance coverage involving Old Republic Insurance Corporation, Bank of America, N.A. and the Bank of New York Mellon.

For the nine months ended September 30, 2017, incurred loss and LAE activity related to increases in actual and expected payments on certain Puerto Rico exposures and insured first-lien RMBS securitizations and a decrease in actual and projected collections from mortgage insurance included in the Company s excess spread within its second-lien RMBS transactions from the settlement of litigation regarding insurance coverage involving Old Republic Insurance Corporation, Bank of America, N.A. and the Bank of New York Mellon.

Costs associated with remediating insured obligations assigned to the Company s surveillance categories are recorded as LAE and are included in Losses and loss adjustment expenses on the Company s consolidated statements of operations. For the three months ended September 30, 2018 and 2017, gross LAE related to remediating insured obligations were $6 million. For the nine months ended September 30, 2018 and 2017, gross LAE related to remediating insured obligations were $28 million and $33 million, respectively.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

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

Surveillance Categories

The following table provides information about the financial guarantees and related claim liability included in each of MBIA s surveillance categories as of September 30, 2018:

	Surveillance Categories				
$ in millions	**Caution List Low**	**Caution List Medium**	**Caution List High**	**Classified List**	**Total**
Number of policies	56	20	-	243	319
Number of issues [1]	16	6	-	109	131
Remaining weighted average contract period (in years)	7.2	8.0	-	9.7	9.0
Gross insured contractual payments outstanding: [2]					
Principal	$ 1,933	$ 262	$ -	$ 5,465	$ 7,660
Interest	2,314	131	-	5,443	7,888
Total	$ 4,247	$ 393	$ -	$ 10,908	$ 15,548
Gross Claim Liability [3]	$ -	$ -	$ -	$ 1,076	$ 1,076
Less:					
Gross Potential Recoveries [4]	-	-	-	2,058	2,058
Discount, net [5]	-	-	-	(483)	(483)
Net claim liability (recoverable)	$ -	$ -	$ -	$ (499)	$ (499)
Unearned premium revenue	$ 6	$ 4	$ -	$ 65	$ 75
Reinsurance recoverable on paid and unpaid losses [6]					$ 23

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

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

(3) - The gross claim liability with respect to Puerto Rico exposures are net of expected recoveries for policies in a net payable position.

(4) - Gross potential recoveries with respect to certain Puerto Rico exposures are net of the claim liability for policies in a net recoverable position.

(5) - Represents discount related to Gross Claim Liability and Gross Potential Recoveries.

(6) - Included in Other assets on the Company s consolidated balance sheets.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

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

The following table provides information about the financial guarantees and related claim liability included in each of MBIA s surveillance categories as of December 31, 2017:

	Surveillance Categories				
$ in millions	**Caution List Low**	**Caution List Medium**	**Caution List High**	**Classified List**	**Total**
Number of policies	89	5	1	280	375
Number of issues [(1)]	20	4	1	119	144
Remaining weighted average contract period (in years)	7.4	4.3	8.7	9.7	8.9
Gross insured contractual payments outstanding: [(2)]					
Principal	$ 2,764	$ 13	$ 104	$ 6,083	$ 8,964
Interest	2,676	3	46	5,756	8,481
Total	$ 5,440	$ 16	$ 150	$ 11,839	$ 17,445
Gross Claim Liability [(3)]	$ -	$ -	$ -	$ 1,082	$ 1,082
Less:					
Gross Potential Recoveries [(4)]	-	-	-	782	782
Discount, net [(5)]	-	-	-	(178)	(178)
Net claim liability (recoverable)	$ -	$ -	$ -	$ 478	$ 478
Unearned premium revenue	$ 9	$ -	$ 4	$ 77	$ 90
Reinsurance recoverable on paid and unpaid losses [(6)]					$ 17

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

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

(3) - The gross claim liability with respect to Puerto Rico exposures are net of expected recoveries for policies in a net payable position.

(4) - Gross potential recoveries with respect to certain Puerto Rico exposures are net of the claim liability for policies in a net recoverable position.

(5) - Represents discount related to Gross Claim Liability and Gross Potential Recoveries.

(6) - Included in Other assets on the Company s consolidated balance sheets.

The change from a net claim liability as of December 31, 2017 to a net claim recoverable as of September 30, 2018 is due to the fact that the Company no longer consolidates the Zohar funds as VIEs and estimated recoveries from Zohar I and Zohar II are included in Insurance loss recoverable on the Company s consolidated balance sheet. As of March 31, 2018 and December 31, 2017, gross potential recoveries exclude the recoveries of Zohar I and Zohar II that are included in Loans receivable at fair value which are presented in Assets of consolidated variable interest entities on the Company s consolidated balance sheets.

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 6: Fair Value of Financial Instruments

Fair Value Measurement

Financial Assets

Financial assets held by the Company primarily consist of investments in debt securities. Substantially all of the Company s investments are priced by independent third parties, including pricing services and brokers. Typically, the Company receives one pricing service value or broker quote for each instrument, which represents a non-binding indication of value. The Company, along with its third-party portfolio manager, reviews the assumptions, inputs and methodologies used by pricing services and brokers to obtain reasonable assurance that the prices used in its valuations reflect fair value. When the Company and its third-party portfolio manager believe a third-party quotation differs significantly from its internally developed expectation of fair value, whether higher or lower, the Company reviews its data or assumptions with the provider. This review includes comparing significant assumptions such as prepayment speeds, default ratios, forward yield curves, credit spreads and other significant quantitative inputs to internal assumptions, and working with the price provider to reconcile the differences. The price provider may subsequently provide an updated price. In the event that the price provider does not update its price, and the Company still does not agree with the price provided, its third-party portfolio manager will obtain a price from another third-party provider or use an internally developed price which it believes represents the fair value of the investment. The fair values of investments for which internal prices were used were not significant to the aggregate fair value of the Company s investment portfolio as of September 30, 2018 or December 31, 2017. All challenges to third-party prices are reviewed by staff of the Company as well as its third-party portfolio manager with relevant expertise to ensure reasonableness of assumptions. A pricing analysis is reviewed and approved by the Company s valuation committee.

Financial Liabilities (excluding derivative liabilities)

Financial liabilities, excluding derivative liabilities, issued by the Company primarily consist of debt issued for general corporate purposes within its corporate segment, medium-term notes (MTNs), investment agreements and debt issued by consolidated VIEs. The majority of the financial liabilities that the Company has elected to fair value or that require fair value reporting or disclosures are valued based on the estimated value of the underlying collateral, the Company s or a third-party s estimate of discounted cash flow model estimates, or quoted market values for similar products. These valuations include adjustments for expected nonperformance risk of the Company.

Derivative Liabilities

The Company s derivative liabilities are primarily interest rate swaps and an insured credit derivative. The Company s insured credit derivative contract is a non-traded structured credit derivative transaction and since it is highly customized, there is generally no observable market for this derivative. The Company estimates its fair value in a hypothetical market based on an internal model that incorporates market or estimated prices of similar securities that are obtained for all collateral within a transaction, the present value of the market-implied potential loss and nonperformance risk. The Company reviews its valuation model results on a quarterly basis to assess the appropriateness of the assumptions and results in light of current market activity and conditions. This review is performed by internal staff with relevant expertise.

Internal Review Process

All significant financial assets and liabilities are reviewed by the valuation committee to ensure compliance with the Company s policies and risk procedures in the development of fair values of financial assets and liabilities. The valuation committee reviews, among other things, key assumptions used for internally developed prices, significant changes in sources and uses of inputs, including changes in model approaches, and any adjustments from third-party inputs or prices to internally developed inputs or prices. The committee also reviews any significant impairment or improvements in fair values of the financial instruments from prior periods. The committee is comprised of senior finance team members with relevant experience in the financial instruments their committee is responsible for. The committee documents its agreement with the fair value measurements reported in the Company s consolidated financial statements.

Valuation Techniques

Valuation techniques for financial instruments measured at fair value are described below.

Fixed-Maturity Securities Held as Available-For-Sale, Investments Carried at Fair Value, Investments Pledged as Collateral and Short-term Investments

These investments include investments in U.S. Treasury and government agencies, state and municipal bonds, foreign governments, corporate obligations, mortgage-backed securities (MBS), asset-backed securities, money market securities, and perpetual debt and equity securities.

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 6: Fair Value of Financial Instruments (continued)

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

The investment in the fixed-income fund was measured at fair value by applying the net asset value per share practical expedient. The investment in the fixed-income fund may be redeemed on a quarterly basis with prior redemption notification of ninety days subject to withdrawal limitations. The investment is required to be held for a minimum of twelve months, and any subsequent quarterly redemption is limited to 25% of the investment or a complete redemption over four consecutive quarters in the amounts of 25%, 33%, 50%, and 100% of the remaining investment balance as of the first, second, third and fourth consecutive quarters, respectively.

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

Cash and Cash Equivalents

The carrying amounts of cash and cash equivalents approximate fair value due to the short-term nature and credit worthiness of these instruments and are categorized in Level 1 of the fair value hierarchy.

Loans Receivable at Fair Value

Loans receivable at fair value are comprised of loans held by consolidated VIEs consisting of residential mortgage and corporate loans. Fair values of residential mortgage loans are determined using quoted prices for MBS issued by the respective VIE and adjusted for the fair values of the financial guarantees provided by MBIA Corp. on the related MBS. The fair values of the financial guarantees consider expected claim payments, net of recoveries, under MBIA Corp. s policies. Fair values of corporate loans, which are to privately held companies, are based on methodologies that generally use comparable EBITDA multiples and the most current available EBITDAs.

Loan Repurchase Commitments

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

Other Assets

A VIE consolidated by the Company has entered into a derivative instrument consisting of a cross currency swap. The cross currency swap is entered into to manage the variability in cash flows resulting from fluctuations in foreign currency rates. The fair value of the VIE derivative is determined based on inputs from unobservable cash flows projection of the derivative, discounted using observable discount rates. As the

significant inputs are unobservable, the derivative contract is categorized in Level 3 of the fair value hierarchy.

Other assets also include receivables representing the right to receive reimbursement payments on claim payments expected to be made on certain insured VIE liabilities due to risk mitigating transactions with third parties executed to effectively defease, or, in-substance commute the Company s exposure on its financial guarantee policies. The right to receive reimbursement payments is based on the value of the Company s financial guarantee determined using the cash flow model. The fair value of the financial guarantee primarily contains unobservable inputs and is categorized in Level 3 of the fair value hierarchy.

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 6: Fair Value of Financial Instruments (continued)

Medium-term Notes at Fair Value

The Company has elected to measure certain MTNs at fair value on a recurring basis. The fair values of certain MTNs are based on quoted market prices provided by third-party sources, where available. When quoted market prices are not available, the Company applies a matrix pricing grid to determine fair value based on the quoted market prices received for similar instruments and considering the MTNs stated maturity and interest rate. Nonperformance risk is included in the quoted market prices and the matrix pricing grid. MTNs are categorized in Level 3 of the fair value hierarchy.

Variable Interest Entity Notes

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

Derivatives

The corporate segment has entered into derivative transactions primarily consisting of interest rate swaps. Fair values of over-the-counter derivatives are determined using valuation models based on observable inputs, nonperformance risk of the Company and nonperformance risk of the counterparties. Observable and market-based inputs include interest rate yields, credit spreads and volatilities. These derivatives are categorized in Level 2 or Level 3 of the fair value hierarchy based on the lowest level input that is significant to the fair value measurement in its entirety.

Derivatives Insurance

The derivative contracts insured by the Company cannot be legally traded and generally do not have observable market prices. The Company determines the fair values of insured credit derivatives using valuation models based on observable inputs and considering nonperformance risk of the Company. Negotiated settlements are also considered to validate the valuation models and to reflect assumptions the Company believes market participants would use.

Valuation Model Overview

The Company uses an internally developed Direct Price Model to value its insured credit derivative that incorporates market prices or estimated prices of similar securities that are obtained for all collateral within a transaction, the present value of the market-implied potential losses, and nonperformance risk. The valuation of the insured credit derivative includes the impact of its credit standing. The insured credit derivative is categorized in Level 3 of the fair value hierarchy based on unobservable inputs that are significant to the fair value measurement in its entirety.

The Company also has other derivative liabilities as a result of a commutation that occurred in 2014. The fair value of the derivative is determined using a discounted cash flow model. Key inputs include unobservable cash flows projected over the expected term of the derivative. As the significant inputs are unobservable, the derivative contract is categorized in Level 3 of the fair value hierarchy.

Other Liabilities

Stock warrants issued by the Company are valued using the Black-Scholes model and are recorded at fair value. Inputs into the warrant valuation include the Company s stock price, the strike price of the warrant, time to expiration, a volatility parameter, interest rates, and dividend

data. As all significant inputs are market-based and observable, warrants are categorized in Level 2 of the fair value hierarchy. As of September 30, 2018, there were no warrants outstanding.

Other payable relates to certain contingent consideration. The fair value of the liability is based on the cash flow methodologies using observable and unobservable inputs. Unobservable inputs include invested asset balances and asset management fees that are significant to the fair value estimate and the liability is categorized in Level 3 of the fair value hierarchy.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 6: Fair Value of Financial Instruments (continued)

Significant Unobservable Inputs

The following tables provide quantitative information regarding the significant unobservable inputs used by the Company for assets and liabilities measured at fair value on a recurring basis as of September 30, 2018 and December 31, 2017.

In millions	Fair Value as of September 30, 2018	Valuation Techniques	Unobservable Input	Range (Weighted Average)
Assets of consolidated VIEs:				
Loans receivable at fair value	$ 428	Market prices adjusted for financial guarantees provided to VIE obligations	Impact of financial guarantee(1)	-18% - 63% (-5%)
Loan repurchase commitments	415	Discounted cash flow	Recovery rates(2)	
			Breach rates(2)	
Liabilities of consolidated VIEs:				
Variable interest entity notes	382	Market prices of VIE assets adjusted for financial guarantees provided	Impact of financial guarantee	0% - 65% (40%)
Credit derivative liabilities:				
CMBS	27	Direct Price Model	Nonperformance risk	54% - 54% (54%)
Other derivative liabilities	7	Discounted cash flow	Cash flows	$0 - $49 ($25)(3)

(1) - Negative percentage represents financial guarantee policies in a receivable position.
(2) - Recovery rates and breach rates include estimates about potential variations in the outcome of litigation with a counterparty.
(3) - Midpoint of cash flows are used for the weighted average.

In millions	Fair Value as of December 31, 2017	Valuation Techniques	Unobservable Input	Range (Weighted Average)
Assets of consolidated VIEs:				
Loans receivable at fair value	$ 1,679	Market prices adjusted for financial guarantees provided to VIE obligations	Impact of financial guarantee(1)	-25% - 35% (-2%)
		Multiples of EBITDA	Multiples(2)	
Loan repurchase commitments	407	Discounted cash flow	Recovery rates(3)	
			Breach rates(3)	

Liabilities of consolidated VIEs:				
Variable interest entity notes	406	Market prices of VIE assets adjusted for financial guarantees provided	Impact of financial guarantee	0% - 60% (36%)
Credit derivative liabilities:				
CMBS	63	Direct Price Model	Nonperformance risk	54% - 54% (54%)
Other derivative liabilities	4	Discounted cash flow	Cash flows	\$0 - \$49 (\$25)[4]

(1) - Negative percentage represents financial guarantee policies in a receivable position.

(2) - Unobservable inputs are primarily based on comparable companies EBITDA multiples.

(3) - Recovery rates and breach rates include estimates about potential variations in the outcome of litigation with a counterparty.

(4) - Midpoint of cash flows are used for the weighted average.

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 6: Fair Value of Financial Instruments (continued)

Sensitivity of Significant Unobservable Inputs

As of September 30, 2018, the significant unobservable input used in the fair value measurement of the Company s loans receivable at fair value of consolidated VIEs is the impact of the financial guarantee. The fair value of loans receivable is calculated by subtracting the value of the financial guarantee from the market value of VIE liabilities. The value of a financial guarantee is estimated by the Company as the present value of expected cash payments, net of recoveries, under the policy. As the value of the financial guarantee provided by the Company under the insurance policy increases, there is a lower expected cash flow on the underlying loans receivable of the VIE. This results in a lower fair value of the loans receivable in relation to the obligations of the VIE. In addition to the impact of the financial guarantee, as of December 31, 2017, the fair value of loans receivable also includes certain methodologies using multiples of EBITDA. Multiples are external factors that are considered when determining the fair values of corporate loans. These loans are to privately held companies for which the Company has limited information.

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

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

The significant unobservable input used in the fair value measurement of MBIA Corp. s commercial mortgage-backed securities (CMBS) credit derivative, which is valued using the Direct Price Model, is nonperformance risk. The nonperformance risk is an assumption of MBIA Corp. s own ability to pay and whether MBIA Corp. will have the necessary resources to pay the obligations as they come due. Any significant increase or decrease in MBIA Corp. s nonperformance risk would result in a decrease or increase in the fair value of the derivative liabilities, respectively.

The significant unobservable input used in the fair value measurement of MBIA Corp. s other derivatives, which are valued using a discounted cash flow model, is the estimates of future cash flows discounted using market rates and CDS spreads. Any significant increase or decrease in future cash flows would result in an increase or decrease in the fair value of the derivative liability, respectively.

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 6: Fair Value of Financial Instruments (continued)

Fair Value Measurements

The following tables present the fair value of the Company s assets (including short-term investments) and liabilities measured and reported at fair value on a recurring basis as of September 30, 2018 and December 31, 2017:

	Fair Value Measurements at Reporting Date Using			
In millions	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance as of September 30, 2018
Assets:				
Fixed-maturity investments:				
U.S. Treasury and government agency	$ 765	$ 89	$ -	$ 854
State and municipal bonds	-	757	-	757
Foreign governments	-	11	-	11
Corporate obligations	20	1,603	-	1,623
Mortgage-backed securities:				
Residential mortgage-backed agency	-	220	-	220
Residential mortgage-backed non-agency	-	30	-	30
Commercial mortgage-backed	-	50	7(1)	57
Asset-backed securities:				
Collateralized debt obligations	-	146	-	146
Other asset-backed	-	217	4(1)	221
Total fixed-maturity investments	785	3,123	11	3,919
Money market securities	147	-	-	147
Perpetual debt and equity securities	26	38	-	64
Fixed-income fund	-	-	-	75(2)
Cash and cash equivalents	167	-	-	167
Derivative assets:				
Non-insured derivative assets:				
Interest rate derivatives	-	2	-	2

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 6: Fair Value of Financial Instruments (continued)

	Fair Value Measurements at Reporting Date Using			
In millions	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance as of September 30, 2018
Assets of consolidated VIEs:				
Corporate obligations	-	9	5(1)	14
Mortgage-backed securities:				
Residential mortgage-backed non-agency	-	98	-	98
Commercial mortgage-backed	-	35	-	35
Asset-backed securities:				
Collateralized debt obligations	-	6	1(1)	7
Other asset-backed	-	9	-	9
Cash	12	-	-	12
Loans receivable at fair value:				
Residential loans receivable	-	-	428	428
Loan repurchase commitments	-	-	415	415
Other assets:				
Currency derivatives	-	-	14(1)	14
Other	-	-	15(1)	15
Total assets	$ 1,137	$ 3,320	$ 889	$ 5,421
Liabilities:				
Medium-term notes	$ -	$ -	$ 123(1)	$ 123
Derivative liabilities:				
Insured derivatives:				
Credit derivatives	-	2	27	29
Non-insured derivatives:				
Interest rate derivatives	-	137	-	137
Other	-	-	7	7
Other liabilities:				
Other payable	-	-	5(1)	5
Liabilities of consolidated VIEs:				
Variable interest entity notes	-	327	382	709
Total liabilities	$ -	$ 466	$ 544	$ 1,010

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

(2) - Investment that was measured at fair value by applying the net asset value per share practical expedient, and was required not to be classified in the fair value hierarchy.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 6: Fair Value of Financial Instruments (continued)

	Fair Value Measurements at Reporting Date Using			
In millions	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance as of December 31, 2017
Assets:				
Fixed-maturity investments:				
U.S. Treasury and government agency	$ 1,256	$ 96	$ -	$ 1,352
State and municipal bonds	-	858	-	858
Foreign governments	-	10	-	10
Corporate obligations	-	1,338	2(1)	1,340
Mortgage-backed securities:				
Residential mortgage-backed agency	-	368	-	368
Residential mortgage-backed non-agency	-	32	-	32
Commercial mortgage-backed	-	60	7(1)	67
Asset-backed securities:				
Collateralized debt obligations	-	118	-	118
Other asset-backed	-	178	5(1)	183
Total fixed-maturity investments	1,256	3,058	14	4,328
Money market securities	180	-	-	180
Perpetual debt and equity securities	26	37	-	63
Fixed-income fund	-	-	-	82(2)
Cash and cash equivalents	122	-	-	122
Derivative assets:				
Non-insured derivative assets:				
Interest rate derivatives	-	2	-	2

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 6: Fair Value of Financial Instruments (continued)

	Fair Value Measurements at Reporting Date Using			
In millions	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance as of December 31, 2017
Assets of consolidated VIEs:				
Corporate obligations	-	19	-	19
Mortgage-backed securities:				
Residential mortgage-backed non-agency	-	108	-	108
Commercial mortgage-backed	-	30	6(1)	36
Asset-backed securities:				
Collateralized debt obligations	-	8	1(1)	9
Other asset-backed	-	10	-	10
Cash	24	-	-	24
Loans receivable at fair value:				
Residential loans receivable	-	-	759	759
Corporate loans receivable	-	-	920	920
Loan repurchase commitments	-	-	407	407
Other assets:				
Currency derivatives	-	-	19(1)	19
Other	-	-	14(1)	14
Total assets	$ 1,608	$ 3,272	$ 2,140	$ 7,102
Liabilities:				
Medium-term notes	$ -	$ -	$ 115(1)	$ 115
Derivative liabilities:				
Insured derivatives:				
Credit derivatives	-	2	63	65
Non-insured derivatives:				
Interest rate derivatives	-	193	-	193
Other	-	-	4	4
Other liabilities:				
Warrants	-	6	-	6
Other payable	-	-	7(1)	7
Liabilities of consolidated VIEs:				
Variable interest entity notes	-	663	406	1,069
Total liabilities	$ -	$ 864	$ 595	$ 1,459

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

(2) - Investment that was measured at fair value by applying the net asset value per share practical expedient, and was required not to be classified in the fair value hierarchy.

