MBIA INC
Form 10-Q
August 08, 2017

United States

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended June 30, 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	**06-1185706**
(State of incorporation)	**(I.R.S. Employer Identification No.)**
1 Manhattanville Road, Suite 301, Purchase, New York	**10577**
(Address of principal executive offices)	**(Zip Code)**

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

Not applicable

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

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

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

Large accelerated filer		Accelerated filer
Non-accelerated filer	(Do not check if a smaller reporting company)	Smaller reporting company
Emerging growth company		

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

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

As of August 2, 2017, 125,816,428 shares of Common Stock, par value $1 per share, were outstanding.

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FORWARD-LOOKING AND CAUTIONARY STATEMENTS

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

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

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

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

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

our ability to fully implement our strategic plan;

the possibility that MBIA Insurance Corporation will have inadequate liquidity or resources to timely pay claims as a result of higher than expected losses on certain 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 II Other Information, Item 1A included in this Quarterly Report on Form 10-Q. In addition, refer to Note 1: Business Developments and Risks and Uncertainties in the Notes to Consolidated Financial Statements included in this Quarterly Report on Form 10-Q for a discussion of certain risks and uncertainties related to our financial statements.

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

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

MBIA INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (Unaudited)

(In millions except share and per share amounts)

	June 30, 2017	December 31, 2016
Assets		
Investments:		
Fixed-maturity securities held as available-for-sale, at fair value (amortized cost $4,208 and $4,713)	$ 4,176	$ 4,694
Investments carried at fair value	154	146
Investments pledged as collateral, at fair value (amortized cost $168 and $234)	169	233
Short-term investments held as available-for-sale, at fair value (amortized cost $767 and $552)	768	552
Other investments (includes investments at fair value of $3 and $5)	5	8
Total investments	5,272	5,633
Cash and cash equivalents	143	163
Premiums receivable	384	409
Deferred acquisition costs	104	118
Insurance loss recoverable	483	504
Assets held for sale	-	555
Deferred income taxes, net	-	970
Other assets	106	113
Assets of consolidated variable interest entities:		
Cash	21	24
Investments held-to-maturity, at amortized cost (fair value $894 and $876)	890	890
Investments carried at fair value	241	255
Loans receivable at fair value	1,690	1,066
Loan repurchase commitments	407	404
Other assets	26	33
Total assets	**$ 9,767**	**$ 11,137**
Liabilities and Equity		
Liabilities:		
Unearned premium revenue	$ 861	$ 958
Loss and loss adjustment expense reserves	714	541
Long-term debt	2,061	1,986
Medium-term notes (includes financial instruments carried at fair value of $123 and $101)	876	895
Investment agreements	365	399
Derivative liabilities	293	299
Liabilities held for sale	-	346
Other liabilities	175	233
Liabilities of consolidated variable interest entities:		
Variable interest entity notes (includes financial instruments carried at fair value of $1,261 and $1,351)	2,466	2,241

Total liabilities	**7,811**	**7,898**
Commitments and contingencies (Refer to Note 14)		
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 283,997,527 and 283,989,999	284	284
Additional paid-in capital	3,168	3,160
Retained earnings	1,399	2,700
Accumulated other comprehensive income (loss), net of tax of $15 and $37	(39)	(128)
Treasury stock, at cost 158,175,472 and 148,789,168 shares	(2,868)	(2,789)
Total shareholders equity of MBIA Inc.	1,944	3,227
Preferred stock of subsidiary	12	12
Total equity	**1,956**	**3,239**
Total liabilities and equity	**$ 9,767**	**$ 11,137**

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

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MBIA INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

(In millions except share and per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Revenues:				
Premiums earned:				
Scheduled premiums earned	$ 28	$ 44	$ 56	$ 89
Refunding premiums earned	16	29	37	59
Premiums earned (net of ceded premiums of $1, $2, $3 and $3)	44	73	93	148
Net investment income	37	37	89	76
Fees and reimbursements	6	1	8	2
Change in fair value of insured derivatives:				
Realized gains (losses) and other settlements on insured derivatives	(3)	(2)	(34)	(16)
Unrealized gains (losses) on insured derivatives	6	(6)	(16)	(20)
Net change in fair value of insured derivatives	3	(8)	(50)	(36)
Net gains (losses) on financial instruments at fair value and foreign exchange	(61)	14	(44)	(55)
Net investment losses related to other-than-temporary impairments:				
Investment losses related to other-than-temporary impairments	(54)	-	(54)	(1)
Other-than-temporary impairments recognized in accumulated other comprehensive income (loss)	43	-	41	-
Net investment losses related to other-than-temporary impairments	(11)	-	(13)	(1)
Net gains (losses) on extinguishment of debt	-	3	8	5
Other net realized gains (losses)	34	-	37	(1)
Revenues of consolidated variable interest entities:				
Net investment income	6	5	12	20
Net gains (losses) on financial instruments at fair value and foreign exchange	14	(7)	(19)	(8)
Other net realized gains (losses)	-	-	28	-
Total revenues	72	118	149	150
Expenses:				
Losses and loss adjustment	170	77	264	99
Amortization of deferred acquisition costs	8	10	15	20
Operating	32	30	61	65
Interest	50	49	98	99
Expenses of consolidated variable interest entities:				
Operating	3	3	5	7
Interest	19	4	36	16
Total expenses	282	173	479	306
Income (loss) before income taxes	(210)	(55)	(330)	(156)

Provision (benefit) for income taxes		1,019		(28)		971		(51)
Net income (loss)	**$**	**(1,229)**	**$**	**(27)**	**$**	**(1,301)**	**$**	**(105)**
Net income (loss) per common share:								
Basic	$	(9.78)	$	(0.20)	$	(10.13)	$	(0.78)
Diluted	$	(9.78)	$	(0.20)	$	(10.13)	$	(0.78)
Weighted average number of common shares outstanding:								
Basic		125,653,189		132,677,066		128,511,897		134,245,952
Diluted		125,653,189		132,677,066		128,511,897		134,245,952

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

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MBIA INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (Unaudited)

(In millions)

	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
Net income (loss)	$ (1,229)	$ (27)	$ (1,301)	$ (105)
Other comprehensive income (loss):				
Unrealized gains (losses) on available-for-sale securities:				
Unrealized gains (losses) arising during the period	44	101	4	224
Provision (benefit) for income taxes	6	36	-	79
Total	38	65	4	145
Reclassification adjustments for (gains) losses included in net income (loss)	(3)	13	(5)	8
Provision (benefit) for income taxes	1	5	-	3
Total	(4)	8	(5)	5
Available-for-sale securities with other-than-temporary impairments:				
Other-than-temporary impairments and unrealized gains (losses) arising during the period	(47)	10	(34)	7
Provision (benefit) for income taxes	(5)	3	-	2
Total	(42)	7	(34)	5
Reclassification adjustments for (gains) losses included in net income (loss)	-	-	2	-
Provision (benefit) for income taxes	-	-	1	-
Total	-	-	1	-
Foreign currency translation:				
Foreign currency translation gains (losses)	-	(41)	144	(55)
Provision (benefit) for income taxes	-	(14)	21	(19)
Total	-	(27)	123	(36)
Total other comprehensive income (loss)	(8)	53	89	119
Comprehensive income (loss)	**$ (1,237)**	**$ 26**	**$ (1,212)**	**$ 14**

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

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MBIA INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY (Unaudited)

For The Six Months Ended June 30, 2017

(In millions except share amounts)

	Common Stock		Additional Paid-in	Retained	Accumulated Other Comprehensive Income	Treasury Stock		Total Shareholders Equity of MBIA	Preferred Stock of Subsidiary		Total
	Shares	Amount	Capital	Earnings	(Loss)	Shares	Amount	Inc.	Shares	Amount	Equity
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)	-	-	-	(1,301)	-	-	-	(1,301)	-	-	(1,301)
Other comprehensive income (loss)	-	-	-	-	89	-	-	89	-	-	89
Share-based compensation	7,528	-	8	-	-	(352,565)	(4)	4	-	-	4
Treasury shares acquired under share repurchase program	-	-	-	-	-	(9,033,739)	(75)	(75)	-	-	(75)
Balance, June 30, 2017	**283,997,527**	**$ 284**	**$ 3,168**	**$ 1,399**	**$ (39)**	**(158,175,472)**	**$ (2,868)**	**$ 1,944**	**1,315**	**$ 12**	**$ 1,956**

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

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MBIA INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

(In millions)

	Six Months Ended June 30, 2017	2016
Cash flows from operating activities:		
Premiums, fees and reimbursements received	$ 32	$ 51
Investment income received	127	182
Insured derivative commutations and losses paid	(34)	(18)
Financial guarantee losses and loss adjustment expenses paid	(497)	(67)
Proceeds from recoveries and reinsurance	91	63
Operating and employee related expenses paid	(77)	(75)
Interest paid, net of interest converted to principal	(82)	(71)
Net cash provided (used) by operating activities	(440)	65
Cash flows from investing activities:		
Purchases of available-for-sale investments	(738)	(1,129)
Sales of available-for-sale investments	987	937
Paydowns and maturities of available-for-sale investments	277	256
Purchases of investments at fair value	(118)	(49)
Sales, paydowns and maturities of investments at fair value	138	148
Sales, paydowns and maturities (purchases) of short-term investments, net	(177)	223
Sales, paydowns and maturities of held-to-maturity investments	-	1,799
Paydowns and maturities of loans receivable	137	121
Consolidation/(deconsolidation) of variable interest entities, net	18	1
(Payments) proceeds for derivative settlements	(48)	(28)
Collateral (to) from swap counterparty	4	(21)
Other investing	(23)	(4)
Net cash provided (used) by investing activities	457	2,254
Cash flows from financing activities:		
Proceeds from investment agreements	4	9
Principal paydowns of investment agreements	(41)	(47)
Principal paydowns of medium-term notes	(67)	(52)
Proceeds from the MBIA Corp. Financing Facility	328	-
Principal paydowns of variable interest entity notes	(183)	(2,034)
Purchases of treasury stock	(79)	(109)
Other financing	(2)	-
Net cash provided (used) by financing activities	(40)	(2,233)
Effect of exchange rate changes on cash and cash equivalents	-	(3)
Net increase (decrease) in cash and cash equivalents	(23)	83
Cash and cash equivalents beginning of period	187	522
Cash and cash equivalents end of period	$ 164	$ 605
Reconciliation of net income (loss) to net cash provided (used) by operating activities:		

