

United States
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

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

For the fiscal year ended December 31, 2016

or

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

For the transition period from _____ to _____

Commission File Number 1-9583

MBIA INC.

(Exact name of registrant as specified in its charter)

Connecticut
(State of incorporation)

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

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

10577
(Zip Code)

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

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

Title of each class

Name of each exchange
on which registered

Common Stock, par value \$1 per share

New York Stock Exchange

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

None

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

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

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

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

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

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

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

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

The aggregate market value of the voting stock held by non-affiliates of the Registrant as of June 30, 2016 was \$882,439,647.

As of February 23, 2017, 134,398,145 shares of Common Stock, par value \$1 per share, were outstanding.

Documents incorporated by reference:

Portions of the Definitive Proxy Statement of the Registrant for its 2016 Annual Meeting, which will be filed on or before March 31, 2017, are incorporated by reference into Part III of this Form 10-K.

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FORWARD-LOOKING AND CAUTIONARY STATEMENTS

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

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

- increased credit losses or impairments on public finance obligations that National Public Finance Guarantee Corporation (“National”) insures issued by state, local and territorial governments and finance authorities and other providers of public services, located in the U.S. or abroad, that are experiencing fiscal stress;
- the possibility that loss reserve estimates are not adequate to cover potential claims;
- a disruption in the cash flow from our subsidiaries or an inability to access the capital markets and our exposure to significant fluctuations in liquidity and asset values in the global credit markets as a result of collateral posting requirements;
- our ability to fully implement our strategic plan, including our ability to maintain high stable credit ratings for National and generate investor demand for our financial guarantees;
- the possibility that MBIA Insurance Corporation will have inadequate liquidity or resources to timely pay claims as a result of higher than expected losses on certain structured finance transactions or as a result of a delay or failure in collecting expected recoveries, which could lead the New York State Department of Financial Services (“NYSDFS”) to put MBIA Insurance Corporation into a rehabilitation or liquidation proceeding under Article 74 of the New York Insurance Law and/or take such other actions as the NYSDFS may deem necessary to protect the interests of MBIA Insurance Corporation’s policyholders;
- deterioration in the economic environment and financial markets in the United States or abroad, real estate market performance, credit spreads, interest rates and foreign currency levels; and
- the effects of changes to governmental regulation, including insurance laws, securities laws, tax laws, legal precedents and accounting rules.

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

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

PART I

Item 1. Business

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

OVERVIEW

MBIA’s primary business is to provide financial guarantee insurance to the United States’ public finance markets through our indirect, wholly-owned subsidiary, National Public Finance Guarantee Corporation (“National”).

National’s financial guarantee insurance policy provides investors with unconditional and irrevocable guarantees of the payment of the principal, interest or other amounts owing on insured obligations when due. The principal economic value of our financial guarantee insurance for capital markets issuers is to lower the interest cost of an insured obligation relative to the interest cost on the obligation if it had been issued without the insurance. In addition, for certain complex financings and for obligations of certain issuers that are not well-known by investors, insured obligations have historically received greater market acceptance than uninsured obligations. For investors, our insurance provides not only an additional level of credit protection but also the benefit of our portfolio monitoring and remediation skills throughout the life of the insurance policy.

MBIA has also provided financial guarantee insurance in the international and structured finance markets through its MBIA Corp. subsidiary. MBIA Corp. continues to manage its insured portfolio, which has been reduced substantially from \$331.2 billion as of December 31, 2007 to \$30.9 billion as of December 31, 2016. Effective on January 10, 2017, MBIA Corp.’s wholly-owned subsidiary, MBIA UK (Holdings) Limited (“MBIA UK Holdings”), the parent company to MBIA UK, sold MBIA UK, to Assured Guaranty Corp. (“Assured”), a subsidiary of Assured Guaranty Ltd. Included in the \$30.9 billion was \$12.0 billion of gross par outstanding related to MBIA UK. We do not expect MBIA Corp. to write any significant new policies in the foreseeable future in light of its current ratings, accumulated losses and non-policy claims related to our subordinate preferred stock holders, surplus note holders and other lenders.

Given MBIA Corp.’s capital structure and business prospects, we do not expect its financial performance to have a material impact on MBIA Inc., except for any impact it may have on the consolidated deferred tax asset relating to the Company’s net operating loss carryforwards. Refer to “Results of Operations—Capital Resources” in Part II, Item 7 of this Form 10-K for a further discussion of MBIA Corp.’s insurance statutory capital, and “Note 11: Income Taxes” in the Notes to Consolidated Financial Statements in Part II, Item 8 of this Form 10-K for a further discussion of income taxes.

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

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

Item 1. Business (continued)

OUR BUSINESS STRATEGY

National Ratings and New Business Opportunities

National is the largest U.S. public finance-only bond insurer in the financial guarantee industry as measured by total gross insured par outstanding of \$110.4 billion as of December 31, 2016. Our primary activity is to insure new issue and secondary market municipal bonds while providing ongoing surveillance of National's existing insured portfolio. 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 the rating agencies. As of December 31, 2016, National was rated AA+ with a stable outlook by Kroll Bond Rating Agency ("Kroll"), AA- with a stable outlook by Standard & Poor's Financial Services LLC ("S&P"), and A3 with a negative outlook by Moody's Investors Services, Inc. ("Moody's").

National pursues opportunities for new business in most municipal sectors. Based on our underwriting and pricing criteria, the majority of our new business is in the general obligation, tax-backed and revenue bond sectors. In addition to the new issue market, we are pursuing opportunities in the secondary market with respect to bonds issued in recent years that were not insured and that meet our underwriting criteria.

National seeks to generate shareholder value at appropriate risk-adjusted pricing; however, current market conditions and the competitive landscape limit National's new business opportunities and our ability to price and underwrite risk with attractive returns.

For the issuer, the primary value of financial guarantee insurance is largely determined by the spread between the interest rate on insured versus uninsured debt. The recent environment of low interest rates reduces the value of insurance to a level which may be unattractive to the issuer (insufficient reduction in interest costs to offset the premium on the insurance) as well as the guarantor (insufficient premium relative to the risk assumed and capital deployed). Furthermore, investors may choose to purchase uninsured bonds to increase their returns. An environment of higher interest rates and/or wider spreads would likely enhance the new business opportunities for National. We also believe the current stress in certain sectors of the municipal bond market reinforces the value of National's guarantee of timely payment of interest and principal.

MBIA Inc. Capital Management

The Company manages its capital and liquidity in order to ensure that it can service its debt and other financial obligations and pay its operating costs while maintaining an adequate cushion against adverse events. As a result of consistent dividends from National and releases from the tax escrow account, MBIA Inc. maintains a stable liquidity position which allows it more strategic flexibility in deploying its capital. Our capital management strategy is to balance leverage by (i) repurchasing outstanding MBIA Inc. common shares when management deems such action appropriate taking into account the price of the stock and its anticipated liquidity needs and (ii) reducing our unsecured debt through calls and repurchases, while continuing to move toward an investment-grade capital structure.

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

During the fourth quarters of 2016 and 2015, National declared and paid dividends of \$118 million and \$114 million, respectively, to its ultimate parent, MBIA Inc. In addition, during the first quarters of 2017 and 2016, MBIA Inc. received a total of \$94 million and \$105 million, respectively in cash and securities from an escrow account held by MBIA Inc. under the MBIA group's tax sharing agreement as described further under "Results of Operations—Liquidity—MBIA Inc. Liquidity." Unsecured debt includes MBIA Inc.'s senior notes and medium-term notes ("MTNs") issued by MBIA Global Funding, LLC ("GFL"). During 2016, we repurchased \$6 million of debt issued by GFL. In addition, \$123 million of debt issued by GFL matured during 2016. During 2015, we repurchased \$50 million of debt issued by MBIA Inc. or its subsidiary GFL. In addition, \$78 million of debt issued by GFL matured during 2015.

Item 1. Business (continued)

MBIA Corp. Risk Mitigation

MBIA Corp. has not written a meaningful amount of new business since 2008 as a result of declining financial capacity, ratings downgrades and regulatory limitations placed on its business. Since that time it has experienced considerable stress as a result of unprecedented levels of delinquency and loss in its structured finance insurance business, primarily in its residential mortgage-backed securities (“RMBS”), commercial mortgage-backed securities (“CMBS”) pools, and collateralized debt obligation (“CDO”) portfolios. As a result, since 2008, MBIA Corp.’s strategy has focused primarily on recovering losses on insured RMBS transactions related to the failure of certain RMBS sellers/servicers to honor their contractual obligations to repurchase ineligible mortgage loans from securitizations that MBIA Corp. insured, reducing future expected economic losses in the insured portfolio through commutations and other risk mitigation strategies, and managing liquidity. To date, MBIA Corp. has settled the majority of its claims related to the improper inclusion of ineligible mortgage loans in insured securitizations, except with regards to its claims against Credit Suisse, which it estimates as totaling \$435 million as of December 31, 2016. Refer to “Note 6: Loss and Loss Adjustment Expense “ in the Notes to Consolidated Financial Statements in Part II, Item 8 of this Form 10-K for further information regarding loss reserves and recoveries.

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

OUR INSURANCE OPERATIONS

Our U.S. public finance insurance business is conducted through National, and our international and structured finance insurance portfolios are managed through MBIA Corp. We anticipate that for the foreseeable future virtually all of our new insurance business will be written through National in the U.S. public finance sector. We expect the credit ratings of MBIA Insurance Corporation and its remaining subsidiary will continue to constrain their ability to write new business in the foreseeable future.

We are compensated for our insurance policies by insurance premiums paid upfront or on an installment basis. Our financial guarantee insurance is offered in both the new issue and secondary markets. Transactions in the new issue market may be sold either through negotiated offerings or competitive bidding. We also issue insurance policies to guarantee the payment of principal and interest on municipal obligations being traded in the secondary market upon the request of a broker or an existing holder of uninsured bonds, where the premium is generally paid by the owner of the obligation. In addition, we have provided financial guarantees or sureties to debt service reserve funds. The primary risk in our insurance operations is that of adverse credit performance in the insured portfolio. We seek to maintain a diversified insured portfolio and have insured transactions with the aim of managing and diversifying risk based on a variety of criteria including revenue source, issue size, type of asset, industry concentrations, type of bond and geographic area. Despite this objective, there can be no assurance that we will avoid losses on multiple credits as a result of a single event or series of events.

Item 1. Business (continued)

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

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

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

National Insured Portfolio

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

Portfolio Profile

As of December 31, 2016, National had \$110.4 billion of insured gross par outstanding on U.S. public finance obligations covering 6,469 policies and diversified among 3,417 “credits,” which we define as any group of issues supported by the same revenue source. Insurance in force, which includes all insured debt service, as of December 31, 2016 was \$191.5 billion.

All of the policies were underwritten on the assumption that the insurance will remain in force until maturity or early retirement of the insured obligations. National estimates that the average life of its domestic public finance insurance policies in force as of December 31, 2016 was 10 years. The average life was determined by applying a weighted average calculation, using the remaining years to contractual maturity and weighting them on the basis of the remaining debt service insured. No assumptions were made for any future refundings, early redemptions or terminations of insured issues. Average annual insured debt service on the portfolio as of December 31, 2016 was \$11.5 billion.

Item 1. Business (continued)

The table below shows the diversification by type of U.S. public finance insurance that was outstanding as of December 31, 2016:

National U.S. Public Finance Gross Par Amount Outstanding by Bond Type

<u>In millions</u>	<u>Gross Par Amount</u>
Bond Type	
Public finance: United States	
General obligation	\$ 38,306
General obligation—Lease	8,698
Municipal utilities	17,352
Tax backed	16,690
Transportation	11,056
Health care	2,735
Higher education	4,466
Municipal housing	439
Military housing	7,410
Investor-owned utilities	2,280
Other	935
Total United States—public finance	<u>\$ 110,367</u>

National's underwriting guidelines limit the insurance in force for any one insured credit, and for other categories such as geography. In addition, National is subject to regulatory single-risk limits and its ratings are subject to rating agency single-risk limits with respect to any insured bond issue. Refer to "Insurance Regulation" below for a description of these regulatory requirements. As of December 31, 2016, National's gross par amount outstanding for its ten largest insured U.S. public finance credits totaled \$12.0 billion, representing 10.9% of National's total U.S. public finance gross par amount outstanding.

MBIA Corp. Insured Portfolio

MBIA Corp.'s insured portfolio consists of policies that insure various types of international public finance and structured finance obligations that were sold in the new issue and secondary markets or are referenced in CDS contracts. International public finance obligations include bonds and loans extended to entities located outside of the U.S., including utilities, infrastructure projects and sovereign-related and sub-sovereign issuers, such as regions, authorities or their equivalent as well as sovereign owned entities that might be supported by a sovereign state, region or authority. Sovereign-related includes Private Finance Initiative transactions that involve private entities that receive contractual payments for providing services to public sector entities. Structured finance obligations include asset-backed transactions and financing of commercial activities that are typically secured by undivided interests or collateralized by the related assets or cash flows or, in the case of certain CDS transactions, reference the underlying obligations. Certain policies cover payments potentially due under CDS, including termination payments that may become due in certain circumstances, including the occurrence of certain insolvency or payment defaults under the CDS or derivatives contracts by the insured counterparty or by the guarantor. Effective on January 10, 2017, MBIA UK Holdings sold MBIA UK to Assured.

As of December 31, 2016, MBIA Corp. had 494 policies outstanding in its insured portfolio. In addition, MBIA Corp. had 79 insurance policies outstanding relating to liabilities issued by MBIA Inc. and its subsidiaries, which are described further under the section "Other Financial Obligations" below. MBIA Corp.'s total policies in its insured portfolio are diversified among 309 "credits," which we define as any group of policies supported by the same revenue source. Included in the number of policies and credits outstanding was 73 policies and 31 credits issued by MBIA UK.

Portfolio Profile

As of December 31, 2016, the gross par amount outstanding of MBIA Corp.'s insured obligations (excluding \$1.3 billion of MBIA insured investment agreements and MTNs, and \$3.4 billion of U.S. public finance debt ceded to National), was \$30.9 billion. Insurance in force for the above portfolio, which includes all insured debt service, as of December 31, 2016 was \$44.4 billion.

Item 1. Business (continued)

MBIA Corp. underwrote its policies on the assumption that the insurance would remain in force until maturity of the insured obligations. MBIA Corp. estimates that the average life of its international and structured finance insurance policies in force as of December 31, 2016 was 9 years. The average life was determined by applying a calculation using the remaining years to contractual maturity for international public finance obligations and estimated maturity for structured finance obligations and weighting them on the basis of the remaining debt service insured. No assumptions were made for any future refundings, early redemptions or terminations of insured issues. Average annual insured debt service on the portfolio as of December 31, 2016 was \$3.3 billion.

The table below shows the diversification by type of insurance that was outstanding as of December 31, 2016:

MBIA Corp. Gross Par Amount Outstanding for the International and Structured Finance Portfolio by Bond Type ⁽¹⁾

<u>In millions</u>	<u>Gross Par Amount</u>
Bond Type	
Public finance: non-United States	
Sovereign-related and sub-sovereign	\$ 7,490
International utilities	6,523
Transportation	5,247
Local governments ⁽²⁾	106
Tax backed	80
Total public finance—non-United States	<u>19,446</u>
Global structured finance:	
Collateralized debt obligations ⁽³⁾	2,550
Mortgage-backed residential	4,721
Mortgage-backed commercial	345
Consumer asset-backed	940
Corporate asset-backed ⁽⁴⁾	<u>2,856</u>
Total global structured finance	<u>11,412</u>
Total ⁽⁵⁾	<u>\$ 30,858</u>

(1)—Excludes \$1.3 billion relating to investment agreements and MTNs issued by affiliates of the Company which are guaranteed by MBIA Corp.

(2)—Includes municipal-owned entities backed by the sponsoring local government.

(3)—Includes transactions (represented by structured pools of primarily investment grade corporate credit risks, CMBS or other CRE assets) that may not include typical CDO structuring characteristics, such as tranching credit risk, cash flow waterfalls, or interest and over-collateralization coverage tests.

(4)—Includes \$1.3 billion of structured insurance securitizations.

(5)—Includes \$12.0 billion of gross par outstanding insured by MBIA UK, which was sold to Assured on January 10, 2017.

MBIA Inc. Financial Obligations Insured by MBIA Corp.

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

Item 1. Business (continued)

Risk Management

Our largest risk is the credit exposure in our insured portfolio. MBIA's credit risk management and remediation functions are managed through committees and units that oversee risks both at transaction origination and in ongoing portfolio monitoring, surveillance and remediation. MBIA's Insured Portfolio Management Division monitors and remediates structured finance and international infrastructure risks while National's Portfolio Surveillance Group performs this function with respect to U.S. public finance transactions. The Restructuring and Remediation Group is responsible for certain transactions that require intensive remediation. National and MBIA Insurance Corporation each has a risk committee to review underwriting decisions. On an enterprise-wide basis, executive committees provide risk oversight.

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

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

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

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

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

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

Item 1. Business (continued)

Insurance Monitoring and Remediation

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

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

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

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

Item 1. Business (continued)

Credit Risk Models

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

Market Risk Assessment

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

Operational Risk Assessment

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

Losses and Reserves

Loss and loss adjustment expense (“LAE”) reserves are established by Loss Reserve Committees in each of our operating insurance companies and are reviewed by our executive Loss Reserve Committee, which consists of members of senior management. The Company’s loss and LAE reserves as of December 31, 2016 represent case basis reserves and estimates for LAE to be incurred. Case basis reserves represent the Company’s estimate of expected losses to be paid under its insurance contracts, net of potential recoveries and discounted using a current risk-free interest rate, for contracts where the estimated loss amount exceeds the unearned premium revenue on the related insurance contract. The Company estimates expected losses net of potential recoveries using the present value of probability-weighted estimated loss payments and recoveries, discounted at a rate equal to the risk-free rate applicable to the currency and weighted average remaining life of the insurance contract as required by accounting principles for financial guarantee contracts. We record case basis loss reserves on insured obligations which have defaulted or are expected to default during the remaining life of the obligation.

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

Item 1. Business (continued)

Reinsurance

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

Intercompany Reinsurance Arrangements

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

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

Insurance Regulation

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

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

Item 1. Business (continued)

New York Insurance Regulation

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

New York State Dividend Limitations

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

National declared and paid a dividend of \$118 million to its ultimate parent, MBIA Inc., during the fourth quarter of 2016.

Due to its significant negative earned surplus, MBIA Insurance Corporation has not had the statutory capacity to pay dividends since December 31, 2009 and is not expected to have any statutory capacity to pay any dividends for the foreseeable future. In connection with MBIA Insurance Corporation obtaining approval from the NYSDFS to release excessive contingency reserves as of September 30, 2011, December 31, 2011 and March 31, 2012, MBIA Corp. agreed that it would not pay any dividends without receiving prior approval from the NYSDFS.

The foregoing dividend limitations are determined in accordance with statutory accounting principles ("U.S. STAT"), which generally produce statutory earnings in amounts less than earnings computed in accordance with accounting principles generally accepted in the U.S. ("GAAP"). Similarly, policyholders' surplus, computed on a U.S. STAT basis, will normally be less than net worth computed on a GAAP basis.

Contingency Reserves

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

Item 1. Business (continued)

Risk Limits

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

National is in compliance with the relevant aggregate and single risk limits. During 2016 and 2015, MBIA Insurance Corporation reported single risk limit overages to the NYSDFS due to changes in its statutory capital. MBIA Insurance Corporation is currently in compliance with its aggregate risk limits as of December 31, 2016.

Holding Company Regulation

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

Change of Control

Prior approval by the NYSDFS is required for any entity seeking to acquire, directly or indirectly, "control" of National or MBIA Insurance Corporation. In many states, including New York, "control" is presumed to exist if 10% or more of the voting securities of the insurer are owned or controlled, directly or indirectly, by an entity, although the insurance regulator may find that "control" in fact does or does not exist when an entity owns or controls either a lesser or greater amount of securities. MBIA Insurance Corporation would require the prior approval of MBIA Mexico's regulator in order to transfer the shares it currently holds in MBIA Mexico. To the Company's knowledge, no MBIA Inc. shareholder owns 10% or more of MBIA Inc.'s outstanding common stock as of December 31, 2016, and thus no shareholder has had to receive appropriate approvals or determinations of non-control in connection with its investment.

Insurance Guarantee Funds

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

Item 1. Business (continued)

Insured Credit Default Swaps

Certain of our insurance policies guarantee payments due under CDS and other derivatives. In July of 2010, the Dodd-Frank Reform and Consumer Protection Act (the “Dodd-Frank Act”) was signed into law for the purpose of enacting broad financial industry regulatory reform, including by enhancing regulation of the over-the-counter derivatives markets. Among other reforms, the Dodd-Frank Act requires “swap dealers” and “major swap participants” to register with either or both of the Commodity Futures Trading Commission (“CFTC”) and the Securities and Exchange Commission (“SEC”), and to be subject to enhanced regulation, including capital requirements. Previously, MBIA Corp. was registered with the CFTC as a major swap participant and had been required to comply with the CFTC’s business conduct rules as applied to portfolios in place prior to the enactment of the Dodd-Frank Act. In May of 2015, MBIA Corp. de-registered as a major swap participant as the notional amount and fair value of its CDS exposures declined below the registration thresholds. As of December 31, 2016, MBIA Corp. insured 4 CDS policies with \$588 million of gross par outstanding.

OUR ADVISORY SERVICES

Until January of 2015, we conducted our asset management advisory services business through two registered investment adviser subsidiaries of Cutwater Holdings, LLC (together, “Cutwater”), a wholly-owned subsidiary of MBIA Inc. The Company had \$21.3 billion in institutional assets under management as of December 31, 2014, including \$10.1 billion from the Company and its subsidiaries. Effective January 1, 2015, we completed the sale of Cutwater to the Bank of New York Mellon Corporation. This transaction had a positive but immaterial impact on the Company’s financial position and results of operations. In connection with the sale, the Company and its subsidiaries entered into investment management agreements with Cutwater (now known as “Insight Investment”) to manage their respective fixed-income investment portfolios for the next five years.

Other Advisory Services

During 2014, we exited the advisory and asset management services business in the European Union.

OUR CONDUIT BUSINESS

During 2014, our conduit segment was operated primarily through Meridian Funding Company, LLC (“Meridian”). Meridian was used by banks and other financial institutions to raise funds through MTN issuances. The proceeds from these issuances were used to either make loans to customers that were secured by certain assets or to purchase assets from customers. During 2014, we retired Meridian’s remaining \$129 million outstanding MTNs, and completed the liquidation of Meridian.

INVESTMENTS AND INVESTMENT POLICY

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

Insight Investment manages the proprietary investment portfolios of the Company and its subsidiaries in accordance with the guidelines adopted for each such portfolio. The agreements with Insight Investment provide generally that Insight Investment will have the exclusive right to manage the fixed-income investment portfolios of the Company and its subsidiaries until 2020 and guarantee certain minimum revenues thereunder. The agreements are subject to early termination under certain conditions including if certain performance objectives are not met.

Item 1. Business (continued)

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

COMPETITION

National competes with other monoline insurance companies, as well as other forms of credit enhancement, in writing financial guarantee business. We anticipate that for the foreseeable future all of our new insurance business in the U.S. public finance sector will be written by National.

Our ability to attract and compete for U.S. public finance financial guarantee business is dependent in part on the financial strength ratings assigned to National by the rating agencies. Refer to "Rating Agencies" below for information on the Company's current financial strength ratings.

There are currently two other bond insurers actively engaged in selling insurance policies in the U.S. public finance insurance market. We have observed significant competition for business between these financial guarantors, and as a result opportunities to write new business with attractive returns have been limited. In addition, National's rating differential from its competitors and absence from the municipal market for several years resulting in the need to build National's name recognition has also affected its ability to write new business. We expect the impact of this factor on National's ability to attract new business to decline as National writes more new business. In addition, the percentage of new public finance issuances with financial guarantee insurance remains significantly lower than before the financial crisis, and the inability of financial guarantee insurers to maintain or achieve high ratings could diminish acceptance of the product and enhance the appeal of other forms of credit enhancement.

Financial guarantee insurance competes with other forms of credit enhancement. Commercial banks provide letters of credit as a means of credit enhancement for municipal securities. During 2016, the use of letters of credit as an alternative to financial guarantee insurance within the U.S. municipal market was far below its peak in 2009; however, letters of credit have remained a presence in the market. Direct lending by banks to municipal issuers also reduces demand for credit enhancement. Other highly rated institutions, including pension funds and government sponsored entities, also offer third-party credit enhancement on municipal obligations. Financial guarantee insurance and other forms of credit enhancement also compete in nearly all instances with the issuer's alternative of foregoing credit enhancement. If the interest savings from insurance or another form of credit enhancement are not greater than the cost of such credit enhancement, the issuer will generally choose to issue bonds without third-party enhancement. All of these alternative forms of credit enhancement or alternative executions could also affect our ability to write new business with attractive returns.

RATING AGENCIES

Rating agencies perform periodic reviews of our insurance companies and other companies providing financial guarantee insurance. In rating financial guarantee companies, rating agencies focus on qualitative and quantitative characteristics in certain key areas, including: (1) franchise value and business strategy; (2) insurance portfolio characteristics; (3) capital adequacy; (4) profitability; (5) financial flexibility; and (6) risk management framework. Each agency has its own ratings criteria for financial guarantors and employs proprietary models to assess our risk adjusted leverage, risk concentrations and financial performance relative to the agency's standards. The agencies also assess our corporate governance and factor this into their rating assessment.

Item 1. Business (continued)

The current financial strength ratings from Kroll, S&P, and Moody's, as applicable, are summarized below:

Agency	Rating / Outlook		
	National	MBIA Insurance Corporation	MBIA Inc.
Kroll	AA+ / Stable outlook	Not rated	Not rated
S&P	AA- / Stable outlook	CCC / Negative outlook	A- / Stable outlook
Moody's	A3 / Negative outlook	Caa1 / Developing outlook	Ba1 / Negative outlook

CAPITAL FACILITIES

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

FINANCIAL INFORMATION

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

EMPLOYEES

As of December 31, 2016, the Company had 164 employees, including 13 in Trifinium Services Limited, our services company in the U.K. None of the Company's employees are covered by collective bargaining agreements. The Company considers its employee relations to be satisfactory.

AVAILABLE INFORMATION

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

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

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

Item 1. Business (continued)

EXECUTIVE OFFICERS OF THE REGISTRANT

The executive officers of the Company and their present ages and positions with the Company as of March 1, 2017 are set forth below:

<u>Name</u>	<u>Age</u>	<u>Position and Term of Office</u>
Joseph W. Brown	68	Chief Executive Officer and Director (officer since February 2008)
William C. Fallon	57	President and Chief Operating Officer (officer since July 2005)
Ram D. Wertheim	62	Executive Vice President, Chief Legal Officer and Secretary (officer since January 2000)
Anthony McKiernan	47	Executive Vice President and Chief Financial Officer (officer since August 2011)

Joseph W. Brown is Chief Executive Officer and a director of the Company. Mr. Brown assumed the roles of Chairman, CEO and director in February of 2008 after having retired as Executive Chairman of MBIA in May of 2007. In May of 2009, the Company's Board of Directors accepted Mr. Brown's recommendation to separate the roles of Chairman and CEO and elected Daniel P. Kearney as Non-Executive Chairman, with Mr. Brown continuing in the roles of CEO and director. Mr. Brown also serves as Chairman of MBIA Corp. Until May of 2004, Mr. Brown had served as Chairman and CEO of MBIA and MBIA Corp. Mr. Brown originally joined the Company as CEO in January of 1999 after having been a director since 1986, and became Chairman in May of 1999.

Prior to joining MBIA in 1999, Mr. Brown was Chairman and CEO of Talegen Holdings, Inc., an insurance holding company. Before his election as Chairman and CEO of Talegen, Mr. Brown was President and CEO of Fireman's Fund Insurance Company. Mr. Brown joined Fireman's Fund in 1974. He held numerous executive positions including Chief Financial Officer at the time of its IPO in 1985 from American Express and President and Chief Operating Officer at the time of its sale to Allianz AG in 1990.

Mr. Brown served on the board of Oxford Health Plans from 2000 to 2004 and on the Board of Fireman's Fund Holdings prior to the sale of its insurance subsidiary to Allianz. He served on the Safeco Corporation board from 2001 to September of 2008 and was elected Non-executive Chairman in January of 2006.

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

Prior to being named Executive Vice President, Chief Legal Officer and Secretary, Ram D. Wertheim was Vice President, General Counsel and Secretary of the Company. Mr. Wertheim also serves as General Counsel and Secretary of MBIA Corp. and MBIA Services Corporation. From February of 1998 until January of 2000, he served in various capacities in the Global Structured Finance Division. Mr. Wertheim was, until February of 1998, the General Counsel of CMAC Holdings Inc.

Prior to being named Executive Vice President and Chief Financial Officer on May 1, 2012 and March 11, 2016, respectively, Anthony McKiernan was Vice President and Chief Portfolio Officer of the Company. Mr. McKiernan is also the President and Chief Financial Officer of MBIA Corp. Mr. McKiernan joined MBIA in 2000 as a vice president in the Credit Analytics Group, and managed the Corporate Insured Portfolio Management Group prior to becoming the Head of the Structured Finance Insured Portfolio Management Group in 2007. Before working at MBIA, Mr. McKiernan was with Fleet Financial Group where he began his career as a Credit Analyst/ Lender in asset-based lending.

The Board of Directors of MBIA Inc. appointed Messrs. Fallon, and Wertheim to the offices set forth opposite their names above on November 6, 2008 and appointed Mr. McKiernan to the offices set forth opposite his name above on May 1, 2012 and March 11, 2016.

Effective March 2, 2017, Mr. Wertheim will step down from his position as Chief Legal Officer and Secretary of the Company, and Mr. Jonathan C. Harris will be appointed the Company's General Counsel and Secretary. Mr. Wertheim will remain an employee of the Company until January 1, 2018 to provide transition and other services as may be required.

Item 1. Business (continued)

Mr. Harris is Deputy General Counsel and Managing Director of the Company's subsidiaries, MBIA Services Corporation, National and MBIA Insurance Corporation, and Assistant Vice President and Assistant Secretary of the Company. Mr. Harris joined the Company as Head of Litigation in 2009. Since that time, Mr. Harris has expanded his responsibilities to work on various corporate and regulatory matters. Prior to joining the Company, Mr. Harris was litigation counsel at Lehman Brothers, and practiced in the litigation department of Willkie Farr & Gallagher.

In addition, effective as of May 11, 2017 (the day after the date on which the Company expects to file its report on Form 10-Q for the first quarter of 2017), Mr. Douglas Hamilton, the Company's Assistant Vice President and Controller, will be stepping down from his position as Controller of the Company. It is expected that the Company will appoint Mr. Joseph Schachinger as Controller to replace Mr. Hamilton. Mr. Hamilton will remain an employee of the Company until January 1, 2018 to provide transition and other services as may be required.

Mr. Schachinger is a Managing Director of MBIA Services Corporation and Deputy Controller. As Deputy Controller, Mr. Schachinger is involved in accounting and finance matters for the Company and its subsidiaries with a focus on accounting policy and operations, financial reporting, financial control, tax, budgeting and financial analysis. Since joining MBIA in January of 2000, Mr. Schachinger has managed a variety of accounting and financial reporting functions within the Company's insurance and non-insurance businesses.

The Company entered into a Separation Agreement with Mr. Wertheim, the material terms of which are described below (the "Separation Agreement"). Under the Separation Agreement, Mr. Wertheim will receive, subject to the execution of an acceptable general release, a one-time severance payment of \$750,000 (which is consistent with the Company's severance practices for employees) following his last day of employment. In addition, in exchange for his agreement to forfeit the outstanding performance based restricted stock awarded to him as part of the cash retention and restricted stock award made to him on December 21, 2012 and to comply with the non-compete covenant that is part of the Separation Agreement, Mr. Wertheim will receive an additional payment of \$250,000. For the 2017 performance year, Mr. Wertheim will be entitled to receive, at such time as such payments are made to other employees of the Company, a cash performance bonus for the 2017 performance year, and, in lieu of the long term incentive ("LTI") restricted stock award for the year, a cash payment at the target LTI amount. The Separation Agreement contains certain customary covenants regarding non-competition with the Company's financial guarantee business for a period of five years, confidentiality, a two year non-solicitation of Company employees and a non-disparagement covenant.

A copy of the Separation Agreement is filed as Exhibit 10.14 hereto.

Item 1A. Risk Factors

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

Insured Portfolio Loss Related Risk Factors

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

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

Item 1A. Risk Factors (continued)

The Commonwealth of Puerto Rico and certain of its instrumentalities (“Puerto Rico”) is experiencing fiscal stress and constrained liquidity due to, among other things, Puerto Rico’s structural budget imbalances, no access to the capital markets, a prolonged stagnating local economy, net migration of people out of Puerto Rico and high debt burdens. The previous Governor of Puerto Rico stated in 2015 and again in 2016 that Puerto Rico’s approximately \$70 billion in debt is “not payable” and he actively lobbied the U.S. Congress for bankruptcy reform and other Federal support. Furthermore, the former Governor formed a working group to study and make recommendations regarding Puerto Rico’s short- and long-term challenges. In September of 2015, this working group released a report that projected a sizable deficit of available cash resources to expenses and debt service over the next five years absent meaningful fiscal and structural reform, and concluded that a voluntary adjustment of the terms of the Commonwealth’s debt is necessary. On June 30, 2016, after passage by the United States Congress, the President of the United States signed into law the Puerto Rico Oversight, Management and Economic Stability Act (“PROMESA”). PROMESA provides a statutory framework for the creation of an independent oversight board with powers relating to, among other things, the development and implementation of fiscal plans for Puerto Rico, as well as collective action and judicial processes—separate from the Federal Bankruptcy Code—by which Puerto Rico may restructure its debt on a consensual or non-consensual basis. While National anticipates consensual negotiations with the oversight board and Puerto Rico pursuant to PROMESA, there can be no assurance that National will be able to avoid a non-consensual outcome which could result in unanticipated losses to National which could be material.

We continue to believe, based on our analysis of Puerto Rico’s fiscal and structural circumstances, the details of our insured exposures, and our legal and contractual rights, that all of our insured Puerto Rico related debt will ultimately be substantially repaid. As of December 31, 2016, National had \$3.6 billion of gross insured par outstanding (\$4.1 billion of gross insured par outstanding when including accreted interest on insured capital appreciation bonds) related to Puerto Rico. Puerto Rico may be unable or unwilling to pay their obligations as and when due, in which case National would be required to pay claims of unpaid principal and interest when due under its insurance policies, which could be material. On July 1, 2016, Puerto Rico defaulted on scheduled debt service for National insured bonds and National paid gross claims in aggregate of \$173 million as a result of these defaults. Subsequent to December 31, 2016, National paid another \$24 million on debt service that came due under its insurance policies for certain insured Puerto Rico debt. While National will seek to recover any claim payments it makes under its guarantees, there is no assurance that it will be able to recover such payments. To the extent that its claims payments are ultimately substantially greater than its claims recoveries, National would experience losses on those obligations, which could materially and adversely affect our business, financial condition and results of operations. Refer to the “U.S. Public Finance Insurance Puerto Rico Exposures” section in Part II, Item 7 of this Form 10-K for additional information on our Puerto Rico exposures.

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

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

Item 1A. Risk Factors (continued)

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

As a financial guarantee company, our insured exposures and our results of operations can be materially affected by general political and economic conditions, both in the U.S. and around the world. General global unrest, fraud, terrorism, catastrophic events, natural disasters, pandemics or similar events could disrupt the economy in the U.S. and other countries where we have insured exposure or operate our businesses. In certain jurisdictions outside the U.S. we face higher risks of governmental intervention through nationalization or expropriation of assets, changes in regulation, an inability to enforce our rights in court or otherwise and corruption, which may cause us to incur losses on the exposures we insure or reputational harm. For a discussion of the Company's exposure to sovereign debt, refer to the "Results of Operations—European Sovereign Debt Exposure" section in Part II, Item 7 of this Form 10-K.

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

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

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

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

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

Item 1A. Risk Factors (continued)

Strategic Plan Related and Other Risk Factors

An inability to maintain high stable insurer financial strength ratings for National may adversely affect our results of operations and business prospects.

There is no assurance that we will be able to maintain or improve National's insurer financial strength ratings. Many requirements imposed by the rating agencies in order for National to maintain high ratings are outside of our control, and such requirements may necessitate raising additional capital or taking other remedial actions in a relatively short time frame in order to achieve or maintain the ratings necessary to attract new business and compete with other financial guarantee insurers, which could make the conduct of the business uneconomical or materially adversely affect our business prospects. Furthermore, there is no assurance that we will successfully comply with rating agency requirements, that these requirements or the related models and methodologies will not change or that, even if we comply with these requirements, a rating agency will not lower or withdraw its financial strength ratings with respect to any of our insurance companies.

Finally, our inability to comply with any rating agency and regulatory risk limits tests may also prevent us from writing future new business in the categories of risks that are exceeded in the case of the regulatory limits, or result in an inability to achieve or maintain our desired ratings, in the case of rating agency limits, and may adversely affect our business prospects.

Future demand for National's financial guarantee insurance depends on market and other factors that we do not control.

The demand for financial guarantee insurance depends upon many factors, some of which are beyond the control of the Company. Our ability to attract and compete for financial guarantee business in the municipal market is largely dependent on the financial strength ratings assigned to National by one or more of the rating agencies. It is also affected by the overall amount of new municipal bonds issued as well as the level of interest rates and the spread between insured and uninsured bonds. In addition, the perceived financial strength of other financial guarantee insurers may also affect the demand for financial guarantee insurance and/or the demand for insurance from National. The impact of the financial crisis on certain participants in the financial guarantee industry may have eroded investors' confidence in the benefits of bond insurance. Based on current market penetration levels and overall market conditions, we do not expect the demand for municipal financial guarantee insurance to regain its pre-financial crisis level in the near term, if ever.

