

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

Form 10-K

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

For the fiscal year ended December 31, 2017

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
(State of incorporation)

06-1185706
(I.R.S. Employer
Identification No.)

1 Manhattanville Road, Suite 301,
Purchase, New York
(Address of principal executive offices)

10577
(Zip Code)

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

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

Title of each class

Name of each exchange
on which registered

Common Stock, par value \$1 per share

New York Stock Exchange

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

None

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

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

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

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

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

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

Large accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company)

Accelerated filer
Smaller reporting company
Emerging growth company

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

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

The aggregate market value of the voting stock held by non-affiliates of the Registrant as of June 30, 2017 was \$1,141,143,207.

As of February 22, 2018, 88,763,473 shares of Common Stock, par value \$1 per share, were outstanding.

Documents incorporated by reference:

Portions of the Definitive Proxy Statement of the Registrant for its 2017 Annual Meeting, which will be filed on or before March 31, 2018, are incorporated by reference into Part III of this Form 10-K.

TABLE OF CONTENTS

PART I	
Item 1.	Business 1
Item 1A.	Risk Factors 14
Item 1B.	Unresolved Staff Comments 24
Item 2.	Properties 24
Item 3.	Legal Proceedings 24
Item 4.	Mine Safety Disclosures 24
PART II	
Item 5.	Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities 25
Item 6.	Selected Financial Data 27
Item 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations 29
Item 7A.	Quantitative and Qualitative Disclosures About Market Risk 68
Item 8.	Financial Statements and Supplementary Data 70
Item 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure 157
Item 9A.	Controls and Procedures 157
Item 9B.	Other Information 157
PART III	
Item 10.	Directors, Executive Officers and Corporate Governance 158
Item 11.	Executive Compensation 158
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters 158
Item 13.	Certain Relationships and Related Transactions, and Director Independence 159
Item 14.	Principal Accounting Fees and Services 159
PART IV	
Item 15.	Exhibits, Financial Statement Schedules 160
	Signatures 164
	Schedule I 165
	Schedule II 166
	Schedule IV 171

FORWARD-LOOKING AND CAUTIONARY STATEMENTS

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

The following are some of the 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 structured finance transactions or as a result of a delay or failure in collecting expected recoveries, which could lead the New York State Department of Financial Services (“NYSDFS”) to put MBIA Insurance Corporation into a rehabilitation or liquidation proceeding under Article 74 of the New York Insurance Law and/or take such other actions as the NYSDFS may deem necessary to protect the interests of MBIA Insurance Corporation’s policyholders;
- deterioration in the economic environment and financial markets in the United States or abroad, real estate market performance, credit spreads, interest rates and foreign currency levels; and
- the effects of changes to governmental regulation, including insurance laws, securities laws, tax laws, legal precedents and accounting rules.

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

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

PART I

Item 1. Business

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

OVERVIEW

MBIA’s primary business has been to provide financial guarantee insurance to the United States’ public finance markets through our indirect, wholly-owned subsidiary, National Public Finance Guarantee Corporation (“National”). National’s financial guarantee insurance policies provide investors with unconditional and irrevocable guarantees of the payment of the principal, interest or other amounts owing on insured obligations when due. In June of 2017, National was downgraded by Standard & Poor’s Financial Services LLC (“S&P”), and the Company subsequently determined that National would cease pursuing the writing of new financial guarantee policies. National’s primary activity today is to provide ongoing surveillance of its existing insured portfolio of \$71.9 billion gross par outstanding as of December 31, 2017.

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

MBIA has also provided financial guarantee insurance in the international and structured finance markets through its MBIA Corp. subsidiary. MBIA Corp. continues to manage its insured portfolio, which has reduced substantially from \$331.2 billion as of December 31, 2007 to \$15.1 billion as of December 31, 2017. Effective on January 10, 2017, MBIA Corp.’s wholly-owned subsidiary, MBIA UK (Holdings) Limited (“MBIA UK Holdings”), the parent company to MBIA UK, sold MBIA UK, to Assured Guaranty Corp. (“Assured”), a subsidiary of Assured Guaranty Ltd. We do not expect MBIA Corp. to write any significant new policies in the foreseeable future in light of accumulated losses and non-policy claims related to our subordinate surplus note holders, preferred stock holders, and other lenders.

Given MBIA Corp.’s capital structure and business prospects, we do not expect its financial performance to have a material impact on MBIA Inc. Refer to “Results of Operations—Capital Resources” in Part II, Item 7 of this Form 10-K for a further discussion of MBIA Corp.’s insurance statutory capital.

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

MBIA completed the sale of its asset management advisory services business operated under Cutwater Holdings LLC, during the first quarter of 2015.

MBIA Inc. Capital Management

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

Item 1. Business (continued)

During 2017, the Company and National collectively repurchased 43 million shares at a cost of \$325 million under repurchase authorizations approved by the Board in February of 2016 and June of 2017. During 2016, the Company and National collectively repurchased 16.6 million shares at a cost of \$105 million under repurchase authorizations approved by the Board in October of 2015 and February of 2016. During 2015, the Company repurchased 31.9 million shares at a cost of \$233 million under repurchase authorizations approved by the Board in October of 2014 and July of 2015. In addition, National purchased eight million shares at a cost of \$70 million under a one-time authorization approved by the Board in May of 2015. At each time of repurchase, management and the Board viewed such use of available capital as the best alternative for capital management.

Unsecured debt includes MBIA Inc.'s senior notes and medium-term notes ("MTNs") issued by its subsidiary MBIA Global Funding, LLC ("GFL"). During 2017, the Company repurchased \$160 million and repaid \$38 million related to GFL debt. During 2016, the Company repurchased \$6 million and repaid \$123 million related to GFL debt. During 2015, the Company repurchased \$50 million of debt issued by MBIA Inc. or GFL, and repaid \$78 million related to GFL debt.

In each of the fourth quarters of 2017 and 2016, National declared and paid dividends of \$118 million, to its ultimate parent, MBIA Inc. In addition, during the first quarters of 2018 and 2017, MBIA Inc. received \$18 million and \$94 million, respectively, in cash from an escrow account held by MBIA Inc. under the MBIA group's tax sharing agreement as described further under "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity—Corporate Liquidity" in Part II, Item 7 of this Form 10-K.

National Risk Mitigation

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

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

MBIA Corp. Risk Mitigation

MBIA Corp. has not written a meaningful amount of new business since 2008 as a result of declining financial capacity, ratings downgrades and regulatory limitations placed on its business. Since that time it has experienced considerable stress as a result of unprecedented levels of loss in its structured finance insurance business, primarily in its residential mortgage-backed securities ("RMBS"), commercial mortgage-backed securities ("CMBS") pools, and collateralized debt obligation ("CDO") portfolios. As a result, since 2008, MBIA Corp.'s strategy has focused primarily on recovering losses on insured RMBS transactions related to the failure of certain RMBS sellers/servicers to honor their contractual obligations to repurchase ineligible mortgage loans from securitizations that MBIA Corp. insured, reducing future expected economic losses in the insured portfolio through commutations and other risk mitigation strategies, and managing liquidity. To date, MBIA Corp. has settled the majority of its claims related to the improper inclusion of ineligible mortgage loans in insured securitizations, except with regards to its claims against Credit Suisse, which it estimates as totaling \$436 million as of December 31, 2017. Refer to "Note 6: Loss and Loss Adjustment Expense" in the Notes to Consolidated Financial Statements in Part II, Item 8 of this Form 10-K for further information regarding loss reserves and recoveries.

Item 1. Business (continued)

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

OUR INSURANCE OPERATIONS

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

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

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

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

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

Item 1. Business (continued)

National Insured Portfolio

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

As of December 31, 2017, National had \$71.9 billion of insured gross par outstanding on U.S. public finance obligations covering 4,753 policies and diversified among 2,585 "credits," which we define as any group of issues supported by the same revenue source. Insurance in force, which includes all insured debt service, as of December 31, 2017 was \$134.0 billion.

All of the policies were underwritten on the assumption that the insurance will remain in force until maturity or early retirement of the insured obligations. National estimates that the average life of its domestic public finance insurance policies in force as of December 31, 2017 was 10 years. The average life was determined by applying a weighted average calculation, using the remaining years to contractual maturity and weighting them on the basis of the remaining debt service insured. No assumptions were made for any future refundings, early redemptions or terminations of insured issues. Average annual insured debt service on the portfolio as of December 31, 2017 was \$7.9 billion.

National's underwriting guidelines limited the insurance in force for any one insured credit, and for other categories such as geography. In addition, National is subject to regulatory single-risk limits with respect to any insured bond issue. See the "Insurance Regulation" section below for a description of these regulatory requirements. As of December 31, 2017, National's gross par amount outstanding for its ten largest insured U.S. public finance credits totaled \$10.8 billion, representing 15.0% of National's total U.S. public finance gross par amount outstanding. Refer to "Note 13: Insurance in Force" in the Notes to Consolidated Financial Statements in Part II, Item 8 of this Form 10-K for further information regarding the Company's insured portfolio.

MBIA Corp. Insured Portfolio

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

As of December 31, 2017, MBIA Corp. had 388 policies outstanding in its insured portfolio. In addition, MBIA Corp. had 67 insurance policies outstanding relating to liabilities issued by MBIA Inc. and its subsidiaries, which are described further under the section "Affiliated Financial Obligations Insured by MBIA Corp." below. MBIA Corp.'s total policies in its insured portfolio are diversified among 254 "credits," which we define as any group of policies supported by the same revenue source.

Item 1. Business (continued)

As of December 31, 2017, the gross par amount outstanding of MBIA Corp.'s insured obligations (excluding \$1.5 billion of MBIA insured investment agreements, MTNs and the MBIA Corp. Financing Facility and \$44.9 billion of U.S. public finance debt ceded to National), was \$15.1 billion. Insurance in force for the above portfolio, which includes all insured debt service, as of December 31, 2017 was \$21.0 billion.

MBIA Corp. estimates that the average life of its international and structured finance insurance policies in force as of December 31, 2017 is 8 years. The average life was determined by applying a calculation using the remaining years to contractual maturity for international public finance obligations and estimated maturity for structured finance obligations and weighting them on the basis of the remaining debt service insured. No assumptions were made for any future refundings, early redemptions or terminations of insured issues. Average annual insured debt service on the portfolio as of December 31, 2017 was \$1.8 billion. Refer to "Note 13: Insurance in Force" in the Notes to Consolidated Financial Statements in Part II, Item 8 of this Form 10-K for further information regarding the Company's insured portfolio.

Affiliated Financial Obligations Insured by MBIA Corp.

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

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

Risk Management

Our largest risk is the credit exposure in our insured portfolio. The Company's credit risk management and remediation functions are managed through committees and units that oversee risks in ongoing portfolio monitoring, surveillance and remediation. The Company's Insured Portfolio Management Division ("IPM") monitors and remediates U.S. public finance transactions, global structured finance and international public finance risks. National and MBIA Insurance Corporation each has risk and investment committees to review investment and portfolio-related decisions. On an enterprise-wide basis, executive committees provide risk oversight.

The Company's Risk Oversight Committee (the "Risk Oversight Committee") reviews transactions not otherwise reviewable by the subsidiary risk committees, and provides firm-wide review of policies and decisions related to credit, market, operational, legal, financial and business risks. The Company's Loss Reserve Committees review loss reserve activity.

The Company's Board of Directors and its Committees oversee risks faced by the Company and its subsidiaries. The Board regularly evaluates and discusses risks associated with strategic initiatives. On an annual basis, the Board also evaluates and approves the Company's risk tolerance policy. The purpose of the risk tolerance policy is to delineate the types and amounts of risks the Company is prepared to accept. This policy provides the basis upon which risk criteria and procedures are developed and seeks to have these applied consistently across the Company. The Board's Audit Committee and Finance and Risk Committee meaningfully participate in the oversight of risks faced by the Company.

Item 1. Business (continued)

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

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

At each regular meeting of the Board, the Chairs of each of these committees report to the full Board regarding the meetings and activities of their respective committees.

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

Insurance Monitoring and Remediation

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

- *U.S. Public Finance:* For U.S. public finance, our underwriting at origination and ongoing monitoring focuses on economic and political trends, issuer or project debt and financial management, construction and start up risk, adequacy of historical and anticipated cash flows under stress, satisfactory legal structure and bond security provisions, viable tax and economic bases, including consideration of tax limitations and unemployment trends, adequacy of stressed loss coverage and project feasibility, including satisfactory reports from consulting engineers, traffic advisors and others, if applicable. Depending on the transaction, specialized cash flow analyses may be conducted to understand loss sensitivity. In addition, specialized credit analysts consider the potential event risk of natural disasters or headline events on both single transactions and across a sector, as well as regulatory issues. U.S. public finance transactions are monitored by reviewing trustee, issuer and project financial and operating reports as well as reports provided by technical advisors and counsel. Projects may be periodically visited by National personnel.
- *International Public Finance:* International public finance transactions are monitored and remediated in a manner relatively consistent with U.S. public finance transactions. In addition, credit analysts consider country risk, including economic and political factors, the type and quality of local regulatory oversight, the strength of the legal framework in each country and the stability of the local institutional framework. Analysts also monitor local accounting and legal requirements, local financial market developments, the impact of exchange rates and local demand dynamics. Furthermore, exposures are reviewed periodically; the frequency and scope of review is often increased when an exposure is downgraded. MBIA personnel may periodically visit projects or issuers to meet with management.
- *Global Structured Finance Transactions:* For global structured finance transactions, we focus on the historical and projected cash flows generated by the assets, the credit and operational strength of the originator, servicer, manager and/or operator of the assets, and the transaction's structure (including the degree of protection from bankruptcy of the originator or servicer). We may use both probability modeling and cash flow sensitivity analysis (both at the transaction and asset specific levels) to test asset performance assumptions and performance covenants, triggers and remedies. In addition, IPM may use various quantitative tools and qualitative analyses to test for credit quality, correlation, liquidity and capital sensitivity within the insured portfolio.

Item 1. Business (continued)

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

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

Credit Risk Models

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

Market Risk Assessment

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

Operational Risk Assessment

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

Item 1. Business (continued)

Losses and Reserves

Loss and loss adjustment expense (“LAE”) reserves are established by Loss Reserve Committees in each of our operating insurance companies and are reviewed by our executive Loss Reserve Committee, which consists of members of senior management. The Company’s loss and LAE reserves as of December 31, 2017 represent case basis reserves and estimates for LAE to be incurred. Case basis reserves represent the Company’s estimate of expected losses to be paid under its insurance contracts, net of potential recoveries and discounted using a current risk-free interest rate, for contracts where the estimated loss amount exceeds the unearned premium revenue on the related insurance contract. The Company estimates expected losses net of potential recoveries using the present value of probability-weighted estimated loss payments and recoveries, discounted at a rate equal to the risk-free rate applicable to the currency and weighted average remaining life of the insurance contract as required by accounting principles for financial guarantee contracts. We record case basis loss reserves on insured obligations which have defaulted or are expected to default during the remaining life of the obligation.

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

Reinsurance

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

Intercompany Reinsurance Arrangements

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

MBIA Insurance Corporation maintains a reinsurance agreement and net worth maintenance agreement with MBIA Mexico pursuant to which MBIA Insurance Corporation reinsures 100% of the business underwritten by MBIA Mexico and agrees to maintain the amount of capital in MBIA Mexico required by applicable law or regulation, subject to certain New York State regulatory requirements as well as certain contract restrictions. In December of 2015, MBIA Insurance Corporation terminated its reinsurance agreement and its net worth maintenance agreement with MBIA UK by mutual consent.

Insurance Regulation

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

Item 1. Business (continued)

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

New York Insurance Regulation

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

New York State Dividend Limitations

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

National declared and paid a dividend of \$118 million to its ultimate parent, MBIA Inc., during the fourth quarter of 2017.

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

Item 1. Business (continued)

Contingency Reserves

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

Risk Limits

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

National is in compliance with the relevant aggregate and single risk limits. During 2017 and 2016, MBIA Insurance Corporation reported single risk limit overages to the NYSDFS due to changes in its statutory capital. MBIA Insurance Corporation is currently in compliance with its aggregate risk limits as of December 31, 2017.

Holding Company Regulation

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

Change of Control

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

Insurance Guarantee Funds

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

Item 1. Business (continued)

Insured Credit Default Swaps

Certain of MBIA Corp. guarantee payments due under CDS and other derivatives. In July of 2010, the Dodd-Frank Reform and Consumer Protection Act (the “Dodd-Frank Act”) was signed into law for the purpose of enacting broad financial industry regulatory reform, including by enhancing regulation of the over-the-counter derivatives markets. Among other reforms, the Dodd-Frank Act requires “swap dealers” and “major swap participants” to register with either or both of the Commodity Futures Trading Commission (“CFTC”) and the Securities and Exchange Commission (“SEC”), and to be subject to enhanced regulation, including capital requirements. Previously, MBIA Corp. was registered with the CFTC as a major swap participant and had been required to comply with the CFTC’s business conduct rules as applied to portfolios in place prior to the enactment of the Dodd-Frank Act. In May of 2015, MBIA Corp. de-registered as a major swap participant as the notional amount and fair value of its CDS exposures declined below the registration thresholds. As of December 31, 2017, MBIA Corp. insured one CDS derivative policy with \$127 million of gross par outstanding.

OUR ADVISORY SERVICES

Until January of 2015, we conducted our asset management advisory services business through two registered investment adviser subsidiaries of Cutwater Holdings, LLC (together, “Cutwater”), a wholly-owned subsidiary of MBIA Inc. Effective January 1, 2015, we completed the sale of Cutwater to the Bank of New York Mellon Corporation. This transaction had a positive but immaterial impact on the Company’s financial position and results of operations. In connection with the sale, the Company and its subsidiaries entered into investment management agreements with Cutwater (now known as “Insight Investment”) to manage their respective fixed-income investment portfolios for the following five years.

INVESTMENTS AND INVESTMENT POLICY

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

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

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

Item 1. Business (continued)

RATING AGENCIES

On September 28, 2017, MBIA Inc., on behalf of its subsidiaries, National and MBIA Corp., provided notice to Moody's Investors Services ("Moody's") terminating the agreement by which Moody's agreed to provide financial strength ratings to MBIA Inc., National, MBIA Corp. and MBIA Mexico. Also on September 28, 2017, National provided notice to Kroll Bond Rating Agency ("Kroll") terminating the agreement by which Kroll agreed to provide a financial strength rating to National. These termination notices were effective in October of 2017. On December 5, 2017, Kroll downgraded the rating of National from AA+ to AA with a negative outlook and subsequently withdrew its rating. On January 17, 2018 Moody's downgraded the rating of National from A3 with a negative outlook to Baa2 with a stable outlook. Similarly, Moody's downgraded the rating of MBIA Inc. from Ba1 with a negative outlook to Ba3 with a stable outlook. The rating of MBIA Corp. was affirmed at Caa1 with a developing outlook. The rating of MBIA Mexico was affirmed at Caa1/B3.mx with a developing outlook. Moody's, at its discretion and in the absence of a contract with the Company, continues to maintain ratings on MBIA Inc. and its subsidiaries. On November 28, 2017, MBIA Inc. and its subsidiaries, National and MBIA Corp., provided notice to S&P terminating the agreements by which S&P agreed to provide financial strength ratings to MBIA Inc., National and MBIA Corp. On December 1, 2017, S&P affirmed the National A with a stable outlook and subsequently withdrew all of its ratings.

CAPITAL FACILITIES

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

FINANCIAL INFORMATION

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

EMPLOYEES

As of December 31, 2017, the Company had 103 employees. None of the Company's employees are covered by collective bargaining agreements. The Company considers its employee relations to be satisfactory.

AVAILABLE INFORMATION

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

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

Item 1. Business (continued)

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

EXECUTIVE OFFICERS OF THE REGISTRANT

The executive officers of the Company and their present ages and positions with the Company as of March 1, 2018 are set forth below:

<u>Name</u>	<u>Age</u>	<u>Position and Term of Office</u>
William C. Fallon	58	Chief Executive Officer and Director (executive officer since July 2005)
Anthony McKiernan	48	Executive Vice President and Chief Financial Officer (executive officer since August 2011)
Jonathan C. Harris	46	General Counsel and Secretary (executive officer since September 2017)
Daniel M. Avitabile	44	Assistant Vice President, and President and Chief Risk Officer of MBIA Corp. (executive officer since September 2017)
Adam T. Bergonzi	54	Assistant Vice President, and Chief Risk Officer of National (executive officer since September 2017)
Christopher H. Young	45	Assistant Vice President, and Chief Financial Officer of National (executive officer since September 2017)
Joseph R. Schachinger	49	Controller (executive officer since May 2017)

William C. Fallon was elected as a Director of the Company in May 2017, and appointed as Chief Executive Officer on September 15, 2017. Prior to being named Chief Executive Officer and Director, Mr. Fallon served as President, Chief Operating Officer, and Vice President of the Company and head of the Global Structured Finance Division. Mr. Fallon also serves as President and Chief Executive Officer of National. From July of 2005 to March 1, 2007, Mr. Fallon was Vice President of the Company and head of Corporate and Strategic Planning. Prior to joining the Company in 2005, Mr. Fallon was a partner at McKinsey & Company and co-leader of that firm’s Corporate Finance and Strategy Practice.

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

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

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

Item 1. Business (continued)

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

Adam T. Bergonzi is an Assistant Vice President of the Company and Chief Risk Officer of National, overseeing all of National's risk and insured portfolio management activities. Prior to being named Chief Risk Officer of National in 2010 when he rejoined the Company, Mr. Bergonzi was employed at Municipal and Infrastructure Assurance Corporation, which he co-founded and served as its Chief Risk Officer, from 2008 to 2010. The Board of Directors of MBIA Inc. and National Public Finance Guarantee Corporation appointed Mr. Bergonzi to the offices set forth opposite his name above on May 3, 2016 and November 15, 2010, respectively.

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

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

Item 1A. Risk Factors

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

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.

Some of the state, local and territorial governments and finance authorities that issued the obligations we insure are reporting 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.

Item 1A. Risk Factors (continued)

In particular, 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, lack of access to the capital markets, a prolonged stagnating local economy, net migration of people out of Puerto Rico and high debt burdens. The impact of Hurricane Maria, which made landfall in Puerto Rico on September 20, 2017, may also impact its ability to repay its legacy indebtedness. The physical damage and resultant lost economic activity may exceed the collective aid Puerto Rico receives from private insurance, relief from the Federal Emergency Management Agency (“FEMA”) and other federal agencies and programs. In September of 2015, a working group formed by the former Governor of Puerto Rico 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”) whose purpose is to restore Puerto Rico’s fiscal responsibility and access to the capital markets. The Oversight Board can, among other things, develop and implement fiscal plans for Puerto Rico and its instrumentalities, and can avail itself of collective action and judicial processes—separate from the Federal Bankruptcy Code—by which Puerto Rico may restructure its debt on a voluntary or non-voluntary 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 voluntary mediation process with the Oversight Board and Puerto Rico, there can be no assurance that National will be able to avoid a non-voluntary outcome which could result in unanticipated losses to National which could be material.

Economic activity in Puerto Rico may not return to pre-hurricane levels and Puerto Rico’s recovery could be more shallow and protracted than that experienced by other similarly affected governments, given Puerto Rico’s prior constrained liquidity and economic activity. On January 24, 2018, Puerto Rico issued a Fiscal Plan which provides financial projections for a five year period including fiscal years 2018-2022. The Plan, which is subject to certification by the Oversight Board under PROMESA, projects no debt service payments for the plan period. It also assumes \$35.3 billion of FEMA public assistance funding. Following receipt of the government’s draft fiscal plan, the Oversight Board determined that the proposed fiscal plan was noncompliant with the requirements of PROMESA and therefore required certain revisions before certification by the Oversight Board. As a result, the government submitted a revised fiscal plan for Puerto Rico on February 12, 2018 to incorporate the Oversight Board’s comments and the incremental disaster relief funding provided by recent legislation approved by Congress on February 9, 2018. Notwithstanding the revisions, the draft fiscal plan remains subject to further adjustment following additional input and review by the Oversight Board.

While the federal government and FEMA have made aid available to Puerto Rico, there can be no assurance that such aid will be made available in the amounts necessary to offset the adverse impacts from Hurricane Maria in their entirety. In addition, the necessary and greater involvement of the federal government, through its actions to deliver disaster relief and other support services, in addition to the evolving role of the Oversight Board and the role of Puerto Rico in its own recovery, heightens political risk in connection with the restructuring of legacy debt. This risk could lead the Oversight Board, 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.

Item 1A. Risk Factors (continued)

As of December 31, 2017, National had \$3.4 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. Prior to 2017, National paid claims on defaulted Puerto Rico debt in the amount of \$173 million. Puerto Rico defaulted on scheduled debt service for National insured bonds and National paid gross claims in the aggregate of \$242 million during 2017. On January 1, 2018, Puerto Rico also defaulted on scheduled debt service for National insured bonds and National paid gross claims in the aggregate of \$69 million. 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 II, Item 7 of this Form 10-K for additional information on our Puerto Rico exposures.

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

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

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

As a financial guarantee company, our insured exposures and our results of operations can be materially affected by general political and economic conditions, both in the U.S. and around the world. General global unrest, fraud, terrorism, catastrophic events, natural disasters, pandemics or similar events could disrupt the economy in the U.S. and other countries where we have insured exposure or operate our businesses. In certain jurisdictions outside the U.S. we face higher risks of governmental intervention through nationalization or expropriation of assets, changes in regulation, an inability to enforce our rights in court or otherwise and corruption, which may cause us to incur losses on the exposures we insure or reputational harm.

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

Item 1A. Risk Factors (continued)

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

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

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

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

Legal, Regulatory and Other Risk Factors

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

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

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

Our insurance companies could become subject to regulatory action.

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

Item 1A. Risk Factors (continued)

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

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

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

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

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

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

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

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

Item 1A. Risk Factors (continued)

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

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

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

In connection with transactions in our shares from time to time, we may in the future experience an "ownership change" within the meaning of Section 382 of the Internal Revenue Code. In general terms, an ownership change may result from transactions increasing the aggregate ownership of certain stockholders in our stock by more than 50 percentage points over a testing period (generally three years). If an ownership change were to occur, our ability to use certain tax attributes, including certain losses, credits, deductions or tax basis, may be limited. There can be no assurance that MBIA Inc. will not undergo an ownership change at a time when these limitations could have a materially adverse effect on the Company's financial condition.

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

MBIA Inc. carries a net deferred tax asset whose value is calculated by application of the federal corporate taxation rates in effect at the time of determination. Changes in applicable U.S. tax laws and regulations, or their interpretation and application, including the possibility of retroactive effect, could affect our net deferred tax asset as they did in 2017 upon passage of the Tax Cuts and Jobs Act, that the President of the United States signed into law on December 22, 2017. As a result of the Company having established a full valuation allowance against its net deferred tax asset in 2017, any adjustment to the Company's net deferred tax asset, will likely result in a corresponding change to the Company's valuation allowance, resulting in no impact to the Company's balance sheet or income statement.

Capital, Liquidity and Market Related Risk Factors

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

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

We may also from time to time seek to raise capital from external sources. The Company's access to external sources of financing, as well as the cost of such financing would be influenced by various factors, which could include (i) the long-term debt ratings of the Company, (ii) expected dividends from our subsidiaries, (iii) the financial condition and business prospects of our insurance companies and (iv) the perceptions of the financial strength of MBIA Inc. and our insurance companies. If we cannot obtain adequate capital on favorable terms or at all, our business, future growth, operating results and financial condition could be adversely affected.

Item 1A. Risk Factors (continued)

To the extent that we are unable to access external capital necessary to support our insurance companies, our insurance companies may not have sufficient liquidity to meet their obligations and may not be able to pay dividends to us. Consequently, our inability to maintain access to capital on favorable terms could have an adverse impact on our ability to pay losses and debt obligations, to pay dividends on our capital stock, to pay principal and interest on our indebtedness, to pay our operating expenses and to make capital investments in our subsidiaries. In addition, future capital raises for equity or equity-linked securities could result in dilution to the Company's shareholders. In addition, some securities that the Company could issue, such as preferred stock or securities issued by the Company's operating subsidiaries may have rights, preferences and privileges that are senior to those of its common shares.

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

As of December 31, 2017, MBIA Inc. had \$765 million of medium-term note liabilities, \$576 million of Senior Notes liabilities and \$337 million of investment agreement liabilities. Our substantial indebtedness and other liabilities could have material consequences because:

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

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

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

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

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

Item 1A. Risk Factors (continued)

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

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

MBIA Corp. Risk Factors

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

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

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

Regarding the recoveries on the payments on the Zohar I Notes and Zohar II Notes, on November 20, 2015 MBIA Insurance Corporation paid a \$149 million claim on the Zohar I Notes. On January 20, 2017 (the "Zohar II Maturity Date"), it paid a claim of approximately \$770 million (the "Zohar II Claim Payment") on the Zohar II Notes (collectively, the "Zohar Claims Payments"). MBIA Insurance Corporation is entitled to reimbursement of the Zohar Claims Payments plus interest and certain costs and expenses and to exercise certain rights and remedies to seek recovery of the Zohar Claim Payments.

Item 1A. Risk Factors (continued)

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

Under the Facility the Company has also agreed to provide an additional \$50 million of subordinated financing to MZ Funding, which MZ Funding will lend to MBIA Insurance Corporation if needed by MBIA Insurance Corporation for liquidity purposes.

MBIA Insurance Corporation believes that the primary source of funds for the repayment of its obligations under the Facility and for reimbursement for the Zohar Claims Payments will come from the liquidation or refinancing of the loans made to, and equity interests in, companies purportedly controlled by the sponsor and former collateral manager of Zohar I and Zohar II (the “Zohar Sponsor”) and any claims that MBIA may have against the Zohar Sponsor (collectively, the “Zohar Collateral”). Any proceeds from the Zohar Collateral will first be used to repay MBIA Corporation’s obligations under the Facility, before MBIA Insurance Corporation can use any such proceeds as reimbursement for the Zohar Claims Payments, except that any payments on or recoveries made on the Zohar II Collateral will be allocated on a pro-rata basis to repayment of the senior notes of the Facility and the MBIA Corp. Payment.

Referring to the description of the Facility in “Liquidity—MBIA Corp. Liquidity” section in Part II, Item 7 of this Form 10-K, the Company’s ability to collect the principal and interest on the Insured Subordinated Notes will be based primarily on the amount recovered by MBIA Insurance Corporation with respect to the Collateral, after payment in full of the Insured Senior Notes and other related payment obligations that are senior to the Insured Subordinated Notes, pursuant to the Intercreditor Agreement. Based on the estimated value of the Collateral in relation to the amount of the Senior Insured Notes and the Subordinated Insured Notes, the Company expects that the recoveries from the Collateral will be sufficient to enable the payment in full of the Subordinated Insured Notes. There is uncertainty, however, with respect to the realizable value of the Collateral and there can be no assurance that recoveries on the Collateral will be sufficient to pay the Subordinated Insured Notes in full or that, in the event that recoveries on the Collateral are not sufficient to pay the Subordinated Insured Notes in full, that MBIA Insurance Corporation will be able to pay any shortfall necessary to pay the Subordinated Insured Notes in full under the policy insuring the Subordinated Insured Notes.

Similarly, while MBIA Insurance Corporation believes there will be sufficient recoveries on the Zohar Collateral to both repay amounts due under the Facility and to substantially reimburse it for the Zohar Claims Payments, there is significant uncertainty with respect to the realizable value of the Zohar Collateral, and there can be no assurance that recoveries on the Zohar Collateral will be sufficient to pay the Facility, together with accrued interest and other costs in full, particularly in light of the substantial interest and associated costs to be incurred in connection with the Facility, and to reimburse MBIA Insurance Corporation for the Zohar Claims Payments. If the amount of recoveries on the Zohar Collateral is not sufficient to repay amounts due under the Facility on or before its maturity date and to reimburse MBIA Insurance Corporation for a substantial portion of the Zohar Claims Payments, MBIA Insurance Corporation would likely incur substantial additional losses, which could materially impair its statutory capital and liquidity.

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

Item 1A. Risk Factors (continued)

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

MBIA Corp. insures certain structured finance transactions that remain volatile and could result in additional losses, which could be substantial, including RMBS, CDOs, and one CMBS pool transaction.

MBIA Corp. has also recorded significant loss reserves on its RMBS and CDO exposures, and there can be no assurance that these reserves will be sufficient, in particular if the economy deteriorates. These transactions are also subject to servicer risks, which relates to problems with the transaction's servicer that could adversely affect performance of the underlying assets. Furthermore, MBIA Corp. has recorded substantial expected recoveries on certain RMBS, and the timing and amount of those recoveries are subject to risk. Any delay or failure in collecting expected recoveries may materially and adversely affect MBIA Corp.'s financial condition and results of operations. As of December 31, 2017, it recorded expected receipts of \$233 million on a pre-VIE elimination basis (on a present value basis) from excess spread (the difference between interest inflows on assets and interest outflows on liabilities) in our RMBS transactions, in reimbursement of our past and future expected claims. Of this amount, \$226 million is included in "Insurance loss recoverable" and \$7 million is included in "Loss and loss adjustment expense reserves" on the Company's consolidated balance sheets. The amount of excess spread depends on future interest rates and borrower refinancing and defaults. There can be no assurance that this recovery will be received in its entirety or in the expected timeframe. In addition, the Company has recorded a recovery on a transaction containing ineligible loans securitized by Credit Suisse. The Company is pursuing recovery of its losses on this transaction in a litigation in which its assessment of the ineligibility of individual mortgage loans has been challenged by Credit Suisse, and there is no assurance that the Company's determinations will prevail, or that the Company will be successful in collecting its estimated recoveries in the anticipated timeframe. The litigation may take several years to resolve, during which time we will continue to be required to pay losses on the subject transaction, which may exceed the reserves established for the transaction.

With respect to the one remaining insured static CMBS pool transaction, it has experienced ratings erosion of the pool's CMBS collateral. Since 2013, MBIA Corp. has paid claims on this transaction after the deductible was eliminated, and we expect to experience additional claims on this transaction in the future. The ultimate loss rate on this transaction remains uncertain. It is possible that MBIA Corp. will experience losses or near-term liquidity needs on this transaction, particularly if the economy does not continue to improve, there is a new recession, increased delinquencies, higher levels of liquidations of delinquent loans, or higher severities of loss upon liquidation.

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

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

- MTNs issued by GFL, which are insured by MBIA Insurance Corporation, would accelerate. To the extent GFL failed to pay the accelerated amounts under the GFL MTNs, the MTN holders would have policy claims against MBIA Insurance Corporation for scheduled payments of interest and principal;
- An MBIA Insurance Corporation proceeding may accelerate certain investment agreements issued by MBIA Inc., including, in some cases, with make-whole payments. While the investment agreements are fully collateralized with high quality collateral, the settlements of these amounts could reduce MBIA Inc.'s liquidity resources, and to the extent MBIA Inc. fails to pay the accelerated amounts under these investment agreements or the collateral securing these investment agreements is deemed insufficient to pay the accelerated amounts due, the holders of the investment agreements would have policy claims against MBIA Insurance Corporation;
- The payment of installment premiums due to National from MBIA Insurance Corporation under the reinsurance agreement between National and MBIA Insurance Corporation (Refer to Item 1, "Our Insurance Operations", "Reinsurance" for a description of the agreement) could be disrupted, delayed or subordinated to the claims of policyholders of MBIA Insurance Corporation;

Item 1A. Risk Factors (continued)

- CDS and other derivative counterparties may seek to terminate derivative contracts insured by MBIA Insurance Corporation and make market-based damage claims (irrespective of whether actual credit-related losses are expected under the underlying exposure);
- The rehabilitator or liquidator would replace the Board of Directors of MBIA Insurance Corporation and take control of the operations and assets of MBIA Insurance Corporation, which would result in the Company losing control of MBIA Insurance Corporation and possible changes to MBIA Insurance Corporation's strategies and management; and
- Unplanned costs on MBIA Inc., as well as significant additional expenses for MBIA Insurance Corporation arising from the appointment of a rehabilitator or liquidator, as receiver, and payment of the fees and expenses of the advisors to such rehabilitator or liquidator.

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

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

Item 1B. Unresolved Staff Comments

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

Item 2. Properties

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

Item 3. Legal Proceedings

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

Item 4. Mine Safety Disclosures

Not applicable.

Part II

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

The Company’s common stock is listed on the New York Stock Exchange under the symbol “MBI.” As of February 22, 2018, there were 359 shareholders of record of the Company’s common stock. The Company did not pay cash dividends on its common stock during 2017 or 2016. For information on the ability for certain subsidiaries of the Company to transfer funds to the Company in the form of cash dividends or otherwise, refer to “Item 1. Business—Insurance Regulation” in this annual report.

The high and low sales stock prices with respect to the Company’s common stock for the last two years are presented below:

Quarter Ended	2017		2016	
	Stock Price		Stock Price	
	High	Low	High	Low
March 31	\$ 11.65	\$ 7.81	\$ 9.49	\$ 5.51
June 30	9.47	7.81	8.95	6.34
September 30	10.72	8.38	8.70	6.61
December 31	9.66	6.04	11.46	7.15

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

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

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

On November 3, 2017, the Company’s Board of Directors authorized the repurchase by the Company or National of up to \$250 million of its outstanding shares under a new share repurchase authorization. As of December 31, 2017, \$250 million remained available under the November 3, 2017 repurchase program.

The table below presents repurchases made by the Company or National in each month during the fourth quarter of 2017. See “Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters” in Part III for a further discussion of securities authorized for issuance under long-term incentive plans.