Net income (loss)	$ (1,301)	$ (105)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:		
Change in:		
Premiums receivable	27	121
Deferred acquisition costs	14	21
Unearned premium revenue	(97)	(194)
Loss and loss adjustment expense reserves	512	30
Insurance loss recoverable	(653)	65
Accrued interest payable	64	54
Accrued expenses	(19)	(13)
Unrealized (gains) losses on insured derivatives	16	20
Net (gains) losses on financial instruments at fair value and foreign exchange	63	63
Other net realized (gains) losses	(65)	1
Deferred income tax provision (benefit)	970	(52)
Interest on variable interest entities, net	19	34
Other operating	10	20
Total adjustments to net income (loss)	861	170
Net cash provided (used) by operating activities	$ (440)	$ 65
Supplementary Disclosure of Consolidated Cash Flow Information		
Non-cash investing activities:		
Non-cash consideration received from the sale of MBIA UK Insurance Limited	$ 332	$ -

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

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 1: Business Developments and Risks and Uncertainties

Summary

MBIA Inc., together with its consolidated subsidiaries, (collectively, MBIA or the Company) operates one of the largest financial guarantee insurance businesses in the 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 11: Business Segments for further information about the Company s operating segments.

Business Developments

National 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 is largely dependent on the financial strength ratings assigned to National by major rating agencies. At the current S&P rating it is difficult for National to compete with higher-rated competitors, therefore, at this time, National has ceased its efforts to actively pursue writing new financial guarantee business. National continues to surveil and remediate its existing insured portfolio and will proactively seek opportunities to enhance shareholder value using its strong financial resources, while protecting the interests of all of its policyholders.

Full Valuation Allowance on the Company s Net Deferred Tax Asset

During the three months ended June 30, 2017, the Company established a full valuation allowance on its net deferred tax asset, which resulted in charge to earnings of $1.1 billion. This charge was included in Provision (benefit) for income taxes on the Company s consolidated statement of operations. Refer to Note 10: 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). For the six months ended June 30, 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. This gain was reflected in the results of the Company s international and structured finance insurance segment and included in Other net realized gains (losses) on the Company s consolidated statement of operations.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

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 before income taxes for MBIA UK was $12 and $23 million, respectively, for the three and six months ended June 30, 2016. The following table summarizes the components of assets and liabilities held for sale as of December 31, 2016:

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

MBIA Corp. Financing Facility

On January 10, 2017, MBIA Corp. consummated 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 to the Senior Lender and MBIA Inc. under the Facility. Refer to Note 9: 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 s insured portfolio continued to perform satisfactorily against a backdrop of strengthening domestic economic activity. While a stable or growing economy will generally benefit tax revenues and fees charged for essential municipal services which secure National s insured bond portfolio, some state and local governments and territory obligors 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. The Company monitors and analyzes these situations and other stressed credits closely, and the overall extent and duration of this stress is uncertain.

In particular, the Commonwealth of Puerto Rico and certain of its instrumentalities (Puerto Rico) is experiencing significant fiscal stress and constrained liquidity due to, among other things, Puerto Rico s structural budget imbalance, limited access to the capital markets, a stagnating local economy, net migration of people out of Puerto Rico and a high debt burden. Although Puerto Rico has tried to address its challenges through various fiscal policies, it continues to experience significant fiscal stress. On January 1, 2017 and July 1, 2017, Puerto Rico also defaulted on a scheduled debt service for National insured bonds and National paid gross claims in the aggregate of $242 million as a result.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

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

MBIA Corp. Insured Portfolio

MBIA Corp. s primary objectives are to satisfy claims of its policyholders, and to maximize future recoveries, if any, for its Senior Lenders and surplus note holders and, thereafter, 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 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. Refer to Note 1: Business Developments and Risks and Uncertainties in the Notes to Consolidated Financial Statements included in the Company s Annual Report on Form 10-K for the year ended December 31, 2016 for additional information about these transactions.

RMBS Recoveries

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

Zohar 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 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. There can be no assurance, however, 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.

Refer to Note 5: Loss and Loss Adjustment Expense Reserves for 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 cannot be anticipated at this time. Furthermore, failure by MBIA Inc. to settle liabilities that are also insured by MBIA Corp. could result in claims on MBIA Corp.

Note 2: Significant Accounting Policies

The Company has disclosed its significant accounting policies in Note 2: Significant Accounting Policies in the Notes to Consolidated Financial Statements included in the Company s Annual Report on Form 10-K for the year ended December 31, 2016. The following significant accounting policies provide an update to those included in the Company s Annual Report on Form 10-K.

Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X and, accordingly, do not include all of the information and disclosures required by accounting principles generally accepted in the United States of America (GAAP) for annual periods. These statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Annual Report on Form 10-K for the year ended December 31, 2016. The accompanying consolidated financial statements have not been audited by an independent registered public accounting firm in accordance with the standards of the Public Company Accounting Oversight Board (U.S.), but in the opinion of management such financial statements include all adjustments, consisting only of normal recurring adjustments, necessary for the fair statement of the Company s consolidated financial position and results of operations. All material intercompany balances and transactions have been eliminated.

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

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 2: Significant Accounting Policies (continued)

The results of operations for the three and six months ended June 30, 2017 may not be indicative of the results that may be expected for the year ending December 31, 2017. The December 31, 2016 consolidated balance sheet was derived from audited financial statements, but does not include all disclosures required by GAAP for annual periods. Certain amounts have been reclassified in the prior year s financial statements to conform to the current presentation. This includes a change in the 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 total revenues, expenses, assets, liabilities, shareholders equity, operating cash flows, investing cash flows, or financing cash flows for all periods presented.

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 available-for-sale (AFS) debt securities in combination with the entity s other deferred tax assets. ASU 2016-01 requires an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability that results from a change in the instrument-specific credit risk for financial liabilities that the entity has elected to measure at fair value in accordance with the fair value option for financial instruments. ASU 2016-01 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 fair values as of June 30, 2017 of equity investments, the cumulative-effect adjustment, net of tax, related to net unrealized gains of such investments was approximately $1 million, which represents the amount that would have been reclassed from accumulated other comprehensive income (loss) (AOCI) to retained earnings had the Company adopted ASU 2016-01 on June 30, 2017. As of June 30, 2017, the Company had a full valuation allowance against its deferred tax asset. Refer to Note 10: Income Taxes for further information about this valuation allowance on the Company s deferred tax asset. The Company is continuing to assess the impact of adopting ASU 2016-01 on its financial liabilities measured at fair value in accordance with the fair value option. The amount previously disclosed in its Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2017 may change materially based on its continued assessment, including as a result of the valuation allowance on its deferred tax assets recorded in the second quarter of 2017. The Company plans to adopt ASU 2016-01 in its entirety on January 1, 2018 and does not expect there to be a material impact to the Company s consolidated financial statements.

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

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.

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 variable interest entity (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.

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 4: Variable Interest Entities (continued)

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.

Nonconsolidated VIEs

The following tables present the total assets of nonconsolidated VIEs in which the Company holds a variable interest as of June 30, 2017 and December 31, 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 June 30, 2017 and December 31, 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, insured credit default swap (CDS) contracts and any investments in obligations issued by nonconsolidated VIEs.

	June 30, 2017						
			Carrying Value of Assets			Carrying Value of Liabilities	
In millions	VIE Assets	Maximum Exposure to Loss	Investments(1)	Premiums Receivable(2)	Insurance Loss Recoverable(3)	Unearned Premium Revenue(4)	Loss and Loss Adjustment Expense Reserves(5)
Insurance:							
Global structured finance:							
Collateralized debt obligations	$ 1,188	$ 466	$ 8	$ -	$ -	$ -	$ -
Mortgage-backed residential	8,067	4,182	19	25	286	23	393
Mortgage-backed commercial	237	120	-	-	-	-	-
Consumer asset-backed	4,905	1,186	-	5	1	4	12
Corporate asset-backed	2,559	1,859	-	15	-	16	-
Total global structured finance	16,956	7,813	27	45	287	43	405
Global public finance	19,270	3,050	-	11	-	17	-
Total insurance	$ 36,226	$ 10,863	$ 27	$ 56	$ 287	$ 60	$ 405

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

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

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

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

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

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 4: Variable Interest Entities (continued)

	December 31, 2016						
			Carrying Value of Assets			Carrying Value of Liabilities	
In millions	VIE Assets	Maximum Exposure to Loss	Investments(1)	Premiums Receivable(2)	Insurance Loss Recoverable(3)	Unearned Premium Revenue(4)	Loss and Loss Adjustment Expense Reserves(5)
Insurance:							
Global structured finance:							
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 $3.3 billion and $2.5 billion, respectively, as of June 30, 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 six months ended June 30, 2017 and one additional VIE was consolidated during the six months ended June 30, 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.

Note 5: Loss and Loss Adjustment Expense Reserves

U.S. Public Finance Insurance

U.S. public finance insured transactions consist of municipal bonds, including tax-exempt and taxable indebtedness of U.S. political subdivisions, as well as utilities, airports, health care institutions, higher educational facilities, student loan issuers, housing authorities and other similar agencies and obligations issued by private entities that finance projects that serve a substantial public purpose. The Company estimates future losses by using probability-weighted cash flow scenarios that are customized to each insured transaction. Future loss estimates consider debt service due for each insured transaction, which includes par outstanding and interest due, as well as recoveries for such payments, if any. Gross par outstanding for capital appreciation bonds represents the par amount at the time of issuance of the insurance policy.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

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

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 Company monitors and analyzes these situations closely, however, the overall extent and duration of such events are uncertain. Also, 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.