In addition, various investors may, due to regulatory or internal guidelines, lack additional capacity to purchase securities insured by certain financial guarantors, which may provide a competitive advantage to guarantors with fewer insured obligations outstanding. Differentials in trading values or investor capacity constraints that do not favor us would have an adverse effect on our ability to attract new business at appropriate pricing levels.

Competition may have an adverse effect on our businesses.

National faces competition from other financial guarantee insurance companies and other forms of credit enhancement, including senior-subordinated structures, credit derivatives, letters of credit and guarantees provided by banks and other financial institutions for example, mortgage guarantees where pools of mortgage loans secure debt service payments. We have observed increased competition for business among the active financial guarantors, and opportunities to write new business with attractive returns may be limited. Increased competition, either in terms of price, alternative structures, or the emergence of new providers of credit enhancement, could have an adverse effect on our insurance companies' business prospects.

We believe that issuers and investors distinguish among financial guarantors on the basis of various factors, including rating agency assessments, capitalization, size, insured portfolio concentrations and financial performance. These distinctions may result in differentials in trading levels for securities insured by particular financial guarantors which, in turn, may provide a competitive advantage to those financial guarantors whose insured bonds experience better trading characteristics.

Item 1A. Risk Factors (continued)

Downgrades of the ratings of securities that we insure may materially adversely affect our business, results of operations and financial condition.

Individual credits in our insured portfolio (including potential new credits) are assessed a rating agency “capital charge” based on a variety of factors, including the nature of the credits’ risk types, underlying ratings, tenors and expected and actual performance. In the event of an actual or perceived deterioration in creditworthiness, a reduction in the underlying rating or a change in the rating agency capital methodology, we may be required to hold more capital in reserve against credits in the insured portfolio, regardless of whether losses actually occur, or against potential new business. Significant reductions in underlying ratings of credits in an insured portfolio can produce significant increases in assessed “capital charges.” There can be no assurance that each of our insurance companies’ capital position will be adequate to meet any increased rating agency capital requirements or that each insurance company will be able to secure additional capital necessary to maintain its ratings, especially at a time of actual or perceived deterioration in the creditworthiness of new or existing credits. If National suffered material increases in capital charges and was unable to increase capital that resulted in inadequate capital to support its ratings, it could have an adverse effect on its ability to write new business.

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

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

Changes to laws and regulations or the interpretation thereof could subject us to further restrictions on the type of business that we are authorized to insure. Any such restrictions could have a material effect on the amount of premiums that we could write and earn in the future. Additionally, any changes to such laws and regulations could subject our insurance companies to increase loss reserves and capital requirements or more stringent regulation generally, which could materially adversely affect our financial condition, results of operations and future business. Finally, changes to accounting standards and regulations may require modifications to our accounting methodology, both prospectively and for prior periods; such changes could have an adverse impact on our reported financial results and/or make it more difficult for investors to understand the economics of our business and may thus influence the types or volume of business that we may choose to pursue.

Our insurance companies could become subject to regulatory action.

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

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

Item 1A. Risk Factors (continued)

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

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

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

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

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

Any impairment in the Company's future taxable income can materially affect the recoverability of our deferred tax asset.

The recoverability of a deferred tax asset is based on an assessment of the existence of future taxable income of appropriate character. To the extent that the Company's ability to recognize future taxable income from its existing insurance portfolio through scheduled premium earnings and net investment income becomes impaired the recoverability of certain deferred tax asset may be materially affected by a corresponding increase to its valuation allowance.

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

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

Item 1A. Risk Factors (continued)

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

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

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

MBIA Inc. carries a deferred tax asset whose value is calculated by application of the federal corporate taxation rates in effect at the time of determination. As corporate income tax rates rise, in general, the value of the deferred tax asset will rise. Similarly, if corporate rates fall, as a general matter, the value of the deferred tax asset will decline. Whether federal corporate income tax rates rise, lower, or remain unchanged is typically a function of the priorities of and choices by the administration and Congress at a particular point in time. The current administration and Congress have indicated that they plan to reduce the current corporate income tax rate. If such a reduction is enacted, the carrying value of the Company's deferred tax asset will decline, and there can be no assurance that such decrease would not have a materially adverse effect on the Company's financial condition.

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

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

Capital, Liquidity and Market Related Risk Factors

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

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

Item 1A. Risk Factors (continued)

We may also from time to time seek to raise capital from external sources. The Company's access to external sources of financing, as well as the cost of such financing, is dependent on various factors, including (i) the long-term debt ratings of the Company, (ii) expected dividends from our subsidiaries, (iii) the insurance financial strength ratings, financial condition and long-term business prospects of our insurance companies and (iv) the perceptions of the financial strength of our insurance companies and MBIA Inc. Our debt ratings are influenced by numerous factors, either in absolute terms or relative to our peer group, such as financial leverage, balance sheet strength, capital structure and earnings trends. If we cannot obtain adequate capital on favorable terms or at all, our business, future growth, operating results and financial condition could be adversely affected.

To the extent that we are unable to access external capital necessary to support our insurance companies, our insurance companies may not have sufficient liquidity to meet their obligations, may have less capacity to write business and may not be able to pay dividends to us without experiencing adverse rating agency action. Consequently, our inability to maintain access to capital on favorable terms could have an adverse impact on our ability to pay losses and debt obligations, to pay dividends on our capital stock, to pay principal and interest on our indebtedness, to pay our operating expenses and to make capital investments in our subsidiaries. In addition, future capital raises for equity or equity-linked securities could result in dilution to the Company's shareholders. In addition, some securities that the Company could issue, such as preferred stock or securities issued by the Company's operating subsidiaries may have rights, preferences and privileges that are senior to those of its common shares.

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

As of December 31, 2016, MBIA Inc. had \$895 million of medium-term note liabilities, \$576 million of Senior Notes liabilities and \$399 million of investment agreement liabilities. Our substantial indebtedness and other liabilities could have material consequences because:

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

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

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

Item 1A. Risk Factors (continued)

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

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

Lower interest rates can result in lower net interest income since a substantial portion of assets are now held in cash and cash equivalents given the increased focus on liquidity. Lower interest rates would also adversely impact the value of our interest rate swap contracts in our corporate operations, and would require the Company to post additional collateral to its counterparties. Additionally, since prevailing interest rate levels can affect demand for financial guarantee insurance, lower interest rates are typically accompanied by narrower spreads between insured and uninsured obligations. The purchase of insurance during periods of relatively narrower interest rate spreads will generally provide lower cost savings to the issuer than during periods of relatively wider spreads. These lower cost savings could be accompanied by a corresponding decrease in demand for financial guarantee insurance.

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

MBIA Corp. Risk Factors

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

Item 1A. Risk Factors (continued)

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

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

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

In order to make the Zohar II Claim Payment, MBIA Insurance Corporation entered into two related transactions. In the first transaction, MBIA Insurance Corporation's wholly-owned subsidiary, MBIA UK (Holdings) Limited, sold its operating subsidiary, MBIA UK Insurance Limited ("MBIA UK"), to Assured Guaranty Corp. ("Assured"), a subsidiary of Assured Guaranty Ltd, in exchange for a cash payment of \$23 million to Assured and the receipt by MBIA UK (Holdings) Limited of certain notes owned by Assured that were issued by Zohar II (the "Assured Zohar II Notes"), which had an aggregate outstanding principal amount of approximately \$347 million as of December 31, 2016 (the "UK Sale"). Subsequent to the UK Sale, and prior to the Zohar II Maturity Date, MBIA UK Holdings transferred all the Assured Zohar II Notes to MBIA Insurance Corporation as a dividend. MBIA Insurance Corporation therefore owned, and was entitled to all amounts payable in respect of, the Assured Zohar II Notes on the Zohar II Maturity Date.

In the second transaction, MBIA Insurance Corporation consummated a financing facility, which is described in more detail in "Liquidity—MBIA Corp. Liquidity" in Part II, Item 7 of this Form 10-K (the "Facility"), with affiliates of certain holders of its 14% Fixed-to-Floating Rate Surplus Notes (collectively, the "Senior Lenders"), and with the Company, pursuant to which the Senior Lenders have provided \$325 million of senior financing and the Company has provided \$38 million of subordinated financing to MZ Funding LLC, a newly formed wholly-owned subsidiary of the Company, which in turn lent the proceeds of such financing to MBIA Insurance Corporation. MBIA Insurance Corporation issued financial guarantee insurance policies insuring MZ Funding LLC's obligations to the Lenders under the Facility.

Under the Facility the Company has also agreed to provide an additional \$50 million of subordinated financing to MZ Funding, which MZ Funding will lend to MBIA Insurance Corporation if needed by MBIA Insurance Corporation for liquidity purposes. The loans to MBIA Insurance Corporation under the Facility mature on January 20, 2020 and bear interest at 14% per annum. The Facility is secured by a first priority security interest in all of MBIA Insurance Corporation's right, title and interest in to 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 sponsor and former collateral manager of Zohar I and Zohar II Zohar (the "Zohar Sponsor") and any claims that MBIA may have against the Zohar Sponsor (collectively, the "Zohar Collateral").

MBIA Insurance Corporation satisfied the insurance claim of approximately \$770 million under the policy it had issued on the Zohar II Notes (the "Zohar II Policy") as follows:

(a) approximately \$60 million was paid by MBIA Insurance Corporation from its own resources (the "MBIA Corp. Payment");

Item 1A. Risk Factors (continued)

(b) approximately \$363 million was paid by MBIA Insurance Corporation from amounts received under the Facility; and

(c) approximately \$347 million was satisfied as an offset of amounts payable to MBIA Insurance Corporation, in its capacity as the owner of the Assured Zohar II Notes that it had received as a dividend from MBIA UK Holdings, against amounts payable by MBIA Insurance Corporation under the Zohar II Policy in respect of the Assured Zohar II Notes. This offset was agreed to and deemed to be in satisfaction of the insurance claim due by MBIA Insurance Corporation under the Zohar II Policy pursuant to an agreement between MBIA Insurance Corporation and the trustee for the Zohar II Issuer. The offset arrangement was entered into solely as an administrative convenience. The above resulted in the satisfaction and discharge in full of all payment obligations owed by MBIA Insurance Corporation pursuant to the Zohar II Policy.

MBIA Insurance Corporation believes that the primary source of funds for the repayment of its obligations under the Facility and for reimbursement for the Zohar Claims Payments will come from the liquidation or refinancing of the Zohar Collateral. Any proceeds from the Zohar Collateral will first be used to repay MBIA Corporation's obligations under the Facility, before MBIA Insurance Corporation can use any such proceeds as reimbursement for the Zohar Claims Payments, except that any payments on or recoveries made on the Zohar II Collateral will be allocated on a pro-rata basis to repayment of the senior notes of the Facility and the MBIA Corp. Payment.

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

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

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

Item 1A. Risk Factors (continued)

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

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

With respect to RMBS transactions, MBIA Corp. has recorded reserves on a number of transactions, including transactions where it has reached settlements with the sellers/servicers but continues to insure the transactions. Currently, unpredicted losses on these transactions and in other transactions could occur. MBIA Corp. has also recorded significant loss reserves on its CDO exposures, and there can be no assurance that these reserves will be sufficient, in particular if the economy deteriorates. These transactions are also subject to servicer risks, which relates to problems with the transaction's servicer that could adversely affect performance of the underlying assets. Furthermore, MBIA Corp. has recorded substantial expected recoveries on certain RMBS, and the timing and amount of those recoveries are subject to risk. Any delay or failure in collecting expected recoveries may materially and adversely affect MBIA Corp.'s financial condition and results of operations. As of December 31, 2016, it recorded expected receipts of \$439 million on pre-VIE elimination basis (on a present value basis) from excess spread (the difference between interest inflows on assets and interest outflows on liabilities) in our RMBS transactions, in reimbursement of our past and future expected claims. Of this amount, \$392 million is included in "Insurance loss recoverable" and \$47 million is included in "Loss and loss adjustment expense reserves" on the Company's consolidated balance sheets. The amount of excess spread depends on future interest rates, borrower refinancing and defaults and mortgage insurance payments. There can be no assurance that this recovery will be received in its entirety or in the expected timeframe. In addition, the Company has recorded a recovery on a transaction containing ineligible loans securitized by Credit Suisse. The Company is pursuing recovery of its losses on this transaction in a litigation in which its assessment of the ineligibility of individual mortgage loans has been challenged by Credit Suisse, and there is no assurance that the Company's determinations will prevail, or that the Company will be successful in collecting its estimated recoveries in the anticipated timeframe. The litigation may take several years to resolve, during which time we will continue to be required to pay losses on the subject transaction, which may exceed the reserves established for the transaction.

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

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

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

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

Item 1A. Risk Factors (continued)

- The payment of installment premiums due to National from MBIA Insurance Corporation under the reinsurance agreement between National and MBIA Insurance Corporation (Refer to Item 1, “Our Insurance Operations”, “Reinsurance” for a description of the agreement) could be disrupted, delayed or subordinated to the claims of policyholders of MBIA Insurance Corporation;
- CDS and other derivative counterparties may seek to terminate derivative contracts insured by MBIA Insurance Corporation and make market-based damage claims (irrespective of whether actual credit-related losses are expected under the underlying exposure);
- The rehabilitator or liquidator would replace the Board of Directors of MBIA Insurance Corporation and take control of the operations and assets of MBIA Insurance Corporation, which would result in the Company losing control of MBIA Insurance Corporation and possible changes to MBIA Insurance Corporation’s strategies and management; and
- Unplanned costs on MBIA Inc., as well as significant additional expenses for MBIA Insurance Corporation arising from the appointment of a rehabilitator or liquidator, as receiver, and payment of the fees and expenses of the advisors to such rehabilitator or liquidator.

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

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

Item 1B. Unresolved Staff Comments

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

Item 2. Properties

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

Item 3. Legal Proceedings

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

Item 4. Mine Safety Disclosures

Not applicable.

PART II

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

The Company’s common stock is listed on the New York Stock Exchange under the symbol “MBI.” As of February 23, 2017, there were 420 shareholders of record of the Company’s common stock. The Company did not pay cash dividends on its common stock during 2016 or 2015. For information on the ability for certain subsidiaries of the Company to transfer funds to the Company in the form of cash dividends or otherwise, refer to “Item 1. Business—Insurance Regulation” in this annual report.

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

Quarter Ended	2016		2015	
	Stock Price		Stock Price	
	High	Low	High	Low
March 31	\$ 9.49	\$ 5.51	\$ 9.73	\$ 7.92
June 30	8.95	6.34	9.98	4.94
September 30	8.70	6.61	7.75	5.29
December 31	11.46	7.15	8.37	5.26

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

On October 28, 2015, the Company’s Board of Directors authorized the repurchase by the Company or its subsidiaries of up to \$100 million of its outstanding shares under a new share repurchase authorization. As of December 31, 2016, there was no remaining authorized capacity under the October 28, 2015 repurchase program.

On February 23, 2016, the Company’s Board of Directors authorized the repurchase by the Company or its subsidiaries of up to \$100 million of its outstanding shares under a new share repurchase authorization. As of December 31, 2016, \$88 million remained available under the February 23, 2016 repurchase program.

The table below presents repurchases made by the Company in each month during the fourth quarter of 2016. Refer to “Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters” in Part III for a further discussion of securities authorized for issuance under long-term incentive plans.

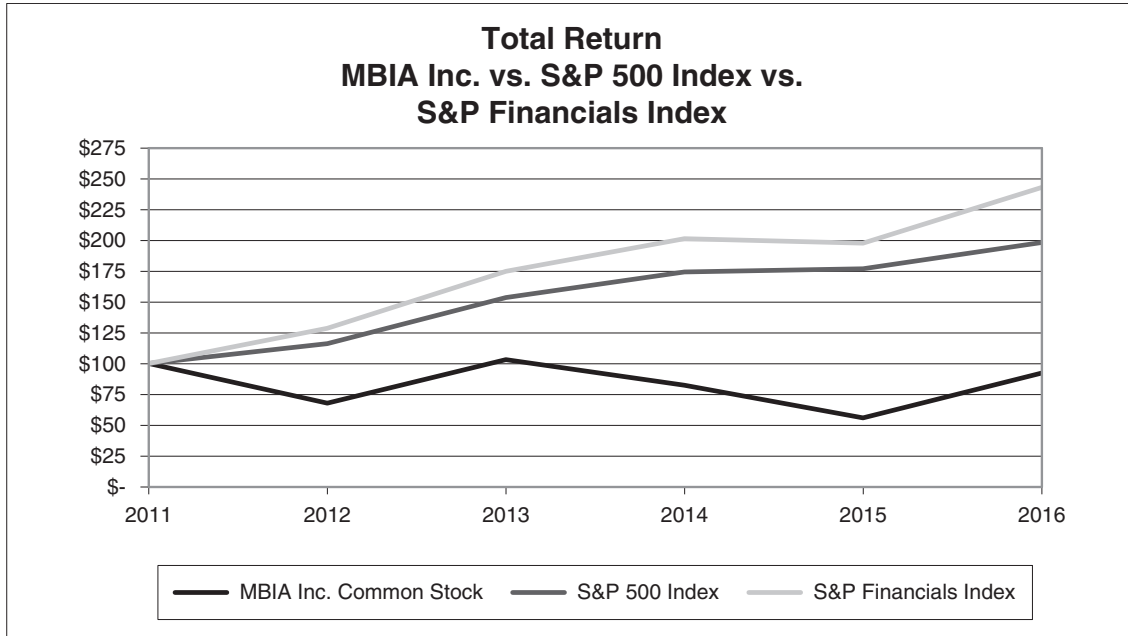
Month	Total Number of Shares Purchased ⁽¹⁾	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan	Maximum Amount That May Be Purchased Under the Plan (in millions)
October	83,124	\$ 7.97	—	\$ 88
November	233,188	9.92	—	88
December	680,343	10.81	—	88

(1)—Includes 1,874 shares purchased in open market transactions as investments in the Company’s non-qualified deferred compensation plan and 947,781 shares were repurchased by the Company in open market transactions for settling awards under the Company’s long-term incentive plans.

As of December 31, 2016, 283,989,999 shares of Common Stock of the Company, par value \$1 per share, were issued and 135,200,831 shares were outstanding.

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

Stock Performance Graph The following graph compares the cumulative total shareholder return (rounded to the nearest whole dollar) of our common stock, the S&P 500 Index (“S&P 500 Index”) and the S&P 500 Financials Sector Index (“S&P Financials Index”) for the last five fiscal years. The graph assumes a \$100 investment at the closing price on December 31, 2011 and reinvestment of dividends in the security/index on the respective dividend payment dates without commissions. This graph does not forecast future performance of our common stock.



	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
MBIA Inc. Common Stock	100.00	67.73	103.02	82.31	55.91	92.32
S&P 500 Index	100.00	115.99	153.54	174.54	176.94	198.09
S&P Financials Index	100.00	128.74	174.56	201.05	197.91	242.93

Source: Bloomberg Finance L.P.

Item 6. Selected Financial Data

In millions except per share amounts

	2016	2015	2014	2013	2012
Summary Statement of Operations Data:					
Premiums earned	\$ 300	\$ 372	\$ 397	\$ 457	\$ 605
Net investment income	152	152	179	166	214
Net change in fair value of insured derivatives	(19)	129	459	232	1,464
Net gains (losses) on financial instruments at fair value and foreign exchange	84	63	78	69	55
Net investment losses related to other-than-temporary impairments	(5)	(13)	(15)	—	(105)
Other net realized gains (losses)	(282)	17	28	(29)	7
Revenues of consolidated variable interest entities	31	128	101	233	134
Total revenues	294	853	1,270	1,209	2,435
Losses and loss adjustment	220	123	133	117	50
Operating	137	140	195	338	381
Interest	197	199	210	236	284
Expenses of consolidated variable interest entities	39	52	47	56	72
Total expenses	633	564	629	793	837
Income (loss) before income taxes	(339)	289	641	416	1,598
Net income (loss)	(338)	180	569	250	1,234
Net income (loss) per common share:					
Basic	\$ (2.54)	\$ 1.06	\$ 2.94	\$ 1.30	\$ 6.36
Diluted	\$ (2.54)	\$ 1.06	\$ 2.76	\$ 1.29	\$ 6.33
Summary Balance Sheet Data:					
Investments and cash and cash equivalents	5,796	6,814	7,559	7,996	6,676
Total assets of consolidated variable interest entities	2,672	5,378	5,041	5,592	8,334
Total assets	11,137	14,836	16,263	16,931	21,698
Unearned premium revenue	958	1,591	1,986	2,441	2,938
Loss and loss adjustment expense reserves	541	516	506	641	853
Long-term debt	1,986	1,889	1,789	1,680	1,706
Medium-term notes	895	1,016	1,201	1,427	1,598
Investment agreements	399	462	547	700	944
Derivative liabilities	299	314	437	1,152	2,934
Total liabilities of consolidated variable interest entities	2,241	5,096	4,804	5,297	7,286
Total equity	3,239	3,741	3,950	3,299	3,194
Book value per share	\$ 23.87	\$ 24.61	\$ 20.47	\$ 17.05	\$ 16.22
Insurance Statistical Data:					
Debt service outstanding	\$235,899	\$326,612	\$437,778	\$554,296	\$679,074
Gross par amount outstanding	141,225	202,661	277,481	357,246	449,487

Item 6. Selected Financial Data (continued)

Quarterly Financial Information (unaudited):

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

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

In millions except per share amounts	2015				
	First	Second	Third	Fourth	Full Year ⁽¹⁾
Premiums earned	\$ 101	\$ 91	\$ 84	\$ 96	\$ 372
Net investment income	37	37	38	40	152
Net change in fair value of insured derivatives	28	60	3	38	129
Net gains (losses) on financial instruments at fair value and foreign exchange	30	45	(55)	43	63
Net investment losses related to other-than-temporary impairments	—	(7)	(3)	(3)	(13)
Other net realized gains (losses)	20	(1)	(1)	(1)	17
Revenues of consolidated variable interest entities	2	19	25	82	128
Total revenues	219	245	92	297	853
Losses and loss adjustment	(6)	46	39	44	123
Operating	35	32	35	38	140
Interest	50	50	49	50	199
Expenses of consolidated variable interest entities	14	12	13	13	52
Total expenses	106	153	147	158	564
Income (loss) before income taxes	113	92	(55)	139	289
Net income (loss)	69	64	(35)	82	180
Net income (loss) per common share:					
Basic	\$0.37	\$ 0.36	\$(0.23)	\$0.54	\$ 1.06
Diluted	\$0.37	\$ 0.36	\$(0.23)	\$0.54	\$ 1.06

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

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

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

INTRODUCTION

MBIA Inc., together with its consolidated subsidiaries, (collectively, "MBIA", the "Company", "we", "us", or "our") operates one of the largest financial guarantee insurance businesses in the industry. MBIA manages its business within three operating segments: 1) United States ("U.S.") public finance insurance; 2) corporate; and 3) international and structured finance insurance. Our U.S. public finance insurance business is primarily operated through National Public Finance Guarantee Corporation ("National"), our corporate segment is operated through MBIA Inc. and several of its subsidiaries, including our service company, MBIA Services Corporation ("MBIA Services") and our international and structured finance insurance business is primarily operated through MBIA Insurance Corporation and its subsidiaries ("MBIA Corp."). References to MBIA Inc. generally refer to activities within our corporate segment and, unless otherwise indicated or the context otherwise requires, references to "MBIA Corp." are (i) for any references relating to the period ended January 10, 2017, to MBIA Insurance Corporation, together with its subsidiaries, MBIA UK Insurance Limited ("MBIA UK"), and MBIA Mexico S.A. de C.V. ("MBIA Mexico") and (ii) for any references relating to the period after January 10, 2017, to MBIA Insurance Corporation together with MBIA Mexico.

National's primary business is insuring new issue and secondary market municipal bonds, consistent with our portfolio management and return requirements, and to maximize the economics of our existing insured portfolio through effective surveillance and remediation. Our corporate segment consists of general corporate activities, including providing general support services to MBIA's other operating businesses and asset and capital management. MBIA Corp.'s primary objectives are to satisfy claims of its policyholders, and to maximize future recoveries, if any, for its senior lending and other surplus note holders and, thereafter, its preferred stock holders. MBIA Corp. is executing this strategy by reducing and mitigating potential losses on its insurance exposures and pursuing various actions focused on maximizing the collection of recoveries. We do not expect to write new business in our international and structured finance insurance segment.

Effective on January 10, 2017, MBIA Corp.'s wholly-owned subsidiary, MBIA UK (Holdings) Limited ("MBIA UK Holdings"), sold its operating subsidiary, MBIA UK, to Assured Guaranty Corp. ("Assured"), a subsidiary of Assured Guaranty Ltd. Prior to 2015, MBIA managed two other operating segments, advisory services and conduit. Our advisory services segment was primarily operated through Cutwater Holdings, LLC and its subsidiaries ("Cutwater"). Effective on January 1, 2015, we exited our advisory business through the sale of Cutwater to a subsidiary of The Bank of New York Mellon Corporation. In the second quarter of 2014, we exited our conduit business through the liquidation of Meridian Funding Company, LLC ("Meridian"). Refer to the following "Executive Overview" section for a further discussion on the sale of MBIA UK.

EXECUTIVE OVERVIEW

2016 Key Activities

The following is a summary of our notable 2016 activities:

- Increased new business writings at National to \$1.6 billion of gross par exposure and 158 insurance policies issued in 2016 from \$597 million of gross par exposure and 59 insurance policies issued in 2015.
- Entered into an agreement to sell MBIA UK and secured a \$325 million financing, each described further below, to enable MBIA Corp. to satisfy, on January 20, 2017, a claim of \$770 million on an insurance policy insuring certain notes issued by Zohar II 2005-1, Limited ("Zohar II").

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

EXECUTIVE OVERVIEW (continued)

- Puerto Rico debt service outstanding decreased \$401 million during 2016, which included gross claim payments by National in the aggregate of \$173 million. National also provided \$139 million of liquidity to Puerto Rico through the purchase of notes. Subsequent to December 31, 2016, we paid additional gross claims on our Puerto Rico exposure in the aggregate of \$24 million.

While National succeeded in more than doubling its new business generation, it continued to experience several challenges to its business. A low interest rate environment and the competitive landscape continued to suppress demand for its municipal bond insurance. In addition, continued financial stress of some municipal bond issuers, including Puerto Rico, inhibited National from seeking to redeploy its excess capital. MBIA Corp. continued to satisfy its obligations when due and continues to reduce and mitigate potential losses on its insurance exposures, while turning its focus to pursuing various legal actions to maximize the collection of recoveries. Refer to the following "Results of Operations" section for a further discussion of our 2016 key activities and challenges.

Financial Highlights

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

In millions except for per share amounts and policies	Years Ended December 31,		
	2016	2015	2014
Net income (loss)	\$ (338)	\$ 180	\$ 569
Net income (loss) per diluted share	(2.54)	1.06	2.76
Combined operating income (loss) ⁽¹⁾	30	87	185
Combined operating income (loss) per diluted share ⁽¹⁾	0.23	0.52	0.97
Gross par exposure insured	1,577	597	343
Number of policies written	158	59	8

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

In millions except per share amounts	As of December 31,	
	2016	2015
Shareholders' equity of MBIA Inc.	\$3,227	\$3,729
Book value per share	23.87	24.61
Adjusted book value per share ⁽¹⁾	31.88	28.98

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

National

National is the largest U.S. public finance-only bond insurer in the financial guarantee industry as measured by total insured gross par outstanding of \$110.4 billion as of December 31, 2016. 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 Kroll Bond Rating Agency ("Kroll"), Standard & Poor's Financial Services LLC ("S&P") and Moody's Investors Service, Inc. ("Moody's"). As of December 31, 2016, National had the following ratings: AA+ with a stable outlook by Kroll; AA- with a stable outlook by S&P; and A3 with a negative outlook by Moody's.

National pursues opportunities for new business in most municipal sectors. Based on our underwriting and pricing criteria, the majority of our new business is in the general obligation, tax-backed and revenue bond sectors. In addition to the new issue market, we are pursuing opportunities in the secondary market with respect to bonds issued previously that were not insured and that meet our underwriting criteria.

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

EXECUTIVE OVERVIEW (continued)

National seeks to generate shareholder value at appropriate risk-adjusted pricing; however, current market conditions and the competitive landscape may limit National's new business opportunities and our ability to price and underwrite risk with attractive returns.

For the issuer, the value of financial guarantee insurance is largely determined by the spread between the interest rate on insured versus uninsured debt. For the investor, the decision to purchase insured bonds is influenced by the overall yield environment. In the current environment of low interest rates, investors may choose to purchase uninsured bonds to increase their returns. An environment of higher interest rates and/or wider spreads would likely enhance the new business opportunities for National. We also believe the current stress in certain sectors of the municipal bond market reinforces the value of National's guarantee of timely payment of interest and principal. Refer to the "U.S. Public Finance Insurance" section for additional information on National's new business.

Overall our U.S. public finance insured portfolio continues to perform satisfactorily against a backdrop of relatively stable domestic economic activity. While a stable or growing economy will generally benefit the tax revenues and fees charged for essential municipal services which secure the credits in our insured bond portfolio, some state, local governments and territory obligors we insure remain under financial and budgetary stress. This could lead to defaults by such entities on the payment of their obligations and insurance losses or claim payments on a greater number of our insured transactions. We continue to monitor and analyze these situations and other stressed credits closely, and the overall extent and duration of this stress is uncertain.

Exposure to Puerto Rico

As of December 31, 2016, National had \$3.6 billion of gross insured par outstanding (\$4.1 billion of gross insured par outstanding when including accreted interest on insured capital appreciation bonds ("CABs")) related to the Commonwealth of Puerto Rico and certain of its instrumentalities ("Puerto Rico"). Puerto Rico continues to experience significant fiscal stress and constrained liquidity. As of December 31, 2016, National owned, in aggregate, \$144 million of bonds issued by the Puerto Rico Electric Power Authority ("PREPA") in connection with the Restructuring Support Agreement ("RSA") entered into on December 23, 2015. On July 1, 2016 Puerto Rico defaulted on scheduled debt service for certain National insured bonds and National paid gross claims in the aggregate of \$173 million as a result. Subsequent to December 31, 2016, National paid additional gross claims in the aggregate of \$24 million. Refer to the "U.S. Public Finance Insurance Puerto Rico Exposures" section for additional information on our Puerto Rico exposures.

MBIA Inc.

Our near-term strategy at the holding company is to reduce our leverage to a level consistent with a mid-investment grade capital structure. In addition to scheduled debt maturities, from time to time, we reduce unsecured debt through calls or repurchases. We may also repurchase outstanding MBIA Inc. common shares when we deem it beneficial to our shareholders. The following table presents our activity relating to the repurchase of MBIA Inc. common shares and reductions of medium-term notes ("MTNs") and MBIA Inc. Senior Notes for the years ended December 31, 2016, 2015 and 2014:

<u>In millions</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Shares repurchased	\$105	\$303	\$35
MTNs repurchased, redeemed or matured	129	118	300
MBIA Inc. Senior Notes repurchased or received	—	10	—

In addition to the unsecured debt referenced in the preceding table, MBIA Inc. and MBIA Investment Management Corp. ("IMC") issued investment agreements to which we have pledged high-quality securities as collateral. All of our MTNs, MBIA Inc. Senior Notes and investment agreements are collectively managed and serviced by available liquidity. Based on MBIA Inc.'s debt service requirements and expected operating expenses, we expect that MBIA Inc. will have sufficient cash to satisfy its debt obligations and its general corporate needs over time from expected subsidiary dividends, additional anticipated releases under our tax sharing agreement (the "Tax Sharing Agreement") and related tax escrow account ("Tax Escrow Account"), investment income and potential securities issuance; however, there can be no assurance that such sources will be adequate or that we will have access to the capital markets when needed. Refer to the "Liquidity – MBIA Inc. Liquidity" section for information on MBIA Inc.'s liquidity and refer to the "Capital Resources" section for further information on our share and debt repurchases.

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

EXECUTIVE OVERVIEW (continued)

MBIA Corp.

MBIA Insurance Corporation has significant negative statutory earned surplus and therefore no current capacity to pay dividends. In addition, since July 15, 2012, the New York State Department of Financial Services ("NYSDFS") has not approved any payments on MBIA Insurance Corporation's outstanding surplus notes. MBIA Corp. has contributed to the Company's net operating loss carryforward ("NOL"), which is used in the calculation of our consolidated income taxes. If MBIA Corp. becomes profitable, it is not expected to make any tax payments under our Tax Sharing Agreement. Based on MBIA Corp.'s current projected earnings and our expectation that it will not write new business, we believe it is unlikely that MBIA Corp. will generate significant income in the near future. As a result, we believe MBIA Corp. does not provide significant economic or shareholder value to MBIA Inc. Refer to the "Capital Resources – MBIA Insurance Corporation" section for additional information on MBIA Insurance Corporation's surplus notes and statutory capital.

Zohar Policies

During 2016, MBIA Corp. was particularly focused on ensuring its ability to cover any payment that might come due on an insurance policy it had written insuring certain notes (the "Zohar II Notes") issued by Zohar II, which matured on January 20, 2017 (the "Zohar II Maturity Date"), and on exercising its rights and remedies to seek reimbursement of the \$149 million claim it paid in November of 2015 (the "Zohar I Claim") on its policy insuring the class A-1 and A-2 notes issued by Zohar CDO 2003-1, Limited ("Zohar I").

MBIA Corp. was presented with a claim of \$770 million (the "Zohar II Claim") under the policy it had issued on the Zohar II Notes (the "Zohar II Policy"). MBIA Corp. fully satisfied its obligations under the Zohar II Policy. In order to do so, MBIA Corp. used approximately \$60 million from its own resources and executed the following two related transactions on January 10, 2017: 1) MBIA UK Holdings sold its operating subsidiary, MBIA UK, and made a cash payment of \$23 million, to Assured, in exchange for the receipt by MBIA UK Holdings of certain Zohar II Notes owned by Assured, which had an aggregate outstanding principal amount of \$347 million as of December 31, 2016, which notes were distributed as a dividend to MBIA Corp. upon consummation of the sale of MBIA UK (the "Sale Transaction"); and 2) 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 provided \$325 million of senior financing and MBIA Inc. provided \$38 million of subordinated financing to MZ Funding LLC ("MZ Funding"), a newly formed wholly-owned subsidiary of the Company, which in turn lent the proceeds of such financing to MBIA Corp. Refer to (i) "Results of Operations – Summary of Consolidated Results" for a summary of the net financial impact from the Sale Transaction; (ii) "Capital Resources – MBIA Insurance Corporation" for information on the impact from the Sale Transaction on MBIA Insurance Corporation's statutory capital; (iii) "Note 1: Business Developments and Risks and Uncertainties" in the Notes to Consolidated Financial Statements for a further discussion on the Sale Transaction and assets and liabilities classified as held for sale; and (iv) "Liquidity" for additional information on the Facility.

Zohar I and Zohar II Recoveries

Payment of the Zohar I Claim and the Zohar II Claim entitles MBIA Corp. to reimbursement of such payments plus interest and expenses and/or to exercise certain rights and remedies to seek recovery of such payments. In connection with the exercise of its rights and remedies, MBIA Corp. directed the trustee for Zohar I to commence an auction (the "Auction") of all of the assets of Zohar I, which occurred on December 21, 2016. MBIA Corp. was the winning bidder in the Auction, and in connection therewith, acquired the beneficial ownership of the Zohar I assets, which include loans made to, and equity interests in, companies purportedly controlled by sponsor and former collateral manager of Zohar I and Zohar II. Refer to "Note 1: Business Developments and Risks and Uncertainties" in the Notes to Consolidated Financial Statements for a further discussion on the Zohar I and Zohar II recoveries.

Failure to recover a substantial amount of the payments made on the Zohar I Claim and the Zohar II Claim, and/or certain RMBS recoveries, could impede MBIA Corp.'s ability to meet its future obligations. Refer to "Risk Factors-MBIA Corp. Risk Factors-Continuing elevated loss payments and delay or failure in realizing expected recoveries on insured transactions may materially and adversely affect MBIA Insurance Corporation's statutory capital and its ability to meet liquidity needs and could cause the NYSDFS to put MBIA Insurance Corporation into a rehabilitation or liquidation proceeding if the NYSDFS concludes that MBIA Insurance Corporation will not be able to pay expected claims." in Part I, Item 1A of this Form 10-K for a further discussion.

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

EXECUTIVE OVERVIEW (continued)

Economic and Financial Market Trends

The U.S. economy ended 2016 with solid momentum from strong consumer spending, rising housing prices and increased business investment. In addition, job growth remained strong and the unemployment rate held steady throughout 2016. As a result of these positive signs, the Federal Open Market Committee ("FOMC") raised the federal funds rate in December of 2016. The FOMC has announced that they expect multiple rate hikes in 2017. Also, for 2017, we expect Congress to focus on tax reform, a reduction in regulation and an increase in infrastructure spending.

During 2016, the U.K. held a referendum in which it voted to leave the European Union, referred to as "Brexit". This decision caused financial markets volatility and concerns over a potential recession in the U.K. and the rest of Europe with an unusually high level of uncertainty that could undermine European confidence and growth. In January of 2017, we sold our operating subsidiary, MBIA UK.

Economic and financial market trends could impact MBIA's business outlook and its financial results. Many states and municipalities have experienced growing tax collections that resulted from increased economic activity and higher assessed property valuations. The economic improvement at the state and local level strengthens the credit quality of the issuers of our insured municipal bonds, improves the performance of our insured U.S. public finance portfolio and could reduce the amount of National's incurred losses. A decrease in oil prices could have a positive impact on certain sales taxes to the extent consumer spending increases as a result. However, some states and municipalities will experience a decrease in revenues where their economies are reliant on the oil and gas industries. With higher projected interest rates and the urgent need for renewed investment in our nation's infrastructure, the value proposition of bond insurance is becoming more compelling and thus we expect that will lead to increased demand for our product.