Level 3 assets at fair value as of September 30, 2018 and December 31, 2017 represented approximately 16% and 30%, respectively, of total assets measured at fair value. Level 3 liabilities at fair value as of September 30, 2018 and December 31, 2017 represented approximately 54% and 41%, respectively, of total liabilities measured at fair value.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 6: Fair Value of Financial Instruments (continued)

The following tables present the fair values and carrying values of the Company s assets and liabilities that are disclosed at fair value but not reported at fair value on the Company s consolidated balance sheets as of September 30, 2018 and December 31, 2017:

	Fair Value Measurements at Reporting Date Using				
In millions	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value Balance as of September 30, 2018	Carry Value Balance as of September 30, 2018
Assets:					
Other investments	$ -	$ 1	$ -	$ 1	$ 1
Assets of consolidated VIEs:					
Investments held-to-maturity	-	-	901	901	890
Total assets	$ -	$ 1	$ 901	$ 902	$ 891
Liabilities:					
Long-term debt	$ -	$ 1,132	$ -	$ 1,132	$ 2,218
Medium-term notes	-	-	416	416	615
Investment agreements	-	-	381	381	314
Liabilities of consolidated VIEs:					
Variable interest entity notes	-	382	900	1,282	1,251
Total liabilities	$ -	$ 1,514	$ 1,697	$ 3,211	$ 4,398
Financial Guarantees:					
Gross	$ -	$ -	$ 1,231	$ 1,231	$ 100
Ceded	-	-	68	68	38

	Fair Value Measurements at Reporting Date Using				
In millions	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value Balance as of December 31, 2017	Carry Value Balance as of December 31, 2017
Assets:					
Other investments	$ -	$ 2	$ -	$ 2	$ 2

Assets of consolidated VIEs:										
Investments held-to-maturity		-		-		916		916		890
Total assets	$	-	$	2	$	916	$	918	$	892
Liabilities:										
Long-term debt	$	-	$	1,002	$	-	$	1,002	$	2,121
Medium-term notes		-		-		406		406		650
Investment agreements		-		-		433		433		337
Liabilities of consolidated VIEs:										
Variable interest entity notes		-		352		916		1,268		1,220
Total liabilities	$	-	$	1,354	$	1,755	$	3,109	$	4,328
Financial Guarantees:										
Gross	$	-	$	-	$	1,785	$	1,785	$	1,220
Ceded		-		-		61		61		39

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 6: Fair Value of Financial Instruments (continued)

The following tables present information about changes in Level 3 assets (including short-term investments) and liabilities measured at fair value on a recurring basis for the three months ended September 30, 2018 and 2017:

Changes in Level 3 Assets and Liabilities Measured at Fair Value on a Recurring Basis for the Three Months Ended September 30, 2018

In millions	Balance, Beginning of Period	Realized Gains / (Losses)	Unrealized Gains / (Losses) Included in Earnings	Unrealized Gains / (Losses) Included in OCI	Foreign Exchange Recognized in OCI or Earnings	Purchases	Issuances	Settlements	Sales	Transfers into Level 3[1]	Transfers out of Level 3[1]	Ending Balance	Change in Unrealized Gains (Losses) for the Period Included in Earnings for Assets still held as of September 30, 2018
Assets:													
Commercial mortgage-backed	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 7	$ -	$ 7	$ -
Other asset-backed	6	-	-	-	-	-	-	-	-	-	(2)	4	-
Assets of consolidated VIEs:													
Corporate obligations	5	-	-	-	-	-	-	-	-	-	-	5	-
Collateralized debt obligations	1	-	-	-	-	-	-	-	-	-	-	1	-
Loans receivable-residential	683	-	20	-	-	-	-	(24)	(251)	-	-	428	21
Loan repurchase commitments	415	-	-	-	-	-	-	-	-	-	-	415	-
Currency derivatives	14	-	2	-	(2)	-	-	-	-	-	-	14	-
Other	14	-	1	-	-	-	-	-	-	-	-	15	1
Total assets	$ 1,138	$ -	$ 23	$ -	$ (2)	$ -	$ -	$ (24)	$ (251)	$ 7	$ (2)	$ 889	$ 22

In millions	Balance, Beginning of Period	Realized (Gains) / Losses	Unrealized (Gains) / Losses Included in Earnings	Unrealized (Gains) / Losses Included in Credit Risk in OCI	Foreign Exchange Recognized in OCI or Earnings	Purchases	Issuances	Settlements	Sales	Transfers into Level 3[1]	Transfers out of Level 3[1]	Ending Balance	Change in Unrealized (Gains) Losses for the Period Included in Earnings for Liabilities still held as of September 30, 2018
Liabilities:													
Medium-term notes	$ 149	$ (5)	$ (1)	$ 11	$ (1)	$ -	$ -	$ (30)	$ -	$ -	$ -	$ 123	$ (2)
Credit derivatives	31	6	(4)	-	-	-	-	(6)	-	-	-	27	(4)
Other derivatives	4	-	3	-	-	-	-	-	-	-	-	7	3
Other payable	5	-	-	-	-	-	-	-	-	-	-	5	-
Liabilities of consolidated VIEs:													
VIE notes	389	10	3	(11)	5	-	1	(15)	-	-	-	382	8
Total liabilities	$ 578	$ 11	$ 1	$ -	$ 4	$ -	$ 1	$ (51)	$ -	$ -	$ -	$ 544	$ 5

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

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 6: Fair Value of Financial Instruments (continued)

Changes in Level 3 Assets and Liabilities Measured at Fair Value on a Recurring Basis for the Three Months Ended September 30, 2017

In millions	Balance, Beginning of Period	Realized Gains / (Losses)	Unrealized Gains / (Losses) Included in Earnings	Unrealized Gains / (Losses) Included in OCI	Foreign Exchange Recognized in OCI or Earnings	Purchases	Issuances	Settlements	Sales	Transfers into Level 3[1]	Transfers out of Level 3[1]	Ending Balance	Change in Unrealized Gains (Losses) for the Period Included in Earnings for Assets still held as of September 30, 2017
Assets:													
Commercial mortgage-backed	$ 7	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ (7)	$ -	$ -
Other asset-backed	5	-	-	-	-	-	-	-	-	-	-	5	-
Assets of consolidated VIEs:													
Commercial mortgage-backed	3	-	-	-	-	-	-	-	(3)	-	-	-	-
Collateralized debt obligations	1	-	-	-	-	-	-	-	-	-	-	1	-
Loans receivable-residential	815	-	2	-	-	-	-	(58)	-	-	-	759	2
Loans receivable-corporate	875	-	4	-	-	-	-	(6)	-	-	-	873	4
Loan repurchase commitments	407	-	(1)	-	-	-	-	-	-	-	-	406	(1)
Currency derivatives	9	-	3	-	1	-	-	-	-	-	-	13	4
Other	-	-	-	-	-	17	-	-	-	-	-	17	-
Total assets	$ 2,122	$ -	$ 8	$ -	$ 1	$ 17	$ -	$ (64)	$ (3)	$ -	$ (7)	$ 2,074	$ 9

In millions	Balance, Beginning of Period	Realized (Gains) / Losses	Unrealized (Gains) / Losses Included in Earnings	Unrealized (Gains) / Losses Included in OCI	Foreign Exchange Recognized in OCI or Earnings	Purchases	Issuances	Settlements	Sales	Transfers into Level 3[1]	Transfers out of Level 3[1]	Ending Balance	Change in Unrealized (Gains) Losses for the Period Included in Earnings for Liabilities still held as of September 30, 2017
Liabilities:													
Medium-term notes	$ 123	$ -	$ (1)	$ -	$ 5	$ -	$ -	$ -	$ -	$ -	$ -	$ 127	$ 4
Credit derivatives	80	7	(6)	-	-	-	-	(7)	-	-	-	74	(6)
Other derivatives	4	-	-	-	-	-	-	-	-	-	-	4	-
Other payable	-	-	1	-	-	6	-	-	-	-	-	7	1
Liabilities of consolidated VIEs:													
VIE notes	491	-	4	-	-	-	-	(14)	(51)	-	-	430	4
Total liabilities	$ 698	$ 7	$ (2)	$ -	$ 5	$ 6	$ -	$ (21)	$ (51)	$ -	$ -	$ 642	$ 3

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

For the three months ended September 30, 2018, sales include the impact of the deconsolidation of VIEs. Refer to Note 4: Variable Interest Entities for additional information about the deconsolidation of VIEs. For the three months ended September 30, 2018, transfers into Level 3 and out of Level 2 were related to CMBS, where inputs, which are significant to their valuation, became unobservable during the quarter. These inputs included spreads, prepayment speeds, default speeds, default severities, yield curves observable at commonly quoted intervals, and market corroborated inputs. Other asset-backed comprised the instruments transferred out of Level 3 where inputs, which are significant to their valuation, became observable during the quarter. There were no transfers into or out of Level 1 for the three months ended September 30, 2018.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 6: Fair Value of Financial Instruments (continued)

For the three months ended September 30, 2017, there were no transfers into Level 3 and out of Level 2. CMBS comprised the instruments transferred out of Level 3 where inputs, which are significant to their valuation, became observable during the quarter. These inputs included spreads, prepayment speeds, default speeds, default severities, yield curves observable at commonly quoted intervals, and market corroborated inputs. There were no transfers into or out of Level 1 for the three months ended September 30, 2017.

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

The following tables present information about changes in Level 3 assets (including short-term investments) and liabilities measured at fair value on a recurring basis for the nine months ended September 30, 2018 and 2017:

Changes in Level 3 Assets and Liabilities Measured at Fair Value on a Recurring Basis for the Nine Months Ended September 30, 2018

In millions	Balance, Beginning of Year	Realized Gains / (Losses)	Unrealized Gains / (Losses) Included in Earnings	Unrealized Gains / (Losses) Included in OCI	Foreign Exchange Recognized in OCI or Earnings	Purchases	Issuances	Settlements	Sales	Transfers into Level 3[1]	Transfers out of Level 3[1]	Ending Balance	Change in Unrealized Gains (Losses) for the Period Included in Earnings for Assets still held as of September 30, 2018
Assets:													
Corporate obligations	$ 2	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ (2)	$ -	$ -
Commercial mortgage-backed	7	-	-	-	-	-	-	-	-	7	(7)	7	-
Other asset-backed	5	-	-	-	-	5	-	(2)	(2)	-	(2)	4	-
Assets of consolidated VIEs:													
Corporate obligations	-	-	-	-	-	-	-	(1)	-	6	-	5	-
Commercial mortgage-backed	6	-	-	-	-	-	-	-	-	-	(6)	-	-
Collateralized debt obligations	1	-	-	-	-	-	-	-	-	-	-	1	-
Loans receivable-residential	759	-	26	-	-	-	-	(106)	(251)	-	-	428	23
Loans receivable-corporate	920	-	11	-	-	-	-	(6)	(925)	-	-	-	-
Loan repurchase commitments	407	-	8	-	-	-	-	-	-	-	-	415	8
Currency derivatives	19	-	(3)	-	(2)	-	-	-	-	-	-	14	(5)

Other	14	-	1	-	-	-	-	-	-	-	-	15	1
Total assets	$ 2,140	$ -	$ 43	$ -	$ (2)	$ 5	$ -	$ (115)	$ (1,178)	$ 13	$ (17)	$ 889	$ 27

In millions	**Balance, Beginning of Year**	**Realized (Gains) / Losses**	**Unrealized (Gains) / Losses Included in Earnings**	**Unrealized (Gains) / Losses Included in Credit Risk in OCI**	**Foreign Exchange Recognized in OCI or Earnings**	**Purchases**	**Issuances**	**Settlements**	**Sales**	**Transfers into Level 3(1)**	**Transfers out of Level 3(1)**	**Ending Balance**	**Change in Unrealized (Gains) Losses for the Period Included in Earnings for Liabilities still held as of September 30, 2018**
Liabilities:													
Medium-term notes	$ 115	$ (5)	$ (1)	$ 51	$ (7)	$ -	$ -	$ (30)	$ -	$ -	$ -	$ 123	$ (8)
Credit derivatives	63	49	(36)	-	-	-	-	(49)	-	-	-	27	(36)
Other derivatives	4	-	3	-	-	-	-	-	-	-	-	7	3
Other payable	7	-	2	-	-	-	-	(4)	-	-	-	5	2
Liabilities of consolidated VIEs:													
VIE notes	406	22	(12)	(10)	3	-	7	(34)	-	-	-	382	(9)
Total liabilities	$ 595	$ 66	$ (44)	$ 41	$ (4)	$ -	$ 7	$ (117)	$ -	$ -	$ -	$ 544	$ (48)

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

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 6: Fair Value of Financial Instruments (continued)

Changes in Level 3 Assets and Liabilities Measured at Fair Value on a Recurring Basis for the Nine Months Ended September 30, 2017

In millions	Balance, Beginning of Year	Realized Gains / (Losses)	Unrealized Gains / (Losses) Included in Earnings	Unrealized Gains / (Losses) Included in OCI	Foreign Exchange Recognized in OCI or Earnings	Purchases	Issuances	Settlements	Sales	Transfers into Level 3[1]	Transfers out of Level 3[1]	Ending Balance	Change in Unrealized Gains (Losses) for the Period Included in Earnings for Assets still held as of September 30, 2017
Assets:													
Corporate obligations	$ 2	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ (2)	$ -	$ -
Commercial mortgage-backed	-	-	-	-	-	-	-	-	-	7	(7)	-	-
Collateralized debt obligations	15	-	-	-	-	-	-	(7)	-	-	(8)	-	-
Other asset-backed	44	-	-	2	-	-	-	(41)	-	-	-	5	-
State and municipal bonds	-	-	-	-	-	-	-	-	-	1	(1)	-	-
Assets of consolidated VIEs:													
Corporate obligations	-	-	-	-	-	-	-	(2)	-	6	(4)	-	-
Commercial mortgage-backed	-	-	-	-	-	-	-	-	(3)	3	-	-	-
Collateralized debt obligations	1	-	-	-	-	-	-	-	-	-	-	1	-
Other asset-backed	1	-	-	-	-	-	-	-	-	1	(2)	-	-
Loans receivable-residential	916	-	29	-	-	-	-	(186)	-	-	-	759	29
Loans receivable-corporate	150	-	36	-	-	719	-	(32)	-	-	-	873	36
Loan repurchase commitments	404	-	2	-	-	-	-	-	-	-	-	406	2
Currency derivatives	19	-	(2)	-	(4)	-	-	-	-	-	-	13	(6)
Other	-	-	-	-	-	17	-	-	-	-	-	17	-
Total assets	$ 1,552	$ -	$ 65	$ 2	$ (4)	$ 736	$ -	$ (268)	$ (3)	$ 18	$ (24)	$ 2,074	$ 61

In millions	Balance, Beginning of Year	Realized (Gains) / Losses	Unrealized (Gains) / Losses Included in Earnings	Unrealized (Gains) / Losses Included in OCI	Foreign Exchange Recognized in OCI or Earnings	Purchases	Issuances	Settlements	Sales	Transfers into Level 3[(1)]	Transfers out of Level 3[(1)]	Ending Balance	Change in Unrealized (Gains) Losses for the Period Included in Earnings for Liabilities still held as of September 30, 2017
Liabilities:													
Medium-term notes	$ 101	$ -	$ 13	$ -	$ 13	$ -	$ -	$ -	$ -	$ -	$ -	$ 127	$ 26
Credit derivatives	64	41	10	-	-	-	-	(41)	-	-	-	74	12
Other derivatives	20	-	18	-	-	-	-	(34)	-	-	-	4	18
Other payable	-	-	1	-	-	6	-	-	-	-	-	7	1
Liabilities of consolidated VIEs:													
VIE notes	476	-	56	-	-	-	-	(51)	(51)	-	-	430	56
Total liabilities	$ 661	$ 41	$ 98	$ -	$ 13	$ 6	$ -	$ (126)	$ (51)	$ -	$ -	$ 642	$ 113

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

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 6: Fair Value of Financial Instruments (continued)

For the nine months ended September 30, 2018, sales include the impact of the deconsolidation of VIEs. Refer to Note 4: Variable Interest Entities for additional information about the deconsolidation of VIEs. For the nine months ended September 30, 2018, transfers into Level 3 and out of Level 2 were principally related to CMBS and corporate obligations, where inputs, which are significant to their valuation, became unobservable during the period. CMBS, corporate obligations and other asset-backed comprised the majority of the instruments transferred out of Level 3 where inputs, which are significant to their valuation, became observable during the period. These inputs included spreads, prepayment speeds, default speeds, default severities, yield curves observable at commonly quoted intervals, and market corroborated inputs. There were no transfers into or out of Level 1.

For the nine months ended September 30, 2017, transfers into Level 3 and out of Level 2 were principally related to CMBS and corporate obligations, where inputs, which are significant to their valuation, became unobservable during the period. CDOs, CMBS and corporate obligations comprised the majority of the instruments transferred out of Level 3 where inputs, which are significant to their valuation, became observable during the period. These inputs included spreads, prepayment speeds, default speeds, default severities, yield curves observable at commonly quoted intervals, and market corroborated inputs. There were no transfers into or out of Level 1.

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

Gains and losses (realized and unrealized) included in earnings related to Level 3 assets and liabilities for the three months ended September 30, 2018 and 2017 are reported on the Company s consolidated statements of operations as follows:

	Three Months Ended September 30, 2018		Three Months Ended September 30, 2017	
In millions	**Total Gains (Losses) Included in Earnings**	**Change in Unrealized Gains (Losses) for the Period Included in Earnings for Assets and Liabilities still held as of September 30, 2018**	**Total Gains (Losses) Included in Earnings**	**Change in Unrealized Gains (Losses) for the Period Included in Earnings for Assets and Liabilities still held as of September 30, 2017**
Revenues:				
Unrealized gains (losses) on insured derivatives	$ 4	$ 4	$ 6	$ 6
Realized gains (losses) and other settlements on insured derivatives	(6)	-	(7)	-
Net gains (losses) on financial instruments at fair value and foreign exchange	4	(1)	(4)	(4)
Other net realized gains (losses)	-	-	(1)	(1)

Revenues of consolidated VIEs:								
Net gains (losses) on financial instruments at fair value and foreign exchange		3		14		5		5
Total	$	5	$	17	$	(1)	$	6

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 6: Fair Value of Financial Instruments (continued)

Gains and losses (realized and unrealized) included in earnings relating to Level 3 assets and liabilities for the nine months ended September 30, 2018 and 2017 are reported on the Company s consolidated statements of operations as follows:

	Nine Months Ended September 30, 2018		Nine Months Ended September 30, 2017	
In millions	**Total Gains (Losses) Included in Earnings**	**Change in Unrealized Gains (Losses) for the Period Included in Earnings for Assets and Liabilities still held as of September 30, 2018**	**Total Gains (Losses) Included in Earnings**	**Change in Unrealized Gains (Losses) for the Period Included in Earnings for Assets and Liabilities still held as of September 30, 2017**
Revenues:				
Unrealized gains (losses) on insured derivatives	$ 36	$ 36	$ (10)	$ (12)
Realized gains (losses) and other settlements on insured derivatives	(49)	-	(41)	-
Net gains (losses) on financial instruments at fair value and foreign exchange	10	5	(44)	(44)
Other net realized gains (losses)	(2)	(2)	(1)	(1)
Revenues of consolidated VIEs:				
Net gains (losses) on financial instruments at fair value and foreign exchange	28	36	5	5
Total	$ 23	$ 75	$ (91)	$ (52)

Fair Value Option

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

The following table presents the gains and (losses) included in the Company s consolidated statements of operations for the three and nine months ended September 30, 2018 and 2017 for financial instruments for which the fair value option was elected:

In millions	Three Months Ended September 30, 2018	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
Investments carried at fair value[1]	$ 1	$ 2	$ (4)	$ 8
Fixed-maturity securities held at fair value-VIE[2]	(7)	(2)	(19)	(16)
Loans receivable at fair value:				
Residential mortgage loans[2]	(3)	(55)	(79)	(157)
Corporate loans[2]	-	(2)	11	4
Loan repurchase commitments[2]	-	(1)	9	3
Other assets-VIE[2]	1	-	1	-
Medium-term notes[1]	7	(4)	14	(26)
Variable interest entity notes [2]	23	70	106	160
Other liabilities[3]	-	(1)	(2)	(1)

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

(2) - Reported within Net gains (losses) on financial instruments at fair value and foreign exchange-VIE on MBIA s consolidated statements of operations.