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 loss adjustment expense (LAE) for its financial guarantee policies. Refer to Note 8: Derivative Instruments for a further discussion of the Company s use of derivatives and their impact on the Company s consolidated financial statements.

RMBS Case Basis Reserves (Financial Guarantees)

The Company s RMBS reserves and recoveries relate to financial guarantee insurance policies, excluding those on consolidated VIEs. The Company s first-lien RMBS case basis reserves primarily relate to RMBS backed by alternative A-paper and subprime mortgage loans. The Company s second-lien RMBS case basis reserves relate to RMBS backed by home equity lines of credit and closed-end second mortgages. The Company calculated RMBS case basis reserves as of June 30, 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. Refer to Note 6: Loss and Loss Adjustment Expense Reserves in the Notes to Consolidated Financial Statements included in the Company s Annual Report on Form 10-K for the year ended December 31, 2016, for additional information on the Company s Roll Rate Methodology for its RMBS case basis reserves.

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

RMBS Recoveries

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

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, and the availability of pool mortgage insurance), the future spread between Prime and the London Interbank Offered Rate 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 may also include estimated recoverables from mortgage insurance contracts and subsequent recoveries on charged-off loans associated with the insured RMBS securitizations.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

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

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 $437 million through June 30, 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.

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.

CDO Reserves

The Company also has loss and LAE reserves on certain transactions within its collateralized debt obligation (CDO) portfolio, including its multi-sector CDO and high yield corporate CDO asset classes that were insured in the form of financial guarantee policies. The Company 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 Company s high yield corporate CDO portfolio consists of middle-market/special-opportunity corporate loan transactions.

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. directed the trustee for Zohar I to commence an auction (the Auction) of all of the assets of Zohar I, which occurred in 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 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 June 30, 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.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 5: 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 New York State Department of Financial Services (NYSDFS) concludes at any time that MBIA Insurance Corporation will not be able to pay its policyholder claims, the NYSDFS would likely put MBIA Insurance Corporation into a rehabilitation or liquidation proceeding under Article 74 of the New York Insurance Law and/or take such other actions as the NYSDFS may deem necessary to protect the interests of MBIA Insurance Corporation s policyholders. The determination to commence such a proceeding or take other such actions is within the exclusive control of the NYSDFS.

Refer to Note 6: Loss and Loss Adjustment Expense Reserves in the Notes to Consolidated Financial Statements included in the Company s Annual Report on Form 10-K for the year ended December 31, 2016, for additional information on the Company s loss reserving process including risk-management activities.

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 June 30, 2017 and December 31, 2016 are presented in the following table:

In millions	As of June 30, 2017 Balance Sheet Line Item			As of December 31, 2016 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	$ 191	$ -	$ 255	$ 174	$ -	$ 97
International and Structured Finance Insurance:						
Before VIE eliminations	1,588	407	690	551	404	650
VIE eliminations	(1,296)	-	(231)	(221)	-	(206)
Total international and structured finance insurance	292	407	459	330	404	444
Total	$ 483	$ 407	$ 714	$ 504	$ 404	$ 541

Changes in Loss and LAE Reserves

The following table presents changes in the Company s loss and LAE reserves for the six months ended June 30, 2017. 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 June 30, 2017, the weighted average risk-free rate used to discount the Company s loss reserves (claim liability) was 2.07%. LAE reserves are generally expected to be settled within a one-year period and are not discounted. As of June 30, 2017 and December 31, 2016, the Company s gross loss and LAE reserves included $72 million and $60 million, respectively, related to LAE.

In millions

Changes in Loss and LAE Reserves for the Six Months Ended June 30, 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)]	Gross Loss and LAE Reserves as of June 30, 2017
$ 541	$ (820)	$ 4	$ 2	$ 269	$ (27)	$ 12	$ 733	$ 714

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

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

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

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

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

Changes in Insurance Loss Recoverable and Recoveries on Unpaid Losses

Current period changes in the Company s estimate of potential recoveries may be recorded as an insurance loss recoverable asset, netted against the gross loss and LAE reserve liability, or both. The following table presents changes in the Company s insurance loss recoverable and changes in recoveries on unpaid losses reported within the Company s claim liability for the six months ended June 30, 2017. Changes in insurance loss recoverable attributable to the accretion of the discount on the recoverable, changes in discount rates, changes in amount and timing of estimated collections, changes in assumptions and changes in LAE recoveries are recorded in Losses and loss adjustment expenses in the Company s consolidated statements of operations.

	Changes in Insurance Loss Recoverable and Recoveries on Unpaid Losses for the Six Months Ended June 30, 2017							
In millions	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)]	Gross Reserve as of June 30, 2017
Insurance loss recoverable	$ 504	$ (49)	$ 5	$ 9	$ (6)	$ -	$ 20	$ 483
Recoveries on unpaid losses[(2)]	79	-	1	1	(19)	(5)	-	57
Total	$ 583	$ (49)	$ 6	$ 10	$ (25)	$ (5)	$ 20	$ 540

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

(2) - As of June 30, 2017 and December 31, 2016, excludes Puerto Rico recoveries, and as of December 31, 2016, the Zohar II recoveries, which have been netted against reserves.

The decrease in the Company s insurance loss recoverable and recoveries on unpaid losses reflected in the preceding table was primarily due to a decrease in changes in assumptions on insured RMBS transactions.

Loss and LAE Activity

The Company s financial guarantee insurance losses and LAE (excluding insured credit derivatives and consolidated VIEs), net of reinsurance for the three and six months ended June 30, 2017 and 2016 are presented in the following table:

	Three Months Ended June 30,		Six Months Ended June 30,	
In millions	2017	2016	2017	2016
U.S. Public Finance Insurance Segment	$ 158	$ 9	$ 169	$ 18
International and Structured Finance Insurance Segment:				
Second-lien RMBS	(18)	21	4	34

First-lien RMBS	18	35	75	61
CDOs	5	9	8	(22)
Other[1]	7	3	8	8
Losses and loss adjustment expense	$ 170	$ 77	$ 264	$ 99

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

For the three months ended June 30, 2017, losses and LAE primarily related to increases in expected payments on certain Puerto Rico exposures.

For the six months ended June 30, 2017, losses and LAE primarily related to increases in expected payments on certain Puerto Rico exposures and insured RMBS transactions.

For the three and six months ended June 30, 2016, losses and LAE primarily related to increases in expected payments on insured first-lien RMBS transactions and decreases in projected collections from excess spread within insured second-lien RMBS securitizations.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

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

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 the three months ended June 30, 2017 and 2016, gross LAE related to remediating insured obligations were $15 million and $20 million, respectively. For the six months ended June 30, 2017 and 2016, gross LAE related to remediating insured obligations were $27 million and $28 million, respectively.

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 June 30, 2017:

	Surveillance Categories				
$ in millions	**Caution List Low**	**Caution List Medium**	**Caution List High**	**Classified List**	**Total**
Number of policies	95	5	1	325	426
Number of issues[1]	21	4	1	121	147
Remaining weighted average contract period (in years)	7.4	4.7	8.8	9.5	8.8
Gross insured contractual payments outstanding:[2]					
Principal	$ 3,005	$ 14	$ 108	$ 6,505	$ 9,632
Interest	2,793	4	49	5,945	8,791
Total	$ 5,798	$ 18	$ 157	$ 12,450	$ 18,423
Gross Claim Liability[3]	$ -	$ -	$ -	$ 922	$ 922
Less:					
Gross Potential Recoveries	-	-	-	823	823
Discount, net[4]	-	-	-	(133)	(133)
Net claim liability (recoverable)	$ -	$ -	$ -	$ 232	$ 232
Unearned premium revenue	$ 10	$ -	$ 4	$ 82	$ 96

(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.

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

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

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

The following table provides information about the financial guarantees and related claim liability included in each of MBIA s surveillance categories as of December 31, 2016:

	Surveillance Categories				
$ in millions	**Caution List Low**	**Caution List Medium**	**Caution 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	$ 5,712	$ 21	$ 427	$ 9,808	$ 15,968
Gross Claim Liability[(3)]	$ -	$ -	$ -	$ 718	$ 718
Less:					
Gross Potential Recoveries	-	-	-	770	770
Discount, net[(4)]	-	-	-	(75)	(75)
Net claim liability (recoverable)	$ -	$ -	$ -	$ 23	$ 23
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.

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

The gross claim liabilities in the preceding tables represent the Company s estimate of undiscounted probability-weighted estimated future claim payments. The gross claim liability with respect to Puerto Rico exposure as of June 30, 2017 and December 31, 2016, and the Zohar II exposure as of December 31, 2016, is net of expected recoveries. As of June 30, 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.

The gross potential recoveries represent the Company s estimate of undiscounted probability-weighted recoveries of actual claim payments and recoveries of estimated future claim payments. Gross potential recoveries exclude certain amounts related to Puerto Rico exposure as of June 30, 2017 and December 31, 2016, and the Zohar II exposure as of December 31, 2016 that have been netted against the claim liability. As of June 30, 2017 and December 31, 2016, the gross potential recoveries principally related to certain Puerto Rico exposures and insured second-lien RMBS transactions. As of June 30, 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 June 30, 2017 and December 31, 2016, reinsurance recoverable on paid and unpaid losses was $8 million and $6 million, respectively, and was included in Other assets on the Company s consolidated balance sheets.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 6: Fair Value of Financial Instruments

Fair Value Measurement

Financial Assets

Financial assets held by the Company primarily consist of investments in debt securities. Substantially all of the Company s investments are priced by independent third parties, including pricing services and brokers. Typically, the Company receives one pricing service value or broker quote for each instrument, which represents a non-binding indication of value. The Company, along with its third-party portfolio manager, reviews the assumptions, inputs and methodologies used by pricing services and brokers to obtain reasonable assurance that the prices used in its valuations reflect fair value. When the Company and its third-party portfolio manager believe a third-party quotation differs significantly from its internally developed expectation of fair value, whether higher or lower, the Company reviews its data or assumptions with the provider. This review includes comparing significant assumptions such as prepayment speeds, default ratios, forward yield curves, credit spreads and other significant quantitative inputs to internal assumptions, and working with the price provider to reconcile the differences. The price provider may subsequently provide an updated price. In the event that the price provider does not update its price, and the Company still does not agree with the price provided, its third-party portfolio manager will obtain a price from another third-party provider or use an internally developed price which it believes represents the fair value of the investment. The fair values of investments for which internal prices were used were not significant to the aggregate fair value of the Company s investment portfolio as of June 30, 2017 or December 31, 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, medium-term notes (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 insured credit derivatives. The Company s insured credit derivative contracts are non-traded structured credit derivative transactions. Since insured derivatives are highly customized and there is generally no observable market for these derivatives, the Company estimates their fair values in a hypothetical market based on internal models simulating what a similar company would charge to assume the Company s position in the transaction at the measurement date. This pricing would be based on the expected loss of the exposure. 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. When market spreads or securities prices are observable for similar transactions, those spreads are an integral part of the analysis.