CRITICAL ACCOUNTING ESTIMATES

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

Loss and Loss Adjustment Expense Reserves

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

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

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

CRITICAL ACCOUNTING ESTIMATES (continued)

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

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

Valuation of Financial Instruments

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

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

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

Instruments that trade infrequently and, therefore, have little or no price transparency are classified within Level 3 of the fair value hierarchy. Also included in Level 3 are financial instruments that have significant unobservable inputs deemed significant to the instrument's overall fair value. Level 3 assets represented approximately 21% and 19% of total assets measured at fair value on a recurring basis as of December 31, 2016 and 2015, respectively. Level 3 liabilities represented approximately 37% and 52% of total liabilities measured at fair value on a recurring basis as of December 31, 2016 and 2015, respectively.

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

Deferred Income Taxes

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

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

CRITICAL ACCOUNTING ESTIMATES (continued)

Valuation allowances are established to reduce deferred tax assets to an amount that more likely than not will be realized. Changes in the amount of a valuation allowance are reflected within our provision for income taxes in our consolidated statements of operations. Determining whether to establish a valuation allowance and, if so, the amount of the valuation allowance requires management to exercise judgment and make assumptions regarding whether such tax benefits will be realized in future periods.

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

We believe that it is more likely than not that the Company's net deferred tax asset will be realized due to the reliance on the Company's future projections of income and evidence of a three-year cumulative comprehensive gain as of December 31, 2016. If our assumptions and projections change and/or additional significant evidence becomes available in the future, we may determine we will not be able to realize all of our deferred tax asset. If such determination is made in the future, the tax charge relating to the establishment of a valuation allowance reserve against our net deferred tax asset could be in the full amount of our net deferred tax asset at such time and materially impact our earnings.

Refer to "Note 11: Income Taxes" in the Notes to Consolidated Financial Statements for additional information about the Company's deferred income taxes.

RECENT ACCOUNTING PRONOUNCEMENTS

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

RESULTS OF OPERATIONS

Summary of Consolidated Results

The following table presents a summary of our consolidated financial results for the years ended December 31, 2016, 2015 and 2014:

In millions except for per share amounts	Years Ended December 31,		
	2016	2015	2014
Total revenues	\$ 294	\$ 853	\$ 1,270
Total expenses	633	564	629
Income (loss) before income taxes	(339)	289	641
Provision (benefit) for income taxes	(1)	109	72
Net income (loss)	\$ (338)	\$ 180	\$ 569
Net income (loss) per common share:			
Basic	\$ (2.54)	\$ 1.06	\$ 2.94
Diluted	\$ (2.54)	\$ 1.06	\$ 2.76
Weighted average number of common shares outstanding:			
Basic	133,001,088	163,936,318	188,171,503
Diluted	133,001,088	164,869,788	190,898,627

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

RESULTS OF OPERATIONS (continued)

2016 compared with 2015

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

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

Sale of MBIA UK

The following table presents the net expected impact to our consolidated financial statements related to the sale of MBIA UK for the year ended December 31, 2016 and the expected 2017 impact. Refer to "Note 1: Business Developments and Risks and Uncertainties" in the Notes to Consolidated Financial Statements for a further discussion on the Sale Transaction and assets and liabilities classified as held for sale.

<u>In millions</u>	<u>For the Year Ended December 31, 2016</u>	<u>Expected 2017 Impact</u>	<u>Net Expected Impact of Sale of MBIA UK</u>
Consolidated Statements of Operations Impact			
Income (loss) recorded on adjustment of carrying value to fair value less costs to sell	\$ (278) ⁽¹⁾	\$ 18 ⁽²⁾	\$ (260)
Provision for income taxes ⁽³⁾	(14)	(7)	(21)
Net after-tax income (loss) impact to the consolidated statements of operations	<u>\$ (292)</u>	<u>\$ 11</u>	<u>\$ (281)</u>
	<u>As of December 31, 2016</u>	<u>Expected 2017 Impact</u>	<u>Net Expected Impact of Sale of MBIA UK</u>
Shareholders' Equity Impact			
Equity impact from loss recorded	\$ (292)	\$ 11	\$ (281)
Reversal of accumulated other comprehensive loss ⁽⁴⁾	—	97	97
Deferred income taxes ⁽⁵⁾	(32)	—	(32)
Net impact to total shareholders' equity	<u>\$ (324)</u>	<u>\$ 108</u>	<u>\$ (216)</u>

(1)—Reporting within "Other net realized gains (losses)" on our consolidated statement of operations and reflected in the results of our international and structured finance insurance segment.

(2)—Relates to the appreciation to the outstanding par value of the Zohar II Notes acquired from the sale of MBIA UK.

(3)—Primarily relates to an increase in deferred tax liabilities from a basis difference of MBIA UK, which is due to a change in assertion of MBIA UK paying future dividends over time to calculating deferred taxes on the basis of the sale of MBIA UK and a valuation allowance against certain foreign tax credits. These are included in "Provision (benefit) for income taxes" on our consolidated statement of operations.

(4)—These amounts were included in the 2016 loss recorded to the statement of operations and are reversed out of accumulated other comprehensive income in the first quarter of 2017 when the sale was consummated.

(5)—Relates to an increase in deferred tax liabilities due to foreign currency exchange that was recorded in "Accumulated other comprehensive income" on our consolidated balance sheets.

2015 compared with 2014

The decrease in consolidated total revenues was due to decreases in net gains on insured derivatives and certain fees and reimbursements. Net gains on insured derivatives in 2015 were principally the result of changes in transaction-specific factors, such as credit ratings, partially offset by claim payments. Net gains on insured derivatives in 2014 were principally the result of commuting derivative liabilities at prices below their fair values, partially offset by settlement and claim payments.

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

RESULTS OF OPERATIONS (continued)

Consolidated total expenses for the years ended December 31, 2015 and 2014 included \$123 million and \$133 million, respectively, of net insurance loss and LAE. This decrease was principally due to decreases in certain first-lien RMBS exposures, partially offset by an increase in losses on certain U.S. public finance exposures.

Non-GAAP Operating Income (Loss)

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

Operating income (loss) and operating income (loss) per diluted common share include the combined after-tax results of our U.S. public finance insurance and corporate segments and remove the after-tax results of activities that are not part of our ongoing business strategy. This includes the activities of our international and structured finance insurance segment, advisory services and conduit segments (collectively, "Non-Core Segments"). We do not expect to write new business in our international and structured finance insurance segment. We exited our advisory services segment through the sale of Cutwater effective January 1, 2015 and in the second quarter of 2014, we liquidated our conduit segment.

In addition to removing our Non-Core Segments, operating income (loss) is adjusted for the following:

- Elimination of the impact of mark-to-market gains (losses) on financial instruments that primarily include interest rate swaps and hybrid financial instruments. Also eliminated are the mark-to-market gains (losses) on warrants issued by the Company. All of these amounts fluctuate based on market interest rates, credit spreads, MBIA Inc.'s common stock price and other market factors.
- Elimination of foreign exchange gains (losses) on the remeasurement of certain assets and liabilities and transactions in non-functional currencies. Given the possibility of volatility in foreign exchange markets, we exclude the impact of foreign exchange gains (losses) to provide a measurement of comparability of operating income (loss).
- Elimination of gains (losses) on the sale of investments, net investment losses related to other-than-temporary impairments ("OTTI") and net gains (losses) on extinguishment of debt since the timing of these transactions are subject to management's assessment of market opportunities and capital liquidity positions.
- Elimination of the results from the sale of Cutwater.

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

RESULTS OF OPERATIONS (continued)

The following table presents our combined operating income (loss) and operating income (loss) per diluted common share and provides reconciliations of GAAP net income (loss) to operating income (loss) and GAAP net income (loss) per diluted common share to operating income (loss) per diluted common share for the years ended December 31, 2016, 2015 and 2014:

<u>In millions, except share and per share amounts</u>	<u>Years Ended December 31,</u>		
	<u>2016</u>	<u>2015</u>	<u>2014</u>
Net income (loss)	\$(338)	\$ 180	\$ 569
Less: operating income adjustments:			
Income (loss) before income taxes of our Non-Core Segments and eliminations	(475)	12	359
Adjustments to income before income taxes of our U.S. public finance insurance and corporate segments:			
Mark-to-market gains (losses) on financial instruments ⁽¹⁾	12	39	(39)
Foreign exchange gains (losses) ⁽¹⁾	11	60	95
Net gains (losses) on sales of investments ⁽¹⁾	60	20	43
Net investment losses related to OTTI	(5)	(13)	(15)
Net gains (losses) on extinguishment of debt	5	(1)	3
Other net realized gains (losses) ⁽²⁾	(5)	21	—
Operating income adjustment to the (provision) benefit for income tax ⁽³⁾	29	(45)	(62)
Operating income (loss)	<u>\$ 30</u>	<u>\$ 87</u>	<u>\$ 185</u>
Operating income (loss) per diluted common share	<u>\$ 0.23⁽⁴⁾</u>	<u>\$0.52⁽⁵⁾</u>	<u>\$0.97⁽⁵⁾</u>

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

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

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

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

(5)—Operating income (loss) per diluted common share is calculated by taking operating income (loss) divided by GAAP weighted average number of diluted common shares outstanding.

Adjusted Book Value

In addition to book value per share, we also analyze adjusted book value ("ABV") per share, a non-GAAP measure. We consider ABV a measure of fundamental value of the Company and the change in ABV an important measure of financial performance. We have refined our calculation of ABV as of December 31, 2016 and have conformed the prior year's calculation to the current presentation. ABV now adjusts GAAP book value to remove the legal entity book value of MBIA Corp., but continues to include all deferred taxes available to the Company. Previously, ABV adjusted GAAP book value to remove the book value of our international and structured finance insurance segment and included all deferred taxes available to the Company. In addition, ABV adjusts for certain items which the Company believes will reverse from GAAP book value through GAAP earnings and other comprehensive income, as well as to add in the impact of certain items which the Company believes will be realized in GAAP book value in future periods. The Company has limited such adjustments to those items that it deems to be important to fundamental value and performance and for which the likelihood and amount can be reasonably estimated. We have presented ABV to allow investors and analysts to evaluate the Company using the same measure that MBIA's management regularly uses to measure financial performance and value. ABV is not a substitute for and should not be viewed in isolation of GAAP book value, and our definition of ABV may differ from that used by other companies.

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

RESULTS OF OPERATIONS (continued)

As of December 31, 2016, ABV per share was \$31.88, an increase from \$28.98 as of December 31, 2015, and an increase from \$24.21 as of December 31, 2014. The increases in ABV per share were primarily driven by decreases in common shares outstanding from the share repurchases made by the Company during the years ended December 31, 2016 and 2015. The following table provides a reconciliation of consolidated book value per share to consolidated ABV per share:

In millions except share and per share amounts	As of December 31,		
	2016	2015	2014
Total shareholders' equity of MBIA Inc.	\$ 3,227	\$ 3,729	\$ 3,929
Common shares outstanding	135,200,831	151,530,377	191,942,895
Book value per share	\$ 23.87	\$ 24.61	\$ 20.47
Reverse book value of the MBIA Corp. legal entity ⁽¹⁾	5.07	0.86	0.44
Book value after MBIA Corp. legal entity adjustment	28.94	25.47	20.91
Other book value adjustments:			
Reverse net unrealized (gains) losses included in other comprehensive income (loss)	0.24	0.40	(0.11)
Add net unearned premium revenue ⁽²⁾	4.31	5.02	5.22
Add tax effect on unrealized (gains) losses and unearned premium revenue	(1.61)	(1.91)	(1.81)
Total other book value adjustments per share	2.94	3.51	3.30
Adjusted book value per share	\$ 31.88	\$ 28.98	\$ 24.21

(1)—The book value of the MBIA Corp. legal entity does not provide significant economic or shareholder value to MBIA Inc. The amount being reversed excludes deferred taxes available to MBIA Inc. As of December 31, 2014, this amount also includes the reversal of the book value of Cutwater which was sold effective January 1, 2015.

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

U.S. Public Finance Insurance

Our U.S. public finance insurance business is primarily 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, insured obligations when due or, in the event National has exercised, at its discretion, the right 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, user fees or tariffs related to the use of these projects, lease payments or other similar types of revenue streams.

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

RESULTS OF OPERATIONS (continued)

The following table presents our U.S. public finance insurance segment results for the years ended December 31, 2016, 2015 and 2014:

In millions	Years Ended December 31,			Percent Change	
	2016	2015	2014	2016 vs. 2015	2015 vs. 2014
Net premiums earned	\$ 236	\$ 304	\$ 289	-22%	5%
Net investment income	119	116	119	3%	-3%
Fees and reimbursements	2	3	9	-33%	-67%
Realized gains (losses) and other settlements on insured derivatives	—	—	1	—%	-100%
Net gains (losses) on financial instruments at fair value and foreign exchange	72	14	26	n/m	-46%
Net investment losses related to other-than-temporary impairments	(4)	(10)	(15)	-60%	-33%
Other net realized gains (losses)	2	(4)	14	-150%	-129%
Total revenues	427	423	443	1%	-5%
Losses and loss adjustment	74	5	(10)	n/m	-150%
Amortization of deferred acquisition costs	49	65	61	-25%	7%
Operating	60	62	55	-3%	13%
Total expenses	183	132	106	39%	25%
Income (loss) before income taxes	244	291	337	-16%	-14%
Provision (benefit) for income taxes	68	100	115	-32%	-13%
Net income (loss)	\$ 176	\$ 191	\$ 222	-8%	-14%

n/m—Percent change not meaningful.

National supports the credit enhancement needs of municipal debt issuers across the U.S. National maintains underwriting criteria for most municipal risk types and pursues opportunities for new business across the spectrum of municipal sectors. During the year ended December 31, 2016, National insured \$1.6 billion of gross par exposure in the primary and secondary markets. The majority of its new business is in the general obligation, tax-backed and revenue bond sectors. Low interest rates and competitive pricing levels continue to limit new business opportunities.

NET PREMIUMS EARNED Net premiums earned on financial guarantees represent gross premiums earned net of premiums ceded to reinsurers, and include scheduled premium earnings and premium earnings from refunded issues. The decrease in net premiums earned for 2016 compared with 2015 resulted from decreases in refunded premiums earned of \$42 million and scheduled premiums earned of \$26 million. The increase in net premiums earned for 2015 compared with 2014 resulted from an increase in refunded premiums earned of \$50 million, partially offset by a decrease in scheduled premiums earned of \$35 million. Scheduled premium earnings declined due to the refunding and maturity of insured issues in prior periods. Refunding activity over the past several years has accelerated premium earnings in prior periods and reduced the amount of scheduled premiums that would have been earned in the current period.

NET GAINS (LOSSES) ON FINANCIAL INSTRUMENTS AT FAIR VALUE AND FOREIGN EXCHANGE The favorable change in net gains (losses) on financial instruments at fair value and foreign exchange for 2016 compared with 2015 was principally due to increases in net realized gains from the sales of securities in order to generate liquidity for anticipated claim payments on certain Puerto Rico exposures and from favorable market conditions. The unfavorable change in net gains (losses) on financial instruments at fair value and foreign exchange for 2015 compared with 2014 was principally due to decreases in net realized gains from the sales of securities from the ongoing management of our U.S. public finance insurance investment portfolio and unfavorable market fluctuations on financial instruments.

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

RESULTS OF OPERATIONS (continued)

NET INVESTMENT LOSSES RELATED TO OTHER-THAN-TEMPORARY IMPAIRMENTS Net investment losses related to OTTI for 2016, 2015 and 2014 were primarily related to one impaired security for which a loss was recognized as the difference between its amortized cost and the net present value of its projected cash flows. This OTTI resulted from liquidity concerns and other adverse financial conditions of the issuer. Refer to the "Liquidity" section included herein for additional information about impaired investments.

OTHER NET REALIZED GAINS (LOSSES) Other net realized losses for 2015 related to an impairment charge on our Armonk, New York facility to adjust the carrying amount to its sales price less costs to sell. Other net realized losses for 2014 related to an insurance recovery on an errors and omissions liability policy of \$18 million, partially offset by an additional impairment charge on our Armonk, New York facility of \$3 million.

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

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

The following table presents information about our U.S. public finance insurance loss and LAE expenses for the years ended December 31, 2016, 2015 and 2014:

In millions	Years Ended December 31,			Percent Change	
	2016	2015	2014	2016 vs. 2015	2015 vs. 2014
Loss and LAE related to actual and expected payments ⁽¹⁾	\$ 250	\$ 8	\$ (30)	n/m	-127%
Recoveries of actual and expected payments	(175)	(3)	20	n/m	-115%
Gross losses incurred	75	5	(10)	n/m	-150%
Reinsurance	(1)	—	—	n/m	—%
Losses and loss adjustment expenses	\$ 74	\$ 5	\$ (10)	n/m	-150%

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

n/m—Percent change not meaningful.

For the year ended December 31, 2016, losses and LAE primarily related to increases in actual and expected payments on certain Puerto Rico exposures, partially offset by increases in recoveries of actual and expected payments on certain Puerto Rico exposures. For the year ended December 31, 2015, losses and LAE primarily related to increases in reserves for certain Puerto Rico exposures, partially offset by decreases in reserves for certain municipal utilities. The benefit in losses and LAE for the year ended December 31, 2014 primarily related to decreases in reserves for certain general obligation bonds, partially offset by increases in reserves for certain Puerto Rico exposures.

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

RESULTS OF OPERATIONS (continued)

The following table presents information about our U.S. public finance insurance loss and LAE reserves and recoverables as of December 31, 2016 and 2015:

In millions	December 31, 2016	December 31, 2015	Percent Change
Assets:			
Insurance loss recoverable	\$ 174	\$ 4	n/m
Reinsurance recoverable on paid and unpaid losses ⁽¹⁾	1	1	—%
Liabilities:			
Gross loss and LAE reserves ⁽²⁾	118	66	79%
Expected recoveries on unpaid losses	(21)	(21)	—%
Loss and LAE reserves	<u>\$ 97</u>	<u>\$ 45</u>	<u>116%</u>
Insurance loss recoverable—ceded ⁽³⁾	\$ 12	\$ —	n/m

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

(2)—Gross loss and LAE reserves with respect to Puerto Rico exposures reflect the expected loss and LAE payments net of expected recoveries on such reserves.

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

n/m—Percent change not meaningful.

Insurance loss recoverable as of December 31, 2016 increased compared with December 31, 2015 primarily as a result of increases in expected recoveries on certain Puerto Rico exposures. Loss and LAE Reserves as of December 31, 2016 increased compared with December 31, 2015 primarily as a result of increases in expected payments on certain Puerto Rico exposures.

Included in our U.S. public finance loss and LAE reserves are both reserves for insured obligations for estimated future claims payments, which includes insured credits where a payment default has occurred and National has already paid a claim and insured credits where a payment default has not yet occurred. The following table includes LAE reserves, but excludes par outstanding, as of December 31, 2016 for one issue that had no expected future claim payments or par outstanding, but for which National was obligated to pay LAE incurred in prior periods. As of December 31, 2016 and 2015, loss and LAE reserves comprised the following:

\$ in millions	Number of Issues ⁽¹⁾		Loss and LAE Reserve		Par Outstanding	
	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
Gross of reinsurance:						
Issues with defaults	5	3	\$ 75	\$ 13	\$ 1,519	\$ 52
Issues without defaults	6	5	22	32	1,446	1,430
Total gross of reinsurance	<u>11</u>	<u>8</u>	<u>\$ 97</u>	<u>\$ 45</u>	<u>\$ 2,965</u>	<u>\$ 1,482</u>

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

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

RESULTS OF OPERATIONS (continued)

POLICY ACQUISITION COSTS AND OPERATING EXPENSES U.S. public finance insurance segment expenses for the years ended December 31, 2016, 2015 and 2014 are presented in the following table:

In millions	Years Ended December 31,			Percent Change	
	2016	2015	2014	2016 vs. 2015	2015 vs. 2014
Gross expenses	\$ 62	\$ 63	\$ 56	-2%	13%
Amortization of deferred acquisition costs	\$ 49	\$ 65	\$ 61	-25%	7%
Operating	60	62	55	-3%	13%
Total insurance operating expenses	\$ 109	\$ 127	\$ 116	-14%	9%

Gross expenses represent total insurance expenses before the deferral of any policy acquisition costs. Amortization of deferred acquisition costs decreased for 2016 compared with 2015 due to higher refunding activity in 2015. Amortization of deferred acquisition costs increased for 2015 compared with 2014 due to higher refunding activity in 2015. When an insured obligation refunds, we accelerate any remaining deferred acquisition costs associated with the policy covering the refunded insured obligation. We did not defer a material amount of policy acquisition costs during 2016, 2015 or 2014.

NON-GAAP OPERATING INCOME (LOSS) In addition to the above results, we also analyze the operating performance of our U.S. public finance insurance segment using operating income (loss), a non-GAAP measure. We believe operating income (loss), as used by management, is useful for an understanding of the results of operations of the Company. Operating income (loss) is not a substitute for net income (loss) determined in accordance with GAAP, and our definition of operating income (loss) may differ from that used by other companies.

The following table presents a reconciliation of GAAP net income (loss) to operating income (loss) for the years ended December 31, 2016, 2015 and 2014:

In millions	Years Ended December 31,		
	2016	2015	2014
Net income (loss)	\$ 176	\$ 191	\$ 222
Less: operating income adjustments:			
Net gains (losses) on sales of investments ⁽¹⁾	68	14	17
Net investment losses related to OTTI	(4)	(10)	(15)
Operating income adjustments to the (provision) benefit for income tax ⁽²⁾	(8)	(1)	(1)
Operating income (loss)	\$ 120	\$ 188	\$ 221

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

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

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

The following table presents the credit quality distribution of National's U.S. public finance outstanding gross par insured as of December 31, 2016 and 2015. CABs are reported at the par amount at the time of issuance of the insurance policy. All ratings are as of the period presented and represent S&P ratings. If transactions are not rated by S&P, a Moody's equivalent rating is used. If transactions are not rated by either S&P or Moody's, an internal equivalent rating is used.

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

RESULTS OF OPERATIONS (continued)

In millions Rating	Gross Par Outstanding			
	December 31, 2016		December 31, 2015	
	Amount	%	Amount	%
AAA	\$ 5,167	4.7%	\$ 6,721	4.2%
AA	49,466	44.8%	77,081	47.9%
A	34,544	31.3%	56,890	35.3%
BBB	15,120	13.7%	13,947	8.6%
Below investment grade	6,070	5.5%	6,378	4.0%
Total	<u>\$110,367</u>	<u>100.0%</u>	<u>\$161,017</u>	<u>100.0%</u>

U.S. Public Finance Insurance Puerto Rico Exposures

The following is a summary of exposures within the insured portfolio of our U.S. public finance insurance segment related to Puerto Rico as of December 31, 2016.

In millions	Gross Par Outstanding	Gross Par Outstanding Plus CAB Accreted Interest	Debt Service Outstanding	National Internal Rating
Puerto Rico Electric Power Authority (PREPA) ⁽¹⁾	\$ 1,250	\$ 1,270	\$ 1,820	d
Puerto Rico Commonwealth GO ⁽¹⁾	665	690	919	d
Puerto Rico Public Buildings Authority ⁽²⁾	190	190	284	d
Puerto Rico Highway and Transportation Authority Transportation Revenue (PRHTA) ⁽¹⁾	586	586	1,068	d
Puerto Rico Highway and Transportation Authority—Subordinated Transportation Revenue	33	33	45	d
Puerto Rico Sales Tax Financing Corporation (COFINA) ⁽¹⁾	684	1,091	4,170	bbb3
Puerto Rico Highway and Transportation Authority Highway Revenue (PRHTA) ⁽¹⁾	87	89	123	d
University of Puerto Rico System Revenue	86	86	126	d
Inter American University of Puerto Rico Inc.	25	25	33	a3
Total	<u>\$ 3,606</u>	<u>\$ 4,060</u>	<u>\$ 8,588⁽³⁾</u>	

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

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

(3)—As a result of debt service payments made as of January 1, 2017, National's total Puerto Rico debt service outstanding declined by \$75 million.

For many years Puerto Rico's economy has suffered from stagnation, net migration of people out of Puerto Rico and weak government fiscal management that has led to recurring budget deficits and increased borrowing to finance such deficits. As a result of mounting debt, deteriorating credit ratings and lack of market confidence, Puerto Rico does not have access to the capital markets at reasonable rates.

Developments concerning Puerto Rico's fiscal condition have occurred, and are occurring, with more frequency. Set forth below are the developments that are significant to National and its exposures to Puerto Rico.

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

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

RESULTS OF OPERATIONS (continued)

On August 31, 2016, the President of the United States announced the appointment of the seven members who will comprise the Oversight Board. The Oversight Board elected its Chairman, adopted its bylaws and established a sub-committee to search for and hire a permanent Executive Director and General Counsel. Additionally, it retained legal and financial advisors. Among other matters, the Oversight Board and its advisors will evaluate Puerto Rico's fiscal plan and potential restructuring options, and consider how to address such proposals under the guidelines provided by PROMESA. The Oversight Board originally set a target of certifying a Fiscal and Economic Growth Plan ("FEGP") no later than January 31, 2017. However, after a request of additional time by the new Governor of Puerto Rico, the Oversight Board moved the date to certify the FEGP until March 15, 2017. Furthermore, the Oversight Board extended the stay provided under PROMESA from February 28, 2017 until May 1, 2017.

Consistent with Section 409 of PROMESA, an Economic Task Force was established in July of 2016. Under the law, this Economic Task Force is charged with identifying impediments to Puerto Rico's growth and recommending changes to promote long-term economic growth and stability, spur new job creation, reduce child poverty, and attract investment in the territory. Its report was released on December 20, 2016 and contained numerous recommendations for Congress to address Puerto Rico's Medicaid and Medicare programs, expand the federal child tax credit, and consider other tax reforms. It also recommended that Congress analyze and vote on Puerto Rico becoming the 51st state.

On April 6, 2016, Governor of Puerto Rico signed into law The Puerto Rico Emergency Moratorium and Financial Rehabilitation Act (Act 21-2016 or the "Moratorium Act"). The legislation authorized the Governor of Puerto Rico to order a moratorium on the payment of certain obligations of Puerto Rico through January 31, 2017. On June 30, 2016, the Governor of Puerto Rico, relying on that authorization, signed certain executive orders suspending payment of general obligation debt ("GO") as well as declaring "states of emergency" for Puerto Rico, among other municipal entities including the Retirement System of Public Employees, Puerto Rico Industrial Corporation and the University of Puerto Rico. As such, on July 1, 2016, when payments were due and payable, Puerto Rico failed to pay debt service of approximately \$779 million on GO bonds as well as a portion of \$178 million of Puerto Rico guaranteed debt of the Puerto Rico Public Buildings Authority ("PBA"). National paid claims of approximately \$169 million on the GO bonds. Subsequent to December 31, 2016, National paid additional claims in the aggregate amount of \$24 million against GO bonds and PBA bonds, relating to debt service due on January 1, 2017. The Moratorium Act was repealed and replaced by the Financial Emergency and Fiscal Responsibility Act (Act 5-2017) on January 29, 2017. Act 5-2017 provides for an emergency period ending on May 1, 2017—which can be extended by the Governor until August 1, 2017—during which the Governor is authorized to prioritize payment for essential services over debt service. Act 5-2017 further provides that the executive orders issued under the Moratorium Act continue in effect until amended, rescinded, or superseded.

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

RESULTS OF OPERATIONS (continued)

Pursuant to the Moratorium Act, the Puerto Rico Fiscal Agency and Financial Advisory Authority ("AAFAF") was established as Puerto Rico's financial adviser replacing the Government Development Bank ("GDB"). On January 20, 2017, the Governor of Puerto Rico signed into law the Puerto Rico Fiscal Agency and Financial Advisory Authority Act (Act 2-2017) which defines the responsibilities of AAFAF including acting as fiscal agent, financial adviser and informative agent of all governmental entities and to assist in confronting Puerto Rico's fiscal crisis and economic emergency. AAFAF is in charge of collaboration, communication and cooperation between the Government of Puerto Rico and the Oversight Board. Further, AAFAF is responsible for the supervision, execution and administration of the FEGP. Also under color of the authority provided by the Moratorium Act, on May 17, 2016, the then Governor of Puerto Rico signed an executive order to suspend through June 30, 2016 PRHTA's obligations to transfer to the fiscal agent certain toll revenues and any other revenues allocated to or received by PRHTA and authorize PRHTA's use of such revenues for the ongoing provision of services essential to protect the health, safety, and welfare of the residents of Puerto Rico. On June 30, 2016, the then Governor of Puerto Rico signed two executive orders that, collectively, extended the May 17, 2016 suspension of revenue transfers to the fiscal agent and suspended the payment of PRHTA's debt obligations under the 1968 and 1998 Resolutions coming due during the term of the Moratorium Act (but not the transfer of revenues pledged for the payment of outstanding loans owed to the GDB, which were modified solely to the extent necessary to provide PRHTA with the revenues it requires to fund operating expenses or essential services). In addition, one of the executive orders issued on June 30, 2016 also suspended the University of Puerto Rico's ("UPR") obligation to (a) transfer certain pledged revenues to the trustee for revenue bonds issued by UPR, and (b) make payments pursuant to the Lease Agreement between UPR and Desarrollos Universitarios Inc., which payments support the debt service payments on certain educational facilities revenue bonds issued by the Puerto Rico Industrial, Tourist, Educational, Medical and Environmental Control Facilities Financing Authority ("AFICA"). The UPR revenue bonds and AFICA educational facilities revenue bonds insured by National were paid from pledged revenues on June 1, 2016 and July 1, 2016, respectively. As a result of suspending UPR's obligation to transfer funds to the trustee for debt service, National downgraded the internal rating of UPR to "d" during the third quarter of 2016. Holders of debt insured by National and issued by UPR, Puerto Rico Industrial Development Company, PBA, and most of PRHTA, were paid through reserves or funded by monthly deposits held by the respective trustee or fiscal agent. National paid an additional \$4 million of claims on PRHTA debt in July of 2016 when the GDB refused to release debt service reserve funds held by it. Similarly, subsequent to December 31, 2016, National paid additional claims of \$0.8 million against PRHTA bonds, relating to debt service due on January 1, 2017.

COFINA

In October of 2016, a group of GO bondholders, which had previously initiated litigation against Puerto Rico in July of 2016, moved to amend its complaint to add a challenge to Puerto Rico's purported diversion of funds to the Puerto Rico Sales Tax Financing Corporation ("COFINA"). The plaintiff group contends that the funds being used to pay bonds issued by COFINA constitute "available resources" within the meaning of article VI, section 8 of the Puerto Rico Constitution, and therefore must be devoted to payment of principal and interest on Puerto Rico's public debt before they may be used for other purposes. By failing to redirect such funds to pay GO bondholders, the plaintiff group claims that Puerto Rico is improperly diverting funds to COFINA bondholders. After being granted leave to amend, the plaintiffs filed their Second Amended Complaint in November of 2016. In February of 2017, the Court held that the COFINA-related claims were not stayed under PROMESA, and further allowed the Oversight Board and several COFINA creditors to intervene in the litigation. Currently, National has exposure to COFINA debt of over \$1.0 billion, including CAB accreted interest. As legal opinions from Puerto Rico justice secretaries and bond counsel have confirmed, National believes that the legal structure of COFINA is sound and that it maintains a valid statutory lien on the sales tax revenue stream backing the bonds. Although the Court previously ruled that the automatic stay provision of PROMESA did not apply to some of the plaintiffs' claims in the original complaint, some claims in the second amended complaint, including the COFINA-related claims, may be subject to the litigation stay. Notwithstanding the foregoing, until all legal challenges are resolved, there can be no assurance that the COFINA structure will be upheld and the sales tax revenue lien will be recognized.

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

RESULTS OF OPERATIONS (continued)

PREPA

National's largest exposure to Puerto Rico, by gross par outstanding, is to PREPA. On December 23, 2015, National, Assured Guaranty, and the ad hoc group of bondholders (representing approximately \$3.0 billion, or 37.0% of the power revenue bonds, (collectively the "Supporting Creditors")) entered into an RSA with the support of approximately 65% of \$8.1 billion of outstanding PREPA bonds, including approximately \$1.4 billion of PREPA bonds insured by National. The RSA calls for a newly formed bankruptcy remote special purpose entity ("SPE") to issue securitized bonds including bonds that are equal in principal amount to the outstanding principal of the PREPA bonds insured by National and by other monoline insurers ("Mirror Bonds"). The Mirror Bonds will bear interest at the same rate and will amortize at the same schedule as the existing insured legacy bonds which they back. The payments on the Mirror Bonds will be used to make payment on the insured legacy bonds.

Additionally, and subject to certain market rate and rating agency conditions, the SPE may issue additional securitization bonds to refinance outstanding currently callable and non-callable insured legacy bonds (approximately \$320 million of National exposure). National will issue a Surety Bond in an amount up to \$344 million as partial funding of a Debt Service Reserve Fund ("DSRF") for the securitization bonds which would be used after a \$65 million cash funded DSRF. The Surety Bond will be amortized using cash from the SPE over seven years starting in the seventh year, but can amortize after the second year over nine years if PREPA does not refinance the currently callable and non-callable debt referenced above.

Finally, as a condition to the RSA, the Supporting Creditors agreed to purchase certain bonds of PREPA in the aggregate amount of \$111 million (the "2016A and 2016B bonds") of which National's portion is approximately \$35 million. The Supporting Creditors closed on the 2016A and 2016B bonds in May and June of 2016, respectively. The bonds will earn 10% interest, will mature on July 1, 2019 and will be supported by Mirror Bonds when the SPE issues its securitization bonds. In February of 2016, the PREPA Revitalization Act (the "Revitalization Act") was approved by Puerto Rico's House of Representatives and Senate and signed into law by the then Governor of Puerto Rico. Enactment of the Revitalization Act was required by the RSA and is an integral component of the PREPA restructuring. Validation of the Revitalization Act is required by the RSA and certain lawsuits have been filed challenging it. There is no concrete timetable for resolution of these lawsuits. PREPA made its July 1, 2016 debt service payment of approximately \$417 million. In order to provide liquidity to PREPA, the Supporting Creditors purchased approximately \$264 million of bonds (Series 2016C, 2016D and 2016E) and National purchased \$105 million of 2016C bonds. The 2016C bonds will earn 5.4% interest, will amortize over the next four years, and will be supported by Mirror Bonds when the SPE issues its securitization bonds.

On December 15, 2016, the Supporting Creditors and PREPA reached an agreement to extend the RSA until March 31, 2017. As part of the extension, PREPA made the full interest payment of \$192 million on January 1, 2017. The extension agreement also contained a milestone date of January 31, 2017 for the parties to reach an agreement on the RSA's implementation under PROMESA, or another mutually agreed upon mechanism. On January 27, 2017, however, AAFAF announced that it will lead future negotiations on behalf of PREPA, and requested and received an extension of the January 31, 2017 milestone until March 31, 2017.

The Puerto Rico Energy Commission ("PREC") has heard two separate but parallel rate cases. In June of 2016, PREC approved a volumetric transition charge for both residential and non-residential customers. The transition charge will be used to pay the debt issued by the SPE. Also in June of 2016, the PREC issued an order approving a requested provisional rate of approximately \$0.013/kWh requested by PREPA. On January 11, 2017, the PREC approved an average permanent rate increase of 1.025 cents/kWh. The increase is smaller than the previously approved temporary rate, so PREPA will have to reimburse the \$45 million annualized difference to customers. Among the adjustments made, PREC found that PREPA mistakenly double-counted \$37 million of subsidy expenses. PREC also disallowed \$41 million of capital expenditures for Aguirre Offshore Gas Port, capping spending on that project to \$15 million. The rate increase will go into effect on March 13, 2017.

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

RESULTS OF OPERATIONS (continued)

PRHTA

As set forth above, National has significant exposure to PRHTA. In December of 2015, the Governor of Puerto Rico signed an executive order to redirect certain revenues previously allocated to select public corporation and certain other government agencies ("clawback"), including PRHTA. On January 1, 2016, Puerto Rico made all of its debt service payments due except for bond payments totaling \$37 million relating to the Puerto Rico Infrastructure Authority ("PRIFA") and Public Finance Corporation. Following the missed payment by PRIFA, certain bond insurers (not including National) filed a lawsuit against Puerto Rico claiming that the clawback of the revenues violated the U.S. constitution and the laws of Puerto Rico. Puerto Rico has made a motion to dismiss that case but it is subject to the stay under PROMESA. The outcome of that legal challenge is uncertain, and further, while adoption of the clawback measure was intended to provide short-term relief, Puerto Rico's lack of a comprehensive plan or clear evidence of steps to conserve resources necessary to meet its near term debt service obligations raises questions as to whether the intercept will continue to be a short-term measure.

Other

Other than Inter American University of Puerto Rico Inc., S&P, Fitch Ratings and/or Moody's have downgraded the ratings of all Puerto Rico issuers to below investment grade with a negative outlook due to narrowing liquidity, sluggish economic growth and persistent structural deficits. Additionally, subsequent to the declaration of a state of emergency and suspension of debt service payments by the then Governor of Puerto Rico, S&P revised its rating for Puerto Rico, its GO, PREPA and PRHTA's subordinated transportation revenue bonds, series 1998, state infrastructure bank, to "D" (default).

The following tables presents our scheduled gross debt service due on our Puerto Rico insured exposures as of December 31, 2016, for each of the subsequent five years ending December 31 and thereafter:

<u>In millions</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>Thereafter</u>	<u>Total</u>
Puerto Rico Electric Power Authority (PREPA)	\$184	\$120	\$177	\$115	\$140	\$ 1,084	\$1,820
Puerto Rico Commonwealth GO	66	96	154	223	82	298	919
Puerto Rico Public Buildings Authority	15	21	27	11	11	199	284
Puerto Rico Highway and Transportation Authority Transportation Revenue (PRHTA)	31	35	29	30	30	913	1,068
Puerto Rico Highway and Transportation Authority— Subordinated Transportation Revenue	5	5	3	3	3	26	45
Puerto Rico Sales Tax Financing Corporation (COFINA)	—	—	—	—	—	4,170	4,170
Puerto Rico Highway and Transportation Authority Highway Revenue (PRHTA)	22	6	16	17	4	58	123
University of Puerto Rico System Revenue	8	7	7	7	7	90	126
Inter American University of Puerto Rico Inc.	3	3	3	3	3	18	33
Total	\$334	\$293	\$416	\$409	\$280	\$ 6,856	\$8,588

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

RESULTS OF OPERATIONS (continued)

Corporate

Our corporate segment consists of general corporate activities, including providing general support services to MBIA Inc.'s subsidiaries and asset and capital management. General support services are provided by our service company, MBIA Services, including, 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 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 called or repurchased. All of the debt within the corporate segment is managed collectively and is serviced by available liquidity.