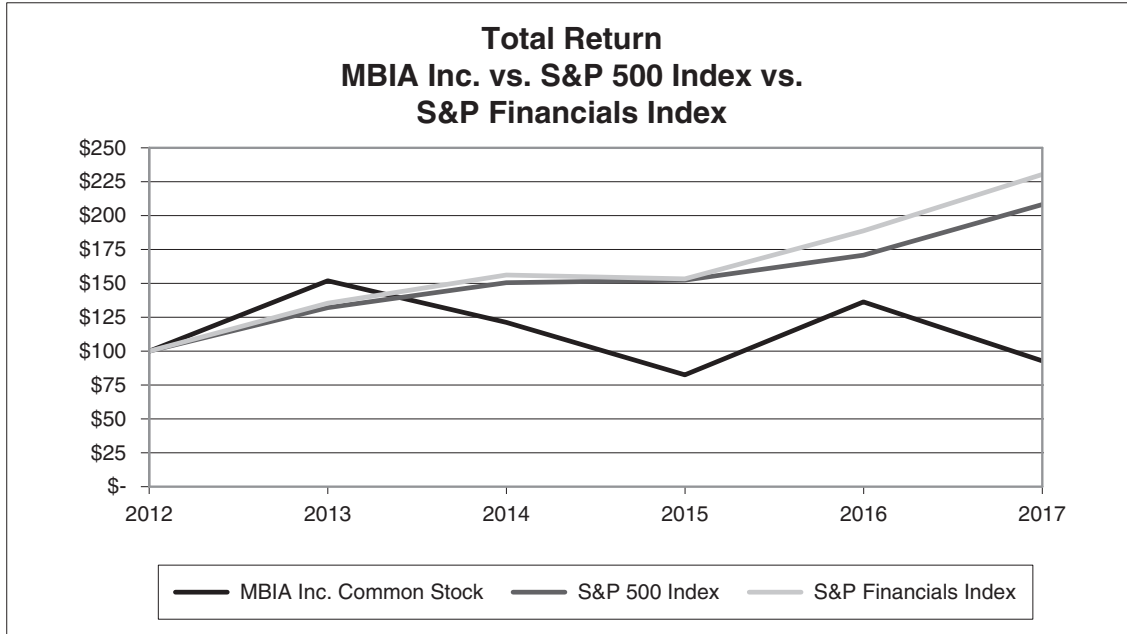
Month	Total Number of Shares Purchased ⁽¹⁾	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan	Maximum Amount That May Be Purchased Under the Plan (in millions)
October	27,068,764	\$ 7.15	27,067,713	\$ 31
November	4,264,245	7.27	4,263,932	250
December	50,179	7.25	—	250

(1)—Includes 1,051 shares in October, 313 shares in November and 50,179 shares in December purchased in open market transactions as investments in the Company’s non-qualified deferred compensation plan.

As of December 31, 2017, 283,717,973 shares of Common Stock of the Company, par value \$1 per share, were issued and 91,484,447 shares were outstanding.

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

Stock Performance Graph The following graph compares the cumulative total shareholder return (rounded to the nearest whole dollar) of our common stock, the S&P 500 Index (“S&P 500 Index”) and the S&P 500 Financials Sector Index (“S&P Financials Index”) for the last five fiscal years. The graph assumes a \$100 investment at the closing price on December 31, 2012 and reinvestment of dividends in the security/index on the respective dividend payment dates without commissions. This graph does not forecast future performance of our common stock.



	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
MBIA Inc. Common Stock	100.00	152.10	121.53	82.55	136.31	93.25
S&P 500 Index	100.00	132.37	150.48	152.55	170.78	208.05
S&P Financials Index	100.00	135.59	156.17	153.72	188.69	230.47

Source: Bloomberg Finance L.P.

Item 6. Selected Financial Data

In millions except per share amounts

	2017	2016	2015	2014	2013
Summary Statement of Operations Data:					
Premiums earned	\$ 201	\$ 300	\$ 372	\$ 397	\$ 457
Net investment income	154	152	152	179	166
Net change in fair value of insured derivatives	(51)	(19)	129	459	232
Net gains (losses) on financial instruments at fair value and foreign exchange	(24)	84	63	78	69
Net investment losses related to other-than-temporary impairments	(106)	(5)	(13)	(15)	—
Other net realized gains (losses)	31	(282)	17	28	(29)
Revenues of consolidated variable interest entities	185	31	128	101	233
Total revenues	433	294	853	1,270	1,209
Losses and loss adjustment	683	220	123	133	117
Operating	106	137	140	195	338
Interest	197	197	199	210	236
Expenses of consolidated variable interest entities	85	39	52	47	56
Total expenses	1,094	633	564	629	793
Income (loss) before income taxes	(661)	(339)	289	641	416
Net income (loss)	(1,605)	(338)	180	569	250
Net income (loss) per common share:					
Basic	\$ (13.50)	\$ (2.54)	\$ 1.06	\$ 2.94	\$ 1.30
Diluted	\$ (13.50)	\$ (2.54)	\$ 1.06	\$ 2.76	\$ 1.29
Summary Balance Sheet Data:					
Investments and cash and cash equivalents	4,777	5,796	6,814	7,559	7,996
Total assets of consolidated variable interest entities	3,215	2,672	5,378	5,041	5,592
Total assets	9,095	11,137	14,836	16,263	16,931
Unearned premium revenue	752	958	1,591	1,986	2,441
Loss and loss adjustment expense reserves	979	541	516	506	641
Long-term debt	2,121	1,986	1,889	1,789	1,680
Medium-term notes	765	895	1,016	1,201	1,427
Investment agreements	337	399	462	547	700
Derivative liabilities	262	299	314	437	1,152
Total liabilities of consolidated variable interest entities	2,289	2,241	5,096	4,804	5,297
Total equity	1,425	3,239	3,741	3,950	3,299
Book value per share	\$ 15.44	\$ 23.87	\$ 24.61	\$ 20.47	\$ 17.05
Insurance Statistical Data:					
Debt service outstanding	\$154,945	\$235,899	\$326,612	\$437,778	\$554,296
Gross par amount outstanding	87,031	141,225	202,661	277,481	357,246

Item 6. Selected Financial Data (continued)

Quarterly Financial Information (unaudited):

In millions except per share amounts	2017				
	First	Second	Third	Fourth	Full Year ⁽¹⁾
Premiums earned	\$ 49	\$ 44	\$ 53	\$ 55	\$ 201
Net investment income	52	37	33	32	154
Net change in fair value of insured derivatives	(53)	3	(1)	—	(51)
Net gains (losses) on financial instruments at fair value and foreign exchange	17	(61)	(11)	31	(24)
Net investment losses related to other-than-temporary impairments	(2)	(11)	(71)	(22)	(106)
Other net realized gains (losses)	3	34	(1)	(5)	31
Revenues of consolidated variable interest entities	1	20	29	135	185
Total revenues	77	72	33	251	433
Losses and loss adjustment	94	170	205	214	683
Operating	29	32	21	24	106
Interest	48	50	50	49	197
Expenses of consolidated variable interest entities	19	22	22	22	85
Total expenses	197	282	306	309	1,094
Income (loss) before income taxes	(120)	(210)	(273)	(58)	(661)
Net income (loss)	(72)	(1,229)	(267)	(37)	(1,605)
Net income (loss) per common share:					
Basic	\$(0.55)	\$ (9.78)	\$(2.17)	\$(0.39)	\$ (13.50)
Diluted	\$(0.55)	\$ (9.78)	\$(2.17)	\$(0.39)	\$ (13.50)

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

In millions except per share amounts	2016				
	First	Second	Third	Fourth	Full Year ⁽¹⁾
Premiums earned	\$ 75	\$ 73	\$ 77	\$ 75	\$ 300
Net investment income	39	37	39	37	152
Net change in fair value of insured derivatives	(28)	(8)	16	1	(19)
Net gains (losses) on financial instruments at fair value and foreign exchange	(69)	14	38	101	84
Net investment losses related to other-than-temporary impairments	(1)	—	—	(4)	(5)
Other net realized gains (losses)	(1)	—	(2)	(279)	(282)
Revenues of consolidated variable interest entities	14	(2)	13	6	31
Total revenues	32	118	203	(59)	294
Losses and loss adjustment	22	77	50	71	220
Operating	35	30	32	40	137
Interest	50	49	49	49	197
Expenses of consolidated variable interest entities	16	7	7	9	39
Total expenses	133	173	148	179	633
Income (loss) before income taxes	(101)	(55)	55	(238)	(339)
Net income (loss)	(78)	(27)	31	(265)	(338)
Net income (loss) per common share:					
Basic	\$(0.58)	\$(0.20)	\$0.23	\$(2.01)	\$ (2.54)
Diluted	\$(0.58)	\$(0.20)	\$0.23	\$(2.01)	\$ (2.54)

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

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

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

INTRODUCTION

MBIA Inc., together with its consolidated subsidiaries, (collectively, "MBIA", the "Company", "we", "us", or "our") 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."). Effective on January 10, 2017, MBIA Corp.'s wholly-owned subsidiary, MBIA UK (Holdings) Limited ("MBIA UK Holdings"), sold its operating subsidiary, MBIA UK Insurance Limited ("MBIA UK"), to Assured Guaranty Corp. ("Assured"), a subsidiary of Assured Guaranty Ltd. References to MBIA Inc. generally refer to activities within our corporate segment and, unless otherwise indicated or the context otherwise requires, references to "MBIA Corp." are (i) for any references relating to the period ended January 10, 2017, to MBIA Insurance Corporation, together with its subsidiaries, MBIA UK, and MBIA Mexico S.A. de C.V ("MBIA Mexico") and (ii) for any references relating to the period after January 10, 2017, to MBIA Insurance Corporation together with MBIA Mexico.

National's primary objective is to maximize the economics of our existing insured portfolio, including our insured exposure with the Commonwealth of Puerto Rico and certain of its instrumentalities ("Puerto Rico"), through effective surveillance and remediation and to manage 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 claims for its policyholders, 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 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 and MBIA Corp. to write new business.

EXECUTIVE OVERVIEW

2017 Events

The following is a summary of notable 2017 events:

- In July of 2017, Puerto Rico defaulted on scheduled debt service for National insured bonds. National paid gross claims in the aggregate of \$242 million during 2017. On January 1, 2018, Puerto Rico also defaulted on scheduled debt service for National insured bonds and National paid gross claims in the aggregate of \$69 million. As of December 31, 2017, National had \$3.4 billion of gross insured par outstanding (\$3.9 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.

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

EXECUTIVE OVERVIEW (continued)

- In the second quarter of 2017, Standard & Poor's Financial Services LLC ("S&P") downgraded the financial strength rating of National from AA- with a stable outlook to A with a stable outlook. We believe that National's ability to write new business and to compete with other financial guarantors was largely dependent on the financial strength ratings assigned to National by major rating agencies, and with the A rating assigned by S&P, it would be difficult for National to compete with higher-rated competitors. Therefore, at that time, we ceased our efforts to actively pursue writing new financial guarantee business. National immediately initiated cost savings measures related to the cessation of new business, which included reducing our headcount by approximately 25%. Operating expenses for the year ended December 31, 2017 include \$8 million of costs associated with the headcount reduction. Refer to the "U.S. Public Finance Insurance" section for additional information on the U.S. public finance insurance business and the below discussion "Financial Strength Ratings" for additional information about our ratings.
- In the second quarter of 2017, we recorded a full valuation allowance on our net deferred tax asset. The full valuation allowance resulted from our conclusion that, at this time, we do not have sufficient positive evidence required by accounting principles generally accepted in the United States of America ("GAAP") to support our ability to use our net deferred tax asset before it expires. Refer to the following "Taxes" section and "Note 11: Income Taxes" in the Notes to Consolidated Financial Statements for further information about this valuation allowance on our net deferred tax asset. Notwithstanding the establishment of the valuation allowance on our net deferred tax asset, the Company believes that it may be able to derive some economic benefit over time from 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.
- In the first quarter of 2017, we completed the sale of MBIA UK and executed a secured financing facility which enabled MBIA Corp. to satisfy a claim of \$770 million on an insurance policy insuring certain notes issued by Zohar II 2005-1, Limited ("Zohar II"). Refer to the following "Results of Operations" and "Liquidity" sections for a further discussion of the sale of MBIA UK and the financing facility.
- In September of 2017, William C. Fallon replaced Joseph W. Brown as Chief Executive Officer of MBIA Inc., bringing to conclusion MBIA Inc.'s long-term succession plan, which had been implemented over the past two years.

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").

In millions except for per share amounts	Years Ended December 31,		
	2017	2016	2015
Net income (loss)	\$(1,605)	\$ (338)	\$ 180
Net income (loss) per diluted share	(13.50)	(2.54)	1.06
Adjusted net income (loss) ⁽¹⁾	(410)	30	87
Adjusted net income (loss) per diluted share ⁽¹⁾	(3.45)	0.23	0.52
Cost of shares repurchased	325	105	303

(1)—Adjusted net income (loss) and adjusted net income (loss) per diluted share are non-GAAP measures. These non-GAAP measures were previously referred to as operating income (loss) and operating income (loss) per diluted share. Refer to the following "Results of Operations" section for a discussion of adjusted net income (loss) and adjusted net income (loss) per diluted share and a reconciliation of GAAP net income (loss) to adjusted net income (loss) and GAAP net income (loss) per diluted share to adjusted net income (loss) per diluted share.

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

EXECUTIVE OVERVIEW (continued)

In millions except per share amounts	As of December 31,	
	2017	2016
Shareholders' equity of MBIA Inc.	\$1,413	\$3,227
Book value per share	15.44	23.87
Adjusted book value per share ⁽¹⁾	29.32	31.88

(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.

Financial Strength Ratings

During 2017, MBIA Inc., on behalf of its subsidiaries, National and MBIA Corp., provided notice to Moody's Investors Services ("Moody's") and S&P terminating the agreements by which Moody's and S&P agreed to provide financial strength ratings to MBIA Inc., National, MBIA Corp. and MBIA Mexico. Also in 2017, National provided notice to Kroll Bond Rating Agency ("Kroll") terminating the agreement by which Kroll agreed to provide a financial strength rating to National. In December of 2017, S&P affirmed National's A with a stable outlook rating and subsequently withdrew all of its ratings and Kroll downgraded National's rating from AA+ to AA with a negative outlook and subsequently withdrew its rating. In January of 2018, Moody's downgraded National's rating to Baa2 from A3 with a stable outlook, affirmed MBIA Corp.'s rating 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 MBIA Mexico's Caa1/B3.mx with a developing outlook rating. 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.

Economic and Financial Market Trends

The U.S. economy continued to improve during the fourth quarter of 2017. The labor market remains strong and economic activity has been increasing steadily. In addition, U.S. home prices across the country have maintained a positive trajectory over the year and there has been an increase in business investment. Gross domestic product increased during the quarter, driven by consumer spending and business investment and unplanned spending due to the effects of the hurricanes in the third quarter of 2017.

The Federal Open Market Committee ("FOMC") increased its target for the federal funds rate in December of 2017 by 25 basis points citing the economic factors of a strong labor market and solid economic growth along with low inflation. There is an expectation of three rate increases in 2018. The FOMC stated that it will continue to monitor economic conditions relative to its objectives of maximum employment and 2% inflation as they work to a path towards a relatively gradual normalization of rates. Congress successfully passed comprehensive tax reform in December of 2017 which includes a reduction in the corporate federal tax rate to 21%, effective on January 1, 2018. Tax reform, along with Congress' emphasis on a reduction in regulation, is expected to lead to continued economic growth.

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. 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 where their economies are reliant on the oil and gas industries.

CRITICAL ACCOUNTING ESTIMATES

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

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

CRITICAL ACCOUNTING ESTIMATES (continued)

Loss and Loss Adjustment Expense Reserves

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

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

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

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

Valuation of Financial Instruments

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

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

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

CRITICAL ACCOUNTING ESTIMATES (continued)

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

Instruments that trade infrequently and, therefore, have little or no price transparency are classified within Level 3 of the fair value hierarchy. Also included in Level 3 are financial instruments that have significant unobservable inputs deemed significant to the instrument's overall fair value. Level 3 assets represented approximately 30% and 21% of total assets measured at fair value on a recurring basis as of December 31, 2017 and 2016, respectively. Level 3 liabilities represented approximately 41% and 37% of total liabilities measured at fair value on a recurring basis as of December 31, 2017 and 2016, respectively.

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

Deferred Income Taxes

Deferred income taxes are recorded with respect to the temporary differences between the tax bases of assets and liabilities and the reported amounts in our consolidated financial statements that will result in deductible or taxable amounts in future years when the reported amounts of assets and liabilities are recovered or settled. Our temporary differences relate principally to net operating losses, premium revenue recognition, accrued interest on outstanding surplus notes, insured loss reserves, unrealized gains or losses on investments and insured derivatives and deferred acquisition costs.

Valuation allowances are established to reduce deferred tax assets. Changes in the amount of a valuation allowance are reflected within our provision for income taxes in our consolidated statements of operations. Determining whether to establish a valuation allowance and, if so, the amount of the valuation allowance requires management to exercise judgment and make assumptions regarding whether such tax benefits will be realized in future periods prior to the expiration of the deferred tax assets.

In evaluating our ability to recover our net deferred tax asset, we consider all available positive and negative evidence, including scheduled reversals of deferred tax liabilities, projected future taxable income, and results of recent operations. In projecting future taxable income, we begin with historical results and incorporate assumptions about the amount of future federal pre-tax income. The assumptions about future taxable income require significant judgment and are consistent with the plans and estimates we are using to manage our underlying businesses. Actual future taxable income or loss could be significantly different from our projections. In evaluating the objective evidence that recent results provide, we consider the prior three years of cumulative pre-tax comprehensive income (loss). We consider a trend of comprehensive income to be positive evidence of our ability to recover our net deferred tax asset and a trend of comprehensive losses to be negative evidence.

During 2017, the Company established a full valuation allowance against its net deferred tax asset. The Company will continue to analyze the valuation allowance on a quarterly basis. Refer to the following "Taxes" section and "Note 11: Income Taxes" in the Notes to Consolidated Financial Statements for further information about this valuation allowance on our net deferred tax asset.

RECENT ACCOUNTING PRONOUNCEMENTS

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

Item 7. 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 years ended December 31, 2017, 2016 and 2015:

<u>In millions except for per share amounts</u>	<u>Years Ended December 31,</u>		
	<u>2017</u>	<u>2016</u>	<u>2015</u>
Total revenues	\$ 433	\$ 294	\$ 853
Total expenses	1,094	633	564
Income (loss) before income taxes	(661)	(339)	289
Provision (benefit) for income taxes	944	(1)	109
Net income (loss)	<u>\$ (1,605)</u>	<u>\$ (338)</u>	<u>\$ 180</u>
Net income (loss) per common share:			
Basic	\$ (13.50)	\$ (2.54)	\$ 1.06
Diluted	\$ (13.50)	\$ (2.54)	\$ 1.06
Weighted average number of common shares outstanding:			
Basic	118,930,282	133,001,088	163,936,318
Diluted	118,930,282	133,001,088	164,869,788

2017 vs. 2016

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

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

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

2016 vs. 2015

The decrease in consolidated total revenues was primarily due to an impairment loss related to the sale of MBIA UK, a decrease in net gains on insured derivatives and lower net premiums earned due to higher refunding activity in 2015. Net losses on insured derivatives in 2016 were primarily the result of claim payments on commercial mortgage-backed securities ("CMBS") transactions. Net gains on insured derivatives in 2015 were principally the result of changes in transaction-specific factors, such as credit ratings, partially offset by claim payments.

Consolidated total expenses for the years ended December 31, 2016 and 2015 included \$220 million and \$123 million, respectively, of net insurance losses and LAE. This increase was principally due to losses incurred on certain Puerto Rico exposures and insured second-lien RMBS transactions, partially offset by decreases in insured collateralized debt obligation ("CDO") losses.

Item 7. 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. Previously, these non-GAAP measures were referred to as combined operating income (loss) and combined operating income (loss) per diluted common share. There was no change to the calculation of these non-GAAP measures. There was only a change to the names of these 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, which is not part of our ongoing business strategy, 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 2017.

The following table presents our adjusted net income (loss) and adjusted net income (loss) per diluted common share and provides a reconciliation of GAAP net income (loss) to adjusted net income (loss) for the years ended December 31, 2017, 2016 and 2015:

In millions, except share and per share amounts	Years Ended December 31,		
	2017	2016	2015
Net income (loss)	\$(1,605)	\$(338)	\$ 180
Less: adjusted net income adjustments:			
Income (loss) before income taxes of our international and structured finance insurance segment and eliminations	(185)	(475)	12
Adjustments to income before income taxes of our U.S. public finance insurance and corporate segments:			
Mark-to-market gains (losses) on financial instruments ⁽¹⁾	64	12	39
Foreign exchange gains (losses) ⁽¹⁾	(63)	11	60
Net gains (losses) on sales of investments ⁽¹⁾	14	60	20
Net investment losses related to OTTI	(106)	(5)	(13)
Net gains (losses) on extinguishment of debt	28	5	(1)
Other net realized gains (losses)	(3)	(5)	21 ⁽²⁾
Adjusted net income adjustment to the (provision) benefit for income tax ⁽³⁾	(944)	29	(45)
Adjusted net income (loss)	<u>\$ (410)</u>	<u>\$ 30</u>	<u>\$ 87</u>
Adjusted net income (loss) per diluted common share	<u>\$ (3.45)⁽⁴⁾</u>	<u>\$ 0.23⁽⁵⁾</u>	<u>\$0.52⁽⁴⁾</u>

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

RESULTS OF OPERATIONS (continued)

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

(2)—Primarily relates to the results from the sale of Cutwater.

(3)—Reported within "Provision (benefit) for income taxes" on the Company's consolidated statements of operations.

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

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

Adjusted Book Value

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

As of December 31, 2017, ABV per share was \$29.32, a decrease from \$31.88 as of December 31, 2016. The decrease in ABV per share was primarily driven by the establishment of a full valuation allowance on the Company's net deferred tax asset and 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 2017. The following table provides a reconciliation of consolidated book value per share to consolidated ABV per share:

In millions except share and per share amounts	As of December 31,	
	2017	2016
Total shareholders' equity of MBIA Inc.	\$ 1,413	\$ 3,227
Common shares outstanding	91,484,447	135,200,831
Book value per share	\$ 15.44	\$ 23.87
Reverse book value of the MBIA Corp. legal entity ⁽¹⁾	8.84	5.07
Book value after MBIA Corp. legal entity adjustment	24.28	28.94
Other book value adjustments:		
Reverse net unrealized (gains) losses included in other comprehensive income (loss)	0.26	0.24
Add net unearned premium revenue ⁽²⁾	4.78	4.31
Add tax effect on unrealized (gains) losses and unearned premium revenue ⁽³⁾	—	(1.61)
Total other book value adjustments per share	5.04	2.94
Adjusted book value per share	<u>\$ 29.32</u>	<u>\$ 31.88</u>

(1)—The book value of the MBIA Corp. legal entity does not provide significant economic or shareholder value to MBIA Inc.

(2)—Consists of financial guarantee premiums, net of deferred acquisition costs. The discount rate on financial guarantee installment premiums was the risk-free rate as defined by the accounting principles for financial guarantee insurance contracts.

(3)—As of December 31, 2017, ABV per share was adjusted by applying a zero effective tax rate to the book value adjustments.

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

RESULTS OF OPERATIONS (continued)

U.S. Public Finance Insurance

Our U.S. public finance insurance portfolio is managed through National. The financial guarantees issued by National provide unconditional and irrevocable guarantees of the payment of the principal of, and interest or other amounts owing on, insured obligations when due or, in the event National has exercised, at its discretion, the right to accelerate the payment under its policies upon the acceleration of the underlying insured obligations due to default or otherwise. National's guarantees insure municipal bonds, including tax-exempt and taxable indebtedness of U.S. political subdivisions, as well as utility districts, airports, healthcare institutions, higher educational facilities, student loan issuers, housing authorities and other similar agencies and obligations issued by private entities that finance projects that serve a substantial public purpose. Municipal bonds and privately issued bonds used for the financing of public purpose projects are generally supported by taxes, assessments, user fees or tariffs related to the use of these projects, lease payments or other similar types of revenue streams. As of December 31, 2017, National had total insured gross par outstanding of \$71.9 billion.

On June 26, 2017, S&P downgraded the financial strength rating of National from AA- with a stable outlook to A with a stable outlook. S&P noted that the downgrade of National was based on its view that National had not gained wide market acceptance as demonstrated by its low new business volume. We determined that with the A rating it would be difficult for National to compete with higher-rated competitors, and therefore, we ceased at that time our efforts to actively pursue writing new financial guarantee business. Subsequent to the S&P financial strength rating downgrade, National terminated its agreement for ratings from S&P, Moody's and Kroll.

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 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 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. Also, on September 20, 2017, Hurricane Maria made landfall in Puerto Rico as a Category 4 hurricane resulting in catastrophic damage to much of the island's basic infrastructure, including its electrical transmission and distribution grid, telecommunications network, housing, roads, bridges, water and sewer systems. On September 21, 2017, the President of the United States approved a Major Disaster Declaration for Puerto Rico and the Federal Emergency Management Agency ("FEMA") made federal disaster assistance available to Puerto Rico to supplement its recovery efforts. 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 this stress is uncertain.

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

RESULTS OF OPERATIONS (continued)

The following table presents our U.S. public finance insurance segment results for the years ended December 31, 2017, 2016 and 2015:

In millions	Years Ended December 31,			Percent Change	
	2017	2016	2015	2017 vs. 2016	2016 vs. 2015
Net premiums earned	\$ 174	\$ 236	\$ 304	-26%	-22%
Net investment income	113	119	116	-5%	3%
Fees and reimbursements	2	2	3	—%	-33%
Net gains (losses) on financial instruments at fair value and foreign exchange	21	72	14	-71%	n/m
Net investment losses related to other-than-temporary impairments	(106)	(4)	(10)	n/m	-60%
Other net realized gains (losses)	(4)	2	(4)	n/m	-150%
Total revenues	200	427	423	-53%	1%
Losses and loss adjustment	499	74	5	n/m	n/m
Amortization of deferred acquisition costs	39	49	65	-20%	-25%
Operating	69	60	62	15%	-3%
Total expenses	607	183	132	n/m	39%
Income (loss) before income taxes	(407)	244	291	n/m	-16%
Provision (benefit) for income taxes	(152)	68	100	n/m	-32%
Net income (loss)	<u>\$ (255)</u>	<u>\$ 176</u>	<u>\$ 191</u>	<u>n/m</u>	<u>-8%</u>

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 2017 compared with 2016 resulted from decreases in refunded premiums earned of \$41 million and scheduled premiums earned of \$21 million. The decrease in net premiums earned for 2016 compared with 2015 resulted from decreases in refunded premiums earned of \$42 million and scheduled premiums earned of \$26 million. Scheduled premium earnings declined due to the refunding and maturity of insured issues in prior periods. 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.

NET GAINS (LOSSES) ON FINANCIAL INSTRUMENTS AT FAIR VALUE AND FOREIGN EXCHANGE Net gains (losses) on financial instruments at fair value and foreign exchange primarily relate to net realized gains from the sales of securities as a result of favorable market conditions. In 2016, the increase in these net realized gains was primarily due to generating liquidity for anticipated claim payments on certain Puerto Rico exposures.

NET INVESTMENT LOSSES RELATED TO OTHER-THAN-TEMPORARY IMPAIRMENTS Net investment losses related to OTTI for 2017, 2016 and 2015 were primarily related to impaired securities for which losses were recognized as the difference between a security's amortized cost and fair value or recovery value. This OTTI resulted from liquidity concerns, recent credit rating downgrades and other adverse financial conditions of the issuers.

LOSSES 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 insured obligations. The level and frequency of monitoring of any insured obligation depends on the type, size, rating and performance of the insured issue.

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

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

RESULTS OF OPERATIONS (continued)

The following table presents information about our U.S. public finance insurance losses and LAE expenses for the years ended December 31, 2017, 2016 and 2015:

In millions	Years Ended December 31,			Percent Change	
	2017	2016	2015	2017 vs. 2016	2016 vs. 2015
Losses and LAE related to actual and expected payments ⁽¹⁾	\$ 513	\$ 75	\$ 8	n/m	n/m
Recoveries of actual and expected payments	1	—	(3)	n/m	-100%
Gross losses incurred	514	75	5	n/m	n/m
Reinsurance	(15)	(1)	—	n/m	n/m
Losses and loss adjustment expenses	\$ 499	\$ 74	\$ 5	n/m	n/m

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

n/m—Percent change not meaningful.

For the years ended December 31, 2017, 2016 and 2015, losses and LAE primarily related to certain Puerto Rico exposures.

The following table presents information about our U.S. public finance insurance loss and LAE reserves and recoverables as of December 31, 2017 and 2016:

In millions	December 31, 2017	December 31, 2016	Percent Change
Assets:			
Insurance loss recoverable	\$ 333	\$ 174	91%
Reinsurance recoverable on paid and unpaid losses ⁽¹⁾	—	1	-100%
Liabilities:			
Gross loss and LAE reserves ⁽²⁾	531	118	n/m
Expected recoveries on unpaid losses	(19)	(21)	-10%
Loss and LAE reserves	\$ 512	\$ 97	n/m
Insurance loss recoverable—ceded ⁽³⁾	\$ 12	\$ 12	—%

(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.

n/m—Percent change not meaningful.

Insurance loss recoverable as of December 31, 2017 increased compared with December 31, 2016 primarily as a result of expected recoveries related to claims paid on certain Puerto Rico exposures in 2017. Loss and LAE reserves as of December 31, 2017 increased compared with December 31, 2016 primarily as a result of increases in expected payments net of expected recoveries on those payments related to certain Puerto Rico exposures.

Included in our U.S. public finance loss and LAE reserves are both reserves for insured obligations for estimated future claims payments, which includes insured credits where a payment default has occurred and National has already paid a claim and insured credits where a payment default has not yet occurred. As of December 31, 2017 and 2016, loss and LAE reserves were comprised of the following:

\$ in millions	Number of Issues ⁽¹⁾		Loss and LAE Reserve		Par Outstanding	
	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
Gross of reinsurance:						
Issues with defaults	7	5	\$ 456	\$ 75	\$ 2,655	\$ 1,519
Issues without defaults	4	6	56	22	781	1,446
Total gross of reinsurance	11	11	\$ 512	\$ 97	\$ 3,436	\$ 2,965

(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.

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

RESULTS OF OPERATIONS (continued)

POLICY ACQUISITION COSTS AND OPERATING EXPENSES U.S. public finance insurance segment expenses for the years ended December 31, 2017, 2016 and 2015 are presented in the following table:

In millions	Years Ended December 31,			Percent Change	
	2017	2016	2015	2017 vs. 2016	2016 vs. 2015
Gross expenses	\$ 70	\$ 62	\$ 63	13%	-2%
Amortization of deferred acquisition costs	\$ 39	\$ 49	\$ 65	-20%	-25%
Operating	69	60	62	15%	-3%
Total insurance operating expenses	\$ 108	\$ 109	\$ 127	-1%	-14%

Gross expenses represent total insurance expenses before the deferral of any policy acquisition costs. Gross expenses increased for 2017 compared with 2016 primarily due to severance related expenses associated with the headcount reduction.

Amortization of deferred acquisition costs decreased for 2017 compared with 2016 and 2015 due to higher refunding activity in prior years. When an insured obligation refunds, we accelerate any remaining deferred acquisition costs associated with the policy covering the refunded insured obligation. We did not defer a material amount of policy acquisition costs during 2017, 2016 or 2015.

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 its insurance policy from nationally recognized rating agencies, Moody's and S&P. Other companies within the financial guarantee industry may report credit quality information based upon internal ratings that would not be comparable to our presentation. We maintain internal ratings on our entire portfolio, and our ratings may be higher or lower than the underlying ratings assigned by Moody's or S&P.

The following table presents the credit quality distribution of National's U.S. public finance outstanding gross par insured as of December 31, 2017 and 2016. 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 Rating	Gross Par Outstanding			
	December 31, 2017		December 31, 2016	
	Amount	%	Amount	%
AAA	\$ 3,271	4.6%	\$ 5,167	4.7%
AA	28,354	39.4%	49,466	44.8%
A	23,530	32.7%	34,544	31.3%
BBB	10,870	15.1%	15,120	13.7%
Below investment grade	5,903	8.2%	6,070	5.5%
Total	\$71,928	100.0%	\$110,367	100.0%

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

RESULTS OF OPERATIONS (continued)

U.S. Public Finance Insurance Puerto Rico Exposures

The following is a summary of exposures within the insured portfolio of our U.S. public finance insurance segment related to Puerto Rico as of December 31, 2017.

In millions	Gross Par Outstanding	Gross Par Outstanding Plus CAB Accreted Interest	Debt Service Outstanding	National Internal Rating
Puerto Rico Electric Power Authority (PREPA)	\$ 1,151	\$ 1,151	\$ 1,637	d
Puerto Rico Commonwealth GO ⁽¹⁾	647	663	850	d
Puerto Rico Public Buildings Authority (PBA) ⁽²⁾	188	188	274	d
Puerto Rico Highway and Transportation Authority Transportation Revenue (PRHTA) ⁽¹⁾	528	528	968	d
Puerto Rico Highway and Transportation Authority—Subordinated Transportation Revenue (PRHTA)	30	30	43	d
Puerto Rico Sales Tax Financing Corporation (COFINA) ⁽¹⁾	684	1,146	4,170	d
Puerto Rico Highway and Transportation Authority Highway Revenue (PRHTA) ⁽¹⁾	68	69	98	d
University of Puerto Rico System Revenue	82	82	118	d
Inter American University of Puerto Rico Inc.	23	23	31	a3
Total	\$ 3,401	\$ 3,880	\$ 8,189⁽³⁾	

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

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

(3)—As a result of debt service payments made as of January 1, 2018, National's total Puerto Rico debt service outstanding declined by \$70 million.

On September 20, 2017, Hurricane Maria made landfall in Puerto Rico as a Category 4 hurricane resulting in catastrophic damage to much of the island's basic infrastructure, including its electrical transmission and distribution grid, telecommunications network, housing, roads, bridges, water and sewer systems. On September 21, 2017, the President of the United States approved a Major Disaster Declaration for Puerto Rico and FEMA made federal disaster assistance available to Puerto Rico to supplement its recovery efforts. Many residents of Puerto Rico continue to lack access to basic necessities such as clean water, food and health care. The lack of passable roads and compromised infrastructure has complicated recovery efforts. Given the significant physical barriers to assistance, the Department of Defense took over much of the initial search, rescue and restoration effort. The U.S. Army Corps of Engineers has taken the lead in the effort to rebuild the Island's infrastructure, in cooperation with FEMA and Puerto Rico. Damage estimates vary widely, but a preliminary report from Moody's Analytics places the upper bound of the range at \$95 billion. This estimate includes lost economic activity and physical damage to infrastructure. Given the numerous estimates of physical damage and the extent of insurance coverage, uninsured damages are not reasonably estimable at this time. On October 12, 2017, the House of Representatives passed legislation providing \$36.5 billion in emergency disaster assistance for areas of the U.S. impacted by recent hurricanes and wildfires including California, Texas, Louisiana, Florida, Puerto Rico and the U.S. Virgin Islands. This amount includes \$4.9 billion in community disaster loans which will be, in part, made available to Puerto Rico. Under the Stafford Act, the legislation that directs federal emergency disaster response, that portion of the \$4.9 billion made available to Puerto Rico may be directed to activities that directly mitigate the impacts of the disaster. The measure was approved by the U.S. Senate and has been signed by the President of the United States. As of February 12, 2018, no monies have been advanced to Puerto Rico under this authorization. On February 9, 2018, the U.S. Congress approved, and the President of the United States signed into law, a new supplemental spending authorization totaling approximately \$90.0 billion to cover necessary expenses related to the consequences of Hurricanes Harvey, Irma and Maria and wildfires that occurred in 2017. Of this amount, Puerto Rico expects to receive approximately \$16.5 billion in federal funds, including up to \$4.8 billion for healthcare, \$10.0 billion for housing and \$2.0 billion for improvements to the island's electrical power systems. Refer to the following "PREPA" section below for further information about Hurricane Maria's impact to Puerto Rico.

Item 7. 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 March 13, 2017, the Oversight Board approved the Governor's revised long-term fiscal plan, which decreased the 10 year cumulative cash flow by \$3.85 billion from \$11.6 billion to \$7.8 billion (pre-Affordable Care Act ("ACA") funding and debt service). The certified plan identified fiscal cliffs from an absence of ACA, the assumed loss of Act 154 excise taxes, and pension contributions under current law and both suggested similar solutions, including tax reform, improved tax compliance, centralized procurement, headcount reductions, and the extension of the Act 154 excise tax for a period of time. As part of Act 3-2017 passed by the new administration, the Act 154 excise tax was extended until December 31, 2027. Additionally, on April 28, 2017, the Oversight Board certified four instrumentality fiscal plans, including fiscal plans for PREPA and PRHTA, subject to certain requested amendments.

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. Following the filing of this petition by the Oversight Board, National, together with Assured and Assured Guaranty Municipal Corp., filed an adversary complaint in the Title III case alleging that the Fiscal Plan and the Fiscal Plan Compliance Act, as discussed below, violate PROMESA and the U.S. Constitution. 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.

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 presiding over the cases to begin addressing the nearly \$70 billion of debt amassed by Puerto Rico and its instrumentalities. Given the unprecedented legal disputes and the complexity of the issues expected, the judge has designated five federal judges to act as mediators in all of the Title III cases and the University of Puerto Rico which, at this time, has indicated a desire to pursue a Title VI resolution. These judges will attempt to facilitate voluntary mediation discussions.

As a result of prior defaults, various stays and the Title III cases, National paid gross claims in the aggregate amount of \$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, 2017, January 1, 2017 and July 1, 2016, respectively. In addition, National paid claims in the aggregate amount of \$127 million against PREPA bonds relating to debt service due on July 1, 2017, following the expiration of the Restructuring Support Agreement ("RSA"), as further discussed below, on June 29, 2017.

In light of the impact of Hurricane Maria on Puerto Rico, and the resulting inevitable need for Puerto Rico and the Oversight Board to overhaul the Fiscal Plan, on October 6, 2017, National, Assured and Assured Guaranty Municipal Corp. filed a voluntary notice of dismissal, without prejudice, of their adversary complaint regarding the Fiscal Plan and Fiscal Plan Compliance Act. Also, on October 13, 2017, National, together with the other plaintiffs in the filing, voluntarily dismissed without prejudice the adversary complaint filed on August 7, 2017 which sought to compel PREPA to deposit revenues with the bond trustee as required by the terms of the PREPA Trust Agreements, PROMESA and the U.S. Constitution. 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. Puerto Rico and PREPA submitted their updated fiscal plans to the Oversight Board on January 24, 2018. The University of Puerto Rico and PRHTA must submit their revised fiscal plans to the Oversight Board by March 9, 2018. The Oversight Board intends to certify or recommend additional changes to these revised fiscal plans during the first quarter of 2018.