Internal Review Process

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

Valuation Techniques

Valuation techniques for financial instruments measured at fair value 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, mortgage-backed securities (MBS), asset-backed securities (ABS), money market securities, and perpetual debt and equity securities.

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 6: Fair Value of Financial Instruments (continued)

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

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

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, Receivable for Investments Sold, Payable for Investments Purchased, Accrued Investment Income and Interest Payable for Derivatives

The carrying amounts of cash and cash equivalents, receivable for investments sold, payable for investments purchased, accrued investment income and interest payable for derivatives approximate fair values due to the short-term nature and credit worthiness of these instruments. These items are categorized in Level 1 or Level 2 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. Fair values of corporate loans are based on discounted cash flow methodologies. Fair values of loans receivable at fair value are determined using market prices adjusted for financial guarantees provided to VIE obligations and discounted cash flow techniques and are categorized in Level 3 of the fair value hierarchy.

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.

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 scheduled interest payments discounted by the market s perception of the credit risk related to the repayment of the surplus notes. The credit risk related to the repayment of the surplus notes is based on recent trades of the surplus notes.

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.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 6: Fair Value of Financial Instruments (continued)

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.

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 six months ended June 30, 2017, the Company used an internally developed Direct Price Model to value insured CDS contracts that incorporate 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 insured derivatives includes the impact of its credit standing. The insured credit derivatives are 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 has also entered into a derivative contract as a result of a commutation. 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, discounted using observable discount rates and CDS spreads.

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 6: Fair Value of Financial Instruments (continued)

Warrants

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, 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.

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.

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 June 30, 2017 and December 31, 2016.

In millions	Fair Value as of June 30, 2017	Valuation Techniques	Unobservable Input	Range (Weighted Average)
Assets of consolidated VIEs:				
Loans receivable at fair value	$ 1,690	Market prices adjusted for financial guarantees provided to VIE obligations	Impact of financial guarantee	0% - 40% (6%)
		Discounted cash flow	Multiples(1)	
Loan repurchase commitments	407	Discounted cash flow	Recovery rates(2)	
			Breach rates(2)	
Liabilities of consolidated VIEs:				
Variable interest entity notes	491	Market prices of VIE assets adjusted for financial guarantees provided	Impact of financial guarantee	0% - 61% (30%)

Credit derivative liabilities, net:				
CMBS and multi-sector CDO	80	Direct Price Model	Nonperformance risk	46% - 46% (46%)
Other derivative liabilities	4	Discounted cash flow	Cash flows	$0 - $49 ($25)[(3)]

(1) - Unobservable inputs are not developed by the Company.

(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.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 6: 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	Impact of financial guarantee	0% - 28% (3%)
		Discounted cash flow	Multiples(1)	
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	25% - 40% (33%)
			Nonperformance risk	10% - 32% (32%)
			Weighted average life (in years)	1.1 - 1.5 (1.3)
			CMBS spreads	25% - 35% (30%)
Multi-sector CDO	2	Direct Price Model	Nonperformance risk	58% - 58% (58%)
Other derivative liabilities	20	Discounted cash flow	Cash flows	$0 - $83 ($42)(3)

(1) - Unobservable inputs are not developed by the Company.

(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 by discounted cash flow methodologies. The value of a financial guarantee is estimated by the Company as the present value of expected cash payments under the policy. As expected cash payments provided by the Company under the insurance policy increase, 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 certain loans. Any increase or decrease in multiples would result in an increase or decrease in the fair value, respectively.

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.

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 6: Fair Value of Financial Instruments (continued)

Effective in 2017, the Company used the Direct Price Model to value its commercial mortgage-backed securities (CMBS) and multi-sector CDO credit derivatives. 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.

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 June 30, 2017 and December 31, 2016:

	Fair Value Measurements at Reporting Date Using				
In millions	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Counterparty and Cash Collateral Netting**	**Balance as of June 30, 2017**
Assets:					
Fixed-maturity investments:					
U.S. Treasury and government agency	$ 916	$ 111	$ -	$ -	$ 1,027
State and municipal bonds	-	1,164	-	-	1,164
Foreign governments	-	11	-	-	11
Corporate obligations	88	1,326	-	-	1,414
Mortgage-backed securities:					
Residential mortgage-backed agency	-	733	-	-	733
Residential mortgage-backed non-agency	-	51	-	-	51
Commercial mortgage-backed	-	25	7(1)	-	32
Asset-backed securities:					
Collateralized debt obligations	-	49	-	-	49
Other asset-backed	-	273	5(1)	-	278

Total fixed-maturity investments	1,004	3,743	12	-	4,759
Money market securities	394	-	-	-	394
Perpetual debt and equity securities	29	9	-	-	38
Fixed-income fund	-	-	-	-	79(2)
Cash and cash equivalents	143	-	-	-	143
Derivative assets:					
Non-insured derivative assets:					
Interest rate derivatives	-	3	-	-	3

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 6: Fair Value of Financial Instruments (continued)

	Fair Value Measurements at Reporting Date Using				
In millions	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Counterparty and Cash Collateral Netting	Balance as of June 30, 2017
Assets of consolidated VIEs:					
Corporate obligations	-	22	-	-	22
Mortgage-backed securities:					
Residential mortgage-backed non-agency	-	145	-	-	145
Commercial mortgage-backed	-	46	3(1)	-	49
Asset-backed securities:					
Collateralized debt obligations	-	7	1(1)	-	8
Other asset-backed	-	17	-	-	17
Cash	21	-	-	-	21
Loans receivable at fair value:					
Residential loans receivable	-	-	815	-	815
Corporate loans receivable	-	-	875	-	875
Loan repurchase commitments	-	-	407	-	407
Derivative assets:					
Currency derivatives	-	-	9(1)	-	9
Total assets	$ 1,591	$ 3,992	$ 2,122	$ -	$ 7,784
Liabilities:					
Medium-term notes	$ -	$ -	$ 123(1)	$ -	$ 123
Derivative liabilities:					
Insured derivatives:					
Credit derivatives	-	2	80	-	82
Non-insured derivatives:					
Interest rate derivatives	-	207	-	-	207
Other	-	-	4	-	4
Other liabilities:					
Warrants	-	17	-	-	17
Liabilities of consolidated VIEs:					
Variable interest entity notes	-	770	491	-	1,261
Total liabilities	$ -	$ 996	$ 698	$ -	$ 1,694

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

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

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 6: Fair Value of Financial Instruments (continued)

	Fair Value Measurements at Reporting Date Using				
In millions	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Counterparty and Cash Collateral Netting	Balance as of December 31, 2016
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

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 6: Fair Value of Financial Instruments (continued)

	Fair Value Measurements at Reporting Date Using				
In millions	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Counterparty and Cash Collateral Netting	Balance as of December 31, 2016
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.

Level 3 assets at fair value as of June 30, 2017 and December 31, 2016 represented approximately 27% and 21%, respectively, of total assets measured at fair value. Level 3 liabilities at fair value as of June 30, 2017 and December 31, 2016 represented approximately 41% and 37%, respectively, of total liabilities measured at fair value.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 6: Fair Value of Financial Instruments (continued)

The following tables present the fair values and carrying values of the Company s assets and liabilities that are disclosed at fair value but not reported at fair value on the Company s consolidated balance sheets as of June 30, 2017 and December 31, 2016:

	Fair Value Measurements at Reporting Date Using				
In millions	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Fair Value Balance as of June 30, 2017**	**Carry Value Balance as of June 30, 2017**
Assets:					
Other investments	$ -	$ 2	$ -	$ 2	$ 2
Accrued investment income(1)	-	37	-	37	37
Receivable for investments sold(1)	-	3	-	3	3
Assets of consolidated VIEs:					
Investments held-to-maturity	-	-	894	894	890
Total assets	$ -	$ 42	$ 894	$ 936	$ 932
Liabilities:					
Long-term debt	$ -	$ 1,055	$ -	$ 1,055	$ 2,061
Medium-term notes	-	-	490	490	753
Investment agreements	-	-	471	471	365
Payable for investments purchased(2)	-	20	-	20	20
Interest payable for derivatives(2)	-	18	-	18	18
Liabilities of consolidated VIEs:					
Variable interest entity notes	-	329	894	1,223	1,205
Total liabilities	$ -	$ 1,422	$ 1,855	$ 3,277	$ 4,422
Financial Guarantees:					
Gross	$ -	$ -	$ 2,376	$ 2,376	$ 1,092
Ceded	-	-	50	50	31

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

(2) - Reported within Other liabilities on MBIA s consolidated balance sheets.