The following table summarizes the consolidated results of our corporate segment for the years ended December 31, 2016, 2015 and 2014:

In millions	Years Ended December 31,			Percent Change	
	2016	2015	2014	2016 vs. 2015	2015 vs. 2014
Net investment income	\$ 33	\$ 36	\$ 38	-8%	-5%
Fees	49	52	58	-6%	-10%
Net gains (losses) on financial instruments at fair value and foreign exchange	(14)	64	53	-122%	21%
Net investment losses related to other-than-temporary impairments	(1)	(3)	—	-67%	n/m
Net gains (losses) on extinguishment of debt	5	(1)	3	n/m	-133%
Other net realized gains (losses)	(5)	21	1	-124%	n/m
Revenues of consolidated VIEs:					
Other net realized gains (losses)	—	—	(5)	—%	-100%
Total revenues	67	169	148	-60%	14%
Operating	83	82	94	1%	-13%
Interest	92	101	109	-9%	-7%
Total expenses	175	183	203	-4%	-10%
Income (loss) before income taxes	(108)	(14)	(55)	n/m	-75%
Provision (benefit) for income taxes	(15)	7	(173)	n/m	-104%
Net income (loss)	\$ (93)	\$ (21)	\$ 118	n/m	-118%

n/m—Percent change not meaningful.

NET INVESTMENT INCOME The decrease in net investment income for 2016 compared with 2015 was primarily due to lower average asset balances.

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

RESULTS OF OPERATIONS (continued)

NET GAINS (LOSSES) ON FINANCIAL INSTRUMENTS AT FAIR VALUE AND FOREIGN EXCHANGE The unfavorable change in net gains (losses) on financial instruments at fair value and foreign exchange for 2016 compared with 2015 was primarily due to a decrease in foreign exchange gains on Euro denominated liabilities from a decline in the strengthening of the U.S. dollar and unfavorable changes in the fair value of the outstanding warrants issued on MBIA Inc. common stock. The changes in the fair value of outstanding warrants were primarily attributable to an increase in MBIA Inc.'s common stock, partially offset by changes in volatility, which are used in the valuation of the warrants. The favorable change in net gains (losses) on financial instruments at fair value and foreign exchange for 2015 compared with 2014 was primarily due to gains from the termination of derivatives, partially offset by a decrease in foreign exchange gains on Euro denominated liabilities, an increase in losses from mark-to-market changes of our interest rate swaps and a decrease in gains from the changes in the fair value of the outstanding warrants issued on MBIA Inc. common stock. The changes in the fair value of outstanding warrants were primarily attributable to a decrease in MBIA Inc.'s common stock, partially offset by an increase in volatility, which are used in the valuation of the warrants.

OTHER NET REALIZED GAINS (LOSSES) The decrease in other net realized gains (losses) for 2016 compared with 2015 was primarily due to the results from the sale of Cutwater. The increase in other net realized gains (losses) for 2015 compared with 2014 was primarily due to the gain from the sale of Cutwater.

OPERATING EXPENSES Operating expenses decreased for 2015 compared with 2014 primarily due to decreases in office related expenses as a result of the relocation of our headquarters to a leased facility in the fourth quarter of 2014, as well as a decrease in legal costs.

INTEREST EXPENSE Interest expense decreased for 2016 compared with 2015 and 2014 primarily due to the continued maturities and repurchases of debt obligations issued by the Company.

PROVISION (BENEFIT) FOR INCOME TAXES The 2016 benefit for income taxes was impacted by foreign tax credit adjustments, the fluctuation of the value of nontaxable warrants issued by the Company and nondeductible equity-based compensation expense. The 2015 provision for income taxes was impacted by nondeductible equity-based compensation expense. The 2014 benefit for income taxes includes a favorable adjustment of \$87 million for the release of the full valuation allowance against the portion of our deferred tax asset which resulted from the sales of previously impaired investments. In addition for 2014, there was a \$61 million reversal in our reserve for uncertain tax positions.

NON-GAAP OPERATING INCOME (LOSS) In addition to the above results, we also analyze the operating performance of our corporate segment using operating income (loss), a non-GAAP measure. We believe operating income (loss), as used by management, is useful for an understanding of the results of operations of the Company. Operating income (loss) is not a substitute for net income (loss) determined in accordance with GAAP, and our definition of operating income (loss) may differ from that used by other companies.

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

RESULTS OF OPERATIONS (continued)

The following table presents a reconciliation of GAAP net income (loss) to operating income (loss) for the years ended December 31, 2016, 2015 and 2014:

In millions	Years Ended December 31,		
	2016	2015	2014
Net income (loss)	\$(93)	\$ (21)	\$ 118
Less: operating income adjustments:			
Mark-to-market gains (losses) on financial instruments ⁽¹⁾	12	39	(39)
Foreign exchange gains (losses) ⁽¹⁾	11	60	95
Net gains (losses) on sales of investments ⁽¹⁾	(8)	6	26
Net investment losses related to OTTI	(1)	(3)	—
Net gains (losses) on extinguishment of debt	5	(1)	3
Other net realized gains (losses) ⁽²⁾	(5)	21	—
Operating income adjustment to the (provision) benefit for income tax ⁽³⁾	(17)	(42)	68
Operating income (loss)	<u>\$(90)</u>	<u>\$(101)</u>	<u>\$(35)</u>

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

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

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

International and Structured Finance Insurance

Our international and structured finance insurance business is principally operated through MBIA Corp. We believe that MBIA Corp. does not provide significant economic value to MBIA Inc. and its shareholders. The financial guarantees issued by MBIA Corp. generally provide unconditional and irrevocable guarantees of the payment of the principal of, and interest or other amounts owing on, non-U.S. public finance and global structured finance insured obligations when due or, in the event MBIA Corp. has the right, at its discretion, to accelerate insured obligations upon default or otherwise. MBIA Insurance Corporation insures the investment contracts written by MBIA Inc., and if MBIA Inc. or such subsidiaries were to have insufficient assets to pay amounts due upon maturity or termination, MBIA Insurance Corporation would make such payments under its insurance policies. MBIA Insurance Corporation also insured debt obligations of other affiliates, including GFL and IMC. MBIA Corp. has also written insurance policies guaranteeing the obligations under credit default swap ("CDS") contracts of an affiliate, LaCrosse Financial Products, LLC and certain other derivative contracts. Certain policies cover payments potentially due under CDS, including termination payments that may become due in certain circumstances, including the occurrence of certain insolvency or payment defaults under the CDS or derivatives contracts by the insured counterparty or by the guarantor. MBIA Insurance Corporation provides reinsurance to MBIA Mexico. Effective on January 10, 2017, MBIA Corp.'s wholly-owned subsidiary, MBIA UK Holdings, sold MBIA UK to Assured.

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

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

RESULTS OF OPERATIONS (continued)

The following table presents our international and structured finance insurance segment results for the years ended December 31, 2016, 2015 and 2014:

In millions	Years Ended December 31,			Percent Change	
	2016	2015	2014	2016 vs. 2015	2015 vs. 2014
Net premiums earned	\$ 84	\$ 99	\$ 144	-15%	-31%
Net investment income	12	11	16	9%	-31%
Fees and reimbursements	72	67	87	7%	-23%
Change in fair value of insured derivatives:					
Realized gains (losses) and other settlements on insured derivatives	(40)	(28)	(445)	43%	-94%
Unrealized gains (losses) on insured derivatives	21	157	903	-87%	-83%
Net change in fair value of insured derivatives	(19)	129	458	-115%	-72%
Net gains (losses) on financial instruments at fair value and foreign exchange	30	(9)	—	n/m	n/m
Other net realized gains (losses)	(279)	—	12	n/m	-100%
Revenues of consolidated VIEs:					
Net investment income	31	86	50	-64%	72%
Net gains (losses) on financial instruments at fair value and foreign exchange	—	42	52	-100%	-19%
Total revenues	(69)	425	819	-116%	-48%
Losses and loss adjustment	146	118	143	24%	-17%
Amortization of deferred acquisition costs	56	78	78	-28%	-%
Operating	44	50	56	-12%	-11%
Interest	115	111	110	4%	1%
Expenses of consolidated VIEs:					
Operating	14	13	9	8%	44%
Interest	25	39	39	-36%	—%
Total expenses	400	409	435	-2%	-6%
Income (loss) before income taxes	(469)	16	384	n/m	-96%
Provision (benefit) for income taxes	(52)	3	134	n/m	-98%
Net income (loss)	<u>\$(417)</u>	<u>\$ 13</u>	<u>\$ 250</u>	<u>n/m</u>	<u>-95%</u>

n/m—Percent change not meaningful.

As of December 31, 2016, MBIA Corp.'s total insured gross par outstanding was \$30.9 billion. Included in this amount was \$12.0 billion of gross par outstanding related to MBIA UK which was sold to Assured on January 10, 2017. Since December 31, 2007, MBIA Corp.'s total insured gross par outstanding has decreased approximately 91% from \$331.2 billion.

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

RESULTS OF OPERATIONS (continued)

NET PREMIUMS EARNED Our international and structured finance insurance segment generates net premiums from insurance policies accounted for as financial guarantee contracts. Certain premiums may be eliminated in our consolidated financial statements as a result of the Company consolidating VIEs. In addition, we generate net premiums from insured credit derivatives that are included in "Realized gains (losses) and other settlements on insured derivatives" on our consolidated statements of operations. The following table provides net premiums earned from our financial guarantee contracts for the years ended December 31, 2016, 2015 and 2014:

In millions	Years Ended December 31,			Percent Change	
	2016	2015	2014	2016 vs. 2015	2015 vs. 2014
Net premiums earned:					
Non-U.S.	\$ 69	\$ 73	\$ 110	-5%	-34%
U.S.	15	26	34	-42%	-24%
Total net premiums earned	\$ 84	\$ 99	\$ 144	-15%	-31%
VIEs (eliminated in consolidation)	\$ 7	\$ 56	\$ 14	-88%	n/m

n/m—Percent change not meaningful.

Net premiums earned represent gross premiums earned net of premiums ceded to reinsurers, and include scheduled premium earnings and premium earnings from refunded issues. Net premiums earned decreased for 2016 compared with 2015 and 2014 primarily due to decreases in scheduled premiums earned from the maturity and early settlements of insured transactions with no writings of new insurance policies.

FEES AND REIMBURSEMENTS The increase in fees and reimbursements for 2016 compared with 2015 was primarily due to an increase in termination and waiver and consent fees related to the ongoing management of our international and structured finance insurance business, partially offset by a decrease in ceding commission income as a result of lower refunding activity. The decrease in fees and reimbursements for 2015 compared with 2014 was primarily due to a decrease in termination and waiver and consent fees, partially offset by an increase in ceding commission income due to higher refunding activity. Due to the transaction-specific nature inherent in fees and reimbursements, these revenues can vary significantly from period to period.

NET CHANGE IN FAIR VALUE OF INSURED DERIVATIVES The Company no longer insures new credit derivative contracts. Realized losses on insured derivatives include payments made net of premiums and fees earned and salvage received. For 2016 and 2015, realized losses on insured derivatives resulted from claim payments on a pool of CMBS. For 2014, realized losses on insured derivatives resulted primarily from settlements and claim payments on a pool of CMBS. For 2016, 2015 and 2014, premiums and fees earned on insured derivatives were \$3 million, \$12 million and \$18 million, respectively. Premiums earned related to insured credit derivatives will decrease over time as a result of settlements prior to maturity and scheduled amortizations.

For the year ended December 31, 2016, unrealized gains on insured derivatives were principally the result of a decline in the weighted average life on transactions, favorable changes in spreads/prices on the underlying collateral and a reversal of unrealized losses due to commutations partially offset by the effects of MBIA's nonperformance risk on its derivative liabilities. For the year ended December 31, 2015, unrealized gains on insured derivatives were principally the result of refining the credit rating of underlying collateral. For the year ended December 31, 2014, unrealized gains on insured derivatives were principally associated with the reversal of unrealized losses from commutations.

As of December 31, 2016, the cost of a five-year CDS referencing MBIA Corp. was 11.84% upfront plus 5% per annum compared with 42.95% upfront plus 5% per annum and 16.71% upfront plus 5% per annum as of December 31, 2015 and 2014, respectively. As of December 31, 2016 and 2015, the fair value of MBIA Corp.'s insured CDS liability was \$63 million and \$85 million, respectively. Our mark-to-market on insured credit derivatives uses the most appropriate of the one to ten-year CDS cost for each transaction, and those costs ranged from 4.25% upfront plus 5% per annum to 12.59% upfront plus 5% per annum as of December 31, 2016. As of December 31, 2015, those costs ranged from 26.24% upfront plus 5% per annum to 44.55% upfront plus 5% per annum. As of December 31, 2014, those costs ranged from 3.68% upfront plus 5% per annum to 18.98% upfront plus 5% per annum.

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

RESULTS OF OPERATIONS (continued)

As of December 31, 2016, MBIA Corp. had \$588 million of gross par outstanding on insured credit derivatives compared with \$3.2 billion as of December 31, 2015. During the year ended December 31, 2016, \$1.8 billion of gross par outstanding on insured credit derivatives were terminated or matured. As of December 31, 2016, four insured credit derivatives remained outstanding.

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

OTHER NET REALIZED GAINS (LOSSES) Other net realized gains (losses) for 2016 related to the loss recorded to adjust the carrying value of MBIA UK to its fair value less costs to sell. On January 10, 2017, MBIA UK was sold to Assured. The other net realized gains (losses) for 2014 was primarily related to an insurance recovery received on an errors and omissions liability policy. Refer to the previous "Results of Operations – Summary of Consolidated Results" section for additional information about the loss recorded to adjust the carrying value of MBIA UK to its fair value less costs to sell.

REVENUES OF CONSOLIDATED VIEs For 2016, total revenues of consolidated VIEs were \$31 million compared with total revenues of \$128 million for 2015 and \$102 million for 2014. The decrease in revenues of consolidated VIEs for 2016 compared with 2015 was primarily due to a decrease in net investment income from the deconsolidation of VIEs and lower mark-to-market gains on assets of consolidated VIEs. The increase in revenues of consolidated VIEs for 2015 compared with 2014 was primarily due to an increase in net investment income of certain consolidated VIEs, primarily due to events that occurred resulting in increased cash flows related to these VIEs, partially offset by lower mark-to-market gains on assets of consolidated VIEs, primarily due to the absence of lower expected payments in 2015. We elected to record at fair value certain instruments that are consolidated under accounting guidance for consolidation of VIEs, and as such, changes in fair value are reflected in earnings.

LOSS AND LOSS ADJUSTMENT EXPENSES MBIA's insured portfolio management group within our international and structured finance insurance business is responsible for monitoring international and structured finance insured obligations. The level and frequency of monitoring of any insured obligation depends on the type, size, rating and our assessed performance of the insured issue.

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

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

RESULTS OF OPERATIONS (continued)

Summary of Financial Guarantee Insurance Losses and LAE

The following table presents information about our financial guarantee insurance losses and LAE recorded in accordance with GAAP for the years ended December 31, 2016, 2015 and 2014:

In millions	Years Ended December 31,			Percent Change	
	2016	2015	2014	2016 vs. 2015	2015 vs. 2014
Losses and LAE related to actual and expected payments ⁽¹⁾	\$110	\$196	\$72	-44%	n/m
Recoveries of actual and expected payments	35	(78)	71	-145%	n/m
Gross losses incurred	145	118	143	23%	-17%
Reinsurance	1	—	—	n/m	n/m
Losses and loss adjustment expenses ⁽²⁾	<u>\$146</u>	<u>\$118</u>	<u>\$143</u>	<u>24%</u>	<u>-17%</u>

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

(2)—As a result of consolidation of VIEs, these amounts include the elimination of loss and LAE of \$29 million, \$3 million and \$20 million for 2016, 2015 and 2014, respectively.

n/m—Percent change not meaningful

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

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

For 2014, losses and LAE primarily related to increases in expected payments on insured first-lien RMBS transactions and CDOs, decreases in projected collections from excess spread within insured second-lien RMBS securitizations and expected recoveries on an international road transaction. These were partially offset by decreases in expected payments on an international road transaction and increases in recoveries of expected payments related to insured first-lien RMBS transactions.

Refer to “Note 6: Loss and Loss Adjustment Expense Reserves” in the Notes to Consolidated Financial Statements for further information about our insurance loss recoverable and loss and LAE reserves. The following table presents information about our insurance loss recoverable and reserves as of December 31, 2016 and 2015.

In millions	December 31, 2016	December 31, 2015	Percent Change
Assets:			
Insurance loss recoverable	\$ 330	\$ 573	-42% ⁽¹⁾
Reinsurance recoverable on paid and unpaid losses ⁽²⁾	5	5	— %
Liabilities:			
Gross loss and LAE reserves ⁽³⁾	503	550	-9%
Expected recoveries on unpaid losses	(59)	(79)	-25%
Loss and LAE reserves	<u>\$ 444</u>	<u>\$ 471</u>	<u>-6%</u>

(1)—The decrease was primarily due to a decrease in expected future recoveries on CDOs as a result of the consolidation and elimination of a VIE and a decrease in projected collections of excess spread within insured second-lien RMBS.

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

(3)—Gross loss and LAE reserves with respect to Zohar II exposure reflect the expected loss and LAE payments net of expected recoveries on such reserves.

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

RESULTS OF OPERATIONS (continued)

Included in MBIA Corp.'s loss and LAE reserves are estimated future claims payments for insured obligations for which a payment default has occurred and MBIA Corp. has already paid a claim and for insured obligations where a payment default has not yet occurred. The following table includes LAE reserves, but excludes par outstanding, as of December 31, 2016 and 2015 for one and two issues, respectively, that had no expected future claim payments or par outstanding, but for which MBIA Corp. was obligated to pay LAE incurred in prior periods. As of December 31, 2016 and 2015, loss and LAE reserves comprised the following:

\$ in millions	Number of Issues ⁽¹⁾		Loss and LAE Reserve		Par Outstanding	
	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
Gross of reinsurance:						
Issues with defaults	113	105	\$ 366	\$ 336	\$ 3,228	\$ 3,925
Issues without defaults	4	6	78	135	838	1,019
Total gross of reinsurance	117	111	\$ 444	\$ 471	\$ 4,066	\$ 4,944

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

POLICY ACQUISITION COSTS AND OPERATING EXPENSES International and structured finance insurance segment expenses for the years ended December 31, 2016, 2015 and 2014 are presented in the following table:

In millions	Years Ended December 31,			Percent Change	
	2016	2015	2014	2016 vs. 2015	2015 vs. 2014
Gross expenses	\$ 45	\$ 51	\$ 58	-12%	-12%
Amortization of deferred acquisition costs	\$ 56	\$ 78	\$ 78	-28%	—%
Operating	44	50	56	-12%	-11%
Total insurance operating expenses	\$100	\$128	\$134	-22%	-4%

Gross expenses represent total insurance expenses before the deferral of any policy acquisition costs. Gross expenses decreased for 2016 compared with 2015 primarily due to decreases in premium taxes and assessments, compensation expense and building related expense. Gross expenses decreased for 2015 compared with 2014 primarily due to decreases in compensation expense, legal and consulting fees. Operating expenses decreased for 2016 compared with 2015 and 2014 due to decreases in gross expenses.

The decrease in the amortization of deferred acquisition costs for 2016 compared with 2015 was due to higher refunding activity in 2015. We did not defer a material amount of policy acquisition costs during 2016, 2015 or 2014. Policy acquisition costs in these periods were primarily related to commissions and premium taxes on installment policies written in prior periods.

INSURED PORTFOLIO EXPOSURE The credit quality of our international and structured finance insured portfolio is assessed in the same manner as our U.S. public finance insured portfolio. As of December 31, 2016 and 2015, 25% and 22%, respectively, of our international and structured finance insured portfolio, was rated below investment grade, before giving effect to MBIA's guarantees, based on MBIA's internal ratings, which are generally more current than the underlying ratings provided by S&P and Moody's for this subset of our insured portfolio.

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

RESULTS OF OPERATIONS (continued)

International and Structured Finance Insurance Selected Portfolio Exposures

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

European Sovereign Debt Exposure

Outside the U.S., financial guarantee insurance has been used on structured finance securities and by issuers of sovereign-related and sub-sovereign bonds, utilities and providers of public purpose projects, among others. MBIA does not insure any direct European sovereign debt. However, we do insure both structured finance and public finance obligations in select international markets. MBIA's indirect European sovereign insured debt exposure totaled \$5.2 billion as of December 31, 2016 and included obligations of sovereign-related and sub-sovereign issuers, such as regions, departments, and sovereign-owned and private entities that are supported by a sovereign state, region or department. Sovereign-related includes Private Finance Initiative transactions that involve private entities that receive contractual payments for providing services to public sector entities. Of the \$5.2 billion of insured gross par outstanding, \$432 million and \$185 million were related to Spain and Ireland, respectively. The remaining \$4.6 billion was related to the U.K. We do not insure any sovereign or sub-sovereign debt from Greece. Effective January 10, 2017, MBIA UK was sold with the related sovereign debt exposure. The Company has an immaterial amount of European sovereign debt holdings.

Residential Mortgage Exposure

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

The following table presents the gross par outstanding of MBIA Corp.'s total direct RMBS insured exposure as of December 31, 2016 and 2015. Amounts include the gross par outstanding related to transactions that the Company consolidates under accounting guidance for VIEs.

In millions Collateral Type	Gross Par Outstanding as of		Percent Change
	December 31, 2016	December 31, 2015	
HELOC Second-lien	\$ 1,368	\$ 1,861	-26%
CES Second-lien	1,373	1,768	-22%
Alt-A First-lien ⁽¹⁾	1,318	1,578	-16%
Subprime First-lien	606	724	-16%
Prime First-lien	56	99	-43%
Total	<u>\$ 4,721</u>	<u>\$ 6,030</u>	<u>-22%</u>

(1)—Includes international exposure of \$349 million and \$449 million as of December 31, 2016 and 2015, respectively.

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

RESULTS OF OPERATIONS (continued)

Collateralized Debt Obligations and Related Instruments

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

As of December 31, 2016 and 2015, MBIA Corp.'s CDO portfolio represented 8% and 14%, respectively, of its total insured gross par outstanding. In addition to the below table, MBIA Corp. insures approximately \$345 million in commercial real estate ("CRE") loan pools, comprising both European and domestic assets. The distribution of our insured CDO and related instruments portfolio by collateral type is presented in the following table:

In millions Collateral Type	Gross Par Outstanding as of		Percent Change
	December 31, 2016	December 31, 2015	
Multi-sector CDOs	\$ 401 ⁽¹⁾	\$ 688	-42%
Investment grade corporate CDOs	—	1,200	-100%
High yield corporate CDOs	1,635	2,420	-32%
Structured CMBS pools	188	1,002	-81%
CRE CDOs	326	698	-53%
Total	<u>\$ 2,550</u>	<u>\$ 6,008</u>	<u>-58%</u>

(1)—Excludes \$44 million of gross par outstanding where MBIA's insured exposure has been fully offset by way of loss remediation transactions.

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

Reinsurance enables the Company to cede exposure for purposes of syndicating risk. When a reinsurer is downgraded by one or more of the rating agencies, less capital credit is given to MBIA under rating agency models and the overall value of the reinsurance to MBIA is reduced. The Company generally retains the right to reassume the business ceded to reinsurers under certain circumstances, including a reinsurer's rating downgrade below specified thresholds. Currently, we do not intend to use reinsurance on new policies to decrease our insured exposure. Refer to "Note 13: Insurance in Force" in the Notes to Consolidated Financial Statements for a further discussion about our reinsurance agreements.

Advisory Services

Our asset management advisory business was conducted through Cutwater. Cutwater offered advisory services, including cash management, discretionary asset management and structured products on a fee-for-service basis. Cutwater offered these services to public, not-for-profit, corporate and financial services clients, including MBIA Inc. and its other subsidiaries. In October of 2014, the Company entered into an agreement to sell Cutwater to a subsidiary of The Bank of New York Mellon Corporation. Effective with the January 1, 2015 sale of Cutwater, MBIA has no business activities within its advisory services segment.

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

RESULTS OF OPERATIONS (continued)

The following table summarizes the results and assets under management of our advisory services segment for the year ended December 31, 2014. These results include revenues and expenses from transactions with the Company's insurance, corporate, and conduit segments.

<u>In millions</u>	<u>Year Ended December 31, 2014</u>
Fees	\$ 34
Net gains (losses) on financial instruments at fair value and foreign exchange	(3)
Revenues of consolidated VIEs	(8)
Total revenues	23
Operating expenses	48
Income (loss) before income taxes	(25)
Provision (benefit) for income taxes	(6)
Net income (loss)	<u>\$ (19)</u>
Ending assets under management:	
Third-party	\$ 11,251
Insurance	5,930
Corporate and conduit	4,159
Total ending assets under management	<u>\$ 21,340</u>

Conduit

In 2014, the Company's conduit segment was operated through Meridian and administered through MBIA Asset Finance, LLC. Assets held by Meridian were funded by MTNs. In the second quarter of 2014, we retired the remaining \$129 million of outstanding MTNs issued by Meridian and dissolved the conduit segment. Certain of MBIA's consolidated subsidiaries had received fees for services provided to Meridian. The following table presents the results of our conduit segment for the year ended December 31, 2014. These results include revenues and expenses from transactions with the Company's other segments.

<u>In millions</u>	<u>Year Ended December 31, 2014</u>
Revenues of consolidated VIEs:	
Net investment income	\$ (1)
Net gains (losses) on extinguishment of debt	4
Total revenues	3
Expenses of consolidated VIEs:	
Operating	9
Income (loss) before income taxes	(6)
Provision (benefit) for income taxes	—
Net income (loss)	<u>\$ (6)</u>

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

RESULTS OF OPERATIONS (continued)

Taxes

Provision for Income Taxes

The Company's income taxes and the related effective tax rates for the years ended December 31, 2016, 2015 and 2014 are presented in the following table:

In millions	Years Ended December 31,		
	2016	2015	2014
Income (loss) before income taxes	\$(339)	\$ 289	\$ 641
Provision (benefit) for income taxes	\$ (1)	\$ 109	\$ 72
Effective tax rate	0.3%	37.7%	11.2%
Income taxes paid	\$ 5	\$ 9	\$ 17

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

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

For 2014, our effective tax rate applied to our income before income taxes was lower than the U.S. statutory rate of 35% primarily due to a decrease in our valuation allowance against our deferred tax asset from asset sales of previously impaired assets and a decrease in our reserve for uncertain tax positions.

The Company is a party to the Tax Sharing Agreement which has been in effect since January 1, 1987 and subsequently amended and restated effective September 8, 2011.

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

CAPITAL RESOURCES

The Company manages its capital resources to minimize its cost of capital while maintaining appropriate claims-paying resources ("CPR") for National and MBIA Corp. The Company's capital resources consist of total shareholders' equity, total debt issued by MBIA Inc. for general corporate purposes, and surplus notes issued by MBIA Corp. Total capital resources were \$4.7 billion and \$5.2 billion as of December 31, 2016 and 2015, respectively. MBIA Inc. uses its capital resources to support the business activities of its subsidiaries. As of December 31, 2016, MBIA Inc.'s investments in subsidiaries totaled \$3.7 billion.

In addition, MBIA Inc. also supports the MTN and investment agreement obligations issued by the Company. We seek to maintain sufficient liquidity and capital resources to meet the Company's general corporate needs and debt service. Based on MBIA Inc.'s debt service requirements and expected operating expenses, we expect that MBIA Inc. will have sufficient cash to satisfy its debt obligations and its general corporate needs over time from distributions from its operating subsidiaries; however, there can be no assurance that MBIA Inc. will have sufficient cash in the event of unanticipated payments. In addition, the Company may also consider raising third-party capital. For further information, refer to "Strategic Plan Related and Other Risk Factors" in Part I, Item 1A of this Form 10-K and "Liquidity—MBIA Inc. Liquidity" section for additional information about MBIA Inc.'s liquidity.

Securities Repurchases

Repurchases of debt and common stock may be made from time to time in the open market or in private transactions as permitted by securities laws and other legal requirements. We may also choose to redeem debt obligations where permitted by the relevant agreements. MBIA Inc. or its subsidiaries may repurchase or redeem outstanding common shares of MBIA Inc. and outstanding debt obligations at prices that we deem to be economically advantageous.

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

CAPITAL RESOURCES (continued)

Equity securities

The Company and its subsidiaries' share repurchases that were authorized under share repurchase programs, for the years ended December 31, 2016, 2015 and 2014 are presented in the following table:

<u>In millions except per share amounts</u>	<u>Years ended December 31,</u>		
	<u>2016</u>	<u>2015</u>	<u>2014</u>
Number of shares repurchased	16.6	39.9	3.3
Average price paid per share	\$6.37	\$7.60	\$10.45
Remaining authorization as of December 31	\$ 88	\$ 94	\$ 188

During 2016, we exhausted the capacity remaining under the October 28, 2015 repurchase program of \$94 million by repurchasing 14.9 million common shares of MBIA Inc. at an average share price of \$6.30.

On February 23, 2016, the Company's Board of Directors authorized the repurchase by the Company and its subsidiaries of up to \$100 million of its outstanding shares under a new share repurchase authorization. During 2016, we repurchased 1.7 million common shares of MBIA Inc. at an average share price of \$7.02 under this new share repurchase authorization.

Debt securities

During 2016, we repurchased \$6 million par value outstanding of GFL MTNs issued by our corporate segment at a weighted average cost of approximately 97% of par value.

Insurance Statutory Capital

National and MBIA Insurance Corporation are incorporated and licensed in, and are subject to primary insurance regulation and supervision by the State of New York. MBIA UK is authorized by the Prudential Regulation Authority ("PRA") and regulated by the Financial Conduct Authority ("FCA") and the PRA in the U.K. MBIA Mexico is regulated by the Comisión Nacional de Seguros y Fianzas in Mexico. National and MBIA Insurance Corporation each are required to file detailed annual financial statements, as well as interim financial statements, with the NYSDFS and similar supervisory agencies in each of the other jurisdictions in which it is licensed. These financial statements are prepared in accordance with New York State and the National Association of Insurance Commissioners' statements of U.S. STAT and assist our regulators in evaluating minimum standards of solvency, including minimum capital requirements, and business conduct. MBIA UK is required to file quarterly and annual regulatory returns with the PRA and the FCA.

National

Capital and Surplus

National reported total statutory capital of \$3.5 billion as of December 31, 2016, compared with \$3.4 billion as of December 31, 2015. As of December 31, 2016, statutory capital comprised \$2.7 billion of policyholders' surplus and \$745 million of contingency reserves. National had statutory net income of \$192 million for the year ended December 31, 2016. As of December 31, 2016, National's unassigned surplus was \$2.1 billion.

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

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

CAPITAL RESOURCES (continued)

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

National had positive earned surplus as of December 31, 2016, which provides National with dividend capacity. During 2016, National declared and paid a dividend of \$118 million to its ultimate parent, MBIA Inc. For the foreseeable future, we expect the as-of-right declared and paid dividend amounts from National to be limited to prior year net investment income and similar in amount to the 2016 dividend payment.

Claims-Paying Resources (Statutory Basis)

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

National's CPR and components thereto, as of December 31, 2016 and 2015 are presented in the following table:

In millions	As of December 31, 2016	As of December 31, 2015
Policyholders' surplus	\$ 2,731	\$ 2,478
Contingency reserves	745	910
Statutory capital	3,476	3,388
Unearned premium reserve	786	1,042
Present value of installment premiums ⁽¹⁾	187	197
Premium resources ⁽²⁾	973	1,239
Net loss and LAE reserves ⁽¹⁾	(98)	(30)
Salvage reserves	256	102
Gross loss and LAE reserves	158	72
Total claims-paying resources	\$ 4,607	\$ 4,699

(1)—Calculated using a discount rate of 3.18% and 3.04% as of December 31, 2016 and 2015, respectively.

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

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

CAPITAL RESOURCES (continued)

MBIA Insurance Corporation

Capital and Surplus

MBIA Insurance Corporation reported total statutory capital of \$492 million as of December 31, 2016 compared with \$885 million as of December 31, 2015. As of December 31, 2016, statutory capital comprised \$238 million of policyholders' surplus and \$254 million of contingency reserves. As of December 31, 2015, statutory capital comprised \$609 million of policyholders' surplus and \$276 million of contingency reserves. For the year ended December 31, 2016, MBIA Insurance Corporation had a statutory net loss of \$323 million. Included in the net loss for 2016 was a loss of \$114 million to adjust the carrying value of MBIA UK to its estimated fair value less costs to sell. In addition, MBIA Insurance Corporation's policyholders' surplus was negatively impacted as of December 31, 2016 and 2015 by \$112 million and \$75 million, respectively, as it was not permitted to treat the portion of its investment in subsidiaries in excess of 60% of net admitted assets less the par value of common and preferred stock and liabilities as an admitted asset, as required under NYIL. MBIA Insurance Corporation's policyholders' surplus as of December 31, 2016 and 2015 included negative unassigned surplus of \$1.8 billion and \$1.4 billion, respectively. MBIA Insurance Corporation's policyholders' surplus may be further negatively impacted if future additional insured losses are incurred and the percentage of its assets invested in subsidiaries continues to increase.

The \$112 million reduction to policyholders' surplus as of December 31, 2016 will be reversed in the first quarter of 2017 to reflect the sale of MBIA UK. In addition, in the first quarter of 2017, MBIA Insurance Corporation will release contingency reserves of approximately \$20 million related to the maturity of the Zohar II Notes, as well as, record a gain of \$18 million related to the appreciation to the par value of the Zohar II Notes received as consideration. Therefore, in the first quarter of 2017, MBIA Insurance Corporation's policyholders' surplus will increase approximately \$150 million as a result of these transactions.

As of December 31, 2016, MBIA Insurance Corporation recognized estimated recoveries of \$404 million, net of reinsurance on a statutory basis related to put-backs of ineligible mortgage loans in its insured transactions and \$395 million related to excess spread recoveries on RMBS, net of reinsurance. These excess spread recoveries represented 80% of MBIA Insurance Corporation's statutory capital as of December 31, 2016. There can be no assurance that we will be successful or that we will not be delayed in realizing these recoveries. Refer to "Note 6: Loss and Loss Adjustment Expense Reserves" in the Notes to Consolidated Financial Statements for additional information about these recoveries.

Under NYIL, MBIA Insurance Corporation is also required to establish a contingency reserve to provide protection to policyholders in the event of extreme losses in adverse economic events. The amount of the reserve is based on the percentage of principal insured or premiums earned, depending on the type of obligation (net of collateral, reinsurance, refunding, refinancings and certain insured securities). Reductions in the contingency reserve may be recognized based on excessive reserves and under certain stipulated conditions, subject to the approval of the Superintendent of the NYSDFS. As a result of regulatory approved reductions, MBIA Insurance Corporation's contingency reserves of \$254 million as of December 31, 2016 represented reserves on 33 of the 278 outstanding credits insured by MBIA Insurance Corporation.

In order to maintain its New York State financial guarantee insurance license, MBIA Insurance Corporation is required to maintain a minimum of \$65 million of policyholders' surplus. Under NYIL, MBIA Insurance Corporation is required to invest its minimum surplus and contingency reserves and 50% of its loss reserves and unearned premium reserves in certain qualifying assets. As of December 31, 2016, MBIA Insurance Corporation maintained its minimum requirement of policyholders' surplus but did not have enough qualifying assets to support its contingency reserves and 50% of its loss reserves and unearned premium reserves. As of December 31, 2016 and 2015, MBIA Insurance Corporation was in compliance with its aggregate risk limits under the NYIL, but was not in compliance with certain of its single risk limits. If new overages occur with respect to its single risk limits, MBIA Insurance Corporation will report them to the NYSDFS. If MBIA Insurance Corporation is not in compliance with its aggregate risk and its single risk limits, the NYSDFS may prevent MBIA Insurance Corporation from transacting any new financial guarantee insurance business until it no longer exceeds the limitations.

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

CAPITAL RESOURCES (continued)

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

As of December 31, 2016, the par amount outstanding of MBIA Insurance Corporation's 14% Fixed-to-Floating Rate Surplus Notes due January 15, 2033 (the "Surplus Notes") was \$953 million. Section 1307 of the NYIL and the Fiscal Agency Agreement governing the surplus notes (the "Fiscal Agency Agreement"), which was approved as it relates to Section 1307 by the NYSDFS in connection with the issuance of the Surplus Notes, each impose restrictions on the payments of principal and interest (or the redemption price or any make-whole premium) on the Surplus Notes ("Surplus Note Payments"). Section 1307 of the NYIL provides that any payments on surplus notes issued by an insurer "shall be repaid only out of free and divisible surplus of such insurer with the approval of the Superintendent whenever, in his/her judgment, the financial condition of such insurer warrants." The Superintendent of Financial Services (the "Superintendent") has broad discretion in determining whether to allow us to make Surplus Note Payments. We are not aware of any guidelines or interpretations that govern the exercise of the Superintendent's discretion under Section 1307 in determining whether the financial condition of an insurer warrants the making of such payments. The Fiscal Agency Agreement provides that (a) Surplus Note Payments may be made only with the prior approval of the Superintendent, whenever, in his/her judgment, the financial condition of MBIA Insurance Corporation warrants, and (b) any such Surplus Note Payments may only be made to the extent MBIA Insurance Corporation has sufficient "Eligible Surplus" to make such payments. The Fiscal Agency Agreement defines "Eligible Surplus" as MBIA Insurance Corporation "surplus as regards policyholders," less the sum of its "common capital stock" and "preferred capital stock", as shown on its annual and quarterly statements filed with state insurance regulatory authorities. While the NYIL does not explicitly set forth the calculation of "free and divisible surplus", MBIA believes that the calculation of Eligible Surplus, as set forth in the Fiscal Agency Agreement and as accepted by the NYSDFS, is the appropriate calculation of "free and divisible surplus." MBIA Insurance Corporation had negative "free and divisible surplus," determined as set forth above, of \$53 million as of December 31, 2016 representing a decrease of \$371 million from December 31, 2015. The decrease in MBIA Insurance Corporation's "free and divisible surplus" during 2016 primarily resulted from a statutory net loss of \$323 million during 2016. MBIA Insurance Corporation is required to seek the Superintendent's approval to make payments of interest and principal when scheduled on the Surplus Notes. There is no assurance the Superintendent will approve Surplus Note Payments. Notwithstanding the sufficiency of MBIA Insurance Corporation's Eligible Surplus available for the payment of Surplus Note Payments, the NYSDFS may deny approval of any Surplus Note Payments if the Superintendent concludes that MBIA Insurance Corporation's financial condition does not warrant such approval.