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

RESULTS OF OPERATIONS (continued)

On January 24, 2018, the Puerto Rico government submitted its draft fiscal plan to the Oversight Board, which reflects the government's expected economic outlook of Puerto Rico over a five year period after integrating four additional key drivers in the projections: (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. After these four additional key drivers are fully implemented, the draft fiscal plan shows Puerto Rico going from a \$3.7 billion surplus to a \$3.4 billion deficit (before debt service) over the five year period. Following receipt of the government's draft fiscal plan, the Oversight Board determined that the proposed fiscal plan was noncompliant with the requirements of PROMESA and, therefore, required certain revisions before certification by the Oversight Board. As a result, the government submitted a revised fiscal plan for Puerto Rico on February 12, 2018 to incorporate the Oversight Board's comments and the incremental disaster relief funding provided by recent legislation approved by U.S. Congress on February 9, 2018. Notwithstanding the revisions, the draft fiscal plan remains subject to further adjustment following additional input and review by the Oversight Board.

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 \$1.1 billion of funds held by the trustee as of February 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. All summary judgment motions are fully briefed and pending.

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.

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

RESULTS OF OPERATIONS (continued)

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. Discovery is ongoing. Motions for summary judgment were due in February of 2018.

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 AAFAP announced that it would lead future negotiations on behalf of PREPA (and all Puerto Rico entities). On April 5, 2017, the Governor, AAFAP 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.

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

RESULTS OF OPERATIONS (continued)

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. Power is still out across portions of the island, particularly in the rural inland areas. 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 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 February 5, 2018, PREPA is reporting approximately 72% of its customers have had power restored.

The PREPA revised Fiscal Plan released January 24, 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.

PRHTA

On May 21, 2017, upon the expiration of the PROMESA stay, 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 in the PRHTA's Title III case. The complaint seeks 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. Motions to dismiss were filed on June 28, 2017, and oral arguments were heard on November 21, 2017. The court took the matter under advisement, but ordered a supplemental briefing, which was submitted on November 28, 2017. On January 30, 2018, the judge granted the motions to dismiss the monolines' PRHTA-related adversary proceeding. 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.

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

Other

Other than Inter American University of Puerto Rico Inc., S&P, Fitch Ratings and/or Moody's have downgraded the ratings of all Puerto Rico issuers to below investment grade with a negative outlook due to narrowing liquidity, sluggish economic growth and persistent structural deficits. 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.

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

RESULTS OF OPERATIONS (continued)

The following tables presents our scheduled gross debt service due on our Puerto Rico insured exposures as of December 31, 2017, for each of the subsequent five years ending December 31 and thereafter:

In millions	2018	2019	2020	2021	2022	Thereafter	Total
Puerto Rico Electric Power Authority (PREPA)	\$120	\$177	\$115	\$140	\$140	\$ 945	\$1,637
Puerto Rico Commonwealth GO	96	154	223	82	19	276	850
Puerto Rico Public Buildings Authority (PBA)	17	24	10	24	9	190	274
Puerto Rico Highway and Transportation Authority Transportation Revenue (PRHTA)	32	27	26	27	27	829	968
Puerto Rico Highway and Transportation Authority— Subordinated Transportation Revenue (PRHTA)	5	1	1	1	9	26	43
Puerto Rico Sales Tax Financing Corporation (COFINA)	—	—	—	—	—	4,170	4,170
Puerto Rico Highway and Transportation Authority Highway Revenue (PRHTA)	5	16	16	3	2	56	98
University of Puerto Rico System Revenue	7	7	7	7	6	84	118
Inter American University of Puerto Rico Inc.	3	2	3	3	3	17	31
Total	\$285	\$408	\$401	\$287	\$215	\$ 6,593	\$8,189

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

RESULTS OF OPERATIONS (continued)

Corporate

Our 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 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, 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.

The following table summarizes the consolidated results of our corporate segment for the years ended December 31, 2017, 2016 and 2015:

In millions	Years Ended December 31,			Percent Change	
	2017	2016	2015	2017 vs. 2016	2016 vs. 2015
Net investment income	\$ 37	\$ 33	\$ 36	12%	-8%
Fees	53	49	52	8%	-6%
Net gains (losses) on financial instruments at fair value and foreign exchange	(32)	(14)	64	129%	-122%
Net investment losses related to other-than-temporary impairments	—	(1)	(3)	-100%	-67%
Net gains (losses) on extinguishment of debt	28	5	(1)	n/m	n/m
Other net realized gains (losses)	(4)	(5)	21	-20%	-124%
Total revenues	82	67	169	22%	-60%
Operating	62	83	82	-25%	1%
Interest	89	92	101	-3%	-9%
Total expenses	151	175	183	-14%	-4%
Income (loss) before income taxes	(69)	(108)	(14)	-36%	n/m
Provision (benefit) for income taxes	556	(15)	7	n/m	n/m
Net income (loss)	<u>\$(625)</u>	<u>\$ (93)</u>	<u>\$(21)</u>	<u>n/m</u>	<u>n/m</u>

n/m—Percent change not meaningful.

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

The unfavorable change in net gains (losses) on financial instruments at fair value and foreign exchange for 2016 compared with 2015 was primarily due to a decrease in foreign exchange gains on Euro denominated liabilities from a decline in the strengthening of the U.S. dollar and unfavorable changes in the fair value of the outstanding warrants issued on MBIA Inc. common stock. The changes in the fair value of outstanding warrants were primarily attributable to an increase in the price of MBIA Inc. common stock, partially offset by changes in volatility.

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

RESULTS OF OPERATIONS (continued)

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

OTHER NET REALIZED GAINS (LOSSES) The decrease in other net realized gains (losses) for 2016 compared with 2015 was primarily due to the results from the sale of Cutwater in 2015.

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

INTEREST EXPENSE Interest expense decreased for 2017 compared with 2016 and 2015 due to the continued maturities and repurchases of debt obligations issued by the Company.

PROVISION (BENEFIT) FOR INCOME TAXES The provision for income taxes for 2017 was driven by the establishment of a full valuation allowance against the Company's net deferred tax asset. Refer to the following "Taxes" section and "Note 11: Income Taxes" in the Notes to Consolidated Financial Statements for further information about this valuation allowance on our net deferred tax asset. The 2016 benefit for income taxes was impacted by foreign tax credit adjustments, the fluctuation of the value of nontaxable warrants issued by the Company and nondeductible equity-based compensation expense. The 2015 provision for income taxes was impacted by nondeductible equity-based compensation expense.

International and Structured Finance Insurance

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

MBIA Corp. has insured sovereign-related and sub-sovereign bonds, privately issued bonds used for the financing of utilities, toll roads, bridges, airports, public transportation facilities, and other types of infrastructure projects serving a substantial public purpose. Global structured finance and asset-backed obligations typically are securities repayable from cash flows generated by a specified pool of assets, such as residential and commercial mortgages, insurance policies, consumer loans, corporate loans and bonds, trade and export receivables, and leases for equipment, aircraft and real estate property. We no longer insure new credit derivative contracts except for transactions related to the restructuring or reduction of existing derivative exposure. 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 and IMC. 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. MBIA Insurance Corporation provides reinsurance to MBIA Mexico.

MBIA Corp. has contributed to the Company's net operating loss ("NOL") carryforward, which is used in the calculation of our consolidated income taxes. If MBIA Corp. becomes profitable, it is not expected to make any tax payments under our tax sharing agreement. 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. Refer to "Note 11: Income Taxes" in the Notes to Consolidated Financial Statements for further information about taxes.

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

RESULTS OF OPERATIONS (continued)

The following table presents our international and structured finance insurance segment results for the years ended December 31, 2017, 2016 and 2015:

In millions	Years Ended December 31,			Percent Change	
	2017	2016	2015	2017 vs. 2016	2016 vs. 2015
Net premiums earned	\$ 44	\$ 84	\$ 99	-48%	-15%
Net investment income	21	12	11	75%	9%
Fees and reimbursements	57	72	67	-21%	7%
Change in fair value of insured derivatives:					
Realized gains (losses) and other settlements on insured derivatives	(51)	(40)	(28)	28%	43%
Unrealized gains (losses) on insured derivatives	—	21	157	-100%	-87%
Net change in fair value of insured derivatives	(51)	(19)	129	n/m	-115%
Net gains (losses) on financial instruments at fair value and foreign exchange	(17)	30	(9)	n/m	n/m
Other net realized gains (losses)	39	(279)	—	-114%	n/m
Revenues of consolidated VIEs:					
Net investment income	27	31	86	-13%	-64%
Net gains (losses) on financial instruments at fair value and foreign exchange	130	—	42	n/m	-100%
Other net realized gains (losses)	28	—	—	n/m	-%
Total revenues	278	(69)	425	n/m	-116%
Losses and loss adjustment	184	146	118	26%	24%
Amortization of deferred acquisition costs	43	56	78	-23%	-28%
Operating	30	44	50	-32%	-12%
Interest	119	115	111	3%	4%
Expenses of consolidated VIEs:					
Operating	10	14	13	-29%	8%
Interest	80	25	39	n/m	-36%
Total expenses	466	400	409	17%	-2%
Income (loss) before income taxes	(188)	(469)	16	-60%	n/m
Provision (benefit) for income taxes	1,143	(52)	3	n/m	n/m
Net income (loss)	<u>\$(1,331)</u>	<u>\$(417)</u>	<u>\$ 13</u>	<u>n/m</u>	<u>n/m</u>

n/m—Percent change not meaningful.

As of December 31, 2017, MBIA Corp.'s total insured gross par outstanding was \$15.1 billion. Since December 31, 2007, MBIA Corp.'s total insured gross par outstanding has decreased approximately 95% from \$331.2 billion.

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

RESULTS OF OPERATIONS (continued)

On January 20, 2017, MBIA Corp. was presented with and fully satisfied a claim of \$770 million (the “Zohar II Claim”) 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 LLC (“MZ Funding”), a newly formed wholly-owned subsidiary of the Company, which in turn lent the proceeds of such financing to MBIA Corp. Refer to “Liquidity” for additional information on the Facility.

NET PREMIUMS EARNED Our international and structured finance insurance segment generates net premiums from insurance policies accounted for as financial guarantee contracts. Certain premiums are eliminated in our consolidated financial statements as a result of the Company consolidating VIEs. In addition, we generate net premiums from insured credit derivatives that are included in “Realized gains (losses) and other settlements on insured derivatives” on our consolidated statements of operations. The following table provides net premiums earned from our financial guarantee contracts for the years ended December 31, 2017, 2016 and 2015:

In millions	Years Ended December 31,			Percent Change	
	2017	2016	2015	2017 vs. 2016	2016 vs. 2015
Net premiums earned:					
Non-U.S.	\$ 34	\$ 69	\$ 73	-51%	-5%
U.S.	10	15	26	-33%	-42%
Total net premiums earned	\$ 44	\$ 84	\$ 99	-48%	-15%
VIEs (eliminated in consolidation)	\$ 8	\$ 7	\$ 56	14%	-88%

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 decreased for 2017 compared with 2016 primarily due to decreases in scheduled premiums as a result of the sale of MBIA UK on January 10, 2017 and from the maturity and early settlements of insured transactions with no writings of new insurance policies. Net premiums earned decreased for 2016 compared with 2015 primarily due to decreases in scheduled premiums earned from the maturity and early settlements of insured transactions with no writings of new insurance policies.

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

FEES AND REIMBURSEMENTS The decrease in fees and reimbursements for 2017 compared with 2016 was primarily due to decreases in termination and waiver and consent fees related to the ongoing management of our international and structured finance insurance business and ceding commission income as a result of lower refunding activity. The increase in fees and reimbursements for 2016 compared with 2015 was primarily due to an increase in termination and waiver and consent fees related to the ongoing management of our international and structured finance insurance business, partially offset by a decrease in ceding commission income as a result of lower refunding activity. Due to the transaction-specific nature inherent in fees and reimbursements, these revenues can vary significantly from period to period.

NET CHANGE IN FAIR VALUE OF INSURED DERIVATIVES Realized losses on insured derivatives include payments made net of premiums and fees earned and salvage received. Premiums earned related to insured credit derivatives will decrease over time as a result of settlements prior to maturity and scheduled amortizations. For 2017, 2016 and 2015, realized losses on insured derivatives primarily resulted from claim payments on CMBS exposure.

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

RESULTS OF OPERATIONS (continued)

For 2016, unrealized gains on insured derivatives were principally the result of a decline in the weighted average life on transactions, favorable changes in spreads/prices on the underlying collateral and a reversal of unrealized losses due to commutations partially offset by the effects of MBIA's nonperformance risk on its derivative liabilities. For 2015, unrealized gains on insured derivatives were principally the result of refining the credit rating of underlying collateral.

As of December 31, 2017 and 2016, the fair value of MBIA Corp.'s insured CDS liability was \$63 million and \$64 million, respectively. As of December 31, 2017, MBIA Corp. had \$127 million of gross par outstanding on insured credit derivatives compared with \$588 million as of December 31, 2016.

NET GAINS (LOSSES) ON FINANCIAL INSTRUMENTS AT FAIR VALUE AND FOREIGN EXCHANGE The net losses on financial instruments and foreign exchange for 2017 were primarily related to unfavorable mark-to-market fluctuations on derivatives. The net gains on financial instruments at fair value and foreign exchange for 2016 were primarily related to gains from foreign currency revaluation of Chilean Unidad de Fomento and Euro denominated premium receivables and realized foreign exchange gains from the liquidation of an investment portfolio in the United Kingdom. The net losses on financial instruments at fair value and foreign exchange for 2015 were primarily due to losses from foreign currency revaluation of Chilean Unidad de Fomento denominated premium receivables and foreign exchange currency losses on the sale of Euro denominated investments.

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

REVENUES OF CONSOLIDATED VIEs For 2017, total revenues of consolidated VIEs were \$185 million compared with \$31 million for 2016 and \$128 million for 2015. The increase in revenues of consolidated VIEs for 2017 compared with 2016 was primarily the result of gains related to changes in the fair value of assets within certain VIEs. Fair value gains related to assets were mostly driven by higher collateral values resulting from changes in estimated cash flows. The decrease in revenues of consolidated VIEs for 2016 compared with 2015 was primarily due to a decrease in net investment income due to the deconsolidation of VIEs and lower mark-to-market gains on assets of consolidated VIEs. 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 6: Loss and Loss Adjustment Expense Reserves" in the Notes to Consolidated Financial Statements for a description of the Company's loss reserving policy and additional information related to its loss reserves.

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

RESULTS OF OPERATIONS (continued)

Summary of Financial Guarantee Insurance Losses and LAE

The following table presents information about our financial guarantee insurance losses and LAE recorded in accordance with GAAP for the years ended December 31, 2017, 2016 and 2015:

In millions	Years Ended December 31,			Percent Change	
	2017	2016	2015	2017 vs. 2016	2016 vs. 2015
Losses and LAE related to actual and expected payments ⁽¹⁾	\$125	\$110	\$196	14%	-44%
Recoveries of actual and expected payments	66	35	(78)	89%	-145%
Gross losses incurred	191	145	118	32%	23%
Reinsurance	(7)	1	—	n/m	n/m
Losses and loss adjustment expenses ⁽²⁾	<u>\$184</u>	<u>\$146</u>	<u>\$118</u>	<u>26%</u>	<u>24%</u>

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

(2)—As a result of consolidation of VIEs, these amounts include the elimination of losses and LAE of \$29 million, \$29 million and \$3 million for 2017, 2016 and 2015, respectively.

n/m—Percent change not meaningful

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

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

For 2015, losses and LAE primarily related to increases in expected payments on CDOs and insured first-lien RMBS transactions and decreases in projected collections from excess spread within insured second-lien RMBS securitizations.

Refer to “Note 6: Loss and Loss Adjustment Expense Reserves” in the Notes to Consolidated Financial Statements for further information about our insurance loss recoverable and loss and LAE reserves. The following table presents information about our insurance loss recoverable and reserves as of December 31, 2017 and 2016.

In millions	December 31, 2017	December 31, 2016	Percent Change
Assets:			
Insurance loss recoverable ⁽¹⁾	\$ 178	\$ 330	-46%
Reinsurance recoverable on paid and unpaid losses ⁽²⁾	14	5	n/m
Liabilities:			
Gross loss and LAE reserves ⁽³⁾	482	503	-4%
Expected recoveries on unpaid losses ⁽⁴⁾	(16)	(59)	-73%
Loss and LAE reserves	<u>\$ 466</u>	<u>\$ 444</u>	<u>-5%</u>

(1)—The change was primarily due to the collection of a mortgage insurance settlement with Old Republic Insurance Corporation and ongoing excess spread collections.

(2)—Reported within “Other assets” on our consolidated balance sheets.

(3)—As of December 31, 2016, Zohar II is reflected net of expected recoveries on such reserves.

(4)—The decrease was primarily related to first-lien and second-lien RMBS transactions.

n/m—Percent change not meaningful

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

RESULTS OF OPERATIONS (continued)

Payment of a claim in November of 2015 on MBIA Corp.'s policy insuring the class A-1 and A-2 notes issued by Zohar CDO 2003-1, Limited ("Zohar I") and satisfying the Zohar II Claim 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. In connection with the exercise of its rights and remedies, MBIA Corp. directed the trustee for Zohar I to commence an auction (the "Auction") of all of the assets of Zohar I, which occurred on December 21, 2016. MBIA Corp. was the winning bidder in the Auction, and in connection therewith, acquired the beneficial ownership of the Zohar I assets, which include loans made to, and equity interests in, companies purportedly controlled by the sponsor and former collateral manager of Zohar I and Zohar II. As of December 31, 2017, the recoveries of Zohar I and Zohar II are included in "Loans receivable at fair value" which are presented in "Assets of consolidated variable interest entities" on our consolidated balance sheets. Refer to "Note 6: Loss and Loss Adjustment Expense Reserves" in the Notes to Consolidated Financial Statements for a further discussion on the Zohar I and Zohar II recoveries.

Included in MBIA Corp.'s loss and LAE reserves are estimated future claims payments for insured obligations for which a payment default has occurred and MBIA Corp. has already paid a claim and for insured obligations where a payment default has not yet occurred. As of December 31, 2017 and 2016, loss and LAE reserves comprised the following:

<u>\$ in millions</u>	<u>Number of Issues⁽¹⁾</u>		<u>Loss and LAE Reserve</u>		<u>Par Outstanding</u>	
	<u>December 31, 2017</u>	<u>December 31, 2016</u>	<u>December 31, 2017</u>	<u>December 31, 2016</u>	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Gross of reinsurance:						
Issues with defaults	108	114	\$ 466	\$ 370	\$ 2,635	\$ 3,239
Issues without defaults	1	3	—	74	11	827
Total gross of reinsurance	<u>109</u>	<u>117</u>	<u>\$ 466</u>	<u>\$ 444</u>	<u>\$ 2,646</u>	<u>\$ 4,066</u>

(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.

POLICY ACQUISITION COSTS AND OPERATING EXPENSES International and structured finance insurance segment expenses for the years ended December 31, 2017, 2016 and 2015 are presented in the following table:

<u>In millions</u>	<u>Years Ended December 31,</u>			<u>Percent Change</u>	
	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2017 vs. 2016</u>	<u>2016 vs. 2015</u>
Gross expenses	\$ 31	\$ 45	\$ 51	-31%	-12%
Amortization of deferred acquisition costs	\$ 43	\$ 56	\$ 78	-23%	-28%
Operating	30	44	50	-32%	-12%
Total insurance operating expenses	<u>\$ 73</u>	<u>\$ 100</u>	<u>\$ 128</u>	<u>-27%</u>	<u>-22%</u>

Gross expenses represent total insurance expenses before the deferral of any policy acquisition costs. Gross expenses decreased for 2017 compared with 2016 primarily due to decreases in compensation expense. Gross expenses decreased for 2016 compared with 2015 primarily due to decreases in premium taxes and assessments, compensation expense and building related expenses. Operating expenses decreased for 2017 compared with 2016 and 2015 due to decreases in gross expenses.

The decreases in the amortization of deferred acquisition costs for 2017 compared with 2016 and 2015 were due to higher refunding activity in prior years. We did not defer a material amount of policy acquisition costs during 2017, 2016 or 2015. Policy acquisition costs in these periods were primarily related to ceding commissions and premium taxes on installment policies written in prior periods.

INTEREST EXPENSE OF CONSOLIDATED VIEs For 2017, total interest expense of consolidated VIEs increased compared with 2016 primarily due to interest expense from the Facility. Refer to "Liquidity" for additional information on the Facility.

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

RESULTS OF OPERATIONS (continued)

PROVISION (BENEFIT) FOR INCOME TAXES The provision for income taxes for 2017 was lower than the statutory rate of 35% 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 11: Income Taxes" in the Notes to Consolidated Financial Statements for further information about this valuation allowance on our net deferred tax asset.

International and Structured Finance Insurance Portfolio Exposures

Credit Quality

The credit quality of our international and structured finance insured portfolio is assessed in the same manner as our U.S. public finance insured portfolio. As of December 31, 2017 and 2016, 33% and 25%, 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 the insured portfolio of our international and structured finance insurance segment. Many of these sectors are and have been considered volatile over the past several years. We may experience considerable incurred losses and future expected payments in certain of these sectors. There can be no assurance that the loss reserves described below 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 determination to purchase guaranteed obligations and/or to commute policies will depend in part on management's assessment of available liquidity.

Residential Mortgage Exposure

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

The following table presents the gross par outstanding of MBIA Corp.'s total direct RMBS insured exposure as of December 31, 2017 and 2016. 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		
	December 31, 2017	December 31, 2016	Percent Change
Collateral Type			
HELOC Second-lien	\$ 975	\$ 1,368	-29%
CES Second-lien	1,037	1,373	-24%
Alt-A First-lien ⁽¹⁾	1,078	1,318	-18%
Subprime First-lien	512	606	-16%
Prime First-lien	19	56	-66%
Total	<u>\$ 3,621</u>	<u>\$ 4,721</u>	<u>-23%</u>

(1)—Includes international exposure of \$245 million and \$349 million as of December 31, 2017 and 2016, respectively.

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

RESULTS OF OPERATIONS (continued)

Collateralized Debt Obligations and Related Instruments

As part of our international and structured finance insurance activities, MBIA Corp. typically provided guarantees on senior and, in a limited number of cases, mezzanine tranches of CDOs, as well as protection on structured CMBS pools and corporate securities, and CDS referencing such securities. The following discussion, including reported amounts and percentages, includes insured CDO transactions consolidated by the Company as VIEs.

In addition to the below table, MBIA Corp. insures approximately \$317 million in commercial real estate ("CRE") loan pools, comprising both European and domestic assets. The distribution of our insured CDO and related instruments portfolio by collateral type is presented in the following table:

In millions Collateral Type	Gross Par Outstanding as of		
	December 31, 2017	December 31, 2016	Percent Change
Multi-sector CDOs ⁽¹⁾	\$ 319	\$ 401	-20%
High yield corporate CDOs	—	1,635	-100%
Structured CMBS pools	127	188	-32%
CRE CDOs	—	326	-100%
Total	\$ 446	\$ 2,550	-83%

(1)—Excludes \$40 million and \$44 million as of December 31, 2017 and 2016, respectively, of gross par outstanding where MBIA's insured exposure has been fully offset by way of loss remediation transactions.

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

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

Taxes

Provision for Income Taxes

The Company's income taxes and the related effective tax rates for the years ended December 31, 2017, 2016 and 2015 are presented in the following table:

In millions	Years Ended December 31,		
	2017	2016	2015
Income (loss) before income taxes	\$ (661)	\$ (339)	\$ 289
Provision (benefit) for income taxes	\$ 944	\$ (1)	\$ 109
Effective tax rate	-142.8%	0.3%	37.7%

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

In June of 2017, S&P downgraded the financial strength rating of National, which led the Company to cease its efforts to 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. Accordingly, the Company had a full valuation allowance against its net deferred tax asset of \$770 million as of December 31, 2017.

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

RESULTS OF OPERATIONS (continued)

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

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

For 2015, our effective tax rate applied to our income (loss) before income taxes was higher than the U.S. statutory rate of 35% primarily due to nondeductible equity-based compensation expense.

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

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 \$3.2 billion and \$4.7 billion as of December 31, 2017 and 2016, respectively. MBIA Inc. uses its capital resources to support the business activities of its subsidiaries. As of December 31, 2017, MBIA Inc.'s investment in subsidiaries totaled \$2.3 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. also 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 cash 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 cash to do so. In addition, the Company may also consider raising third-party capital. For further information, refer to "Capital, Liquidity and Market Related Risk Factors" in Part I, Item 1A of this Form 10-K and "Liquidity—Corporate Liquidity" section 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.

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

CAPITAL RESOURCES (continued)

Equity securities

The Company's and National's share repurchases that were authorized under share repurchase programs, for the years ended December 31, 2017, 2016 and 2015, are presented in the following table:

<u>In millions except per share amounts</u>	<u>Years ended December 31,</u>		
	<u>2017</u>	<u>2016</u>	<u>2015</u>
Number of shares repurchased	43.0	16.6	39.9
Average price paid per share	\$7.55	\$6.37	\$7.60
Remaining authorization as of December 31	\$ 250	\$ 88	\$ 94

On June 27, 2017, the Company's Board of Directors approved a new share repurchase authorization for the Company or National to repurchase up to \$250 million of the Company's outstanding common shares. This new program replaced the approximately \$13 million remaining under the Board's February 23, 2016 authorization.

During 2017, we exhausted the June 27, 2017 repurchase program by repurchasing 34 million common shares of MBIA Inc. at an average share price of \$7.35. On November 3, 2017, the Company's Board of Directors approved a new share repurchase authorization for the Company or National to repurchase up to \$250 million of the Company's outstanding common shares.

Subsequent to December 31, 2017 through February 22, 2018, we repurchased 2 million common shares of MBIA Inc. at an average share price of \$7.25 under the November 3, 2017 share repurchase authorization. As of February 22, 2018, \$236 million remained available to repurchase under this new program.

Debt securities

During 2017, we repurchased \$160 million par value outstanding of GFL MTNs issued by our corporate segment at a weighted average cost of approximately 84% of par value.

Also, during 2017, National purchased from MBIA Inc., \$129 million principal amount of MBIA Inc.'s 5.700% Senior Notes due 2034 at a cost of approximately 99% of par value plus accrued interest. These notes had been previously repurchased by MBIA Inc. and had not been retired.

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 \$2.8 billion as of December 31, 2017, compared with \$3.5 billion as of December 31, 2016. As of December 31, 2017, statutory capital comprised \$2.2 billion of policyholders' surplus and \$594 million of contingency reserves. National had a statutory net loss of \$321 million for the year ended December 31, 2017. As of December 31, 2017, National's unassigned surplus was \$1.6 billion.

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

CAPITAL RESOURCES (continued)

In order to maintain its New York State financial guarantee insurance license, National is required to maintain a minimum of \$65 million of policyholders' surplus. National is also required to maintain contingency reserves to provide protection to policyholders in the event of extreme losses in adverse economic events. 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 December 31, 2017, which provides National with dividend capacity. During 2017, National declared and paid a dividend of \$118 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.

Claims-Paying Resources (Statutory Basis)

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

National's CPR and components thereto, as of December 31, 2017 and 2016 are presented in the following table:

In millions	As of December 31, 2017	As of December 31, 2016
Policyholders' surplus	\$ 2,166	\$ 2,731
Contingency reserves	594	745
Statutory capital	2,760	3,476
Unearned premiums	585	786
Present value of installment premiums ⁽¹⁾	164	187
Premium resources ⁽²⁾	749	973
Net loss and LAE reserves ⁽¹⁾	227	(98)
Salvage reserves	387	256
Gross loss and LAE reserves	614	158
Total claims-paying resources	\$ 4,123	\$ 4,607

(1)—As of December 31, 2017 and 2016, the discount rate was 3.25% and 3.18%, respectively.

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

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

CAPITAL RESOURCES (continued)

MBIA Insurance Corporation

Capital and Surplus

MBIA Insurance Corporation reported total statutory capital of \$464 million as of December 31, 2017 compared with \$492 million as of December 31, 2016. As of December 31, 2017, statutory capital comprised \$237 million of policyholders' surplus and \$227 million of contingency reserves. As of December 31, 2016, statutory capital comprised \$238 million of policyholders' surplus and \$254 million of contingency reserves. For the year ended December 31, 2017, MBIA Insurance Corporation had statutory net income of \$107 million. MBIA Insurance Corporation's policyholders' surplus included negative unassigned surplus of \$1.8 billion as of December 31, 2017 and 2016. MBIA Insurance Corporation's policyholders' surplus may be further negatively impacted if future additional insured losses are incurred.

As of December 31, 2016, MBIA Insurance Corporation's policyholders' surplus was negatively impacted by \$112 million, as it was not permitted to treat the portion of its investment in subsidiaries in excess of 60% of net admitted assets less the par value of common and preferred stock and liabilities as an admitted asset, as required under NYIL.

The \$112 million reduction to policyholders' surplus was reversed in 2017 to reflect the sale of MBIA UK. In addition, in 2017, MBIA Insurance Corporation released contingency reserves of approximately \$20 million related to the maturity of the Zohar II notes, as well as, recorded income of \$20 million related to the appreciation to the par value of certain Zohar II notes received as consideration. Therefore, in 2017, MBIA Insurance Corporation's policyholders' surplus increased approximately \$152 million as a result of these transactions.

As of December 31, 2017, MBIA Insurance Corporation recognized estimated recoveries of \$408 million, net of reinsurance on a statutory basis related to put-back claims against Credit Suisse and \$205 million related to excess spread recoveries on RMBS, net of reinsurance. These excess spread recoveries represented 44% of MBIA Insurance Corporation's statutory capital as of December 31, 2017. 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 6: Loss and Loss Adjustment Expense Reserves" in the Notes to Consolidated Financial Statements for additional information about these recoveries.

Under NYIL, MBIA Insurance Corporation is also required to establish a contingency reserve to provide protection to policyholders in the event of extreme losses in adverse economic events. The amount of the reserve is based on the percentage of principal insured or premiums earned, depending on the type of obligation (net of collateral, reinsurance, refunding, refinancings and certain insured securities). Reductions in the contingency reserve may be recognized based on excess reserves and under certain stipulated conditions, subject to the approval of the Superintendent of the NYSDFS. As a result of regulatory approved reductions, MBIA Insurance Corporation's contingency reserves of \$227 million as of December 31, 2017 represented reserves on 31 of the 254 outstanding credits insured by MBIA Insurance Corporation.

In order to maintain its New York State financial guarantee insurance license, MBIA Insurance Corporation is required to maintain a minimum of \$65 million of policyholders' surplus. As of December 31, 2017, MBIA Corp. met the required minimum surplus of \$65 million. Under NYIL, MBIA Insurance Corporation is required to invest its minimum surplus and contingency reserves and 50% of its loss reserves and unearned premium reserves in certain qualifying assets. As of December 31, 2017, MBIA Insurance Corporation maintained its minimum requirement of policyholders' surplus but did not have enough qualifying assets to support its contingency reserves and 50% of its loss reserves and unearned premium reserves. As of December 31, 2017, 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. Under NYIL, MBIA Insurance Corporation is required to maintain admitted assets greater than the aggregate amount of liabilities and outstanding capital stock. As of December 31, 2017, MBIA Insurance Corporation's admitted assets did not exceed the aggregate amount of its liabilities and outstanding capital stock. 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 7. 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 January 15, 2018, the most recent scheduled interest payment date, there was \$629 million of unpaid interest on the par amount outstanding of \$953 million of the Surplus Notes. Under Section 1307 of the NYIL and the Fiscal Agency Agreement governing the surplus notes, Surplus Note payments may be made only with the prior approval by the NYSDFS and if MBIA Insurance Corporation has sufficient "Eligible Surplus", or as we believe, "free and divisible surplus" as an appropriate calculation of "Eligible Surplus." As of December 31, 2017, MBIA Insurance Corporation had negative "free and divisible surplus," of \$54 million. There is no assurance the NYSDFS will approve Surplus Note payments, notwithstanding the sufficiency of MBIA Insurance Corporation's liquidity and financial condition. The unpaid interest on the Surplus Notes will become due on the first business day on or after which MBIA Insurance Corporation obtains approval to pay some or all of such unpaid interest. No interest has been accrued or will accrue on the deferred interest.

Claims-Paying Resources (Statutory Basis)

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

MBIA Corp.'s CPR and components thereto, as of December 31, 2017 and 2016 are presented in the following table:

In millions	As of December 31, 2017	As of December 31, 2016
Policyholders' surplus	\$ 237	\$ 238
Contingency reserves	227	254
Statutory capital	464	492
Unearned premiums	195	319
Present value of installment premiums ^{(1) (4)}	192	424
Premium resources ⁽²⁾	387	743
Net loss and LAE reserves ⁽¹⁾	(792)	(207)
Salvage reserves ⁽³⁾	1,428	917
Gross loss and LAE reserves	636	710
Total claims-paying resources	<u>\$ 1,487</u>	<u>\$ 1,945</u>

(1)—As of December 31, 2017 and 2016, the discount rate was 5.20% and 5.15%, respectively.

(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 7. 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; and
- installment premiums.

The primary uses of cash by National are:

- payments of operating expenses, taxes and funding purchases of MBIA Inc. shares;
- loss payments and loss adjustment expenses on insured transactions; and
- payments of dividends.

As of December 31, 2017 and 2016, National held cash and investments of \$3.6 billion and \$4.2 billion, respectively, of which \$228 million and \$366 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, which are funded by National;
- 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.

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

LIQUIDITY (continued)

The primary uses of cash by MBIA Inc. are:

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

As of December 31, 2017 and 2016, the liquidity positions of MBIA Inc. which included 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 for general corporate purposes, excluding the amounts held in escrow under its tax sharing agreement, were \$419 million and \$403 million, respectively.

During the year ended December 31, 2017, \$94 million was released to MBIA Inc. under the MBIA group tax sharing agreement and related tax escrow account ("Tax Escrow Account"), representing National's liability under the tax sharing agreement for the 2014 tax year. The release was 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. As of December 31, 2017, \$234 million had been deposited for the 2015 and 2016 tax years. Subsequent to December 31, 2017, \$90 million of these deposits were returned to National as a result of National's 2017 financial results and \$18 million was released to MBIA Inc. from the Tax Escrow Account related to the 2015 year. 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 calculated. The remaining amount in the tax escrow now represents National's 2016 tax liability. 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.

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. During 2017, National declared and paid a dividend of \$118 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.

During 2017, National purchased from MBIA Inc., \$129 million principal amount of MBIA Inc.'s 5.700% Senior Notes due 2034 at a cost of approximately 99% 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 \$130 million and had no impact to the Company's consolidated outstanding debt obligations.

Currently, the majority of the cash and securities of 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.

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

LIQUIDITY (continued)

MBIA Corp. Liquidity

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

- recoveries associated with 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 December 31, 2017 and 2016, MBIA Corp. held cash and investments of \$271 million and \$328 million, respectively, of which \$145 million and \$201 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.

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 6: 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 \$233 million as of December 31, 2017 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 2017, MBIA Corp. collected \$147 million from insured RMBS transactions related to excess spread recoveries and a mortgage insurance settlement with Old Republic Insurance Corporation.

MBIA Corp. Financing Facility

In January of 2017, MBIA Corp. entered into the Facility with 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, which in turn lent the proceeds of such financing to MBIA Corp. MBIA Inc. also committed to provide an additional \$50 million subordinated financing to MZ Funding under certain circumstances, which MZ Funding would then lend to MBIA Corp. For a further discussion of the Facility, refer to "Note 10: Debt" in the Notes to Consolidated Financial Statements.

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

LIQUIDITY (continued)

Advances Agreement

MBIA Inc., National, MBIA Insurance Corporation and certain other affiliates are party to an intercompany advances agreement (the "MBIA Advances Agreement"). The MBIA Advances Agreement permits National to make advances to MBIA Inc. and other MBIA group companies that are party to the agreement at a rate per annum equal to LIBOR plus 0.25%. The agreement also permits other affiliates to make advances to National or MBIA Insurance Corporation at a rate per annum equal to LIBOR minus 0.10%. Advances by National cannot exceed 3% of its net admitted assets as of the last quarter end. As of December 31, 2017 and 2016, there were no amounts drawn under the agreement.

Consolidated Cash Flows

Information about our consolidated cash flows by category is presented on our consolidated statements of cash flows. The following table summarizes our consolidated cash flows for the years ended December 31, 2017, 2016 and 2015:

In millions	Years Ended December 31,			Percent Change	
	2017	2016	2015	2017 vs. 2016	2016 vs. 2015
Statement of cash flow data:					
Net cash provided (used) by:					
Operating activities	\$ (630)	\$ (140)	\$ (54)	n/m	n/m
Investing activities	1,202	2,424	817	-50%	n/m
Financing activities	(611)	(2,544)	(1,015)	-76%	n/m
Effect of exchange rate changes on cash and cash equivalents	(2)	(2)	(8)	-%	-75%
Cash and cash equivalents—beginning of year	187	522	782	-64%	-33%
Reclassification to assets held for sale	—	(73)	—	-100%	n/m
Cash and cash equivalents—end of year	<u>\$ 146</u>	<u>\$ 187</u>	<u>\$ 522</u>	<u>-22%</u>	<u>-64%</u>

n/m—Percent change not meaningful.

Operating activities

Net cash used by operating activities increased for the year ended December 31, 2017 compared with 2016 primarily due to an increase in losses and LAE paid of \$417 million and a decrease in investment income received of \$70 million. Net cash used by operating activities increased for the year ended December 31, 2016 compared with 2015 primarily due to an increase in loss and LAE payments of \$113 million and a decrease in investment income received of \$35 million, partially offset by a decrease in interest paid of \$30 million and an increase in premiums, fees and reimbursements received of \$20 million.