	Fair Value Measurements at Reporting Date Using				
In millions	**Quoted Prices**	**Significant Other**	**Significant Unobservable Inputs**	**Fair Value Balance as**	**Carry Value**

	in Active Markets for Identical Assets (Level 1)	Observable Inputs (Level 2)	(Level 3)	of December 31, 2016	Balance as of December 31, 2016
Assets:					
Other investments	$ -	$ 2	$ -	$ 2	$ 3
Accrued investment income[1]	-	40	-	40	40
Assets held for sale	-	306	-	306	306
Assets of consolidated VIEs:					
Investments held-to-maturity	-	-	876	876	890
Total assets	$ -	$ 348	$ 876	$ 1,224	$ 1,239
Liabilities:					
Long-term debt	$ -	$ 1,030	$ -	$ 1,030	$ 1,986
Medium-term notes	-	-	478	478	794
Investment agreements	-	-	508	508	399
Payable for investments purchased[2]	-	32	-	32	32
Liabilities of consolidated VIEs:					
Variable interest entity notes	-	-	882	882	890
Total liabilities	$ -	$ 1,062	$ 1,868	$ 2,930	$ 4,101
Financial Guarantees:					
Gross	$ -	$ -	$ 2,638	$ 2,638	$ 995
Ceded	-	-	18	18	43

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

(2) - Reported within Other liabilities on MBIA s consolidated balance sheets.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 6: Fair Value of Financial Instruments (continued)

The following tables present information about changes in Level 3 assets (including short-term investments) and liabilities measured at fair value on a recurring basis for the three months ended June 30, 2017 and 2016:

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

In millions	Balance, Beginning of Period	Realized Gains / (Losses)	Unrealized Gains / (Losses) Included in Earnings	Unrealized Gains / (Losses) Included in OCI	Foreign Exchange Recognized in OCI or Earnings	Purchases	Issuances	Settlements	Sales	Transfers into Level 3[1]	Transfers out of Level 3[1]	Ending Balance	Change in Unrealized Gains (Losses) for the Period Included in Earnings for Assets still held as of June 30, 2017
Assets:													
Commercial mortgage-backed	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 7	$ -	$ 7	$ -
Collateralized debt obligations	13	-	-	-	-	-	-	(5)	-	-	(8)	-	-
Other asset-backed	5	-	-	-	-	-	-	-	-	-	-	5	-
State and municipal bonds	1	-	-	-	-	-	-	-	-	-	(1)	-	-
Assets of consolidated VIEs:													
Corporate obligations	6	-	-	-	-	-	-	(2)	-	-	(4)	-	-
Commercial mortgage-backed	-	-	-	-	-	-	-	-	-	3	-	3	-
Collateralized debt obligations	1	-	-	-	-	-	-	-	-	-	-	1	-
Other asset-backed	1	-	-	-	-	-	-	-	-	-	(1)	-	-
Loans receivable-residential	844	-	31	-	-	-	-	(60)	-	-	-	815	31
Loans receivable-corporate	872	-	29	-	-	-	-	(26)	-	-	-	875	29
Loan repurchase commitments	409	-	(2)	-	-	-	-	-	-	-	-	407	(2)
Currency derivatives, net	13	-	(2)	-	(2)	-	-	-	-	-	-	9	(4)

Total assets	$ 2,165	$ -	$ 56	$ -	$ (2)	$ -	$ -	$ (93)	$ -	$ 10	$ (14)	$ 2,122	$ 54

In millions	Balance, Beginning of Period	Realized (Gains) / Losses	Unrealized (Gains) / Losses Included in Earnings	Unrealized (Gains) / Losses Included in OCI	Foreign Exchange Recognized in OCI or Earnings	Purchases	Issuances	Settlements	Sales	Transfers into Level 3(1)	Transfers out of Level 3(1)	Ending Balance	Change in Unrealized (Gains) Losses for the Period Included in Earnings for Liabilities still held as of June 30, 2017
Liabilities:													
Medium-term notes	$ 104	$ -	$ 12	$ -	$ 7	$ -	$ -	$ -	$ -	$ -	$ -	$ 123	$ 19
Credit derivatives, net	86	3	(6)	-	-	-	-	(3)	-	-	-	80	(6)
Other derivatives	20	-	18	-	-	-	-	(34)	-	-	-	4	18
Liabilities of consolidated VIEs:													
VIE notes	491	-	18	-	-	-	-	(18)	-	-	-	491	18
Total liabilities	$ 701	$ 3	$ 42	$ -	$ 7	$ -	$ -	$ (55)	$ -	$ -	$ -	$ 698	$ 49

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

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 6: Fair Value of Financial Instruments (continued)

Changes in Level 3 Assets and Liabilities Measured at Fair Value on a Recurring Basis for the Three Months Ended June 30, 2016

In millions	Balance, Beginning of Period	Realized Gains / (Losses)	Unrealized Gains / (Losses) Included in Earnings	Unrealized Gains / (Losses) Included in OCI	Foreign Exchange Recognized in OCI or Earnings	Purchases	Issuances	Settlements	Sales	Transfers into Level 3[(1)]	Transfers out of Level 3[(1)]	Ending Balance	Change in Unrealized Gains (Losses) for the Period Included in Earnings for Assets still held as of June 30, 2016
Assets:													
Foreign governments	$ 2	$ -	$ -	$ -	$ -	$ 5	$ -	$ -	$ -	$ -	$ -	$ 7	$ -
Corporate obligations	1	-	-	-	-	1	-	-	-	-	-	2	-
Collateralized debt obligations	26	-	-	17	-	-	-	(23)	-	-	-	20	-
Other asset-backed	39	-	-	2	-	-	-	-	-	-	-	41	-
State and municipal bonds	3	-	-	-	-	121	-	-	-	-	-	124	-
Assets of consolidated VIEs:													
Corporate obligations	1	-	-	-	-	-	-	-	-	2	-	3	-
Residential mortgage-backed non-agency	-	-	-	-	-	-	-	-	-	1	-	1	-
Commercial mortgage-backed	2	-	-	-	-	-	-	-	-	-	-	2	-
Collateralized debt obligations	1	-	-	-	-	-	-	-	-	-	-	1	-
Other asset-backed	3	-	-	-	-	-	-	-	-	1	-	4	-
Loans receivable-residential	1,115	-	(16)	-	-	-	-	(54)	-	-	-	1,045	(16)
Loans receivable-corporate	253	-	1	-	-	-	-	-	(107)	-	-	147	1
Loan repurchase commitments	399	-	2	-	-	-	-	-	-	-	-	401	2
Currency derivatives, net	5	-	4	-	-	-	-	-	-	-	-	9	4
Total assets	$ 1,850	$ -	$ (9)	$ 19	$ -	$ 127	$ -	$ (77)	$ (107)	$ 4	$ -	$ 1,807	$ (9)

In millions	Balance, Beginning of Period	Realized (Gains) / Losses	Unrealized (Gains) / Losses Included in Earnings	Unrealized (Gains) / Losses Included in OCI	Foreign Exchange Recognized in OCI or Earnings	Purchases	Issuances	Settlements	Sales	Transfers into Level 3[1]	Transfers out of Level 3[1]	Ending Balance	Change in Unrealized (Gains) Losses for the Period Included in Earnings for Liabilities still held as of June 30, 2016
Liabilities:													
Medium-term notes	$ 165	$ -	$ -	$ -	$ (4)	$ -	$ -	$ -	$ -	$ -	$ -	$ 161	$ (4)
Credit derivatives, net	99	2	5	-	-	-	-	(2)	-	-	-	104	5
Other derivatives, net	19	-	2	-	-	-	-	-	-	-	-	21	2
Liabilities of consolidated VIEs:													
VIE notes	1,176	-	(22)	-	-	-	-	-	(631)	-	-	523	(22)
Total liabilities	$ 1,459	$ 2	$ (15)	$ -	$ (4)	$ -	$ -	$ (2)	$ (631)	$ -	$ -	$ 809	$ (19)

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

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

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 6: Fair Value of Financial Instruments (continued)

For the three months ended June 30, 2016, transfers into Level 3 were principally related to corporate obligations, other asset-backed and RMBS non-agency, where inputs, which are significant to their valuation, became unobservable during the quarter. These inputs included spreads, prepayment speeds, default speeds, default severities, yield curves observable at commonly quoted intervals, and market corroborated inputs. There were no transfers into or out of Level 1 for the three months ended June 30, 2016.

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

The following tables present information about changes in Level 3 assets (including short-term investments) and liabilities measured at fair value on a recurring basis for the six months ended June 30, 2017 and 2016.

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

In millions	Balance, Beginning of Year	Realized Gains / (Losses)	Unrealized Gains / (Losses) Included in Earnings	Unrealized Gains / (Losses) Included in OCI	Foreign Exchange Recognized in OCI or Earnings	Purchases	Issuances	Settlements	Sales	Transfers into Level 3(1)	Transfers out of Level 3(1)	Ending Balance	Change in Unrealized Gains (Losses) for the Period Included in Earnings for Assets still held as of June 30, 2017
Assets:													
Corporate obligations	$ 2	$ -	$ -	$ -	$ -	$ -	$ -	$ (1)	$ -	$ -	$ (1)	$ -	$ -
Commercial mortgage-backed	-	-	-	-	-	-	-	-	-	7	-	7	-
Collateralized debt obligations	15	-	-	-	-	-	-	(7)	-	-	(8)	-	-
Other asset-backed	44	-	-	2	-	-	-	(41)	-	-	-	5	-
State and municipal bonds	-	-	-	-	-	-	-	-	-	1	(1)	-	-
Assets of consolidated VIEs:													
Corporate obligations	-	-	-	-	-	-	-	(2)	-	6	(4)	-	-
Commercial mortgage-backed	-	-	-	-	-	-	-	-	-	3	-	3	-
Collateralized debt obligations	1	-	-	-	-	-	-	-	-	-	-	1	-
Other asset-backed	1	-	-	-	-	-	-	-	-	1	(2)	-	-
Loans receivable-residential	916	-	27	-	-	-	-	(128)	-	-	-	815	27
	150	-	32	-	-	719	-	(26)	-	-	-	875	32

Loans receivable-corporate													
Loan repurchase commitments	404	-	3	-	-	-	-	-	-	-	-	407	3
Currency derivatives, net	19	-	(5)	-	(5)	-	-	-	-	-	-	9	(10)
Total assets	$ 1,552	$ -	$ 57	$ 2	$ (5)	$ 719	$ -	$ (205)	$ -	$ 18	$ (16)	$ 2,122	$ 52