The NYSDFS has not approved MBIA Insurance Corporation's requests to make interest payments on the Surplus Notes since, and including, the January 15, 2013 interest payment. The NYSDFS has cited both MBIA Insurance Corporation's liquidity and financial condition as well as the availability of "free and divisible surplus" as the basis for such non-approvals. As of January 15, 2017, the most recent scheduled interest payment date, there was \$510 million of unpaid interest on the par amount outstanding of \$953 million of the Surplus Notes. The unpaid interest on the Surplus Notes will become due on the first business day on or after which MBIA Insurance Corporation obtains approval to pay some or all of such unpaid interest. No interest has been accrued or will accrue on the deferred interest.

Claims-Paying Resources (Statutory Basis)

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

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

CAPITAL RESOURCES (continued)

MBIA Corp.'s CPR and components thereto, as of December 31, 2016 and 2015 are presented in the following table:

In millions	As of December 31, 2016	As of December 31, 2015
Policyholders' surplus	\$ 238	\$ 609
Contingency reserves	254	276
Statutory capital	492	885
Unearned premium reserve	319	356
Present value of installment premiums ^{(1) (4)}	424	520
Premium resources ⁽²⁾	743	876
Net loss and LAE reserves ⁽¹⁾	(207)	(332)
Salvage reserves ⁽³⁾	917	994
Gross loss and LAE reserves	710	662
Total claims-paying resources	<u>\$ 1,945</u>	<u>\$ 2,423</u>

(1)—Calculated using a discount rate of 5.15% and 5.18% as of December 31, 2016 and 2015, respectively.

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

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

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

LIQUIDITY

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

National Liquidity

The primary sources of cash within National are:

- principal and interest receipts on assets held in its investment portfolio; and
- premiums.

The primary uses of cash by National are:

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

As of December 31, 2016 and 2015, National held cash and investments of \$4.2 billion and \$4.5 billion, respectively, of which \$366 million and \$336 million, respectively, were highly liquid and comprised highly rated commercial paper, money market funds and municipal, U.S. agency and corporate bonds.

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

LIQUIDITY (continued)

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

National maintains a simultaneous repurchase and reverse repurchase facility ("Asset Swap") with MBIA Inc. which provides MBIA Inc. with eligible assets to pledge under investment agreements and derivative contracts. As of December 31, 2016, the notional amount used under each of these agreements was \$129 million and the fair value of collateral pledged by National and MBIA Inc. under these agreements was \$131 million and \$137 million, respectively. The net average interest rate on these transactions was 0.41%, 0.26% and 0.23% for the years ended December 31, 2016, 2015 and 2014 respectively.

Corporate Liquidity

The primary sources of cash available to MBIA Inc. to meet its liquidity needs are:

- dividends from subsidiaries;
- releases from the tax sharing agreement, which are primarily funded by subsidiaries;
- available cash and liquid assets not subject to collateral posting requirements;
- principal and interest receipts on assets held in its investment portfolio; and
- access to capital markets.

The primary uses of cash by MBIA Inc. are:

- servicing outstanding corporate debt obligations and MTNs;
- collateral requirements under investment agreements, the Asset Swap and derivative arrangements;
- payments related to interest rate swaps;
- payments of operating expenses; and
- debt buybacks and share repurchases.

As of December 31, 2016 and 2015, the liquidity positions of MBIA Inc. comprising cash and liquid assets for general corporate purposes, excluding the amounts held in escrow under its tax sharing agreement, were \$403 million and \$416 million, respectively.

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

LIQUIDITY (continued)

Based on our projections of National's and MBIA Corp.'s future earnings and losses, we expect that for the foreseeable future National will be the primary source of dividends and tax sharing agreement payments to MBIA Inc. During 2016, National declared and paid a dividend of \$118 million to its ultimate parent, MBIA Inc. There can be no assurance as to the amount and timing of any such future dividends. Also, for the foreseeable future, absent a special dividend subject to the approval of the NYSDFS, we expect the declared and paid dividend amounts from National to be limited to prior year net investment income and similar in amount to the 2016 dividend payment. Refer to the "Capital Resources – Insurance Statutory Capital" section for additional information on payments of dividends. We do not expect MBIA Inc. to receive distributions from MBIA Corp. During the year ended December 31, 2016, \$105 million was released to MBIA Inc. under the MBIA group tax sharing agreement and related escrow agreement. This amount represented National's liability under the tax sharing agreement for the 2013 tax year, which was released from escrow pursuant to the terms under the tax sharing agreement following the expiration of National's two-year net operating loss carry-back period under U.S. tax rules. During 2016, National paid to the Tax Escrow Account estimated 2016 taxes of \$103 million. As of December 31, 2016, \$329 million was held in escrow for the 2014 through 2016 tax years. In the first quarter of 2017, \$94 million was released to MBIA Inc. from the Tax Escrow Account related to the 2014 year. We expect to release up to \$130 million from the Tax Escrow Account related to the 2015 tax year in January of 2018, subject to the terms and provisions of the Company's tax sharing agreement. There can be no assurance that payments under the Tax Escrow Account from subsidiaries will be released to MBIA Inc. due to deductible or creditable tax attributes of National and/or the market value performance of the assets supporting the Tax Escrow Account.

Currently, the majority of the cash and securities of MBIA Inc. is pledged against investment agreement liabilities, the Asset Swap and derivatives, which limits its ability to raise liquidity through asset sales. If the market value or rating eligibility of the assets which are pledged against MBIA Inc.'s obligations were to decline, we would be required to pledge additional eligible assets in order to meet minimum required collateral amounts against these liabilities. To mitigate these risks, we seek to maintain cash and liquidity resources that we believe will be sufficient to make all payments due on our obligations and to meet other financial requirements, such as posting collateral. Contingent liquidity resources include: (1) sales of invested assets exposed to credit spread stress risk, which may occur at losses; (2) termination and settlement of interest rate swap agreements; and (3) accessing the capital markets. These actions, if taken, are expected to result in either additional liquidity or reduced exposure to adverse credit spread movements. There can be no assurance that these actions will be sufficient to fully mitigate this risk. Information concerning our credit spread sensitivity appears in Part II, Item 7A, "Quantitative and Qualitative Disclosures about Market Risk."

MBIA Corp. Liquidity

The primary sources of cash within MBIA Corp. are:

- installment premiums;
- recoveries associated with loss payments; and
- principal and interest receipts on assets held in its investment portfolio.

The primary uses of cash by MBIA Corp. are:

- loss or commutation payments on insured transactions;
- repayment of the MZ Funding Loan;
- payments of operating expenses; and
- payment of principal and interest related to its surplus notes, if and to the extent approved by the NYSDFS. Refer to "Capital Resources—Insurance Statutory Capital" for a discussion on the non-approval of requests to the NYSDFS to pay interest on its surplus notes.

As of December 31, 2016 and 2015, MBIA Corp. held cash and investments of \$328 million and \$997 million, respectively, of which \$201 million and \$264 million, respectively, comprised cash and highly liquid assets that were immediately available to MBIA Insurance Corporation. As of December 31, 2016, \$539 million of cash and investments was excluded in the balance for MBIA Corp. due to the sale of MBIA UK in January of 2017.

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

LIQUIDITY (continued)

Insured transactions that require payment in full of the principal insured at maturity could present liquidity risk for MBIA Corp. as any salvage recoveries from such payments could be recovered over an extended period of time after the payment of the principal amount. MBIA Corp. is generally required to satisfy claims within one to three business days, and as a result seeks to identify potential claims in advance through our monitoring process. While our financial guarantee policies generally cannot be accelerated, thereby helping to mitigate liquidity risk, insurance of CDS and certain other derivative contracts may, in certain circumstances, including the occurrence of certain insolvency or payment defaults, be subject to termination by the counterparty, triggering a claim for the fair value of the contract. In order to monitor liquidity risk and maintain appropriate liquidity resources, we use the same methodology as we use to monitor credit quality and losses within our insured portfolio, including stress scenarios. Refer to "Note 6: Loss and Loss Adjustment Expense Reserves" in the Notes to Consolidated Financial Statements for a discussion of our loss process.

MBIA Corp. has recorded expected excess spread recoveries of \$439 million as of December 31, 2016 associated with insured RMBS issues, including recoveries related to consolidated VIEs. MBIA Corp. has also recorded expected recoveries related to its claims against Credit Suisse for ineligible mortgage loans included in an MBIA Corp. insured RMBS transaction. There can be no assurance that it will be successful or not be delayed in realizing these recoveries. During the year ended December 31, 2016, MBIA Corp. collected \$92 million of excess spread recoveries related to insured RMBS issues.

The liquidity position of MBIA Corp. has been stressed by payments related to: RMBS exposures, both first and second-lien; CMBS exposures; commutations of insured transactions that reduced both exposure and potential loss volatility; and the Zohar I and Zohar II Claim payments. Refer to "Executive Overview" for a further discussion on the payment of the Zohar I and Zohar II Claims.

MBIA Corp. Financing Facility

In January of 2017, MBIA Corp. entered into a Facility, with the Senior Lenders, and with MBIA Inc., pursuant to which the Senior Lenders provided \$325 million of senior financing and MBIA Inc. provided \$38 million of subordinated financing to MZ Funding, which in turn lent the proceeds of such financing to MBIA Corp. MBIA Inc. also committed to provide an additional \$50 million subordinated financing to MZ Funding, which MZ Funding would then lend to MBIA Corp. if needed by MBIA Insurance Corporation for liquidity purposes.

In connection with the Facility, MZ Funding was organized as a wholly-owned subsidiary of the Company to act as the direct borrower from the Senior Lenders and from the Company. Pursuant to the Senior Note Indenture, dated as of January 10, 2017 (the "Senior Note Indenture"), MZ Funding issued its 14% Insured Senior Notes due January 20, 2020, having an initial aggregate principal amount of \$325 million (the "Insured Senior Notes"). Pursuant to the Subordinated Note Indenture, dated as of January 10, 2017 (the "Subordinated Note Indenture"), MZ Funding (i) issued its 14% Insured Subordinated Notes due January 20, 2020, having an initial aggregate principal amount of \$38 million (the "Initial Insured Subordinated Notes") and (ii) may from time to time on or after the closing date on January 10, 2017 issue additional 14% Insured Subordinated Notes due January 20, 2020, with an aggregate principal amount of up to \$50 million (the "Additional Insured Subordinated Notes" and, together with the Initial Insured Subordinated Notes, the "Insured Subordinated Notes" and, together with the Insured Senior Notes, the "Notes"). The interest on the Notes is payable quarterly in arrears and payable in cash, but may be payable in kind at the option of MBIA Corp. to the extent that recoveries on the Collateral and the Cash Sweep (referred to below) is less than the accrued but unpaid interest on the Notes. The Insured Senior Notes and Insured Subordinated Notes are guaranteed pursuant to financial guarantee insurance policies issued by MBIA Corp.

As component parts of the Facility, MZ Funding entered into a Credit Agreement with MBIA Corp. (the "Credit Agreement"; and the loans thereunder, the "MBIA Loans") pursuant to which it immediately lent the proceeds of the Notes to MBIA Corp.

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

LIQUIDITY (continued)

MBIA Corp. is required to promptly submit a written request to MZ Funding to make an additional loan ("Additional Loans"), and MZ Funding is required to issue to the Company (and the Company is obligated to purchase) Additional Insured Subordinated Notes, in the aggregate amount of up to \$50 million minus the outstanding principal amount of any outstanding Additional Loans (the "Undrawn Amount") (i) immediately upon the earlier of: (x) such time as MBIA Corp. consents to the filing of a petition for an Insolvency Proceeding, or (y) such time as the NYSDFS informs MBIA Corp. that a filing of a petition for an Insolvency Proceeding in respect of MBIA Corp. is imminent, (ii) if the Senior Insured Notes have not been paid in full as of July 10, 2019, (iii) if as of the last day of any fiscal quarter of MBIA Corp. the Statutory Surplus of MBIA Corp. is less than \$65 million (iv) the Available Liquidity less the Undrawn Delayed Draw Amount of MBIA Corp. is less than \$20 million or (v) MBIA Corp. determines that it requires the Undrawn Amount for liquidity purposes; provided, however, in the event MBIA Corp. submits a request for a Delayed Draw Loan on account of subsection (iv) above, MBIA Corp. shall only be required to draw Delayed Draw Loans in increments of \$12.5 million until such time that subsection (iv) above is no longer applicable.

If at the end of any fiscal quarter, MBIA's "Available Liquidity" (as defined in the Credit Agreement) exceeds \$150 million and MBIA Corp.'s "Statutory Surplus" (as defined in the Credit Agreement) exceeds \$250 million, MBIA Corp. will make a payment on the MBIA Loans in the amount by which the Available Liquidity exceeds \$150 million, except that during the first 18 months after the closing of MBIA Loans, the payment may be limited to the amount of the accrued but unpaid interest with the amount of any recovery in excess of accrued interest placed in an interest bearing account subject to the liens in favor of the Senior Lenders in lieu of the payment of principal on the MBIA Loans. This payment, which is referred to as the "Cash Sweep," will be subject to approval, or non-disapproval, of the NYSDFS. In the event the NYSDFS objects to or otherwise prevents any portion of the payments described above, MBIA Corp. shall, subject to NYSDFS approval to make such payment, pay all approved portions of the Cash Sweep Amount, as provided for herein, and, if such deposit is approved by the NYSDFS, deposit any unapproved portion of the Cash Sweep Amount into the Mandatory Prepayment Account (as defined in the Credit Agreement).

Also, MBIA Corp. will be required to apply any recoveries in respect of the Collateral to the repayment of the MBIA Loans, except that during the first 18 months after closing of the MBIA Loans, MBIA Corp. may elect to place the amount of any recovery in excess of accrued interest in an interest bearing account subject to the liens in favor of the Senior Lenders in lieu of the payment of principal on the MBIA Loans. Any repayment of principal on the MBIA Loans during the first 18 months will be subject to a declining make-whole payment as set forth in the Credit Agreement, calculated as a percentage of the principal amount being repaid.

The Facility is secured by a first priority security interest in all of MBIA Corp.'s right, title and interest in the Zohar I Collateral and the Zohar II Collateral, as such terms are defined in the Security Agreement (collectively, including any proceeds thereof, the "Collateral"). In addition, the Insured Senior Notes are secured by a pledge of the Company's interest in MZ Funding pursuant to the Pledge Agreement. Any payments or recoveries made on the Zohar II Collateral will be allocated on a pro-rata basis to repayment of the Insured Senior Notes and the MBIA Corp. Payment.

The Insured Senior Notes are secured by a first lien on the Collateral, and the Insured Subordinated Notes are secured by a second lien on the Collateral. The Company, MZ Funding and the trustees under the Senior Note Indenture and the Subordinated Note Indenture have entered into an Intercreditor Agreement (the "Intercreditor Agreement"), pursuant to which any amounts due the Company in respect of the Insured Subordinated Notes or from the MBIA Corp. policies insuring the Insured Subordinated Notes are subordinated to payment in full of the Insured Senior Notes until the amounts owed to the Senior Lenders in respect of the Insured Senior Notes have been paid in full. Therefore, at any time that the MBIA Loans are repaid, MZ Funding is required to apply the repayment first to the payment of interest and principal on the Insured Senior Notes and, after the Insured Senior Notes are paid in full, to the payment of the Insured Subordinated Notes, subject to certain reimbursements payable to MBIA Corp. The Company's ability to collect the principal and interest on the Insured Subordinated Notes will be based primarily on the amount recovered by MBIA Corp. with respect to the Collateral, after payment in full of the Insured Senior Notes and other related payment obligations that are senior to the Insured Subordinated Notes pursuant to the Intercreditor Agreement.

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

LIQUIDITY (continued)

Based on the estimated value of the Collateral in relation to the amount of the Senior Insured Notes and the Subordinated Insured Notes, the Company expects that the recoveries from the Collateral will be sufficient to enable the payment in full of the Senior Insured Notes and the Subordinated Insured Notes. There is uncertainty, however, with respect to the realizable value of the Collateral and there can be no assurance that recoveries on the Collateral will be sufficient to pay the Senior Insured Notes and the Subordinated Insured Notes in full or that, in the event that recoveries on the Collateral are not sufficient to pay the Senior Insured Notes and the Subordinated Insured Notes in full, that MBIA Corp. will be able to pay any shortfall necessary to pay the Senior Insured Notes and the Subordinated Insured Notes in full under the policy insuring the Subordinated Insured Notes.

Advances Agreement

MBIA Inc., National, MBIA Insurance Corporation and certain other affiliates are party to an intercompany advances agreement (the "MBIA Advances Agreement"). The MBIA Advances Agreement permits National to make advances to MBIA Inc. and other MBIA group companies that are party to the agreement at a rate per annum equal to LIBOR plus 0.25%. The agreement also permits other affiliates to make advances to National or MBIA Insurance Corporation at a rate per annum equal to LIBOR minus 0.10%. Advances by National cannot exceed 3% of its admitted assets as of the last quarter end. As of December 31, 2016 and 2015, there were no amounts drawn under the agreement.

Consolidated Cash Flows

Information about our consolidated cash flows by category is presented on our consolidated statements of cash flows. The following table summarizes our consolidated cash flows for the years ended December 31, 2016, 2015 and 2014:

In millions	Years Ended December 31,			Percent Change	
	2016	2015	2014	2016 vs. 2015	2015 vs. 2014
Statement of cash flow data:					
Net cash provided (used) by:					
Operating activities	\$ (142)	\$ (55)	\$ (333)	n/m	-83%
Investing activities	2,424	817	812	n/m	1%
Financing activities	(2,542)	(1,014)	(892)	n/m	14%
Effect of exchange rate changes on cash and cash equivalents	(2)	(8)	(8)	-75%	—%
Cash and cash equivalents—beginning of year	522	782	1,258	-33%	-38%
Reclassification to assets held for sale	(73)	—	(55)	n/m	-100%
Cash and cash equivalents—end of year	<u>\$ 187</u>	<u>\$ 522</u>	<u>\$ 782</u>	<u>-64%</u>	<u>-33%</u>

n/m—Percent change not meaningful.

Operating activities

Net cash used by operating activities increased for the year ended December 31, 2016 compared with 2015 primarily due to an increase in losses and LAE paid of \$113 million and a decrease in investment income received of \$35 million, partially offset by a decrease in interest paid of \$30 million and an increase in premiums, fees and reimbursements received of \$20 million. Net cash used by operating activities decreased for the year ended December 31, 2015 compared with 2014 primarily due to decreases in insured derivative commutations and loss payments of \$390 million and operating and employee related expenses of \$108 million, partially offset by decreases in premiums, fees and reimbursements and investment income received of \$164 million.

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

LIQUIDITY (continued)

Investing activities

Net cash provided by investing activities increased for the year ended December 31, 2016 compared with 2015 primarily due to an increase in net proceeds from sales, paydowns and maturities of held-to-maturity investments of consolidated VIEs of \$1.7 billion related to the deconsolidation of VIEs in 2016. Net cash provided by investing activities increased slightly for the year ended December 31, 2015 compared with 2014 primarily due to increases in net proceeds from purchases, sales, paydowns and maturities of investments and loans of \$316 million and increases in the proceeds from derivative settlements, the sale of Cutwater and the sale of our Armonk, New York facility of \$86 million. These increases were partially offset by a decrease in cash acquired from consolidated VIEs of \$214 million and an increase in collateral posting of \$175 million.

Financing activities

Net cash used by financing activities increased for the year ended December 31, 2016 compared with 2015 primarily due to an increase in the principal paydowns of consolidated VIE notes of \$1.7 billion related to the deconsolidation of VIEs in 2016, partially offset by a decrease in the purchases of treasury stock of \$195 million. Net cash used by financing activities increased for the year ended December 31, 2015 compared with 2014 primarily due to an increase in the purchases of treasury stock of \$271 million, partially offset by decreases in the principal paydowns of VIE notes and investment agreements of \$195 million.

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

LIQUIDITY (continued)

Investments

The following discussion of investments, including references to consolidated investments, excludes investments reported under "Assets of consolidated variable interest entities" on our consolidated balance sheets. Investments of VIEs support the repayment of VIE obligations and are not available to settle obligations of MBIA. Our available-for-sale ("AFS") investments comprise high-quality fixed-income securities and short-term investments. The following table presents our investment portfolio as of December 31, 2016 and 2015. As of December 31, 2016, AFS with a fair value of \$466 million reported under "Assets held for sale" within our international and structured finance segment are excluded due to the sale of MBIA UK in January of 2017.

In millions	As of December 31,		Percent Change
	2016	2015	
Available-for-sale investments:			
U.S. public finance insurance			
Amortized cost	\$ 3,975	\$ 4,227	-6%
Unrealized net gain (loss)	(63)	(70)	-10%
Fair value	3,912	4,157	-6%
International and structured finance insurance			
Amortized cost	257	627	-59%
Unrealized net gain (loss)	5	7	-29%
Fair value	262	634	-59%
Corporate			
Amortized cost	1,218	1,306	-7%
Unrealized net gain (loss)	39	23	70%
Fair value	1,257	1,329	-5%
Total available-for-sale investments:			
Amortized cost	5,450	6,160	-12%
Unrealized net gain (loss)	(19)	(40)	-53%
Total available-for-sale investments at fair value	5,431	6,120	-11%
Investments carried at fair value:			
U.S. public finance insurance			
Amortized cost	120	112	7%
Unrealized net gain (loss)	—	21	-100%
Fair value	120	133	-10%
International and structured finance insurance			
Amortized cost	—	1	-100%
Unrealized net gain (loss)	—	—	—%
Fair value	—	1	-100%
Corporate			
Amortized cost	75	95	-21%
Unrealized net gain (loss)	4	(2)	n/m
Fair value	79	93	-15%
Total investments carried at fair value:			
Amortized cost	195	208	-6%
Unrealized net gain (loss)	4	19	-79%
Total investments carried at fair value	199	227	-12%
Other investments at amortized cost:			
U.S. public finance insurance	3	3	—%
Consolidated investments at carrying value	\$ 5,633	\$ 6,350	-11%

n/m—Percent change not meaningful.

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

LIQUIDITY (continued)

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

Credit Quality

The credit quality distribution of the Company's AFS fixed-maturity investment portfolios, excluding short-term investments, based on ratings from Moody's as of December 31, 2016 is presented in the following table. Alternate ratings sources, such as S&P or the best estimate of the ratings assigned by the Company, have been used for a small percentage of securities that are not rated by Moody's.

In millions	U.S. Public Finance Insurance		Corporate		International and Structured Finance Insurance		Total	
	Fair Value	% of Fixed-Income Investments	Fair Value	% of Fixed-Income Investments	Fair Value	% of Fixed-Income Investments	Fair Value	% of Fixed-Income Investments
Available-for-sale:								
Aaa	\$1,706	45%	\$ 559	61%	\$ 19	19%	\$2,284	47%
Aa	934	25%	46	5%	55	54%	1,035	21%
A	845	22%	184	20%	15	15%	1,044	22%
Baa	136	4%	56	6%	—	0%	192	4%
Below investment grade	9	0%	47	5%	12	12%	68	2%
Not rated	175	4%	21	3%	—	—%	196	4%
Total	\$3,805	100%	\$ 913	100%	\$101	100%	\$4,819	100%
Short-term investments	104		342		161		607	
Investments carried at fair value	120		79		—		199	
Other investments	6		2		—		8	
Consolidated investments at carrying value	<u>\$4,035</u>		<u>\$1,336</u>		<u>\$262</u>		<u>\$5,633</u>	

As of December 31, 2016, the weighted average credit quality of the Company's AFS investment portfolios, excluding short-term and other investments, as presented in the preceding table are as follows:

	U.S. Public Finance Insurance	International and Structured Finance Insurance	Corporate
Weighted average credit quality ratings	Aa	Aa	Aa

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

LIQUIDITY (continued)

Insured Investments

MBIA's consolidated investment portfolio includes investments that are insured by various financial guarantee insurers ("Insured Investments"), including investments insured by National and MBIA Corp. ("Company-Insured Investments"). As of December 31, 2016, Insured Investments at fair value represented \$489 million or 9% of consolidated investments, of which \$334 million or 6% of consolidated investments were Company-Insured Investments. As of December 31, 2016, based on the actual or estimated underlying ratings of our consolidated investment portfolio, without giving effect to financial guarantees, the weighted average rating of only the Insured Investments in the investment portfolio would be in the Baa range.

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

The underlying ratings of the Company-Insured Investments as of December 31, 2016 are reflected in the following table. Amounts represent the fair value of such investments including the benefit of the MBIA guarantee. The ratings in the following table are based on ratings from Moody's. Alternate ratings sources, such as S&P, have been used for a small percentage of securities that are not rated by Moody's.

In millions			International and Structured Finance Insurance	
<u>Underlying Ratings Scale</u>	<u>U.S. Public Finance Insurance</u>	<u>Corporate</u>	<u>Finance Insurance</u>	<u>Total</u>
National:				
Aa	\$ —	\$ 26	\$ —	\$ 26
A	164	68	—	232
Total National	<u>\$ 164</u>	<u>\$ 94</u>	<u>\$ —</u>	<u>\$258</u>
MBIA Corp.:				
Aa	\$ —	\$ 14	\$ —	\$ 14
Baa	—	5	—	5
Below investment grade	—	46	11	57
Total MBIA Corp.	<u>\$ —</u>	<u>\$ 65</u>	<u>\$ 11</u>	<u>\$ 76</u>
Total Company-Insured Investments	<u>\$ 164</u>	<u>\$ 159</u>	<u>\$ 11</u>	<u>\$334</u>

Without giving effect to the National and MBIA Corp. guarantees of the Company-Insured Investments in the consolidated investment portfolio, as of December 31, 2016, based on actual or estimated underlying ratings, the weighted average rating of the consolidated investment portfolio was in the Aa range. The weighted average rating of only the Company-Insured Investments was in the Below investment grade range, and investments rated below investment grade in the Company-Insured Investments were 4% of the total consolidated investment portfolio.

Impaired Investments

As of December 31, 2016 and 2015, we held impaired AFS investments (investments for which fair value was less than amortized cost) with a fair value of \$2.2 billion and \$2.8 billion, respectively.

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

LIQUIDITY (continued)

We analyze impaired investments within our investment portfolio for OTTI on a quarterly basis. Key factors considered when assessing OTTI include but are not limited to: (a) structural and economic factors among security types that represent our largest exposure to credit impairment losses; (b) the duration and severity of the unrealized losses (i.e., a decline in the market value of a security by 20% or more at the time of the review, or 5% impaired at the time of review with a fair value below amortized cost for a consecutive 12-month period); and (c) the results of various cash flow modeling techniques. Our cash flow analysis considers all sources of cash, including credit enhancement, that support the payment of amounts owed by an issuer of a security. This includes the consideration of cash to be provided by financial guarantors, including National and MBIA Corp., resulting from an actual or potential insurance policy claim.

Refer to "Note 8: Investments" in the Notes to Consolidated Financial Statements for a detailed discussion about impaired investments.

Contractual Obligations

The following table summarizes the Company's future estimated cash payments relating to contractual obligations as of December 31, 2016. Estimating these payments requires management to make estimates and assumptions regarding these obligations. The estimates and assumptions used by management are described below. Since these estimates and assumptions are subjective, actual payments in future periods may vary from those reported in the following table. Refer to "Note 13: Insurance in Force" in the Notes to Consolidated Financial Statements for information about the Company's exposure under insurance contracts.

In millions	As of December 31, 2016						
	2017	2018	2019	2020	2021	Thereafter	Total
U.S. public finance insurance segment:							
Gross insurance claim obligations ⁽¹⁾	\$ 2	\$ 3	\$ 2	\$ 2	\$ 2	\$ 20	\$ 31
Lease liability	3	3	3	3	3	25	40
Corporate segment:							
Long-term debt	37	37	37	37	37	710	895
Investment agreements	69	29	19	47	13	432	609
Medium-term notes	43	66	62	7	113	1,030	1,321
Lease liability	1	1	1	1	—	—	4
International and structured finance insurance segment:							
Surplus notes	612	945	—	—	—	—	1,557
Gross insurance claim obligations ⁽¹⁾	269	47	23	14	13	894	1,260
Total	\$1,036	\$1,131	\$147	\$111	\$181	\$ 3,111	\$5,717

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

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

LIQUIDITY (continued)

Gross insurance claim obligations represent the future value of probability-weighted payments MBIA expects to make (before reinsurance and the consolidation of VIEs) under insurance policies for which the Company has recorded loss reserves (financial guarantees) or has estimated credit impairments (insured derivatives). Certain policies included in gross insurance claim obligations are presented net of expected recoveries. The discounted value of estimated payments included in the table, along with probability-weighted estimated recoveries and estimated negotiated early settlements, on policies accounted for as financial guarantee insurance contracts is reported as case basis reserves within "Loss and loss adjustment expense reserves" on the Company's consolidated balance sheets. Insured derivatives are recorded at fair value and reported within "Derivative liabilities" on the Company's consolidated balance sheets. Estimated potential claim payments on obligations issued by VIEs consolidated in our international and structured finance insurance segment are included within "Gross insurance claim obligations" in the preceding table. Obligations of these VIEs are collateralized by assets held by the VIEs, and investors in such obligations do not have recourse to the general credit of MBIA. As of December 31, 2016, VIE notes issued by issuer-sponsored consolidated VIEs totaled \$2.2 billion, including \$1.4 billion recorded at fair value, and are not considered contractual obligations of MBIA beyond MBIA's insurance claim obligation. The Company's involvement with VIEs is continually reassessed as required by consolidation guidance, and may result in consolidation or deconsolidation of VIEs in future periods. As the Company consolidates and deconsolidates VIEs, the amount of VIE debt obligations recorded on its balance sheet may change significantly.

Surplus notes, investment agreements, MTNs, and long-term debt include principal and interest and exclude premiums or discounts. Liabilities issued at discounts reflect principal due at maturity. Interest payments on floating rate obligations are estimated using applicable forward rates. Principal and interest on callable obligations or obligations that allow investors to withdraw funds prior to legal maturity are based on the expected call or withdrawal dates of such obligations. Liabilities denominated in foreign currencies are presented in U.S. dollars using applicable exchange rates as of December 31, 2016.

Included in international and structured finance insurance segment's surplus notes for 2017 is \$499 million of unpaid interest related to the 2013 through 2016 interest payments in which MBIA Insurance Corporation's requests for approval to pay was denied by the NYSDFS. This deferred interest payment will be due on the first business day on or after which MBIA Insurance Corporation obtains approval to make such payment. No interest will accrue on the deferred interest. There can be no assurance that the NYSDFS will approve any subsequent payments, or that it will approve any payment by the scheduled interest payment date.

The repayment of principal on our surplus notes is reflected in 2018, which is the next call date. Refer to "Capital Resources – MBIA Insurance Corporation" section for additional information on MBIA Insurance Corporation's surplus notes and statutory capital. Principal payments under investment agreements are based on expected withdrawal dates. All other principal payments are based on contractual maturity dates.

In January of 2017, MBIA Corp. consummated the Facility with 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, which in turn lent the proceeds of such financing to MBIA Corp. The loans to MBIA Corp. under the Facility mature on January 20, 2020 and bear interest at 14% per annum. Refer to the previous "Executive Overview" section for additional information about the Facility.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

The Company's market risk exposures relate to changes in interest rates, foreign exchange rates and credit spreads that affect the fair value of its financial instruments, primarily investment securities, MTNs, investment agreement liabilities and certain derivative instruments. The Company's investments are primarily U.S. dollar-denominated fixed-income securities including municipal bonds, U.S. government bonds, MBS, collateralized mortgage obligations, corporate bonds and ABS. In periods of rising and/or volatile interest rates, foreign exchange rates and credit spreads, profitability could be adversely affected should the Company have to liquidate these securities.

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

MBIA minimizes its exposure to interest rate risk, foreign exchange risk and credit spread movement through active portfolio management to ensure a proper mix of the types of securities held and to stagger the maturities of its fixed-income securities.

INTEREST RATE SENSITIVITY

Interest rate sensitivity can be estimated by projecting a hypothetical instantaneous increase or decrease in interest rates. The following table presents the estimated pre-tax change in fair value of the Company's financial instruments as of December 31, 2016 from instantaneous shifts in interest rates:

In millions	Change in Interest Rates					
	300 Basis Point Decrease	200 Basis Point Decrease	100 Basis Point Decrease	100 Basis Point Increase	200 Basis Point Increase	300 Basis Point Increase
Estimated change in fair value	\$ 547	\$ 338	\$ 168	\$ (157)	\$ (299)	\$ (427)

FOREIGN EXCHANGE RATE SENSITIVITY

The Company is exposed to foreign exchange rate risk in respect of assets and liabilities denominated in currencies other than U.S. dollars. Effective January 10, 2017, we sold our international insurance business, MBIA UK, and excluded its net assets from the below analysis. Certain liabilities included in our corporate segment are denominated in currencies other than U.S. dollars. Also, the Company regularly makes investments denominated in foreign currencies. The majority of the Company's foreign exchange rate risks is with the pound sterling and the euro. Foreign exchange rate sensitivity can be estimated by projecting a hypothetical instantaneous increase or decrease in foreign exchange rates. The following table presents the estimated pre-tax change in fair value of the Company's financial instruments as of December 31, 2016 from instantaneous shifts in foreign exchange rates:

In millions	Change in Foreign Exchange Rates			
	Dollar Weakens		Dollar Strengthens	
	20%	10%	10%	20%
Estimated change in fair value	\$ (102)	\$ (51)	\$ 51	\$ 102

CREDIT RATE SENSITIVITY

Credit spread sensitivity can be estimated by projecting a hypothetical instantaneous increase or decrease in credit spreads. The following table presents the estimated pre-tax change in fair value of the Company's financial instruments as of December 31, 2016 from instantaneous shifts in credit spread curves. It was assumed that all credit spreads move by the same amount. It is more likely that the actual changes in credit spreads will vary by security. National's investment portfolio would generally be expected to experience lower credit spread volatility than other investment portfolios since National has higher credit quality and portfolio composition in sectors that have been less volatile historically. The changes in fair value reflect partially offsetting effects as the value of the investment portfolios generally changes in an opposite direction from the liability portfolio.

In millions	Change in Credit Spreads		
	50 Basis Point Decrease	50 Basis Point Increase	200 Basis Point Increase
Estimated change in fair value	\$ 87	\$ (88)	\$ (331)

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

CREDIT DERIVATIVES SENSITIVITY

MBIA Corp. issued insurance policies insuring payments due on structured credit derivative contracts which are marked-to-market through earnings under the accounting principles for derivatives and hedging activities. The majority of these structured CDSs related to structured finance transactions with underlying reference obligations of cash securities and CDSs referencing liabilities of corporations or of other structured finance securitizations. The asset classes of the underlying reference obligations included corporate, ABS, RMBS and CMBS. These transactions were usually underwritten at or above a triple-A credit rating level.

As changes in fair value can be caused by factors unrelated to the performance of MBIA Corp.'s business and credit portfolio, including general market conditions and perceptions of credit risk, as well as market use of credit derivatives for hedging purposes unrelated to the specific referenced credits in addition to events that affect particular credit derivative exposures, the application of fair value accounting will cause the Company's earnings to be more volatile than would be suggested by the underlying performance of MBIA's business operations and credit portfolio.

The following tables reflect sensitivities to changes in credit spreads, credit rating, recovery rates and MBIA Corp.'s upfront credit spreads. Each table stands on its own and should be read independently of each other. Refer to "Note 7: Fair Value of Financial Instruments" in the Notes to Consolidated Financial Statements for further information about the Company's financial assets and liabilities that are accounted for at fair value, including valuation techniques and disclosures required by GAAP.

Sensitivity to changes in credit spreads can be estimated by projecting a hypothetical instantaneous shift in credit spread curves. The following table presents the estimated pre-tax change in fair value and the cumulative estimated net fair value of MBIA Corp.'s credit derivatives portfolio of instantaneous shifts in credit spreads as of December 31, 2016. In scenarios where credit spreads decreased, a floor of zero was used.

In millions	Change in Credit Spreads (International and Structured Finance Insurance)						
	600 Basis Point Decrease	200 Basis Point Decrease	50 Basis Point Decrease	0 Basis Point Change	50 Basis Point Increase	200 Basis Point Increase	600 Basis Point Increase
Estimated pre-tax net gains (losses)	\$ 9	\$ 3	\$ 1	\$ —	\$ —	\$ (2)	\$ (7)
Estimated net fair value	\$ (55)	\$ (61)	\$ (63)	\$ (64)	\$ (64)	\$ (66)	\$ (71)

Actual shifts in credit spread curves will vary based on the credit quality of the underlying reference obligations. In general, within any asset class, higher credit rated reference obligations will exhibit less credit spread movement than lower credit rated reference obligations. Additionally, the degree of credit spread movement can vary significantly for different asset classes. The basis point change presented in the preceding table, however, represents a fixed basis point change in referenced obligation credit spreads across all credit quality rating categories and asset classes and, therefore, the actual impact of spread changes would vary from this presentation depending on the credit rating and distribution across asset classes, both of which will adjust over time depending on new business written and runoff of the existing portfolio.