(3) - Reported within Other net realized gains (losses) on MBIA s consolidated statements of operations.

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 6: Fair Value of Financial Instruments (continued)

Instrument-Specific Credit Risk of Liabilities Elected Under the Fair Value Option

As of September 30, 2018, the cumulative changes in instrument-specific credit risk of liabilities elected under the fair value option were a loss of $166 million reported in Accumulated other comprehensive income on the Company s consolidated balance sheets. Changes in value attributable to instrument-specific credit risk were derived principally from changes in the Company s credit spread. For liabilities of VIEs, additional adjustments to instrument-specific credit risk are required, which is determined by an analysis of deal specific performance of collateral that support these liabilities. During the three and nine months ended September 30, 2018, the portions of instrument-specific credit risk included in AOCI that were recognized in earnings due to settlement of liabilities were losses of $38 million and $48 million, respectively.

The following table reflects the difference between the aggregate fair value and the aggregate remaining contractual principal balance outstanding as of September 30, 2018 and December 31, 2017 for loans and notes for which the fair value option was elected:

In millions	As of September 30, 2018 Contractual Outstanding Principal	Fair Value	Difference	As of December 31, 2017 Contractual Outstanding Principal	Fair Value	Difference
Loans receivable at fair value:						
Residential mortgage loans	$ 390	$ 389	$ 1	$ 732	$ 727	$ 5
Residential mortgage loans (90 days or more past due)	165	39	126	170	32	138
Corporate loans (90 days or more past due)	-	-	-	1,394	920	474
Total loans receivable at fair value	555	428	127	2,296	1,679	617
Variable interest entity notes	1,525	709	816	1,882	1,069	813
Medium-term notes	139	123	16	180	115	65

The difference between the contractual outstanding principal and the fair values on loans receivable, VIE notes and MTNs, in the preceding table, are primarily attributable to credit risk. This is due to the high rate of defaults on loans and the collateral supporting the VIE notes and the nonperformance risk of the Company on its MTNs, which resulted in depressed pricing of the financial instruments.

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 7: Investments

Investments, excluding those elected under the fair value option, include debt and equity securities classified as either AFS or held-to-maturity (HTM).

The following tables present the amortized cost, fair value, corresponding gross unrealized gains and losses and OTTI for AFS and HTM investments in the Company s consolidated investment portfolio as of September 30, 2018 and December 31, 2017:

			September 30, 2018		
In millions	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Other-Than-Temporary Impairments(1)
AFS Investments					
Fixed-maturity investments:					
U.S. Treasury and government agency	$ 843	$ 20	$ (19)	$ 844	$ -
State and municipal bonds	659	111	(14)	756	47
Foreign governments	10	-	-	10	-
Corporate obligations	1,672	6	(122)	1,556	(68)
Mortgage-backed securities:					
Residential mortgage-backed agency	222	-	(7)	215	-
Residential mortgage-backed non-agency	32	1	(3)	30	-
Commercial mortgage-backed	57	-	(2)	55	-
Asset-backed securities:					
Collateralized debt obligations	143	-	-	143	-
Other asset-backed	214	1	(1)	214	1
Total AFS investments	$ 3,852	$ 139	$ (168)	$ 3,823	$ (20)
HTM Investments					
Assets of consolidated VIEs:					
Corporate obligations	$ 890	$ 13	$ (2)	$ 901	$ -
Total HTM investments	$ 890	$ 13	$ (2)	$ 901	$ -

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

			December 31, 2017		
In millions	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Other-Than-Temporary Impairments(1)
AFS Investments					
Fixed-maturity investments:					

U.S. Treasury and government agency	$ 1,317	$ 34	$ (6)	$ 1,345	$ -
State and municipal bonds	840	29	(12)	857	-
Foreign governments	10	-	-	10	-
Corporate obligations	1,332	25	(80)	1,277	(72)
Mortgage-backed securities:					
Residential mortgage-backed agency	365	1	(4)	362	-
Residential mortgage-backed non-agency	35	1	(4)	32	-
Commercial mortgage-backed	66	-	-	66	-
Asset-backed securities:					
Collateralized debt obligations	116	-	-	116	-
Other asset-backed	175	-	-	175	1
Total fixed-maturity investments	4,256	90	(106)	4,240	(71)
Money market securities	179	-	-	179	-
Perpetual debt and equity securities	3	1	-	4	-
Total AFS investments	$ 4,438	$ 91	$ (106)	$ 4,423	$ (71)
HTM Investments					
Assets of consolidated VIEs:					
Corporate obligations	$ 890	$ 26	$ -	$ 916	$ -
Total HTM investments	$ 890	$ 26	$ -	$ 916	$ -

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

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 7: Investments (continued)

The following table presents the distribution by contractual maturity of AFS and HTM fixed-maturity securities at amortized cost and fair value as of September 30, 2018. Contractual maturity may differ from expected maturity as borrowers may have the right to call or prepay obligations.

	AFS Securities		HTM Securities Consolidated VIEs	
In millions	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$ 790	$ 802	$ -	$ -
Due after one year through five years	677	702	-	-
Due after five years through ten years	670	589	-	-
Due after ten years	1,047	1,073	890	901
Mortgage-backed and asset-backed	668	657	-	-
Total fixed-maturity investments	$ 3,852	$ 3,823	$ 890	$ 901

Deposited and Pledged Securities

The fair value of securities on deposit with various regulatory authorities as of September 30, 2018 and December 31, 2017 was $10 million. These deposits are required to comply with state insurance laws.

Pursuant to the Company s tax sharing agreement, securities held by MBIA Inc. in the Tax Escrow Account are included as Investments pledged as collateral, at fair value on the Company s consolidated balance sheets.

Investment agreement obligations require the Company to pledge securities as collateral. Securities pledged in connection with investment agreements may not be repledged by the investment agreement counterparty. As of September 30, 2018 and December 31, 2017, the fair value of securities pledged as collateral for these investment agreements approximated $320 million and $353 million, respectively. The Company s collateral as of September 30, 2018 consisted principally of U.S. Treasury and government agency and state and municipal bonds, and was primarily held with major U.S. banks.

Impaired Investments

The following tables present the gross unrealized losses related to AFS and HTM investments as of September 30, 2018 and December 31, 2017:

	September 30, 2018					
	Less than 12 Months		12 Months or Longer		Total	
In millions	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
AFS Investments						
Fixed-maturity investments:						
U.S. Treasury and government agency	$ 396	$ (7)	$ 206	$ (12)	$ 602	$ (19)
State and municipal bonds	92	(3)	123	(11)	215	(14)

Foreign governments	9	-	-	-	9	-
Corporate obligations	1,116	(38)	213	(84)	1,329	(122)
Mortgage-backed securities:						
Residential mortgage-backed agency	119	(2)	95	(5)	214	(7)
Residential mortgage-backed non-agency	-	-	14	(3)	14	(3)
Commercial mortgage-backed	29	-	19	(2)	48	(2)
Asset-backed securities:						
Collateralized debt obligations	73	-	-	-	73	-
Other asset-backed	121	(1)	30	-	151	(1)
Total AFS investments	$ 1,955	$ (51)	$ 700	$ (117)	$ 2,655	$ (168)
HTM Investments						
Assets of consolidated VIEs:						
Corporate obligations	$ 313	$ (2)	$ -	$ -	$ 313	$ (2)
Total HTM investments	$ 313	$ (2)	$ -	$ -	$ 313	$ (2)

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 7: Investments (continued)

	December 31, 2017					
	Less than 12 Months		12 Months or Longer		Total	
In millions	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
AFS Investments						
Fixed-maturity investments:						
U.S. Treasury and government agency	$ 353	$ (1)	$ 124	$ (5)	$ 477	$ (6)
State and municipal bonds	203	(8)	116	(4)	319	(12)
Foreign governments	8	-	-	-	8	-
Corporate obligations	425	(3)	163	(77)	588	(80)
Mortgage-backed securities:						
Residential mortgage-backed agency	105	(1)	156	(3)	261	(4)
Residential mortgage-backed non-agency	-	-	14	(4)	14	(4)
Commercial mortgage-backed	27	-	5	-	32	-
Asset-backed securities:						
Collateralized debt obligations	12	-	-	-	12	-
Other asset-backed	71	-	39	-	110	-
Total AFS investments	$ 1,204	$ (13)	$ 617	$ (93)	$ 1,821	$ (106)

Gross unrealized losses on AFS investments increased as of September 30, 2018 compared with December 31, 2017 primarily due to higher interest rates.

With the weighting applied on the fair value of each security relative to the total fair value, the weighted average contractual maturity of securities in an unrealized loss position as of September 30, 2018 and December 31, 2017 was 13 and 12 years, respectively. As of September 30, 2018 and December 31, 2017, there were 131 and 133 securities, respectively, that were in an unrealized loss position for a continuous twelve-month period or longer, of which, fair values of 75 and 24 securities, respectively, were below book value by more than 5%.

The following table presents the distribution of securities in an unrealized loss position for a continuous twelve-month period or longer where fair value was below book value by more than 5% as of September 30, 2018:

Percentage of Fair Value Below Book Value	Number of Securities	AFS Securities Book Value (in millions)	Fair Value (in millions)
> 5% to 15%	60	$ 368	$ 338
> 15% to 25%	11	61	50
> 25% to 50%	-	-	-
> 50%	4	100	32
Total	75	$ 529	$ 420

The Company concluded that it does not have the intent to sell securities in an unrealized loss position and it is more likely than not, that it would not have to sell these securities before recovery of their cost basis. In making this conclusion, the Company examined the cash flow projections for its investment portfolios, the potential sources and uses of cash in its businesses, and the cash resources available to its business

other than sales of securities. It also considered the existence of any risk management or other plans as of September 30, 2018 that would require the sale of impaired securities. Impaired securities that the Company intends to sell before the expected recovery of such securities fair values have been written down to fair value.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 7: Investments (continued)

Other-Than-Temporary Impairments

The Company s fixed-maturity securities for which fair value is less than amortized cost are reviewed quarterly in order to determine whether a credit loss exists. The portion of certain OTTI losses on fixed-maturity securities that does not represent credit losses is recognized in AOCI. Refer to Note 8: Investments in the Notes to Consolidated Financial Statements included in the Company s Annual Report on Form 10-K for the year ended December 31, 2017 for a discussion of the Company s policy for OTTI and its determination of credit loss. The following table presents the amount of credit loss impairments recognized in earnings on fixed-maturity securities held by MBIA as of the dates indicated, for which a portion of the OTTI losses was recognized in AOCI, and the corresponding changes in such amounts. The additional credit loss impairments for the three and nine months ended September 30, 2018 were primarily related to an impaired security for which a loss was recognized as the difference between the amortized cost and net present value of projected cash flows. This OTTI resulted from liquidity concerns and other adverse financial conditions of the issuer. The additional credit loss impairment for the nine months ended September 30, 2017 was primarily related to municipal bonds for which a loss was recognized as the difference between their amortized cost and their recovery value in the second quarter of 2017. This OTTI resulted from liquidity concerns, recent credit rating downgrades and other adverse financial conditions of the issuer. The reduction from credit loss impairment for the three and nine months ended September 30, 2017 was primarily related to municipal bonds previously impaired which were further impaired to fair value during the third quarter 2017.

In millions **Credit Losses Recognized in Earnings Related to**	**Three Months Ended September 30,**		**Nine Months Ended September 30,**	
Other-Than-Temporary Impairments	**2018**	**2017**	**2018**	**2017**
Beginning balance	$ 34	$ 42	$ 32	$ 29
Additions for credit loss impairments recognized in the current period on securities not previously impaired	-	-	-	11
Additions for credit loss impairments recognized in the current period on securities previously impaired	1	2	3	4
Reductions for credit loss impairments previously recognized on securities sold during the period	-	(2)	-	(2)
Reductions for credit loss impairments previously recognized on securities impaired to fair value during the period	-	(11)	-	(11)
Ending balance	$ 35	$ 31	$ 35	$ 31

The Company does not recognize OTTI on securities insured by MBIA Corp. and National since those securities, whether or not owned by the Company, are evaluated for impairments in accordance with its loss reserving policy. The following table provides information about securities held by the Company as of September 30, 2018 that were in an unrealized loss position and insured by a financial guarantor, along with the amount of insurance loss reserves corresponding to the par amount owned by the Company:

In millions	**Fair Value**	**Unrealized Loss**	**Insurance Loss Reserve** [2]
Mortgage-backed:			
MBIA[1]	$ 14	$ (3)	$ 14

Corporate obligations:						
MBIA[1]		70		(12)		-
Other:						
MBIA[1]		6		-		-
Other		2		-		-
Total other		8		-		-
Total	$	92	$	(15)	$	14

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

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

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 7: Investments (continued)

Sales of Available-for-Sale Investments

Gross realized gains and losses are recorded within Net gains (losses) on financial instruments at fair value and foreign exchange on the Company s consolidated statements of operations. The proceeds and the gross realized gains and losses from sales of fixed-maturity securities held as AFS for the three and nine months ended September 30, 2018 and 2017 are as follows:

In millions	Three Months Ended September 30, 2018	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
Proceeds from sales	$ 583	$ 312	$ 1,647	$ 1,300
Gross realized gains	$ 1	$ 5	$ 4	$ 24
Gross realized losses	$ (2)	$ (5)	$ (15)	$ (9)

Equity Investments

Unrealized gains and losses recognized on equity investments held as of September 30, 2018 for the three and nine months ended September 30, 2018 are as follows:

In millions	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2018
Net gains (losses) recognized during the period on equity securities	$ 3	$ 3
Less:		
Net gains (losses) recognized during the period on equity securities sold during the period	-	1
Unrealized gains (losses) recognized during the period on equity securities still held as of September 30, 2018	$ 3	$ 2

Note 8: Derivative Instruments

U.S. Public Finance Insurance

The Company s derivative exposure within its U.S. public finance insurance operations primarily consists of insured interest rate and inflation-linked swaps related to insured U.S. public finance debt issues. These derivatives do not qualify for the financial guarantee scope exception and are accounted for as derivative instruments.

Corporate

The Company has entered into derivative instruments primarily consisting of interest rate swaps to manage the risks associated with fluctuations in interest rates affecting the value of certain assets and liabilities.

International and Structured Finance Insurance

The Company has entered into a derivative instrument to provide financial guarantee insurance to a structured finance transaction that does not qualify for the financial guarantee scope exception and, therefore, is accounted for as a derivative. The insured CDS contract, referencing CMBS, is intended to be held for the entire term of the contract unless a settlement with the counterparty is negotiated. The Company no longer insures new CDS contracts except for transactions related to the restructuring or reduction of existing derivative exposure. The Company s derivative exposure within its international and structured finance insurance segment also includes insured interest rate and inflation-linked swaps related to insured debt issues.

The Company has also entered into a derivative contract as a result of a commutation that occurred in 2014. Changes in the fair value of the Company s non-insured derivative are included in Net gains (losses) on financial instruments at fair value and foreign exchange on the Company s consolidated statements of operations.

Variable Interest Entities

A VIE consolidated by the Company has entered into a cross currency swap, which was entered into to manage the variability in cash flows resulting from fluctuations in foreign currency rates.

Credit Derivatives Sold

The following tables present information about credit derivatives sold by the Company s insurance operations that were outstanding as of September 30, 2018 and December 31, 2017. Credit ratings represent the lower of underlying ratings assigned to the collateral by Moody s, S&P or MBIA.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 8: Derivative Instruments (continued)

$ in millions		As of September 30, 2018						
		Notional Value						
Credit Derivatives Sold	Weighted Average Remaining Expected Maturity	AAA	AA	A	BBB	Below Investment Grade	Total Notional	Fair Value Asset (Liability)
Insured credit default swaps	0.3 Years	$ -	$ -	$ -	$ -	$ 77	$ 77	$ (27)
Insured swaps	15.5 Years	-	107	1,539	915	-	2,561	(2)
Total notional		$ -	$ 107	$ 1,539	$ 915	$ 77	$ 2,638	
Total fair value		$ -	$ -	$ (1)	$ (1)	$ (27)		$ (29)

$ in millions		As of December 31, 2017						
		Notional Value						
Credit Derivatives Sold	Weighted Average Remaining Expected Maturity	AAA	AA	A	BBB	Below Investment Grade	Total Notional	Fair Value Asset (Liability)
Insured credit default swaps	1.0 Years	$ -	$ -	$ -	$ -	$ 127	$ 127	$ (63)
Insured swaps	15.5 Years	-	117	1,818	846	20	2,801	(2)
Total notional		$ -	$ 117	$ 1,818	$ 846	$ 147	$ 2,928	
Total fair value		$ -	$ -	$ (1)	$ (1)	$ (63)		$ (65)

Internal credit ratings assigned by MBIA on the underlying collateral are derived by the Company s surveillance group. In assigning an internal rating, current status reports from issuers and trustees, as well as publicly available transaction-specific information, are reviewed. Also, where appropriate, cash flow analyses and collateral valuations are considered. The maximum potential amount of future payments (undiscounted) on insured CDS and insured swaps is estimated as the notional value of such contracts.

MBIA may hold recourse provisions with third parties in derivative instruments through subrogation rights, whereby if MBIA makes a claim payment, it may be entitled to any rights of the insured counterparty, including the right to any assets held as collateral.

Counterparty Credit Risk

The Company manages counterparty credit risk on an individual counterparty basis through master netting agreements covering derivative instruments in the corporate segment. These agreements allow the Company to contractually net amounts due from a counterparty with those amounts due to such counterparty when certain triggering events occur. The Company only executes swaps under master netting agreements, which typically contain mutual credit downgrade provisions that generally provide the ability to require assignment or termination in the event either MBIA or the counterparty is downgraded below a specified credit rating.

Under these agreements, the Company may receive or provide cash, U.S. Treasury or other highly rated securities to secure counterparties exposure to the Company or its exposure to counterparties, respectively. Such collateral is available to the holder to pay for replacing the counterparty in the event that the counterparty defaults. As of September 30, 2018 and December 31, 2017, the Company did not hold or post cash collateral to derivative counterparties.

As of September 30, 2018 and December 31, 2017, the Company had securities with a fair value of $183 million and $237 million, respectively, posted to derivative counterparties and these amounts are included within Fixed-maturity securities held as available-for-sale, at fair value on the Company s consolidated balance sheets.

As of September 30, 2018 and December 31, 2017, the fair value on one Credit Support Annex (CSA) was $2 million. This CSA governs collateral posting requirements between MBIA and its derivative counterparties. The Company did not receive collateral due to the Company s credit rating, which was below the CSA minimum credit ratings level for holding counterparty collateral. As of September 30, 2018 and December 31, 2017, the counterparty was rated A1 by Moody s and A by S&P.