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 June 30, 2017**
Liabilities:													
Medium-term notes	$ 101	$ -	$ 13	$ -	$ 9	$ -	$ -	$ -	$ -	$ -	$ -	$ 123	$ 22
Credit derivatives, net	64	34	16	-	-	-	-	(34)	-	-	-	80	16
Other derivatives, net	20	-	18	-	-	-	-	(34)	-	-	-	4	18
Liabilities of consolidated VIEs:													
VIE notes	476	-	52	-	-	-	-	(37)	-	-	-	491	52
Total liabilities	$ 661	$ 34	$ 99	$ -	$ 9	$ -	$ -	$ (105)	$ -	$ -	$ -	$ 698	$ 108

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

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 6: Fair Value of Financial Instruments (continued)

Changes in Level 3 Assets and Liabilities Measured at Fair Value on a Recurring Basis for the Six Months Ended June 30, 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 June 30, 2016
Assets:													
Foreign governments	$ 2	$ -	$ -	$ -	$ -	$ 5	$ -	$ -	$ -	$ -	$ -	$ 7	$ -
Corporate obligations	7	-	-	-	-	-	-	-	-	-	(5)	2	-
Collateralized debt obligations	29	-	-	18	-	-	-	(27)	-	-	-	20	-
Other asset-backed	38	(1)	(1)	7	-	-	-	(2)	-	-	-	41	(1)
State and municipal bonds	41	-	-	-	-	121	-	(38)	-	-	-	124	-
Assets of consolidated VIEs:													
Corporate obligations	11	-	(5)	-	-	-	-	-	-	2	(5)	3	-
Residential mortgage-backed non-agency	-	-	-	-	-	-	-	-	-	1	-	1	-
Commercial mortgage-backed	-	-	-	-	-	-	-	-	-	2	-	2	-
Collateralized debt obligations	1	-	-	-	-	-	-	-	-	-	-	1	-
Other asset-backed	6	-	(6)	-	-	-	-	-	-	4	-	4	-
Loans receivable-residential	1,185	-	(30)	-	-	-	-	(110)	-	-	-	1,045	(30)
Loans receivable-corporate	107	-	1	-	-	146	-	-	(107)	-	-	147	1
Loan repurchase commitments	396	-	5	-	-	-	-	-	-	-	-	401	5
Currency derivatives, net	11	-	(2)	-	-	-	-	-	-	-	-	9	(2)
Total assets	$ 1,834	$ (1)	$ (38)	$ 25	$ -	$ 272	$ -	$ (177)	$ (107)	$ 9	$ (10)	$ 1,807	$ (27)

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 June 30, 2016
Liabilities:													
Medium-term notes	$ 161	$ -	$ (4)	$ -	$ 4	$ -	$ -	$ -	$ -	$ -	$ -	$ 161	$ -
Credit derivatives, net	85	16	19	-	-	-	-	(16)	-	-	-	104	22
Other derivatives, net	18	-	3	-	-	-	-	-	-	-	-	21	3
Liabilities of consolidated VIEs:													
VIE notes	1,267	-	(44)	-	-	9	-	(78)	(631)	-	-	523	(45)
Total liabilities	$ 1,531	$ 16	$ (26)	$ -	$ 4	$ 9	$ -	$ (94)	$ (631)	$ -	$ -	$ 809	$ (20)

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

For the six months ended June 30, 2017, transfers into Level 3 and out of Level 2 were principally related to CMBS and corporate obligations, where inputs, which are significant to their valuation, became unobservable during the period. CDOs, corporate obligations and other asset-backed securities 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.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 6: Fair Value of Financial Instruments (continued)

For the six months ended June 30, 2016, transfers into Level 3 were principally related to other asset-backed, corporate obligations and CMBS, where inputs, which are significant to their valuation, became unobservable during the period. Corporate obligations comprised the majority of the instruments transferred out of Level 3 where inputs, which are significant to their valuation, became observable during the period. These inputs included spreads, prepayment speeds, default speeds, default severities, yield curves observable at commonly quoted intervals, and market corroborated inputs. There were no transfers into or out of Level 1.

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

Gains and losses (realized and unrealized) included in earnings related to Level 3 assets and liabilities for the three months ended June 30, 2017 and 2016 are reported on the Company s consolidated statements of operations as follows:

In millions	Three Months Ended June 30, 2017 Total Gains (Losses) Included in Earnings	Three Months Ended June 30, 2017 Change in Unrealized Gains (Losses) for the Period Included in Earnings for Assets and Liabilities still held as of June 30, 2017	Three Months Ended June 30, 2016 Total Gains (Losses) Included in Earnings	Three Months Ended June 30, 2016 Change in Unrealized Gains (Losses) for the Period Included in Earnings for Assets and Liabilities still held as of June 30, 2016
Revenues:				
Unrealized gains (losses) on insured derivatives	$ 6	$ 6	$ (5)	$ (5)
Realized gains (losses) and other settlements on insured derivatives	(3)	-	(2)	-
Net gains (losses) on financial instruments at fair value and foreign exchange	(37)	(37)	2	2
Revenues of consolidated VIEs:				
Net gains (losses) on financial instruments at fair value and foreign exchange	36	36	13	13
Total	$ 2	$ 5	$ 8	$ 10

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 6: Fair Value of Financial Instruments (continued)

Gains and losses (realized and unrealized) included in earnings relating to Level 3 assets and liabilities for the six months ended June 30, 2017 and 2016 are reported on the Company s consolidated statements of operations as follows:

	Six Months Ended June 30, 2017		Six Months Ended June 30, 2016	
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 June 30, 2017	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 June 30, 2016
Revenues:				
Unrealized gains (losses) on insured derivatives	$ (16)	$ (16)	$ (19)	$ (22)
Realized gains (losses) and other settlements on insured derivatives	(34)	-	(16)	-
Net gains (losses) on financial instruments at fair value and foreign exchange	(40)	(40)	(4)	(4)
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	-	-	7	19
Total	$ (90)	$ (56)	$ (33)	$ (7)

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 three and six months ended June 30, 2017 and 2016 for financial instruments for which the fair value option was elected:

In millions	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
Investments carried at fair value[1]	$ 3	$ 3	$ 6	$ 6
Fixed-maturity securities held at fair value-VIE[2]	(5)	(13)	(14)	(97)
Loans receivable at fair value:				
Residential mortgage loans[2]	(30)	(70)	(102)	(140)
Corporate loans[2]	4	-	7	-
Loan repurchase commitments[2]	(2)	2	4	5
Medium-term notes[1]	(19)	4	(22)	-
Variable interest entity notes [2]	(45)	71	(90)	238

(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.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 6: 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 June 30, 2017 and December 31, 2016 for loans and notes for which the fair value option was elected:

In millions	As of June 30, 2017 Contractual Outstanding Principal	Fair Value	Difference	As of December 31, 2016 Contractual Outstanding Principal	Fair Value	Difference
Loans receivable at fair value:						
Residential mortgage loans	$ 828	$ 779	$ 49	$ 965	$ 894	$ 71
Residential mortgage loans (90 days or more past due)	162	36	126	143	22	121
Corporate loans (90 days or more past due)	875	875	-	150	150	-
Total loans receivable at fair value	1,865	1,690	175	1,258	1,066	192
Variable interest entity notes	3,065	1,261	1,804	2,449	1,351	1,098
Medium-term notes	171	123	48	158	101	57

Substantially all gains and losses included in earnings during the six months ended June 30, 2017 and 2016 on loans receivable and VIE notes reported in the preceding table are attributable to credit risk. This is primarily due to the high rate of defaults on loans and the collateral supporting the VIE notes, resulting in depressed pricing of the financial instruments.

Note 7: 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 June 30, 2017 and December 31, 2016:

In millions	June 30, 2017 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	$ 991	$ 35	$ (5)	$ 1,021	$ -
State and municipal bonds	1,159	54	(51)	1,162	(43)
Foreign governments	10	1	-	11	-
Corporate obligations	1,399	27	(78)	1,348	(65)
Mortgage-backed securities:					
Residential mortgage-backed agency	735	2	(10)	727	-
Residential mortgage-backed non-agency	55	2	(6)	51	(2)
Commercial mortgage-backed	30	-	-	30	-
Asset-backed securities:					

Collateralized debt obligations	48	-	-	48	-
Other asset-backed	269	1	(1)	269	1
Total fixed-maturity investments	4,696	122	(151)	4,667	(109)
Money market securities	391	-	-	391	-
Perpetual debt and equity securities	3	-	-	3	-
Total AFS investments	$ 5,090	$ 122	$ (151)	$ 5,061	$ (109)
HTM Investments					
Assets of consolidated VIEs:					
Corporate obligations	$ 890	$ 4	$ -	$ 894	$ -
Total HTM investments	$ 890	$ 4	$ -	$ 894	$ -

(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.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 7: Investments (continued)

	December 31, 2016				
In millions	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Other-Than-Temporary Impairments(1)
AFS Investments					
Fixed-maturity investments:					
U.S. Treasury and government agency	$ 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	$ 5,450	$ 129	$ (148)	$ 5,431	$ (75)
HTM Investments					
Assets of consolidated VIEs:					
Corporate obligations	$ 890	$ -	$ (14)	$ 876	$ -
Total HTM investments	$ 890	$ -	$ (14)	$ 876	$ -

(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 June 30, 2017. Contractual maturity may differ from expected maturity as borrowers may have the right to call or prepay obligations.

	AFS Securities		HTM Securities Consolidated VIEs	
In millions	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$ 627	$ 613	$ -	$ -
Due after one year through five years	1,060	1,043	-	-
Due after five years through ten years	666	619	-	-

Due after ten years	1,206	1,267	890	894
Mortgage-backed and asset-backed	1,137	1,125	-	-
Total fixed-maturity investments	$ 4,696	$ 4,667	$ 890	$ 894

Deposited and Pledged Securities

The fair value of securities on deposit with various regulatory authorities as of June 30, 2017 and December 31, 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.