The following table presents the estimated pre-tax change in fair value and the cumulative estimated net fair value of MBIA Corp.'s insured credit default swaps by projecting a hypothetical change in the credit ratings as of December 31, 2016. A notch represents a one-step movement up or down in the credit rating.

In millions	Change in Credit Ratings (International and Structured Finance Insurance)				
	Three Notch Increase	One Notch Increase	No Change	One Notch Decrease	Three Notch Decrease
Estimated pre-tax net gains (losses)	\$ 14	\$ 3	\$ —	\$ (17)	\$ (17)
Estimated net fair value	\$ (50)	\$ (61)	\$ (64)	\$ (81)	\$ (81)

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

Recovery rates on defaulted collateral are an input into MBIA Corp.'s valuation model. Sensitivity to changes in the recovery rate assumptions used by MBIA Corp. can be estimated by projecting a hypothetical change in these assumptions. The following table presents the estimated pre-tax change in fair value and the cumulative estimated net fair value of MBIA Corp.'s insured credit default swaps based on a change in the recovery rate assumptions as of December 31, 2016.

In millions	Change in Recovery Rates (International and Structured Finance Insurance)				
	20% Increase	10% Increase	No Change	10% Decrease	20% Decrease
Estimated pre-tax net gains (losses)	\$ 2	\$ 1	\$ —	\$ —	\$ (1)
Estimated net fair value	\$ (62)	\$ (63)	\$ (64)	\$ (64)	\$ (65)

Accounting principles for fair value measurements require MBIA Corp. to incorporate its own nonperformance risk in its valuation methodology. Sensitivity to changes in MBIA Corp.'s credit spreads can be estimated by projecting a hypothetical change in this assumption. The following table presents the estimated pre-tax change in fair value and the cumulative estimated net fair value of MBIA Corp.'s insured credit default swaps. The actual upfront spread used in the valuation as of December 31, 2016 ranged from 4.25% to 12.59% based on the tenor of each transaction. The below amounts include an additional annual running credit spread of 5%.

In millions	MBIA Corp.'s Upfront Credit Spread (International and Structured Finance Insurance)				
	Increase by 15 Percentage Points	Increase by 7 Percentage Points	No Change	Decrease to 7 Percentage Points	Decrease to 15 Percentage Points
Estimated pre-tax net gains (losses)	\$ 11	\$ 6	\$ —	\$ (3)	\$ (3)
Estimated net fair value	\$ (53)	\$ (58)	\$ (64)	\$ (67)	\$ (67)

WARRANTS SENSITIVITY

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

While several factors influence the value of the Company's warrants, including stock price, stock volatility, interest rates and dividends, changes in the value of the Company's warrants are primarily driven by changes in the Company's stock price and volatility. The following tables present the estimated pre-tax change in fair value and the estimated aggregate fair value of the Company's warrants assuming hypothetical stock price or volatility changes as of December 31, 2016 holding other inputs constant.

In millions	Change in Stock Price				
	25% Increase	10% Increase	No Change	10% Decrease	25% Decrease
Estimated pre-tax net gains (losses)	\$ (24)	\$ (9)	\$ —	\$ 8	\$ 19
Estimated net fair value	\$ (57)	\$ (42)	\$ (33)	\$ (25)	\$ (14)

In millions	Change in Stock Volatility				
	10% Increase	5% Increase	No Change	5% Decrease	10% Decrease
Estimated pre-tax net gains (losses)	\$ (5)	\$ (3)	\$ —	\$ 3	\$ 5
Estimated net fair value	\$ (38)	\$ (36)	\$ (33)	\$ (30)	\$ (28)

Item 8. Financial Statements and Supplementary Data

MBIA INC. AND SUBSIDIARIES INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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

Report of Independent Registered Public Accounting Firm

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

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, of comprehensive income (loss), of changes in shareholders' equity and of cash flows present fairly, in all material respects, the financial position of MBIA Inc. and its subsidiaries at December 31, 2016 and 2015, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2016 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedules listed in the index appearing under Item 15(a)(2), present fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements and financial statement schedules, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements, on the financial statement schedules, and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

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

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

/s/ PricewaterhouseCoopers LLP
New York, New York
March 1, 2017

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

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Assets		
Investments:		
Fixed-maturity securities held as available-for-sale, at fair value (amortized cost \$4,713 and \$5,483)	\$ 4,694	\$ 5,474
Investments carried at fair value	146	177
Investments pledged as collateral, at fair value (amortized cost \$234 and \$322)	233	291
Short-term investments held as available-for-sale, at fair value (amortized cost \$552 and \$392)	552	392
Other investments (includes investments at fair value of \$5 and \$13)	8	16
	<hr/>	<hr/>
Total investments	5,633	6,350
Cash and cash equivalents	163	464
Premiums receivable	409	792
Deferred acquisition costs	118	168
Insurance loss recoverable	504	577
Assets held for sale	555	—
Deferred income taxes, net	970	951
Other assets	113	156
Assets of consolidated variable interest entities:		
Cash	24	58
Investments held-to-maturity, at amortized cost (fair value \$876 and \$2,401)	890	2,689
Fixed-maturity securities at fair value	255	932
Loans receivable at fair value	1,066	1,292
Loan repurchase commitments	404	396
Other assets	33	11
	<hr/>	<hr/>
Total assets	\$ 11,137	\$ 14,836
Liabilities and Equity		
Liabilities:		
Unearned premium revenue	\$ 958	\$ 1,591
Loss and loss adjustment expense reserves	541	516
Long-term debt	1,986	1,889
Medium-term notes (includes financial instruments carried at fair value of \$101 and \$161)	895	1,016
Investment agreements	399	462
Derivative liabilities	299	314
Liabilities held for sale	346	—
Other liabilities	233	211
Liabilities of consolidated variable interest entities:		
Variable interest entity notes (includes financial instruments carried at fair value of \$1,351 and \$2,362)	2,241	5,051
Derivative liabilities	—	45
	<hr/>	<hr/>
Total liabilities	7,898	11,095
Commitments and contingencies (Refer to Note 20)		
Equity:		
Preferred stock, par value \$1 per share; authorized shares—10,000,000; issued and outstanding—none	—	—
Common stock, par value \$1 per share; authorized shares—400,000,000; issued shares—283,989,999 and 281,833,618	284	282
Additional paid-in capital	3,160	3,138
Retained earnings	2,700	3,038
Accumulated other comprehensive income (loss), net of tax of \$37 and \$51	(128)	(61)
Treasury stock, at cost—148,789,168 and 130,303,241 shares	(2,789)	(2,668)
	<hr/>	<hr/>
Total shareholders' equity of MBIA Inc.	3,227	3,729
Preferred stock of subsidiary	12	12
	<hr/>	<hr/>
Total equity	3,239	3,741
	<hr/>	<hr/>
Total liabilities and equity	\$ 11,137	\$ 14,836

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

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

	Years Ended December 31,		
	2016	2015	2014
Revenues:			
Premiums earned:			
Scheduled premiums earned	\$ 168	\$ 199	\$ 258
Refunding premiums earned	132	173	139
Premiums earned (net of ceded premiums of \$7, \$9 and \$12)	300	372	397
Net investment income	152	152	179
Fees and reimbursements	28	6	40
Change in fair value of insured derivatives:			
Realized gains (losses) and other settlements on insured derivatives	(40)	(28)	(444)
Unrealized gains (losses) on insured derivatives	21	157	903
Net change in fair value of insured derivatives	(19)	129	459
Net gains (losses) on financial instruments at fair value and foreign exchange	84	63	78
Net investment losses related to other-than-temporary impairments:			
Investment losses related to other-than-temporary impairments	(1)	(12)	(99)
Other-than-temporary impairments recognized in accumulated other comprehensive income (loss)	(4)	(1)	84
Net investment losses related to other-than-temporary impairments	(5)	(13)	(15)
Net gains (losses) on extinguishment of debt	5	(1)	3
Other net realized gains (losses)	(282)	17	28
Revenues of consolidated variable interest entities:			
Net investment income	31	86	50
Net gains (losses) on financial instruments at fair value and foreign exchange	—	42	50
Net gains (losses) on extinguishment of debt	—	—	4
Other net realized gains (losses)	—	—	(3)
Total revenues	294	853	1,270
Expenses:			
Losses and loss adjustment	220	123	133
Amortization of deferred acquisition costs	40	50	44
Operating	137	140	195
Interest	197	199	210
Expenses of consolidated variable interest entities:			
Operating	14	13	8
Interest	25	39	39
Total expenses	633	564	629
Income (loss) before income taxes	(339)	289	641
Provision (benefit) for income taxes	(1)	109	72
Net income (loss)	\$ (338)	\$ 180	\$ 569
Net income (loss) per common share:			
Basic	\$ (2.54)	\$ 1.06	\$ 2.94
Diluted	\$ (2.54)	\$ 1.06	\$ 2.76
Weighted average number of common shares outstanding:			
Basic	133,001,088	163,936,318	188,171,503
Diluted	133,001,088	164,869,788	190,898,627

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

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

	<u>Years Ended December 31,</u>		
	<u>2016</u>	<u>2015</u>	<u>2014</u>
Net income (loss)	\$(338)	\$ 180	\$ 569
Other comprehensive income (loss):			
Unrealized gains (losses) on available-for-sale securities:			
Unrealized gains (losses) arising during the period	28	(80)	254
Provision (benefit) for income taxes	7	(27)	83
Total	21	(53)	171
Reclassification adjustments for (gains) losses included in net income (loss)	(1)	(7)	15
Provision (benefit) for income taxes	1	(3)	6
Total	(2)	(4)	9
Available-for-sale securities with other-than-temporary impairments:			
Other-than-temporary impairments and unrealized gains (losses) arising during the period	10	(3)	(85)
Provision (benefit) for income taxes	4	(1)	(31)
Total	6	(2)	(54)
Reclassification adjustments for (gains) losses included in net income (loss)	4	4	6
Provision (benefit) for income taxes	1	1	2
Total	3	3	4
Foreign currency translation:			
Foreign currency translation gains (losses)	(94)	(40)	(40)
Provision (benefit) for income taxes	1	(14)	(13)
Total	(95)	(26)	(27)
Reclassification adjustments for (gains) losses included in net income (loss)	—	—	4
Total other comprehensive income (loss)	(67)	(82)	107
Comprehensive income (loss)	<u>\$(405)</u>	<u>\$ 98</u>	<u>\$ 676</u>

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

MBIA INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
For The Years Ended December 31, 2016, 2015 and 2014
(In millions except share amounts)

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock		Total Shareholders' Equity of MBIA Inc.	Preferred Stock of Subsidiary and Noncontrolling Interest		Total Equity
	Shares	Amount				Shares	Amount		Shares	Amount	
Balance, January 1, 2014	277,812,430	\$ 278	\$ 3,115	\$ 2,289	\$ (86)	(85,562,546)	\$(2,318)	\$ 3,278	1,315	\$ 21	\$3,299
Net income (loss)	—	—	—	569	—	—	—	569	—	—	569
Other comprehensive income (loss)	—	—	—	—	107	—	—	107	—	—	107
Share-based compensation, net of tax of \$2	3,540,352	3	13	—	—	(513,267)	(6)	10	—	—	10
Treasury shares acquired under share repurchase program	—	—	—	—	—	(3,334,074)	(35)	(35)	—	—	(35)
Balance, December 31, 2014	281,352,782	\$ 281	\$ 3,128	\$ 2,858	\$ 21	(89,409,887)	\$(2,359)	\$ 3,929	1,315	\$ 21	\$3,950
ASU 2015-02 transition adjustment	—	—	—	—	—	—	—	—	—	(9)	(9)
Net income (loss)	—	—	—	180	—	—	—	180	—	—	180
Other comprehensive income (loss)	—	—	—	—	(82)	—	—	(82)	—	—	(82)
Share-based compensation, net of tax of \$9	480,836	1	10	—	—	(986,455)	(6)	5	—	—	5
Treasury shares acquired under share repurchase program	—	—	—	—	—	(39,906,899)	(303)	(303)	—	—	(303)
Balance, December 31, 2015	281,833,618	\$ 282	\$ 3,138	\$ 3,038	\$ (61)	(130,303,241)	\$(2,668)	\$ 3,729	1,315	\$ 12	\$3,741
Net income (loss)	—	—	—	(338)	—	—	—	(338)	—	—	(338)
Other comprehensive income (loss)	—	—	—	—	(67)	—	—	(67)	—	—	(67)
Share-based compensation, net of tax	2,156,381	2	22	—	—	(1,925,990)	(16)	8	—	—	8
Treasury shares acquired under share repurchase program	—	—	—	—	—	(16,559,937)	(105)	(105)	—	—	(105)
Balance, December 31, 2016	283,989,999	\$ 284	\$ 3,160	\$ 2,700	\$ (128)	(148,789,168)	\$(2,789)	\$ 3,227	1,315	\$ 12	\$3,239

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

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

	Years Ended December 31,		
	2016	2015	2014
Cash flows from operating activities:			
Premiums, fees and reimbursements received	\$ 115	\$ 95	\$ 193
Investment income received	318	353	419
Errors and omissions insurance recoveries received	—	—	30
Insured derivative commutations and losses paid	(43)	(42)	(432)
Financial guarantee losses and loss adjustment expenses paid	(351)	(238)	(240)
Proceeds from recoveries and reinsurance	99	85	131
Operating and employee related expenses paid	(136)	(130)	(238)
Interest paid, net of interest converted to principal	(139)	(169)	(179)
Income taxes (paid) received	(5)	(9)	(17)
Net cash provided (used) by operating activities	<u>(142)</u>	<u>(55)</u>	<u>(333)</u>
Cash flows from investing activities:			
Purchases of available-for-sale investments	(2,661)	(2,146)	(1,494)
Sales of available-for-sale investments	2,412	1,145	757
Paydowns and maturities of available-for-sale investments	680	800	484
Purchases of investments at fair value	(199)	(390)	(631)
Sales, paydowns and maturities of investments at fair value	260	551	789
Sales, paydowns and maturities (purchases) of short-term investments, net	(125)	525	515
Sales, paydowns and maturities of held-to-maturity investments	1,799	67	44
Purchases of loans at fair value	—	—	(310)
Paydowns and maturities of loans receivable	261	232	313
Consolidation of variable interest entities	9	7	221
Deconsolidation of variable interest entities	(8)	—	18
(Payments) proceeds for derivative settlements	(44)	13	(26)
Collateral (to) from swap counterparty	49	(31)	144
Capital expenditures	(1)	(3)	(13)
Other investing	(8)	47	1
Net cash provided (used) by investing activities	<u>2,424</u>	<u>817</u>	<u>812</u>
Cash flows from financing activities:			
Proceeds from investment agreements	19	24	30
Principal paydowns of investment agreements	(85)	(116)	(192)
Principal paydowns of medium-term notes	(129)	(118)	(168)
Principal paydowns of variable interest entity notes	(2,234)	(490)	(609)
Proceeds from issuance of variable interest entity notes	—	—	79
Principal paydowns of long-term debt	—	(11)	—
Purchases of treasury stock	(108)	(303)	(32)
Other financing	(5)	—	—
Net cash provided (used) by financing activities	<u>(2,542)</u>	<u>(1,014)</u>	<u>(892)</u>
Effect of exchange rate changes on cash and cash equivalents	(2)	(8)	(8)
Net increase (decrease) in cash and cash equivalents	(262)	(260)	(421)
Cash and cash equivalents—beginning of year	522	782	1,258
Reclassification to assets held for sale	(73)	—	(55)
Cash and cash equivalents—end of year	<u>\$ 187</u>	<u>\$ 522</u>	<u>\$ 782</u>
Reconciliation of net income (loss) to net cash provided (used) by operating activities:			
Net income (loss)	\$ (338)	\$ 180	\$ 569
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:			
Change in:			
Premiums receivable	75	50	138
Deferred acquisition costs	41	49	43
Unearned premium revenue	(263)	(371)	(412)
Loss and loss adjustment expense reserves	29	12	(133)
Insurance loss recoverable	(74)	(44)	162
Accrued interest payable	111	105	106
Accrued expenses	7	14	(36)
Net investment losses related to other-than-temporary impairments	5	13	15
Realized (gains) losses and other settlements on insured derivatives	—	—	30
Unrealized (gains) losses on insured derivatives	(21)	(157)	(903)
Net (gains) losses on financial instruments at fair value and foreign exchange	(84)	(105)	(128)
Other net realized (gains) losses	282	(17)	(25)
Deferred income tax provision (benefit)	(5)	107	50
Interest on variable interest entities, net	57	71	77
Other operating	36	38	114
Total adjustments to net income (loss)	<u>196</u>	<u>(235)</u>	<u>(902)</u>
Net cash provided (used) by operating activities	<u>\$ (142)</u>	<u>\$ (55)</u>	<u>\$ (333)</u>

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

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 1: Business Developments and Risks and Uncertainties

Summary

MBIA Inc., together with its consolidated subsidiaries, (collectively, “MBIA” or the “Company”) operates 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.”). Unless otherwise indicated or the context otherwise requires, references to “MBIA Corp.” are (i) for any references relating to the period ended January 10, 2017, to MBIA Insurance Corporation, together with its subsidiaries, MBIA UK Insurance Limited (“MBIA UK”), and MBIA Mexico S.A. de C.V. (“MBIA Mexico”) and (ii) for any references relating to the period after January 10, 2017, to MBIA Insurance Corporation together with MBIA Mexico.

Effective on January 10, 2017, MBIA Corp.’s wholly-owned subsidiary, MBIA UK (Holdings) Limited (“MBIA UK Holdings”), sold its operating subsidiary, MBIA UK, to Assured Guaranty Corp. (“Assured”), a subsidiary of Assured Guaranty Ltd. Refer below for a further discussion of the sale of MBIA UK.

Prior to 2015, MBIA managed two other operating segments, advisory services and conduit. The advisory services segment was primarily operated through Cutwater Holdings, LLC and its subsidiaries (“Cutwater”). Effective on January 1, 2015, the Company exited its advisory business through the sale of Cutwater to a subsidiary of The Bank of New York Mellon Corporation. During the second quarter of 2014, the Company dissolved its conduit segment through liquidation of Meridian Funding Company, LLC (“Meridian”). Refer to “Note 12: Business Segments” for further information about the Company’s operating segments.

Business Developments

National Ratings and New Business Opportunities

National’s ability to write new business and compete with other financial guarantors is largely dependent on the financial strength ratings assigned to National by the rating agencies. As of December 31, 2016, National had the following ratings: AA+ with a stable outlook by Kroll Bond Rating Agency; AA- with a stable outlook by Standard & Poor’s Financial Services LLC (“S&P”); and A3 with a negative outlook by Moody’s Investors Service, Inc. (“Moody’s”).

National seeks to generate shareholder value through appropriate risk adjusted pricing; however, current market conditions and the competitive landscape may limit National’s new business opportunities and its abilities to price and underwrite risk with attractive returns. Refer to “Risks and Uncertainties” below for a discussion of business risks related to National’s insured portfolio.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

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

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 (“Zohar II 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 December 31, 2016 (the “Sale Transaction”). In connection with the sale, the Company adjusted the carrying value of MBIA UK to its fair value less costs to sell and recorded a loss in 2016 that was recorded 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. Included in the loss calculation were items recorded in “Accumulated other comprehensive income (loss)” related to MBIA UK. The following table summarizes the Sale Transaction:

<u>In millions</u>	<u>As of December 31, 2016</u>
Fair Value of MBIA UK	
Total expected consideration for sale of MBIA UK	\$ 306 ⁽¹⁾
Costs to sell	(8)
Net fair value of MBIA UK, less costs to sell	\$ 298
Pre-tax loss on disposal of MBIA UK	
Difference between the carrying value and the fair value of MBIA UK	\$ (270) ⁽²⁾
Costs to sell	(8)
Total pre-tax loss on adjusting MBIA UK to its fair value less costs to sell	\$ (278)

(1)—Amount includes the fair value of the Zohar II Notes received from the sale of MBIA UK less the cash payment of \$23 million to Assured.

(2)—Includes \$97 million of losses related to items that continue to be included in accumulated other comprehensive income (loss) until ultimate sale.

Held for Sale Classification

The assets and liabilities of MBIA UK were classified as held for sale as of December 31, 2016 and presented within “Assets held for sale” and “Liabilities held for sale” on the Company’s consolidated balance sheet. Income (loss) before income taxes for MBIA UK was income of \$45 million, a loss of \$5 million, and income of \$71 million for the years ended December 31, 2016, 2015 and 2014, respectively. The following table summarizes the components of assets and liabilities held for sale as of December 31, 2016:

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

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

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

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 10: Debt” for further information about the Facility.

Risks and Uncertainties

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

U.S. Public Finance Market Conditions

National’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 July 1, 2016, Puerto Rico defaulted on scheduled debt service for certain National insured bonds and National paid gross claims in the aggregate of \$173 million as a result. On January 1, 2017, Puerto Rico also defaulted on a scheduled debt service for National insured bonds and National paid gross claims in the aggregate of \$24 million as a result. The Company continues to believe, based on its analysis of Puerto Rico’s fiscal and structural circumstances, the details of its insured exposures, and its legal and contractual rights, that all of National’s insured Puerto Rico related debt, and any claims National has made thereon, will ultimately be substantially repaid.

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 reducing and mitigating potential losses on its insurance exposures and pursuing various actions focused on maximizing the collection of recoveries. The Company does not expect to write new business in its international and structured finance insurance segment for the foreseeable future.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

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

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. During 2016, MBIA Corp. was particularly focused on ensuring its ability to cover any payment that might come due on the insurance policy it had written insuring certain notes issued by Zohar II which matured on January 20, 2017 (the "Zohar II Maturity Date"), and on exercising its rights and remedies to seek reimbursement of the \$149 million claim (the "Zohar I Claim") it paid in November of 2015 on its policy insuring the class A-1 and A-2 notes (the "Zohar I Insured Notes") issued by Zohar collateralized debt obligation ("CDO") 2003-1, Limited ("Zohar I").

Payment of Zohar II Claim

On the Zohar II Maturity Date, Zohar II failed to pay the amounts due on the Zohar II Notes. Accordingly, MBIA Corp. was presented with a claim of \$770 million (the "Zohar II Claim"). 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. MBIA Corp. will seek to recover the payment it made (plus interest and expenses) with respect to the Zohar II Claim, and anticipates that the primary source of the recovery 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"). There can be no assurance, however, that the value of the Zohar II Assets will be sufficient to permit MBIA Corp. to recover all or substantially all of the payment it made on the Zohar II Claim.

Payment of Zohar I Claim

In addition, MBIA Corp. insured the Zohar I Insured Notes, which matured on November 20, 2015. After Zohar I failed to pay the amounts due, MBIA Corp. paid the Zohar I Claim. As a result, MBIA Corp. was entitled to seek reimbursement of such payment plus interest and expenses from Zohar I and/or to exercise certain rights and remedies to seek recovery of such payment. In connection with the exercise of its rights and remedies, MBIA Corp. directed the trustee for Zohar I to commence an auction (the "Auction") of all of the assets of Zohar I, which occurred on December 21, 2016. MBIA Corp. was the winning bidder in the Auction, and in connection therewith, acquired the beneficial ownership of the Zohar I assets, which include loans made to, and equity interests in, companies purportedly controlled by the 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. The primary source of recovery will come from monetization of the Zohar I Assets, however there can be no assurance that the value of the Zohar I Assets will be sufficient to permit MBIA Corp. to recover all or substantially all of the payment it made on the Zohar I Claim.

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

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

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

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

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

Basis of Presentation

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

Certain amounts have been reclassified in prior years’ financial statements to conform to the current presentation. This includes a change in the presentation of short-term investments held as available-for-sale (“AFS”) to classify only fixed-maturity securities with a remaining maturity of less than one year at the date of purchase in “Short-term investments held as available-for-sale, at fair value” on the Company’s consolidated balance sheet. In prior periods, short-term investments held as AFS previously included all fixed-maturity securities with a remaining effective term to maturity of less than one year. The change in presentation effected “Short-term investments held as available-for-sale, at fair value” and “Fixed maturities held as available-for-sale, at fair value” on the Company’s consolidated balance sheet in prior periods. The reclassifications had no impact on total revenues, expenses, assets, liabilities, shareholders’ equity, operating cash flows, investing cash flows, or financing cash flows for all periods presented.

Consolidation

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

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 2: Significant Accounting Policies (continued)

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

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

Investments

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

Other-Than-Temporary Impairments on Investments

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

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

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 2: Significant Accounting Policies (continued)

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, demand deposits, and deposits with banks with original maturities of less than 90 days.

Acquisition Costs

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

Property and Equipment

Property and equipment consists of leasehold improvements, furniture and fixtures and equipment and software owned by the Company. All property and equipment held for use is recorded at cost and depreciated over the appropriate useful life of the asset using the straight-line method. Leasehold improvements are amortized over the useful life of the improvement or the remaining term of the lease, whichever is shorter. The cost and related accumulated depreciation applicable to assets sold or retired are removed from the Company's balance sheet and any gain or loss on disposition is recognized in earnings as a component of "Other net realized gains (losses)." Maintenance and repairs are charged to current earnings as incurred.

Property, leasehold improvements and equipment are tested for potential impairment whenever events or changes in circumstances suggest that an asset's or asset group's carrying value may not be fully recoverable. An impairment loss, calculated as the difference between the estimated fair value and the carrying value of an asset or asset group, is recognized if the sum of the expected undiscounted cash flows relating to the asset or asset group is less than the corresponding carrying value.

The Company's estimated remaining weighted average useful lives of each class of assets held for use as of December 31, 2016 are as follows:

Leasehold improvements	13 years
Furniture and fixtures	5 years
Equipment and software	3 years

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 2: Significant Accounting Policies (continued)

Derivatives

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

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

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

Fair Value Measurements—Definition and Hierarchy

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

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

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

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 2: Significant Accounting Policies (continued)

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

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

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

Loss and Loss Adjustment Expenses

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

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

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

Long-term Debt

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

Medium-Term Notes and Investment Agreements

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

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 2: Significant Accounting Policies (continued)

Financial Guarantee Insurance Premiums

Unearned Premium Revenue and Receivable for Future Premiums

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

Premium Revenue Recognition

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

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

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

Fee and Reimbursement Revenue Recognition

The Company collects insurance related fees for services performed in connection with certain transactions. In addition, the Company may be entitled to reimbursement of third-party insurance expenses that it incurs in connection with certain transactions. Depending upon the type of fee received and whether it is related to an insurance policy, the fee is either earned when it is received or deferred and earned over the life of the related transaction. Work, waiver and consent, and termination fees are earned when the related services are completed and the fee is received.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 2: Significant Accounting Policies (continued)

Stock-Based Compensation

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

Foreign Currency Translation

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

Income Taxes

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

MBIA Inc. and its eligible U.S. subsidiaries file a consolidated federal income tax return. The U.S. income taxes are allocated based on the provisions of the Company’s tax sharing agreement which governs the intercompany settlement of tax obligations and benefits. The method of allocation between the members is generally based upon separate-company calculations as if each member filed a separate tax return on its own. As of December 31, 2016, any member with a net operating loss (“NOL”) has not received any payment with respect to stand-alone tax losses contributed to the consolidated group. Each member with an NOL will receive benefits of its tax losses and credits as it is able to earn them out in the future. However, based on current facts and circumstances, MBIA Inc. has advised its subsidiaries that, its intention is not to allow any member’s NOL, capital loss or tax credit carryforward generated by any subsidiary to expire without compensation, to the extent such carryforward is used in consolidation. Such intention is independent of the tax sharing agreement which does not require any such compensation.

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

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

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 3: Recent Accounting Pronouncements

Recently Adopted Accounting Standards

Compensation-Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period (A Consensus of the FASB Emerging Issues Task Force) (ASU 2014-12)

In June of 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-12, “Compensation-Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period.” ASU 2014-12 requires that a performance target that affects vesting of share-based payment awards and that could be achieved after an employee’s requisite service period be accounted for as a performance condition. ASU 2014-12 was effective for interim and annual periods beginning January 1, 2016. The adoption of ASU 2014-12 did not affect the Company’s consolidated financial statements.

Consolidation (Topic 810): Measuring the Financial Assets and the Financial Liabilities of a Consolidated Collateralized Financing Entity (ASU 2014-13)

In August of 2014, the FASB issued ASU 2014-13, “Consolidation (Topic 810): Measuring the Financial Assets and the Financial Liabilities of a Consolidated Collateralized Financing Entity.” ASU 2014-13 applies to a consolidated collateralized financing entity defined as a VIE that holds financial assets and issues beneficial interests in those financial assets that are classified as financial liabilities. The Company may elect to measure the financial assets and the financial liabilities of a consolidated collateralized financing entity using a measurement alternative provided in ASU 2014-13. The measurement alternative requires both the financial assets and the financial liabilities of the consolidated collateralized financing entity to be measured using the more observable of the fair value of the financial assets and the fair value of the financial liabilities with the changes in fair value recognized to earnings. Upon adoption, a reporting entity may apply the measurement alternative to existing consolidated collateralized financing entities. ASU 2014-13 was effective for interim and annual periods beginning January 1, 2016. The adoption of ASU 2014-13 did not affect the Company’s consolidated financial statements.

Presentation of Financial Statements—Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern (ASU 2014-15)

In August of 2014, the FASB issued ASU 2014-15, “Presentation of Financial Statements-Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern.” ASU 2014-15 requires management to evaluate whether there are conditions or events that raise substantial doubt about the entity’s ability to continue as a going concern, and to provide certain disclosures when it is probable that the entity will be unable to meet its obligations as they become due within one year after the date that the financial statements are issued. ASU 2014-15 was effective for the annual period ended December 31, 2016 and for interim and annual periods beginning January 1, 2017. The adoption of ASU 2014-15 did not affect the Company’s consolidated financial statements.

Interest-Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs (ASU 2015-03)

In April of 2015, the FASB issued ASU 2015-03, “Interest-Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs.” ASU 2015-03 requires debt issuance costs related to a debt liability measured at amortized cost to be reported in the balance sheet as a direct deduction from the face amount of the debt liability. ASU 2015-03 was effective for interim and annual periods beginning January 1, 2016. The adoption of ASU 2015-03 was applied retrospectively and all previously reported amounts have been conformed to the current presentation. The adoption of ASU 2015-03 did not materially impact the Company’s consolidated financial statements.

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

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 3: Recent Accounting Pronouncements (continued)

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

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

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

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.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 3: Recent Accounting Pronouncements (continued)

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 basis 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 VIE to the extent the SPE's total equity at risk is not sufficient to permit the SPE to finance its activities without additional subordinated financial support or its equity investors lack any one of the following characteristics: (i) the power to direct the activities of the SPE that most significantly impact the entity's economic performance or (ii) the obligation to absorb the expected losses of the entity or the right to receive the expected residual returns of the entity. A holder of a variable interest or interests in a VIE is required to assess whether it has a controlling financial interest, and thus is required to consolidate the entity as primary beneficiary. An assessment of a controlling financial interest identifies the primary beneficiary as the variable interest holder that has both of the following characteristics: (i) the power to direct the activities of the VIE that most significantly impact the entity's economic performance and (ii) the obligation to absorb losses of the entity or the right to receive benefits from the entity that could potentially be significant to the VIE. The primary beneficiary is required to consolidate the VIE. An ongoing reassessment of controlling financial interest is required to be performed based on any substantive changes in facts and circumstances involving the VIE and its variable interests.

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

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

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 4: Variable Interest Entities (continued)

Nonconsolidated VIEs

Insurance

The following tables present the total assets of nonconsolidated VIEs in which the Company holds a variable interest as of December 31, 2016 and 2015, through its insurance operations. The following tables also present the Company's maximum exposure to loss for nonconsolidated VIEs and carrying values of the assets and liabilities for its interests in these VIEs as of December 31, 2016 and 2015. 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 CDS contracts and any investments in obligations issued by nonconsolidated VIEs.

In millions	December 31, 2016							
	Carrying Value of Assets				Carrying Value of Liabilities			
	VIE Assets	Maximum Exposure to Loss	Investments ⁽¹⁾	Premiums Receivable ⁽²⁾	Insurance Loss Recoverable ⁽³⁾	Unearned Premium Revenue ⁽⁴⁾	Loss and Loss Adjustment Expense Reserves ⁽⁵⁾	Derivative Liabilities
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 sheet.

(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 sheet.

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

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 4: Variable Interest Entities (continued)

In millions	December 31, 2015							
	Carrying Value of Assets				Carrying Value of Liabilities			
	VIE Assets	Maximum Exposure to Loss	Investments ⁽¹⁾	Premiums Receivable ⁽²⁾	Insurance Loss Recoverable ⁽³⁾	Unearned Premium Revenue ⁽⁴⁾	Loss and Loss Adjustment Expense Reserves ⁽⁵⁾	Derivative Liabilities ⁽⁶⁾
Insurance:								
Global structured finance:								
Collateralized debt obligations	\$ 5,712	\$ 3,046	\$ 51	\$ 9	\$ —	\$ 6	\$ 108	\$ 6
Mortgage-backed residential	11,524	6,072	23	31	416	30	306	—
Mortgage-backed commercial	319	219	—	1	—	1	—	—
Consumer asset-backed	5,538	1,712	—	13	—	11	4	—
Corporate asset-backed	5,218	3,446	—	26	2	30	—	—
Total global structured finance	28,311	14,495	74	80	418	78	418	6
Global public finance	44,162	14,579	—	160	—	186	—	—
Total insurance	\$72,473	\$ 29,074	\$ 74	\$ 240	\$ 418	\$ 264	\$ 418	\$ 6

(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.

(6)—Reported within “Derivative liabilities” 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 \$2.7 billion and \$2.2 billion, respectively, as of December 31, 2016, and \$5.4 billion and \$5.1 billion, respectively, as of December 31, 2015. 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. One additional VIE was consolidated during the year ended December 31, 2016 and one additional VIE was consolidated during the year ended December 31, 2015.

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

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 5: Insurance Premiums

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

As of December 31, 2016 and 2015, premiums receivable was \$409 million and \$792 million, respectively, primarily related to installment policies for which premiums will be collected over the estimated term of the contracts. Premiums receivable for an installment policy is initially measured at the present value of premiums expected to be collected over the expected period or contract period of the policy using a risk-free discount rate. Premiums receivable for policies that use the expected period of risk due to expected prepayments are adjusted in subsequent measurement periods when prepayment assumptions change using the risk-free discount rate as of the remeasurement date. Premiums receivable also includes the current amount of premiums due from installment policies insuring consolidated VIEs when the premiums are payable by third-parties on behalf of the consolidated VIEs.

The Company evaluates whether any premiums receivable are uncollectible at each balance sheet date. If the Company determines that premiums are uncollectible, it records a write-off of such amounts in current earnings. The majority of the Company's premiums receivable consists of the present values of future installment premiums that are not yet billed or due, primarily from structured finance transactions. Given that premiums due to MBIA typically have priority over most other payment obligations of structured finance transactions, the Company determined that the amount of uncollectible premiums as of December 31, 2016 and 2015 was insignificant.

As of December 31, 2016 and 2015, the risk-free rate used to discount future installment premiums was 2.8% and 2.7%, respectively, and the weighted average expected collection term of the premiums receivable was 10.07 years and 9.08 years, respectively. As of December 31, 2016 and 2015, reinsurance premiums payable was \$26 million and \$38 million, respectively, and is included in "Other liabilities" in the Company's consolidated balance sheets. In addition, as of December 31, 2016, \$6 million was included in "Liabilities held for sale" in the Company's consolidated balance sheet. The reinsurance premiums payable is accreted and paid to reinsurers as premiums due to MBIA are accreted and collected.

The following tables present a roll forward of the Company's premiums receivable for the years ended December 31, 2016 and 2015.

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

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

In millions			Adjustments			Premiums Receivable as of December 31, 2015
Premiums Receivable as of December 31, 2014	Premium Payments Received	Premiums from New Business Written	Changes in Expected Term of Policies	Accretion of Premiums Receivable Discount	Other ⁽¹⁾	
\$ 875	\$ (98)	\$ 5	\$ (16)	\$ 21	\$ 5	\$ 792

(1)—Includes premiums from third-parties on behalf of consolidated VIEs, offset by net unrealized losses due to changes in foreign currency exchange rates.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 5: Insurance Premiums (continued)

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

<u>In millions</u>	<u>Expected Collection of Premiums</u>
Three months ending:	
March 31, 2017	\$ 7
June 30, 2017	16
September 30, 2017	8
December 31, 2017	15
Twelve months ending:	
December 31, 2018	41
December 31, 2019	37
December 31, 2020	34
December 31, 2021	31
Five years ending:	
December 31, 2026	126
December 31, 2031	82
December 31, 2036 and thereafter	109
Total	<u>\$ 506</u>

The following table presents the unearned premium revenue balance and future expected premium earnings as of and for the periods presented. As of December 31, 2016, there was \$304 million of unearned premium revenue that was included in "Liabilities held for sale" in the Company's consolidated balance sheet and excluded in the following table.