Investing activities

Net cash provided by investing activities decreased for the year ended December 31, 2017 compared with 2016 primarily due to a decrease in net proceeds from paydowns of held-to-maturity investments of consolidated VIEs of \$1.8 billion, partially offset by an increase in net proceeds from purchases, sales and paydowns and maturities of available-for-sale investments of \$582 million. Net cash provided by investing activities increased for the year ended December 31, 2016 compared with 2015 primarily due to an increase in net proceeds from paydowns of held-to-maturity investments of consolidated VIEs of \$1.7 billion related to the deconsolidation of VIEs in 2016.

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

LIQUIDITY (continued)

Financing activities

Net cash used by financing activities decreased for the year ended December 31, 2017 compared with 2016 primarily due to a decrease in the principal paydowns of consolidated VIE notes of \$1.9 billion primarily related to the deconsolidation of VIEs in 2016 and proceeds received from the Facility in 2017, partially offset by an increase in purchases of treasury stock of \$220 million. Net cash used by financing activities increased for the year ended December 31, 2016 compared with 2015 primarily due to an increase in the principal paydowns of consolidated VIE notes of \$1.7 billion related to the deconsolidation of VIEs in 2016, partially offset by a decrease in the purchases of treasury stock of \$194 million.

Investments

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

The following table presents our investment portfolio as of December 31, 2017 and 2016. As of December 31, 2016, AFS investments with a fair value of \$466 million reported under "Assets held for sale" within our international and structured finance segment are excluded due to the sale of MBIA UK in January of 2017.

In millions	As of December 31, 2017	As of December 31, 2016	Percent Change
Available-for-sale investments ⁽¹⁾ :			
U.S. public finance insurance			
Amortized cost	\$ 3,150	\$ 3,975	-21%
Unrealized net gain (loss)	(72)	(63)	14%
Fair value	3,078	3,912	-21%
Corporate			
Amortized cost	1,078	1,218	-11%
Unrealized net gain (loss)	49	39	26%
Fair value	1,127	1,257	-10%
International and structured finance insurance			
Amortized cost	210	257	-18%
Unrealized net gain (loss)	8	5	60%
Fair value	218	262	-17%
Total available-for-sale investments:			
Amortized cost	4,438	5,450	-19%
Unrealized net gain (loss)	(15)	(19)	-21%
Total available-for-sale investments at fair value	4,423	5,431	-19%
Investments carried at fair value ⁽²⁾ :			
U.S. public finance insurance	174	120	45%
Corporate	56	79	-29%
Total investments carried at fair value	230	199	16%
Other investments at amortized cost:			
U.S. public finance insurance	2	3	-33%
Consolidated investments at carrying value	\$ 4,655	\$ 5,633	-17%

(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.

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

LIQUIDITY (continued)

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.

Credit Quality

The credit quality distribution of the Company's AFS fixed-maturity investment portfolios, excluding short-term investments, are based on ratings from Moody's and alternate ratings sources, such as S&P or the best estimate of the ratings assigned by the Company, have been used for a small percentage of securities that are not rated by Moody's. As of December 31, 2017, 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>U.S. Public Finance Insurance</u>	<u>Corporate</u>	<u>International and Structured Finance Insurance</u>	<u>Total</u>
Weighted average credit quality ratings	Aa	Aa	Aa	Aa
Investment grade percentage	96%	97%	90%	96%

Insured Investments

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

As of December 31, 2017, Insured Investments at fair value represented \$391 million or 8% of consolidated investments, of which \$274 million or 6% of consolidated investments were Company-Insured Investments. As of December 31, 2017, 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 below investment grade range. Without giving effect to the National and MBIA Corp. guarantees of the Company-Insured Investments in the consolidated investment portfolio, as of December 31, 2017, based on actual or estimated underlying ratings, the weighted average rating of the consolidated investment portfolio was in the Aa range. The weighted average rating of only the Company-Insured Investments was in the below investment grade range, and investments rated below investment grade in the Company-Insured Investments were 5% of the total consolidated investment portfolio.

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

LIQUIDITY (continued)

Contractual Obligations

The following table summarizes the Company's future estimated cash payments relating to contractual obligations as of December 31, 2017. Estimating these payments requires management to make estimates and assumptions regarding these obligations. The estimates and assumptions used by management are described below. Since these estimates and assumptions are subjective, actual payments in future periods may vary from those reported in the following table. Refer to "Note 13: Insurance in Force" in the Notes to Consolidated Financial Statements for information about the Company's exposure under insurance contracts.

In millions	As of December 31, 2017						
	2018	2019	2020	2021	2022	Thereafter	Total
U.S. public finance insurance segment:							
Gross insurance claim obligations ⁽¹⁾	\$ 3	\$ 2	\$ 1	\$ 2	\$ 2	\$ 18	\$ 28
Lease liability	3	3	3	3	3	22	37
Corporate segment:							
Long-term debt	37	37	37	37	296	412	856
Investment agreements	28	19	47	13	13	403	523
Medium-term notes	46	70	8	8	128	902	1,162
Lease liability	1	1	—	—	—	—	2
International and structured finance insurance segment:							
Surplus notes	735	119	119	119	119	945	2,156
Gross insurance claim obligations ⁽¹⁾	181	41	30	24	17	959	1,252
MBIA Corp. Financing Facility	47	47	336	—	—	—	430
Total	\$1,081	\$339	\$581	\$206	\$578	\$ 3,661	\$6,446

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

Gross insurance claim obligations represent the future value of probability-weighted payments MBIA expects to make (before reinsurance and the consolidation of VIEs) under insurance policies for which the Company has recorded loss reserves (financial guarantees) or has estimated credit impairments (insured derivatives). Certain policies included in gross insurance claim obligations are presented net of expected recoveries. The discounted value of estimated payments included in the table, along with probability-weighted estimated recoveries and estimated negotiated early settlements, on policies accounted for as financial guarantee insurance contracts is reported as case basis reserves within "Loss and loss adjustment expense reserves" on the Company's consolidated balance sheets. Insured derivatives are recorded at fair value and reported within "Derivative liabilities" on the Company's consolidated balance sheets. Estimated potential claim payments on obligations issued by VIEs consolidated in our international and structured finance insurance segment are included within "Gross insurance claim obligations" in the preceding table. Obligations of these VIEs are collateralized by assets held by the VIEs, and investors in such obligations do not have recourse to the general credit of MBIA. As of December 31, 2017, VIE notes issued by issuer-sponsored consolidated VIEs totaled \$2.3 billion, including \$1.1 billion recorded at fair value, and are not considered contractual obligations of MBIA beyond MBIA's insurance claim obligation. The Company's involvement with VIEs is continually reassessed as required by consolidation guidance, and may result in consolidation or deconsolidation of VIEs in future periods. As the Company consolidates and deconsolidates VIEs, the amount of VIE debt obligations recorded on its balance sheet may change significantly.

Long-term debt, investment agreements, MTNs, surplus notes and the MBIA Corp. Financing Facility include principal and interest and exclude premiums or discounts. Liabilities issued at discounts reflect principal due at maturity. Interest payments on floating rate obligations are estimated using applicable forward rates. Principal and interest on callable obligations or obligations that allow investors to withdraw funds prior to legal maturity are based on the expected call or withdrawal dates of such obligations. Liabilities denominated in foreign currencies are presented in U.S. dollars using applicable exchange rates as of December 31, 2017.

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

LIQUIDITY (continued)

Included in international and structured finance insurance segment's surplus notes for 2018 is \$616 million of unpaid interest related to the 2013 through 2017 interest payments in which MBIA Insurance Corporation's requests for approval to pay was denied by the NYSDFS. This deferred interest payment will be due on the first business day on or after which MBIA Insurance Corporation obtains approval to make such payment. No interest will accrue on the deferred interest. There can be no assurance that the NYSDFS will approve any subsequent payments, or that it will approve any payment by the scheduled interest payment date.

The repayment of principal on our surplus notes is reflected in 2023, which is the next call date. Refer to "Capital Resources — MBIA Insurance Corporation" section for additional information on MBIA Insurance Corporation's surplus notes and statutory capital. Principal payments under investment agreements are based on expected withdrawal dates. All other principal payments are based on contractual maturity dates.

Item 7A. 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 and certain derivative instruments. The Company's investments are primarily U.S. dollar-denominated fixed-income securities including municipal bonds, U.S. government bonds, corporate bonds, MBS and asset-backed securities. In periods of rising and/or volatile interest rates, foreign exchange rates and credit spreads, profitability could be adversely affected should the Company have to liquidate these securities. MBIA minimizes its exposure to interest rate risk, foreign exchange risk and credit spread movement through active portfolio management to ensure a proper mix of the types of securities held and to stagger the maturities of its fixed-income securities.

INTEREST RATE SENSITIVITY

Interest rate sensitivity can be estimated by projecting a hypothetical instantaneous increase or decrease in interest rates. The following table presents the estimated pre-tax change in fair value of the Company's financial instruments as of December 31, 2017 from instantaneous shifts in interest rates:

In millions	Change in Interest Rates					
	300 Basis Point Decrease	200 Basis Point Decrease	100 Basis Point Decrease	100 Basis Point Increase	200 Basis Point Increase	300 Basis Point Increase
Estimated change in fair value	\$ 393	\$ 226	\$ 102	\$ (83)	\$ (151)	\$ (207)

FOREIGN EXCHANGE RATE SENSITIVITY

The Company is exposed to foreign exchange rate risk in respect of assets and liabilities denominated in currencies other than U.S. dollars. Certain liabilities included in our corporate segment are denominated in currencies other than U.S. dollars. The majority of the Company's foreign exchange rate risks is with the euro. Foreign exchange rate sensitivity can be estimated by projecting a hypothetical instantaneous increase or decrease in foreign exchange rates. The following table presents the estimated pre-tax change in fair value of the Company's financial instruments as of December 31, 2017 from instantaneous shifts in foreign exchange rates:

In millions	Change in Foreign Exchange Rates			
	Dollar Weakens		Dollar Strengthens	
	20%	10%	10%	20%
Estimated change in fair value	\$ (93)	\$ (46)	\$ 46	\$ 93

Item 7A. Quantitative and Qualitative Disclosures About Market Risk (continued)**CREDIT RATE SENSITIVITY**

Credit spread sensitivity can be estimated by projecting a hypothetical instantaneous increase or decrease in credit spreads. The following table presents the estimated pre-tax change in fair value of the Company's financial instruments as of December 31, 2017 from instantaneous shifts in credit spread curves. It was assumed that all credit spreads move by the same amount. It is more likely that the actual changes in credit spreads will vary by security. National's investment portfolio would generally be expected to experience lower credit spread volatility than other investment portfolios since National has higher credit quality and portfolio composition in sectors that have been less volatile historically. The changes in fair value reflect partially offsetting effects as the value of the investment portfolios generally changes in an opposite direction from the liability portfolio.

In millions	Change in Credit Spreads		
	50 Basis Point Decrease	50 Basis Point Increase	200 Basis Point Increase
Estimated change in fair value	\$ 57	\$ (55)	\$ (197)

WARRANTS SENSITIVITY

Warrants issued by the Company to purchase shares of MBIA Inc. common stock are recorded at fair value in the Company's balance sheet and changes in fair value are recorded through earnings. The Company values these warrants using the Black-Scholes model. Refer to "Note 7: Fair Value of Financial Instruments" in the Notes to Consolidated Financial Statements for further information about the valuation of warrants issued by the Company.

While several factors influence the value of the Company's warrants, including stock price, stock volatility, interest rates, expiration dates and dividends, changes in the value of the Company's warrants are primarily driven by changes in the Company's stock price. The outstanding warrants are scheduled to expire in May and August of 2018. The following table presents the estimated pre-tax change in fair value and the estimated aggregate fair value of the Company's warrants assuming hypothetical stock price as of December 31, 2017 holding other inputs constant.

In millions	Change in Stock Price				
	25% Increase	10% Increase	No Change	10% Decrease	25% Decrease
Estimated pre-tax net gains (losses)	\$ (10)	\$ (3)	\$ —	\$ 2	\$ 5
Estimated net fair value	\$ (16)	\$ (9)	\$ (6)	\$ (4)	\$ (1)

Item 8. Financial Statements and Supplementary Data

MBIA INC. AND SUBSIDIARIES INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Report of Independent Registered Public Accounting Firm	71
Consolidated Balance Sheets as of December 31, 2017 and 2016	73
Consolidated Statements of Operations for the years ended December 31, 2017, 2016 and 2015	74
Consolidated Statements of Comprehensive Income (Loss) for the years ended December 31, 2017, 2016 and 2015	75
Consolidated Statements of Changes in Shareholders' Equity for the years ended December 31, 2017, 2016 and 2015	76
Consolidated Statements of Cash Flows for the years ended December 31, 2017, 2016 and 2015	77
Notes to Consolidated Financial Statements	78
Note 1: Business Developments and Risks and Uncertainties	78
Note 2: Significant Accounting Policies	81
Note 3: Recent Accounting Pronouncements	88
Note 4: Variable Interest Entities	90
Note 5: Insurance Premiums	93
Note 6: Loss and Loss Adjustment Expense Reserves	95
Note 7: Fair Value of Financial Instruments	105
Note 8: Investments	122
Note 9: Derivative Instruments	128
Note 10: Debt	132
Note 11: Income Taxes	134
Note 12: Business Segments	137
Note 13: Insurance in Force	142
Note 14: Insurance Regulations and Dividends	145
Note 15: Pension and Profit Sharing Plans	147
Note 16: Long-term Incentive Plans	147
Note 17: Earnings Per Share	150
Note 18: Common and Preferred Stock	151
Note 19: Accumulated Other Comprehensive Income	152
Note 20: Commitments and Contingencies	153

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

Report of Independent Registered Public Accounting Firm

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

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of MBIA Inc. and its subsidiaries (the "Company") as of December 31, 2017 and 2016 and the related consolidated statements of operations, of comprehensive income (loss), of changes in shareholders' equity and of cash flows for each of the three years in the period ended December 31, 2017, including the related notes and financial statement schedules listed in the index appearing under Item 15(a)(2) (collectively referred to as the "consolidated financial statements"). We also have audited the Company's internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2017 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control—Integrated Framework (2013) issued by the COSO.

Basis for Opinions

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on the Company's consolidated financial statements, and on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

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

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

Definition and Limitations of Internal Control over Financial Reporting

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

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

/s/ PricewaterhouseCoopers LLP

New York, New York
March 1, 2018

We have served as the Company's auditor since at least 1994. We have not determined the specific year we began serving as auditor for the Company.

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

	December 31, 2017	December 31, 2016
Assets		
Investments:		
Fixed-maturity securities held as available-for-sale, at fair value (amortized cost \$3,728 and \$4,713)	\$ 3,712	\$ 4,694
Investments carried at fair value	200	146
Investments pledged as collateral, at fair value (amortized cost \$147 and \$234)	148	233
Short-term investments held as available-for-sale, at fair value (amortized cost \$589 and \$552)	589	552
Other investments (includes investments at fair value of \$4 and \$5)	6	8
Total investments	4,655	5,633
Cash and cash equivalents	122	163
Premiums receivable	369	409
Deferred acquisition costs	95	118
Insurance loss recoverable	511	504
Assets held for sale	—	555
Deferred income taxes, net	—	970
Other assets	128	113
Assets of consolidated variable interest entities:		
Cash	24	24
Investments held-to-maturity, at amortized cost (fair value \$916 and \$876)	890	890
Investments carried at fair value	182	255
Loans receivable at fair value	1,679	1,066
Loan repurchase commitments	407	404
Other assets	33	33
Total assets	\$ 9,095	\$ 11,137
Liabilities and Equity		
Liabilities:		
Unearned premium revenue	\$ 752	\$ 958
Loss and loss adjustment expense reserves	979	541
Long-term debt	2,121	1,986
Medium-term notes (includes financial instruments carried at fair value of \$115 and \$101)	765	895
Investment agreements	337	399
Derivative liabilities	262	299
Liabilities held for sale	—	346
Other liabilities	165	233
Liabilities of consolidated variable interest entities:		
Variable interest entity notes (includes financial instruments carried at fair value of \$1,069 and \$1,351)	2,289	2,241
Total liabilities	7,670	7,898
Commitments and contingencies (Refer to Note 20)		
Equity:		
Preferred stock, par value \$1 per share; authorized shares—10,000,000; issued and outstanding—none	—	—
Common stock, par value \$1 per share; authorized shares—400,000,000; issued shares—283,717,973 and 283,989,999	284	284
Additional paid-in capital	3,171	3,160
Retained earnings	1,095	2,700
Accumulated other comprehensive income (loss), net of tax of \$16 and \$37	(19)	(128)
Treasury stock, at cost—192,233,526 and 148,789,168 shares	(3,118)	(2,789)
Total shareholders' equity of MBIA Inc.	1,413	3,227
Preferred stock of subsidiary	12	12
Total equity	1,425	3,239
Total liabilities and equity	\$ 9,095	\$ 11,137

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

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

	Years Ended December 31,		
	2017	2016	2015
Revenues:			
Premiums earned:			
Scheduled premiums earned	\$ 107	\$ 168	\$ 199
Refunding premiums earned	94	132	173
Premiums earned (net of ceded premiums of \$6, \$7 and \$9)	201	300	372
Net investment income	154	152	152
Fees and reimbursements	15	28	6
Change in fair value of insured derivatives:			
Realized gains (losses) and other settlements on insured derivatives	(51)	(40)	(28)
Unrealized gains (losses) on insured derivatives	—	21	157
Net change in fair value of insured derivatives	(51)	(19)	129
Net gains (losses) on financial instruments at fair value and foreign exchange	(24)	84	63
Net investment losses related to other-than-temporary impairments:			
Investment losses related to other-than-temporary impairments	(101)	(1)	(12)
Other-than-temporary impairments recognized in accumulated other comprehensive income (loss)	(5)	(4)	(1)
Net investment losses related to other-than-temporary impairments	(106)	(5)	(13)
Net gains (losses) on extinguishment of debt	28	5	(1)
Other net realized gains (losses)	31	(282)	17
Revenues of consolidated variable interest entities:			
Net investment income	27	31	86
Net gains (losses) on financial instruments at fair value and foreign exchange	130	—	42
Other net realized gains (losses)	28	—	—
Total revenues	433	294	853
Expenses:			
Losses and loss adjustment	683	220	123
Amortization of deferred acquisition costs	23	40	50
Operating	106	137	140
Interest	197	197	199
Expenses of consolidated variable interest entities:			
Operating	10	14	13
Interest	75	25	39
Total expenses	1,094	633	564
Income (loss) before income taxes	(661)	(339)	289
Provision (benefit) for income taxes	944	(1)	109
Net income (loss)	\$ (1,605)	\$ (338)	\$ 180
Net income (loss) per common share:			
Basic	\$ (13.50)	\$ (2.54)	\$ 1.06
Diluted	\$ (13.50)	\$ (2.54)	\$ 1.06
Weighted average number of common shares outstanding:			
Basic	118,930,282	133,001,088	163,936,318
Diluted	118,930,282	133,001,088	164,869,788

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

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

	<u>Years Ended December 31,</u>		
	<u>2017</u>	<u>2016</u>	<u>2015</u>
Net income (loss)	\$(1,605)	\$ (338)	\$ 180
Other comprehensive income (loss):			
Unrealized gains (losses) on available-for-sale securities:			
Unrealized gains (losses) arising during the period	(22)	28	(80)
Provision (benefit) for income taxes	(1)	7	(27)
Total	(21)	21	(53)
Reclassification adjustments for (gains) losses included in net income (loss)	2	(1)	(7)
Provision (benefit) for income taxes	—	1	(3)
Total	2	(2)	(4)
Available-for-sale securities with other-than-temporary impairments:			
Other-than-temporary impairments and unrealized gains (losses) arising during the period	(3)	10	(3)
Provision (benefit) for income taxes	—	4	(1)
Total	(3)	6	(2)
Reclassification adjustments for (gains) losses included in net income (loss)	7	4	4
Provision (benefit) for income taxes	1	1	1
Total	6	3	3
Foreign currency translation:			
Foreign currency translation gains (losses)	146	(94)	(40)
Provision (benefit) for income taxes	21	1	(14)
Total	125	(95)	(26)
Total other comprehensive income (loss)	109	(67)	(82)
Comprehensive income (loss)	<u><u>\$(1,496)</u></u>	<u><u>\$ (405)</u></u>	<u><u>\$ 98</u></u>

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

MBIA INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
For The Years Ended December 31, 2017, 2016 and 2015
(In millions except share amounts)

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (loss)	Treasury Stock		Total Shareholders' Equity of MBIA Inc.	Preferred Stock of Subsidiary and Noncontrolling interest		Total Equity
	Shares	Amount				Shares	Amount		Shares	Amount	
Balance, January 1, 2015	281,352,782	\$ 281	\$ 3,128	\$ 2,858	\$ 21	(89,409,887)	\$(2,359)	\$ 3,929	1,315	\$ 21	\$ 3,950
ASU 2015-02 transition adjustment	—	—	—	—	—	—	—	—	—	(9)	(9)
Net income (loss)	—	—	—	180	—	—	—	180	—	—	180
Other comprehensive income (loss)	—	—	—	—	(82)	—	—	(82)	—	—	(82)
Share-based compensation, net of tax of \$9	480,836	1	10	—	—	(986,455)	(6)	5	—	—	5
Treasury shares acquired under share repurchase program	—	—	—	—	—	(39,906,899)	(303)	(303)	—	—	(303)
Balance, December 31, 2015	281,833,618	\$ 282	\$ 3,138	\$ 3,038	\$ (61)	(130,303,241)	\$(2,668)	\$ 3,729	1,315	\$ 12	\$ 3,741
Net income (loss)	—	—	—	(338)	—	—	—	(338)	—	—	(338)
Other comprehensive income (loss)	—	—	—	—	(67)	—	—	(67)	—	—	(67)
Share-based compensation, net of tax	2,156,381	2	22	—	—	(1,925,990)	(16)	8	—	—	8
Treasury shares acquired under share repurchase program	—	—	—	—	—	(16,559,937)	(105)	(105)	—	—	(105)
Balance, December 31, 2016	283,989,999	\$ 284	\$ 3,160	\$ 2,700	\$ (128)	(148,789,168)	\$(2,789)	\$ 3,227	1,315	\$ 12	\$ 3,239
Net income (loss)	—	—	—	(1,605)	—	—	—	(1,605)	—	—	(1,605)
Other comprehensive income (loss)	—	—	—	—	109	—	—	109	—	—	109
Share-based compensation, net of tax	(272,026)	—	11	—	—	(402,707)	(4)	7	—	—	7
Treasury shares acquired under share repurchase program	—	—	—	—	—	(43,041,651)	(325)	(325)	—	—	(325)
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

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

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

	Years Ended December 31,		
	2017	2016	2015
Cash flows from operating activities:			
Premiums, fees and reimbursements received	\$ 61	\$ 115	\$ 95
Investment income received	248	318	353
Insured derivative commutations and losses paid	(52)	(43)	(42)
Financial guarantee losses and loss adjustment expenses paid	(768)	(351)	(238)
Proceeds from recoveries and reinsurance	170	99	85
Operating and employee related expenses paid	(130)	(134)	(129)
Interest paid, net of interest converted to principal	(155)	(139)	(169)
Income taxes (paid) received	(4)	(5)	(9)
Net cash provided (used) by operating activities	<u>(630)</u>	<u>(140)</u>	<u>(54)</u>
Cash flows from investing activities:			
Purchases of available-for-sale investments	(1,811)	(2,661)	(2,146)
Sales of available-for-sale investments	2,256	2,412	1,145
Paydowns and maturities of available-for-sale investments	568	680	800
Purchases of investments at fair value	(263)	(199)	(390)
Sales, paydowns and maturities of investments at fair value	326	260	551
Sales, paydowns and maturities (purchases) of short-term investments, net	(67)	(125)	525
Sales, paydowns and maturities of held-to-maturity investments	—	1,799	67
Paydowns and maturities of loans receivable	259	261	232
Consolidation of variable interest entities	18	9	7
Deconsolidation of variable interest entities	—	(8)	—
(Payments) proceeds for derivative settlements	(64)	(44)	13
Collateral (to) from counterparties	4	49	(31)
Capital expenditures	(1)	(1)	(3)
Other investing	(23)	(8)	47
Net cash provided (used) by investing activities	<u>1,202</u>	<u>2,424</u>	<u>817</u>
Cash flows from financing activities:			
Proceeds from investment agreements	17	19	24
Principal paydowns of investment agreements	(84)	(85)	(116)
Principal paydowns of medium-term notes	(171)	(129)	(118)
Proceeds from the MBIA Corp. Financing Facility	328	—	—
Principal paydowns of variable interest entity notes	(368)	(2,234)	(490)
Principal paydowns of long-term debt	—	—	(11)
Purchases of treasury stock	(330)	(110)	(304)
Other financing	(3)	(5)	—
Net cash provided (used) by financing activities	<u>(611)</u>	<u>(2,544)</u>	<u>(1,015)</u>
Effect of exchange rate changes on cash and cash equivalents	(2)	(2)	(8)
Net increase (decrease) in cash and cash equivalents	(41)	(262)	(260)
Cash and cash equivalents—beginning of period	187	522	782
Reclassification to assets held for sale	—	(73)	—
Cash and cash equivalents—end of period	<u>\$ 146</u>	<u>\$ 187</u>	<u>\$ 522</u>
Reconciliation of net income (loss) to net cash provided (used) by operating activities:			
Net income (loss)	\$(1,605)	\$ (338)	\$ 180
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:			
Change in:			
Premiums receivable	49	75	50
Deferred acquisition costs	22	41	49
Unearned premium revenue	(206)	(263)	(371)
Loss and loss adjustment expense reserves	778	29	12
Insurance loss recoverable	(681)	(74)	(44)
Accrued interest payable	138	111	105
Accrued expenses	(29)	7	14
Net investment losses related to other-than-temporary impairments	106	5	13
Unrealized (gains) losses on insured derivatives	—	(21)	(157)
Net (gains) losses on financial instruments at fair value and foreign exchange	(106)	(84)	(105)
Other net realized (gains) losses	(59)	282	(17)
Deferred income tax provision (benefit)	940	(5)	107
Interest on variable interest entities, net	35	57	71
Other operating	(12)	38	39
Total adjustments to net income (loss)	<u>975</u>	<u>198</u>	<u>(234)</u>
Net cash provided (used) by operating activities	<u>\$ (630)</u>	<u>\$ (140)</u>	<u>\$ (54)</u>
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.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 1: Business Developments and Risks and Uncertainties

Summary

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

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

Business Developments

Financial Strength Ratings

On June 26, 2017, Standard & Poor’s Financial Services LLC (“S&P”) downgraded the financial strength rating of National from AA- with a stable outlook to A with a stable outlook. National’s ability to write new business and to compete with other financial guarantors was largely dependent on the financial strength ratings assigned to National by major rating agencies, and with the A rating assigned by S&P, it would be 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. On November 28, 2017, the Company provided notice to S&P terminating the agreements by which S&P agreed to provide financial strength ratings to MBIA Inc., National and MBIA Corp. On December 1, 2017, S&P affirmed National’s A with a stable outlook rating and subsequently withdrew all of its ratings. On September 28, 2017, National provided notice to Kroll Bond Rating Agency (“Kroll”) terminating the agreement by which Kroll agreed to provide a financial strength rating to National. On December 5, 2017, Kroll downgraded the financial strength rating of National from AA+ to AA with a negative outlook and subsequently withdrew its rating. On September 28, 2017, the Company provided notice to Moody’s Investors Services (“Moody’s”) terminating the agreement by which Moody’s agreed to provide financial strength ratings to MBIA Inc., National, MBIA Corp. and MBIA Mexico. On January 17, 2018, Moody’s downgraded the financial strength rating of National to Baa2 from A3 with a stable outlook, affirmed the financial strength rating of MBIA Corp. at Caa1 with a developing outlook, downgraded MBIA Inc.’s rating to Ba3 with a stable outlook from Ba1 with a negative outlook, and affirmed the financial strength rating of MBIA Mexico at Caa1/B3.mx with a developing outlook. Moody’s, at its discretion and in the absence of a contract with the Company, continues to maintain ratings on MBIA Inc. and its subsidiaries.

Full Valuation Allowance on the Company’s Net Deferred Tax Asset

As of December 31, 2017, the Company had a full valuation allowance on its net deferred tax asset of \$770 million. Refer to “Note 11: Income Taxes” for further information about this valuation allowance on the Company’s net deferred tax asset.

Sale of MBIA UK

On January 10, 2017, MBIA UK Holdings sold its operating subsidiary, MBIA UK, and made a cash payment of \$23 million, to Assured in exchange for the receipt by MBIA UK Holdings of certain notes owned by Assured that were issued by Zohar II 2005-1, Limited (“Zohar II”) with an aggregate outstanding principal amount of \$347 million as of January 10, 2017 (the “Sale Transaction”). In connection with the sale, the Company adjusted the carrying value of MBIA UK to its fair value less costs to sell and recorded a \$278 million loss in 2016. During 2017, the Company recorded a gain of \$5 million to adjust the carrying value of MBIA UK to its fair value less costs to sell as of the sale date. These results were reflected in the Company’s international and structured finance insurance segment and included in “Other net realized gains (losses)” on the Company’s consolidated statement of operations.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

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

Held for Sale Classification

The assets and liabilities of MBIA UK were classified as held for sale as of December 31, 2016 and presented within “Assets held for sale” and “Liabilities held for sale” on the Company’s consolidated balance sheet. Income (loss) before income taxes for MBIA UK was income of \$45 million and a loss of \$5 million for the years ended December 31, 2016 and 2015, respectively. The following table summarizes the components of assets and liabilities held for sale as of December 31, 2016:

<u>In millions</u>	<u>As of December 31, 2016</u>
Assets	
Investments	\$ 466
Cash and cash equivalents	73
Premiums receivable	267
Other assets	19
Valuation allowance	(270)
Total assets held for sale	<u>\$ 555</u>
Liabilities	
Unearned premium revenue	\$ 304
Other liabilities	42
Total liabilities held for sale	<u>\$ 346</u>

MBIA Corp. Financing Facility

On January 10, 2017, MBIA Corp. executed a financing facility (the “Facility”) with affiliates of certain holders of 14% Fixed-to-Floating Rate Surplus Notes of MBIA Corp. (collectively, the “Senior Lenders”), and with MBIA Inc., pursuant to which the Senior Lenders have provided \$325 million of senior financing and MBIA Inc. has provided \$38 million of subordinated financing to MZ Funding LLC (“MZ Funding”), a newly formed wholly-owned subsidiary of the Company, which in turn lent the proceeds of such financing to MBIA Corp. MBIA Corp. issued financial guarantee insurance policies insuring MZ Funding’s obligations under the Facility. Refer to “Note 10: Debt” for further information about the Facility.

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 the Company’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.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

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

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. Puerto Rico defaulted on scheduled debt service for National insured bonds and National paid gross claims in the aggregate of \$242 million during 2017. On January 1, 2018, Puerto Rico also defaulted on scheduled debt service for National insured bonds and National paid gross claims in the aggregate of \$69 million. On September 20, 2017, Hurricane Maria made landfall in Puerto Rico as a Category 4 hurricane resulting in catastrophic damage to much of the island’s basic infrastructure, including its electrical transmission and distribution grid, telecommunications network, housing, roads, bridges, water and sewer systems. On September 21, 2017, the President of the United States approved a Major Disaster Declaration for Puerto Rico and the Federal Emergency Management Agency (“FEMA”) made federal disaster assistance available to Puerto Rico to supplement its recovery efforts. Hurricane Maria’s impact on Puerto Rico will likely also impact its ability to both repay its legacy indebtedness and participate in ongoing debt restructuring negotiations. The physical damage and resultant lost economic activity may exceed the collective aid Puerto Rico receives from private insurance, relief from FEMA and other federal agencies and programs. Economic activity in Puerto Rico may not return to pre-hurricane levels and Puerto Rico’s recovery could be more shallow and protracted than that experienced by other similarly affected governments, given Puerto Rico’s prior constrained liquidity and economic activity. While the federal government has made aid available to Puerto Rico, there can be no assurance that such aid will continue in the amounts necessary to offset the adverse impacts from Hurricane Maria in their entirety. In addition, the necessary and greater involvement of the federal government, through its actions to deliver disaster relief and other support services, in addition to the evolving role of the Financial Oversight and Management Board for Puerto Rico (“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.

MBIA Corp. Insured Portfolio

MBIA Corp.’s primary objectives are to satisfy claims of its policyholders, maximize future recoveries, if any, for its Senior Lenders and surplus note holders and, then its preferred stock holders. MBIA Corp. is executing this strategy by 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.

On January 20, 2017, MBIA Corp. was presented with and fully satisfied a claim of \$770 million (the “Zohar II Claim”) on an insurance policy it had written insuring the certain notes issued by Zohar II. MBIA Corp. was able to satisfy the Zohar II Claim as a result of having completed the Sale Transaction and by borrowing from the Facility, as described above, together with using approximately \$60 million from its own resources.

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

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

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

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.

Zohar and RMBS Recoveries

Payment of a claim in November of 2015 on MBIA Corp.’s policy insuring the class A-1 and A-2 notes issued by Zohar CDO 2003-1, Limited (“Zohar I”) and satisfying the Zohar II Claim in 2017, 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. However, 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.

The amount and timing of projected collections from excess spread and subsequent recoveries from residential mortgage-backed securities (“RMBS”) and the put-back recoverable from Credit Suisse are uncertain.

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

Corporate Liquidity

Based on the Company’s projections of National’s dividends, additional anticipated releases under its tax sharing agreement and related tax escrow account (“Tax Escrow Account”), and other cash inflows, the Company expects that MBIA Inc. will have sufficient cash to satisfy its debt service and general corporate needs. However, MBIA Inc. continues to have liquidity risk 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

Basis of Presentation

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

Certain amounts have been reclassified in prior years’ financial statements to conform to the current presentation. This includes a change in the presentation of cash paid when withholding shares for tax-withholding purposes in “Purchases of treasury stock” on the Company’s consolidated statement of cash flows as required under Accounting Standards Update (“ASU”) 2016-09, “Compensation-Stock Compensation (Topic 718)”. The change in presentation effected “Operating and employee related expenses paid”, in operating cash flows and “Purchases of treasury stock”, in financing cash flows, on the Company’s consolidated statement of cash flows in prior periods. Such reclassifications did not materially impact on total revenues, expenses, assets, liabilities, shareholders’ equity, operating cash flows, investing cash flows, or financing cash flows for all periods presented.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 2: Significant Accounting Policies (continued)

Consolidation

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

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

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

Investments

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

Other-Than-Temporary Impairments on Investments

The Company's consolidated statements of operations reflect the full impairment (the difference between a security's amortized cost basis and fair value) on debt securities that the Company intends to sell or would more likely than not be required to sell before the expected recovery of the amortized cost basis. For AFS and HTM debt securities that management has no intent to sell and believes that it is more likely than not such securities will not be required to be sold prior to recovery, only the credit loss component of the impairment is recognized in earnings. For AFS securities, the remaining fair value loss is recognized in AOCI, net of applicable deferred income taxes.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 2: Significant Accounting Policies (continued)

The Company's AFS and HTM securities for which the fair value is less than amortized cost are reviewed no less than quarterly in order to determine whether a credit loss exists. This evaluation includes both qualitative and quantitative considerations. In assessing whether a decline in value is related to a credit loss, the Company considers several factors, including but not limited to (a) the magnitude and duration of the decline, (b) credit indicators and the reasons for the decline, such as general interest rate or credit spread movements, credit rating downgrades, issuer-specific changes in credit spreads, and the financial condition of the issuer, and (c) any guarantees associated with a security such as those provided by financial guarantee insurance companies. Credit loss expectations for ABS and collateralized debt obligations ("CDOs") are assessed using discounted cash flow modeling, and the recoverability of amortized cost for corporate obligations is generally assessed using issuer-specific credit analyses.

Cash and Cash Equivalents

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

Acquisition Costs

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

Derivatives

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

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

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

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 2: Significant Accounting Policies (continued)

Fair Value Measurements—Definition and Hierarchy

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

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

- Level 1—Valuations based on quoted prices in active markets for identical assets or liabilities that the Company can access. Valuations are based on quoted prices that are readily and regularly available in an active market, with significant trading volumes.
- Level 2—Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly. Level 2 assets include debt securities with quoted prices that are traded less frequently than exchange-traded instruments, securities which are priced using observable inputs and derivative contracts whose values are determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data.
- Level 3—Valuations based on inputs that are unobservable or supported by little or no market activity, and that are significant to the overall fair value measurement. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques where significant inputs are unobservable, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

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

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

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 2: Significant Accounting Policies (continued)

Loss and Loss Adjustment Expenses

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

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

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

Long-term Debt

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

Medium-Term Notes and Investment Agreements

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

Financial Guarantee Insurance Premiums

Unearned Premium Revenue and Receivable for Future Premiums

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

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 2: Significant Accounting Policies (continued)

Premium Revenue Recognition

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

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

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

Fee and Reimbursement Revenue Recognition

The Company collects insurance related fees for services performed in connection with certain transactions. Depending upon the type of fee received and whether it is related to an insurance policy, the fee is either earned when it is received or deferred and earned over the life of the related transaction. Work, waiver and consent, and termination fees are earned when the related services are completed and the fee is received.

Stock-Based Compensation

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

Foreign Currency Translation

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

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 2: Significant Accounting Policies (continued)

Income Taxes

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

On December 22, 2017, the Securities and Exchange Commission staff issued Staff Accounting Bulletin No. 118 ("SAB 118") to address the application of U.S. GAAP in situations when a registrant does not have the necessary information available in reasonable detail to complete the accounting for certain income tax effects of the Tax Cuts and Jobs Act (the "Act"). Pursuant to the guidance within SAB 118, the Company's remeasurement of its deferred taxes included certain provisional effects associated with enactment of the Act for which measurement could be reasonably estimated. SAB 118 provides a measurement period that should not extend beyond one year from the Act enactment date for companies to complete the accounting under Accounting Standards Codification ("ASC") 740. If a company cannot determine a provisional estimate to be included in the financial statements, it should continue to apply ASC 740 on the basis of the provisions of the tax laws that were in effect immediately before the enactment of the Act. Additional information that may affect the provisional amounts would include completion of the Company's 2017 tax return filing, and potential future guidance from the Internal Revenue Service.