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 June 30, 2017 and December 31, 2016, the fair value of securities pledged as collateral for these investment agreements approximated $387 million and $416 million, respectively. The Company s collateral as of June 30, 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.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 7: Investments (continued)

Impaired Investments

The following tables present the gross unrealized losses related to AFS and HTM investments as of June 30, 2017 and December 31, 2016:

	June 30, 2017					
	Less than 12 Months		12 Months or Longer		Total	
In millions	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
AFS Investments						
Fixed-maturity investments:						
U.S. Treasury and government agency	$ 396	$ (5)	$ -	$ -	$ 396	$ (5)
State and municipal bonds	334	(51)	8	-	342	(51)
Foreign governments	2	-	-	-	2	-
Corporate obligations	392	(13)	53	(65)	445	(78)
Mortgage-backed securities:						
Residential mortgage-backed agency	435	(7)	100	(3)	535	(10)
Residential mortgage-backed non-agency	1	-	27	(6)	28	(6)
Commercial mortgage-backed	2	-	9	-	11	-
Asset-backed securities:						-
Collateralized debt obligations	5	-	-	-	5	-
Other asset-backed	153	(1)	2	-	155	(1)
Total AFS investments	$ 1,720	$ (77)	$ 199	$ (74)	$ 1,919	$ (151)

	December 31, 2016					
	Less than 12 Months		12 Months or Longer		Total	
In millions	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
AFS Investments						
Fixed-maturity investments:						
U.S. Treasury and government agency	$ 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)

Gross unrealized losses on AFS investments increased as of June 30, 2017 compared with December 31, 2016 primarily due to unrealized losses on municipal bonds partially offset by a decrease in unrealized losses on corporate obligations due to tightening credit spreads and lower long-term interest rates. Gross unrealized losses on HTM investments decreased as of June 30, 2017 compared with December 31, 2016 primarily due to tightening credit spreads and lower long-term interest rates.

With the weighting applied on the fair value of each security relative to the total fair value, the weighted average contractual maturity of securities in an unrealized loss position as of June 30, 2017 and December 31, 2016 was 15 and 22 years, respectively. As of June 30, 2017 and December 31, 2016, there were 35 and 46 securities, respectively, that were in an unrealized loss position for a continuous twelve-month period or longer, of which, fair values of 11 and 12 securities, respectively, were below book value by more than 5%.

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 7: Investments (continued)

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 June 30, 2017:

Percentage of Fair Value Below Book Value	Number of Securities	AFS Securities Book Value (in millions)	Fair Value (in millions)
> 5% to 15%	3	$ 3	$ 2
> 15% to 25%	4	30	24
> 25% to 50%	1	1	-
> 50%	3	102	37
Total	11	$ 136	$ 63

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 June 30, 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

The Company s fixed-maturity securities for which fair value is less than amortized cost are reviewed quarterly in order to determine whether a credit loss exists. The portion of certain OTTI losses on fixed-maturity securities that does not represent credit losses is recognized in AOCI. Refer to Note 8: Investments in the Notes to Consolidated Financial Statements included in the Company s Annual Report on Form 10-K for the year ended December 31, 2016 for a discussion of the Company s policy for OTTI and its determination of credit loss. The following table presents the amount of credit loss impairments recognized in earnings on fixed-maturity securities held by MBIA as of the dates indicated, for which a portion of the OTTI losses was recognized in AOCI, and the corresponding changes in such amounts. The additional credit loss impairment for the three and six months ended June 30, 2017 was primarily related to municipal bonds for which a loss was recognized as the difference between their amortized cost and their estimated recovery values. This OTTI resulted from liquidity concerns, recent credit rating downgrades and other adverse financial conditions of the issuer.

In millions	Three Months Ended June 30,		Six Months Ended June 30,	
Credit Losses Recognized in Earnings Related to Other-Than-Temporary Impairments	2017	2016	2017	2016
Beginning balance	$ 31	$ 26	$ 29	$ 26
Additions for credit loss impairments recognized in the current period on securities not previously impaired	11	-	11	-
Additions for credit loss impairments recognized in the current period on securities previously impaired	-	-	2	-
Ending balance	$ 42	$ 26	$ 42	$ 26

The Company does not recognize OTTI on securities insured by MBIA Corp. and National since those securities, whether or not owned by the Company, are evaluated for impairments in accordance with its loss reserving policy. The following table provides information about securities held by the Company as of June 30, 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]	$ 15	$ (4)	$ 16
Corporate obligations:			
MBIA[1]	9	-	-
Other:			
MBIA[1]	7	-	-
Other	2	-	-
Total	$ 33	$ (4)	$ 16

(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.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 7: Investments (continued)

Sales of Available-for-Sale Investments

Gross realized gains and losses are recorded within Net gains (losses) on financial instruments at fair value and foreign exchange on the Company s consolidated statements of operations. The proceeds and the gross realized gains and losses from sales of fixed-maturity securities held as AFS for the three and six months ended June 30, 2017 and 2016 are as follows:

In millions	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
Proceeds from sales	$ 716	$ 656	$ 987	$ 937
Gross realized gains	$ 15	$ 26	$ 19	$ 37
Gross realized losses	$ (3)	$ (13)	$ (4)	$ (18)

Note 8: Derivative Instruments

U.S. Public Finance Insurance

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

Corporate

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

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, RMBS and ABS, 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.

Credit Derivatives Sold

The following tables present information about credit derivatives sold by the Company s insurance operations that were outstanding as of June 30, 2017 and December 31, 2016. Credit ratings represent the lower of underlying ratings assigned to the collateral by Moody s Investors Service, Inc. (Moody s), S&P or MBIA.

$ in millions	As of June 30, 2017							
		Notional Value						
Credit Derivatives Sold	Weighted Average Remaining Expected Maturity	AAA	AA	A	BBB	Below Investment Grade	Total Notional	Fair Value Asset (Liability)
Insured credit default swaps	2.6 Years	$ -	$ -	$ 115	$ -	$ 186	$ 301	$ (80)
Insured swaps	15.5 Years	-	129	1,967	848	20	2,964	(2)
Total notional		$ -	$ 129	$ 2,082	$ 848	$ 206	$ 3,265	
Total fair value		$ -	$ -	$ -	$ (1)	$ (81)		$ (82)

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 8: Derivative Instruments (continued)

$ in millions		As of December 31, 2016						
		Notional Value						
Credit Derivatives Sold	Weighted Average Remaining Expected Maturity	AAA	AA	A	BBB	Below Investment Grade	Total Notional	Fair Value Asset (Liability)
Insured credit default swaps	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		$ -	$ 137	$ 2,261	$ 1,152	$ 493	$ 4,043	
Total fair value		$ -	$ -	$ (1)	$ (1)	$ (64)		$ (66)

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 CDS contracts are estimated as the notional value plus any additional debt service costs, such as interest or other amounts owing on CDS contracts. The maximum amount of future debt service payments that MBIA may be required to make under these guarantees as of June 30, 2017 is $332 million. The maximum potential amount of future payments (undiscounted) on insured swaps are estimated as the notional value of such contracts.

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

Counterparty Credit Risk

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

Under these agreements, the Company may receive or provide cash, U.S. Treasury or other highly rated securities to secure counterparties exposure to the Company or its exposure to counterparties, respectively. Such collateral is available to the holder to pay for replacing the counterparty in the event that the counterparty defaults. As of June 30, 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. All of the $1 million is included within Other liabilities as cash collateral netted against accrued interest on derivative liabilities. As of June 30, 2017 and December 31, 2016, the Company had securities with a fair value of $262 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 June 30, 2017 and December 31, 2016, the fair value on one Credit Support Annex (CSA) was $3 million. This CSA governs collateral posting requirements between MBIA and its derivative counterparties. The Company did not receive collateral due to the Company s credit rating, which was below the CSA minimum credit ratings level for holding counterparty collateral. As of June 30, 2017 and December 31, 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.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 8: 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 June 30, 2017:

In millions		Derivative Assets (1)		Derivative Liabilities (1)	
Derivative Instruments	Notional Amount Outstanding	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Not designated as hedging instruments:					
Insured credit default swaps	$ 301	Other assets	$ -	Derivative liabilities	$ (80)
Insured swaps	2,964	Other assets	-	Derivative liabilities	(2)
Interest rate swaps	747	Other assets	3	Derivative liabilities	(207)
Interest rate swaps-embedded	406	Medium-term notes	2	Medium-term notes	(15)
Currency swaps-VIE	68	Other assets-VIE	9	Derivative liabilities-VIE	-
All other	49	Other assets	-	Derivative liabilities	(4)
All other-embedded	1	Other investments	-	Other investments	-
Total non-designated derivatives	$ 4,536		$ 14		$ (308)

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

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

In millions		Derivative Assets (1)		Derivative Liabilities (1)	
Derivative Instruments	Notional Amount Outstanding	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Not designated as hedging instruments:					
Insured credit default swaps	$ 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	$ 5,675		$ 25		$ (316)

(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 three months ended June 30, 2017 and 2016:

In millions Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized in Income on Derivative	Three Months Ended June 30, 2017	 2016
Insured credit default swaps	Unrealized gains (losses) on insured derivatives	$ 6	$ (6)
Insured credit default swaps	Realized gains (losses) and other settlements on insured derivatives	(3)	(2)
Interest rate swaps	Net gains (losses) on financial instruments at fair value and foreign exchange	(9)	(35)
Currency swaps-VIE	Net gains (losses) on financial instruments at fair value and foreign exchange-VIE	(3)	3
All other	Net gains (losses) on financial instruments at fair value and foreign exchange	(18)	(1)
Total		$ (27)	$ (41)

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 8: Derivative Instruments (continued)

The following table presents the effect of derivative instruments on the consolidated statements of operations for the six months ended June 30, 2017 and 2016:

In millions Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized in Income on Derivative	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
Insured credit default swaps	Unrealized gains (losses) on insured derivatives	$ (16)	$ (20)
Insured credit default swaps	Realized gains (losses) and other settlements on insured derivatives	(34)	(16)
Interest rate swaps	Net gains (losses) on financial instruments at fair value and foreign exchange	(5)	(85)
Interest rate swaps-VIE	Net gains (losses) on financial instruments at fair value and foreign exchange-VIE	-	8
Currency swaps-VIE	Net gains (losses) on financial instruments at fair value and foreign exchange-VIE	(10)	(1)
All other	Net gains (losses) on financial instruments at fair value and foreign exchange	(19)	(3)
Total		$ (84)	$ (117)

Note 9: Debt

The Company has disclosed its debt in Note 10: Debt in the Notes to the Consolidated Financial Statements included in the Company s Annual Report on Form 10-K for the year ended December 31, 2016. The following debt discussion is an update and should be read in conjunction with the Company s Annual Report on Form 10-K.