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 8: Derivative Instruments (continued)

Financial Statement Presentation

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

The following table presents the total fair value of the Company s derivative assets and liabilities by instrument and balance sheet location, before counterparty netting and posting of cash collateral, as of September 30, 2018:

In millions		**Derivative Assets [1]**		**Derivative Liabilities [1]**	
Derivative Instruments	**Notional Amount Outstanding**	**Balance Sheet Location**	**Fair Value**	**Balance Sheet Location**	**Fair Value**
Not designated as hedging instruments:					
Insured credit default swaps	$ 77	Other assets	$ -	Derivative liabilities	$ (27)
Insured swaps	2,561	Other assets	-	Derivative liabilities	(2)
Interest rate swaps	722	Other assets	2	Derivative liabilities	(136)
Interest rate swaps-embedded	296	Medium-term notes	-	Medium-term notes	(10)
Currency swaps-VIE	64	Other assets-VIE	14	Derivative liabilities-VIE	-
All other	49	Other assets	-	Derivative liabilities	(8)
Total non-designated derivatives	$ 3,769		$ 16		$ (183)

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

The following table presents the total fair value of the Company s derivative assets and liabilities by instrument and balance sheet location, before counterparty netting and posting of cash collateral, as of December 31, 2017:

In millions		**Derivative Assets [1]**		**Derivative Liabilities [1]**	
Derivative Instruments	**Notional Amount Outstanding**	**Balance Sheet Location**	**Fair Value**	**Balance Sheet Location**	**Fair Value**
Not designated as hedging instruments:					
Insured credit default swaps	$ 127	Other assets	$ -	Derivative liabilities	$ (63)
Insured swaps	2,801	Other assets	-	Derivative liabilities	(2)
Interest rate swaps	747	Other assets	2	Derivative liabilities	(193)
Interest rate swaps-embedded	305	Medium-term notes	1	Medium-term notes	(6)
Currency swaps-VIE	69	Other assets-VIE	19	Derivative liabilities-VIE	-

All other		49	Other assets		-	Derivative liabilities	(4)
All other-embedded		2	Other investments		-	Other investments	(1)
Total non-designated derivatives	$	4,100		$	22		$ (269)

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

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 8: Derivative Instruments (continued)

The following table presents the effect of derivative instruments on the consolidated statements of operations for the three months ended September 30, 2018 and 2017:

In millions Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized in Income on Derivative	Three Months Ended September 30, 2018	2017
Insured credit default swaps	Unrealized gains (losses) on insured derivatives	$ 4	$ 6
Insured credit default swaps	Realized gains (losses) and other settlements on insured derivatives	(5)	(7)
Interest rate swaps	Net gains (losses) on financial instruments at fair value and foreign exchange	7	(3)
Currency swaps-VIE	Net gains (losses) on financial instruments at fair value and foreign exchange-VIE	-	4
All other	Net gains (losses) on financial instruments at fair value and foreign exchange	(4)	-
Total		$ 2	$ -

The following table presents the effect of derivative instruments on the consolidated statements of operations for the nine months ended September 30, 2018 and 2017:

In millions Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized in Income on Derivative	Nine Months Ended September 30, 2018	2017
Insured credit default swaps	Unrealized gains (losses) on insured derivatives	$ 36	$ (10)
Insured credit default swaps	Realized gains (losses) and other settlements on insured derivatives	(49)	(41)
Interest rate swaps	Net gains (losses) on financial instruments at fair value and foreign exchange	33	(8)
Currency swaps-VIE	Net gains (losses) on financial instruments at fair value and foreign exchange-VIE	(5)	(6)
All other	Net gains (losses) on financial instruments at fair value and foreign exchange	(4)	(19)
Total		$ 11	$ (84)

Note 9: Income Taxes

The Company s income taxes and the related effective tax rates for the three and nine months ended September 30, 2018 and 2017 are as follows:

In millions	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Income (loss) before income taxes	$ (45)	$ (273)	$ (287)	$ (603)
Provision (benefit) for income taxes	$ -	$ (6)	$ 2	$ 965
Effective tax rate	-%	2.2%	-0.7%	-160.0%

For the nine months ended September 30, 2018 and 2017, the Company s effective tax rate applied to its loss before income taxes was less than the U.S. statutory tax rate primarily due to a full valuation allowance against its net deferred tax asset.

Deferred Tax Asset, Net of Valuation Allowance

On June 26, 2017, S&P downgraded the financial strength rating of National, which led the Company to cease its efforts to actively pursue writing 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 deferred tax assets. 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 deferred tax assets. 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 in the second quarter of 2017 it did not have sufficient positive evidence to support its ability to use its deferred tax assets before they would expire. Accordingly, the Company has a full valuation allowance against its net deferred tax asset of $841 million and $770 million as of September 30, 2018 and December 31, 2017, respectively. The Company will continue to analyze the valuation allowance on a quarterly basis.

On December 22, 2017, the President of the United States signed into law the Tax Cuts and Jobs Act (the Act), which among other items reduces the federal corporate tax rate to 21% effective January 1, 2018. As a result, during the fourth quarter of 2017, the Company revalued its net tax deferred tax asset using the newly enacted tax rate of 21%.

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 9: Income Taxes (continued)

The Company s revaluation of its net deferred tax asset is subject to further clarifications of the new law that cannot be estimated at this time. However, as further clarification of the new law is determined, any adjustment would be offset with a valuation allowance resulting in no change to the Company s net deferred tax asset. The Company does not anticipate future cash expenditures as a result of the reduction to its net deferred tax asset.

Under the Act, net operating losses (NOLs) of property and casualty insurance companies retain their current two-year carryback and 20-year carryforward periods and will not be subject to the 80 percent taxable income limitation and indefinite lived carryforward period applicable to general corporate NOLs. Therefore, NOLs generated after 2017 by the Company s insurance companies and non-insurance companies will be treated differently under the Act.

Accounting for Uncertainty in Income Taxes

The Company s policy is to record and disclose any change in unrecognized tax benefits (UTB) and related interest and/or penalties to income tax in the consolidated statements of operations. The Company includes interest as a component of income tax expense. As of September 30, 2018 and December 31, 2017, the Company had no UTB.

Federal income tax returns through 2011 have been examined or surveyed. As of September 30, 2018, the Company s NOL is approximately $2.5 billion. The NOL will expire between tax years 2031 through 2037. As of September 30, 2018, the Company has a foreign tax credit carryforward of $62 million, which will expire between tax years 2019 through 2028. As of September 30, 2018, the Company has an alternative minimum tax (AMT) credit carryforward of $24 million, which does not expire. As a result of tax reform, AMT credits are now fully refundable no later than 2022. The AMT credit has been reclassed out of the deferred tax asset and into other assets as the AMT credits are now a receivable.

Section 382 of the Internal Revenue Code

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 of the Internal Revenue Code. 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.

Note 10: Business Segments

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

The Company manages its businesses across three operating segments: 1) U.S. public finance insurance; 2) corporate; and 3) international and structured finance insurance. The Company s U.S. public finance insurance business is operated through National and its international and structured finance insurance business is operated through MBIA Corp.

The following sections provide a description of each of the Company s reportable operating segments.

U.S. Public Finance Insurance

The Company s U.S. public finance insurance 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, U.S. public finance insured obligations when due. The obligations are not subject to acceleration, except that National may have the right, at its discretion, to accelerate insured obligations upon default or otherwise. National s guarantees insure municipal bonds, including tax-exempt and taxable indebtedness of U.S. political subdivisions, as well as 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, fees or tariffs related to the use of these projects, lease payments or other similar types of revenue streams.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 10: Business Segments (continued)

Corporate

The Company s corporate segment consists of general corporate activities, including providing support services to MBIA Inc. s subsidiaries as well as asset and capital management. Support services are provided by the Company s service company, MBIA Services Corporation, 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 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.

International and Structured Finance Insurance

The Company s international and structured finance insurance segment is principally conducted through MBIA Corp. The financial guarantees issued by MBIA Corp. generally provide unconditional and irrevocable guarantees of the payment of principal of, and interest or other amounts owing on, 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. MBIA Corp. insures the investment contracts written by MBIA Inc., and if MBIA Inc. were to have insufficient assets to pay amounts due upon maturity or termination, MBIA Corp. would make such payments. MBIA Corp. insures debt obligations of the following affiliates:

- MBIA Inc.;
- GFL;
- IMC;
- MZ Funding LLC; and
- LaCrosse Financial Products, LLC, a wholly-owned affiliate, to which MBIA Insurance Corporation has written insurance policies guaranteeing the obligations under CDS. 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 derivatives contracts by the insured counterparty or by the guarantor.

MBIA Corp. insures non-U.S. public finance and global structured finance obligations, including asset-backed obligations. MBIA Corp. has insured sovereign-related and sub-sovereign bonds, utilities, privately issued bonds used for the financing of projects that include 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 expected cash flows generated by a specified pool of assets, such as residential and commercial mortgages, insurance policies, consumer loans, corporate loans and bonds, trade and export receivables, and leases for equipment, aircraft and real estate property. MBIA Corp. has also written policies guaranteeing obligations under certain other derivative

contracts, including termination payments that may become due upon certain insolvency or payment defaults of the financial guarantor or the issuer. The Company is no longer insuring new credit derivative contracts except for transactions related to the restructuring or reduction of existing derivative exposure. MBIA Corp. has not written any meaningful amount of business since 2008.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 10: Business Segments (continued)

Segments Results

The following tables provide the Company s segment results for the three months ended September 30, 2018 and 2017:

	Three Months Ended September 30, 2018				
In millions	U.S. Public Finance Insurance	Corporate	International and Structured Finance Insurance	Eliminations	Consolidated
Revenues[1]	$ 45	$ 7	$ 58	$ -	$ 110
Net change in fair value of insured derivatives	-	-	(1)	-	(1)
Net gains (losses) on financial instruments at fair value and foreign exchange	1	17	(13)	-	5
Net investment losses related to other-than-temporary impairments	(1)	-	-	-	(1)
Net gains (losses) on extinguishment of debt	-	3	-	-	3
Other net realized gains (losses)	-	-	1	-	1
Revenues of consolidated VIEs	-	-	(12)	-	(12)
Inter-segment revenues[2]	7	11	6	(24)	-
Total revenues	52	38	39	(24)	105
Losses and loss adjustment	48	-	(2)	-	46
Operating	5	13	9	-	27
Interest	-	20	32	-	52
Expenses of consolidated VIEs	-	-	25	-	25
Inter-segment expenses[2]	10	5	9	(24)	-
Total expenses	63	38	73	(24)	150
Income (loss) before income taxes	(11)	-	(34)	-	(45)
Provision (benefit) for income taxes	(3)	2	-	1	-
Net income (loss)	$ (8)	$ (2)	$ (34)	$ (1)	$ (45)
Identifiable assets	$ 4,453	$ 1,062	$ 5,026	$ (2,180)[3]	$ 8,361

(1) - Represents the sum of third-party financial guarantee net premiums earned, net investment income, insurance-related fees and reimbursements and other fees.
(2) - Represents intercompany premium income and expense and intercompany interest income and expense pertaining to intercompany receivables and payables.
(3) - Consists primarily of intercompany reinsurance balances and repurchase agreements.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 10: Business Segments (continued)

	Three Months Ended September 30, 2017				
In millions	U.S. Public Finance Insurance	Corporate	International and Structured Finance Insurance	Eliminations	Consolidated
Revenues[1]	$ 70	$ 7	$ 10	$ -	$ 87
Net change in fair value of insured derivatives	-	-	(1)	-	(1)
Net gains (losses) on financial instruments at fair value and foreign exchange	2	(15)	2	-	(11)
Net investment losses related to other-than-temporary impairments	(71)	-	-	-	(71)
Net gains (losses) on extinguishment of debt	-	1	-	-	1
Other net realized gains (losses)	(1)	(1)	1	-	(1)
Revenues of consolidated VIEs	-	-	29	-	29
Inter-segment revenues[2]	4	15	11	(30)	-
Total revenues	4	7	52	(30)	33
Losses and loss adjustment	141	-	64	-	205
Operating	8	14	7	-	29
Interest	-	22	28	-	50
Expenses of consolidated VIEs	-	-	22	-	22
Inter-segment expenses[2]	16	-	14	(30)	-
Total expenses	165	36	135	(30)	306
Income (loss) before income taxes	(161)	(29)	(83)	-	(273)
Provision (benefit) for income taxes	(55)	(1)	1	49	(6)
Net income (loss)	$ (106)	$ (28)	$ (84)	$ (49)	$ (267)
Identifiable assets	$ 5,051	$ 1,205	$ 5,320	$ (2,032)[3]	$ 9,544

(1) - Represents the sum of third-party financial guarantee net premiums earned, net investment income, insurance-related fees and reimbursements and other fees.
(2) - Represents intercompany premium income and expense and intercompany interest income and expense pertaining to intercompany receivables and payables.
(3) - Consists primarily of intercompany reinsurance balances and repurchase agreements.

The following tables provide the Company s segment results for the nine months ended September 30, 2018 and 2017:

	Nine Months Ended September 30, 2018				
In millions	U.S. Public Finance Insurance	Corporate	International and Structured	Eliminations	Consolidated

			Finance Insurance		
Revenues[1]	$ 139	$ 20	$ 98	$ -	$ 257
Net change in fair value of insured derivatives	-	-	(13)	-	(13)
Net gains (losses) on financial instruments at fair value and foreign exchange	(13)	48	(17)	-	18
Net investment losses related to other-than-temporary impairments	(3)	-	-	-	(3)
Net gains (losses) on extinguishment of debt	-	3	-	-	3
Other net realized gains (losses)	-	(2)	2	-	-
Revenues of consolidated VIEs	-	-	(72)	-	(72)
Inter-segment revenues[2]	20	36	18	(74)	-
Total revenues	143	105	16	(74)	190
Losses and loss adjustment	184	-	(7)	-	177
Operating	14	39	21	-	74
Interest	-	60	95	-	155
Expenses of consolidated VIEs	-	-	71	-	71
Inter-segment expenses[2]	34	14	27	(75)	-
Total expenses	232	113	207	(75)	477
Income (loss) before income taxes	(89)	(8)	(191)	1	(287)
Provision (benefit) for income taxes	(20)	(31)	(5)	58	2
Net income (loss)	$ (69)	$ 23	$ (186)	$ (57)	$ (289)
Identifiable assets	$ 4,453	$ 1,062	$ 5,026	$ (2,180)[3]	$ 8,361

(1) - Represents the sum of third-party financial guarantee net premiums earned, net investment income, insurance-related fees and reimbursements and other fees.
(2) - Represents intercompany premium income and expense and intercompany interest income and expense pertaining to intercompany receivables and payables.
(3) - Consists primarily of intercompany reinsurance balances and repurchase agreements.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 10: Business Segments (continued)

	Nine Months Ended September 30, 2017				
In millions	**U.S. Public Finance Insurance**	**Corporate**	**International and Structured Finance Insurance**	**Eliminations**	**Consolidated**
Revenues[1]	$ 200	$ 23	$ 54	$ -	$ 277
Net change in fair value of insured derivatives	-	-	(51)	-	(51)
Net gains (losses) on financial instruments at fair value and foreign exchange	20	(54)	(21)	-	(55)
Net investment losses related to other-than-temporary impairments	(84)	-	-	-	(84)
Net gains (losses) on extinguishment of debt	-	9	-	-	9
Other net realized gains (losses)	(1)	(3)	40	-	36
Revenues of consolidated VIEs	-	-	50	-	50
Inter-segment revenues[2]	14	46	31	(91)	-
Total revenues	149	21	103	(91)	182
Losses and loss adjustment	310	-	159	-	469
Operating	34	46	25	-	105
Interest	-	66	82	-	148
Expenses of consolidated VIEs	-	-	63	-	63
Inter-segment expenses[2]	47	2	42	(91)	-
Total expenses	391	114	371	(91)	785
Income (loss) before income taxes	(242)	(93)	(268)	-	(603)
Provision (benefit) for income taxes	(86)	1,069	1,143	(1,161)	965
Net income (loss)	$ (156)	$ (1,162)	$ (1,411)	$ 1,161	$ (1,568)
Identifiable assets	$ 5,051	$ 1,205	$ 5,320	$ (2,032)[3]	$ 9,544

(1) - Represents the sum of third-party financial guarantee net premiums earned, net investment income, insurance-related fees and reimbursements and other fees.
(2) - Represents intercompany premium income and expense and intercompany interest income and expense pertaining to intercompany receivables and payables.
(3) - Consists primarily of intercompany reinsurance balances and repurchase agreements.

Note 11: Earnings Per Share

Earnings per share is calculated using the two-class method in which earnings are allocated to common stock and participating securities based on their rights to receive nonforfeitable dividends or dividend equivalents. The Company grants restricted stock and restricted stock units to certain employees and non-employee directors in accordance with the Company s long-term incentive programs, which entitle the participants to receive nonforfeitable dividends or dividend equivalents during the vesting period on the same basis as those dividends are paid to common shareholders. These unvested stock awards represent participating securities. During periods of net income, the calculation of earnings per share exclude the income attributable to participating securities in the numerator and the dilutive impact of these securities from the denominator. During periods of net loss, no effect is given to participating securities in the numerator and the denominator excludes the dilutive impact of

these securities since they do not share in the losses of the Company.

Basic earnings per share excludes dilution and is computed by dividing net income available to common shareholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share reflects the dilutive effect of all stock options, warrants and unvested restricted stock outstanding during the period that could potentially result in the issuance of common stock. The dilution from stock options, warrants and unvested restricted stock are calculated by applying the two-class method and using the treasury stock method. The treasury stock method assumes the proceeds from the exercise of stock options and warrants or the unrecognized compensation expense from unvested restricted stock will be used to purchase shares of the Company s common stock at the average market price during the period. If the potentially dilutive securities disclosed in the table below are either exercised or vested, the transaction would be net share settled resulting in a significantly lower impact to the outstanding share balance in comparison to the total amount of the potentially dilutive securities. During periods of net loss, stock options, warrants and unvested restricted stock are excluded from the calculation because they would have an antidilutive effect. Therefore, in periods of net loss, the calculation of basic and diluted earnings per share would result in the same value.

In the second quarter of 2018, the holder of all of the outstanding MBIA Inc. warrants exercised its right to purchase shares of MBIA Inc. common stock. As of September 30, 2018, there were no warrants outstanding. Refer to Note 1: Business Developments and Risks and Uncertainties for further information about the exercise of the warrants.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 11: Earnings Per Share (continued)

The following table presents the computation of basic and diluted earnings per share for the three and nine months ended September 30, 2018 and 2017:

In millions except per share amounts	Three Months Ended September 30, 2018	2017	Nine Months Ended September 30, 2018	2017
Basic earnings per share:				
Net income (loss) available to common shareholders	$ (45)	$ (267)	$ (289)	$ (1,568)
Basic weighted average shares [1]	89.5	123.0	89.1	126.6
Net income (loss) per basic common share	$ (0.50)	$ (2.17)	$ (3.24)	$ (12.38)
Diluted earnings per share:				
Net income (loss) available to common shareholders	$ (45)	$ (267)	$ (289)	$ (1,568)
Diluted weighted average shares	89.5	123.0	89.1	126.6
Net income (loss) per diluted common share	$ (0.50)	$ (2.17)	$ (3.24)	$ (12.38)
Potentially dilutive securities excluded from the calculation of diluted EPS because of antidilutive affect [2]	1.4	14.4	1.4	14.4

(1) - Includes 0.9 million and 0.3 million of participating securities that met the service condition and were eligible to receive nonforfeitable dividends or dividend equivalents for the three months ended September 30, 2018 and 2017, respectively. Includes 0.8 million and 0.3 of participating securities that met the service condition and were eligible to receive nonforfeitable dividends or dividend equivalents for the nine months ended September 30, 2018 and 2017, respectively.
(2) - Includes securities that if exercised or vested would be net share settled resulting in a significantly lower impact to the outstanding share balance.

Note 12: Accumulated Other Comprehensive Income

The following table presents the changes in the components of AOCI for the nine months ended September 30, 2018:

In millions	Unrealized Gains (Losses) on AFS Securities, Net	Foreign Currency Translation, Net	Instrument-Specific Credit Risk of Liabilities Measured at Fair Value, Net	Total
Balance, December 31, 2017	$ (10)	$ (9)	$ -	$ (19)
ASU 2016-01 transition adjustment	(2)	-	(162)	(164)
ASU 2018-02 transition adjustment	(3)	-	-	(3)
Net period other comprehensive income (loss)	(18)	2	(4)	(20)
Balance, September 30, 2018	$ (33)	$ (7)	$ (166)	$ (206)

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 12: Accumulated Other Comprehensive Income (continued)

The following table presents the details of the reclassifications from AOCI for the three and nine months ended September 30, 2018 and 2017:

In millions	Amounts Reclassified from AOCI				
	Three Months Ended September 30,		Nine Months Ended September 30,		Affected Line Item on the Consolidated
Details about AOCI Components	2018	2017	2018	2017	Statements of Operations
Unrealized gains (losses) on AFS securities:					
Realized gains (losses) on sale of securities	$ 2	$ -	$ 4	$ 6	Net gains (losses) on financial instruments at fair value and foreign exchange
OTTI	(2)	(4)	(3)	(6)	Net investment losses related to OTTI
Amortization on securities	-	(1)	(1)	(2)	Net investment income
	-	(5)	-	(2)	Income (loss) before income taxes
	-	-	-	(1)	Provision (benefit) for income taxes
Total reclassifications for the period	$ -	$ (5)	$ -	$ (1)	Net income (loss)

Note 13: Commitments and Contingencies

The following commitments and contingencies provide an update of those discussed in Note 20: Commitments and Contingencies in the Notes to Consolidated Financial Statements included in the Company s Annual Report on Form 10-K for the year ended December 31, 2017, and should be read in conjunction with the complete descriptions provided in the aforementioned Form 10-K.

Litigation

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

On September 13, 2018, the Appellate Division of the Supreme Court, First Judicial Department issued a ruling on the parties cross-appeals from the court s March 31, 2017 decision and order on the parties summary judgment motions. The ruling affirmed the trial court s decision, except reversed as to the trial court s determination to interpret as a matter of law, prior to trial, certain of the representations and warranties that form the predicate for certain of MBIA Corp. s breach of contract claims. In May of 2018, Justice Kornreich, who had presided over the above-captioned case since its inception, retired from the bench. On May 25, 2018, Justice Schecter was assigned to be the new presiding justice. A pretrial conference has been scheduled for February 7, 2019.