MBIA Inc. and its eligible U.S. subsidiaries file a consolidated federal income tax return. The U.S. income taxes are allocated based on the provisions of the Company's tax sharing agreement which governs the intercompany settlement of tax obligations and benefits. The method of allocation between the members is generally based upon calculations as if each member filed a separate tax return on its own. Under the Company's tax sharing agreement, each member with a net operating loss ("NOL") will receive the benefits of its tax losses and credits as it is able to earn them out in the future. Given present facts and circumstances, the Company no longer anticipates providing compensation to any member for expiring NOLs, capital losses or tax credit carryforwards.

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

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

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 3: Recent Accounting Pronouncements

Recently Adopted Accounting Standards

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

Recent Accounting Developments

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.” ASU 2014-09 applies to certain fees and reimbursements, and is not expected to materially impact revenue recognition of these fees and reimbursements. 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 adoption of ASU 2014-09 is not expected to materially impact the Company’s consolidated financial statements.

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

In January of 2016, the FASB issued ASU 2016-01, “Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities.” ASU 2016-01 requires certain equity investments other than those accounted for under the equity method of accounting or result in consolidation of the investee to be measured at fair value with changes in fair value recognized in net income, and permits an entity to measure equity investments that do not have readily determinable fair values at cost less any impairment plus or minus adjustments for certain changes in observable prices. An entity is also required to evaluate the need for a valuation allowance on a deferred tax asset related to AFS debt securities in combination with the entity’s other deferred tax assets. ASU 2016-01 requires an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability that results from a change in the instrument-specific credit risk for financial liabilities that the entity has elected to measure at fair value in accordance with the fair value option for financial instruments. ASU 2016-01 is effective for interim and annual periods beginning January 1, 2018, and is applied on a modified retrospective basis. Early adoption is not permitted with the exception of early application of the guidance that requires separate presentation in other comprehensive income of the change in the instrument-specific credit risk for financial liabilities measured at fair value in accordance with the fair value option.

Based on the fair values as of December 31, 2017 of financial liabilities measured at fair value in accordance with the fair value option, the cumulative-effect adjustment, net of tax, related to the instrument-specific credit risk portion of such financial liabilities was a loss of approximately \$162 million, which represents the amount that would have been reclassified from retained earnings to AOCI had the Company adopted ASU 2016-01 on December 31, 2017. Based on fair values as of December 31, 2017 of equity investments, the cumulative-effect adjustment, net of tax, related to net unrealized gains of such investments was approximately \$2 million, which represents the amount that would have been reclassified from AOCI to retained earnings had the Company adopted ASU 2016-01 on December 31, 2017. As of December 31, 2017, the Company had a full valuation allowance against its deferred tax asset. Refer to “Note 11: Income Taxes” for further information about this valuation allowance on the Company’s deferred tax asset. The Company plans to adopt ASU 2016-01 in its entirety in the first quarter of 2018.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 3: Recent Accounting Pronouncements (continued)

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 adoption of ASU 2016-02 is not expected to materially impact the Company's consolidated financial statements.

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.

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 Act from AOCI to retained earnings. The election to reclassify the income tax effects from the Act applies to all items within AOCI. 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 is evaluating the impact of adopting ASU 2018-02.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 4: Variable Interest Entities

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

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

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

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 4: Variable Interest Entities (continued)

Nonconsolidated VIEs

The following tables present the total assets of nonconsolidated VIEs in which the Company holds a variable interest as of December 31, 2017 and 2016, 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 December 31, 2017 and 2016. 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, CDS contracts and any investments in obligations issued by nonconsolidated VIEs.

In millions	December 31, 2017						
	VIE Assets	Maximum Exposure to Loss	Carrying Value of Assets			Carrying Value of Liabilities	
			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.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 4: Variable Interest Entities (continued)

In millions	December 31, 2016							
	Carrying Value of Assets				Carrying Value of Liabilities			
	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:								
Collateralized debt obligations	\$ 3,167	\$ 1,914	\$ 51	\$ 2	\$ —	\$ —	\$ 73	
Mortgage-backed residential	9,146	4,796	20	28	304	27	325	
Mortgage-backed commercial	257	145	—	—	—	—	—	
Consumer asset-backed	4,893	1,331	—	7	2	5	8	
Corporate asset-backed	2,625	2,205	5	18	—	20	—	
Total global structured finance	20,088	10,391	76	55	306	52	406	
Global public finance	44,306	12,051	—	11	—	18	—	
Total insurance	\$64,394	\$22,442	\$ 76	\$ 66	\$ 306	\$ 70	\$ 406	

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

(2)—Reported within “Premiums receivable” on MBIA’s consolidated balance sheets. Excludes \$125 million that is included within “Assets held for sale” on the Company’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. Excludes \$134 million that is included within “Liabilities held for sale” on the Company’s consolidated balance sheets.

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

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

Consolidated VIEs

The carrying amounts of assets and liabilities of consolidated VIEs were \$3.2 billion and \$2.3 billion, respectively, as of December 31, 2017, and \$2.7 billion and \$2.2 billion, respectively, as of December 31, 2016. 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. Two additional VIEs were consolidated during the year ended December 31, 2017 and one additional VIE was consolidated during the year ended December 31, 2016.

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.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 5: Insurance Premiums

The Company recognizes and measures premiums related to financial guarantee (non-derivative) insurance and reinsurance contracts in accordance with the accounting principles for financial guarantee insurance contracts.

As of December 31, 2017 and 2016, premiums receivable was \$369 million and \$409 million, respectively, primarily related to installment policies for which premiums will be collected over the estimated term of the contracts. Premiums receivable for an installment policy is initially measured at the present value of premiums expected to be collected over the expected period or contract period of the policy using a risk-free discount rate. Premiums receivable for policies that use the expected period of risk due to expected prepayments are adjusted in subsequent measurement periods when prepayment assumptions change using the risk-free discount rate as of the remeasurement date. Premiums receivable also includes the current amount of premiums due from installment policies insuring consolidated VIEs when the premiums are payable by third-parties on behalf of the consolidated VIEs.

The Company evaluates whether any premiums receivable are uncollectible at each balance sheet date. If the Company determines that premiums are uncollectible, it records a write-off of such amounts in current earnings. The majority of the Company's premiums receivable consists of the present values of future installment premiums that are not yet billed or due, primarily from structured finance transactions. Given that premiums due to MBIA typically have priority over most other payment obligations of structured finance transactions, the Company determined that the amount of uncollectible premiums as of December 31, 2017 and 2016 was insignificant.

As of December 31, 2017 and 2016, the risk-free rate used to discount future installment premiums was 2.8%, and the weighted average expected collection term of the premiums receivable was 9.45 years and 10.07 years, respectively. As of December 31, 2017 and 2016, reinsurance premiums payable was \$25 million and \$26 million, respectively, and is included in "Other liabilities" in the Company's consolidated balance sheets. In addition, as of December 31, 2016, \$6 million was included in "Liabilities held for sale" in the Company's consolidated balance sheet. The reinsurance premiums payable is accreted and paid to reinsurers as premiums due to MBIA are accreted and collected.

The following tables present a roll forward of the Company's premiums receivable for the years ended December 31, 2017 and 2016.

In millions			Adjustments			Premiums Receivable as of December 31, 2017
Premiums Receivable as of December 31, 2016	Premium Payments Received	Premiums from New Business Written	Changes in Expected Term of Policies	Accretion of Premiums Receivable Discount ⁽¹⁾	Other ⁽²⁾	
\$ 409	\$ (50)	\$ 3	\$ (15)	\$ 10	\$ 12	\$ 369

(1)—Recorded within premiums earned on MBIA's consolidated statement of operations.

(2)—Primarily consists of realized gains due to changes in foreign currency exchange rates.

In millions			Adjustments			Premiums Receivable as of December 31, 2016
Premiums Receivable as of December 31, 2015	Premium Payments Received	Premiums from New Business Written	Changes in Expected Term of Policies	Accretion of Premiums Receivable Discount ⁽¹⁾	Other ⁽²⁾	
\$ 792	\$ (115)	\$ 10	\$ (5)	\$ 19	\$ (292)	\$ 409

(1)—Recorded within premiums earned on MBIA's consolidated statement of operations.

(2)—Primarily consists of premiums receivable of \$267 million reported within "Assets held for sale" on MBIA's consolidated balance sheet.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 5: Insurance Premiums (continued)

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

<u>In millions</u>	<u>Expected Collection of Premiums</u>
Three months ending:	
March 31, 2018	\$ 5
June 30, 2018	15
September 30, 2018	7
December 31, 2018	14
Twelve months ending:	
December 31, 2019	38
December 31, 2020	35
December 31, 2021	32
December 31, 2022	28
Five years ending:	
December 31, 2027	120
December 31, 2032	71
December 31, 2037 and thereafter	81
Total	<u>\$ 446</u>

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

<u>In millions</u>	<u>Unearned Premium Revenue</u>	<u>Expected Future Premium Earnings</u>		<u>Accretion</u>	<u>Total Expected Future Premium Earnings</u>
		<u>Upfront</u>	<u>Installments</u>		
December 31, 2017	\$ 752				
Three months ending:					
March 31, 2018	729	\$ 12	\$ 11	\$ 2	\$ 25
June 30, 2018	707	12	10	2	24
September 30, 2018	686	11	10	2	23
December 31, 2018	665	11	10	2	23
Twelve months ending:					
December 31, 2019	587	41	37	9	87
December 31, 2020	516	37	34	8	79
December 31, 2021	452	33	31	7	71
December 31, 2022	395	30	27	7	64
Five years ending:					
December 31, 2027	195	105	95	25	225
December 31, 2032	94	54	47	14	115
December 31, 2037 and thereafter	—	40	54	13	107
Total		<u>\$ 386</u>	<u>\$ 366</u>	<u>\$ 91</u>	<u>\$ 843</u>

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 6: Loss and Loss Adjustment Expense Reserves

The Company's insured portfolio management groups within its U.S. public finance insurance and international and structured finance insurance businesses (collectively, "IPM") monitor MBIA's outstanding insured obligations with the objective of minimizing losses. IPM meets this objective by identifying issuers that, because of deterioration in credit quality or changes in the economic, regulatory or political environment, are at a heightened risk of defaulting on debt service of obligations insured by MBIA. In such cases, IPM works with the issuer, trustee, bond counsel, servicer, underwriter and other interested parties in an attempt to alleviate or remedy the problem and avoid defaults on debt service payments. Once an obligation is insured, MBIA typically requires the issuer, servicer (if applicable) and the trustee to furnish periodic financial and asset-related information, including audited financial statements, to IPM for review. IPM also monitors publicly available information related to insured obligations. Potential problems uncovered through this review, such as poor financial results, low fund balances, covenant or trigger violations and trustee or servicer problems, or other events that could have an adverse impact on the insured obligation, could result in an immediate surveillance review and an evaluation of possible remedial actions. IPM also monitors and evaluates the impact on issuers of general economic conditions, current and proposed legislation and regulations, political developments, as well as sovereign, state and municipal finances and budget developments.

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

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

The Company does not establish any case basis reserves for insured obligations that are assigned to "Caution List—Low," "Caution List—Medium" or "Caution List—High." In the event MBIA expects to pay a claim with respect to an insured transaction, it places the insured transaction on its "Classified List" and establishes a case basis reserve. When there are no remaining expected future claim payments, the insured transaction is removed from the "Classified List." The following provides a description of each surveillance category:

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

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

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 6: Loss and Loss Adjustment Expense Reserves (continued)

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

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

In establishing case basis loss reserves, the Company calculates the present value of probability-weighted estimated loss payments, net of estimated recoveries, using a discount rate equal to the risk-free rate applicable to the currency and the weighted average remaining life of the insurance contract as required by accounting principles for financial guarantee contracts. Yields on U.S. Treasury offerings are used to discount loss reserves denominated in U.S. dollars, which represent the majority of the loss reserves. Similarly, yields on foreign government offerings are used to discount loss reserves denominated in currencies other than the U.S. dollar. If the Company were to apply different discount rates, its case basis reserves may have been higher or lower than those established as of December 31, 2017. For example, a higher discount rate applied to expected future payments would have decreased the amount of a case basis reserve established by the Company and a lower rate would have increased the amount of a reserve established by the Company. Similarly, a higher discount rate applied to the potential future recoveries would have decreased the amount of a loss recoverable established by the Company and a lower rate would have increased the amount of a loss recoverable established by the Company.

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, 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.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 6: Loss and Loss Adjustment Expense Reserves (continued)

On September 20, 2017, Hurricane Maria made landfall in Puerto Rico as a Category 4 hurricane resulting in catastrophic damage to much of the island's basic infrastructure, including its electrical transmission and distribution grid, telecommunications network, housing, roads, bridges, water and sewer systems. On September 21, 2017, the President of the United States approved a Major Disaster Declaration for Puerto Rico and the FEMA made federal disaster assistance available to Puerto Rico to supplement its recovery efforts. Hurricane Maria's impact on Puerto Rico will likely also impact its ability to both repay its legacy indebtedness and participate in ongoing debt restructuring negotiations. The physical damage and resultant lost economic activity may exceed the collective aid Puerto Rico receives from private insurance, relief from FEMA and other federal agencies and programs. Economic activity in Puerto Rico may not return to pre-hurricane levels and Puerto Rico's recovery could be more shallow and protracted than that experienced by other similarly affected governments, given Puerto Rico's prior constrained liquidity and economic activity. While the federal government has made aid available to Puerto Rico, there can be no assurance that such aid will continue in the amounts necessary to offset the adverse impacts from Hurricane Maria in their entirety. In addition, the necessary and greater involvement of the federal government, through its actions to deliver disaster relief and other support services, in addition to the evolving role of the Oversight Board and the role of Puerto Rico in its own recovery, heightens political risk in connection with the restructuring of legacy debt. This risk could lead the Oversight Board, 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. The Company monitors and analyzes these situations closely, however, the overall extent and duration of such events are uncertain.

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 policies insuring credit derivatives or on financial guarantee VIEs that are eliminated in consolidation. Policies insuring credit derivative contracts are accounted for as derivatives and are carried at fair value in the Company's consolidated financial statements under GAAP. The fair values of insured credit derivative contracts are influenced by a variety of market and transaction-specific factors that may be unrelated to potential future claim payments under the Company's insurance policies. In the absence of credit impairments on insured credit derivative contracts or the early termination of such contracts at a loss, the cumulative unrealized losses recorded from these contracts should reverse before or at the maturity of the contracts. As the Company's insured credit derivatives have similar terms, conditions, risks, and economic profiles to its financial guarantee insurance policies, the Company evaluates them for impairment, under Statutory accounting, in the same way that it estimates loss and LAE for its financial guarantee policies. Refer to "Note 9: Derivative Instruments" for a further discussion of the Company's use of derivatives and their impact on the Company's consolidated financial statements.

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 December 31, 2017 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. "Roll Rate" is defined as the probability that current loans become delinquent and subsequently default and loans in the delinquent pipeline are charged-off or liquidated. Generally, Roll Rates are calculated for the previous twelve months and averaged. The loss reserve estimates are based on a probability-weighted average of three scenarios of loan losses. Additional data used for both second and first-liens include historic averages of deal specific voluntary prepayment rates, forward projections of the London Interbank Offered Rate ("LIBOR") interest rates, and historic averages of deal-specific loss severities. In addition, for second-lien RMBS backed by home equity lines of credit, the Company assumes a constant basis spread between Prime and LIBOR interest rates.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 6: Loss and Loss Adjustment Expense Reserves (continued)

In calculating ultimate cumulative losses for RMBS, the Company estimates the amount of second-lien loans that are expected to be charged-off (deemed uncollectible by servicers of the transactions) or first-lien loans liquidated in the future.

For first-lien RMBS, the Company estimates the amount of loans that are expected to be liquidated through foreclosure or short sale. The time to liquidation for a defaulted loan is specific to the loan's delinquency bucket.

For all transactions, cash flow models consider allocations and other structural aspects and claims against MBIA Corp.'s insurance policy consistent with such policy's terms and conditions. The estimated net claims from the procedure above are then discounted using a risk-free rate to a net present value reflecting MBIA's general obligation to pay claims over time and not on an accelerated basis.

The 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").

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 the 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. Only its claims against Credit Suisse remain outstanding. The Company's settlement amounts have been consistent with the put-back recoveries that had been included in the Company's financial statements at the times preceding the settlements. The put-back contract claim remaining with Credit Suisse is related to the inclusion of ineligible loans in the 2007-2 Home Equity Mortgage Trust securitization. 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.

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, which totaled \$436 million through December 31, 2017. The Company is also entitled to collect interest on amounts paid; it believes that in the context of its put-back litigation, the appropriate interest rate should be the New York State statutory rate. However, the Company currently calculates its put-back recoveries using the contractual interest rate, which is lower than the New York State statutory rate.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 6: Loss and Loss Adjustment Expense Reserves (continued)

Notwithstanding the foregoing, uncertainty remains with respect to the ultimate outcome of the litigation with Credit Suisse, which is contemplated in the probability-weighted cash flow scenario based-modeling the Company uses. The Credit Suisse recovery scenarios are based on the amount of incurred losses measured against certain probabilities of ultimate resolution of the dispute with Credit Suisse. Most of the probability weight is assigned to partial recovery scenarios and are discounted using the current risk-free discount rates associated against the underlying transaction's cash flows.

The Company continues to consider relevant facts and circumstances in developing its assumptions on expected cash inflows, probability of potential recoveries (including the outcome of litigation) and recovery period. The estimated amount and likelihood of potential recoveries are expected to be revised and supplemented to the extent there are developments in the pending litigation and/or changes to the financial condition of Credit Suisse. While the Company believes it will be successful in realizing its recoveries from its put-back contract claims against Credit Suisse, the ultimate amount recovered may be materially different from that recorded by the Company given the inherent uncertainty of the manner of resolving the claims (i.e., litigation and/or negotiated out-of-court settlement) and the assumptions used in the required estimation process for accounting purposes which are based, in part, on judgments and other information that are not easily corroborated by historical data or other relevant benchmarks. Refer to "Note 20: Commitments and Contingencies" for further information about the Company's litigation with Credit Suisse.

CDO Reserves

The Company also has loss and LAE reserves on certain transactions within its CDO portfolio, primarily including 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).

The following discussion provides information about the Company's process for estimating reserves and credit impairments on these policies, determined as the present value of the probability-weighted potential future losses, net of estimated recoveries, across multiple scenarios.

The Company considers several factors when developing the range of potential outcomes and their impact on MBIA. The following approaches require substantial judgments about the future performance of each transaction:

1. Each transaction is evaluated for its commutation potential, which is customized by counterparty and considers historical commutation prices, the level of dialogue with the counterparty and the credit quality and payment profile of the underlying exposure.
2. A range of loss scenarios is considered under different default and severity rates for each transaction's collateral.

Zohar Recoveries

MBIA Corp. will seek to recover the payments it made (plus interest and expenses) with respect to Zohar I and the Zohar II Claim. MBIA Corp. anticipates that the primary source of the recovery of the Zohar II Claim will come from the monetization of the assets of 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 II, the "Zohar II Assets").

In connection with the exercise of its rights and remedies, MBIA Corp. acquired the beneficial ownership of the Zohar I assets, which include loans made to, and equity interests in, companies purportedly controlled by the Zohar Sponsor (all the assets of Zohar I, the "Zohar I Assets"). Over time, MBIA Corp. expects to acquire the legal ownership of the Zohar I Assets and recover all or substantially all of the payment it made (plus interest and expenses) with regards to the Zohar I claim. As of December 31, 2017, the recoveries of Zohar I and Zohar II 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

Note 6: Loss and Loss Adjustment Expense Reserves (continued)

There can be no assurance, however, that the value of the Zohar II Assets and the Zohar I Assets will be sufficient to permit MBIA Corp. to recover all or substantially all of the payments it made on the Zohar I and the Zohar II Claims. Failure to recover a substantial amount of such payments could impede its 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.

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 December 31, 2017 and 2016 are presented in the following table:

In millions	As of December 31, 2017			As of December 31, 2016		
	Balance Sheet Line Item			Balance Sheet Line Item		
	Insurance loss recoverable	Loan repurchase commitments	Loss and LAE reserves	Insurance loss recoverable	Loan repurchase commitments	Loss and LAE reserves
U.S. Public Finance Insurance	\$ 333	\$ —	\$ 512	\$ 174	\$ —	\$ 97
International and Structured Finance Insurance:						
Before VIE eliminations	1,478	407	710	551	404	650
VIE eliminations	(1,300)	—	(243)	(221)	—	(206)
Total international and structured finance insurance	178	407	467	330	404	444
Total	\$ 511	\$ 407	\$ 979	\$ 504	\$ 404	\$ 541

Changes in Loss and LAE Reserves

The following tables present changes in the Company's loss and LAE reserves for the years ended December 31, 2017 and 2016. 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 December 31, 2017 and 2016, the weighted average risk-free rate used to discount the Company's loss reserves (claim liability) was 2.31% and 2.07%, respectively. LAE reserves are generally expected to be settled within a one-year period and are not discounted. As of December 31, 2017 and 2016, the Company's gross loss and LAE reserves included \$66 million and \$60 million, respectively, related to LAE.

In millions	Changes in Loss and LAE Reserves for the Year Ended December 31, 2017							Gross Loss and LAE Reserves as of December 31, 2017	
	Gross Loss and LAE Reserves as of December 31, 2016	Loss Payments for Cases with Reserves ⁽¹⁾	Accretion of Claim Liability Discount	Changes in Discount Rates	Changes in Assumptions	Changes in Unearned Premium Revenue	Changes in LAE Reserves		Other ⁽²⁾
	\$ 541	\$ (1,069)	\$ 12	\$ 15	\$ 661	\$ (30)	\$ 6	\$ 843	\$ 979

(1)—Includes payments made to satisfy the Zohar II Claim.

(2)—Primarily changes in the amount to satisfy the Zohar II Claim.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 6: Loss and Loss Adjustment Expense Reserves (continued)

In millions	Changes in Loss and LAE Reserves for the Year Ended December 31, 2016							Gross Loss and LAE Reserves as of December 31, 2016	
	Gross Loss and LAE Reserves as of December 31, 2015	Loss Payments for Cases with Reserves	Accretion of Claim Liability Discount	Changes in Discount Rates	Changes in Assumptions	Changes in Unearned Premium Revenue	Changes in LAE Reserves		Other ⁽¹⁾
	\$ 516	\$ (128)	\$ 8	\$ 5	\$ 78	\$ (15)	\$ 14	\$ 63	\$ 541

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

The increase in the Company's gross loss and LAE reserves during 2017 was primarily related to increases due to changes in assumptions on certain Puerto Rico exposures.

The increase in the Company's gross loss and LAE reserves during 2016 was primarily related to increases due to changes in assumptions on insured first and second-lien RMBS transactions and U.S. public finance transactions. These were partially offset by decreases in changes in assumptions on CDOs.

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 years ended December 31, 2017 and 2016. 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.

In millions	Changes in Insurance Loss Recoverable and Recoveries on Unpaid Losses for the Year Ended December 31, 2017							Gross Reserve as of December 31, 2017
	Gross Reserve as of December 31, 2016	Collections for Cases with Recoveries	Accretion of Recoveries	Changes in Discount Rates	Changes in Assumptions	Changes in LAE Recoveries	Other ⁽¹⁾	
Insurance loss recoverable	\$ 504	\$ (124)	\$ 10	\$ 2	\$ 113 ⁽²⁾	\$ —	\$ 6	\$ 511
Recoveries on unpaid losses ⁽³⁾	79	—	1	1	(45)	(1)	—	35
Total	\$ 583	\$ (124)	\$ 11	\$ 3	\$ 68	\$ (1)	\$ 6	\$ 546

(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 December 31, 2017 and 2016, excludes Puerto Rico recoveries, and as of December 31, 2016, the Zohar II recoveries, which have been netted against reserves.

In millions	Changes in Insurance Loss Recoverable and Recoveries on Unpaid Losses for the Year Ended December 31, 2016							Gross Reserve as of December 31, 2016
	Gross Reserve as of December 31, 2015	Collections for Cases with Recoveries	Accretion of Recoveries	Changes in Discount Rates	Changes in Assumptions	Changes in LAE Recoveries	Other ⁽¹⁾	
Insurance loss recoverable	\$ 577	\$ (69)	\$ 5	\$ (17)	\$ 86	\$ (6)	\$ (72)	\$ 504
Recoveries on unpaid losses ⁽²⁾	100	—	1	3	(34)	9	—	79
Total	\$ 677	\$ (69)	\$ 6	\$ (14)	\$ 52	\$ 3	\$ (72)	\$ 583

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

(2)—Excludes Puerto Rico and Zohar II recoveries, which have been netted against reserves.

The increase in the Company's insurance loss recoverable during 2017 was primarily due to paid losses on certain Puerto Rico credits offset by a decrease in insured RMBS transactions. The decrease in the RMBS insurance loss recoverable was primarily related to the collection of mortgage insurance from the settlement of litigation involving Old Republic Insurance Corporation and a decrease in expected recoveries from first-lien RMBS transactions. The decrease in the Company's recoveries on unpaid losses is primarily related to insured RMBS transactions.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 6: Loss and Loss Adjustment Expense Reserves (continued)

The decrease in the Company's insurance loss recoverable and recoveries on unpaid losses during 2016 was primarily due to a decrease in expected future recoveries on CDOs as the result of the consolidation of a VIE and related elimination of a VIE and a decrease in changes in the amount of expected collections on first and second-
 lien RMBS issues, partially offset by an increase related to changes in assumptions on certain Puerto Rico credits.

Loss and LAE Activity

The Company's financial guarantee insurance losses and LAE (excluding insured credit derivative and consolidated VIEs), net of reinsurance for the years ended December 31, 2017, 2016 and 2015 are presented in the following table:

In millions	Years Ended December 31,		
	2017	2016	2015
U.S. Public Finance Insurance Segment	\$ 499	\$ 74	\$ 5
International and Structured Finance Insurance Segment:			
Second-lien RMBS	62	121	63
First-lien RMBS	92	41	34
CDOs	10	(32)	29
Other ⁽¹⁾	20	16	(8)
Losses and LAE	<u>\$ 683</u>	<u>\$ 220</u>	<u>\$ 123</u>

(1)—Includes non-U.S. public finance and other issues.

For 2017, losses and LAE primarily related to increases in actual and expected payments on certain Puerto Rico exposures, insured first-lien RMBS transactions 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.

For 2016, losses and LAE primarily related to increases in actual and expected payments on certain Puerto Rico exposures and insured first and second-lien RMBS transactions and decreases in projected collections from excess spread within insured second-lien RMBS transactions. These were partially offset by increases in recoveries of actual and expected payments on certain Puerto Rico exposures and decreases in actual and expected payments on CDOs.

For 2015, losses and LAE primarily related to increases in expected payments on CDOs and insured first-lien RMBS transactions and decreases in projected collections from excess spread within insured second-lien RMBS securitizations. These were partially offset by increases in recoveries of expected payments related to CDOs and increases in projected collections from excess spread within insured second-lien RMBS securitizations due to an anticipated sale of loans within certain securitizations that had been previously charged off by the servicer.

Costs associated with remediating insured obligations assigned to the Company's surveillance categories are recorded as LAE and included in "Losses and loss adjustment" expenses on the Company's consolidated statements of operations. For 2017, 2016 and 2015, gross LAE related to remediating insured obligations were \$42 million, \$48 million and \$26 million, respectively.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 6: 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 December 31, 2017:

\$ in millions	Surveillance Categories				
	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	<u>\$5,440</u>	<u>\$ 16</u>	<u>\$ 150</u>	<u>\$11,839</u>	<u>\$17,445</u>
Gross Claim Liability ⁽³⁾	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 1,082</u>	<u>\$ 1,082</u>
Less:					
Gross Potential Recoveries ⁽⁴⁾	—	—	—	782	782
Discount, net ⁽⁵⁾	—	—	—	(178)	(178)
Net claim liability (recoverable)	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 478</u>	<u>\$ 478</u>
Unearned premium revenue	<u>\$ 9</u>	<u>\$ —</u>	<u>\$ 4</u>	<u>\$ 77</u>	<u>\$ 90</u>

(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.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 6: 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, 2016:

\$ in millions	Surveillance Categories				
	Cautious List Low	Cautious List Medium	Cautious List High	Classified List	Total
Number of policies	90	6	3	331	430
Number of issues ⁽¹⁾	17	4	2	126	149
Remaining weighted average contract period (in years)	7.5	3.4	7.2	7.0	7.1
Gross insured contractual payments outstanding: ⁽²⁾					
Principal	\$2,917	\$ 17	\$ 320	\$ 7,031	\$10,285
Interest	2,795	4	107	2,777	5,683
Total	<u>\$5,712</u>	<u>\$ 21</u>	<u>\$ 427</u>	<u>\$ 9,808</u>	<u>\$15,968</u>
Gross Claim Liability ⁽³⁾	\$ —	\$ —	\$ —	\$ 718	\$ 718
Less:					
Gross Potential Recoveries ⁽⁴⁾	—	—	—	770	770
Discount, net ⁽⁵⁾	—	—	—	(75)	(75)
Net claim liability (recoverable)	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 23</u>	<u>\$ 23</u>
Unearned premium revenue	\$ 9	\$ —	\$ 8	\$ 68	\$ 85

(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 and Zohar II 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.

As of December 31, 2017, the gross claim liability primarily related to insured first-lien RMBS transactions as well as certain Puerto Rico exposures. As of December 31, 2016, the gross claim liability primarily related to insured first-lien RMBS transactions. As of December 31, 2017 and 2016, the gross potential recoveries principally related to certain Puerto Rico exposures and insured second-lien RMBS transactions. As of December 31, 2017, these 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.

The Company's recoveries have been, and remain based on either salvage rights, the rights conferred to MBIA through the transactional documents (inclusive of the insurance agreement), or subrogation rights embedded within financial guarantee insurance policies. 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, it 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. As of December 31, 2017 and 2016, reinsurance recoverable on paid and unpaid losses was \$17 million and \$6 million, respectively, and was included in "Other assets" on the Company's consolidated balance sheets.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 7: 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 December 31, 2017 or 2016. 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, MTNs, investment agreements, debt issued by consolidated VIEs and warrants. 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 they are highly customized and 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.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 7: Fair Value of Financial Instruments (continued)

Valuation Techniques

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

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

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

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.

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

Investments based on quoted market prices of identical investments in active markets are classified as Level 1 of the fair value hierarchy. Level 1 investments generally consist of U.S. Treasury and government agency, foreign government, 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. Loans receivable at fair value are categorized in Level 3 of the fair value hierarchy.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 7: Fair Value of Financial Instruments (continued)

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

VIEs consolidated by the Company have entered into derivative instruments consisting of cross currency swaps. Cross currency swaps are entered into to manage the variability in cash flows resulting from fluctuations in foreign currency rates. The fair value of VIE derivatives 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.

Long-term Debt

The fair value of long-term notes, debentures and surplus notes are estimated based on quoted prices for these or similar securities.

The fair value of the accrued interest expense on the surplus notes due in 2033 is determined based on the carrying amount of the accrued interest expense, adjusted for the credit risk of the Company. The carrying amounts of accrued interest expense on all other long-term debt approximate fair value due to the short-term nature of the interest payment. Long-term debt is categorized in Level 2 of the fair value hierarchy.

Medium-term Notes

The fair values of certain MTNs are based on quoted market prices provided by third-party sources, where available. When quoted market prices are not available, the Company applies a matrix pricing grid 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. The Company has elected to measure certain MTNs at fair value on a recurring basis with changes in fair value reflected in earnings. MTNs are categorized in Level 3 of the fair value hierarchy.

Investment Agreements

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

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 7: Fair Value of Financial Instruments (continued)

Variable Interest Entity Notes

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

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

For the year ended December 31, 2017, the Company used 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.

Prior to 2017, the Company used the Binomial Expansion Technique (“BET”) Model and the Direct Price Model to value insured CDS contracts. The BET Model estimates what a bond insurer would charge to guarantee a transaction at the measurement date, based on the market-implied default risk of the underlying collateral and the remaining structural protection in a deductible or subordination. Inputs to the process of determining fair value for structured transactions using the BET Model include estimates of collateral loss, allocation of loss to separate tranches of the capital structure, credit spreads, recovery rates and nonperformance risk and weighted average life.

The Company also has other derivative liabilities as a result of a commutation occurring 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.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 7: Fair Value of Financial Instruments (continued)

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.

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.

Held For Sale

As of December 31, 2016, the Company estimated the fair value of the assets and liabilities of MBIA UK held for sale based on the fair value of the expected total consideration for the sale of MBIA UK. The fair value of the sale consideration is categorized in Level 2 of the fair value hierarchy. Refer to "Note 1: Business Developments and Risks and Uncertainties" for additional information about the sale of MBIA UK.

Financial Guarantees

Gross Financial Guarantees—The fair value of gross financial guarantees is determined using discounted cash flow techniques based on inputs that include (i) assumptions of expected losses on financial guarantee policies where loss reserves have not been recognized, (ii) amount of losses expected on financial guarantee policies where loss reserves have been established, net of expected recoveries, (iii) the cost of capital reserves required to support the financial guarantee liability, (iv) operating expenses, and (v) discount rates which reflect the expected nonperformance risk and recovery rates of the Company.

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

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

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 7: 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 December 31, 2017 and 2016.

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 Multiples of EBITDA	Impact of financial guarantee ⁽¹⁾ Multiples ⁽²⁾	-25%—35% (-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, net:				
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

Note 7: Fair Value of Financial Instruments (continued)

In millions	Fair Value as of December 31, 2016	Valuation Techniques	Unobservable Input	Range (Weighted Average)
Assets of consolidated VIEs:				
Loans receivable at fair value	\$ 916	Market prices adjusted for financial guarantees provided to VIE obligations Multiples of EBITDA	Impact of financial guarantee Multiples ⁽¹⁾	0%—28%(3%)
Loan repurchase commitments	404	Discounted cash flow	Recovery rates ⁽²⁾ Breach rates ⁽²⁾	
Liabilities of consolidated VIEs:				
Variable interest entity notes	476	Market prices of VIE assets adjusted for financial guarantees provided	Impact of financial guarantee	0%—54%(24%)
Credit derivative liabilities, net:				
CMBS	62	BET Model	Recovery rates Nonperformance risk Weighted average life (in years) CMBS spreads	25%—40%(33%) 10%—32%(32%) 1.1—1.5 (1.3)
Multi-sector CDO	2	Direct Price Model	Nonperformance risk	25%—35%(30%) 58%—58%(58%)
Other derivative liabilities	20	Discounted cash flow	Cash flows	\$0—\$83 (\$42) ⁽³⁾

(1)—Unobservable inputs are primarily based on comparable companies' EBITDA multiples.

(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.

Sensitivity of Significant Unobservable Inputs

The significant unobservable inputs used in the fair value measurement of the Company's loans receivable at fair value of consolidated VIEs are the impact of the financial guarantee and multiples. The fair value of loans receivable are calculated by subtracting the value of the financial guarantee from the market value of VIE liabilities and methodologies using multiples of EBITDA. 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. Multiples are external factors that are considered when determining the fair values of corporate loans. These loans are to privately held companies for which MBIA has limited information. Therefore, the Company uses multiples of EBITDA of comparable companies and any increase or decrease in these multiples would result in an increase or decrease in the fair values of the loans, respectively.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 7: Fair Value of Financial Instruments (continued)

The significant unobservable inputs used in the fair value measurement of the Company's loan repurchase commitments of consolidated VIEs are the recovery rates and 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.

Effective in 2017, the Company changed its technique on valuing its commercial mortgage-backed securities ("CMBS") credit derivative to the Direct Price Model from the BET Model. The significant unobservable input used in the fair value measurement was 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. Prior to 2017, the Company used the BET Model to value its CMBS credit derivatives. The significant unobservable inputs used in the fair value measurement of its CMBS credit derivatives were CMBS spreads, recovery rates, nonperformance risk and weighted average life. The CMBS spread is an indicator of credit risk of the collateral securities. The recovery rate represents the percentage of notional expected to be recovered after an asset defaults, indicating the severity of a potential loss. The nonperformance risk is an assumption of MBIA Corp.'s own ability to pay and whether MBIA Corp. will have the necessary resources to pay the obligations as they come due. Weighted average life is based on the Company's estimate of when the principal of the underlying collateral of the CMBS structure will be repaid. A significant increase or decrease in CMBS spreads would result in an increase or decrease in the fair value of the derivative liability, respectively. A significant increase in weighted average life can result in an increase or decrease in the fair value of the derivative liability, depending on the discount rate and the timing of significant losses. Any significant increase or decrease in recovery rates, or MBIA Corp.'s nonperformance risk would result in a decrease or increase in the fair value of the derivative liabilities, respectively. CMBS spreads, recovery rates, nonperformance risk and weighted average lives are determined independently. Changes in one input will not necessarily have any impact on the other inputs.