Other Borrowing Arrangements

MBIA Corp. Financing Facility

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 June 30, 2017, the consolidated outstanding amount of the Facility was $315 million and included in Variable interest entity notes which is presented in Liabilities of consolidated variable interest entities on the Company s consolidated balance sheets. 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.

Note 10: Income Taxes

The Company s income taxes and the related effective tax rates for the three and six months ended June 30, 2017 and 2016 are as follows:

In millions	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
Income (loss) before income taxes	$ (210)	$ (55)	$ (330)	$ (156)
Provision (benefit) for income taxes	$ 1,019	$ (28)	$ 971	$ (51)
Effective tax rate	-485.2%	50.9%	-294.2%	32.7%

For the six months ended June 30, 2017, the Company s effective tax rate applied to its loss before income taxes is less than the U.S. statutory tax rate primarily due to the establishment of a full valuation allowance against its net deferred tax asset. For the six months ended June 30, 2016, the Company s effective tax rate applied to its loss before income taxes is less than the U.S. statutory effective tax rate primarily due to a foreign tax credit adjustment, partially offset by the fluctuation of the value of nontaxable warrants issued by the Company.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 10: Income Taxes (continued)

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.

The tax effects of temporary differences that give rise to deferred tax assets and liabilities as of June 30, 2017 and December 31, 2016 are presented in the following table:

	As of	
In millions	**June 30, 2017**	**December 31, 2016**
Deferred tax liabilities:		
Unearned premium revenue	$ 140	$ 143
Deferral of cancellation of indebtedness income	34	46
Deferred acquisition costs	37	42
Net gains on financial instruments at fair value and foreign exchange	-	4
Partnership basis difference	29	36
Basis difference in foreign subsidiaries	2	64
Net deferred taxes on VIEs	14	-
Other	34	23
Total gross deferred tax liabilities	290	358
Deferred tax assets:		
Compensation and employee benefits	17	19
Accrued interest	198	177
Loss and loss adjustment expense reserves	104	142
Net operating loss	976	929
Foreign tax credits	62	7
Net unrealized losses on insured derivatives	29	29
Net losses on financial instruments at fair value and foreign exchange	23	-
Net unrealized losses in accumulated other comprehensive income	12	6
Alternative minimum tax credit carryforward	26	26
Total gross deferred tax assets	1,447	1,335
Valuation allowance	1,157	7
Net deferred tax asset	$ -	$ 970

During the three months ended June 30, 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 that, at this time, it does not have sufficient positive evidence to support its ability to use its deferred tax assets before they expire. Accordingly, the Company recorded a full valuation allowance against its net deferred tax asset of $1.2 billion, of which $1.1 billion was recorded in the three months ended June 30, 2017. Also, the Company recorded $55 million against its net deferred asset in the three months ended March 31, 2017, related to foreign tax credits that were generated as a result of the sale of MBIA UK. The Company will continue to analyze the valuation allowance on a quarterly basis.

MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 10: Income Taxes (continued)

Accounting for Uncertainty in Income Taxes

The Company s policy is to record and disclose any change in unrecognized tax benefits (UTB) and related interest and/or penalties to income tax in the consolidated statements of operations. The Company includes interest as a component of income tax expense. As of June 30, 2017 and December 31, 2016, the Company had no UTB.

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

As of June 30, 2017, the Company s net operating loss (NOL) is approximately $2.8 billion. The NOL will expire between tax years 2030 through 2037. As of June 30, 2017, the Company has a foreign tax credit carryforward of $62 million, which will expire between tax years 2019 through 2027. As of June 30, 2017, the Company has an alternative minimum tax credit carryforward of $26 million, which does not expire.

Note 11: Business Segments

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

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

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

U.S. Public Finance Insurance

The Company s U.S. public finance insurance segment is principally conducted 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.

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. Refer to Note 1: Business Developments and Risks and Uncertainties for further information about National s financial strength ratings downgrade.

Corporate

The Company s corporate segment consists of general corporate activities, including providing general support services to MBIA Inc. s subsidiaries as well as asset and capital management. General 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 these MTNs and investment agreements and the outstanding liability balances and corresponding asset balances have declined over time as liabilities mature, terminate or are retired. All of the debt within the corporate segment is managed collectively and is serviced by available liquidity.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 11: Business Segments (continued)

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, in which MBIA Insurance Corporation has written insurance policies guaranteeing the obligations under CDS. Certain policies cover payments potentially due under CDS, including termination payments that may become due in certain circumstances, including the occurrence of certain insolvency or payment defaults under the CDS or derivatives contracts by the insured counterparty or by the guarantor.

MBIA Corp. insures non-U.S. public finance and global structured finance obligations, including asset-backed obligations. MBIA Corp. has insured sovereign-related and sub-sovereign bonds, utilities, privately issued bonds used for the financing of projects that include toll roads, bridges, airports, public transportation facilities, and other types of infrastructure projects serving a substantial public purpose. Global structured finance and asset-backed obligations typically are securities repayable from expected cash flows generated by a specified pool of assets, such as residential and commercial mortgages, insurance policies, consumer loans, corporate loans and bonds, trade and export receivables, and leases for equipment, aircraft and real estate property. MBIA Corp. has also written policies guaranteeing obligations under certain other derivative contracts, including termination payments that may become due upon certain insolvency or payment defaults of the financial guarantor or the issuer. The Company is no longer insuring new credit derivative contracts except for transactions related to the restructuring or reduction of existing derivative exposure. MBIA Corp. has not written any meaningful amount of business since 2008.

Segments Results

The following tables provide the Company s segment results for the three months ended June 30, 2017 and 2016:

	Three Months Ended June 30, 2017				
In millions	**U.S. Public Finance Insurance**	**Corporate**	**International and Structured Finance Insurance**	**Eliminations**	**Consolidated**
Revenues[1]	$ 62	$ 8	$ 17	$ -	$ 87

Net change in fair value of insured derivatives	-	-	3	-	3
Net gains (losses) on financial instruments at fair value and foreign exchange	14	(55)	(20)	-	(61)
Net investment losses related to other-than-temporary impairments	(11)	-	-	-	(11)
Other net realized gains (losses)	-	(1)	35	-	34
Revenues of consolidated VIEs	-	-	20	-	20
Inter-segment revenues(2)	5	15	11	(31)	-
Total revenues	70	(33)	66	(31)	72
Losses and loss adjustment	158	-	12	-	170
Operating	16	14	10	-	40
Interest	-	22	28	-	50
Expenses of consolidated VIEs	-	-	22	-	22
Inter-segment expenses(2)	16	1	14	(31)	-
Total expenses	190	37	86	(31)	282
Income (loss) before income taxes	(120)	(70)	(20)	-	(210)
Provision (benefit) for income taxes	(43)	1,074	1,199	(1,211)	1,019
Net income (loss)	$ (77)	$ (1,144)	$ (1,219)	$ 1,211	$ (1,229)
Identifiable assets	$ 5,074	$ 1,233	$ 5,313	$ (1,853)(3)	$ 9,767

(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.

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MBIA Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

Note 11: Business Segments (continued)

	Three Months Ended June 30, 2016				
In millions	U.S. Public Finance Insurance	Corporate	International and Structured Finance Insurance	Eliminations	Consolidated
Revenues[1]	$ 82	$ 6	$ 23	$ -	$ 111
Net change in fair value of insured derivatives	-	-	(8)	-	(8)
Net gains (losses) on financial instruments at fair value and foreign exchange	25	(19)	8	-	14
Net gains (losses) on extinguishment of debt	-	3	-	-	3
Other net realized gains (losses)	-	(1)	1	-	-
Revenues of consolidated VIEs	-	-	(2)	-	(2)
Inter-segment revenues[2]	4	12	11	(27)	-
Total revenues	111	1	33	(27)	118
Losses and loss adjustment	9	-	68	-	77
Operating	11	14	15	-	40
Interest	-	24	25	-	49
Expenses of consolidated VIEs	-	-	7	-	7
Inter-segment expenses[2]	16	1	11	(28)	-
Total expenses	36	39	126	(28)	173
Income (loss) before income taxes	75	(38)	(93)	1	(55)
Provision (benefit) for income taxes	25	(18)	(32)	(3)	(28)
Net income (loss)	$ 50	$ (20)	$ (61)	$ 4	$ (27)
Identifiable assets	$ 5,477	$ 2,412	$ 7,017	$ (2,842)[3]	$ 12,064

(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.

The following tables provide the Company s segment results for the six months ended June 30, 2017 and 2016:

	Six Months Ended June 30, 2017		
In millions	Corporate	Eliminations	Consolidated

	U.S. Public Finance Insurance		International and Structured Finance Insurance		
Revenues[1]	$ 130	$ 16	$ 44	$ -	$ 190
Net change in fair value of insured derivatives	-	-	(50)	-	(50)
Net gains (losses) on financial instruments at fair value and foreign exchange	18	(39)	(23)	-	(44)
Net investment losses related to other-than-temporary impairments	(13)	-	-	-	(13)
Net gains (losses) on extinguishment of debt	-	8	-	-	8
Other net realized gains (losses)	-	(2)	39	-	37
Revenues of consolidated VIEs	-	-	21	-	21
Inter-segment revenues[2]	10	31	20	(61)	