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

Following an appeal of the dismissal of the plaintiff s anti-trust claim under California s Cartwright Act, the California Court of Appeal reinstated those claims against the bond insurer defendants on February 18, 2016. On December 11, 2017, the parties reached a settlement of the litigation, which has been implemented by the parties and the cases have been dismissed with prejudice.

Lynn Tilton and Patriarch Partners XV, LLC v. MBIA Inc. and MBIA Insurance Corp. v.; Index No.68880/2015 (N.Y. Sup. Ct., County of Westchester)

On November 2, 2015, Lynn Tilton and Patriarch Partners XV, LLC filed a complaint in New York State Supreme Court, Westchester County, against MBIA Inc. and MBIA Corp., alleging fraudulent inducement and related claims arising from purported promises made in connection with insurance policies issued by MBIA Corp. on certain collateralized loan obligations managed by Ms. Tilton and affiliated Patriarch entities, and seeking damages. The plaintiffs filed an amended complaint on January 15, 2016. On December 27, 2016, Justice Scheinkman granted in part and denied in part MBIA s motion to dismiss. On January 17, 2017, MBIA filed its answer. Discovery concluded in October 2017 and a Trial Readiness Conference was held on November 3, 2017, at which the Court set a schedule for the briefing of summary judgment motions, which was completed as of February 1, 2018 and a decision on which is now pending. On January 8, 2018, Justice Walsh was assigned to the case. On March 11, 2018, Ms. Tilton commenced the Zohar Funds Bankruptcy Cases. On May 21, 2018, the court approved the Zohar Bankruptcy Settlement. Subsequently, the parties to the above-captioned litigation jointly filed a request to stay the case for, at minimum, fifteen months, which was granted by Justice Walsh on June 11, 2018.

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 13: Commitments and Contingencies (continued)

National Public Finance Guarantee Corporation v. Padilla, Civ. No. 16-cv-2101 (D.P.R. June 15, 2016) (Besosa, J.)

On June 15, 2016, National filed a complaint in federal court in Puerto Rico challenging the Puerto Rico Emergency Moratorium and Financial Rehabilitation Act (Law 21-2016 or the Moratorium Act) as unconstitutional under the United States Constitution. On June 22, 2016, National filed a motion for partial summary judgment on its claim that the Moratorium Act is preempted by the federal Bankruptcy Code. On July 7, 2016, the Puerto Rico defendants filed a motion to stay the case pursuant to PROMESA, which was granted by the Court in August of 2016. The defendants filed their answer to the complaint on July 26, 2016. On November 15, 2016, the District Court denied National s motion to lift the litigation stay granted pursuant to PROMESA and on January 30, 2017, the District Court denied National s partial motion for a summary judgment without prejudice. On January 11, 2017, the U.S. Court of Appeals for the First Circuit affirmed the denial of a separate plaintiff s motion to lift the PROMESA stay in a related action challenging the Moratorium Act. Accordingly, the case remained stayed through May 1, 2017, at which time the PROMESA stay expired. However, on May 3, 2017, Puerto Rico filed a Title III petition under PROMESA, thereby staying this dispute under Section 405(e) of PROMESA. On August 1, 2017, the District Court dismissed the case with prejudice. On August 28, 2017, National filed a motion for reconsideration.

Assured Guaranty Corp. et al. v. Commonwealth of Puerto Rico et al., Case No. 3:17-cv-01578 (D.P.R. May 3, 2017) (Swain, J.)

On May 3, 2017, the Financial Oversight and Management Board filed a petition under Title III of PROMESA to adjust the debts of Puerto Rico. On the same day, National, together with Assured Guaranty Corp. and Assured Guaranty Municipal Corp., filed an adversary complaint in the case commenced by the Title III filing, alleging that the Fiscal Plan and the Fiscal Plan Compliance Act, signed into law by the Governor of Puerto Rico on April 29, 2017, violate PROMESA and the United States Constitution. On October 6, 2017, National, together with the other plaintiffs in the filing, voluntarily dismissed the complaint without prejudice.

The Bank of New York Mellon v. Puerto Rico Sales Tax Financing Corporation, et al., Case No. 17-133-LTS (D.P.R. May 16, 2017) (Swain, J.)

On May 16, 2017, the Bank of New York Mellon, as trustee for COFINA, filed an adversary complaint seeking an interpleader and declaratory relief relating to conflicting directions from multiple stakeholders regarding alleged events of default. National has intervened in this matter. Given the complexity of the issues, the judge granted Bank of New York s interpleader request ordering a freeze on disbursements to all bondholders and temporarily setting aside the funds until the dispute can be resolved between the parties. Motions for summary judgment were fully briefed as of January 5, 2018. On September 27, 2018, the Court, *sua sponte*, entered an order terminating the pending summary judgment motions without prejudice to restoration of the motions on or after October 1, 2018.

Assured Guaranty Corp. et al. v. Commonwealth of Puerto Rico et al., Case No. 17 BK 3567-LTS (D.P.R. June 3, 2017) (Swain, J.)

On May 21, 2017, the Oversight Board filed a petition under Title III of PROMESA to adjust the debts for the Puerto Rico Highways & Transportation Authority (PRHTA). On June 3, 2017, National, together with Assured Guaranty Corp. and Assured Guaranty Municipal Corp. and Financial Guaranty Insurance Company, filed an adversary complaint in the case commenced by the Title III filing, alleging that the Commonwealth and PRHTA are unlawfully diverting pledged special revenues from the payment of certain PRHTA bonds to the Commonwealth s General Fund. Motions to dismiss were filed on June 28, 2017, and oral arguments were heard on November 21, 2017. On January 30, 2018, the court granted the Commonwealth defendants motion to dismiss the PRHTA-related adversary complaint. On February 9, 2018, National, together with Assured, Assured Guaranty Municipal Corp. and Financial Guaranty Insurance Company filed their notice of appeal of the motions to dismiss to the United States Court of Appeals for the First Circuit. Appellants filed their opening brief on May 9, 2018, and Appellees filed their opposition brief on July 9, 2018. Appellants reply brief was filed on August 8, 2018. Oral argument was held on November 5, 2018.

National Public Finance Guarantee Corp. et al. v. The Financial Oversight and Mgmt. Bd. et al., Case No. 3:17-cv-01882 (D.P.R. June 26, 2017) (Besosa, J.)

On June 26, 2017, National, together with Assured Guaranty Corp. and Assured Guaranty Municipal Corp., filed a complaint against the Oversight Board, its chairman and certain of its members seeking declaratory, injunctive and mandamus relief requiring the Oversight Board to comply with certain of its obligations under PROMESA. On July 17, 2017, National, again joined by Assured Guaranty Corp. and Assured Guaranty Municipal Corp., filed an amended complaint against the Oversight Board, its chairman, and certain of its members in their official and individual capacities, seeking declaratory relief under PROMESA and asserting a claim for nominal damages against the individual defendants for tortious interference with the PREPA Restructuring Support Agreement. By order of the Court dated August 7, 2017, the litigation was stayed.

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 13: Commitments and Contingencies (continued)

The Financial Oversight and Management Board for Puerto Rico, as representative of The Puerto Rico Electric Power Authority, et al., Case No. 17 BK 4780-LTS (D.P.R. July 19, 2017) (Swain, J.)

On July 18, 2017, National, together with other PREPA bondholders, asked the court overseeing PREPA s Title III bankruptcy proceeding to lift the automatic bankruptcy stay, and permit bondholders to seek appointment of a receiver to oversee PREPA. On September 14, 2017, the court held that PROMESA barred relief from the stay because the appointment of a receiver would (i) interfere with PREPA s property and governmental powers, and (ii) violate the court s exclusive jurisdiction over PREPA s property. The court also held that a comparison of the harms facing both parties pointed towards denying relief from the stay. The bondholders appealed the decision to the First Circuit. As of April 23, 2018, the appeal was fully briefed. The First Circuit heard oral argument on June 5, 2018. On August 8, 2018, the United State Court of Appeals for the First Circuit issued an order reversing Judge Swain s decision on jurisdictional grounds and remanding the motion. On October 3, 2018, National, together with Assured Guaranty Corp., Assured Guaranty Municipal Corp., and Syncora Guarantee Inc. (collectively, Movants) filed an updated motion for relief from the automatic stay to allow Movants to exercise their statutory right to have a receiver appointed at PREPA. Discovery in connection with Movants motion is ongoing.

National Public Finance Guarantee Corp. et al. v. The Financial Oversight and Mgmt. Bd. et al., Case No. 17 BK-04780 (D.P.R. August 7, 2017) (Swain, J.)

On August 7, 2017, National, together with Assured Guaranty Corp., Assured Guaranty Municipal Corp., f/k/a Financial Security Assurance Inc., National Public Finance Guarantee Corporation, the Ad Hoc Group of PREPA Bondholders, and Syncora Guarantee Inc. filed an adversary complaint under Title III of PROMESA against PREPA, Financial Oversight and Management Board for Puerto Rico, Puerto Rico Fiscal Agency and Financial Advisory Authority, *et al* to enforce Plaintiffs contractual interest and constitutional right to revenues that PREPA pledged to bondholders but has thus far refused to turn over. Plaintiffs seek a declaration that Defendants have violated sections 922(d) and 928(a) of the Bankruptcy Code, and that efforts to compel Defendants to apply such revenues to pay for debt service on the Bonds are not stayed as provided under section 922(d) of the Bankruptcy Code. Plaintiffs also seek a declaration that, pursuant to sections 922(d) and 928 of the Bankruptcy Code as incorporated into PROMESA, PREPA is only authorized to use Revenues to pay for current operating expenses in the current time period, not for future expenses that may be deferred to or payable at a later date. In addition to declaratory relief, Plaintiffs also seek injunctive relief prohibiting Defendants from taking or causing to be taken any action that would further violate sections 922(d) and 928(a) of the Bankruptcy Code and ordering Defendants to remit Revenues for the uninterrupted and timely payment of debt service on the Bonds in accordance with sections 922(d) and 928(a) of the Bankruptcy Code. On October 13, 2017, National, together with the other plaintiffs in the filing, voluntarily dismissed without prejudice the above referenced adversary complaint.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 13: Commitments and Contingencies (continued)

The Official Committee of Unsecured Creditors of the Commonwealth of Puerto Rico, as agent for the Commonwealth of Puerto Rico v. Bettina Whyte, as agent of the Puerto Rico Sales Tax Financing Corporation, Adv. Proc. No. 17-257-LTS in Case No. 17 BK 3283-LTS (D.P.R. Sept. 8, 2017)

On August 10, 2017, the Court approved and entered a Stipulation and Order Approving Procedure to Resolve Commonwealth-COFINA Dispute in the PROMESA Title III proceeding relating to whether sales and use taxes purportedly pledged by COFINA to secure debt are property of the Commonwealth or COFINA under applicable law. On November 16, 2017, National intervened as a Defendant in the adversary proceeding and filed its answer, affirmative defenses, and counterclaims. On December 21, 2017, the Court issued an order, which, inter alia, dismissed without prejudice, certain claims of the interveners that exceeded the scope of the Commonwealth-COFINA dispute including certain of National s counterclaims. National s first counterclaim which seeks a declaratory judgment that the COFINA statutes are constitutional remains a part of this litigation. On January 13, 2018, the Court permitted the Commonwealth Agent to file a second amended complaint. National s answer was filed on January 30, 2018. The parties filed opening motions for summary judgment on February 21, 2018, opposition briefs on March 14, 2018, and reply briefs on March 21, 2018. National joined each of the COFINA Agent s summary judgment filings. On February 26, 2018, the COFINA Agent filed a motion to certify questions of Puerto Rico law regarding COFINA to the Supreme Court of Puerto Rico. On April 4, 2018, National, along with Ambac Assurance Corporation, filed a limited objection to the COFINA Agent s certification motion. On April 10, 2018, the Court heard oral argument on motions for summary judgment after which it took the matter under advisement. On May 14, 2018, the Oversight Board and the Puerto Rico Fiscal Agency and Financial Advisory Authority rejected a settlement proposal by COFINA and GO bondholders. On May 24, 2018, the Court denied the COFINA Agent s motion to certify questions of Puerto Rico law regarding COFINA to the Supreme Court of Puerto Rico. On June 5, 2018, the Commonwealth and COFINA Agents submitted a Joint Urgent Motion, which disclosed their agreement in principle to settle the Commonwealth-COFINA Dispute and related issues under the Agents mediation authority. Under the proposed settlement terms, COFINA and the Commonwealth would agree to share the statutory Pledged Sales Tax Base Amount. COFINA would receive (a) 53.65% of the yearly scheduled Pledged Sales Tax Base Amount (beginning with payments made on July 1, 2018), and (b) 100% of the funds on deposit prior to July 1, 2018 in the debt service accounts held by the Bank of New York Mellon. COFINA s Title III plan of adjustment would provide that, to the extent permitted under applicable law, all restructured securities issued by reorganized COFINA (or a new entity established pursuant to COFINA s Title III plan of adjustment) would be tax-exempt, with the COFINA Agent. On June 11, 2018, the Court issued an order holding its decision on the motions for summary judgment in abeyance for a 60-day period in light of the parties progression towards settlement. The abeyance period was extended several times to accommodate ongoing negotiations to resolve the Commonwealth-COFINA dispute. The Title III Court has scheduled a hearing to confirm a plan of adjustment in the COFINA case for January 16, 2019.

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

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

Lease Commitments

The Company has a lease agreement for its headquarters in Purchase, New York as well as other immaterial leases for offices in New York, New York and San Francisco, California. The Purchase, New York initial lease term expires in 2030 with the option to terminate the lease in 2025 upon the payment of a termination amount. This lease agreement included an incentive amount to fund certain leasehold improvements, renewal options, escalation clauses and a free rent period. This lease agreement has been classified as an operating lease, and operating rent expense has been recognized on a straight-line basis since the second quarter of 2014. As of September 30, 2018, total future minimum lease payments remaining on this lease were $34 million.

Note 14: Subsequent Events

Refer to "Note 13: Commitments and Contingencies" for information about legal proceedings that occurred after September 30, 2018.

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Item 2. 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 our Annual Report on Form 10-K for the year ended December 31, 2017 and the consolidated financial statements and notes thereto included in this Form 10-Q. 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 MBIA Inc. s Annual Report on Form 10-K for the year ended December 31, 2017 for a further discussion of risks and uncertainties.

INTRODUCTION

MBIA Inc., together with its consolidated subsidiaries, (collectively, MBIA , the Company , we , us , or our) operates 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 operated 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 operated through MBIA Insurance Corporation and its subsidiaries (MBIA Corp.). References to MBIA Inc. generally refer to activities within our corporate segment.

National s primary objective is to maximize the economics of our existing insured portfolio, including our insured exposure to the Commonwealth of Puerto Rico and certain of its instrumentalities (Puerto Rico), 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

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).

	Three Months Ended September 30,		Nine Months Ended September 30,	
In millions except per share amounts	**2018**	**2017**	**2018**	**2017**
Net income (loss)	$ (45)	$ (267)	$ (289)	$ (1,568)
Net income (loss) per diluted share	$ (0.50)	$ (2.17)	$ (3.24)	$ (12.38)
Adjusted net income (loss)[1]	$ (32)	$ (113)	$ (144)	$ (243)
Adjusted net income (loss) per diluted share[1]	$ (0.35)	$ (0.91)	$ (1.62)	$ (1.93)
Cost of shares repurchased	$ -	$ 25	$ 14	$ 100

(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 to adjusted net income (loss) and GAAP net income (loss) per diluted share to adjusted net income (loss) per diluted share.

In millions except per share amounts	**As of September 30, 2018**	**As of December 31, 2017**

Shareholders equity of MBIA Inc.	$ 1,108	$ 1,413
Book value per share	12.22	15.44
Adjusted book value per share[1]	26.80	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.

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

EXECUTIVE OVERVIEW (continued)

2018 Events

On January 1, 2018 and July 1, 2018, Puerto Rico defaulted on scheduled debt service for National insured bonds and National paid gross claims in the aggregate of $276 million. As of September 30, 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.

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 September 30, 2018, there were no warrants outstanding.

Economic and Financial Market Trends

The U.S. economy continued to improve during the third 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. Household spending has increased and strong growth in business fixed investment has continued.

The Federal Open Market Committee (FOMC) increased its target for the federal funds rate in September of 2018 by 25 basis points citing the economic factors of a strong labor market and solid economic growth along with relatively low inflation. There is an expectation of one more rate increase during the fourth quarter of 2018 and potentially three additional rate increases in 2019. The FOMC stated that it will continue to monitor economic conditions relative to its objectives of maximum employment and 2% inflation. However, some concern among members continues to exist about the possible negative effects of tariffs and other proposed trade restrictions.

Economic and financial market trends could impact MBIA s business outlook and its financial results. Many states and municipalities have experienced growing tax collections that resulted from increased economic activity and higher assessed property valuations. The 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 will experience a decrease in revenues if their economies are reliant on the oil and gas industries.

CRITICAL ACCOUNTING ESTIMATES

We prepare our consolidated financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP), which requires the use of estimates and assumptions. Management has discussed and reviewed the development, selection, and

disclosure of critical accounting estimates with the Company s Audit Committee. Our most critical accounting estimates include loss and loss adjustment expense (LAE) reserves, valuation of financial instruments, and income taxes, since these estimates require significant judgment. Any modifications in these estimates could materially impact our financial results.

For a discussion of the Company s critical accounting estimates, refer to Critical Accounting Estimates in Part II, Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations included in the Company s Annual Report on Form 10-K for the year ended December 31, 2017. In addition, refer to Note 5: Loss and Loss Adjustment Expense Reserves , Note 6: Fair Value of Financial Instruments and Note 9: Income Taxes in the Notes to Consolidated Financial Statements for a current description of estimates used in our insurance loss reserving process, information about our financial assets and liabilities that are accounted for at fair value, including valuation techniques and significant inputs and estimates involving income taxes.

RECENT ACCOUNTING PRONOUNCEMENTS

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

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

RESULTS OF OPERATIONS

Summary of Consolidated Results

The following table presents a summary of our consolidated financial results for the three and nine months ended September 30, 2018 and 2017:

In millions except for per share amounts	Three Months Ended September 30, 2018	2017	Nine Months Ended September 30, 2018	2017
Total revenues	$ 105	$ 33	$ 190	$ 182
Total expenses	150	306	477	785
Income (loss) before income taxes	(45)	(273)	(287)	(603)
Provision (benefit) for income taxes	-	(6)	2	965
Net income (loss)	$ (45)	$ (267)	$ (289)	$ (1,568)
Net income (loss) per common share:				
Basic	$ (0.50)	$ (2.17)	$ (3.24)	$ (12.38)
Diluted	$ (0.50)	$ (2.17)	$ (3.24)	$ (12.38)
Weighted average number of common shares outstanding:				
Basic	89.5	123.0	89.1	126.6
Diluted	89.5	123.0	89.1	126.6

Three Months Ended September 30, 2018 vs. Three Months Ended September 30, 2017

Consolidated total revenues increased for the three months ended September 30, 2018 compared with the same period of 2017 principally due to (i) lower net investment losses related to other-than-temporary impairments (OTTI), (ii) foreign exchange gains on Euro denominated liabilities due to the strengthening of the U.S. dollar in 2018 versus foreign exchange losses in 2017 and (iii) higher fees and reimbursements due to an increase in waiver and consent fees related to the ongoing maintenance of our international and structured finance insurance business. These favorable changes were partially offset by decreases in revenues of consolidated variable interest entities (VIEs) due to the deconsolidation of three VIEs in the third quarter of 2018.

Consolidated total expenses for the three months ended September 30, 2018 included $46 million of net insurance loss and LAE compared with $205 million for the same period of 2017. The decrease in loss and LAE for the three months ended September 30, 2018 compared with the same period of 2017 was primarily due to decreases in losses incurred on certain Puerto Rico credits and losses on insured second and first-lien residential mortgage-backed securities (RMBS).

Nine Months Ended September 30, 2018 vs. Nine Months Ended September 30, 2017

Consolidated total revenues increased for the nine months ended September 30, 2018 compared with the same period of 2017 principally due to (i) a decrease in net investment losses related to OTTI, (ii) foreign exchange gains on Euro denominated liabilities due to the strengthening of the U.S. dollar in 2018 versus foreign exchange losses in 2017 and (iii) lower net losses on insured derivatives due to the amortization of transactions. These favorable changes were partially offset by decreases in revenues of VIEs due to the deconsolidation of two VIEs following the Zohar Bankruptcy Settlement in the second quarter of 2018 and three other consolidated VIEs in the third quarter of 2018, a decrease in other net realized gains (losses) due to a gain recognized in 2017 from a litigation settlement and a decrease in net investment income from the accretion of income in the first quarter of 2017 on certain Zohar II notes received in exchange for the sale of MBIA UK Insurance Limited (MBIA UK).

Consolidated total expenses for the nine months ended September 30, 2018 included $177 million of net insurance loss and LAE compared with $469 million for the same period of 2017. The decrease in loss and LAE for the nine months ended September 30, 2018 compared with the same period of 2017 was primarily due to decreases in losses on insured first and second-lien RMBS and losses incurred on certain Puerto Rico credits.