The significant unobservable input used in the fair value measurement of MBIA Corp.'s 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

Note 7: 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 December 31, 2017 and 2016:

In millions	Fair Value Measurements at Reporting Date Using				Balance as of December 31, 2017
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Counterparty and Cash Collateral Netting	
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

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 7: Fair Value of Financial Instruments (continued)

In millions	Fair Value Measurements at Reporting Date Using				Balance as of December 31, 2017
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Counterparty and Cash Collateral Netting	
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.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 7: Fair Value of Financial Instruments (continued)

In millions	Fair Value Measurements at Reporting Date Using				Balance as of December 31, 2016
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Counterparty and Cash Collateral Netting	
Assets:					
Fixed-maturity investments:					
U.S. Treasury and government agency	\$ 825	\$ 112	\$ —	\$ —	\$ 937
State and municipal bonds	—	1,440	—	—	1,440
Foreign governments	—	9	—	—	9
Corporate obligations	—	1,332	2 ⁽¹⁾	—	1,334
Mortgage-backed securities:					
Residential mortgage-backed agency	—	868	—	—	868
Residential mortgage-backed non-agency	—	45	—	—	45
Commercial mortgage-backed	—	43	—	—	43
Asset-backed securities:					
Collateralized debt obligations	—	7	15 ⁽¹⁾	—	22
Other asset-backed	—	257	44 ⁽¹⁾	—	301
Total fixed-maturity investments	825	4,113	61	—	4,999
Money market securities	521	—	—	—	521
Perpetual debt and equity securities	26	9	—	—	35
Fixed-income fund	—	—	—	—	75 ⁽²⁾
Cash and cash equivalents	163	—	—	—	163
Derivative assets:					
Non-insured derivative assets:					
Interest rate derivatives	—	3	—	—	3

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 7: Fair Value of Financial Instruments (continued)

In millions	Fair Value Measurements at Reporting Date Using				Balance as of December 31, 2016
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Counterparty and Cash Collateral Netting	
Assets of consolidated VIEs:					
Corporate obligations	—	27	—	—	27
Mortgage-backed securities:					
Residential mortgage-backed non-agency	—	149	—	—	149
Commercial mortgage-backed	—	52	—	—	52
Asset-backed securities:					
Collateralized debt obligations	—	7	1 ⁽¹⁾	—	8
Other asset-backed	—	18	1 ⁽¹⁾	—	19
Cash	24	—	—	—	24
Loans receivable at fair value:					
Residential loans receivable	—	—	916	—	916
Corporate loans receivable	—	—	150 ⁽¹⁾	—	150
Loan repurchase commitments	—	—	404	—	404
Derivative assets:					
Currency derivatives	—	—	19 ⁽¹⁾	—	19
Total assets	\$ 1,559	\$ 4,378	\$ 1,552	\$ —	\$ 7,564
Liabilities:					
Medium-term notes	\$ —	\$ —	\$ 101 ⁽¹⁾	\$ —	\$ 101
Derivative liabilities:					
Insured derivatives:					
Credit derivatives	—	2	64	—	66
Non-insured derivatives:					
Interest rate derivatives	—	213	—	—	213
Other	—	—	20	—	20
Other liabilities:					
Warrants	—	33	—	—	33
Liabilities of consolidated VIEs:					
Variable interest entity notes	—	875	476	—	1,351
Total liabilities	\$ —	\$ 1,123	\$ 661	\$ —	\$ 1,784

(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.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 7: Fair Value of Financial Instruments (continued)

Level 3 assets at fair value as of December 31, 2017 and 2016 represented approximately 30% and 21%, respectively, of total assets measured at fair value. Level 3 liabilities at fair value as of December 31, 2017 and 2016 represented approximately 41% and 37%, respectively, of total liabilities measured at fair value.

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 December 31, 2017 and 2016:

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

In millions	Fair Value Measurements at Reporting Date Using			Fair Value Balance as of December 31, 2016	Carry Value Balance as of December 31, 2016
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)		
Assets:					
Other investments	\$ —	\$ 2	\$ —	\$ 2	\$ 3
Assets held for sale	—	306	—	306	306
Assets of consolidated VIEs:					
Investments held-to-maturity	—	—	876	876	890
Total assets	\$ —	\$ 308	\$ 876	\$ 1,184	\$ 1,199
Liabilities:					
Long-term debt	\$ —	\$ 1,030	\$ —	\$ 1,030	\$ 1,986
Medium-term notes	—	—	478	478	794
Investment agreements	—	—	508	508	399
Liabilities of consolidated VIEs:					
Variable interest entity notes	—	—	882	882	890
Total liabilities	\$ —	\$ 1,030	\$ 1,868	\$ 2,898	\$ 4,069
Financial Guarantees:					
Gross	\$ —	\$ —	\$ 2,638	\$ 2,638	\$ 995
Ceded	—	—	18	18	43

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 7: 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 years ended December 31, 2017 and 2016:

Changes in Level 3 Assets and Liabilities Measured at Fair Value on a Recurring Basis for the Year Ended December 31, 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 December 31, 2017
Assets:													
Corporate obligations	\$ 2	\$ —	\$ —	\$ —	\$ —	\$ 1	\$ —	\$ —	\$ —	\$ —	\$ (1)	\$ 2	\$ —
Commercial mortgage-backed	—	—	—	—	—	—	—	—	—	14	(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)	9	—	6	—
Collateralized debt obligations	1	—	—	—	—	—	—	—	—	—	—	1	—
Other asset-backed	1	—	—	—	—	—	—	—	—	1	(2)	—	—
Loans receivable-residential	916	—	79	—	—	—	—	(236)	—	—	—	759	79
Loans receivable-corporate	150	—	89	—	—	719	—	(38)	—	—	—	920	89
Loan repurchase commitments	404	—	3	—	—	—	—	—	—	—	—	407	3
Currency derivatives, net	19	—	2	—	(2)	—	—	—	—	—	—	19	—
Other	—	—	(3)	—	—	17	—	—	—	—	—	14	(3)
Total assets	\$ 1,552	\$ —	\$ 170	\$ 2	\$ (2)	\$ 737	\$ —	\$ (324)	\$ (3)	\$ 31	\$ (23)	\$ 2,140	\$ 168

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 December 31, 2017
Liabilities:													
Medium-term notes	\$ 101	\$ —	\$ (1)	\$ —	\$ 15	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 115	\$ 14
Credit derivatives, net	64	51	(1)	—	—	—	—	(51)	—	—	—	63	1
Other derivatives, net	20	—	18	—	—	—	—	(34)	—	—	—	4	18
Other payable	—	—	—	—	—	7	—	—	—	—	—	7	—
Liabilities of consolidated VIEs:													
VIE notes	476	—	37	—	—	—	—	(56)	(51)	—	—	406	37
Total liabilities	\$ 661	\$ 51	\$ 53	\$ —	\$ 15	\$ 7	\$ —	\$ (141)	\$ (51)	\$ —	\$ —	\$ 595	\$ 70

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

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 7: Fair Value of Financial Instruments (continued)

Changes in Level 3 Assets and Liabilities Measured at Fair Value on a Recurring Basis for the Year Ended December 31, 2016

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 December 31, 2016
Assets:													
Foreign governments	\$ 2	\$ —	\$ —	\$ —	(1)	10	—	(10)	—	—	(1)	\$ —	—
Corporate obligations	7	—	—	—	—	—	—	—	—	2	(7)	2	—
Commercial mortgage-backed	—	—	—	—	—	—	—	—	(1)	1	—	—	—
Collateralized debt obligations	29	—	—	18	—	—	—	(32)	—	—	—	15	—
Other asset-backed	38	(1)	(1)	14	—	—	—	(3)	—	—	(3)	44	(1)
State and municipal bonds	41	—	—	—	—	122	—	(39)	(1)	2	(125)	—	—
Assets of consolidated VIEs:													
Corporate obligations	11	—	(6)	—	—	—	—	(2)	—	2	(5)	—	—
Residential mortgage-backed non-agency	—	—	(1)	—	—	—	—	—	—	1	—	—	—
Commercial mortgage-backed	—	—	(4)	—	—	—	—	—	—	4	—	—	—
Collateralized debt obligations	1	—	—	—	—	—	—	—	—	—	—	1	—
Other asset-backed	6	—	(7)	—	—	—	—	—	—	5	(3)	1	—
Loans receivable-residential	1,185	—	(11)	—	—	—	—	(258)	—	—	—	916	(11)
Loans receivable-corporate	107	—	4	—	—	146	—	—	(107)	—	—	150	4
Loan repurchase commitments	396	—	8	—	—	—	—	—	—	—	—	404	8
Currency derivatives, net	11	—	2	—	6	—	—	—	—	—	—	19	8
Total assets	\$ 1,834	\$ (1)	\$ (16)	\$ 32	\$ 5	\$ 278	\$ —	\$ (344)	\$ (109)	\$ 17	\$ (144)	\$ 1,552	\$ 8

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 December 31, 2016
Liabilities:													
Medium-term notes	\$ 161	\$ —	(3)	—	(1)	—	—	(56)	—	—	—	101	(4)
Credit derivatives, net	85	43	(21)	—	—	—	—	(43)	—	—	—	64	(13)
Other derivatives, net	18	—	2	—	—	—	—	—	—	—	—	20	2
Liabilities of consolidated VIEs:													
VIE notes	1,267	—	(23)	—	—	9	—	(146)	(631)	—	—	476	(23)
Total liabilities	\$ 1,531	\$ 43	\$ (45)	\$ —	\$ (1)	\$ 9	\$ —	\$ (245)	\$ (631)	\$ —	\$ —	\$ 661	\$ (38)

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

For the year ended December 31, 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, 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.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 7: Fair Value of Financial Instruments (continued)

For the year ended December 31, 2016, transfers into Level 3 and out of Level 2 were principally related to other asset-backed, CMBS, corporate obligations, state and municipal bonds, and RMBS, where inputs, which are significant to their valuation, became unobservable during the period. State and municipal bonds, 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.

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

Gains and losses (realized and unrealized) included in earnings relating to Level 3 assets and liabilities for the years ended December 31, 2017, 2016 and 2015 are reported on the Company's consolidated statements of operations as follows:

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 December 31,		
	2017	2016	2015	2017	2016	2015
Revenues:						
Unrealized gains (losses) on insured derivatives	\$ 1	\$ 21	\$ 159	\$ (1)	\$ 13	\$ 145
Realized gains (losses) and other settlements on insured derivatives	(51)	(43)	(28)	—	—	—
Net gains (losses) on financial instruments at fair value and foreign exchange	(32)	1	39	(32)	1	42
Net investment losses related to other-than-temporary impairments	—	(1)	—	—	—	—
Revenues of consolidated VIEs:						
Net gains (losses) on financial instruments at fair value and foreign exchange	131	14	23	131	32	19
Total	<u>\$ 49</u>	<u>\$(8)</u>	<u>\$ 193</u>	<u>\$ 98</u>	<u>\$ 46</u>	<u>\$ 206</u>

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 changes in fair value included in the Company's consolidated statements of operations for the years ended December 31, 2017, 2016 and 2015 for financial instruments for which the fair value option was elected:

In millions	Years Ended December 31,		
	2017	2016	2015
Investments carried at fair value ⁽¹⁾	\$ 8	\$ 7	\$ (3)
Fixed-maturity securities held at fair value-VIE ⁽²⁾	(22)	(124)	(146)
Loans receivable at fair value:			
Residential mortgage loans ⁽²⁾	(158)	(268)	(246)
Other loans ⁽²⁾	52	—	—
Loan repurchase commitments ⁽²⁾	3	8	17
Other ⁽²⁾	(3)	—	—
Medium-term notes ⁽¹⁾	(14)	4	36
Variable interest entity notes ⁽²⁾	230	383	381

(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.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 7: Fair Value of Financial Instruments (continued)

The following table reflects the difference between the aggregate fair value and the aggregate remaining contractual principal balance outstanding as of December 31, 2017 and 2016 for loans and notes for which the fair value option was elected:

In millions	As of December 31, 2017			As of December 31, 2016		
	Contractual Outstanding Principal	Fair Value	Difference	Contractual Outstanding Principal	Fair Value	Difference
Loans receivable at fair value:						
Residential mortgage loans	\$ 732	\$ 727	\$ 5	\$ 965	\$ 894	\$ 71
Residential mortgage loans (90 days or more past due)	170	32	138	143	22	121
Corporate loans (90 days or more past due)	1,394	920	474	150	150	—
Total loans receivable at fair value	2,296	1,679	617	1,258	1,066	192
Variable interest entity notes	1,882	1,069	813	2,449	1,351	1,098
Medium-term notes	180	115	65	158	101	57

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

Note 8: Investments

Investments, excluding those elected under the fair value option, include debt and equity securities classified as either AFS or HTM. Other AFS investments primarily comprise money market funds.

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 December 31, 2017 and 2016:

In millions	December 31, 2017				Other-Than-Temporary Impairments ⁽¹⁾
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	
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	<u>\$ 4,438</u>	<u>\$ 91</u>	<u>\$ (106)</u>	<u>\$4,423</u>	<u>\$ (71)</u>
HTM Investments					
Assets of consolidated VIEs:					
Corporate obligations	\$ 890	\$ 26	\$ —	\$ 916	\$ —
Total HTM investments	<u>\$ 890</u>	<u>\$ 26</u>	<u>\$ —</u>	<u>\$ 916</u>	<u>\$ —</u>

(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

Note 8: Investments (continued)

In millions	December 31, 2016				
	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	\$ 909	\$ 30	\$ (10)	\$ 929	\$ —
State and municipal bonds	1,382	72	(15)	1,439	—
Foreign governments	8	—	—	8	—
Corporate obligations	1,352	20	(102)	1,270	(73)
Mortgage-backed securities:					
Residential mortgage-backed agency	871	3	(12)	862	—
Residential mortgage-backed non-agency	50	1	(6)	45	(3)
Commercial mortgage-backed	41	—	—	41	—
Asset-backed securities:					
Collateralized debt obligations	22	—	—	22	—
Other asset-backed	294	2	(3)	293	1
Total fixed-maturity investments	4,929	128	(148)	4,909	(75)
Money market securities	517	—	—	517	—
Perpetual debt and equity securities	4	1	—	5	—
Total AFS investments	<u>\$ 5,450</u>	<u>\$ 129</u>	<u>\$ (148)</u>	<u>\$5,431</u>	<u>\$ (75)</u>
HTM Investments					
Assets of consolidated VIEs:					
Corporate obligations	\$ 890	\$ —	\$ (14)	\$ 876	\$ —
Total HTM investments	<u>\$ 890</u>	<u>\$ —</u>	<u>\$ (14)</u>	<u>\$ 876</u>	<u>\$ —</u>

(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.

The following table presents the distribution by contractual maturity of AFS and HTM fixed-maturity securities at amortized cost and fair value as of December 31, 2017. Contractual maturity may differ from expected maturity as borrowers may have the right to call or prepay obligations.

In millions	AFS Securities		HTM Securities	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	\$ 674	\$ 674	\$ —	\$ —
Due after one year through five years	1,157	1,159	—	—
Due after five years through ten years	601	540	—	—
Due after ten years	1,067	1,116	890	916
Mortgage-backed and asset-backed	757	751	—	—
Total fixed-maturity investments	<u>\$ 4,256</u>	<u>\$ 4,240</u>	<u>\$ 890</u>	<u>\$ 916</u>

Deposited and Pledged Securities

The fair value of securities on deposit with various regulatory authorities as of December 31, 2017 and 2016 was \$10 million and \$11 million, respectively. 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.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 8: Investments (continued)

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 December 31, 2017 and 2016, the fair value of securities pledged as collateral for these investment agreements approximated \$353 million and \$416 million, respectively. The Company's collateral as of December 31, 2017 consisted principally of U.S. Treasury and government agency and state and municipal bonds, and was primarily held with major U.S. banks. Additionally, the Company pledged cash and money market securities as collateral under investment agreements of \$6 million as of December 31, 2016.

Impaired Investments

The following tables present the gross unrealized losses related to AFS and HTM investments as of December 31, 2017 and 2016:

In millions	December 31, 2017					
	Less than 12 Months		12 Months or Longer		Total	
	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)

In millions	December 31, 2016					
	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
AFS Investments						
Fixed-maturity investments:						
U.S. Treasury and government agency	\$ 432	\$ (10)	\$ —	\$ —	\$ 432	\$ (10)
State and municipal bonds	339	(13)	18	(2)	357	(15)
Foreign governments	5	—	—	—	5	—
Corporate obligations	534	(29)	52	(73)	586	(102)
Mortgage-backed securities:						
Residential mortgage-backed agency	436	(9)	122	(3)	558	(12)
Residential mortgage-backed non-agency	1	—	29	(6)	30	(6)
Commercial mortgage-backed	6	—	15	—	21	—
Asset-backed securities:						
Collateralized debt obligations	7	—	15	—	22	—
Other asset-backed	112	(1)	49	(2)	161	(3)
Total AFS investments	\$1,872	\$ (62)	\$ 300	\$ (86)	\$2,172	\$ (148)

HTM Investments

Assets of consolidated VIEs:

Corporate obligations	\$ —	\$ —	\$ 876	\$ (14)	\$ 876	\$ (14)
Total HTM investments	\$ —	\$ —	\$ 876	\$ (14)	\$ 876	\$ (14)

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 8: Investments (continued)

Gross unrealized losses on AFS investments decreased as of December 31, 2017 compared with December 31, 2016 primarily due to tightening credit spreads and lower long-term interest rates. Gross unrealized losses on HTM investments decreased as of December 31, 2017 compared with December 31, 2016 primarily due to tightening credit spreads.

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 December 31, 2017 and 2016 was 12 and 22 years, respectively. As of December 31, 2017 and 2016, there were 133 and 46 securities, respectively, that were in an unrealized loss position for a continuous twelve-month period or longer, of which, fair values of 24 and 12 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 December 31, 2017:

Percentage of Fair Value Below Book Value	AFS Securities			HTM Securities		
	Number of Securities	Book Value (in millions)	Fair Value (in millions)	Number of Securities	Book Value (in millions)	Fair Value (in millions)
> 5% to 15%	17	\$ 76	\$ 71	—	\$ —	\$ —
> 15% to 25%	1	3	2	—	—	—
> 25% to 50%	2	12	9	—	—	—
> 50%	4	101	29	—	—	—
Total	24	\$ 192	\$ 111	—	\$ —	\$ —

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 December 31, 2017 that would require the sale of impaired securities. Impaired securities that the Company intends to sell before the expected recovery of such securities' fair values have been written down to fair value.

Other-Than-Temporary Impairments

Evaluating AFS Securities for OTTI

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

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

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 8: Investments (continued)

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

Determination of Credit Loss on ABS, MBS and Corporate Obligations

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

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

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

During 2017, certain municipal bonds had liquidity concerns, recent credit downgrades and other adverse financial conditions. As a result, the Company placed these bonds on a non-accrual basis and recognized an OTTI loss for the difference between its amortized cost and fair value. This OTTI loss was included in "Investment losses related to other-than-temporary impairments" on the Company's consolidated statement of operations.

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

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. Refer to "Note 2: Significant Accounting Policies" included herein for information about the Company's loss reserving policy and "Note 6: Loss and Loss Adjustment Expenses Reserves" for information about loss reserves.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 8: Investments (continued)

The following table provides information about securities held by the Company as of December 31, 2017 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	\$ (4)	\$ 15
Corporate obligations:			
MBIA ⁽¹⁾	14	—	—
Other:			
MBIA ⁽¹⁾	93	(7)	34
Other	3	—	—
Total other	96	(7)	34
Total	\$ 124	\$ (11)	\$ 49

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

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

Credit Loss Rollforward

The portion of certain OTTI losses on fixed-maturity securities that does not represent credit losses is recognized in AOCI. For these impairments, the net amount recognized in earnings represents the difference between the amortized cost of the security and the net present value of its projected future discounted cash flows prior to impairment. Any remaining difference between the fair value and amortized cost is recognized in AOCI. The following table presents the amount of credit loss impairments recognized in earnings on fixed-maturity securities held by MBIA as of the dates indicated, for which a portion of the OTTI losses was recognized in AOCI, and the corresponding changes in such amounts. The additional credit loss impairment on securities not previously impaired for the year ended December 31, 2017, primarily related to municipal bonds for which a loss was recognized as the difference between its amortized cost and fair value. The additional credit loss impairments on securities previously impaired for the years ended December 31, 2017, 2016 and 2015, primarily related to a corporate obligation that incurred liquidity concerns, ongoing credit risk and other adverse financial conditions.

In millions	Years Ended December 31,		
	2017	2016	2015
Credit Losses Recognized in Earnings Related to OTTI			
Beginning balance	\$ 29	\$ 26	\$ 16
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	5	4	10
Reductions for credit loss impairments previously recognized on securities sold during the period	(2)	(1)	—
Reductions for credit loss impairments previously recognized on securities impaired to fair value during the period	(11)	—	—
Ending balance	\$ 32	\$ 29	\$ 26

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 8: 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 years ended December 31, 2017, 2016 and 2015 are as follows:

In millions	Years Ended December 31,		
	2017	2016	2015
Proceeds from sales	\$ 2,256	\$ 2,412	\$ 1,145
Gross realized gains	\$ 40	\$ 84	\$ 32
Gross realized losses	\$ (22)	\$ (23)	\$ (16)

Note 9: 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 derivative instruments to provide financial guarantee insurance to structured finance transactions that do not qualify for the financial guarantee scope exception and, therefore, are accounted for as derivatives. These insured CDS contracts, primarily referencing CMBS, are 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 occurring 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

VIEs consolidated by the Company have entered into derivative instruments consisting of cross currency swaps. Cross currency swaps are entered into to manage the variability in cash flows resulting from fluctuations in foreign currency rates.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 9: Derivative Instruments (continued)

Credit Derivatives Sold

The following tables present information about credit derivatives sold by the Company's insurance operations that were outstanding as of December 31, 2017 and 2016. Credit ratings represent the lower of underlying ratings assigned to the collateral by Moody's, S&P or MBIA.

<u>\$ in millions</u>	<u>As of December 31, 2017</u>							
	<u>Notional Value</u>							
<u>Credit Derivatives Sold</u>	<u>Weighted Average Remaining Expected Maturity</u>	<u>AAA</u>	<u>AA</u>	<u>A</u>	<u>BBB</u>	<u>Below Investment Grade</u>	<u>Total Notional</u>	<u>Fair Value Asset (Liability)</u>
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		<u>\$ —</u>	<u>\$117</u>	<u>\$1,818</u>	<u>\$ 846</u>	<u>\$ 147</u>	<u>\$ 2,928</u>	
Total fair value		<u>\$ —</u>	<u>\$ —</u>	<u>\$ (1)</u>	<u>\$ (1)</u>	<u>\$ (63)</u>		<u>\$ (65)</u>

<u>\$ in millions</u>	<u>As of December 31, 2016</u>							
	<u>Notional Value</u>							
<u>Credit Derivatives Sold</u>	<u>Weighted Average Remaining Expected Maturity</u>	<u>AAA</u>	<u>AA</u>	<u>A</u>	<u>BBB</u>	<u>Below Investment Grade</u>	<u>Total Notional</u>	<u>Fair Value Asset (Liability)</u>
Insured credit default swaps	3.8 Years	\$ —	\$ —	\$ 115	\$ —	\$ 473	\$ 588	\$ (64)
Insured swaps	15.7 Years	—	137	2,146	732	20	3,035	(2)
Insured swaps—held for sale	14.3 Years	—	—	—	420	—	420	—
Total notional		<u>\$ —</u>	<u>\$137</u>	<u>\$2,261</u>	<u>\$1,152</u>	<u>\$ 493</u>	<u>\$ 4,043</u>	
Total fair value		<u>\$ —</u>	<u>\$ —</u>	<u>\$ (1)</u>	<u>\$ (1)</u>	<u>\$ (64)</u>		<u>\$ (66)</u>

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 credit default swaps 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.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 9: Derivative Instruments (continued)

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 December 31, 2017, the Company did not hold or post cash collateral to derivative counterparties. As of December 31, 2016, the Company did not hold cash collateral to derivative counterparties but posted cash collateral to derivative counterparties of \$1 million. The \$1 million is included within "Other liabilities" as cash collateral netted against accrued interest on derivative liabilities. As of December 31, 2017 and 2016, the Company had securities with a fair value of \$237 million and \$276 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 December 31, 2017 and 2016, the fair value on one Credit Support Annex ("CSA") was \$2 million and \$3 million, respectively. 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 December 31, 2017 and 2016, the counterparty was rated A1 by Moody's and A by S&P.

Financial Statement Presentation

The fair value of amounts recognized for eligible derivative contracts executed with the same counterparty under a master netting agreement, including any cash collateral that may have been received or posted by the Company, is presented on a net basis in accordance with accounting guidance for the offsetting of fair value amounts related to derivative instruments. Insured 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 December 31, 2017:

In millions	Notional Amount Outstanding	Derivative Assets ⁽¹⁾		Derivative Liabilities ⁽¹⁾	
		Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivative Instruments					
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	<u>\$ 4,100</u>		<u>\$ 22</u>		<u>\$(269)</u>

(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.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 9: Derivative Instruments (continued)

The following table presents the total fair value of the Company's derivative assets and liabilities by instrument and balance sheet location, before counterparty netting and posting of cash collateral, as of December 31, 2016:

<u>In millions</u>	<u>Notional Amount Outstanding</u>	<u>Derivative Assets⁽¹⁾</u>		<u>Derivative Liabilities⁽¹⁾</u>	
		<u>Balance Sheet Location</u>	<u>Fair Value</u>	<u>Balance Sheet Location</u>	<u>Fair Value</u>
Derivative Instruments					
Not designated as hedging instruments:					
Insured credit default swaps	\$ 588	Other assets	\$ —	Derivative liabilities	\$ (64)
Insured swaps	3,035	Other assets	—	Derivative liabilities	(2)
Insured swaps—held for sale	420	Assets held for sale	—	Liabilities held for sale	—
Interest rate swaps	1,062	Other assets	3	Derivative liabilities	(213)
Interest rate swaps-embedded	376	Medium-term notes	2	Medium-term notes	(17)
Currency swaps-VIE	71	Other assets-VIE	20	Derivative liabilities-VIE	—
All other	83	Other assets	—	Derivative liabilities	(20)
All other-VIE	35	Other assets-VIE	—	Derivative liabilities-VIE	—
All other-embedded	5	Other investments	—	Other investments	—
Total non-designated derivatives	<u>\$ 5,675</u>		<u>\$ 25</u>		<u>\$(316)</u>

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

The following table presents the effect of derivative instruments on the consolidated statements of operations for the years ended December 31, 2017, 2016 and 2015:

<u>In millions</u>	<u>Derivatives Not Designated as Hedging Instruments</u>	<u>Location of Gain (Loss) Recognized in Income on Derivative</u>	<u>Years Ended December 31,</u>		
			<u>2017</u>	<u>2016</u>	<u>2015</u>
	Insured credit default swaps	Unrealized gains (losses) on insured derivatives	\$ —	\$ 21	\$ 157
	Insured credit default swaps	Realized gains (losses) and other settlements on insured derivatives	(51)	(40)	(28)
	Interest rate swaps	Net gains (losses) on financial instruments at fair value and foreign exchange	3	(11)	(108)
	Interest rate swaps-VIE	Net gains (losses) on financial instruments at fair value and foreign exchange-VIE	—	8	31
	Currency swaps-VIE	Net gains (losses) on financial instruments at fair value and foreign exchange-VIE	(1)	9	10
	All other	Net gains (losses) on financial instruments at fair value and foreign exchange	(19)	(2)	7
	Total		<u>\$ (68)</u>	<u>\$ (15)</u>	<u>\$ 69</u>

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 10: Debt

Long-Term Debt

The Company's long-term debt consists of notes and debentures including accrued interest as follows:

In millions	As of December 31,	
	2017	2016
6.400% Senior Notes due 2022 ⁽¹⁾	\$ 265	\$ 266
7.000% Debentures due 2025	46	46
7.150% Debentures due 2027	100	100
6.625% Debentures due 2028	141	141
5.700% Senior Notes due 2034 ⁽²⁾	21	21
Surplus Notes due 2033 ⁽³⁾	940	940
Accrued interest	624	506
Debt issuance costs	(16)	(34)
Total	<u>\$ 2,121</u>	<u>\$ 1,986</u>

(1)—Callable on or after August 15, 2006 at par.

(2)—Callable anytime at the greater of par or the present value of the remaining scheduled payments of principal and interest.

(3)—Contractual interest rate is based on three month LIBOR plus 11.26%.

During 2017, National purchased from MBIA Inc., \$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. In addition to the preceding table, as of December 31, 2017, National owned \$264 million principal amount of the 5.700% Senior Notes due 2034 and MBIA Inc., through its corporate segment, owned \$13 million of MBIA Corp. surplus notes and owned an additional \$54 million of Senior Notes that were previously repurchased but not retired. These amounts are eliminated on a consolidated basis.

Interest and principal payments on the surplus notes are subject to prior approval by the NYSDFS. From the January 15, 2013 interest payment to the present, MBIA Corp.'s requests for approval of the note interest payments have been denied by the NYSDFS. MBIA Corp. provides notice to the Fiscal Agent when it does not make a scheduled interest payment. The deferred interest payment will become due on the first business day on or after which MBIA Corp. obtains approval to make such payment. No interest will accrue on the deferred interest. The surplus notes were callable at par at the option of MBIA Corp. on the fifth anniversary of the date of issuance, and are callable at par on January 15, 2023 and every fifth anniversary thereafter and are callable on any other date at par plus a make-whole amount, subject to prior approval by the Superintendent and other restrictions. The cash received from the issuance of surplus notes was used for general business purposes and the deferred debt issuance costs are being amortized over the term of the surplus notes.

The aggregate maturities of principal payments of long-term debt obligations in each of the next five years ending December 31, and thereafter, are as follows:

In millions	2018	2019	2020	2021	2022	Thereafter	Total
Corporate debt	\$ —	\$ —	\$ —	\$ —	\$265	\$ 308	\$ 573
Surplus Notes due 2033	—	—	—	—	—	940	940
Total debt obligations due	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$265</u>	<u>\$ 1,248</u>	<u>\$1,513</u>

Investment Agreements

Certain investment agreements provide for early termination, including, in some cases, with make-whole payments, upon certain contingent events including the bankruptcy of MBIA Inc. or the commencement of an insolvency proceeding with respect to MBIA Corp. Upon the occurrence of certain contractually agreed-upon events, some of these funds may be withdrawn by the investor prior to their contractual maturity dates. All of the investment agreements have been collateralized in accordance with the contractual terms.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 10: Debt (continued)

Investment agreements have been issued with either fixed or floating interest rates in U.S. dollars. As of December 31, 2017, the annual interest rates on these agreements ranged from 4.74% to 6.88% and the weighted average interest rate was 5.75%. As of December 31, 2016, the annual interest rates on these agreements ranged from 4.48% to 6.89% and the weighted average interest rate was 5.66%. Expected principal payments due under these investment agreements in each of the next five years ending December 31 and thereafter, based upon contractual maturity dates, are as follows:

<u>In millions</u>	<u>Principal Amount</u>
Maturity date:	
2018	\$ 17
2019	7
2020	35
2021	3
2022	3
Thereafter (through 2037)	328
Total expected principal payments ⁽¹⁾	\$ 393
Less discount and other adjustments ⁽²⁾	56
Total	<u>\$ 337</u>

(1)—Amounts reflect principal due at maturity for investment agreements issued at a discount.

(2)—Includes discounts net of carrying amount adjustments of \$61 million, net of accrued interest of \$5 million.

Medium-Term Notes

MTNs are denominated in U.S. dollars or foreign currencies and accrue interest based on fixed or floating interest rates. Certain MTNs are measured at fair value in accordance with the accounting guidance for hybrid financial instruments. As of December 31, 2017, the interest rates of the MTNs ranged from 0% to 6.00% and the weighted average interest rate was 2.90%. As of December 31, 2016, the interest rates of the MTNs ranged from 0% to 6.00% and the weighted average interest rate was 2.43%. During 2017, the Company repurchased \$160 million par value outstanding at a cost of approximately 84% of par value of MTNs issued by the Company's corporate segment. Expected principal payments due under MTN obligations based on their contractual maturity dates are as follows:

<u>In millions</u>	<u>Principal Amount</u>
Maturity date:	
2018	\$ 36
2019	61
2020	—
2021	—
2022	121
Thereafter (through 2036)	847
Total expected principal payments ⁽¹⁾	\$ 1,065
Less discount and other adjustments ⁽²⁾	300
Total	<u>\$ 765</u>

(1)—Amounts reflect principal due at maturity for notes issued at a discount.

(2)—Includes discounts net of carrying amount adjustments and embedded derivatives of \$240 million, fair value adjustments of \$65 million, net of accrued interest of \$5 million.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 10: Debt (continued)

Variable Interest Entity Notes

VIE notes are variable interest rate debt instruments that were issued primarily in U.S. dollars by consolidated VIEs within the Company's international and structured finance insurance segment. These VIE notes consist of debt instruments issued by issuer-sponsored consolidated VIEs collateralized by assets held by those consolidated VIEs. As of December 31, 2017, for VIE notes not accounted for at fair value, contractual interest rates ranged from 1.85% to 14.00% and the weighted average interest rate was 6.01%. As of December 31, 2016, for VIE notes not accounted for at fair value, contractual interest rates ranged from 1.07% to 2.77% and the weighted average interest rate was 2.25%.

In connection with the Zohar II Claim in January of 2017, MBIA Corp. entered into the Facility. The initial outstanding principal amount of the Facility was \$366 million, of which, \$38 million of subordinated financing was provided by MBIA Inc. and eliminated in consolidation. As of December 31, 2017, the consolidated outstanding amount of the Facility was \$330 million. Under the Facility, MBIA Inc. has agreed to provide an additional \$50 million subordinated financing to MZ Funding, which MZ Funding would then lend to MBIA Corp., if needed by MBIA Insurance Corporation for liquidity purposes. The Facility is secured by a first priority security interest in all of MBIA Corp.'s right, title and interest in the recovery of its claims from 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 Zohar Sponsor and any claims that the Company may have against the Zohar Sponsor. MBIA Corp. was obligated to pay a commitment fee of \$10 million for this facility. The Facility matures on January 20, 2020 and bears interest at 14% per annum. If funds received from MBIA Corp. under the Facility are insufficient to pay interest on interest payment dates, MZ Funding may elect to pay interest in kind, which increases the outstanding principal amount.

The maturity of the Company's international and structured finance insurance segment's VIE notes, as of December 31, 2017 is presented in the following table:

<u>In millions</u>	<u>Principal Amount</u>
Maturity date:	
2018	\$ 203
2019	147
2020	485
2021	132
2022	116
Thereafter (through 2052)	1,206
Total	<u>\$ 2,289⁽¹⁾</u>

(1)—Includes \$1.1 billion of VIE notes accounted for at fair value as of December 31, 2017.

Note 11: Income Taxes

Income (loss) from operations before provision (benefit) for income taxes consisted of:

<u>In millions</u>	<u>Years Ended December 31,</u>		
	<u>2017</u>	<u>2016</u>	<u>2015</u>
Domestic	\$(638)	\$(362)	\$303
Foreign	(23)	23	(14)
Income (loss) before income taxes	<u>\$(661)</u>	<u>\$(339)</u>	<u>\$289</u>

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 11: Income Taxes (continued)

The Company files a consolidated tax return that includes all of its U.S. subsidiaries and foreign branches. The Company also files tax returns in Spain, Mexico, and various state and local jurisdictions. Income tax expense (benefit) on income (loss) and shareholders' equity consisted of:

In millions	Years Ended December 31,		
	2017	2016	2015
Current taxes:			
Federal	\$ 4	\$ 4	\$ —
State	—	1	1
Foreign	—	—	2
Deferred taxes:			
Federal	945	(8)	97
Foreign	(5)	2	9
Provision (benefit) for income taxes	944	(1)	109
Income taxes charged (credited) to shareholders' equity related to:			
Change in unrealized gains (losses) on AFS securities	(1)	8	(30)
Change in AFS securities with OTTI	1	5	—
Change in foreign currency translation	21	1	(14)
Share-based compensation	—	—	9
Total income taxes charged (credited) to shareholders' equity	21	14	(35)
Total effect of income taxes	\$ 965	\$ 13	\$ 74

A reconciliation of the U.S. federal statutory tax rate of 35% to the Company's effective income tax rate for the years ended December 31, 2017, 2016 and 2015 is presented in the following table:

	Years Ended December 31,		
	2017	2016	2015
Federal income tax computed at the statutory rate	35.0%	35.0%	35.0%
Increase (reduction) in taxes resulting from:			
Tax Reform/Change in Tax Rate	(71.4)%	0.0%	0.0%
Mark-to-market on warrants	1.4%	(1.5)%	(1.2)%
Change in valuation allowance	(116.9)%	(2.2)%	0.0%
Nondeductible compensation	0.0%	(1.4)%	2.7%
Deferred inventory adjustments	0.8%	3.6%	0.0%
Foreign Taxes	8.2%	0.0%	0.0%
Basis difference in foreign subsidiary	0.0%	(33.0)%	0.0%
Other	0.1%	(0.3)%	1.2%
Effective tax rate	(142.8)%	0.2%	37.7%

Deferred Tax Asset, Net of Valuation Allowance

The Company recognizes deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements or tax returns. Deferred tax assets and liabilities are determined based on the differences between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. The effect of a change in tax rates on tax assets and liabilities is recognized in income in the period that includes the enactment date. Valuation allowances are established to reduce deferred tax assets to the amount that more likely than not will be realized.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 11: Income Taxes (continued)

The tax effects of temporary differences that give rise to deferred tax assets and liabilities as of December 31, 2017 and 2016 are presented in the following table:

In millions	As of	
	December 31, 2017	December 31, 2016
Deferred tax liabilities:		
Unearned premium revenue	\$ 75	\$ 143
Deferral of cancellation of indebtedness income	14	46
Deferred acquisition costs	21	42
Net unrealized gains in accumulated other comprehensive income	—	4
Partnership basis difference	11	36
Basis difference in foreign subsidiaries	1	64
Net deferred taxes on VIEs	38	—
Other	—	27
Total gross deferred tax liabilities	160	362
Deferred tax assets:		
Compensation and employee benefits	11	19
Accrued interest	131	177
Loss and loss adjustment expense reserves	87	142
Net operating loss	582	929
Foreign tax credits	62	7
Other-than-temporary impairments	22	4
Net unrealized losses on insured derivatives	14	29
Net losses on financial instruments at fair value and foreign exchange	13	—
Net unrealized losses in accumulated other comprehensive income	5	6
Alternative minimum tax credit carryforward	—	26
Other	3	—
Total gross deferred tax assets	930	1,339
Valuation allowance	770	7
Net deferred tax asset	\$ —	\$ 970

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 \$770 million in 2017. 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 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% and recorded a \$472 million reduction to both its net deferred tax asset and valuation allowance.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 11: 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, 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.

Due to held for sale accounting of MBIA UK as of December 31, 2016, \$36 million of deferred tax liabilities has been reported within "Liabilities held for sale" on the Company's consolidated balance sheet.

Tax Sharing Agreement

The Company has a tax sharing agreement among its members effective January 1, 1987. The agreement was amended and restated effective September 8, 2011 to change the method of calculating each domestic insurer's tax liability to the method permitted by paragraph 3(a) of Department Circular Letter #33 (1979). The agreement was submitted to the NYSDFS for review and non-disapproval pursuant to Section 1505 of the New York Insurance Law. Refer to "Note 2: Significant Accounting Policies" for further discussion on the Company's tax sharing agreement.