<u>In millions</u>	<u>Unearned Premium Revenue</u>	<u>Expected Future Premium Earnings</u>		<u>Accretion</u>	<u>Total Expected Future Premium Earnings</u>
		<u>Upfront</u>	<u>Installments</u>		
December 31, 2016	\$ 958				
Three months ending:					
March 31, 2017	930	\$ 16	\$ 12	\$ 3	\$ 31
June 30, 2017	902	16	12	3	31
September 30, 2017	876	15	11	3	29
December 31, 2017	850	15	11	2	28
Twelve months ending:					
December 31, 2018	754	55	41	10	106
December 31, 2019	667	50	37	9	96
December 31, 2020	588	45	34	8	87
December 31, 2021	516	40	32	7	79
Five years ending:					
December 31, 2026	258	147	111	29	287
December 31, 2031	123	78	57	18	153
December 31, 2036 and thereafter	—	58	65	18	141
Total		<u>\$ 535</u>	<u>\$ 423</u>	<u>\$ 110</u>	<u>\$ 1,068</u>

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 6: Loss and Loss Adjustment Expense Reserves

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

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

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

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

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

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

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

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

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

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

In establishing case basis loss reserves, the Company calculates the present value of probability-weighted estimated loss payments, net of estimated recoveries, using a discount rate equal to the risk-free rate applicable to the currency and the weighted average remaining life of the insurance contract as required by accounting principles for financial guarantee contracts. Yields on U.S. Treasury offerings are used to discount loss reserves denominated in U.S. dollars, which represent the majority of the loss reserves. Similarly, yields on foreign government offerings are used to discount loss reserves denominated in currencies other than the U.S. dollar. If the Company were to apply different discount rates, its case basis reserves may have been higher or lower than those established as of December 31, 2016. For example, a higher discount rate applied to expected future payments would have decreased the amount of a case basis reserve established by the Company and a lower rate would have increased the amount of a reserve established by the Company. Similarly, a higher discount rate applied to the potential future recoveries would have decreased the amount of a loss recoverable established by the Company and a lower rate would have increased the amount of a loss recoverable established by the Company.

U.S. Public Finance Insurance

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

Certain local governments remain under financial and budgetary stress and a few have filed for protection under the United States Bankruptcy Code, or have entered into state statutory proceedings established to assist municipalities in managing through periods of severe fiscal stress. 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 United States Bankruptcy Code or entering state statutory proceedings does not necessarily result in a default or indicate that an ultimate loss will occur.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

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

International and Structured Finance Insurance

The international and structured finance insurance segment's case basis reserves and insurance loss recoveries recorded in accordance with GAAP do not include estimates for policies insuring credit derivatives or on financial guarantee VIEs that are eliminated in consolidation. Policies insuring credit derivative contracts are accounted for as derivatives and are carried at fair value in the Company's consolidated financial statements under GAAP. The fair values of insured credit derivative contracts are influenced by a variety of market and transaction-specific factors that may be unrelated to potential future claim payments under the Company's insurance policies. In the absence of credit impairments on insured credit derivative contracts or the early termination of such contracts at a loss, the cumulative unrealized losses recorded from these contracts should reverse before or at the maturity of the contracts. As the Company's insured credit derivatives have similar terms, conditions, risks, and economic profiles to its financial guarantee insurance policies, the Company evaluates them for impairment, under Statutory accounting, in the same way that it estimates loss and LAE for its financial guarantee policies. Refer to "Note 9: Derivative Instruments" for a further discussion of the Company's use of derivatives and their impact on the Company's consolidated financial statements.

RMBS Case Basis Reserves (Financial Guarantees)

The Company's RMBS reserves and recoveries relate to financial guarantee insurance policies. The Company's first-lien RMBS case basis reserves primarily relate to RMBS backed by alternative A-paper and subprime mortgage loans. The Company's second-lien RMBS case basis reserves relate to RMBS backed by home equity lines of credit and closed-end second mortgages. The Company calculated RMBS case basis reserves as of December 31, 2016 for both first and second-lien RMBS transactions using a process called the "Roll Rate Methodology." The Roll Rate Methodology is a multi-step process using databases of loan level information, proprietary internal cash flow models, and commercially available models to estimate potential losses and recoveries on insured bonds. "Roll Rate" is defined as the probability that current loans become delinquent and subsequently default and loans in the delinquent pipeline are charged-off or liquidated. Generally, Roll Rates are calculated for the previous twelve months and averaged. The loss reserve estimates are based on a probability-weighted average of three scenarios of loan losses (base case, stress case, and an additional stress case). Additional data used for both second and first-liens include historic averages of deal specific voluntary prepayment rates, forward projections of the London Interbank Offered Rate ("LIBOR") interest rates, and historic averages of deal-specific loss severities.

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

In addition, for second-lien RMBS backed by closed-end second mortgages, the Company considers pool mortgage insurance and for second-lien RMBS backed by home equity lines of credit, the Company assumes a constant basis spread between Prime and LIBOR interest rates.

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

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

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

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

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. If actual performance were to remain at the current levels for six additional months compared to the probability-weighted outcome currently used by the Company, the addition to its second-lien case basis reserves would be approximately \$28 million.

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 insured securitizations 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 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 LIBOR interest rates, and borrower refinancing behavior (which may be affected by a continued low 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.

Second-lien Put-Back Claims Related to Ineligible Mortgage Loans

To date, MBIA has settled the majority of the Company’s put-back claims. Only its claims against Credit Suisse remain outstanding. To date, settlement amounts have been consistent with the put-back recoveries that had been included in the Company’s financial statements at the time preceding the settlement.

The contract claim remaining with Credit Suisse is related to the inclusion of ineligible mortgage 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, which it is pursuing through litigation claims, 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 \$435 million through December 31, 2016. The Company is also entitled to collect interest on amounts paid; it believes that in 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.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

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

The Company continues to consider all 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 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 CDO portfolio, including its multi-sector CDO and high yield corporate CDO asset classes that were insured in the form of financial guarantee policies. MBIA's insured multi-sector CDOs are transactions that include a variety of collateral ranging from corporate bonds to structured finance assets (which includes, but are not limited to, RMBS-related collateral, multi-sector and corporate CDOs). MBIA's high yield corporate CDO portfolio comprises middle-market/special-opportunity corporate loan transactions.

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

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

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

The loss severities projected by these approaches vary widely. Actual losses will be a function of commutations, defaults and the loss severities realized.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

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

Summary of Loss and LAE Reserves and Recoveries

The Company's loss and LAE reserves and recoveries after VIE eliminations included in the Company's consolidated balance sheets, along with amounts that were eliminated as a result of consolidating VIEs, as of December 31, 2016 and 2015 are presented in the following table:

<u>In millions</u>	<u>As of December 31, 2016</u>	<u>As of December 31, 2015</u>
U.S. Public Finance Insurance Segment:		
Loss and LAE reserves	\$ 97	\$ 45
Insurance loss recoverable	174	4
International and Structured Finance Insurance Segment:		
<i>Second-lien RMBS:</i>		
Loss and LAE reserves after VIE elimination	44	51
Loss and LAE reserves VIE elimination	23	16
Excess Spread after VIE elimination ⁽¹⁾	294	406
Excess Spread VIE elimination ⁽²⁾	53	93
Put-Back Claims ⁽³⁾	404	396
<i>First-lien RMBS:</i>		
Loss and LAE reserves after VIE elimination	300	277
Loss and LAE reserves VIE elimination	15	5
Excess Spread after VIE elimination ⁽⁴⁾	74	80
Excess Spread VIE elimination ⁽⁵⁾	18	8
<i>CDOs:</i>		
Loss and LAE reserves after VIE elimination	87	133
Loss and LAE reserves VIE elimination	155	190
Insurance Loss Recoverable after VIE elimination	—	148
Insurance Loss Recoverable VIE elimination	154	—
<i>Other:</i>		
Loss and LAE reserves after VIE elimination	13	10
Loss and LAE reserves VIE elimination	13	—
Insurance Loss Recoverable	5	9

(1)—As of December 31, 2016 and 2015, \$280 million and \$382 million were included in "Insurance loss recoverable" and \$14 million and \$24 million were included in "Loss and loss adjustment expense reserves" on the Company's consolidated balance sheets, respectively.

(2)—As of December 31, 2016 and 2015, \$53 million and \$87 million were eliminated from "Insurance loss recoverable". As of December 31, 2015, \$6 million was eliminated from "Loss and loss adjustment expense reserves" on the Company's consolidated balance sheets, respectively.

(3)—Reflected in "Loan repurchase commitments" presented under the heading "Assets of consolidated variable interest entities" on the Company's consolidated balance sheets.

(4)—As of December 31, 2016 and 2015, \$45 million and \$34 million were included in "Insurance loss recoverable" and \$29 million and \$46 million were included in "Loss and loss adjustment expense reserves" on the Company's consolidated balance sheets, respectively.

(5)—As of December 31, 2016 and 2015, \$14 million and \$8 million were eliminated from "Insurance loss recoverable." As of December 31, 2016, \$4 million was eliminated from "Loss and loss adjustment expense reserves" on the Company's consolidated balance sheets.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

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

Changes in Loss and LAE Reserves

The following tables present changes in the Company's loss and LAE reserves for the years ended December 31, 2016 and 2015. Changes in loss reserves attributable to the accretion of the claim liability discount, changes in discount rates, changes in amount and timing of estimated claim payments and recoveries, changes in assumptions and changes in LAE reserves are recorded in "Losses and loss adjustment" expenses in the Company's consolidated statements of operations. As of December 31, 2016 and 2015, the weighted average risk-free rate used to discount the Company's loss reserves (claim liability) was 2.07% and 1.82%, respectively. LAE reserves are generally expected to be settled within a one-year period and are not discounted. As of December 31, 2016 and 2015, the Company's gross loss and LAE reserves included \$60 million and \$46 million, respectively, related to LAE.

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

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

In millions	Changes in Loss and LAE Reserves for the Year Ended December 31, 2015							Gross Loss and LAE Reserves as of December 31, 2015
Gross Loss and LAE Reserves as of December 31, 2014	Loss Payments for Cases with Reserves	Accretion of Claim Liability Discount	Changes in Discount Rates	Changes in Assumptions	Changes in Unearned Premium Revenue	Changes in LAE Reserves	Other ⁽¹⁾	Gross Loss and LAE Reserves as of December 31, 2015
\$ 506	\$ (200)	\$ 8	\$ (41)	\$ 88	\$ 14	\$ 4	\$ 137	\$ 516

(1)—Primarily changes in amount of actual loss payments on a high yield corporate CDO.

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

The increase in the Company's gross loss and LAE reserves during 2015 were primarily related to changes in amount of net payments on CDOs, partially offset by actual loss payments associated with CDOs.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 6: 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 tables present changes in the Company's insurance loss recoverable and changes in recoveries on unpaid losses reported within the Company's claim liability for the years ended December 31, 2016 and 2015. 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. As of December 31, 2015, the Company's insurance loss recoverable included \$6 million related to LAE.

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

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

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

In millions	Changes in Insurance Loss Recoverable and Recoveries on Unpaid Losses for the Year Ended December 31, 2015							Gross Reserve as of December 31, 2015
	Gross Reserve as of December 31, 2014	Collections for Cases with Recoveries	Accretion of Recoveries	Changes in Discount Rates	Changes in Assumptions	Changes in LAE Recoveries	Other ⁽¹⁾	
Insurance loss recoverable	\$ 533	\$ (74)	\$ 8	\$ 1	\$ 140	\$ 6	\$ (37)	\$ 577
Recoveries on unpaid losses ⁽²⁾	147	—	2	(2)	(46)	(1)	—	100
Total	\$ 680	\$ (74)	\$ 10	\$ (1)	\$ 94	\$ 5	\$ (37)	\$ 677

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

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

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

The decrease in the Company's insurance loss recoverable and recoveries on unpaid losses during 2015 was primarily due to actual collections, changes in the amount of expected collections and changes in assumptions on first and second-lien RMBS issues and changes in assumptions on an international road transaction. These were partially offset by the effects of changes in assumptions on CDOs.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

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

Loss and LAE Activity

The Company's financial guarantee insurance losses and LAE (excluding insured credit derivative and consolidated VIEs), net of reinsurance for the years ended December 31, 2016, 2015 and 2014 are presented in the following table:

In millions	Years Ended December 31,		
	2016	2015	2014
U.S. Public Finance Insurance Segment	\$ 74	\$ 5	\$ (10)
International and Structured Finance Insurance Segment:			
Second-lien RMBS	121	63	70
First-lien RMBS	41	34	65
CDOs	(32)	29	33
Other ⁽¹⁾	16	(8)	(25)
Losses and LAE	<u>\$ 220</u>	<u>\$ 123</u>	<u>\$ 133</u>

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

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

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

For 2014, losses and LAE primarily related to increases in expected payments on insured first-lien RMBS transactions and CDOs, decreases in projected collections from excess spread within insured second-lien RMBS securitizations and expected recoveries on an international road transaction. These were partially offset by decreases in expected payments on an international road transaction and increases in recoveries of expected payments related to insured first-lien RMBS transactions.

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 2016, 2015 and 2014, gross LAE related to remediating insured obligations were \$48 million, \$26 million and \$36 million, respectively.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

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

Surveillance Categories

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

\$ in millions	Surveillance Categories				
	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	<u>\$5,712</u>	<u>\$ 21</u>	<u>\$ 427</u>	<u>\$ 9,808</u>	<u>\$15,968</u>
Gross Claim Liability ⁽³⁾	\$ —	\$ —	\$ —	\$ 718	\$ 718
Less:					
Gross Potential Recoveries	—	—	—	770	770
Discount, net ⁽⁴⁾	—	—	—	(75)	(75)
Net claim liability (recoverable)	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 23</u>	<u>\$ 23</u>
Unearned premium revenue	\$ 9	\$ —	\$ 8	\$ 68	\$ 85

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

(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 following table provides information about the financial guarantees and related claim liability included in each of MBIA's surveillance categories as of December 31, 2015:

\$ in millions	Surveillance Categories				
	Caution List Low	Caution List Medium	Caution List High	Classified List	Total
Number of policies	57	18	171	165	411
Number of issues ⁽¹⁾	12	6	5	117	140
Remaining weighted average contract period (in years)	7.6	6.7	9.6	6.7	7.4
Gross insured contractual payments outstanding: ⁽²⁾					
Principal	\$2,591	\$ 147	\$1,996	\$ 6,426	\$11,160
Interest	2,733	57	1,038	2,419	6,247
Total	<u>\$5,324</u>	<u>\$ 204</u>	<u>\$3,034</u>	<u>\$ 8,845</u>	<u>\$17,407</u>
Gross Claim Liability ⁽³⁾	\$ —	\$ —	\$ —	\$ 797	\$ 797
Less:					
Gross Potential Recoveries	—	—	—	752	752
Discount, net ⁽⁴⁾	—	—	—	116	116
Net claim liability (recoverable)	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ (71)</u>	<u>\$ (71)</u>
Unearned premium revenue	\$ 8	\$ 2	\$ 33	\$ 55	\$ 98

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

(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.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

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

The increase during 2016 in the Company's number of policies on the classified list reflected in the preceding tables was primarily related to certain Puerto Rico policies. 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 and Zohar II exposures are net of expected recoveries. As of December 31, 2016 and 2015, 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 amounts related to Puerto Rico and Zohar II exposures that have been netted against the claim liability. As of December 31, 2016, the gross potential recoveries principally related to U.S. public finance transactions and insured second-lien RMBS transactions. As of December 31, 2015, the gross potential recoveries principally related to insured second-lien RMBS transactions. The Company's recoveries have been, and remain based on either salvage rights, the rights conferred to MBIA through the transactional documents (inclusive of the insurance agreement), or subrogation rights embedded within financial guarantee insurance policies. Expected salvage and subrogation recoveries, as well as recoveries from other remediation efforts, reduce the Company's claim liability. Once a claim payment has been made, the claim liability has been satisfied and MBIA's right to recovery is no longer considered an offset to future expected claim payments, it is recorded as a salvage asset. The amount of recoveries recorded by the Company is limited to paid claims plus the present value of projected estimated future claim payments. As claim payments are made, the recorded amount of potential recoveries may exceed the remaining amount of the claim liability for a given policy. The gross claim liability and gross potential recoveries reflect the elimination of claim liabilities and potential recoveries related to VIEs consolidated by the Company. As of December 31, 2016 and 2015, reinsurance recoverable on paid and unpaid losses was \$6 million and were included in "Other assets" on the Company's consolidated balance sheets.

Note 7: Fair Value of Financial Instruments

Fair Value Measurement

Financial Assets

Financial assets held by the Company primarily consist of investments in debt securities. Substantially all of the Company's investments are priced by independent third parties, including pricing services and brokers. Typically, the Company receives one pricing service value or broker quote for each instrument, which represents a non-binding indication of value. The Company, along with its third-party portfolio manager, reviews the assumptions, inputs and methodologies used by pricing services and brokers to obtain reasonable assurance that the prices used in its valuations reflect fair value. When the Company and its third-party portfolio manager believe a third-party quotation differs significantly from its internally developed expectation of fair value, whether higher or lower, the Company reviews its data or assumptions with the provider. This review includes comparing significant assumptions such as prepayment speeds, default ratios, forward yield curves, credit spreads and other significant quantitative inputs to internal assumptions, and working with the price provider to reconcile the differences. The price provider may subsequently provide an updated price. In the event that the price provider does not update its price, and the Company still does not agree with the price provided, its third-party portfolio manager will obtain a price from another third-party provider or use an internally developed price which it believes represents the fair value of the investment. The fair values of investments for which internal prices were used were not significant to the aggregate fair value of the Company's investment portfolio as of December 31, 2016 or 2015. 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.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 7: Fair Value of Financial Instruments (continued)

Financial Liabilities (excluding derivative liabilities)

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

Derivative Liabilities

The Company's derivative liabilities are primarily interest rate swaps and 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 and third-party 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, MBS, ABS, money market securities, and perpetual debt and equity securities.

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

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 7: Fair Value of Financial Instruments (continued)

The investment in the fixed-income fund was measured at fair value as of December 31, 2016 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, Securities Sold, Not Yet Purchased, Payable for Investments Purchased, and Accrued Investment Income

The carrying amounts of cash and cash equivalents, receivable for investments sold, securities sold, not yet purchased, payable for investments purchased, and accrued investment income 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, corporate and commercial 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 and commercial loans are either obtained from a pricing service and determined using actively quoted prices obtained from multiple market participants, or based on discounted cash flow methodologies. Loans receivable at fair value are categorized in Level 3 of the fair value hierarchy based on an unobservable input that is significant to the fair value measurement in its entirety.

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.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 7: Fair Value of Financial Instruments (continued)

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.

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.

Variable Interest Entity Derivatives

The VIEs have entered into derivative transactions consisting of cross currency swaps and interest rate caps. Fair values of over-the-counter ("OTC") derivatives are determined using valuation models based on observable and/or unobservable inputs. These observable and market-based inputs include interest rates 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.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 7: Fair Value of Financial Instruments (continued)

Derivatives

The corporate segment has entered into derivative transactions primarily consisting of interest rate swaps. Fair values of OTC 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. The valuation models are applied consistently from period to period, with refinements to the valuation technique being applied as and when the information becomes available. Negotiated settlements are also considered to validate the valuation models and to reflect assumptions the Company believes market participants would use.

Approximately 97% of the balance sheet fair value of insured credit derivatives as of December 31, 2016 was valued based on the Binomial Expansion Technique (“BET”) Model. Approximately 3% of the balance sheet fair value of insured credit derivatives as of December 31, 2016 was valued based on the internally developed Direct Price Model and the Dual Default model. The valuation of insured derivatives includes the impact of its credit standing. The insured credit derivatives are categorized as Level 3 of the fair value hierarchy based on unobservable inputs that are significant to the fair value measurement in its entirety.

Valuation Model Overview

The Company uses the BET Model to estimate 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.

As of December 31, 2016 and 2015, the Company’s net insured CDS derivative liability was \$64 million and \$85 million, respectively, based on the results of the aforementioned models. A significant driver of changes in fair value is MBIA Corp.’s nonperformance risk. In aggregate, the nonperformance calculation resulted in a pre-tax net insured derivative liability that was \$11 million and \$99 million lower than the net liability that would have been estimated if MBIA Corp. excluded nonperformance risk in its valuation as of December 31, 2016 and 2015, respectively.

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.

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.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 7: Fair Value of Financial Instruments (continued)

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. The MBIA Corp. CDS spread and recovery rate are used as the discount rate for MBIA Corp., while the CDS spread and recovery rate of a similar municipal bond insurance company are used as the discount rate for National, as National does not have a published CDS spread and recovery rate.

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 MBIA'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” on the Company's consolidated balance sheets.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 7: Fair Value of Financial Instruments (continued)

Significant Unobservable Inputs

The following tables provide quantitative information regarding the significant unobservable inputs used by the Company for assets and liabilities measured at fair value on a recurring basis as of December 31, 2016 and 2015. These tables exclude inputs used to measure fair value that are not developed by the Company, such as broker prices and other third-party pricing service valuations.

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 Discounted cash flow	Impact of financial guarantee Multiples ⁽¹⁾	0%—28%(3%)
Loan repurchase commitments	404	Discounted cash flow	Recovery rates ⁽²⁾ Breach rates ⁽²⁾	
Liabilities of consolidated VIEs:				
Variable interest entity notes	476	Market prices of VIE assets adjusted for financial guarantees provided	Impact of financial guarantee	0%—54%(24%)
Credit derivative liabilities, net:				
CMBS	62	BET Model	Recovery rates Nonperformance risk Weighted average life (in years) CMBS spreads	25%—40%(33%) 10%—32%(32%) 1.1—1.5(1.3) 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.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 7: Fair Value of Financial Instruments (continued)

In millions	Fair Value as of December 31, 2015	Valuation Techniques	Unobservable Input	Range (Weighted Average)
Assets of consolidated VIEs:				
Loans receivable at fair value	\$ 1,292	Market prices adjusted for financial guarantees provided to VIE obligations	Impact of financial guarantee	0%—5%(1%)
Loan repurchase commitments	396	Discounted cash flow	Recovery rates ⁽¹⁾ Breach rates ⁽¹⁾	
Liabilities of consolidated VIEs:				
Variable interest entity notes	1,267	Market prices of VIE assets adjusted for financial guarantees provided	Impact of financial guarantee	0%—37%(14%)
Credit derivative liabilities, net:				
CMBS	72	BET Model	Recovery rates Nonperformance risk Weighted average life (in years) CMBS spreads	25%—90%(66%) 33%—55%(54%) 1.1—3.2(1.6) 0%—59%(19%)
Multi-sector CDO	3	Direct Price Model	Nonperformance risk	59%—59%(59%)
Other	10	BET Model and Dual Default	Recovery rates Nonperformance risk Weighted average life (in years)	42%—45%(43%) 59%—59%(59%) 0.5—7.3(1.9)
Other derivative liabilities	18	Discounted cash flow	Cash flows	\$0—\$83(\$42) ⁽²⁾

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

(2)—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.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 7: Fair Value of Financial Instruments (continued)

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

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

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

The significant unobservable inputs used in the fair value measurement of MBIA Corp.'s other credit derivatives, which are valued using the BET Model and Dual Default, are recovery rates, nonperformance risk and weighted average life. 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 MBIA Corp.'s estimate of when the principal of the underlying collateral will be repaid. 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. 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.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 7: Fair Value of Financial Instruments (continued)

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 December 31, 2016 and 2015:

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

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 7: Fair Value of Financial Instruments (continued)

In millions	Fair Value Measurements at Reporting Date Using				Balance as of December 31, 2016
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Counterparty and Cash Collateral Netting	
Assets of consolidated VIEs:					
Corporate obligations	—	27	—	—	27
Mortgage-backed securities:					
Residential mortgage-backed non- agency	—	149	—	—	149
Commercial mortgage-backed	—	52	—	—	52
Asset-backed securities:					
Collateralized debt obligations	—	7	1 ⁽¹⁾	—	8
Other asset-backed	—	18	1 ⁽¹⁾	—	19
Cash	24	—	—	—	24
Loans receivable at fair value:					
Residential loans receivable	—	—	916	—	916
Other 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)—Represents an investment that was measured at fair value by applying the net asset value per share practical expedient, and was not required to be classified in the fair value hierarchy.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 7: Fair Value of Financial Instruments (continued)

In millions	Fair Value Measurements at Reporting Date Using				Balance as of December 31, 2015
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Counterparty and Cash Collateral Netting	
Assets:					
Fixed-maturity investments:					
U.S. Treasury and government agency	\$ 866	\$ 110	\$ —	\$ —	\$ 976
State and municipal bonds	—	1,685	41 ⁽¹⁾	—	1,726
Foreign governments	153	43	2 ⁽¹⁾	—	198
Corporate obligations	—	1,450	7 ⁽¹⁾	—	1,457
Mortgage-backed securities:					
Residential mortgage-backed agency	—	993	—	—	993
Residential mortgage-backed non- agency	—	51	—	—	51
Commercial mortgage-backed	—	31	—	—	31
Asset-backed securities:					
Collateralized debt obligations	—	5	29 ⁽¹⁾	—	34
Other asset-backed	—	281	38 ⁽¹⁾	—	319
Total fixed-maturity investments	1,019	4,649	117	—	5,785
Money market securities	354	—	—	—	354
Perpetual debt and equity securities	18	17	—	—	35
Fixed-income funds	—	—	—	—	173 ⁽²⁾
Cash and cash equivalents	464	—	—	—	464
Derivative assets:					
Non-insured derivative assets:					
Interest rate derivatives	—	4	—	(1)	3

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 7: Fair Value of Financial Instruments (continued)

In millions	Fair Value Measurements at Reporting Date Using				Balance as of December 31, 2015
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Counterparty and Cash Collateral Netting	
Assets of consolidated VIEs:					
Corporate obligations	—	39	11 ⁽¹⁾	—	50
Mortgage-backed securities:					
Residential mortgage-backed non- agency	—	172	—	—	172
Commercial mortgage-backed	—	672	—	—	672
Asset-backed securities:					
Collateralized debt obligations	—	13	1 ⁽¹⁾	—	14
Other asset-backed	—	18	6 ⁽¹⁾	—	24
Cash	58	—	—	—	58
Loans receivable at fair value:					
Residential loans receivable	—	—	1,185	—	1,185
Other loans receivable	—	—	107	—	107
Loan repurchase commitments	—	—	396	—	396
Derivative assets:					
Currency derivatives	—	—	11 ⁽¹⁾	—	11
Total assets	\$ 1,913	\$ 5,584	\$ 1,834	\$ (1)	\$ 9,503
Liabilities:					
Medium-term notes	\$ —	\$ —	\$ 161 ⁽¹⁾	\$ —	\$ 161
Derivative liabilities:					
Insured derivatives:					
Credit derivatives	—	3	85	—	88
Non-insured derivatives:					
Interest rate derivatives	—	240	—	(32)	208
Other	—	—	18	—	18
Other liabilities:					
Warrants	—	18	—	—	18
Securities sold, not yet purchased	18	—	—	—	18
Liabilities of consolidated VIEs:					
Variable interest entity notes	—	1,095	1,267	—	2,362
Derivative liabilities:					
Interest rate derivatives	—	45	—	—	45
Total liabilities	\$ 18	\$ 1,401	\$ 1,531	\$ (32)	\$ 2,918

(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)—Represents investments that were measured at fair value by applying the net asset value per share practical expedient, and were not required to be classified in the fair value hierarchy.

Level 3 assets at fair value as of December 31, 2016 and 2015 represented approximately 21% and 19%, respectively, of total assets measured at fair value. Level 3 liabilities at fair value as of December 31, 2016 and 2015 represented approximately 37% and 52%, respectively, of total liabilities measured at fair value.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 7: 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 December 31, 2016 and 2015:

In millions	Fair Value Measurements at Reporting Date Using			Fair Value Balance as of December 31, 2016	Carry Value Balance as of December 31, 2016
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)		
Assets:					
Other investments	\$ —	\$ 2	\$ —	\$ 2	\$ 3
Assets held for sale	—	306	—	306	306
Accrued investment income ⁽¹⁾	—	40	—	40	40
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.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 7: Fair Value of Financial Instruments (continued)

In millions	Fair Value Measurements at Reporting Date Using			Fair Value Balance as of December 31, 2015	Carry Value Balance as of December 31, 2015
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)		
Assets:					
Other investments	\$ —	\$ —	\$ 3	\$ 3	\$ 3
Accrued investment income ⁽¹⁾	—	38	—	38	38
Receivable for investments sold ⁽¹⁾	—	26	—	26	26
Assets of consolidated VIEs:					
Investments held-to-maturity	—	—	2,401	2,401	2,689
Total assets	\$ —	\$ 64	\$ 2,404	\$ 2,468	\$ 2,756
Liabilities:					
Long-term debt	\$ —	\$ 762	\$ —	\$ 762	\$ 1,889
Medium-term notes	—	—	534	534	855
Investment agreements	—	—	595	595	462
Payable for investments purchased ⁽²⁾	—	36	—	36	36
Liabilities of consolidated VIEs:					
Variable interest entity notes	—	—	2,596	2,596	2,689
Total liabilities	\$ —	\$ 798	\$ 3,725	\$ 4,523	\$ 5,931
Financial Guarantees:					
Gross	\$ —	\$ —	\$ 3,093	\$ 3,093	\$ 1,530
Ceded	—	—	94	94	56

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

(2)—Reported within “Other liabilities” on MBIA’s consolidated balance sheets.

The following tables present information about changes in Level 3 assets (including short-term investments) and liabilities measured at fair value on a recurring basis for the years ended December 31, 2016 and 2015:

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

In millions	Balance, Beginning of Year	Realized Gains / (Losses)	Unrealized Gains / (Losses) Included in Earnings	Unrealized Gains / (Losses) Included in OCI	Foreign Exchange Recognized in OCI or Earnings	Purchases	Issuances	Settlements	Sales	Transfers into Level 3 ⁽¹⁾	Transfers out of Level 3 ⁽¹⁾	Ending Balance	Change in Unrealized Gains (Losses) for the Period Included in Earnings for Assets still held as of December 31, 2016
Assets:													
Foreign governments	\$ 2	\$ —	\$ —	\$ —	(1)	10	—	(10)	—	—	(1)	—	—
Corporate obligations	7	—	—	—	—	—	—	—	—	2	(7)	2	—
Commercial mortgage-backed	—	—	—	—	—	—	—	—	(1)	1	—	—	—
Collateralized debt obligations	29	—	—	18	—	—	—	(32)	—	—	—	15	—
Other asset-backed	38	(1)	(1)	14	—	—	—	(3)	—	—	(3)	44	(1)
State and municipal bonds	41	—	—	—	—	122	—	(39)	(1)	2	(125)	—	—
Assets of consolidated VIEs:													
Corporate obligations	11	—	(6)	—	—	—	—	(2)	—	2	(5)	—	—
Residential mortgage-backed non-agency	—	—	(1)	—	—	—	—	—	—	1	—	—	—
Commercial mortgage-backed	—	—	(4)	—	—	—	—	—	—	4	—	—	—
Collateralized debt obligations	1	—	—	—	—	—	—	—	—	—	—	1	—
Other asset-backed	6	—	(7)	—	—	—	—	—	—	5	(3)	1	—
Loans receivable-residential	1,185	—	(11)	—	—	—	—	(258)	—	—	—	916	(11)
Loans receivable-other	107	—	4	—	—	146	—	—	(107)	—	—	150	4
Loan repurchase commitments	396	—	8	—	—	—	—	—	—	—	—	404	8
Currency derivatives net	11	—	2	—	6	—	—	—	—	—	—	19	8
Total assets	\$ 1,834	\$ (1)	\$ (16)	\$ 32	\$ 5	\$ 278	\$ —	\$ (344)	\$ (109)	\$ 17	\$ (144)	\$ 1,552	\$ 8

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 7: Fair Value of Financial Instruments (continued)

In millions	Balance, Beginning of Year	Realized (Gains) / Losses	Unrealized (Gains) / Losses Included in Earnings	Unrealized (Gains) / Losses Included in OCI	Foreign Exchange Recognized in OCI or Earnings	Purchases	Issuances	Settlements	Sales	Transfers into Level 3 ⁽¹⁾	Transfers out of Level 3 ⁽¹⁾	Ending Balance	Change in Unrealized (Gains) Losses for the Period Included in Earnings for Liabilities still held as of
													December 31, 2016
Liabilities:													
Medium-term notes	\$ 161	\$ —	\$ (3)	\$ —	\$ (1)	\$ —	\$ —	\$ (56)	\$ —	\$ —	\$ —	\$ 101	\$ (4)
Credit derivatives, net	85	43	(21)	—	—	—	—	(43)	—	—	—	64	(13)
Other derivatives, net	18	—	2	—	—	—	—	—	—	—	—	20	2
Liabilities of consolidated VIEs:													
VIE notes	1,267	—	(23)	—	—	9	—	(146)	(631)	—	—	476	(23)
Total liabilities	\$ 1,531	\$ 43	\$ (45)	\$ —	\$ (1)	\$ 9	\$ —	\$ (245)	\$ (631)	\$ —	\$ —	\$ 661	\$ (38)

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

Changes in Level 3 Assets and Liabilities Measured at Fair Value on a Recurring Basis for the Year Ended December 31, 2015

In millions	Balance, Beginning of Year	Realized Gains / (Losses)	Unrealized Gains / (Losses) Included in Earnings	Unrealized Gains / (Losses) Included in OCI	Foreign Exchange Recognized in OCI or Earnings	Purchases	Issuances	Settlements	Sales	Transfers into Level 3 ⁽¹⁾	Transfers out of Level 3 ⁽¹⁾	Ending Balance	Change in Unrealized Gains (Losses) for the Period Included in Earnings for Assets still held as of
													December 31, 2015
Assets:													
Foreign governments	\$ 6	\$ —	\$ —	\$ —	\$ (1)	\$ —	\$ —	\$ —	\$ (3)	\$ —	\$ —	\$ 2	\$ —
Corporate obligations	10	—	—	—	—	—	—	—	—	20	(23)	7	—
Commercial mortgage-backed	2	—	—	—	—	—	—	—	—	—	(2)	—	—
Collateralized debt obligations	87	(2)	—	3	—	—	—	(50)	(8)	1	(4)	29	—
Other asset-backed	85	(2)	—	(5)	—	4	—	(9)	(21)	12	(26)	38	—
State and municipal bonds	8	—	—	—	—	45	—	(10)	—	—	(2)	41	—
Assets of consolidated VIEs:													
Corporate obligations	55	—	(4)	—	—	—	—	(5)	—	6	(41)	11	—
Residential mortgage-backed non-agency	3	—	1	—	—	—	—	(1)	—	2	(5)	—	—
Collateralized debt obligations	5	—	5	—	—	—	—	(1)	—	1	(9)	1	—
Other asset-backed	26	—	2	—	—	—	—	(9)	—	1	(14)	6	—
Loans receivable-residential	1,431	—	(13)	—	—	—	—	(233)	—	—	—	1,185	(13)
Loans receivable-other	—	—	(1)	—	—	108	—	—	—	—	—	107	(1)
Loan repurchase commitments	379	—	17	—	—	—	—	—	—	—	—	396	17
Currency derivatives, net	—	—	4	—	7	—	—	—	—	—	—	11	11
Total assets	\$ 2,097	\$ (2)	\$ 11	\$ (2)	\$ 6	\$ 157	\$ —	\$ (318)	\$ (32)	\$ 43	\$ (126)	\$ 1,834	\$ 14

In millions	Balance, Beginning of Year	Realized (Gains) / Losses	Unrealized (Gains) / Losses Included in Earnings	Unrealized (Gains) / Losses Included in OCI	Foreign Exchange Recognized in OCI or Earnings	Purchases	Issuances	Settlements	Sales	Transfers into Level 3 ⁽¹⁾	Transfers out of Level 3 ⁽¹⁾	Ending Balance	Change in Unrealized (Gains) Losses for the Period Included in Earnings for Liabilities still held as of
													December 31, 2015
Liabilities:													
Medium-term notes	\$ 197	\$ —	\$ (16)	\$ —	\$ (20)	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 161	\$ (36)
Credit derivatives, net	244	28	(159)	—	—	—	—	(28)	—	—	—	85	(145)
Other derivatives, net	24	—	(6)	—	—	—	—	—	—	—	—	18	(6)
Liabilities of consolidated VIEs:													
VIE notes	735	—	(5)	—	—	695	—	(158)	—	—	—	1,267	(5)
Total liabilities	\$ 1,200	\$ 28	\$ (186)	\$ —	\$ (20)	\$ 695	\$ —	\$ (186)	\$ —	\$ —	\$ —	\$ 1,531	\$ (192)

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

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 7: Fair Value of Financial Instruments (continued)

For the year ended December 31, 2016, transfers into Level 3 and out of Level 2 were principally related to other asset-backed, commercial mortgage-backed, corporate obligations, state and municipal bonds, and RMBS, where inputs, which are significant to their valuation, became unobservable during the period. Corporate obligations, other asset-backed, and state and municipal bonds, comprised the majority of the instruments transferred out of Level 3 where inputs, which are significant to their valuation, became observable during the period. These inputs included spreads, prepayment speeds, default speeds, default severities, yield curves observable at commonly quoted intervals, and market corroborated inputs. There were no transfers into or out of Level 1.

For the year ended December 31, 2015, transfers into Level 3 and out of Level 2 were principally related to corporate obligations and other ABS, where inputs, which are significant to their valuation, became unobservable during the period. Corporate obligations, other ABS and CDOs comprised the majority of the instruments transferred out of Level 3 where inputs, which are significant to their valuation, became observable during the period. These inputs included spreads, prepayment speeds, default speeds, default severities, yield curves observable at commonly quoted intervals, and market corroborated inputs. There were no transfers into or out of Level 1.

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

Gains and losses (realized and unrealized) included in earnings relating to Level 3 assets and liabilities for the years ended December 31, 2016, 2015 and 2014 are reported on the Company's consolidated statements of operations as follows:

In millions	Total Gains (Losses) Included in Earnings			Change in Unrealized Gains (Losses) for the Period Included in Earnings for Assets and Liabilities still held as of December 31,		
	2016	2015	2014	2016	2015	2014
Revenues:						
Unrealized gains (losses) on insured derivatives	\$21	\$159	\$903	\$13	\$145	\$20
Realized gains (losses) and other settlements on insured derivatives	(43)	(28)	(445)	—	—	—
Net gains (losses) on financial instruments at fair value and foreign exchange	1	39	18	1	42	12
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	14	23	(32)	32	19	20
Total	<u>\$(8)</u>	<u>\$193</u>	<u>\$444</u>	<u>\$46</u>	<u>\$206</u>	<u>\$52</u>

Fair Value Option

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

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 7: Fair Value of Financial Instruments (continued)

The following table presents the changes in fair value included in the Company's consolidated statements of operations for the years ended December 31, 2016, 2015 and 2014 for financial instruments for which the fair value option was elected:

In millions	Years Ended December 31,		
	2016	2015	2014
Investments carried at fair value ⁽¹⁾	\$ 7	\$ (3)	\$ 2
Fixed-maturity securities held at fair value-VIE ⁽²⁾	(124)	(146)	(104)
Loans receivable at fair value:			
Residential mortgage loans ⁽²⁾	(268)	(246)	(182)
Other loans ⁽²⁾	—	—	10
Loan repurchase commitments ⁽²⁾	8	17	20
Medium-term notes ⁽¹⁾	4	36	6
Variable interest entity notes ⁽²⁾	383	381	269

(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.