Provision (benefit) for income taxes

The provision for income taxes for the nine months ended September 30, 2017 was primarily due to the establishment of a full valuation allowance against the Company s net deferred tax asset. Refer to the following Taxes section and Note 9: Income Taxes in the Notes to Consolidated Financial Statements for further information about this valuation allowance on our net deferred tax asset.

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

RESULTS OF OPERATIONS (continued)

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.

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 we believe does not provide significant economic value to 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 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 three and nine months ended September 30, 2018 and 2017:

	Three Months Ended September 30,		Nine Months Ended September 30,	
In millions except share and per share amounts	**2018**	**2017**	**2018**	**2017**
Net income (loss)	$ (45)	$ (267)	$ (289)	$ (1,568)
Less: adjusted net income (loss) adjustments:				
Income (loss) before income taxes of our international and structured finance insurance segment and eliminations	(34)	(83)	(190)	(268)
Adjustments to income before income taxes of our U.S. public finance insurance and corporate segments:				
	18	13	45	29

Mark-to-market gains (losses) on financial instruments[1]				
Foreign exchange gains (losses)[1]	2	(18)	15	(57)
Net gains (losses) on sales of investments[1]	(1)	(1)	(12)	14
Net investment losses related to OTTI	(1)	(71)	(3)	(84)
Net gains (losses) on extinguishment of debt	3	1	3	9
Other net realized gains (losses)	-	(1)	(2)	(3)
Adjusted net income adjustment to the (provision) benefit for income tax[2]	-	6	(1)	(965)
Adjusted net income (loss)	$ (32)	$ (113)	$ (144)	$ (243)
Adjusted net income (loss) per diluted common share[3]	$ (0.35)	$ (0.91)	$ (1.62)	$ (1.93)

(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 operating income (loss) divided by the GAAP weighted average number of diluted common shares outstanding.

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

RESULTS OF OPERATIONS (continued)

Non-GAAP Adjusted Book Value

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. since we believe it does not impact shareholder value or provide significant economic value to 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 2. Management s Discussion and Analysis of Financial Condition and Results of Operations (continued)

RESULTS OF OPERATIONS (continued)

As of September 30, 2018, ABV per share was $26.80, 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 the nine months ended September 30, 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 September 30, 2018		As of December 31, 2017
Total shareholders equity of MBIA Inc.	$	1,108	$	1,413
Common shares outstanding		90,689,660		91,484,447
Book value per share	$	12.22	$	15.44
Book value per share adjustments:				
Remove negative book value of MBIA Corp.		10.55		8.84
Remove net unrealized (gains) losses on available-for-sale securities included in other comprehensive income (loss)		0.38		0.26
Add net unearned premium revenue in excess of expected losses		3.65		4.23
Total book value per share adjustments		14.58		13.33
Adjusted book value per share	$	26.80	$	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 September 30, 2018, National had total insured gross par outstanding of $60.8 billion.

National continues to surveil and remediate its existing insured portfolio and will seek opportunities to enhance shareholder value using its strong financial resources, while protecting the interests of its 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. Although Puerto Rico has tried to address its challenges through various fiscal policies, it continues to experience significant fiscal stress. 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 2. 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 three and nine months ended September 30, 2018 and 2017:

In millions	Three Months Ended September 30, 2018	Three Months Ended September 30, 2017	Percent Change	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017	Percent Change
Net premiums earned	$ 24	$ 46	-48%	$ 75	$ 125	-40%
Net investment income	27	27	-%	83	87	-5%
Fees and reimbursements	1	1	-%	2	2	-%
Net gains (losses) on financial instruments at fair value and foreign exchange	1	2	-50%	(14)	20	n/m
Net investment losses related to other-than-temporary impairments	(1)	(71)	-99%	(3)	(84)	-96%
Other net realized gains (losses)	-	(1)	-100%	-	(1)	-100%
Total revenues	52	4	n/m	143	149	-4%
Losses and loss adjustment	48	141	-66%	184	310	-41%
Amortization of deferred acquisition costs	6	10	-40%	17	28	-39%
Operating	9	14	-36%	31	53	-42%
Total expenses	63	165	-62%	232	391	-41%
Income (loss) before income taxes	(11)	(161)	-93%	(89)	(242)	-63%
Provision (benefit) for income taxes	(3)	(55)	-95%	(20)	(86)	-77%
Net income (loss)	$ (8)	$ (106)	-92%	$ (69)	$ (156)	-56%

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 three months ended September 30, 2018 compared with the same period of 2017 resulted from decreases in refunded premiums earned of $17 million and scheduled premiums earned of $5 million. The decrease in net premiums earned for the nine months ended September 30, 2018 compared with the same period of 2017 resulted from decreases in refunded premiums of $30 million and scheduled premiums earned of $20 million. Refunding activity over the past several years has accelerated premium earnings in prior periods and reduced the amount of scheduled premiums that would have been earned in the current period. Scheduled premium earnings declined due to the refunding and maturity of insured issues in prior periods.

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 the nine months ended September 30, 2018 compared with the same period of 2017 was principally due to an increase in net realized losses from the sales of securities from the ongoing management of our U.S. public finance insurance investment portfolio.

NET INVESTMENT LOSSES RELATED TO OTHER-THAN-TEMPORARY IMPAIRMENTS Net investment losses related to OTTI for the three and nine months ended September 30, 2017 were primarily related to impaired securities for which losses were recognized as the difference between the securities amortized cost and fair value or recovery value. This OTTI resulted from liquidity concerns, recent credit rating downgrades and other adverse financial conditions of the issuers.

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

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

RESULTS OF OPERATIONS (continued)

The following table presents information about our U.S. public finance insurance loss and LAE expenses for the three and nine months ended September 30, 2018 and 2017:

In millions	Three Months Ended September 30, 2018	Three Months Ended September 30, 2017	Percent Change	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017	Percent Change
Loss and LAE related to actual and expected payments [1]	$ 50	$ 97	-48%	$ 191	$ 263	-27%
Recoveries of actual and expected payments	1	52	-98%	-	58	-100%
Gross losses incurred	51	149	-66%	191	321	-40%
Reinsurance	(3)	(8)	-63%	(7)	(11)	-36%
Losses and loss adjustment expenses	$ 48	$ 141	-66%	$ 184	$ 310	-41%

(1) - Puerto Rico exposures are reflected net of expected recoveries on such payments.

For the three and nine months ended September 30, 2018 and 2017, 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 September 30, 2018 and December 31, 2017:

In millions	September 30, 2018	December 31, 2017	Percent Change
Assets:			
Insurance loss recoverable	$ 554	$ 333	66%
Reinsurance recoverable on paid and unpaid losses [1]	18	12	50%
Liabilities:			
Gross loss and LAE reserves [2]	651	531	23%
Expected recoveries on unpaid losses	(17)	(19)	-11%
Loss and LAE reserves	$ 634	$ 512	24%
Insurance loss recoverable - ceded [3]	$ 14	$ 12	17%

(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 September 30, 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 September 30, 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 three and nine months ended September 30, 2018 and 2017 are presented in the following table:

In millions	Three Months Ended September 30, 2018	Three Months Ended September 30, 2017	Percent Change	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017	Percent Change
Gross expenses	$ 10	$ 14	-29%	$ 32	$ 54	-41%
Amortization of deferred acquisition costs	$ 6	$ 10	-40%	$ 17	$ 28	-39%
Operating	9	14	-36%	31	53	-42%
Total insurance operating expenses	$ 15	$ 24	-38%	$ 48	$ 81	-41%

Gross expenses represent total insurance expenses before the deferral of any policy acquisition costs. Gross expenses decreased for the three and nine months ended September 30, 2018 compared with the same periods of 2017 due to decreases in compensation expense and rating agency fees. Amortization of deferred acquisition costs decreased for the three and nine months ended September 30, 2018 compared with the same periods of 2017 due to higher refunding activity in 2017. 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 the first nine months of 2018 or 2017.

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

RESULTS OF OPERATIONS (continued)

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 September 30, 2018 and December 31, 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.

In millions	Gross Par Outstanding			
	September 30, 2018		December 31, 2017	
Rating	Amount	%	Amount	%
AAA	$ 3,685	6.1%	$ 3,271	4.6%
AA	23,046	37.9%	28,354	39.4%
A	19,572	32.2%	23,530	32.7%
BBB	8,810	14.5%	10,870	15.1%
Below investment grade	5,651	9.3%	5,903	8.2%
Total	$ 60,764	100.0%	$ 71,928	100.0%

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 September 30, 2018.

In millions	Gross Par Outstanding	Gross Par Outstanding Plus CAB Accreted Interest	Debt Service Outstanding	National Internal Rating
Puerto Rico Electric Power Authority (PREPA)	$ 1,089	$ 1,089	$ 1,517	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)	684 (1)	1,189	4,170	d
	66 (1)	68	92	d

Puerto Rico Highway and Transportation Authority Highway Revenue (PRHTA)						
University of Puerto Rico System Revenue		79		79	112	d
Inter American University of Puerto Rico Inc.		23		23	30	a3
Total	$	3,271	$	3,785	$ 7,905	

(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.

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

RESULTS OF OPERATIONS (continued)

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 August 10, 2018, the Oversight Board filed an application for approval of a qualifying modification under Title VI of PROMESA for the Government Development Bank of Puerto Rico.

Pursuant to PROMESA, the Title III cases were filed in the U.S. District Court for Puerto Rico, and the court has entered an order directing the cases to be jointly administered for procedural purposes. The Oversight Board and creditors met for the first time in court in May of 2017 in San Juan before the judge assigned to preside over the cases to begin addressing the nearly $70 billion of debt amassed by Puerto Rico and its instrumentalities. Given the complex factual and legal issues involved in the cases, the judge has designated five additional federal judges to act as mediators in the Title III cases and the proceeding concerning the University of Puerto Rico which, at this time, has indicated a desire to pursue a Title VI resolution.

As a result of prior defaults, various stays and the Title III cases, National paid gross claims in the aggregate amount of $116 million, $40 million, $91 million, $24 million and $173 million against general obligation (GO) bonds, PBA bonds and PRHTA bonds, relating to debt service due on July 1, 2018, January 1, 2018, July 1, 2017, January 1, 2017 and July 1, 2016, respectively. In addition, National paid claims in the aggregate amount of $91 million, $29 million and $127 million against PREPA bonds relating to debt service due on July 1, 2018, January 1, 2018 and July 1, 2017, respectively, following the termination of the Restructuring Support Agreement (RSA), as further discussed below, on June 29, 2017.

Status of Puerto Rico s Fiscal Plans

At its October 31, 2017 meeting, the Oversight Board sought from Puerto Rico and certain of its instrumentalities covered under PROMESA, revised fiscal plans that account for the damage suffered from Hurricane Maria.

On January 24, 2018, the Puerto Rico government submitted a draft fiscal plan 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) the impact of structural reforms. The revised draft fiscal plan projected Puerto Rico going from a previously calculated $3.7 billion surplus to a $3.4 billion deficit (before debt service) over the five year period. The Oversight Board rejected the proposed plan after determining that it did not comply with the requirements of PROMESA. Subsequently, the government of Puerto Rico submitted several revised iterations of the fiscal plan to incorporate the Oversight Board s comments as well as the incremental disaster relief funding provided by legislation approved by the U.S. Congress on February 9, 2018. The most recent draft fiscal plan produced by Puerto Rico, delivered on April 5, 2018, reflects an increased projected five-year cash surplus, to $6.3 billion, but did not include certain austerity measures that had been urged by the Oversight Board. On April 18, 2018, the Oversight Board released its own fiscal plan which projected a $6.7 billion cash flow surplus before debt service during the five-year projection period. On April 19, 2018, the Oversight Board certified its version of the fiscal plan for Puerto Rico, as well as those for PREPA, PRHTA, and the University of Puerto Rico. The April 19, 2018 fiscal plan outlined various labor reform and austerity measures intended to decrease government expenditures and increase Puerto Rico s annual anticipated savings. The Governor of Puerto Rico objected to these measures, and after negotiations took place, the Oversight Board agreed that it would end its demand for certain elements of the austerity measures. In exchange, the Governor agreed to present a bill to the legislature to repeal Puerto Rico s Wrongful Termination Act (Law 80), thereby making Puerto Rico an at-will employment jurisdiction. The Puerto Rico legislature failed to adopt the repeal of Law 80, however, and subsequently, the Oversight Board certified a revised fiscal plan on June 29, 2018, which is substantially similar to the April 19, 2018 fiscal plan and requires many of the same austerity measures. On June 30, 2018, the Oversight Board certified its own 2018-2019 Puerto Rico budget after refusing to certify the budget submitted by the Legislative Assembly and the Governor.

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

RESULTS OF OPERATIONS (continued)

On July 5, 2018, the Governor filed an adversary complaint in the Commonwealth Title III case, seeking a declaration that the Oversight Board lacks the authority to impose the above-mentioned austerity measures on Puerto Rico through its certified fiscal plan and budget. On August 7, 2018, the Court issued a ruling partially dismissing certain claims of the complaint. On September 10, 2018, the Governor moved the Title III Court to certify its decision for immediate interlocutory appeal to the U.S. Court of Appeals for the First Circuit. On October 9, 2018, the Title III Court denied the Governor s certification motion, but, on its own motion, certified for immediate interlocutory appeal certain aspects of its dismissal order. On July 9, 2018, Puerto Rico s Legislative Assembly filed its own adversary complaint against the Oversight Board, seeking an injunction prohibiting the Oversight Board from implementing its certified 2018-2019 budget and requiring the Oversight Board to instead certify the 2018-2019 budget approved by the Legislative Assembly. After the Court dismissed the complaint on August 7, 2018, the Legislative Assembly appealed to the U.S. Court of Appeals for the First Circuit. The Legislative Assembly s opening brief was due on October 15, 2018.

Certain creditors have also challenged the Oversight Board s April 19, 2018 fiscal plan. On May 23, 2018, Assured, Assured Guaranty Municipal Corp., and Financial Guaranty Insurance Company (Plaintiffs) filed an adversary complaint against the Oversight Board. Plaintiffs argued that the April 19, 2018 fiscal plan violates PROMESA and seek a declaration that the fiscal plan is unlawful, unconstitutional, and cannot be used as the basis for proposing a plan of adjustment in the pending Commonwealth Title III case. On August 13, 2018, the Court issued an order staying the proceeding pending the resolution of related issues in a case involving Ambac currently on appeal in the U.S. Court of Appeals for the First Circuit. The Plaintiffs filed an objection to the stay order, though the objection has not yet been ruled on by the Court.

Subsequently, on August 1, 2018, the Oversight Board notified the Governor that Puerto Rico and certain covered entities must develop and submit revised fiscal plans to replace the June 29, 2018 Fiscal Plan to incorporate new information relating to: (i) revised federal disaster spending estimates; (ii) preliminary fiscal year 2018 actual results; (iii) updated macroeconomic and demographic projections; and (iv) changes stemming from the proposed Commonwealth-COFINA settlement. In response, the Government submitted a revised fiscal plan on August 20, 2018 which produced a $6.1 billion net surplus, before contractual debt service, over a six-year projection period from fiscal year 2018 through fiscal year 2023. However, on August 30, 2018, the Oversight Board posted violation letters relating to the Puerto Rico, COFINA and University of Puerto Rico revised fiscal plans. In response to the violation letters, the Government submitted a revised fiscal plan on September 7, 2018, that, after taking into account certain additional changes, produced a net surplus of $7.2 billion, before contractual debt service, for the projection period. The development and approval of fiscal plans continues to be an iterative process.

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

COFINA

In October of 2016, a group of GO bondholders, which had previously initiated litigation against Puerto Rico in July of 2016, moved to amend its complaint to add a challenge to Puerto Rico s putative diversion of funds to the Puerto Rico Sales Tax Financing Corporation (COFINA). The plaintiff group contends that the funds being used to pay bonds issued by COFINA constitute available resources within the meaning of article VI, section 8 of the Puerto Rico Constitution, and therefore must be devoted to payment of principal and interest on Puerto Rico s public debt before they may be used for other purposes. By failing to redirect such funds to pay GO bondholders, the plaintiff group claims that Puerto Rico is improperly diverting funds to COFINA bondholders.

I. Bank of New York Mellon Interpleader Action

Following alleged events of default, certain creditors, the Puerto Rico Fiscal Agency and Financial Advisory Authority (AAFAF), and the Oversight Board provided COFINA s Trustee, Bank of New York, with conflicting instructions regarding the application of funds held by the trustee. In addition, certain creditors have sued Bank of New York, for alleged breach of fiduciary duties in connection with the application of funds held by the trustee upon an event of default. As a result, Bank of New York filed an interpleader motion with the court overseeing COFINA s Title III case, seeking relief from any potential liability brought by creditors and direction from the court as to control and application of approximately $1.2 billion of funds held by the trustee as of June 1, 2018. National has intervened in this matter. Given the complexity of the issues, on May 30, 2017, the judge granted Bank of New York s interpleader request upon ordering a freeze on disbursements to all bondholders and temporarily setting aside the funds until the dispute can be resolved between the parties. On November 6, 2017, National, along with Ambac Assurance Corporation, filed a joint motion for summary judgment asserting, among other things, that (i) events of default have occurred under

the COFINA Resolution requiring payment to senior bondholders before any distribution to subordinate bondholders, and (ii) the COFINA bonds have been accelerated. On September 27, 2018, in light of the pending agreement in principle between the agent for the Commonwealth and the agent for COFINA in the Commonwealth-COFINA Dispute, and the ongoing discussions among the parties in connection with a plan of adjustment for COFINA, the Court, *sua sponte*, entered an order terminating the pending summary judgment motions without prejudice to restoration of the motions on or after October 1, 2018.

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

RESULTS OF OPERATIONS (continued)

II. Commonwealth-COFINA Dispute

On August 10, 2017, the judge entered a stipulated order establishing procedures to govern resolution of certain disputes between Puerto Rico and COFINA (the Commonwealth-COFINA Dispute). In recognition of the fact that the Oversight Board acts for both Puerto Rico and COFINA, the Court appointed the official Unsecured Creditors Committee to serve as Puerto Rico s representative to litigate and/or settle the Commonwealth-COFINA Dispute on behalf of Puerto Rico (the Commonwealth Agent) and Bettina M. Whyte of Bettina Whyte Consultants, LLC, to serve as the COFINA representative to litigate and/or settle the Commonwealth-COFINA Dispute on behalf of COFINA (the COFINA Agent). The Commonwealth Agent filed an adversary complaint on September 8, 2017. On September 15, 2017, the COFINA Agent filed an Answer to the Complaint and asserted eight counterclaims for declaratory judgment regarding the enforceability of the COFINA structure. On October 25, 2017, the Commonwealth Agent filed an amended complaint that contained minor revisions to the factual allegations concerning the directors of COFINA, permitted use of bond proceeds, and the enactment of the sales and use tax. On October 30, 2017, the COFINA Agent filed its amended answer and counterclaims.

Pursuant to the stipulated order, National was permitted to intervene in this adversary proceeding. Accordingly, on November 6, 2017, National filed a notice of intervention, an answer to the Commonwealth Agent s amended complaint, and counterclaims. In its counterclaims, National asserted four causes of action seeking, *inter alia*, declarations that the COFINA enabling statutes are constitutional, the sales and use tax revenues were validly transferred to COFINA, and the Commonwealth s appropriation of the sales and use tax revenues violates the takings and contracts clauses of the U.S. and Puerto Rico constitutions.

On November 13, 2017, the Oversight Board filed a motion to confirm the scope of the COFINA and Commonwealth Agents authority and to determine whether certain claims exceeded the scope of the Commonwealth-COFINA Dispute. The Court also received additional filings relating to the scope of the agents authority in connection with the Commonwealth-COFINA Dispute.

On December 21, 2017, the Court issued an order limiting the scope of the Commonwealth-COFINA Dispute to whether the sales taxes pledged for repayment of the COFINA bonds are the property of the Commonwealth or COFINA and dismissed without prejudice any claims the Court determined to exceed that scope. On January 13, 2018, the Court granted the Commonwealth Agent leave to file a second amended complaint re-pleading two causes of action that previously had been dismissed as exceeding the scope of the Commonwealth-COFINA Dispute and seeking declarations that the COFINA enabling statutes violate the debt limit, debt priority, and balanced budget clauses of the Puerto Rico Constitution. The COFINA Agent and permitted intervenors, including National, filed answers to the second amended complaint in January of 2018. Motions for summary judgment were filed by the COFINA Agent and the Commonwealth Agent on February 21, 2018.

On February 26, 2018, the COFINA Agent filed a motion to certify questions of Puerto Rico law regarding COFINA to the Supreme Court of Puerto Rico. On April 4, 2018, National, along with Ambac Assurance Corporation, filed a limited objection to the COFINA Agent s certification motion. On April 10, 2018, the Court heard oral argument on motions for summary judgment, after which it took the matter under advisement.

On May 14, 2018, the Oversight Board and AAFAF rejected a settlement proposal by COFINA and GO bondholders.

On May 24, 2018, the Court denied the COFINA Agent s motion to certify questions of Puerto Rico law regarding COFINA to the Supreme Court of Puerto Rico.