Treatment of Undistributed Earnings of Certain Foreign Subsidiaries—"Accounting for Income Taxes—Special Areas"

During 2017, the Company sold MBIA UK and reversed any deferred income taxes with respect to the differences in the book and tax basis in the Company's carrying value of MBIA UK. The Company's amount of undistributed earnings of certain foreign subsidiaries was not material as of December 31, 2017.

Accounting for Uncertainty in Income Taxes

The Company's policy is to record and disclose any change in 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 December 31, 2017 and 2016, the Company had no UTB.

Federal income tax returns through 2011 have been examined or surveyed.

As of December 31, 2017, the Company's NOL is approximately \$2.8 billion. The NOL will expire between tax years 2031 through 2037. As of December 31, 2017, the Company has a foreign tax credit carryforward of \$62 million, which will expire between tax years 2019 through 2027. As of December 31, 2017, the Company has an alternative minimum tax ("AMT") credit carryforward of \$30 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 reclassified out of the deferred tax asset and into other assets as the AMT credits are now a receivable.

Note 12: 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.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 12: Business Segments (continued)

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.

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; 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 Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 12: Business Segments (continued)

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.

Segments Results

The following tables provide the Company's segment results for the years ended December 31, 2017, 2016 and 2015:

In millions	Year Ended December 31, 2017				
	U.S. Public Finance Insurance	Corporate	International and Structured Finance Insurance	Eliminations	Consolidated
Revenues ⁽¹⁾	\$ 262	\$ 30	\$ 78	\$ —	\$ 370
Net change in fair value of insured derivatives	—	—	(51)	—	(51)
Net gains (losses) on financial instruments at fair value and foreign exchange	25	(32)	(17)	—	(24)
Net investment losses related to other-than-temporary impairments	(106)	—	—	—	(106)
Net gains (losses) on extinguishment of debt	—	28	—	—	28
Other net realized gains (losses)	(4)	(4)	39	—	31
Revenues of consolidated VIEs	—	—	185	—	185
Inter-segment revenues ⁽²⁾	23	60	44	(127)	—
Total revenues	200	82	278	(127)	433
Losses and loss adjustment	499	—	184	—	683
Operating	36	59	34	—	129
Interest	—	81	116	—	197
Expenses of consolidated VIEs	—	—	85	—	85
Inter-segment expenses ⁽²⁾	72	11	47	(130)	—
Total expenses	607	151	466	(130)	1,094
Income (loss) before income taxes	(407)	(69)	(188)	3	(661)
Provision (benefit) for income taxes	(152)	556	1,143	(603)	944
Net income (loss)	\$ (255)	\$ (625)	\$ (1,331)	\$ 606	\$ (1,605)
Identifiable assets	\$ 4,582	\$ 1,312	\$ 5,404	\$ (2,203) ⁽³⁾	\$ 9,095

(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 of intercompany reinsurance balances and repurchase agreements.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 12: Business Segments (continued)

In millions	Year Ended December 31, 2016				
	U.S. Public Finance Insurance	Corporate	International and Structured Finance Insurance	Eliminations	Consolidated
Revenues ⁽¹⁾	\$ 335	\$ 24	\$ 121	\$ —	\$ 480
Net change in fair value of insured derivatives	—	—	(19)	—	(19)
Net gains (losses) on financial instruments at fair value and foreign exchange	72	(14)	26	—	84
Net investment losses related to other-than-temporary impairments	(4)	(1)	—	—	(5)
Net gains (losses) on extinguishment of debt	—	5	—	—	5
Other net realized gains (losses)	2	(5)	(279)	—	(282)
Revenues of consolidated VIEs	—	—	31	—	31
Inter-segment revenues ⁽²⁾	22	58	51	(131)	—
Total revenues	427	67	(69)	(131)	294
Losses and loss adjustment	74	—	146	—	220
Operating	40	80	57	—	177
Interest	—	91	106	—	197
Expenses of consolidated VIEs	—	—	39	—	39
Inter-segment expenses ⁽²⁾	69	4	52	(125)	—
Total expenses	183	175	400	(125)	633
Income (loss) before income taxes	244	(108)	(469)	(6)	(339)
Provision (benefit) for income taxes	68	(15)	(52)	(2)	(1)
Net income (loss)	\$ 176	\$ (93)	\$ (417)	\$ (4)	\$ (338)
Identifiable assets	\$ 5,077	\$ 2,479	\$ 6,486	\$ (2,905) ⁽³⁾	\$ 11,137

(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 of intercompany deferred income taxes, reinsurance balances and repurchase agreements.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 12: Business Segments (continued)

In millions	Year Ended December 31, 2015				
	U.S. Public Finance Insurance	Corporate	International and Structured Finance Insurance	Eliminations	Consolidated
Revenues ⁽¹⁾	\$ 389	\$ 27	\$ 114	\$ —	\$ 530
Net change in fair value of insured derivatives	—	—	129	—	129
Net gains (losses) on financial instruments at fair value and foreign exchange	14	58	(9)	—	63
Net investment losses related to other-than-temporary impairments	(10)	(3)	—	—	(13)
Net gains (losses) on extinguishment of debt	—	(1)	—	—	(1)
Other net realized gains (losses)	(4)	21	—	—	17
Revenues of consolidated VIEs	—	—	128	—	128
Inter-segment revenues ⁽²⁾	34	67	63	(164)	—
Total revenues	423	169	425	(164)	853
Losses and loss adjustment	5	—	118	—	123
Operating	38	79	73	—	190
Interest	—	97	102	—	199
Expenses of consolidated VIEs	—	—	52	—	52
Inter-segment expenses ⁽²⁾	89	7	64	(160)	—
Total expenses	132	183	409	(160)	564
Income (loss) before income taxes	291	(14)	16	(4)	289
Provision (benefit) for income taxes	100	7	3	(1)	109
Net income (loss)	\$ 191	\$ (21)	\$ 13	\$ (3)	\$ 180
Identifiable assets	\$ 5,265	\$ 2,599	\$ 9,870	\$ (2,898) ⁽³⁾	\$ 14,836

(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 of intercompany deferred income taxes, reinsurance balances and repurchase agreements.

Premiums on financial guarantees and insured derivatives reported within the Company's insurance segments are generated within and outside the U.S. The following table summarizes premiums earned on financial guarantees and insured derivatives by geographic location of risk for the years ended December 31, 2017, 2016 and 2015:

In millions	Years Ended December 31,		
	2017	2016	2015
Total premiums earned:			
United States	\$ 169	\$ 238	\$ 310
United Kingdom	2	27	30
Europe (excluding United Kingdom)	1	4	4
Internationally diversified	1	3	3
Other Americas	25	26	29
Asia	1	2	3
Other	3	4	6
Total	\$ 202	\$ 304	\$ 385

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 13: Insurance in Force

The Company guarantees the payment of principal of, and interest or other amounts owing on, municipal, asset-backed, mortgage-backed and other non-municipal securities including CDS contracts. The Company's insurance in force represents the aggregate amount of the insured principal of, and interest or other amounts owing on, insured obligations. The Company's ultimate exposure to credit loss in the event of nonperformance by the issuer of the insured obligation is represented by the insurance in force in the tables that follow.

The financial guarantees issued by the Company provide unconditional and irrevocable guarantees of the payment of the principal of, and interest or other amounts owing on, insured obligations when due. The obligations are generally not subject to acceleration, except in the event the Company has the right, at its discretion, to accelerate insured obligations upon default or otherwise. Payments to be made by the issuer on the bonds or notes may be backed by a pledge of revenues, reserve funds, letters of credit, investment contracts or collateral in the form of mortgages or other assets. The right to such funds or collateral would typically become National's or MBIA Corp.'s upon the payment of a claim by either National or MBIA Corp.

As of December 31, 2017, insurance in force, which represents principal and interest or other amounts owing on insured obligations, had an expected maturity range of 1 to 40 years. The distribution of MBIA Corp.'s and National's combined insurance in force by geographic location, excluding financial obligations guaranteed by MBIA Corp. on behalf of affiliated companies, is presented in the following table:

<u>\$ in billions</u>	<u>As of December 31,</u>			
	<u>2017</u>		<u>2016</u>	
	<u>Insurance in Force</u>	<u>% of Insurance in Force</u>	<u>Insurance in Force</u>	<u>% of Insurance in Force</u>
<u>Geographic Location</u>				
California	\$ 30.3	19.6%	\$ 42.7	18.1%
Illinois	13.1	8.5%	15.4	6.5%
New York	9.3	6.0%	16.6	7.0%
Puerto Rico	8.2	5.3%	8.6	3.6%
New Jersey	7.6	4.9%	11.5	4.9%
Texas	6.1	3.9%	9.1	3.9%
Hawaii	4.5	2.9%	5.2	2.2%
Virginia	4.2	2.7%	5.2	2.2%
Florida	3.8	2.5%	8.7	3.7%
Oregon	3.6	2.3%	4.2	1.8%
Subtotal	90.7	58.6%	127.2	53.9%
Nationally Diversified	15.7	10.1%	20.4	8.6%
Other states	37.0	23.9%	57.9	24.6%
Total United States	143.4	92.6%	205.5	87.1%
Internationally Diversified	0.4	0.3%	0.5	0.2%
Country specific	11.1	7.1%	29.9	12.7%
Total non-United States	11.5	7.4%	30.4	12.9%
Total	<u>\$ 154.9</u>	<u>100.0%</u>	<u>\$ 235.9</u>	<u>100.0%</u>

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 13: Insurance in Force (continued)

The insurance in force and insured gross par outstanding by type of bond, excluding financial obligations guaranteed by MBIA Corp. on behalf of affiliated companies, are presented in the following table:

<u>\$ in billions</u>	<u>As of December 31,</u>			
	<u>2017</u>		<u>2016</u>	
	<u>Insurance in Force</u>	<u>Gross Par Amount</u>	<u>Insurance in Force</u>	<u>Gross Par Amount</u>
Bond type				
Global public finance—United States:				
General obligation ⁽¹⁾	\$ 42.8	\$ 22.9	\$ 64.6	\$ 38.3
General obligation—lease	5.1	3.8	12.2	8.7
Municipal utilities	17.7	11.8	26.1	17.4
Tax-backed	26.5	12.4	33.0	16.7
Transportation	15.2	6.9	21.7	11.1
Higher education	3.2	2.1	6.8	4.5
Health care	2.6	1.8	4.2	2.7
Military housing	16.3	7.3	16.8	7.4
Investor-owned utilities ⁽²⁾	3.1	2.0	3.7	2.3
Municipal housing	0.4	0.3	0.7	0.4
Other ⁽³⁾	1.1	0.6	1.7	0.9
Total United States	<u>134.0</u>	<u>71.9</u>	<u>191.5</u>	<u>110.4</u>
Global public finance—non-United States:				
International utilities	1.7	1.4	10.1	6.5
Sovereign-related and sub-sovereign ⁽⁴⁾	3.8	2.7	11.3	7.5
Transportation	4.5	3.6	7.1	5.2
Other ⁽⁵⁾	0.2	0.1	0.3	0.2
Total non-United States	<u>10.2</u>	<u>7.8</u>	<u>28.8</u>	<u>19.4</u>
Total global public finance	<u>144.2</u>	<u>79.7</u>	<u>220.3</u>	<u>129.8</u>
Global structured finance:				
Collateralized debt obligations ⁽⁶⁾	0.5	0.4	2.7	2.6
Mortgage-backed residential	4.7	3.6	6.3	4.7
Mortgage-backed commercial	0.7	0.3	0.7	0.3
Consumer asset-backed	0.9	0.7	1.2	0.9
Corporate asset-backed ⁽⁷⁾	3.9	2.3	4.7	2.9
Total global structured finance	<u>10.7</u>	<u>7.3</u>	<u>15.6</u>	<u>11.4</u>
Total	<u>\$ 154.9</u>	<u>\$ 87.0</u>	<u>\$ 235.9</u>	<u>\$ 141.2</u>

(1)—Includes general obligation unlimited and limited (property) tax bonds, general fund obligation bonds and pension obligation bonds of states, cities, counties, schools and special districts.

(2)—Includes investor owned utilities, industrial development and pollution control revenue bonds.

(3)—Includes certain non-profit enterprises, stadium related financing and student loans.

(4)—Includes regions, departments or their equivalent in each jurisdiction as well as sovereign owned entities that are supported by a sovereign state, region or department.

(5)—Includes municipal owned entities backed by sponsoring local government and tax backed transactions.

(6)—Includes a transaction (represented by structured pools of CRE assets) that does not include typical CDO structuring characteristics, such as tranching credit risk, cash flow waterfalls, or interest and over-collateralization coverage tests.

(7)—As of December 31, 2017, includes structured insurance securitizations of \$2.3 billion and \$1.1 billion of insurance in force and gross par amount, respectively. As of December 31, 2016, includes structured insurance securitizations of \$2.6 billion and \$1.3 billion of insurance in force and gross par amount, respectively.

Included in the preceding tables, as of December 31, 2016, were \$18.6 billion of insurance in force and \$12.0 billion of insured gross par outstanding related to MBIA UK, which was sold to Assured in January of 2017. Refer to “Note 1: Business Developments and Risks and Uncertainties” for a discussion on the sale of MBIA UK.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 13: Insurance in Force (continued)

Affiliated Financial Obligations Insured by MBIA Corp.

Investment agreement contracts and MTNs issued by the Company's corporate segment and the Facility issued by the Company's international and structured finance insurance segment are insured by MBIA Corp. and are not included in the previous tables. If MBIA Inc. or these subsidiaries were to have insufficient assets to pay amounts due, MBIA Corp. would be obligated to make such payments under its insurance policies. As of December 31, 2017, the maximum amount of future payments that MBIA Corp. could be required to make under these guarantees is \$2.2 billion. These guarantees, which have a maturity range of 1 to 20 years, were entered into on an arm's length basis. MBIA Corp. has both direct recourse provisions and subrogation rights in these transactions. If MBIA Corp. is required to make a payment under any of these affiliate guarantees, it would have the right to seek reimbursement from such affiliate and to liquidate any collateral to recover amounts paid under the guarantee.

Reinsured Exposure

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. At this time, the Company does not intend to utilize reinsurance to decrease the insured exposure in its portfolio.

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. MBIA believes that its reinsurers remain capable of meeting their obligations, although, there can be no assurance of such in the future.

The aggregate amount of insurance in force ceded by MBIA to reinsurers was \$5.1 billion and \$7.6 billion as of December 31, 2017 and 2016, respectively. Included in the reinsurance insurance in force as of December 31, 2016 was \$267 million related to MBIA UK.

As of December 31, 2017, the aggregate amount of insured par outstanding ceded by MBIA to reinsurers under reinsurance agreements was \$2.7 billion compared with \$4.2 billion as of December 31, 2016. As of December 31, 2017, \$2.1 billion of the ceded par outstanding was ceded from the Company's U.S. public finance insurance segment and \$593 million was ceded from the Company's 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. The following table presents information about the Company's reinsurance agreements as of December 31, 2017 for its U.S. public finance and international and structured finance insurance operations.

In millions

Reinsurers	Standard & Poor's Rating (Status)	Moody's Rating (Status)	Ceded Par Outstanding	Letters of Credit/Trust Accounts	Reinsurance Recoverable⁽¹⁾
Assured Guaranty Re Ltd.	AA (Stable Outlook)	WR ⁽²⁾	\$ 1,321	\$ 27	\$ 3
Assured Guaranty Corp.	AA (Stable Outlook)	A3 (Stable Outlook)	1,031	—	3
Overseas Private Investment Corporation	AA+ (Stable Outlook)	Aaa (Stable Outlook)	281	—	—
Others	A+ or above	WR ⁽²⁾	91	3	—
Total			\$ 2,724	\$ 30	\$ 6

(1)—Total reinsurance recoverable is primarily related to recoverables on unpaid losses.

(2)—Represents a withdrawal of ratings.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 13: Insurance in Force (continued)

Premium Summary

The components of financial guarantee net premiums earned, including premiums assumed from and ceded to other companies, are presented in the following table:

In millions	Years Ended December 31,		
	2017	2016	2015
Net premiums earned:			
Direct	\$ 205	\$ 305	\$ 379
Assumed	2	2	2
Gross	207	307	381
Ceded	(6)	(7)	(9)
Net	\$ 201	\$ 300	\$ 372

For the years ended December 31, 2017 and 2016, payments received for claims related to financial guarantee policies under reinsurance contracts totaled \$4 million and \$12 million, respectively. Ceding commissions from reinsurance, before deferrals and net of returned ceding commissions, were \$1 million for each of the years ended December 31, 2017, 2016, and 2015.

Note 14: Insurance Regulations and Dividends

National and MBIA Insurance Corporation are subject to insurance regulations and supervision of the State of New York (their state of incorporation) and all U.S. and non-U.S. jurisdictions in which they are licensed to conduct insurance business. In order to maintain their New York State financial guarantee insurance license, National and MBIA Insurance Corporation are required to maintain a minimum of \$65 million of policyholders' surplus. MBIA Mexico is regulated by the Comisión Nacional de Seguros y Fianzas in Mexico. The extent of insurance regulation and supervision varies by jurisdiction, but New York and most other jurisdictions have laws and regulations prescribing minimum standards of solvency and business conduct, which must be maintained by insurance companies. Among other things, these laws prescribe permitted classes and concentrations of investments and limit both the aggregate and individual securities risks that National and MBIA Insurance Corporation may insure on a net basis based on the type of obligations insured. In addition, some insurance laws and regulations require the approval or filing of policy forms and rates. National and MBIA Insurance Corporation are required to file detailed annual financial statements with the NYSDFS. The operations and accounts of National and MBIA Insurance Corporation are subject to examination by regulatory agencies at regular intervals.

Statutory Capital and Regulations

National

For the years ended December 31, 2017 and 2016, National had a statutory net loss of \$321 million and statutory net income of \$192 million, respectively. As of December 31, 2017, National's statutory capital was \$2.8 billion, consisting of policyholders' surplus of \$2.2 billion and contingency reserves of \$594 million. As of December 31, 2016, National had statutory capital of \$3.5 billion.

MBIA Insurance Corporation

As of December 31, 2017, MBIA Insurance Corporation's statutory capital was \$464 million, consisting of policyholders' surplus of \$237 million and contingency reserve of \$227 million. As of December 31, 2016, MBIA Insurance Corporation had statutory capital of \$492 million.

As of December 31, 2017 and 2016, 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 new overages occur with respect to its single risk limits, MBIA Insurance Corporation will report them to the NYSDFS.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 14: Insurance Regulations and Dividends (continued)

Under NYIL, MBIA Insurance Corporation is also required to establish a contingency reserve to provide protection to policyholders in the event of extreme losses in adverse economic events. The amount of the reserve is based on the percentage of principal insured or premiums earned, depending on the type of obligation (net of collateral, reinsurance, refunding, refinancings and certain insured securities). Under NYIL, MBIA Insurance Corporation is required to invest its minimum surplus and contingency reserves, and 50% of its loss reserves and unearned premium reserves, in certain qualifying assets. As of December 31, 2017, 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. Not having enough qualifying assets to support its contingency reserves limits the amount of earned surplus that might otherwise be available for the payment of dividends. 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.

Under NYIL, MBIA Insurance Corporation is required to maintain admitted assets greater than the aggregate amount of liabilities and outstanding capital stock. As of December 31, 2017, MBIA Insurance Corporation's admitted assets did not exceed the aggregate amount of its liabilities and outstanding capital stock. 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.

Results of operations for MBIA Insurance Corporation determined in accordance with statutory accounting practices for the years ended December 31, 2017 and 2016 were statutory net income of \$107 million and a statutory net loss of \$323 million, respectively. For the year ended December 31, 2016, MBIA Insurance Corporation recorded a loss of \$114 million to adjust the carrying value of MBIA UK to its estimated fair value less costs to sell. In addition, MBIA Insurance Corporation's policyholders' surplus was negatively impacted as of December 31, 2016 by \$112 million, as it was not permitted to treat the portion of its investment in subsidiaries in excess of 60% of net admitted assets less the par value of common and preferred stock and liabilities as an admitted asset, as required under NYIL. MBIA Insurance Corporation's policyholders' surplus as of December 31, 2017 and 2016 included negative unassigned surplus of \$1.8 billion. MBIA Insurance Corporation's policyholders' surplus may be further negatively impacted if future additional insured losses are incurred.

Dividends

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.

In 2017 and 2016, National declared and paid dividends of \$118 million to its ultimate parent, MBIA Inc.

In 2017, MBIA Insurance Corporation did not declare or pay any dividends to MBIA Inc. or the holders of its preferred stock. MBIA Insurance Corporation is currently unable to pay dividends, including those related to its preferred stock, as a result of its earned surplus deficit as of December 31, 2017 and is not expected to have any statutory capacity to pay any dividends in the near term. 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.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 15: Pension and Profit Sharing Plans

The Company maintains a qualified non-contributory defined contribution pension plan to which the Company contributes 10% of each eligible employee's annual compensation. Annual compensation for determining such contributions consists of base salary and bonus, as applicable, up to a maximum of \$2 million in 2017. Pension benefits vest over a five-year period with 20% vested after two years, 60% vested after three years, 80% vested after four years and 100% vested after five years. The Company funds the annual pension contribution by the following February of each applicable year. Pension expense related to the Company's qualified pension plan for the years ended December 31, 2017, 2016 and 2015 was \$2 million, \$1 million, and \$3 million, respectively.

The Company also maintains a qualified profit sharing/401(k) plan. The plan is a voluntary contributory plan that allows eligible employees to defer compensation for federal income tax purposes under Section 401(k) of the Internal Revenue Code of 1986, as amended. Employees may contribute, through payroll deductions, up to 25% of eligible compensation. The Company matches employee contributions up to the first 5% of such compensation. The 401(k) matching contributions are made in the form of cash, whereby participants may direct the Company match to an investment of their choice. The 401(k) matching benefits vest over a five-year period with 20% vested after two years, 60% vested after three years, 80% vested after four years and 100% vested after five years. Generally, a participating employee is entitled to distributions from the plans upon termination of employment, retirement, death or disability. Participants who qualify for distribution may receive a single lump sum, transfer the assets to another qualified plan or individual retirement account, or receive a series of specified installment payments. Profit sharing/401(k) expense related to the Company's qualified plan for the years ended December 31, 2017, 2016 and 2015 was \$1 million, \$1 million and \$2 million, respectively.

In addition to the above two plans, the Company maintains a non-qualified deferred compensation plan. Contributions to the above qualified plans that exceed limitations established by federal regulations are then contributed to the non-qualified deferred compensation plan. The non-qualified pension expense for the years ended December 31, 2017, 2016 and 2015 was \$2 million, \$2 million and \$1 million, respectively. The non-qualified profit sharing/401(k) expense for each of the years ended December 31, 2017, 2016 and 2015 was \$1 million.

Note 16: Long-term Incentive Plans

Plan Description

The Company maintains the MBIA Inc. 2005 Omnibus Incentive Plan (the "Omnibus Plan"), as amended on May 7, 2009 and May 1, 2012. Under the Omnibus Plan a maximum of 14,000,000 shares of the Company's common stock can be used for any type of award including stock options, performance shares, performance units, restricted stock, restricted stock units and dividend equivalents. Any shares issued under the Omnibus Plan in connection with stock options shall be counted against this limit as 1 share covered by such option. For all awards other than stock options, any shares issued shall be counted against this limit as 1.28 shares for every share issued after the May 1, 2012 amendment and two shares for every share issued prior to the May 1, 2012 amendment.

The stock option component of the Omnibus Plan enables key employees of the Company and its subsidiaries to acquire shares of common stock of the Company or to benefit from appreciation in the price of the common stock of the Company. The stock option grants, which may be awarded every year, provide the right to purchase shares of common stock at the fair value of the stock on the date of the grant. Options granted will either be Incentive Stock Options ("ISOs") that qualify under Section 422(a) of the Internal Revenue Code, or Non-Qualified Stock Options ("NQSOs"). ISOs and NQSOs are granted at a price not less than 100% of the fair value, defined as the closing price on the grant date, of the Company's common stock. Options are exercisable as specified at the time of grant depending on the level of the recipient (generally five years) and expire either seven or ten years from the date of grant (or shorter if specified or following termination of employment).

Under the restricted stock component of the Omnibus Plan, certain employees are granted restricted shares of the Company's common stock. These awards have a restriction period lasting three to five years depending on the type of award, after which time the awards fully vest. During the vesting period, these shares may not be sold. Restricted stock may be granted to all employees.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 16: Long-term Incentive Plans (continued)

There were 6,207,299 shares available for future grants under the Omnibus Plan as of December 31, 2017.

In accordance with accounting guidance for share-based payments, the Company expenses the fair value of employee stock options and other forms of stock-based compensation. In addition, the guidance classifies share-based payment awards as either liability awards, which are remeasured at fair value at each balance sheet date, or equity awards, which are measured on the grant date and not subsequently remeasured. Generally, awards with cash-based settlement repurchase features or that are settled at a fixed dollar amount are classified as liability awards, and changes in fair value will be reported in earnings. Awards with net-settlement features or that permit a cashless exercise with third-party brokers are classified as equity awards and changes in fair value are not reported in earnings. The Company's long-term incentive plans include features which result in equity awards. In addition, the guidance requires the use of a forfeiture estimate. The Company uses historical employee termination information to estimate the forfeiture rate applied to current stock-based awards.

The Company maintains voluntary retirement benefits, which provide certain benefits to eligible employees of the Company upon retirement. A description of these benefits is included in the Company's proxy statement. One of the components of the retirement program for those employees that are retirement eligible is to continue to vest all performance-based stock options and restricted share awards beyond the retirement date in accordance with the original vesting terms and to immediately vest all outstanding time-based stock options and restricted share grants. The accounting guidance for share-based payment requires compensation costs for those employees to be recognized from the date of grant through the retirement eligible date. Accelerated expense, if any, relating to this retirement benefit for both stock option awards and restricted stock awards has been included in the compensation expense amounts.

Restricted Stock

The fair value of the restricted shares awarded, net of cancellations, determined on the grant date was \$6 million and \$5 million for 2017 and 2016, respectively. The amount of unearned compensation, net of estimated forfeitures, was \$5 million as of December 31, 2017, which is expected to be recognized as expense over a weighted average period of 2.3 years. Unearned compensation is amortized to expense over the appropriate three to five-year vesting period.

Compensation expense related to the restricted shares, net of estimated forfeitures, was \$10 million, \$16 million and \$20 million for the years ended December 31, 2017, 2016 and 2015, respectively. There was no tax charge related to the restricted share awards during 2017 after consideration of the Company's valuation allowance. The tax charge related to the restricted share awards during 2016 and 2015 was \$1 million and, \$2 million respectively.

A summary of the Company's restricted shares outstanding as of December 31, 2017, 2016 and 2015, and changes during the years ended on those dates, is presented in the following table:

	Restricted Share Activity					
	2017		2016		2015	
	Number of Shares	Weighted Average Price Per Share	Number of Shares	Weighted Average Price Per Share	Number of Shares	Weighted Average Price Per Share
Outstanding at beginning of year	3,916,661	\$ 9.3553	4,727,319	\$ 9.9302	6,358,826	\$ 10.0047
Granted	708,529	9.3740	756,381	8.2722	481,636	8.8012
Vested	(1,051,657)	9.9732	(917,039)	13.6196	(2,112,343)	9.8988
Forfeited	(1,180,555)	8.2912	(650,000)	6.2601	(800)	5.0500
Outstanding at end of year	<u>2,392,978</u>	<u>\$ 9.6142</u>	<u>3,916,661</u>	<u>\$ 9.3553</u>	<u>4,727,319</u>	<u>\$ 9.9302</u>

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 16: Long-term Incentive Plans (continued)

Stock Options

The Company determines the fair value for stock option awards at the date of grant and is estimated using the Black-Scholes option pricing model. This model was developed for use in estimating the fair value of traded options that have no vesting restrictions, are fully transferable, and contain both service and some performance conditions. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility.

During 2017, 2016 and 2015, there were no stock option awards granted. The Company did not expense deferred tax assets during 2017 after consideration of the Company's valuation allowance. During 2016 and 2015, the Company expensed deferred tax assets of \$1 million and \$2 million, respectively, related to the stock option awards as a charge through the statements of operations. As of December 31, 2017, there was no remaining unrecognized compensation cost and all stock options had vested.

There were no stock options outstanding as of December 31, 2017. A summary of the Company's stock options outstanding as of December 31, 2017, 2016 and 2015, and changes during the years ended on those dates, is presented in the following tables:

Options	2017		2016		2015	
	Number of Shares	Weighted Average Price Per Share	Number of Shares	Weighted Average Price Per Share	Number of Shares	Weighted Average Price Per Share
Outstanding at beginning of year	237,800	\$ 14.6689	2,325,300	\$ 6.3703	2,548,000	\$ 10.9888
Exercised	(200,000)	5.0500	(2,050,000)	4.4722	—	—
Expired or forfeited	(37,800)	65.5624	(37,500)	57.5100	(222,700)	59.2118
Outstanding at end of year	—	\$ —	237,800	\$ 14.6689	2,325,300	\$ 6.3703
Exercisable at end of year	—	\$ —	237,800	\$ 14.6689	2,325,300	\$ 6.3703

Performance Based Awards

During 2017, the Company granted 65,287 restricted shares to certain key employees which have a vesting schedule dependent on the achievement of certain stock price targets of the Company and 127,001 restricted shares to certain key employees which have a vesting schedule dependent on the achievement of certain internal performance conditions of the Company. The grants and corresponding compensation expense have been included in the above restricted stock disclosures. As permitted by the accounting guidance for share-based payments, the Company estimates the fair value of awards that contain market performance conditions at the date of grant using a binomial lattice model with a Monte Carlo simulation and recognizes compensation cost over the requisite service period. The binomial lattice model can better incorporate assumptions about a stock price path because the model can accommodate a large number of potential stock prices over the award's term in comparison to the Black-Scholes model. The Company estimates the fair value of awards that contain internal performance conditions at the date of grant and recognizes compensation cost over the requisite service period if it is probable that the internal performance conditions will be achieved. The Company reassesses the probability of vesting at each reporting period and the final compensation cost associated with awards dependent on the achievement of certain internal performance conditions will reflect only those awards that ultimately vest.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 17: 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. During periods of net loss, stock options, warrants and unvested restricted stock are excluded from the calculation because they would have an antidilutive affect. Therefore, in periods of net loss, the calculation of basic and diluted earnings per share would result in the same value.

The following table presents the computation of basic and diluted earnings per share for the years ended December 31, 2017, 2016, and 2015:

In millions except per share amounts	Years Ended December 31,		
	2017	2016	2015
Basic earnings per share:			
Net income (loss)	\$(1,605)	\$ (338)	\$ 180
Less: undistributed earnings allocated to participating securities	—	—	6
Net income (loss) available to common shareholders	<u>(1,605)</u>	<u>(338)</u>	<u>174</u>
Basic weighted average shares ⁽¹⁾	118.9	133.0	163.9
Net income (loss) per basic common share	<u><u>\$(13.50)</u></u>	<u><u>\$(2.54)</u></u>	<u><u>\$ 1.06</u></u>
Diluted earnings per share:			
Net income (loss)	\$(1,605)	\$ (338)	\$ 180
Less: undistributed earnings allocated to participating securities	—	—	6
Net income (loss) available to common shareholders	<u>(1,605)</u>	<u>(338)</u>	<u>174</u>
Basic weighted average shares ⁽¹⁾	118.9	133.0	163.9
Effect of common stock equivalents:			
Stock options	—	—	1.0
Diluted weighted average shares	<u>118.9</u>	<u>133.0</u>	<u>164.9</u>
Net income (loss) per diluted common share	<u><u>\$(13.50)</u></u>	<u><u>\$(2.54)</u></u>	<u><u>\$ 1.06</u></u>
Potentially dilutive securities excluded from the diluted EPS because of antidilutive affect	14.1	16.5	18.0

(1) Includes 0.3 million, 0.9 million and 0.6 million of participating securities that met the service condition and were eligible to receive nonforfeitable dividends or dividend equivalents for the years ended December 31, 2017, 2016 and 2015, respectively.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 18: Common and Preferred Stock

Common Stock

Share Repurchases

Repurchases of common stock may be made from time to time in the open market or in private transactions as permitted by securities laws and other legal requirements. The Company believes that share repurchases can be an appropriate deployment of capital in excess of amounts needed to support the Company's liquidity while maintaining the claims-paying resources of MBIA Corp. and National, as well as other business needs.

In the fourth quarter of 2014, the Company's Board of Directors authorized the repurchase of common stock up to \$200 million under a new share repurchase program. On July 29, 2015, the Company's Board of Directors authorized the repurchase by the Company or National of up to \$100 million of its outstanding shares under a new share repurchase program, which superseded and terminated the prior fourth quarter 2014 authorization. The prior authorization had approximately \$61 million of unused capacity at the time it was terminated. On October 28, 2015, the Company's Board of Directors authorized the repurchase by the Company or National of up to \$100 million of its outstanding common stock under a new share repurchase program, as the Company's July 29, 2015 authorization was fully exhausted. During 2016, the Company exhausted any remaining capacity under the October 28, 2015 repurchase program.

On February 23, 2016, the Company's Board of Directors authorized the repurchase by the Company or National of up to \$100 million of its outstanding shares under a new share repurchase authorization. On June 27, 2017, the Company's Board of Directors approved a new share repurchase authorization for the Company or National to repurchase up to \$250 million of the Company's outstanding common shares. This new program replaced approximately \$13 million remaining under the Board's February 23, 2016 authorization. During 2017, the Company exhausted any remaining capacity under the June 27, 2017 authorization. On November 3, 2017, the Company's Board of Directors approved a new share repurchase authorization for the Company or National to repurchase up to \$250 million of the Company's outstanding common shares. As of December 31, 2017, \$250 million remained available under the November 3, 2017 program.

The following table provides information about the Company's or National's share repurchases for the years ended December 31, 2017, 2016 and 2015:

<u>In millions, except per share amounts</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Number of shares repurchased	43.0	16.6	39.9
Average price paid per share	\$7.55	\$6.37	\$7.60
Remaining authorization as of December 31	\$ 250	\$ 88	\$ 94

During 2017 and 2016, 490,557 and 419,806 shares, respectively, were purchased by the Company for settling awards under the Company's long-term incentive plans.

Stock Warrants

In May of 2013, MBIA Inc. issued Blue Ridge Investments LLC ("Blue Ridge"), an affiliate of Bank of America, a five-year warrant to purchase 9.94 million shares of MBIA Inc. common stock at an exercise price of \$9.59 per share. In March of 2017, Blue Ridge transferred the warrant to Highbridge International LLC ("Highbridge").

In August of 2013, pursuant to the anti-dilution provisions of warrants issued by MBIA to Warburg Pincus LLC ("Warburg") in 2008, MBIA issued Warburg a five-year warrant to purchase 1.91 million shares of MBIA common stock at an exercise price of \$9.59 per share, which was transferred to Highbridge in April of 2016.

Stock warrants are recorded as liabilities and reported within "Other liabilities" on the consolidated balance sheets due to terms and conditions in the agreements that could require net cash settlement. As of December 31, 2017 and 2016, the fair value of the warrants was \$6 million and \$33 million, respectively.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 18: Common and Preferred Stock (continued)

Preferred Stock

As of December 31, 2017, MBIA Insurance Corporation had 2,759 shares of preferred stock issued and outstanding with a carrying value of \$28 million, including 1,444 shares held by MBIA Inc. that were purchased at a weighted average price of \$10,900 per share or 10.9% of face value and 1,315 shares held by unaffiliated investors. During 2017, MBIA Inc. did not repurchase any additional shares.

In accordance with MBIA's fixed-rate election, the dividend rate on the preferred stock was determined using a fixed-rate equivalent of LIBOR plus 200 basis points. Each share of preferred stock has a par value of \$1,000 with a liquidation preference of \$100,000. The holders of the preferred stock are generally not entitled to any voting rights. Subject to certain requirements, the preferred stock may be redeemed, in whole or in part, at the option of MBIA Corp. at any time or from time to time for cash at a redemption price equal to the liquidation preference per share plus any accrued and unpaid dividends thereon at the date of redemption for the then current dividend period and any previously accumulated dividends payable without interest on such unpaid dividends. As of December 31, 2017 and 2016, there were no dividends declared on the preferred stock. Payment of dividends on MBIA Corp.'s preferred stock is subject to the same restrictions that apply to dividends on common stock under NYIL.

Note 19: Accumulated Other Comprehensive Income

The following table presents the changes in the components of AOCI for the years ended December 31, 2017, 2016 and 2015:

In millions	Unrealized Gains (Losses) on AFS Securities, Net	Foreign Currency Translation, Net	Total
Balance, January 1, 2015	\$ 34	\$ (13)	\$ 21
Other comprehensive income (loss) before reclassifications	(55)	(26)	(81)
Amounts reclassified from AOCI	(1)	—	(1)
Net period other comprehensive income (loss)	(56)	(26)	(82)
Balance, December 31, 2015	(22)	(39)	(61)
Other comprehensive income (loss) before reclassifications	27	(95)	(68)
Amounts reclassified from AOCI	1	—	1
Net period other comprehensive income (loss)	28	(95)	(67)
Balance, December 31, 2016	6	(134)	(128)
Other comprehensive income (loss) before reclassifications	(24)	125	101 ⁽¹⁾
Amounts reclassified from AOCI	8	—	8
Net period other comprehensive income (loss)	(16)	125	109
Balance, December 31, 2017	\$ (10)	\$ (9)	\$ (19)

(1)—Includes items included in the Company's loss calculation to adjust the carrying value of MBIA UK to its fair value less costs to sell for the year ended December 31, 2016. The sale was completed in January of 2017 and as such, these amounts included in AOCI were reversed and included in the Sale Transaction.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 19: Accumulated Other Comprehensive Income (continued)

The following table presents the details of the reclassifications from AOCI for the years ended December 31, 2017, 2016 and 2015:

In millions	Amounts Reclassified from AOCI Years Ended December 31,			Affected Line Item on the Consolidated Statements of Operations
	2017	2016	2015	
Details about AOCI Components				
Unrealized gains (losses) on AFS securities:				
Realized gain (loss) on sale of securities	\$ 3	\$ 7	\$11	Net gains (losses) on financial instruments at fair value and foreign exchange
OTTI	(7)	(4)	(4)	Net investment losses related to OTTI
Amortization on securities	(5)	(6)	(4)	Net investment income
	(9)	(3)	3	Income (loss) before income taxes
	(1)	(2)	2	Provision (benefit) for income taxes
Total reclassifications for the period	<u>\$(8)</u>	<u>\$(1)</u>	<u>\$ 1</u>	Net income (loss)

Note 20: Commitments and Contingencies

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

Litigation

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

On December 14, 2009, MBIA Corp. commenced an action in New York State Supreme Court, New York County, against Credit Suisse Securities (USA) LLC, DLJ Mortgage Capital, Inc. and Select Portfolio Servicing Inc. (collectively, "Credit Suisse"). The complaint seeks damages for fraud and breach of contractual obligations in connection with the procurement of financial guarantee insurance on the Home Equity Mortgage Trust Series 2007-2 securitization. On January 30, 2013, MBIA Corp. filed an amended complaint. The amended complaint alleges, among other claims, that Credit Suisse falsely represented: (i) the attributes of the securitized loans; (ii) that the loans complied with the governing underwriting guidelines; and (iii) that Credit Suisse had conducted extensive due diligence on and quality control reviews of the securitized loans to ensure compliance with the underwriting guidelines. The complaint further alleges that the defendants breached their contractual obligations to cure or repurchase loans found to be in breach of the representations and warranties applicable thereto and denied MBIA the requisite access to all records and documents regarding the securitized loans. On March 31, 2017, the court granted in part and denied in part the parties' summary judgment motions, including granting Credit Suisse's request to dismiss MBIA's fraud claim. Oral argument before the Appellate Division of the Supreme Court, First Judicial Department on the parties' cross-appeals from the court's March 31, 2017 decision and order on the parties' summary judgment motions took place on October 24, 2017 and a decision is pending.

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

On September 14, 2012, MBIA Corp. filed a complaint alleging fraud against J.P. Morgan Securities LLC (f/k/a Bear, Stearns & Co. Inc.) relating to Bear, Stearns & Co. Inc.'s role as lead securities underwriter on the GMAC Mortgage Corporation Home Equity Loan Trust 2006-HE4. On June 6, 2017, the parties filed a stipulation acknowledging that they had resolved the claims in litigation and dismissing the action with prejudice.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 20: Commitments and Contingencies (continued)

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

On July 23, 2008, the City of Los Angeles filed a complaint in the Superior Court of the State of California, County of Los Angeles, against a number of financial guarantee insurers, including MBIA. At the same time and subsequently, additional complaints were filed by other municipal entities and quasi-municipal entities. These cases are part of a coordination proceeding in Superior Court, San Francisco County, before Judge Curtis E. A. Karnow. In August of 2011, the plaintiffs filed amended versions of their respective complaints. The claims allege violation of California's antitrust laws through maintaining a dual credit rating scale that misstated the credit default risk of certain issuers, thereby creating market demand for bond insurance. The plaintiffs also allege that the individual bond insurers participated in risky financial transactions in other lines of business that damaged each bond insurer's financial condition, and failure to adequately disclose the impact of those transactions on their financial condition. The non-municipal plaintiffs also allege a California unfair competition cause of action. On December 11, 2017, the parties reached a settlement of the litigation, which is expected to be finalized in the first half of 2018, at which point the matter will be 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 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 Gretchen Walsh was assigned to the case.

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 the Puerto Rico Oversight, Management and Economic Stability Act ("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 stay on litigation pursuant to PROMESA. On January 30, 2017, the District Court denied without prejudice National's partial motion for a summary judgment. 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 Title III 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., f/k/a Financial Security Assurance Inc., 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.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 20: Commitments and Contingencies (continued)

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. Under a scheduling order, discovery is underway and motions for summary judgment and opening briefs were filed on February 21, 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 PRHTA Title III case, 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.

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, the plaintiffs 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 date August 7, 2017, the litigation was stayed.

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)

On August 7, 2017, National, together with Assured Guaranty Corp., Assured Guaranty Municipal Corp., the Ad Hoc Group of PREPA Bondholders, and Syncora Guarantee Inc. filed an adversary complaint under Title III of PROMESA against PREPA, the 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.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 20: Commitments and Contingencies (continued)

The Official Committee of Unsecured Creditors of the Commonwealth of Puerto Rico, as agent of 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 intervenors 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.

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 December 31, 2017, total future minimum lease payments remaining on this lease were \$36 million.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure 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 defined in Rule 13a-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.

Changes in Internal Control over Financial Reporting

As required by Rule 13a-15(d) under the Exchange Act, the Company's management, including its Chief Executive Officer and Chief Financial Officer, has evaluated the Company's internal control over financial reporting to determine whether any changes occurred during the fourth fiscal quarter covered by this annual report that have materially affected or are reasonably likely to materially affect, our internal control over financial reporting. Based on that evaluation, there has been no such change during the fourth fiscal quarter of 2017.

Management's Report on Internal Control over Financial Reporting

Management of MBIA Inc. and its subsidiaries is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control over financial reporting is a process designed under the supervision of the Company's principal executive and principal financial officers to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with accounting principles generally accepted in the United States of America.

MBIA's internal control over financial reporting includes policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets; (2) provide reasonable assurances that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures are being made only in accordance with authorizations of management and the directors of the Company; and, (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the Company's financial statements.

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

Management has assessed the effectiveness of MBIA Inc. internal control over financial reporting as of December 31, 2017. In making its assessment, management conducted an assessment of the effectiveness of the Company's internal control over financial reporting based on the framework established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment and those criteria, management has determined that the Company's internal control over financial reporting as of December 31, 2017 was effective.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2017 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report, which is included in Item 8, "Financial Statements and Supplementary Data."

Item 9B. Other Information

None.

Part III

Item 10. Directors, Executive Officers and Corporate Governance

Information regarding directors will be set forth under “Proposals for Shareholder Approval Recommended by the Board—Proposal 1: Election of Directors” and “Board of Directors Corporate Governance—The Board of Directors and its Committees” in the Company’s Proxy Statement to be filed within 120 days of the end of our fiscal year ended December 31, 2017 (the “Proxy Statement”) and is incorporated by reference.

Information regarding executive officers is set forth under Part I, Item 1, “Business—Executive Officers of the Registrant,” included in this annual report.

Information regarding Section 16(a) beneficial ownership reporting compliance will be set forth in the section “Section 16(a) Beneficial Ownership Reporting Compliance” in the Proxy Statement and is incorporated by reference.

Information regarding the Company’s Audit Committee will be set forth under “Board of Directors Corporate Governance—The Board of Directors and its Committees” in the Proxy Statement and is incorporated by reference.

The Company has adopted a code of ethics that applies to all employees of the Company including its Chief Executive Officer, Chief Financial Officer and its controller. A copy of such code of ethics can be found on the Company’s internet website at www.mbia.com. The Company intends to satisfy the disclosure requirements under Item 10 of Form 8-K regarding an amendment to, or waiver from, a provision of its code of ethics and that relates to a substantive amendment or material departure from a provision of the Code by posting such information on its internet website at www.mbia.com.

Item 11. Executive Compensation

Information regarding compensation of the Company’s directors and executive officers will be set forth under “Board of Directors Corporate Governance—The Board of Directors and its Committees,” “Compensation and Governance Committee Report,” “Compensation Discussion and Analysis” and “Executive Compensation Tables” in the Proxy Statement and is incorporated by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Information regarding security ownership of certain beneficial owners and management will be set forth under “Security Ownership of Certain Beneficial Owners” and “Security Ownership of Directors and Executive Officers” in the Proxy Statement and is incorporated by reference.

The following table provides information as of December 31, 2017, regarding securities authorized for issuance under our equity compensation plans. All outstanding awards relate to our common stock. For additional information about our equity compensation plans refer to “Note 16: Long-term Incentive Plans” in the Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K.

Plan category	(a)	(b)	(c)
	Number of securities to be issued upon exercise of outstanding options, warrants and rights ⁽¹⁾	Weighted average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) ⁽²⁾
Equity compensation plans approved by security holders	162,611	\$ 13.25	6,376,068
Equity compensation plans not approved by security holders	—	—	—
Total	162,611	\$ 13.25	6,376,068

(1)—Represents phantom shares granted under the Deferred Compensation and Stock Ownership Plan for Non-Employee Directors.

(2)—Includes 6,207,299 shares of common stock available for future grants under the MBIA Inc. 2005 Omnibus Incentive Plan and 168,769 shares of common stock available for future grants under the Deferred Compensation and Stock Ownership Plan for Non-Employee Directors.

Item 13. Certain Relationships and Related Transactions, and Director Independence

Information regarding certain relationships and related transactions will be set forth under “Certain Relationships and Related Transactions” in the Proxy Statement and is incorporated by reference. Information regarding director independence will be set forth under “Proposals for Shareholder Approval Recommended by the Board—Proposal 1: Election of Directors—Director Independence” in the Proxy Statement and is incorporated by reference.

Item 14. Principal Accounting Fees and Services

Information regarding principal accounting fees and services will be set forth under “Principal Accountant Fees and Services” in the Proxy Statement and is incorporated by reference.

Part IV

Item 15. Exhibits, Financial Statement Schedules

(a) Financial Statements and Financial Statement Schedules and Exhibits

1. Financial Statements

The following financial statements of MBIA Inc. have been included in Part II, Item 8 hereof:

Report of Independent Registered Public Accounting Firm.

Consolidated balance sheets as of December 31, 2017 and 2016.

Consolidated statements of operations for the years ended December 31, 2017, 2016 and 2015.

Consolidated statements of comprehensive income (loss) for the years ended December 31, 2017, 2016 and 2015.

Consolidated statements of changes in shareholders' equity for the years ended December 31, 2017, 2016 and 2015.

Consolidated statements of cash flows for the years ended December 31, 2017, 2016 and 2015.

Notes to consolidated financial statements.

2. Financial Statement Schedules

The following financial statement schedules are filed as part of this report.

<u>Schedule</u>	<u>Title</u>
I.	Summary of investments, other than investments in related parties, as of December 31, 2017.
II.	Condensed financial information of Registrant: Condensed balance sheets as of December 31, 2017 and 2016. Condensed statements of operations for the years ended December 31, 2017, 2016 and 2015. Condensed statements of cash flows for the years ended December 31, 2017, 2016 and 2015. Notes to condensed financial statements.
IV.	Reinsurance for the years ended December 31, 2017, 2016 and 2015.

The report of the Registrant's Independent Registered Public Accounting Firm with respect to the above listed financial statement schedules is included within the report listed under Item 15.1 above.

All other schedules are omitted because they are not applicable or the required information is shown in the consolidated financial statements or notes thereto.

3. Exhibits

An exhibit index immediately preceding the Exhibits indicates the exhibit number where each exhibit filed as part of this report can be found.

(Note Regarding Reliance on Statements in Our Contracts: In reviewing the agreements included as exhibits to this Annual Report on Form 10-K, please remember that they are included to provide you with information regarding their terms and are not intended to provide any other factual or disclosure information about MBIA Inc., its subsidiaries or the other parties to the agreements. The agreements contain representations and warranties by each of the parties to the applicable agreement. These representations and warranties have been made solely for the benefit of the other parties to the applicable agreement and (i) should not in all instances be treated as categorical statements of fact, but rather as a way of allocating the risk to one of the parties if those statements prove to be inaccurate; (ii) have been qualified by disclosures that were made to the other party in connection with the negotiation of the applicable agreement, which disclosures are not necessarily reflected in the agreement; (iii) may apply standards of materiality in a way that is different from what may be viewed as material to investors; and (iv) were made only as of the date of the applicable agreement or such other date or dates as may be specified in the agreement and are subject to more recent developments. Accordingly, these representations and warranties may not describe the actual state of affairs as of the date they were made or at any other time.)

Item 15. Exhibits, Financial Statement Schedules (continued)

3. Articles of Incorporation and By-Laws.

3.1. Amended and Restated Certificate of Incorporation, dated May 5, 2005, incorporated by reference to Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2005.

3.2. By-Laws as Amended as of July 14, 2009, incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed on July 16, 2009, as Amended as of July 27, 2017, incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K filed on July 31, 2017.

4. Instruments Defining the Rights of Security Holders, including Indentures.

4.1. Indenture, dated as of August 1, 1990, between MBIA Inc. and The First National Bank of Chicago, Trustee, incorporated by reference to Exhibit 10.72 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1992 as amended by the First Supplemental Indenture, dated as of August 22, 2002, between MBIA Inc. and Bank One Trust Company, N.A., as Trustee, in connection with the \$300,000,000 6.4% senior notes due 2022, incorporated by reference to the Exhibit 4.04 to the Company's Current Report on Form 8-K filed on August 22, 2002, and the Second Supplemental Indenture, dated as of November 21, 2012, between MBIA Inc. and The Bank of New York Mellon, as Trustee, incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed on November 26, 2012.

4.2. Senior Indenture, dated as of November 24, 2004, between MBIA Inc. and The Bank of New York, as Trustee, incorporated by reference to Exhibit 4.01 to the Company's Current Report on Form 8-K filed on November 29, 2004 as amended by the First Supplemental Indenture, dated as of November 24, 2004, between MBIA Inc. and The Bank of New York, as Trustee, in connection with the \$350,000,000 5.70% senior notes due 2034, incorporated by reference to Exhibit 4.02 to the Company's Current Report on Form 8-K filed on November 29, 2004 as amended by the Second Supplemental Indenture, dated as of November 21, 2012, between MBIA Inc. and The Bank of New York Mellon, as Trustee, incorporated by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K filed on November 26, 2012.

4.3. Fiscal Agency Agreement, dated as of January 16, 2008, between MBIA Insurance Corporation and The Bank of New York, incorporated by reference to Exhibit 4.01 to the Company's Current Report on Form 8-K filed on January 17, 2008.

4.4. Form of MBIA Corp. 14% Fixed-to-Floating Rate Global Note due January 15, 2033, incorporated by reference to Exhibit 4.02 to the Company's Current Report on Form 8-K filed on January 17, 2008.

4.5. Warrant Agreement, dated as of May 6, 2013, between MBIA Inc. and Blue Ridge Investments, L.L.C., incorporated by reference to Exhibit 4.1 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2013.

4.6. Warrant Agreement, dated as of August 5, 2013, between MBIA Inc. and Warburg Pincus Private Equity X, L.P., incorporated by reference to Exhibit 4.2 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2013.

4.7. Senior Note Indenture, dated as of January 10, 2017, between MZ Funding LLC and Wilmington Savings Fund Society, FSB, as Trustee and Collateral Agent, incorporated by reference to Exhibit 99.1 to the Company's Current Report on Form 8-K filed on January 10, 2017.

4.8. Form of MZ Funding LLC \$328,250,000 14% Senior Secured Note due January 20, 2020, incorporated by reference to Exhibit 99.2 to the Company's Current Report on Form 8-K filed on January 10, 2017.

4.9. Subordinated Note Indenture, dated as of January 10, 2017, between MZ Funding LLC and Wilmington Savings Fund Society, FSB, as Trustee and Collateral Agent, incorporated by reference to Exhibit 99.3 to the Company's Current Report on Form 8-K filed on January 10, 2017.

4.10. Form of MZ Funding LLC \$88,000,000 14% Senior Secured Note due January 20, 2020, incorporated by reference to Exhibit 99.4 to the Company's Current Report on Form 8-K filed on January 10, 2017.

Item 15. Exhibits, Financial Statement Schedules (continued)

4.11. Credit Agreement dated as of January 10, 2017 between MBIA Insurance Corp. and MZ Funding LLC, incorporated by reference to Exhibit 99.5 to the Company's Current Report on Form 8-K filed on January 10, 2017.

4.12. Security Agreement dated as of January 10, 2017 between MBIA Insurance Corp. as Grantor and MZ Funding LLC as Secured Party, incorporated by reference to Exhibit 99.6 to the Company's Current Report on Form 8-K filed on January 10, 2017.

4.13. Security Agreement dated as of January 10, 2017 between MZ Funding LLC as Grantor and Wilmington Savings Fund Society, FSB as Collateral Agent under the Senior Note Indenture referenced herein as Exhibit 4.8 and incorporated by reference to Exhibit 99.7 to the Company's Current Report on Form 8-K filed on January 10, 2017.

4.14. Security Agreement dated as of January 10, 2017 between MZ Funding LLC as Grantor and Wilmington Savings Fund Society, FSB as Collateral Agent under the Subordinated Note Indenture referenced herein as Exhibit 4.9 and incorporated by reference to Exhibit 99.8 to the Company's Current Report on Form 8-K filed on January 10, 2017.

4.15. Pledge Agreement dated as of January 10, 2017 between MBIA Inc. as Pledgor and Wilmington Savings Fund Society, FSB as Collateral Agent under the Subordinated Note Indenture referenced herein as Exhibit 4.7 and incorporated by reference to Exhibit 99.9 to the Company's Current Report on Form 8-K filed on January 10, 2017.

4.16. Intercreditor Agreement dated as of January 10, 2017 amongst Wilmington Savings Fund Society, FSB as Trustee MZ Funding LLC and MBIA Insurance Corp. as Insurer, incorporated by reference to Exhibit 99.10 to the Company's Current Report on Form 8-K filed on January 10, 2017.

10. Material Contracts

Executive Compensation Plans and Arrangements

The following Exhibits identify all existing executive compensation plans and arrangements:

10.1. MBIA Inc. Annual Incentive Plan, effective January 1, 2016, incorporated by reference to Exhibit A to the Company's Proxy Statement filed on March 24, 2015.

10.2. MBIA Inc. 2005 Omnibus Incentive Plan, as amended through March, 2012, incorporated by reference to Exhibit A to the Company's Proxy Statement filed on March 19, 2012, as amended by the Amendment thereto, effective as of May 2, 2013.

10.3. Key Employee Employment Protection Plan, amended as of February 27, 2007, incorporated by reference to Exhibit 10.80 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2007, as further amended by Amendment No. 2, effective February 22, 2010, incorporated by reference to Exhibit 10.13 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2009.

10.4. Form of Key Employee Employment Protection Agreement, amended as of February 27, 2007, incorporated by reference to Exhibit 10.81 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2007.

10.5. MBIA Inc. 2005 Non-Employee Director Deferred Compensation Plan (as amended through February 2014), incorporated by reference to Exhibit 10.1 to the Company's Form S-8 filed on March 5, 2014 (Reg. No. 333-194335).

Item 15. Exhibits, Financial Statement Schedules (continued)

10.6. Amended and Restated MBIA Inc. Deferred Compensation and Excess Benefit Plan, effective as of March 22, 2010, incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2010.

10.7. Cash Retention Award and Restricted Stock Agreement, dated as of December 21, 2012, between MBIA Inc. and William C. Fallon, incorporated by reference to Exhibit 10.16 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2012.

10.8. Cash Retention Award and Restricted Stock Agreement, dated as of December 21, 2012, between MBIA Inc. and Anthony McKiernan, incorporated by reference to Exhibit 10.17 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2012.

10.9. Cash Retention Award and Restricted Stock Agreement, dated as of December 21, 2012, between MBIA Inc. and Ram Wertheim, incorporated by reference to Exhibit 10.18 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2012.

10.10 Restricted Stock Award Agreement between MBIA Inc. and Joseph W. Brown, dated as of March 17, 2014, incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2014.

10.11 Amended Restricted Stock Award Agreement between MBIA Inc. and Joseph W. Brown, dated as of March 2, 2015, incorporated by reference to Exhibit 10.16 to the Company's Annual Report on Form 10-K for the year ended December 31, 2014.

21. List of Subsidiaries.

23. Consent of PricewaterhouseCoopers LLP.

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

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

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

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

99.1. Quota Share Reinsurance Agreement between MBIA Insurance Corporation and MBIA Insurance Corp. of Illinois dated February 17, 2009, incorporated by reference to Exhibit 99.1 to the Company's Current Report on Form 8-K filed on February 20, 2009.

99.2. Novation Agreement, dated as of September 14, 2012, between Financial Guaranty Insurance Company and National Public Finance Guarantee Corporation, incorporated by reference to Exhibit 99.3 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2013.

99.3. Amended and Restated Tax Sharing Agreement, dated as of September 8, 2011, between MBIA Inc. and certain of its subsidiaries, incorporated by reference to Exhibit 99.3 to the Company's Annual Report on Form 10-K for the year ended December 31, 2014.

101. Interactive data files pursuant to Rule 405 of Regulation S-T: (i) Consolidated Balance Sheets as of December 31, 2017 and 2016; (ii) Consolidated Statements of Operations for the years ended December 31, 2017, 2016 and 2015; (iii) Consolidated Statements of Comprehensive Income (Loss) for the years ended December 31, 2017, 2016 and 2015; (iv) Consolidated Statements of Changes in Shareholders' Equity for the years ended December 31, 2017, 2016 and 2015; (v) Consolidated Statements of Cash Flows for the years ended December 31, 2017, 2016 and 2015 and (vi) Notes to Consolidated Financial Statements.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: March 1, 2018

MBIA Inc.
(Registrant)

By /s/ William C. Fallon

Name: William C. Fallon

Title: Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ William C. Fallon</u> William C. Fallon	Director and Chief Executive Officer	March 1, 2018
<u>/s/ Anthony McKiernan</u> Anthony McKiernan	Chief Financial Officer	March 1, 2018
<u>/s/ Joseph R. Schachinger</u> Joseph R. Schachinger	Assistant Vice President and Controller (Chief Accounting Officer)	March 1, 2018
<u>/s/ Charles R. Rinehart</u> Charles R. Rinehart	Chairman and Director	March 1, 2018
<u>/s/ Francis Y. Chin</u> Francis Y. Chin	Director	March 1, 2018
<u>/s/ Steven J. Gilbert</u> Steven J. Gilbert	Director	March 1, 2018
<u>/s/ Theodore Shasta</u> Theodore Shasta	Director	March 1, 2018
<u>/s/ Richard C. Vaughan</u> Richard C. Vaughan	Director	March 1, 2018

SCHEDULE I
MBIA INC. AND SUBSIDIARIES
SUMMARY OF INVESTMENTS, OTHER THAN INVESTMENTS IN RELATED PARTIES
December 31, 2017
(In millions)

<u>Type of investment</u>	December 31, 2017		
	Cost	Fair Value	Amount at which shown in the balance sheet
Available-for-sale:			
U.S. Treasury and government agency	\$ 985	\$ 1,014	\$ 1,014
State and municipal bonds	840	857	857
Foreign governments	4	4	4
Corporate obligations	1,173	1,117	1,117
Mortgage-backed securities:			
Residential mortgage-backed agency	365	362	362
Residential mortgage-backed non-agency	35	32	32
Commercial mortgage-backed	66	66	66
Asset-backed securities:			
Collateralized debt obligations	116	116	116
Other asset-backed	175	175	175
Total long-term available-for-sale	3,759	3,743	3,743
Short-term available-for-sale	676	676	676
Equity available-for-sale	3	4	4
Total available-for-sale	4,438	4,423	4,423
Investments at fair value	223	230	230
Other investments	2	2	2
Total investments	\$4,663	\$ 4,655	\$ 4,655
Assets of consolidated variable interest entities:			
Investments at fair value	157	182	182
Held-to-maturity:			
Corporate obligations	890	916	890
Loans receivable	1,085	1,679	1,679
Total investments of consolidated variable interest entities	\$2,132	\$ 2,777	\$ 2,751

SCHEDULE II
MBIA INC. (PARENT COMPANY)
CONDENSED BALANCE SHEETS
(In millions except share and per share amounts)

	<u>December 31,</u> <u>2017</u>	<u>December 31,</u> <u>2016</u>
Assets		
Investments:		
Fixed-maturity securities held as available-for-sale, at fair value (amortized cost \$590 and \$687)	\$ 639	\$ 725
Investments carried at fair value	8	6
Investments pledged as collateral, at fair value (amortized cost \$155 and \$242)	148	233
Short-term investments held as available-for-sale, at fair value (amortized cost \$283 and \$278)	283	278
Other investments	1	2
Total investments	<u>1,079</u>	<u>1,244</u>
Cash and cash equivalents	10	13
Investment in wholly-owned subsidiaries	2,290	3,673
Deferred income taxes, net	—	1,003
Other assets	144	107
Total assets	<u>\$ 3,523</u>	<u>\$ 6,040</u>
Liabilities and Shareholders' Equity		
Liabilities:		
Investment agreements	\$ 301	\$ 361
Long-term debt	576	576
Affiliate loans payable	772	901
Income taxes payable	237	696
Other liabilities	224	279
Total liabilities	<u>2,110</u>	<u>2,813</u>
Shareholders' Equity:		
Preferred stock, par value \$1 per share; authorized shares—10,000,000; issued and outstanding—none	—	—
Common stock, par value \$1 per share; authorized shares—400,000,000; issued shares—283,717,973 and 283,989,999	284	284
Additional paid-in capital	3,171	3,160
Retained earnings	1,095	2,700
Accumulated other comprehensive income (loss), net of tax	(19)	(128)
Treasury stock, at cost—192,233,526 and 148,789,168 shares	(3,118)	(2,789)
Total shareholders' equity of MBIA Inc.	<u>1,413</u>	<u>3,227</u>
Total liabilities and shareholders' equity	<u>\$ 3,523</u>	<u>\$ 6,040</u>

The condensed financial statements should be read in conjunction with the consolidated financial statements and notes thereto and the accompanying notes.

SCHEDULE II
MBIA INC. (PARENT COMPANY)
CONDENSED STATEMENTS OF OPERATIONS
(In millions)

	<u>Years ended December 31,</u>		
	<u>2017</u>	<u>2016</u>	<u>2015</u>
Revenues:			
Net investment income	\$ 35	\$ 29	\$ 35
Net gains (losses) on financial instruments at fair value and foreign exchange	(34)	(13)	59
Investment losses related to other-than-temporary impairments:			
Investment losses related to other-than-temporary impairments	—	(1)	(3)
Other-than-temporary impairments recognized in accumulated other comprehensive income (loss)	—	—	(1)
Net investment losses related to other-than-temporary impairments	—	(1)	(4)
Net gains (losses) on extinguishment of debt	28	5	—
Other net realized gains (losses)	(3)	(5)	21
Total revenues	<u>26</u>	<u>15</u>	<u>111</u>
Expenses:			
Operating	13	16	24
Interest	87	90	95
Total expenses	<u>100</u>	<u>106</u>	<u>119</u>
Gain (loss) before income taxes and equity in earnings of subsidiaries	(74)	(91)	(8)
Provision (benefit) for income taxes	507	(15)	1
Gain (loss) before equity in earnings of subsidiaries	(581)	(76)	(9)
Equity in net income (loss) of subsidiaries	(1,024)	(262)	189
Net income (loss)	<u><u>\$(1,605)</u></u>	<u><u>\$(338)</u></u>	<u><u>\$180</u></u>

The condensed financial statements should be read in conjunction with the consolidated financial statements and notes thereto and the accompanying notes.

SCHEDULE II
MBIA INC. (PARENT COMPANY)
CONDENSED STATEMENTS OF CASH FLOWS
(In millions)

	Years ended December 31,		
	2017	2016	2015
Cash flows from operating activities:			
Fees and reimbursements received	\$ —	\$ 4	\$ —
Investment income received	141	144	142
Operating expenses paid	(27)	(18)	(24)
Interest paid, net of interest converted to principal	(78)	(84)	(88)
Income taxes (paid) received	26	73	108
Net cash provided (used) by operating activities	<u>62</u>	<u>119</u>	<u>138</u>
Cash flows from investing activities:			
Purchases of available-for-sale investments	(164)	(129)	(606)
Sales of available-for-sale investments	172	165	325
Paydowns and maturities of available-for-sale investments	152	90	186
Purchases of investments at fair value	(70)	(57)	(144)
Sales, paydowns and maturities of investments at fair value	71	58	171
Sales, paydowns and maturities (purchases) of short-term investments, net	(34)	1	232
(Payments) proceeds for derivative settlements	(30)	(37)	43
Collateral (to) from counterparty	4	52	(31)
Contributions to subsidiaries, net	(12)	(10)	16
Advances to subsidiaries, net	(3)	—	—
Other investing	—	—	24
Net cash provided (used) by investing activities	<u>86</u>	<u>133</u>	<u>216</u>
Cash flows from financing activities:			
Proceeds from investment agreements	15	16	21
Principal paydowns of investment agreements	(81)	(80)	(111)
Proceeds from long-term debt	127	—	—
Principal paydowns of long-term debt	—	—	(11)
Payments for affiliate loans	(156)	(111)	(103)
Purchases of treasury stock	(65)	(108)	(234)
Restricted stock awards settlements	11	8	19
Net cash provided (used) by financing activities	<u>(149)</u>	<u>(275)</u>	<u>(419)</u>
Effect of exchange rates on cash and cash equivalents	(2)	1	—
Net increase (decrease) in cash and cash equivalents	(3)	(22)	(65)
Cash and cash equivalents—beginning of year	13	35	100
Cash and cash equivalents—end of year	<u>\$ 10</u>	<u>\$ 13</u>	<u>\$ 35</u>
Reconciliation of net income (loss) to net cash provided (used) by operating activities:			
Net income (loss)	\$(1,605)	\$(338)	\$ 180
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:			
Change in:			
Intercompany accounts receivable	(22)	(8)	(20)
Current income taxes	48	78	109
Equity in earnings of subsidiaries	1,024	262	(189)
Dividends from subsidiaries	118	118	116
Net investment losses related to other-than-temporary impairments	—	1	4
Net (gains) losses on financial instruments at fair value and foreign exchange	34	13	(59)
Other net realized (gains) losses	3	5	(21)
Deferred income tax provision (benefit)	485	(20)	—
(Gains) losses on extinguishment of debt	(28)	(5)	—
Other operating	5	13	18
Total adjustments to net income (loss)	<u>1,667</u>	<u>457</u>	<u>(42)</u>
Net cash provided (used) by operating activities	<u>\$ 62</u>	<u>\$ 119</u>	<u>\$ 138</u>

The condensed financial statements should be read in conjunction with the consolidated financial statements and notes thereto and the accompanying notes.

SCHEDULE II
MBIA INC. (PARENT COMPANY)
NOTES TO CONDENSED FINANCIAL STATEMENTS

1. Condensed Financial Statements

Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. It is suggested that these condensed financial statements be read in conjunction with the Company's consolidated financial statements and the notes thereto.

The activities of MBIA Inc. (the "Parent Company") consist of general corporate activities and funding activities, which principally include holding and managing investments, servicing outstanding corporate debt, investment agreements issued by the Parent Company and its subsidiaries, and posting collateral under investment agreement and derivative contracts.

The Parent Company is subject to the same liquidity risks and uncertainties as described in footnote 1 to the Company's consolidated financial statements. As of December 31, 2017, the liquidity position of the Parent Company, which included 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 for general corporate purposes, excluding the amount held in escrow under its tax sharing agreement, was \$419 million.

During 2017, National purchased from the Parent Company, \$129 million principal amount of MBIA Inc. 5.700% Senior Notes due 2034 that were previously repurchased by the Parent Company and had not been retired. The MBIA Inc. 5.700% Senior Notes due 2034 that were purchased by National were eliminated from the Parent Company's condensed balance sheet.

2. Accounting Policies

The Parent Company carries its investments in subsidiaries under the equity method.

Certain amounts have been reclassified in prior years' financial statements to conform to the current presentation. This includes a change in the presentation of cash paid when withholding shares for tax-withholding purposes in "Purchases of treasury stock" on the Parent Company's condensed statement of cash flows as required under Accounting Standards Update ("ASU") 2016-09, "Compensation-Stock Compensation (Topic 718)". The change in presentation effected "Operating expenses paid", in operating cash flows and "Purchases of treasury stock", in financing cash flows, on the Parent Company's condensed statement of cash flows in prior periods. The reclassifications had no material impact on total revenues, expenses, assets, liabilities, shareholders' equity, operating cash flows, investing cash flows, or financing cash flows for all periods presented.

For a further discussion of significant accounting policies and recent accounting pronouncements, refer to footnotes 2 and 3 to the Company's consolidated financial statements.

3. Dividends from Subsidiaries

During 2017 and 2016, National Public Finance Guarantee Holdings, Inc. declared and paid a dividend of \$118 million to the Parent Company.

During 2015, National Public Finance Guarantee Holdings, Inc. declared and paid a dividend of \$114 million to the Parent Company, Trifinium Holdings Limited declared and paid dividends of \$1 million to the Parent Company and MBIA Services Corp. declared and paid a dividend of \$1 million to the Parent Company.

4. Deferred Tax Asset, Net of Valuation Allowance

The Parent Company recognizes deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements or tax returns. Deferred tax assets and liabilities are determined based on the differences between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. The effect of a change in tax rates on tax assets and liabilities is recognized in income in the period that includes the enactment date. Valuation allowances are established to reduce deferred tax assets to the amount that more likely than not will be realized.

The Parent Company considered all available positive and negative evidence as required by generally accepted accounting principles, 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 Parent Company's inability to objectively identify and forecast future sources of taxable income, the Parent Company concluded in the second quarter of 2017 it did not have sufficient positive evidence to support its ability to use its net deferred tax asset before it would expire. Accordingly, the Parent Company established a full valuation allowance against its net deferred tax asset.

For a further discussion of the net deferred tax asset, refer to footnote 11 to the Company's consolidated financial statements.

5. Obligations under Investment Agreements

Investment agreements, as described in footnote 10 to the Company's consolidated financial statements, are conducted by both the Parent Company and its wholly-owned subsidiary, MBIA Investment Management Corp.

6. Pledged Collateral

Substantially all of the obligations under investment agreements require the Parent Company to pledge securities as collateral. As of December 31, 2017 and 2016, the fair value of securities pledged as collateral with respect to these investment agreements approximated \$350 million and \$394 million, respectively. The Parent Company's collateral as of December 31, 2017, consisted principally of U.S. Treasury and government agency and state and municipal bonds, and was primarily held with major U.S. banks. Additionally, the Parent Company pledged cash and money market securities as collateral under investment agreements in the amount of \$6 million as of December 31, 2016.

Under derivative contracts entered into by the Parent Company, collateral postings are required by either the Parent Company or the counterparty when the aggregate market value of derivative contracts entered into with the same counterparty exceeds a predefined threshold. As of December 31, 2017 and 2016, the Parent Company pledged securities with a fair value of \$237 million and \$276 million, respectively, to derivative counterparties.

7. Affiliate Loans Payable

Affiliate loans payable consists of loans payable to MBIA Global Funding, LLC ("GFL"). GFL raised funds through the issuance of medium-term notes with varying maturities, which were, in turn, guaranteed by MBIA Corp. GFL lent the proceeds of these medium-term note issuances to the Parent Company.

SCHEDULE IV
MBIA INC. AND SUBSIDIARIES
REINSURANCE

Years Ended December 31, 2017, 2016 and 2015
(In millions)

Column A Insurance Premium Written	Column B Direct Amount	Column C Ceded to Others	Column D Assumed From Other Companies	Column E Net Amount	Column F Percentage of Amount Assumed to Net
2017	\$ (1)	\$ (1)	\$ —	\$ (2)	0%
2016	\$ 37	\$ 1	\$ —	\$ 36	0%
2015	\$ 11	\$ 1	\$ —	\$ 10	0%

SUBSIDIARIES OF MBIA INC.

<u>Name of Subsidiary</u>	<u>State/Country of Incorporation</u>
LaCrosse Financial Products, LLC	Delaware
LaCrosse Financial Products Member, LLC	Delaware
MBIA Capital Corp.	Delaware
MBIA Global Funding, LLC	Delaware
MBIA Insurance Corporation	New York
MBIA Investment Management Corp.	Delaware
MBIA Mexico, S.A. de C.V.	Mexico
MBIA Services Corporation	Delaware
MBIA UK (Holdings) Limited	England and Wales
Municipal Issuers Service Corporation	New York
MZ Funding LLC	Delaware
National Public Finance Guarantee Holdings, Inc.	Delaware
National Public Finance Guarantee Corporation	New York
Promotora de Infraestructura Registral II, S.A. de C.V., SOFOM, E.R.	Mexico
Trifinium Services Limited	England and Wales

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (No. 333-213028) and Form S-8 (Nos. 033-46062, 333-152894, 333-159648, 333-165713, 333-183529, 333-190738 and 333-194335) of MBIA Inc. of our report dated March 1, 2018 relating to the consolidated financial statements, financial statement schedules and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP
New York, New York
March 1, 2018

**CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, William C. Fallon, certify that:

1. I have reviewed the Annual Report of MBIA Inc. (the "Company") on Form 10-K for the period ending December 31, 2017 as filed with the Securities and Exchange Commission on the date hereof (the "Report");
2. Based on my knowledge, this Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Report;
3. Based on my knowledge, the financial statements, and other financial information included in this Report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this Report;
4. The Company's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:
 - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this Report is being prepared;
 - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this Report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this Report based on such evaluation; and
 - (d) disclosed in this Report that there were no changes in the Company's internal control over financial reporting that occurred during the Company's fourth quarter of 2017 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting; and
5. The Company's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and to the audit committee of the board of directors:
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

/s/ William C. Fallon

William C. Fallon
Chief Executive Officer
March 1, 2018

**CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Anthony McKiernan, certify that:

1. I have reviewed the Annual Report of MBIA Inc. (the "Company") on Form 10-K for the period ending December 31, 2017 as filed with the Securities and Exchange Commission on the date hereof (the "Report");
2. Based on my knowledge, this Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Report;
3. Based on my knowledge, the financial statements, and other financial information included in this Report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this Report;
4. The Company's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:
 - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this Report is being prepared;
 - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this Report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this Report based on such evaluation; and
 - (d) disclosed in this Report that there were no changes in the Company's internal control over financial reporting that occurred during the Company's fourth quarter of 2017 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting; and
5. The Company's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and to the audit committee of the board of directors:
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

/s/ Anthony McKiernan _____

Anthony McKiernan
Chief Financial Officer
March 1, 2018

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of MBIA Inc. (the "Company") on Form 10-K for the period ending December 31, 2017 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, William C. Fallon, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ William C. Fallon _____

William C. Fallon
Chief Executive Officer
March 1, 2018

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of MBIA Inc. (the "Company") on Form 10-K for the period ending December 31, 2017 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Anthony McKiernan, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Anthony McKiernan _____

Anthony McKiernan
Chief Financial Officer
March 1, 2018