On June 5, 2018, the Commonwealth and COFINA Agents submitted a Joint Urgent Motion, which disclosed their agreement in principle to settle the Commonwealth-COFINA Dispute and related issues under the Agents mediation authority. Under the proposed settlement terms, COFINA and the Commonwealth would agree to share the statutory Pledged Sales Tax Base Amount. COFINA would receive (a) 53.65% of the yearly scheduled Pledged Sales Tax Base Amount beginning on July 1, 2018, and (b) 100% of the funds on deposit prior to July 1, 2018 in the debt service accounts held by the Bank of New York Mellon. COFINA s Title III plan of adjustment would provide that, to the extent permitted under applicable law, all restructured securities issued by reorganized COFINA or a new entity established pursuant to COFINA s Title III plan of adjustment would be tax-exempt, with the COFINA Agent.

On June 11, 2018, the Court issued an order holding its decision on the motions for summary judgment in abeyance for a 60-day period in light of the parties progression towards settlement. The abeyance period was extended several times to accommodate ongoing negotiations to resolve the Commonwealth-COFINA Dispute.

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

RESULTS OF OPERATIONS (continued)

On August 29, 2018, following weeks of extensive negotiations, the Oversight Board, COFINA, AAFAF and a substantial number of COFINA bondholders, inclusive of bond insurers, among others, executed a Plan Support Agreement (PSA) and accompanying Term Sheet regarding the allocation of distributable value among the COFINA senior and subordinated bondholders while maintaining the framework outlined in the Commonwealth-COFINA Agent agreement. As contemplated under the PSA, the distributable value will be allocated such that senior COFINA bondholders will receive a 93.0% recovery on their prepetition bond claims and subordinate bondholders will receive approximately 56.4% of their prepetition claims. In addition, to compensate bondholders for the cost of negotiating and executing the PSA, bondholders that are party to the PSA will receive, subject to certain exceptions, a pro rate share of additional cash in an amount equal to 2.0% of the aggregate amount of existing COFINA bond claims.

On September 27, 2018, the Court terminated without prejudice the pending summary judgment motions, in light of a pending agreement in principle between the Commonwealth Agent and the COFINA Agent and the ongoing discussions among the parties in connection with a plan of adjustment for COFINA. On or after October 3, 2018, any party may file a motion requesting the reinstatement of its respective summary judgment motion.

The Oversight Board filed a Plan of Adjustment and Disclosure Statement on October 19, 2018. A hearing to confirm the Plan of Adjustment is scheduled for January 16, 2019 in San Juan, Puerto Rico.

Currently, National has exposure to senior-lien COFINA debt of over $1.1 billion, including CAB accreted interest. As legal opinions from Puerto Rico justice secretaries and bond counsel have confirmed, National believes that the legal structure of COFINA is sound and that COFINA bondholders are the owners of the COFINA funds and maintain a valid statutory lien on the sales tax revenue stream backing the bonds. Notwithstanding the foregoing, until all legal challenges are resolved, there can be no assurance that the COFINA structure will be upheld and the sales tax revenue lien will be recognized.

PREPA

National s largest exposure to Puerto Rico, by gross par outstanding, is to PREPA. On December 23, 2015, National, Assured Guaranty, and the ad hoc group of bondholders (representing approximately $3.0 billion, or 37.0% of the power revenue bonds, (collectively the Supporting Creditors)) entered into an RSA with the support of almost 70% of $8.4 billion of outstanding PREPA bonds, including approximately $1.2 billion of PREPA bonds insured by National. The RSA was supplemented and extended several times during subsequent periods and the Supporting Creditors made three separate bond purchases to assist with PREPA s liquidity. National bought and currently owns $139 million of PREPA bonds.

On January 27, 2017, the newly created AAFAF announced that it would lead future negotiations on behalf of PREPA and all Puerto Rico entities. On April 5, 2017, the Governor, AAFAF and PREPA announced their collective intention to enter into a modified RSA with the Supporting Creditors, subject to final documentation, which was completed in April of 2017; this revised RSA was effective until June 29, 2017.

The revised RSA and related PREPA fiscal plan were submitted to the Oversight Board and the Oversight Board certified the Fiscal Plan on April 28, 2017. Notwithstanding certification of the Fiscal Plan, the Oversight Board rejected the RSA on June 28, 2017. The RSA was then terminated by PREPA and PREPA requested certification of a Title III case. The Oversight Board commenced a Title III case for PREPA 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 has 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. In December of 2017 and continuing into January of 2018, mainland electric crews have arrived in force with equipment and supplies to continue the restoration effort. As of July 12, 2018, PREPA is reporting approximately 99.9% of its customers have had power restored; mainland mutual aid crews have departed the Island and the U.S. Army Corps of Engineers has ended its power restoration mission.

The PREPA revised Fiscal Plan certified on April 19, 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.

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

RESULTS OF OPERATIONS (continued)

On January 27, 2018, the Oversight Board and AAFAF filed an urgent motion on PREPA s behalf in PREPA s Title III case seeking a $1.3 billion priming, superpriority DIP loan from Puerto Rico to address a purported impending cash crisis at PREPA. On February 19, 2018, the Court granted the urgent motion, but limited the size of PREPA s DIP loan considerably, approving only a $300 million credit facility as an unsecured superpriority administrative expense claim.

On July 11, 2018, the CEO of PREPA, who was appointed in March of 2018, announced his resignation as CEO effective July 14, 2018. On July 12, 2018 a majority of the Board, including all independent directors and the director who had been named interim CEO, resigned citing undue political interference in PREPA s operations. The Governor now controls the PREPA Board of Directors which confirmed his nominee as the new PREPA CEO on July 18, 2018. The House Natural Resources Committee of the U.S. Congress held a hearing on July 25, 2018 concerning the circumstances at PREPA. Following the hearing, media reports indicated that the Chairman of the Committee and the Resident Commissioner, Puerto Rico s non-voting representative to Congress would prepare legislation to address issues raised at the hearing for introduction in the fall.

On July 30, 2018, PREPA, the Oversight Board, 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.

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.

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. On February 9, 2018, the plaintiffs/appellants filed their notice of appeal to the United States Court of Appeals for the First Circuit, and filed their opening brief on May 9, 2018. The Appellees filed their opposition brief on July 9, 2018 and Appellants reply brief was filed on August 8, 2018. Oral argument was held on November 5, 2018 in San Juan, Puerto Rico.

On June 29, 2018, in a related case involving PRHTA, also on appeal before the First Circuit, the Chairman of the House Committee on Natural Resources, who oversaw the drafting and enactment of PROMESA, filed a motion for leave to file an amicus curiae brief to respond to a request from the First Circuit for context and the background and history of PROMESA. The Chairman s brief, which was attached to his motion, states that PROMESA was drafted in consideration of creditors rights and was intended to promote resolution of Puerto Rico s fiscal stress through consensual negotiation with creditors under Title VI. The proposed brief took issue with the Oversight Board s quick reliance on Title III proceedings, which had been created as a last resort, to be used in truly intractable cases after a lengthy negotiation period proved fruitless. The brief also observed that under PROMESA, a court cannot confirm a plan of adjustment unless it complies with the applicable fiscal plan, which must itself comport with the mandatory requirements set forth in PROMESA, including requirements regarding the protection of creditor rights. The brief also confirms that PROMESA incorporates the special revenue provisions from Chapter 9 of the Bankruptcy Code, which ensure that creditors liens on special revenues streams are not interrupted by the filing of a Title III case, exempting their claims from the automatic stay.

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.

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

RESULTS OF OPERATIONS (continued)

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. Additionally, subsequent to the declaration of a state of emergency and suspension of debt service payments by the then Governor of Puerto Rico, S&P revised its rating for Puerto Rico, its GO, PREPA and PRHTA s subordinated transportation revenue bonds, series 1998, state infrastructure bank, to D (default). On June 6, 2017, S&P further downgraded COFINA from CC to D based on court motions that directed the trustee to withhold scheduled monthly payments until property interest disputes have been resolved.

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

	Three Months Ending December 31, 2018	2019	2020	2021	2022	Thereafter	Total
Puerto Rico Electric Power Authority (PREPA)	$ -	$ 177	$ 115	$ 140	$ 140	$ 945	$ 1,517
Puerto Rico Commonwealth GO	-	154	223	82	19	276	754
Puerto Rico Public Buildings Authority (PBA)	-	24	10	24	9	189	256
Puerto Rico Highway and Transportation Authority Transportation Revenue (PRHTA)	-	27	26	27	27	829	936
Puerto Rico Highway and Transportation Authority Subordinated Transportation Revenue (PRHTA)	-	1	1	1	9	26	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	55	92
University of Puerto Rico System Revenue	-	7	7	7	6	85	112
Inter American University of Puerto Rico Inc.	2	2	3	3	3	17	30
Total	$ 2	$ 408	$ 401	$ 287	$ 215	$ 6,592	$ 7,905

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 2. 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 three and nine months ended September 30, 2018 and 2017:

In millions	Three Months Ended September 30, 2018	Three Months Ended September 30, 2017	Percent Change	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017	Percent Change
Net investment income	$ 9	$ 9	-%	$ 27	$ 28	-4%
Fees	9	13	-31%	29	41	-29%
Net gains (losses) on financial instruments at fair value and foreign exchange	17	(15)	n/m	48	(54)	n/m
Net gains (losses) on extinguishment of debt	3	1	n/m	3	9	-67%
Other net realized gains (losses)	-	(1)	-100%	(2)	(3)	-33%
Total revenues	38	7	n/m	105	21	n/m
Operating	14	14	-%	41	48	-15%
Interest	24	22	9%	72	66	9%
Total expenses	38	36	6%	113	114	-1%
Income (loss) before income taxes	-	(29)	-100%	(8)	(93)	-91%
Provision (benefit) for income taxes	2	(1)	n/m	(31)	1,069	-103%
Net income (loss)	$ (2)	$ (28)	-93%	$ 23	$ (1,162)	-102%

n/m - Percent change not meaningful.

NET GAINS (LOSSES) ON FINANCIAL INSTRUMENTS AT FAIR VALUE AND FOREIGN EXCHANGE The favorable changes in net gains (losses) on financial instruments at fair value and foreign exchange for the three and nine months ended September 30, 2018 compared with the same periods of 2017 were primarily due to foreign exchange gains on Euro denominated liabilities from the strengthening of the U.S. dollar and favorable changes in the fair value of our interest rate swaps due to the effect of higher interest rates during 2018. The favorable changes for the nine months ended September 30, 2018 were 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.

NET GAINS (LOSSES) ON EXTINGUISHMENT OF DEBT The net gains on extinguishment of debt for the nine months ended September 30, 2017 primarily related to gains from purchases at discounts of MTNs issued by the Company.

OPERATING EXPENSES Operating expenses decreased for the nine months ended September 30, 2018 compared with the same period of 2017 primarily due to a decrease in compensation expense, primarily as a result of lower headcount.

INTEREST EXPENSE Interest expense increased for the three and nine months ended September 30, 2018 compared with the same periods of 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.

PROVISION (BENEFIT) FOR INCOME TAXES The benefit for income taxes for the nine months ended September 30, 2018 was driven by a decrease to the valuation allowance that was established against the Corporate segment s net deferred tax asset in the second quarter of 2017. The decrease primarily relates to the portion of the 2015 tax year escrow deposit that was released to MBIA Inc. in the first quarter of 2018. Refer to Note 9: Income Taxes in the Notes to the Consolidated Financial Statements for further information about taxes.

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) Limited (MBIA UK Holdings), sold its operating subsidiary, MBIA UK to Assured Guaranty Corp. (Assured), a subsidiary of Assured Guaranty Ltd.

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

RESULTS OF OPERATIONS (continued)

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 S.A. de C.V. (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 9: 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, we believe MBIA Corp. does not provide significant economic value to MBIA Inc. and its shareholders.

The following table presents our international and structured finance insurance segment results for the three and nine months ended September 30, 2018 and 2017:

In millions	Three Months Ended September 30, 2018	2017	Percent Change	Nine Months Ended September 30, 2018	2017	Percent Change
Net premiums earned	$ 40	$ 11	n/m	$ 71	$ 33	115%
Net investment income	1	1	-%	4	19	-79%
Fees and reimbursements	23	9	n/m	41	33	24%
Change in fair value of insured derivatives:						
Realized gains (losses) and other settlements on insured derivatives	(5)	(7)	-29%	(49)	(41)	20%
Unrealized gains (losses) on insured derivatives	4	6	-33%	36	(10)	n/m
Net change in fair value of insured derivatives	(1)	(1)	-%	(13)	(51)	-75%
Net gains (losses) on financial instruments at fair value and foreign exchange	(13)	2	n/m	(17)	(21)	-19%
Other net realized gains (losses)	1	1	-%	2	40	-95%
Revenues of consolidated VIEs:						
Net investment income	9	8	13%	25	20	25%
Net gains (losses) on financial instruments at fair value and foreign exchange	12	21	-43%	29	2	n/m
Other net realized gains (losses)	(33)	-	n/m	(126)	28	n/m
Total revenues	39	52	-25%	16	103	-84%
Losses and loss adjustment	(2)	64	-103%	(7)	159	-104%
Amortization of deferred acquisition costs	11	10	10%	26	32	-19%

Operating		5		7	-29%	16		23	-30%
Interest		32		31	3%	96		90	7%
Expenses of consolidated VIEs:									
Operating		3		3	-%	8		8	-%
Interest		24		20	20%	68		59	15%
Total expenses		73		135	-46%	207		371	-44%
Income (loss) before income taxes		(34)		(83)	-59%	(191)		(268)	-29%
Provision (benefit) for income taxes		-		1	-100%	(5)		1,143	-100%
Net income (loss)	$	(34)	$	(84)	-60%	$ (186)	$	(1,411)	-87%

n/m - Percent change not meaningful.

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

RESULTS OF OPERATIONS (continued)

As of September 30, 2018, MBIA Corp. s total insured gross par outstanding was $12.6 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, a newly formed wholly-owned subsidiary of the Company.

NET PREMIUMS EARNED Our international and structured finance insurance segment generates net premiums from insurance policies accounted for as financial guarantee contracts. Certain premiums may be 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 three and nine months ended September 30, 2018 and 2017:

In millions	Three Months Ended September 30, 2018	2017	Percent Change	Nine Months Ended September 30, 2018	2017	Percent Change
Net premiums earned:						
U.S.	$ 2	$ 3	-33%	$ 7	$ 8	-13%
Non-U.S.	38	8	n/m	64	25	n/m
Total net premiums earned	$ 40	$ 11	n/m	$ 71	$ 33	115%
VIEs (eliminated in consolidation)	$ 2	$ 2	-%	$ 5	$ 6	-17%

n/m - Percent change not meaningful.

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 the three and nine months ended September 30, 2018 compared with the same periods of 2017 primarily due to the acceleration of premiums related to the termination of several international public finance policies.

NET INVESTMENT INCOME Net investment income for the nine months ended September 30, 2017 primarily related to the accretion to par value of certain Zohar II notes received in exchange for the sale of MBIA UK to Assured on January 10, 2017.

FEES AND REIMBURSEMENTS The increases in fees and reimbursements for the three and nine months ended September 30, 2018 compared with the same periods of 2017 were primarily due to increases in waiver and consent fees related to the ongoing management of our international and structured finance insurance business, partially offset by decreases in ceding commission income as a result of higher refunding activity in prior periods. 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 the three and nine months ended September 30, 2018 and 2017, realized losses on insured

derivatives resulted from claim payments on one commercial mortgage-backed transaction.

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

RESULTS OF OPERATIONS (continued)

For the three months ended September 30, 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 the nine months ended September 30, 2018, unrealized gains on insured derivatives were principally the result of par amortization, partially offset by the effects of favorable changes in the market s perception of MBIA Corp. s nonperformance risk on its derivative liabilities. For the three months ended September 30, 2017, unrealized gains on insured derivatives were principally due to favorable changes in spreads/prices on the underlying collateral and unfavorable changes in the market s perception of MBIA Corp. s nonperformance risk on its derivative liabilities. For the nine months ended September 30, 2017, unrealized losses were principally the result of the effects of favorable changes in the market s perception of MBIA Corp. s nonperformance risk on its derivative liabilities, partially offset by the reversal of unrealized losses from a termination of a CDS and favorable changes in spreads/prices on the underlying collateral. As of September 30, 2018 and December 31, 2017, the fair value of MBIA Corp. s insured CDS liability was $27 million and $63 million, respectively. As of September 30, 2018, MBIA Corp. had $77 million of gross par outstanding on an insured credit derivative compared with $127 million as of December 31, 2017.

NET GAINS (LOSSES) ON FINANCIAL INSTRUMENTS AT FAIR VALUE AND FOREIGN EXCHANGE The net losses on financial instruments and foreign exchange for the three and nine months ended September 30, 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 and the revaluation of loss reserves on Mexican and Euro denominated policies as a result of the weakening of the U.S. dollar. The net losses on financial instruments and foreign exchange for the nine months ended September 30, 2017 were primarily related to unfavorable mark-to-market fluctuations on financial instruments.

OTHER NET REALIZED GAINS (LOSSES) Other net realized gains (losses) for the nine months ended September 30, 2017 were primarily related to the settlement of litigation.

REVENUES OF CONSOLIDATED VIEs For the three months ended September 30, 2018, total revenues of consolidated VIEs were losses of $12 million compared with gains of $29 million for the same period of 2017. This decrease was primarily due to the deconsolidation of three VIEs in the third quarter of 2018. For the nine months ended September 30, 2018, total revenues of consolidated VIEs were losses of $72 million compared with gains of $50 million for the same period of 2017. This decrease was primarily due to the deconsolidation of two VIEs in the second quarter of 2018 from the Zohar Bankruptcy Settlement which resulted in a loss of $93 million and the deconsolidation of three VIEs in the third quarter of 2018. The loss from the Zohar Bankruptcy Settlement resulted from the difference between the fair value of the VIE assets that were deconsolidated and our current 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.

LOSSES AND LOSS ADJUSTMENT EXPENSES MBIA Corp. s insured portfolio management group within our international and structured finance insurance business 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 5: Loss and Loss Adjustment Expense Reserves in the Notes to Consolidated Financial Statements for a description of the Company s loss reserving policy and additional information related to its loss reserves.

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 three and nine months ended September 30, 2018 and 2017:

In millions	Three Months Ended September 30, 2018	Three Months Ended September 30, 2017	Percent Change	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017	Percent Change
Losses and LAE related to actual and expected payments	$ (7)	$ 12	n/m	$ (8)	$ 106	-108%

Recoveries of actual and expected payments		5		52	-90%		1		54	-98%
Gross losses incurred		(2)		64	-103%		(7)		160	-104%
Reinsurance		-		-	-%		-		(1)	-100%
Losses and loss adjustment expenses [(1)]	$	(2)	$	64	-103%	$	(7)	$	159	-104%

(1) - As a result of consolidation of VIEs, these amounts include the elimination of loss and LAE benefits of $20 million and $18 million for the three months ended September 30, 2018 and 2017, respectively, and a loss and LAE benefit of $39 million and loss and LAE of $18 million for the nine months ended September 30, 2018 and 2017, respectively.

n/m - Percent change not meaningful.

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

RESULTS OF OPERATIONS (continued)

For the three months ended September 30, 2018, the loss and LAE benefit primarily related to decreases in losses incurred on insured RMBS transactions and collateralized debt obligations (CDOs), partially offset by increases in losses related to other financial guarantee contracts.

For the nine months ended September 30, 2018, the loss and LAE benefit primarily related to decreases in losses incurred on insured RMBS transactions, partially offset by increases in losses related to CDOs and other financial guarantee contracts.

For the three and nine months ended September 30, 2017, losses and LAE primarily related to increases in expected payments on insured RMBS transactions and decreases in projected collections from mortgage insurance included in the Company s excess spread within insured second-lien RMBS transactions from the settlement of litigation regarding insurance coverage involving Old Republic Insurance Corporation, Bank of America, N.A. and the Bank of New York Mellon.

Refer to Note 5: 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 September 30, 2018 and December 31, 2017.

In millions	September 30, 2018	December 31, 2017	Percent Change
Assets:			
Insurance loss recoverable	$ 988	$ 178	n/m
Reinsurance recoverable on paid and unpaid losses (1)	5	5	-%
Liabilities:			
Gross loss and LAE reserves	403	482	-16%
Expected recoveries on unpaid losses	(4)	(16)	-75%
Loss and LAE reserves	$ 399	$ 466	-14%

(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 March 31, 2018 and December 31, 2017, the fair value of the assets of Zohar I and Zohar II were included in Loans receivable 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 three and nine months ended September 30, 2018 and 2017 are presented in the following table:

In millions	Three Months Ended September 30, 2018	2017	Percent Change	Nine Months Ended September 30, 2018	2017	Percent Change

Gross expenses	$	5	$	7	-29%	$	16	$	24	-33%
Amortization of deferred acquisition costs	$	11	$	10	10%	$	26	$	32	-19%
Operating		5		7	-29%		16		23	-30%
Total insurance operating expenses	$	16	$	17	-6%	$	42	$	55	-24%

Gross expenses represent total insurance expenses before the deferral of any policy acquisition costs. Gross expenses decreased for the three and nine months ended September 30, 2018 compared with the same periods of 2017 primarily due to decreases in compensation expense. Operating expenses decreased for the three and nine months ended September 30, 2018 compared with the same periods of 2017 primarily due to decreases in gross expenses.

The decrease in the amortization of deferred acquisition costs for the nine months ended September 30, 2018 compared with the same period of 2017 was due to lower refunding activity in 2018. We did not defer a material amount of policy acquisition costs during the first nine months of 2018 or 2017. Policy acquisition costs in these periods were primarily related to ceding commissions and premium taxes on installment policies written in prior periods.

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

RESULTS OF OPERATIONS (continued)

INTEREST EXPENSE OF CONSOLIDATED VIEs For the three and nine months ended September 30, 2018, total interest expense of consolidated VIEs increased compared with the same periods of 2017 primarily due to interest expense from 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 September 30, 2018 and December 31, 2017, 32% 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 September 30, 2018, MBIA Corp. insured $375 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 September 30, 2018 and December 31, 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	**September 30, 2018**	**December 31, 2017**	**Percent Change**
HELOC Second-lien	$ 642	$ 975	-34%
CES Second-lien	751	1,037	-28%
Alt-A First-lien[1]	1,016	1,078	-6%
Subprime First-lien	454	512	-11%
Prime First-lien	15	19	-21%

Total	$ 2,878	$ 3,621	-21%

(1) - Includes international exposure of $253 million and $245 million as of September 30, 2018 and December 31, 2017, respectively.

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Item 2. 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. The following table presents information about our reinsurance agreements as of September 30, 2018 for our U.S. public finance and international and structured finance insurance segments.

In millions

Reinsurers	Standard & Poor s Rating (Status)	Moody s Rating (Status)	Ceded Par Outstanding	Letters of Credit/Trust Accounts	Reinsurance Recoverable[1]
Assured Guaranty Re Ltd.	AA (Stable Outlook)	WR[2]	$ 1,101	$ 27	$ 8
Assured Guaranty Corp.	AA (Stable Outlook)	A3 (Stable Outlook)	922	-	15
Overseas Private Investment Corporation	AA+ (Stable Outlook)	Aaa (Stable Outlook)	261	-	-
Others	A+ or above	WR[2]	79	3	-
Total			$ 2,363	$ 30	$ 23

(1) - Total reinsurance recoverable is primarily recoverables on unpaid losses.
(2) - Represents a withdrawal of ratings.

MBIA requires certain unauthorized reinsurers to maintain bank letters of credit or establish trust accounts to cover liabilities ceded to such reinsurers under reinsurance contracts. The Company remains liable on a primary basis for all reinsured risk. Based on MBIA s assessment of the credit risk of its reinsurers and expected claims under the reinsurance agreements, MBIA believes that its reinsurers remain capable of meeting their obligations, although there can be no assurance of such in the future.

As of September 30, 2018, the aggregate amount of insured par outstanding ceded by MBIA to reinsurers under reinsurance agreements was $2.4 billion compared with $2.7 billion as of December 31, 2017. As of September 30, 2018, $1.8 billion of the ceded par outstanding was ceded from our U.S. public finance insurance segment and $527 million was ceded from our international and structured finance insurance segment. Under National s reinsurance agreement with MBIA Corp., if a reinsurer of MBIA Corp. is unable to pay claims ceded by MBIA Corp. on U.S. public finance exposure, National will assume liability for such ceded claim payments.

Taxes

Provision for Income Taxes

The Company s income taxes and the related effective tax rates for the three and nine months ended September 30, 2018 and 2017 are presented in the following table:

In millions	Three Months Ended September 30, 2018	2017	Nine Months Ended September 30, 2018	2017
Income (loss) before income taxes	$ (45)	$ (273)	$ (287)	$ (603)
Provision (benefit) for income taxes	$ -	$ (6)	$ 2	$ 965
Effective tax rate	-%	2.2%	-0.7%	-160.0%

For the nine months ended September 30, 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 the nine months ended September 30, 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.

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

RESULTS OF OPERATIONS (continued)

In June of 2017, S&P downgraded the financial strength rating of National, which led the Company to cease its efforts to actively pursue writing 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 September 30, 2018 and December 31, 2017, the Company s valuation allowance against its net deferred tax asset was $841 million and $770 million, respectively. For a discussion of the full valuation allowance recorded in 2017, refer to Note 11: Income Taxes in the Notes to Consolidated Financial Statements included in the Company s Annual Report on Form 10-K for the year ended December 31, 2017.

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.

Refer to Note 9: 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.

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 September 30, 2018 and December 31, 2017, respectively. As of September 30, 2018, MBIA Inc. s investment in subsidiaries totaled $2.0 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. 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 Form 10-K for the year ended December 31, 2017 and the Liquidity Corporate Liquidity section included herein for additional information about MBIA Inc. s liquidity.

Securities Repurchases

Repurchases of debt and 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 may also choose to redeem debt obligations where permitted by the relevant agreements. MBIA Inc. or National may repurchase or redeem outstanding common shares of MBIA Inc. and outstanding debt obligations at prices when we deem it beneficial to our shareholders.

Equity securities

MBIA Inc. s and National s share repurchases that were authorized under share repurchase programs for the nine months ended September 30, 2018 and 2017 are presented in the following table:

In millions except per share amounts	Nine Months Ended September 30, 2018	2017
Number of shares repurchased	2.0	11.7
Average price paid per share	$ 7.25	$ 8.58
Remaining authorization as of September 30	$ 236	$ 225

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

CAPITAL RESOURCES (continued)

Debt securities

During the nine months ended September 30, 2018, we repurchased $55 million par value outstanding of GFL MTNs issued by our corporate segment at approximately 91% of par value.

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 September 30, 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 $2.7 billion as of September 30, 2018, compared with $2.8 billion as of December 31, 2017. As of September 30, 2018, statutory capital comprised $2.1 billion of policyholders surplus and $538 million of contingency reserves. National had a statutory net loss of $37 million for the nine months ended September 30, 2018. As of September 30, 2018, National s unassigned surplus was $1.6 billion.

In order to maintain its New York State financial guarantee insurance license, National is required to maintain a minimum of $65 million of policyholders surplus. National is also required to maintain contingency reserves to provide protection to policyholders in the event of extreme losses in adverse economic events. Refer to the following MBIA Insurance Corporation Capital and Surplus section for additional information about contingency reserves under New York Insurance Law (NYIL).

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 September 30, 2018, from which it may pay dividends, subject to the limitations described above. Subsequent to September 30, 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.

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

CAPITAL RESOURCES (continued)

National s CPR and components thereto, as of September 30, 2018 and December 31, 2017 are presented in the following table:

In millions	As of September 30, 2018	As of December 31, 2017
Policyholders surplus	$ 2,144	$ 2,166
Contingency reserves	538	594
Statutory capital	2,682	2,760
Unearned premiums	514	585
Present value of installment premiums [1]	159	164
Premium resources [2]	673	749
Net loss and LAE reserves [1]	62	227
Salvage reserves	621	387
Gross loss and LAE reserves	683	614
Total claims-paying resources	$ 4,038	$ 4,123

(1) - Calculated using a discount rate of 3.25% as of September 30, 2018 and December 31, 2017.

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

MBIA Insurance Corporation

Capital and Surplus

MBIA Insurance Corporation reported total statutory capital of $587 million as of September 30, 2018 compared with $464 million as of December 31, 2017. As of September 30, 2018, statutory capital comprised $389 million of policyholders surplus and $198 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 nine months ended September 30, 2018, MBIA Insurance Corporation had statutory net income of $122 million. MBIA Insurance Corporation s policyholders surplus included negative unassigned surplus of $1.6 billion as of September 30, 2018 and $1.8 billion as of December 31, 2017. MBIA Insurance Corporation s policyholders surplus may be further negatively impacted if future additional insured losses are incurred.

As of September 30, 2018, MBIA Insurance Corporation recognized estimated recoveries of $411 million, net of reinsurance on a statutory basis related to put-back claims against Credit Suisse and $186 million related to excess spread recoveries on RMBS, net of reinsurance. In addition, MBIA Insurance Corporation has recorded 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 5: 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 $198 million as of September 30, 2018 represented reserves on 27 of the 229 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 September 30, 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 September 30, 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 September 30, 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 is not in compliance 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.

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

CAPITAL RESOURCES (continued)

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 negative earned surplus, 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.

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 October 15, 2018, the most recent scheduled interest payment date, there was $725 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 September 30, 2018, MBIA Insurance Corporation had free and divisible surplus, of $98 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 September 30, 2018 and December 31, 2017 are presented in the following table:

In millions	As of September 30, 2018	As of December 31, 2017
Policyholders surplus	$ 389	$ 237
Contingency reserves	198	227
Statutory capital	587	464
Unearned premiums	115	195
Present value of installment premiums [(1)] [(4)]	147	192
Premium resources [(2)]	262	387
Net loss and LAE reserves [(1)]	(882)	(792)
Salvage reserves [(3)]	1,423	1,428
Gross loss and LAE reserves	541	636
Total claims-paying resources	$ 1,390	$ 1,487

(1) - Calculated using a discount rate of 5.20% as of September 30, 2018 and 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.

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

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 daily 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.

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 loss adjustment expenses on insured transactions; and
- payments of dividends.

As of September 30, 2018 and December 31, 2017, National held cash and investments of $3.4 billion and $3.6 billion, respectively, of which $608 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 September 30, 2018 and December 31, 2017, the liquidity positions of MBIA Inc. which included cash and cash equivalents and other investments comprised of highly rated commercial paper, money market funds and municipal, U.S. government and corporate bonds for general corporate purposes, excluding the amounts held in escrow under its tax sharing agreement, were $365 million and $419 million, respectively.

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

LIQUIDITY (continued)

During the nine months ended September 30, 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. National s tax escrow payment of $108 million for the 2016 tax year is not eligible for release or return until National s 2018 tax liability is estimated. 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. In the nine months ended September 30, 2018, such withdrawals totaled $29 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.

Subsequent to September 30, 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 dividends and tax sharing agreement payments to MBIA Inc. Subsequent to September 30, 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 prior year 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, the majority 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;
- 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 September 30, 2018 and December 31, 2017, MBIA Corp. held cash and investments of $256 million and $271 million, respectively, of which $157 million and $145 million, respectively, 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.

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

LIQUIDITY (continued)

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. While our financial guarantee policies generally cannot be accelerated, thereby helping to mitigate liquidity risk, insurance of CDS and certain other derivative contracts may, in certain circumstances, including the occurrence of certain insolvency or payment defaults, be subject to termination by the counterparty, triggering a claim for the fair value of the contract. In order to monitor liquidity risk and maintain appropriate liquidity resources, we use the same methodology as we use to monitor credit quality and losses within our insured portfolio, including stress scenarios. Refer to Note 5: Loss and Loss Adjustment Expense Reserves in the Notes to Consolidated Financial Statements for a discussion of our loss process.

MBIA Corp. has recorded expected excess spread recoveries of $200 million as of September 30, 2018 associated with insured RMBS issues, 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 included in an MBIA Corp. insured RMBS transaction. In addition, MBIA Insurance Corporation has recorded recoveries related to CDOs. There can be no assurance that it will be successful or not be delayed in realizing these recoveries. During the nine months ended September 30, 2018, MBIA Corp. collected $55 million from insured RMBS transactions related to excess spread recoveries.

Consolidated Cash Flows

Information about our consolidated cash flows by category is presented on our consolidated statements of cash flows. The following table presents a summary of our consolidated cash flows for the nine months ended September 30, 2018 and 2017:

In millions	Nine Months Ended September 30, 2018	2017	Percent Change
Statement of cash flow data:			
Net cash provided (used) by:			
Operating activities	$ (323)	$ (693)	-53%
Investing activities	836	826	1%
Financing activities	(480)	(184)	n/m
Cash and cash equivalents beginning of period	146	187	-22%
Cash and cash equivalents end of period	$ 179	$ 136	32%

n/m - Percent change not meaningful.

Operating activities

Net cash used by operating activities decreased for the nine months ended September 30, 2018 compared with the same period of 2017 primarily due to a decrease in losses and LAE paid of $377 million and an increase in premiums, fees and reimbursements of $32 million, partially offset by a decrease in proceeds from recoveries and reinsurance of $54 million.

Investing activities

Net cash provided by investing activities increased for the nine months ended September 30, 2018 compared with the same period of 2017 primarily due to an increase in sales of AFS investments of $347 million, an increase in sales, paydowns and maturities (purchases) of short-term

investments, net of $202 million and an increase in paydowns and maturities of loans receivable of $163 million, partially offset by an increase in purchases of AFS investments of $538 million and a decrease in paydowns and maturities of AFS investments of $147 million.

Financing activities

Net cash used by financing activities increased for the nine months ended September 30, 2018 compared with the same period of 2017 primarily due to proceeds received from the Facility of $328 million in 2017 and an increase in principal paydowns of VIE notes of $71 million, partially offset by a decrease in purchases of treasury stock of $83 million.

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

LIQUIDITY (continued)

Investments

The following discussion of investments, including references to consolidated investments, excludes 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 7: Investments in the Notes to Consolidated Financial Statements for detailed discussion about our investments.

The following table presents our investment portfolio as of September 30, 2018 and December 31, 2017.

In millions	As of September 30, 2018	As of December 31, 2017	Percent Change
Available-for-sale investments[1]			
U.S. public finance insurance			
Amortized cost	$ 2,821	$ 3,150	-10%
Unrealized net gain (loss)	(48)	(72)	-33%
Fair value	2,773	3,078	-10%
Corporate			
Amortized cost	824	1,078	-24%
Unrealized net gain (loss)	15	49	-69%
Fair value	839	1,127	-26%
International and structured finance insurance			
Amortized cost	207	210	-1%
Unrealized net gain (loss)	4	8	-50%
Fair value	211	218	-3%
Total available-for-sale investments:			
Amortized cost	3,852	4,438	-13%
Unrealized net gain (loss)	(29)	(15)	93%
Total available-for-sale investments at fair value	3,823	4,423	-14%
Investments carried at fair value[2]			
U.S. public finance insurance	305	174	75%
Corporate	57	56	2%
International and structured finance insurance	20	-	n/m
Total investments carried at fair value	382	230	66%
Other investments at amortized cost:			
U.S. public finance insurance	1	2	-50%

Consolidated investments at carrying value	$ 4,206	$ 4,655	-10%

(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, September 30, 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.

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

LIQUIDITY (continued)

Credit Quality

The credit quality distribution of the Company s 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 September 30, 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	A
Investment grade percentage	92%	99%	89%	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 September 30, 2018, Insured Investments at fair value represented $440 million or 10% of consolidated investments, of which $344 million or 8% of consolidated investments were Company-Insured Investments. As of September 30, 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 September 30, 2018, based on actual or estimated underlying ratings, the weighted average rating of the consolidated investment portfolio was in the A 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.

Contractual Obligations

For a discussion of the Company s contractual obligations, refer to Liquidity-Contractual Obligations in Part II, Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations included in the Company s Annual Report on Form 10-K for the year ended December 31, 2017. There were no material changes in contractual obligations since December 31, 2017.

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Item 3. Quantitative 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, investment agreement liabilities, certain derivative instruments and other 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, credit spreads and changes in MBIA Inc. common stock price, profitability could be adversely affected should the Company have to liquidate these securities. MBIA minimizes its exposure to interest rate risk, foreign exchange risk and credit spread 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. For a discussion of our quantitative and qualitative disclosures about market risk, refer to Part II, Item 7A, Quantitative and Qualitative Disclosures About Market Risk included in the Company s Annual Report on Form 10-K for the year ended December 31, 2017. There were no material changes in market risk since December 31, 2017.

Item 4. Controls and Procedures

As of the end of the period covered by this report, an evaluation of the effectiveness of the design and operation of the Company s disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15(d)-15(e) under the Securities Exchange Act of 1934) was performed under the supervision and with the participation of the Company s senior management, including the Chief Executive Officer and the Chief Financial Officer. Based on that evaluation, the Company s management, including the Chief Executive Officer and the Chief Financial Officer, concluded that the Company s disclosure controls and procedures were effective as of the end of the period covered by this report. In addition, there have not been any changes in the Company s internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934) during the fiscal quarter to which this report relates that have materially affected, or are likely to materially affect, the Company s internal control over financial reporting.

PART II OTHER INFORMATION

Item 1. Legal Proceedings

For a discussion of the Company s litigation and related matters, see Note 13: Commitments and Contingencies in the Notes to Consolidated Financial Statements of MBIA Inc. and Subsidiaries in Part I, Item 1. In the normal course of operating its businesses, MBIA Inc. may be involved in various legal proceedings. As a courtesy, the Company posts on its website under the section Legal Proceedings, selected information and documents in reference to selected legal proceedings in which the Company is the plaintiff or the defendant. The Company will not necessarily post all documents for each proceeding and undertakes no obligation to revise or update them to reflect changes in events or expectations. The complete official court docket can be publicly accessed by contacting the clerk s office of the respective court where each litigation is pending.

Item 1A. Risk Factors

The following should be read in conjunction with and supplements the risk factors described under Part I, Item 1A, Risk Factors of the Company s Annual Report on Form 10-K for the year ended December 31, 2017.

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 issue public finance obligations we insure are experiencing fiscal stress that could result in increased credit losses or impairments on those obligations

Although the financial conditions of many state, local and territorial governments and finance authorities that issue the obligations we insure have 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. The previous Governor of Puerto Rico stated in 2015 and again in 2016 that Puerto Rico s approximately $70 billion in debt is not payable and he actively lobbied the U.S. Congress for bankruptcy reform and other Federal support. Furthermore, the former Governor formed a working group to study and make recommendations regarding Puerto Rico s short- and long-term challenges. In September of 2015, this working group released a report that projected a sizable deficit of available cash resources to expenses and debt service over the next five years absent meaningful fiscal and structural reform, and concluded that a voluntary adjustment of the terms of the Commonwealth s debt is necessary. 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.

On May 3, 2017, the Oversight Board certified and filed a bankruptcy-like petition under Title III of PROMESA for Puerto Rico with the District Court of Puerto Rico. Under a separate petition, the Oversight Board also commenced a Title III proceeding for Puerto Rico Sales Tax Financing Corporation (COFINA) on May 5, 2017. On May 21, 2017, upon the expiration of the PROMESA stay, the Oversight Board commenced a Title III proceeding for the Puerto Rico Highway and Transportation Authority (PRHTA). On July 2, 2017, the Oversight Board commenced a Title III proceeding for the Puerto Rico Electric Power Authority (PREPA). While National has entered into a consensual mediation process with the Oversight Board and Puerto Rico at the request of the District Court, there can be no assurance that National will be able to avoid a non-consensual outcome which could result in unanticipated losses to National which could be material.

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, 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 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, 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 September 30, 2018, National had $3.3 billion of gross insured par outstanding ($3.9 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. On January 1, 2018 and July 1, 2018, Puerto Rico defaulted on scheduled debt service for certain National insured bonds and National paid gross claims in the aggregate of $276 million as a result. While National will seek to recover any claim payments it makes under its guarantees, there is no assurance that it will be able to recover such payments. 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 I Financial Information, Item 2 of this Form 10-Q for additional information on our Puerto Rico exposures.

Legal, Regulatory and Other Risk Factors

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.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

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 the nine months ended September 30, 2018, we repurchased 2 million common shares of MBIA Inc. at an average share price of $7.25 under the November 3, 2017 repurchase program.

The table below presents repurchases made by the Company in each month during the third quarter of 2018:

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)

July	121	$ 9.59	-	$	236
August	112	10.58	-		236
September	108	10.74	-		236
	341	$ 10.28	-	$	236

(1) - 121 shares in July, 112 shares in August and 108 shares in September were purchased in open market transactions as investments in the Company s non-qualified deferred compensation plan.

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Item 6. Exhibits

31.1. Chief Executive Officer - Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2. Chief Financial Officer - Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1. Chief Executive Officer - Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2. Chief Financial Officer - Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

101. Interactive data files pursuant to Rule 405 of Regulation S-T: (i) the Consolidated Balance Sheets as of September 30, 2018 and December 31, 2017; (ii) the Consolidated Statements of Operations for the three and nine months ended September 30, 2018 and 2017; (iii) the Consolidated Statements of Comprehensive Income (Loss) for the three and nine months ended September 30, 2018 and 2017; (iv) the Consolidated Statements of Changes in Shareholders Equity for the nine months ended September 30, 2018; (v) the Consolidated Statements of Cash Flows for the nine months ended September 30, 2018 and 2017 and (vi) the Notes to Consolidated Financial Statements.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	MBIA Inc.
	Registrant
Date: November 6, 2018	/s/ Anthony McKiernan Anthony McKiernan Chief Financial Officer
Date: November 6, 2018	/s/ Joseph R. Schachinger Joseph R. Schachinger Controller (Chief Accounting Officer)