The following table reflects the difference between the aggregate fair value and the aggregate remaining contractual principal balance outstanding as of December 31, 2016 and 2015 for loans and notes for which the fair value option was elected:

In millions	As of December 31, 2016			As of December 31, 2015		
	Contractual Outstanding Principal	Fair Value	Difference	Contractual Outstanding Principal	Fair Value	Difference
Loans receivable at fair value:						
Residential mortgage loans	\$ 965	\$ 894	\$ 71	\$ 1,260	\$1,149	\$ 111
Residential mortgage loans (90 days or more past due)	143	22	121	177	36	141
Other loans	—	—	—	107	107	—
Other loans (90 days or more past due)	150	150	—	75	—	75
Total loans receivable at fair value	1,258	1,066	192	1,619	1,292	327
Variable interest entity notes	2,449	1,351	1,098	3,663	2,362	1,301
Medium-term notes	158	101	57	217	161	56

Substantially all gains and losses included in earnings during the years ended December 31, 2016 and 2015 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.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 8: Investments

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

The following tables present the amortized cost, fair value, corresponding gross unrealized gains and losses and OTTI for AFS and HTM investments in the Company's consolidated investment portfolio as of December 31, 2016 and 2015:

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

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

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 8: Investments (continued)

In millions	December 31, 2015				
	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	\$ 947	\$ 32	\$ (3)	\$ 976	\$ —
State and municipal bonds	1,674	65	(14)	1,725	—
Foreign governments	197	3	(2)	198	—
Corporate obligations	1,516	21	(103)	1,434	(85)
Mortgage-backed securities:					
Residential mortgage-backed agency	995	7	(9)	993	—
Residential mortgage-backed non-agency	55	2	(6)	51	(4)
Commercial mortgage-backed	31	—	—	31	—
Asset-backed securities:					
Collateralized debt obligations	51	—	(18)	33	—
Other asset-backed	331	1	(17)	315	—
Total fixed-maturity investments	5,797	131	(172)	5,756	(89)
Money market securities	351	—	—	351	—
Perpetual debt and equity securities	12	1	—	13	—
Total AFS investments	<u>\$ 6,160</u>	<u>\$ 132</u>	<u>\$ (172)</u>	<u>\$6,120</u>	<u>\$ (89)</u>
HTM Investments					
Assets of consolidated VIEs:					
Corporate obligations	\$ 2,689	\$ 24	\$ (312)	\$2,401	\$ —
Total HTM investments	<u>\$ 2,689</u>	<u>\$ 24</u>	<u>\$ (312)</u>	<u>\$2,401</u>	<u>\$ —</u>

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

The following table presents the distribution by contractual maturity of AFS and HTM fixed-maturity securities at amortized cost and fair value as of December 31, 2016. Contractual maturity may differ from expected maturity as borrowers may have the right to call or prepay obligations.

In millions	AFS Securities		HTM Securities	
	Amortized Cost	Fair Value	Consolidated VIEs	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	\$ 334	\$ 334	\$ —	\$ —
Due after one year through five years	1,206	1,221	—	—
Due after five years through ten years	784	725	—	—
Due after ten years	1,327	1,366	890	876
Mortgage-backed and asset-backed	1,278	1,263	—	—
Total fixed-maturity investments	<u>\$ 4,929</u>	<u>\$ 4,909</u>	<u>\$ 890</u>	<u>\$ 876</u>

Deposited and Pledged Securities

The fair value of securities on deposit with various regulatory authorities as of December 31, 2016 and 2015 was \$11 million and \$10 million, respectively. These deposits are required to comply with state insurance laws.

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

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 8: Investments (continued)

Investment agreement obligations require the Company to pledge securities as collateral. Securities pledged in connection with investment agreements may not be repledged by the investment agreement counterparty. As of December 31, 2016 and 2015, the fair value of securities pledged as collateral for these investment agreements approximated \$416 million and \$457 million, respectively. The Company's collateral as of December 31, 2016 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 in the amount of \$6 million and \$12 million as of December 31, 2016 and 2015, respectively.

Impaired Investments

The following tables present the gross unrealized losses related to AFS and HTM investments as of December 31, 2016 and 2015:

In millions	December 31, 2016					
	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
AFS Investments						
Fixed-maturity investments:						
U.S. Treasury and government agency	\$ 432	\$ (10)	\$ —	\$ —	\$ 432	\$ (10)
State and municipal bonds	339	(13)	18	(2)	357	(15)
Foreign governments	5	—	—	—	5	—
Corporate obligations	534	(29)	52	(73)	586	(102)
Mortgage-backed securities:						
Residential mortgage-backed agency	436	(9)	122	(3)	558	(12)
Residential mortgage-backed non-agency	1	—	29	(6)	30	(6)
Commercial mortgage-backed	6	—	15	—	21	—
Asset-backed securities:						
Collateralized debt obligations	7	—	15	—	22	—
Other asset-backed	112	(1)	49	(2)	161	(3)
Total AFS investments	<u>\$1,872</u>	<u>\$ (62)</u>	<u>\$ 300</u>	<u>\$ (86)</u>	<u>\$2,172</u>	<u>\$ (148)</u>
HTM Investments						
Assets of consolidated VIEs:						
Corporate obligations	\$ —	\$ —	\$ 876	\$ (14)	\$ 876	\$ (14)
Total HTM investments	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 876</u>	<u>\$ (14)</u>	<u>\$ 876</u>	<u>\$ (14)</u>

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 8: Investments (continued)

In millions	December 31, 2015					
	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
AFS Investments						
Fixed-maturity investments:						
U.S. Treasury and government agency	\$ 434	\$ (2)	\$ 50	\$ (1)	\$ 484	\$ (3)
State and municipal bonds	536	(11)	42	(3)	578	(14)
Foreign governments	32	(2)	—	—	32	(2)
Corporate obligations	693	(14)	78	(89)	771	(103)
Mortgage-backed securities:						
Residential mortgage-backed agency	399	(4)	159	(5)	558	(9)
Residential mortgage-backed non-agency	24	(2)	17	(4)	41	(6)
Commercial mortgage-backed	25	—	1	—	26	—
Asset-backed securities:						
Collateralized debt obligations	2	—	29	(18)	31	(18)
Other asset-backed	242	(1)	34	(16)	276	(17)
Total fixed-maturity investments	2,387	(36)	410	(136)	2,797	(172)
Perpetual debt and equity securities	2	—	3	—	5	—
Total AFS investments	<u>\$2,389</u>	<u>\$ (36)</u>	<u>\$ 413</u>	<u>\$ (136)</u>	<u>\$2,802</u>	<u>\$ (172)</u>
HTM Investments						
Assets of consolidated VIEs:						
Corporate obligations	\$1,093	\$ (17)	\$ 280	\$ (295)	\$1,373	\$ (312)
Total HTM investments	<u>\$1,093</u>	<u>\$ (17)</u>	<u>\$ 280</u>	<u>\$ (295)</u>	<u>\$1,373</u>	<u>\$ (312)</u>

Gross unrealized losses on AFS investments decreased as of December 31, 2016 compared with December 31, 2015 primarily due to narrowing of credit spreads, partially offset by higher interest rates.

Gross unrealized losses on HTM investments decreased as of December 31, 2016 compared with December 31, 2015 principally due to an increase in forecasted cash flows used in the Company's fair value modeling. The increase in forecasted cash flows was primarily due to new and positive market information indicating a higher probability that cash flows will be adequate to repay principal and interest owing on the securities.

With the weighting applied on the fair value of each security relative to the total fair value, the weighted average contractual maturity of securities in an unrealized loss position as of December 31, 2016 and 2015 was 22 and 17 years, respectively. As of December 31, 2016 and 2015, there were 46 and 65 securities, respectively, that were in an unrealized loss position for a continuous twelve-month period or longer, of which, fair values of 12 and 22 securities, respectively, were below book value by more than 5%.

The following table presents the distribution of securities in an unrealized loss position for a continuous twelve-month period or longer where fair value was below book value by more than 5% as of December 31, 2016:

Percentage of Fair Value Below Book Value	AFS Securities			HTM Securities		
	Number of Securities	Book Value (in millions)	Fair Value (in millions)	Number of Securities	Book Value (in millions)	Fair Value (in millions)
> 5% to 15%	6	\$ 53	\$ 50	—	\$ —	\$ —
> 15% to 25%	4	32	26	—	—	—
> 25% to 50%	1	1	1	—	—	—
> 50%	1	102	29	—	—	—
Total	<u>12</u>	<u>\$ 188</u>	<u>\$ 106</u>	<u>—</u>	<u>\$ —</u>	<u>\$ —</u>

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 8: Investments (continued)

The following table presents the fair value and gross unrealized loss by credit rating category of ABS, MBS and corporate obligations included in the Company's consolidated AFS investment portfolio, as of December 31, 2016, for which fair value was less than amortized cost. The credit ratings are based on ratings from Moody's as of December 31, 2016 or an alternate ratings source, such as S&P, when a security is not rated by Moody's. For investments that are insured by various third-party guarantee insurers, the credit rating reflects the higher of the insurer's rating or the underlying bond's rating.

In millions	Aaa		Aa		A		Baa		Below Investment Grade		Not Rated		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Asset Type														
ABS	\$ 115	\$ (1)	\$ 25	\$ —	\$ 3	\$ —	\$ 3	\$ —	\$ 37	\$ (2)	\$ —	\$ —	\$ 183	\$ (3)
MBS	563	(12)	13	—	—	—	3	—	18	(3)	12	(3)	609	(18)
Corporate obligations	102	(10)	143	(7)	237	(9)	72	(3)	3	—	29	(73)	586	(102)
Total	\$ 780	\$ (23)	\$ 181	\$ (7)	\$ 240	\$ (9)	\$ 78	\$ (3)	\$ 58	\$ (5)	\$ 41	\$ (76)	\$ 1,378	\$ (123)

The total ABS, MBS and corporate obligations reported in the preceding table include those which are guaranteed by financial guarantors. In addition, the following table presents information on ABS and MBS guaranteed by the Company and third-party financial guarantors.

Asset Type	Average Credit Rating with the Effect of Guarantee	Average Credit Rating without the Effect of Guarantee	Insured Securities Rated Below Investment Grade without the Effect of Guarantee	
			(in millions)	
			Fair Value	Percentage
ABS	Below Investment Grade	Below Investment Grade	\$ 37	72%
MBS	Below Investment Grade	Below Investment Grade	\$ 17	100%

Refer to the table within the OTTI section of this note for information on the insured securities included in the table above.

The Company concluded that it does not have the intent to sell securities in an unrealized loss position and it is more likely than not, that it would not have to sell these securities before recovery of their cost basis. In making this conclusion, the Company examined the cash flow projections for its investment portfolios, the potential sources and uses of cash in its businesses, and the cash resources available to its business other than sales of securities. It also considered the existence of any risk management or other plans as of December 31, 2016 that would require the sale of impaired securities. Impaired securities that the Company intends to sell before the expected recovery of such securities' fair values have been written down to fair value.

Other-Than-Temporary Impairments

Evaluating AFS Securities for OTTI

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

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 8: Investments (continued)

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

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

Determination of Credit Loss on ABS, MBS and Corporate Obligations

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

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

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

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 8: Investments (continued)

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

The Company does not record OTTI related to credit concerns about issuers of securities insured by MBIA Corp. and National since investors in these securities, including MBIA, are guaranteed payment of principal and interest when due by MBIA. Securities insured by the Company, whether or not owned by the Company, are evaluated for impairment as part of its insurance surveillance process and, therefore, losses on securities insured by the Company are recorded in accordance with its loss reserving policy. Refer to “Note 2: Significant Accounting Policies” included herein for information about the Company’s loss reserving policy and “Note 6: Loss and Loss Adjustment Expense Reserves” for information about loss reserves.

In considering cash expected to be provided from other third-party financial guarantors, the Company assesses the financial guarantor’s ability to make claim payments under a variety of scenarios that test the guarantor’s ultimate claims paying ability. The weighted average outcome of these scenarios, combined with the cash flows provided by the insured security, are used to determine the recoverability of the Company’s amortized cost.

The following table provides information about securities held by the Company as of December 31, 2016 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:

<u>In millions</u>	<u>Fair Value</u>	<u>Unrealized Loss</u>	<u>Insurance Loss Reserve⁽²⁾</u>
Asset-backed:			
MBIA ⁽¹⁾	\$ 51	\$ (2)	\$ 4
Mortgage-backed:			
MBIA ⁽¹⁾	17	(3)	15
Other:			
MBIA ⁽¹⁾	14	(1)	—
Total	<u>\$ 82</u>	<u>\$ (6)</u>	<u>\$ 19</u>

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

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

Credit Loss Rollforward

The portion of certain OTTI losses on fixed-maturity securities that does not represent credit losses is recognized in AOCI. For these impairments, the net amount recognized in earnings represents the difference between the amortized cost of the security and the net present value of its projected future discounted cash flows prior to impairment. Any remaining difference between the fair value and amortized cost is recognized in AOCI. The following table presents the amount of credit loss impairments recognized in earnings on fixed-maturity securities held by MBIA as of the dates indicated, for which a portion of the OTTI losses was recognized in AOCI, and the corresponding changes in such amounts. The additional credit loss impairments for the years ended December 31, 2016, 2015 and 2014, primarily related to a corporate obligation that incurred liquidity concerns, ongoing credit risk and other adverse financial conditions.

<u>In millions</u>	<u>Years Ended December 31,</u>		
<u>Credit Losses Recognized in Earnings Related to OTTI</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Beginning balance	\$ 26	\$ 16	\$ 175
Additions for credit loss impairments recognized in the current period on securities not previously impaired	—	—	15
Additions for credit loss impairments recognized in the current period on securities previously impaired	4	10	1
Reductions for credit loss impairments previously recognized on securities sold during the period	(1)	—	(174)
Reductions for increases in cash flows expected to be collected over the remaining life of the security	—	—	(1)
Ending balance	<u>\$ 29</u>	<u>\$ 26</u>	<u>\$ 16</u>

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 8: Investments (continued)

Sales of Available-for-Sale Investments

Gross realized gains and losses are recorded within “Net gains (losses) on financial instruments at fair value and foreign exchange” on the Company’s consolidated statements of operations. The increase in proceeds and net gains on the sales of investments for the year ended December 31, 2016 compared with 2015 and 2014 was primarily due to sales as a result of favorable market conditions and to generate liquidity for payments on certain Puerto Rico exposures. The proceeds and the gross realized gains and losses from sales of fixed-maturity securities held as AFS for the years ended December 31, 2016, 2015 and 2014 are as follows:

In millions	Years Ended December 31,		
	2016	2015	2014
Proceeds from sales	\$ 2,412	\$ 1,145	\$ 757
Gross realized gains	\$ 84	\$ 32	\$ 66
Gross realized losses	\$ (23)	\$ (16)	\$ (15)

Note 9: Derivative Instruments

U.S. Public Finance Insurance

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

Corporate

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

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 corporate obligations, CMBS, RMBS, ABS and commercial real estate loans and CDOs, 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. 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 interest rate swaps, interest rate caps and cross currency swaps. Interest rate swaps and interest rate caps are entered into to mitigate the risks associated with fluctuations in interest rates or fair values of certain contracts. Cross currency swaps are entered into to manage the variability in cash flows resulting from fluctuations in foreign currency rates.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 9: Derivative Instruments (continued)

Credit Derivatives Sold

The following tables present information about credit derivatives sold by the Company's insurance operations that were outstanding as of December 31, 2016 and 2015. Credit ratings represent the lower of underlying ratings assigned to the collateral by Moody's, S&P or MBIA.

<u>\$ in millions</u>	As of December 31, 2016							
	Notional Value							
	Weighted Average Remaining Expected Maturity	AAA	AA	A	BBB	Below Investment Grade	Total Notional	Fair Value Asset (Liability)
Credit Derivatives Sold								
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)

<u>\$ in millions</u>	As of December 31, 2015							
	Notional Value							
	Weighted Average Remaining Expected Maturity	AAA	AA	A	BBB	Below Investment Grade	Total Notional	Fair Value Asset (Liability)
Credit Derivatives Sold								
Insured credit default swaps	2.1 Years	\$1,947	\$ —	\$ 300	\$ —	\$ 961	\$ 3,208	\$ (85)
Insured swaps	16.5 Years	—	109	2,715	940	22	3,786	(3)
Total notional		\$1,947	\$109	\$3,015	\$ 940	\$ 983	\$ 6,994	
Total fair value		\$ —	\$ —	\$ (4)	\$ (2)	\$ (82)		\$ (88)

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 December 31, 2016 is \$637 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 both reinsurance and subrogation rights. MBIA's reinsurance arrangements provide that in the event MBIA pays a claim under a guarantee of a derivative contract, MBIA has the right to collect amounts from any reinsurers that have reinsured the guarantee on either a proportional or non-proportional basis, depending upon the underlying reinsurance agreement. MBIA may also have recourse 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.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 9: Derivative Instruments (continued)

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 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 December 31, 2015, the Company did not hold cash collateral to derivative counterparties but posted cash collateral to derivative counterparties of \$50 million. Of this amount, \$31 million is netted within "Derivative liabilities" and \$19 million is included within "Other liabilities" as cash collateral netted against accrued interest on derivative liabilities. As of December 31, 2016 and 2015, the Company had securities with a fair value of \$276 million and \$259 million, respectively, posted to derivative counterparties and these amounts are included within "Fixed-maturity securities held as available-for-sale, at fair value" on the Company's consolidated balance sheets.

As of December 31, 2016 and 2015, 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 December 31, 2016, the counterparty was rated A1 by Moody's and A by S&P, and as of December 31, 2015, the counterparty was rated A2 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" as of December 31, 2016 and 2015.

As of December 31, 2016, the total fair value of the Company's derivative assets was \$25 million, of which \$23 million was reported within "Other assets" and "Other assets" presented under "Assets of consolidated variable interest entities" on the Company's consolidated balance sheets. Embedded derivatives of \$2 million were reported within "Medium-term notes" on the Company's consolidated balance sheets.

As of December 31, 2016, the total fair value of the Company's derivative liabilities was \$316 million, of which \$299 million was reported within "Derivative liabilities" on the Company's consolidated balance sheets. Embedded derivatives of \$17 million were reported within "Medium-term notes" on the Company's consolidated balance sheets.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 9: Derivative Instruments (continued)

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

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

As of December 31, 2015, the total fair value of the Company's derivative assets, after counterparty netting of \$1 million, was \$19 million, of which \$14 million was reported within "Other assets" and "Other Assets" presented under "Assets of consolidated variable interest entities" on the Company's consolidated balance sheets. Embedded derivatives of \$5 million were reported within "Medium-term notes" on the Company's consolidated balance sheets.

As of December 31, 2015, the total fair value of the Company's derivative liabilities, after counterparty netting of \$1 million and cash collateral posted by the Company of \$31 million, was \$374 million, of which \$359 million was reported within "Derivative liabilities" and "Derivative liabilities" presented under "Liabilities of consolidated variable interest entities" on the Company's consolidated balance sheets. Embedded derivatives of \$15 million were reported within "Medium-term notes" on the Company's consolidated balance sheets.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 9: Derivative Instruments (continued)

The following table presents the total fair value of the Company's derivative assets and liabilities by instrument and balance sheet location, before counterparty netting and posting of cash collateral, as of December 31, 2015:

In millions	Notional Amount Outstanding	Derivative Assets ⁽¹⁾		Derivative Liabilities ⁽¹⁾	
		Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivative Instruments					
Not designated as hedging instruments:					
Insured credit default swaps	\$ 3,208	Other assets	\$ —	Derivative liabilities	\$ (85)
Insured swaps	3,786	Other assets	—	Derivative liabilities	(3)
Interest rate swaps	1,153	Other assets	4	Derivative liabilities	(240)
Interest rate swaps-VIE	899	Other assets-VIE	—	Derivative liabilities-VIE	(45)
Interest rate swaps-embedded	396	Medium-term notes	5	Medium-term notes	(15)
Currency swaps-VIE	83	Other assets-VIE	11	Derivative liabilities-VIE	—
All other	83	Other assets	—	Derivative liabilities	(18)
All other-VIE	241	Other assets-VIE	—	Derivative liabilities-VIE	—
All other-embedded	10	Other investments	—	Other investments	—
Total non-designated derivatives	<u>\$ 9,859</u>		<u>\$ 20</u>		<u>\$(406)</u>

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

The following table presents the effect of derivative instruments on the consolidated statements of operations for the years ended December 31, 2016, 2015 and 2014:

In millions	Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized in Income on Derivative	Years Ended December 31,		
			2016	2015	2014
	Insured credit default swaps	Unrealized gains (losses) on insured derivatives	\$ 21	\$ 157	\$ 888
	Insured credit default swaps	Realized gains (losses) and other settlements on insured derivatives	(40)	(28)	(413)
	Interest rate swaps	Net gains (losses) on financial instruments at fair value and foreign exchange	(11)	(108)	(78)
	Interest rate swaps-VIE	Net gains (losses) on financial instruments at fair value and foreign exchange-VIE	8	31	—
	Currency swaps-VIE	Net gains (losses) on financial instruments at fair value and foreign exchange-VIE	9	10	11
	All other	Unrealized gains (losses) on insured derivatives	—	—	15
	All other	Net gains (losses) on financial instruments at fair value and foreign exchange	(2)	7	6
	All other	Realized gains (losses) and other settlements on insured derivatives	—	—	(31)
	Total		<u>\$(15)</u>	<u>\$ 69</u>	<u>\$ 398</u>

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 10: Debt

Long-Term Debt

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

In millions	As of December 31,	
	2016	2015
6.400% Senior Notes due 2022 ⁽¹⁾	\$ 266	\$ 266
7.000% Debentures due 2025	46	46
7.150% Debentures due 2027	100	100
6.625% Debentures due 2028	141	141
5.700% Senior Notes due 2034 ⁽²⁾	21	21
Surplus Notes due 2033 ⁽³⁾	940	940
Accrued interest	506	394
Debt issuance costs	(34)	(19)
Total	\$ 1,986	\$ 1,889

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

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

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

In addition to the preceding table, as of December 31, 2016, National owned \$136 million principal amount of the 5.700% Senior Notes due 2034 and MBIA Inc., through its corporate segment, owned \$13 million of MBIA Corp. surplus notes that are eliminated on a consolidated basis.

Interest and principal payments on the surplus notes are subject to prior approval by the NYSDFS. From the January 15, 2013 interest payment to the present, MBIA Corp.'s requests for approval of the note interest payments have been denied by the NYSDFS. MBIA Corp. provides notice to the Fiscal Agent when it does not make a scheduled interest payment. The deferred interest payment will become due on the first business day on or after which MBIA Corp. obtains approval to make such payment. No interest will accrue on the deferred interest. The surplus notes were callable at par at the option of MBIA Corp. on the fifth anniversary of the date of issuance, and are callable at par on January 15, 2018 and every fifth anniversary thereafter and are callable on any other date at par plus a make-whole amount, subject to prior approval by the Superintendent and other restrictions. The cash received from the issuance of surplus notes was used for general business purposes and the deferred debt issuance costs are being amortized over the term of the surplus notes.

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

In millions	2017	2018	2019	2020	2021	Thereafter	Total
Corporate debt	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 574	\$ 574
Surplus Notes due 2033	—	940	—	—	—	—	940
Total debt obligations due	\$ —	\$ 940	\$ —	\$ —	\$ —	\$ 574	\$ 1,514

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 10: Debt (continued)

Other Long-Term Debt

In connection with the Zohar II Claim, in January of 2017, MBIA Corp. consummated the Facility with 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, which in turn lent the proceeds of such financing to MBIA Corp. 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 loans to MBIA Corp. under the Facility mature on January 20, 2020 and bear interest at 14% per annum. The Facility is secured by a first priority security interest in all of MBIA Corp.'s right, title and interest in to 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.

Investment Agreements

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

Investment agreements have been issued with either fixed or floating interest rates in U.S. dollars. As of December 31, 2016, the annual interest rates on these agreements ranged from 4.48% to 6.89% and the weighted average interest rate was 5.66%. As of December 31, 2015, the annual interest rates on these agreements ranged from 4.40% to 6.89% and the weighted average interest rate was 5.56%. Expected principal payments due under these investment agreements in each of the next five years ending December 31 and thereafter, based upon contractual maturity dates, are as follows:

<u>In millions</u>	<u>Principal Amount</u>
Maturity date:	
2017	\$ 56
2018	17
2019	7
2020	35
2021	3
Thereafter	<u>342</u>
Total expected principal payments ⁽¹⁾	\$ 460
Less discount and other adjustments ⁽²⁾	<u>61</u>
Total	<u>\$ 399</u>

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

(2)—Includes discounts net of carrying amount adjustments of \$66 million, net of accrued interest of \$5 million.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 10: Debt (continued)

Medium-Term Notes

MTNs are denominated in U.S. dollars or foreign currencies and accrue interest based on fixed or floating interest rates. Certain MTNs are measured at fair value in accordance with the accounting guidance for hybrid financial instruments. As of December 31, 2016, the interest rates of the MTNs ranged from 0% to 6.00% and the weighted average interest rate was 2.43%. As of December 31, 2015, the interest rates of the MTNs ranged from 0% to 6.40% and the weighted average interest rate was 2.42%. During 2016, the Company repurchased \$6 million par value outstanding at a cost of approximately 97% of par value and redeemed \$4 million at par value of MTNs issued by the Company's corporate segment. Expected principal payments due under MTN obligations based on their contractual maturity dates are as follows:

<u>In millions</u>	<u>Principal Amount</u>
Maturity date:	
2017	\$ 36
2018	57
2019	54
2020	—
2021	106
Thereafter	975
Total expected principal payments ⁽¹⁾	\$ 1,228
Less discount and other adjustments ⁽²⁾	333
Total	<u>\$ 895</u>

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

(2)—Includes discounts net of carrying amount adjustments and bifurcated embedded derivatives of \$279 million, fair value adjustments of \$57 million, net of accrued interest of \$3 million.

Variable Interest Entity Notes

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

The maturity of the Company's international and structured finance insurance segment's VIE notes, as of December 31, 2016 is presented in the following table:

<u>In millions</u>	<u>Principal Amount</u>
Maturity date:	
2017	\$ 220
2018	238
2019	173
2020	124
2021	140
Thereafter	1,346
Total	<u>\$ 2,241⁽¹⁾</u>

(1)—Includes \$1.4 billion of VIE notes accounted for at fair value as of December 31, 2016.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 11: Income Taxes

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

<u>In millions</u>	<u>Years Ended December 31,</u>		
	<u>2016</u>	<u>2015</u>	<u>2014</u>
Domestic	\$(362)	\$ 303	\$ 574
Foreign	23	(14)	67
Income (loss) before income taxes	<u>\$(339)</u>	<u>\$ 289</u>	<u>\$ 641</u>

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

<u>In millions</u>	<u>Years Ended December 31,</u>		
	<u>2016</u>	<u>2015</u>	<u>2014</u>
Current taxes:			
Federal	\$ 4	\$ —	\$ —
State	1	1	10
Foreign	—	2	12
Deferred taxes:			
Federal	(8)	97	48
Foreign	2	9	2
Provision (benefit) for income taxes	<u>(1)</u>	<u>109</u>	<u>72</u>
Income taxes charged (credited) to shareholders' equity related to:			
Change in unrealized gains (losses) on AFS securities	8	(30)	89
Change in AFS securities with OTTI	5	—	(29)
Change in foreign currency translation	1	(14)	(13)
Share-based compensation	—	9	2
Total income taxes charged (credited) to shareholders' equity	<u>14</u>	<u>(35)</u>	<u>49</u>
Total effect of income taxes	<u>\$ 13</u>	<u>\$ 74</u>	<u>\$ 121</u>

A reconciliation of the U.S. federal statutory tax rate of 35% to the Company's effective income tax rate for the years ended December 31, 2016, 2015 and 2014 is presented in the following table:

	<u>Years Ended December 31,</u>		
	<u>2016</u>	<u>2015</u>	<u>2014</u>
Federal income tax computed at the statutory rate	35.0%	35.0%	35.0%
Increase (reduction) in taxes resulting from:			
Mark-to-market on warrants	(1.5)%	(1.2)%	(1.6)%
Change in valuation allowance	(2.2)%	0.0%	(13.5)%
Change in uncertain tax positions	0.0%	0.0%	(9.1)%
Non deductible compensation	(1.4)%	2.7%	0.0%
Deferred inventory adjustments	3.6%	0.0%	0.0%
Basis difference in foreign subsidiary	(33.0)%	0.0%	0.0%
Other	<u>(0.3)%</u>	<u>1.2%</u>	<u>0.4%</u>
Effective tax rate	<u>0.2%</u>	<u>37.7%</u>	<u>11.2%</u>

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 11: 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.

The tax effects of temporary differences that give rise to deferred tax assets and liabilities as of December 31, 2016 and 2015 are presented in the following table:

In millions	As of December 31,	
	2016	2015
Deferred tax liabilities:		
Unearned premium revenue	\$ 143	\$ 159
Deferral of cancellation of indebtedness income	46	68
Deferred acquisition costs	42	56
Net gains on financial instruments at fair value and foreign exchange	4	—
Partnership basis difference	36	30
Basis difference in foreign subsidiaries	64	40
Other	23	86
Total gross deferred tax liabilities	358	439
Deferred tax assets:		
Compensation and employee benefits	19	19
Accrued interest	177	137
Loss and loss adjustment expense reserves	142	119
Net operating loss	929	963
Foreign tax credits	7	9
Net unrealized losses on insured derivatives	29	35
Net losses on financial instruments at fair value and foreign exchange	—	45
Net unrealized losses in accumulated other comprehensive income	6	15
Alternative minimum tax credit carryforward	26	22
Net deferred taxes on VIEs	—	14
Total gross deferred tax assets	1,335	1,378
Valuation allowance	7	—
Net deferred tax asset	\$ 970	\$ 939

The Company has come to the conclusion that it is more likely than not that its net deferred tax asset, other than that portion of the asset related to foreign tax credits which have been claimed on its prior years' tax returns and are being carried forward, will be fully realized after weighing all positive and negative evidence available as required under GAAP. The positive evidence that was considered included the cumulative operating income the Company has earned over the last three years, and the significant unearned premium income to be included in taxable income. The positive evidence outweighs any negative evidence that exists. As such, the Company believes that no valuation allowance is necessary in connection with this deferred tax asset. The Company will continue to analyze the need for a valuation allowance on a quarterly basis.

However, as the prediction of adequate future taxable income and foreign sourced income within the carryforward period is not assured, the Company has concluded that a valuation allowance for the foreign tax credits being carried forward is appropriate. As of December 31, 2016, the valuation allowance was \$7 million.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 11: Income Taxes (continued)

It is also possible that some or all of the Company's foreign tax credits expected to offset U.S. taxes on the sale of MBIA UK could ultimately expire unused. Therefore, a valuation allowance to reduce the Company's U.S. deferred tax asset related to foreign tax credits may be required at the time the sale of MBIA UK is completed.

In accordance with accounting guidance for income taxes, the netting of deferred taxes between different taxpaying jurisdictions is not permitted. As of December 31, 2015, there was also a non-U.S. deferred tax liability of \$12 million included in "Other liabilities" on the Company's consolidated balance sheet.

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

Tax Sharing Agreement

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

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

As of December 31, 2015, U.S. deferred income taxes were provided on the differences in the book and tax basis in the Company's carrying value of MBIA UK and certain other entities on the basis that foreign dividends would be remitted over time as the Company no longer intended to permanently reinvest these earnings. Due to the held for sale accounting for MBIA UK as of December 31, 2016, the Company has revised its calculation of deferred income taxes with respect to the differences in book and tax basis. The revision to deferred taxes related to MBIA UK is due to a change in assertion of MBIA UK paying future dividends over time to calculating deferred taxes on the basis of the sale of MBIA UK.

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 December 31, 2016 and 2015, the Company had no UTB.

In millions	
Unrecognized tax benefit as of January 1, 2014	\$ 65
The gross amount of the increase/(decrease) in the UTB as a result of tax positions taken:	
During a prior year	(61)
The amounts of decreases in the UTB as a result of the applicable statute of limitations	—
The amounts of decreases in the UTB related to settlements with taxing authorities	(4)
Unrecognized tax benefit as of December 31, 2014	\$ —
The gross amount of the increase/(decrease) in the UTB as a result of tax positions taken:	
During a prior year	—
During the current year	—
The amounts of decreases in the UTB related to settlements with taxing authorities	—
Unrecognized tax benefit as of December 31, 2015	\$ —
The gross amount of the increase/(decrease) in the UTB as a result of tax positions taken:	
During the current year	—
The amounts of decreases in the UTB related to settlements with taxing authorities	—
The reduction in the UTB as a result of the applicable statute of limitations	—
Unrecognized tax benefit as of December 31, 2016	\$ —

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 11: Income Taxes (continued)

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

As of December 31, 2016, the Company's net operating loss ("NOL") is approximately \$2.7 billion. The NOL will expire between tax years 2029 through 2034. As of December 31, 2016, the Company has a foreign tax credit carryforward of \$7 million, which will expire between tax years 2019 through 2026. As of December 31, 2016, the Company has an alternative minimum tax credit carryforward of \$26 million, which does not expire.

Note 12: Business Segments

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

The Company manages its businesses across three operating segments: 1) U.S. public finance insurance; 2) corporate; and 3) international and structured finance insurance. The Company's U.S. public finance insurance business is operated through National and its international and structured finance insurance business is operated through MBIA Corp. Prior to 2015, the Company managed two other operating segments, advisory services and conduit. During 2014, the Company dissolved its conduit segment by extinguishing the remaining liabilities of the segment and liquidating the Company's remaining conduit, Meridian. Effective January 1, 2015, the Company exited its advisory services business with the completed sale of Cutwater to a subsidiary of The Bank of New York Mellon Corporation.

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

Corporate

The Company's corporate segment consists of general corporate activities, including providing general support services to MBIA's other operating businesses and asset and capital management. General support services are provided by the Company's service company, MBIA Services Corporation ("MBIA Services"). MBIA Services provides various support services including, 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.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 12: 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 insured 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.

Advisory Services

The advisory services segment primarily consisted of the operations of Cutwater Investor Services Corp. and Cutwater Asset Management Corp. and was a fee-for-service investment management business focused on fixed-income markets. Effective with the January 1, 2015 sale of Cutwater, MBIA has no business activities within its advisory services segment.

Conduit

The Company's conduit segment was operated through Meridian and administered through MBIA Asset Finance, LLC. Assets financed by Meridian were funded by MTNs. In 2014, the Company extinguished the remaining liabilities of this segment and liquidated Meridian.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 12: Business Segments (continued)

Segments Results

The following tables provide the Company's segment results for the years ended December 31, 2016, 2015 and 2014:

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

(1)—Represents the sum of third-party financial guarantee net premiums earned, net investment income, insurance-related fees and reimbursements and other fees.

(2)—Represents intercompany premium income and expense and intercompany interest income and expense pertaining to intercompany receivables and payables.

(3)—Consists of intercompany deferred income taxes, reinsurance balances and repurchase agreements.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 12: Business Segments (continued)

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

(1)—Represents the sum of third-party financial guarantee net premiums earned, net investment income, insurance-related fees and reimbursements and other fees.

(2)—Represents intercompany premium income and expense and intercompany interest income and expense pertaining to intercompany receivables and payables.

(3)—Consists of intercompany deferred income taxes, reinsurance balances and repurchase agreements.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 12: Business Segments (continued)

In millions	Year Ended December 31, 2014							Consolidated
	U.S. Public Finance Insurance	Corporate	International and Structured Finance Insurance	Advisory Services	Conduit	Eliminations		
Revenues ⁽¹⁾	\$ 373	\$ 42	\$ 189	\$ 12	\$ —	\$ —	\$ 616	
Net change in fair value of insured derivatives	1	—	458	—	—	—	459	
Net gains (losses) on financial instruments at fair value and foreign exchange	26	55	—	(3)	—	—	78	
Net investment losses related to other-than-temporary impairments	(15)	—	—	—	—	—	(15)	
Net gains (losses) on extinguishment of debt	—	3	—	—	—	—	3	
Other net realized gains (losses)	14	2	12	—	—	—	28	
Revenues of consolidated VIEs	—	—	105	(8)	4	—	101	
Inter-segment revenues ⁽²⁾	44	46	55	22	(1)	(166)	—	
Total revenues	443	148	819	23	3	(166)	1,270	
Losses and loss adjustment	(10)	—	143	—	—	—	133	
Operating	38	87	72	42	—	—	239	
Interest	—	101	109	—	—	—	210	
Expenses of consolidated VIEs	—	—	47	—	—	—	47	
Inter-segment expenses ⁽²⁾	78	15	64	6	9	(172)	—	
Total expenses	106	203	435	48	9	(172)	629	
Income (loss) before income taxes	337	(55)	384	(25)	(6)	6	641	
Provision (benefit) for income taxes	115	(173)	134	(6)	—	2	72	
Net income (loss)	\$ 222	\$ 118	\$ 250	\$ (19)	\$ (6)	\$ 4	\$ 569	
Identifiable assets	\$ 5,887	\$ 2,838	\$ 10,073	\$ 793	\$ —	\$ (3,328) ⁽³⁾	\$ 16,263	

(1)—Represents the sum of third-party financial guarantee net premiums earned, net investment income, insurance-related fees and reimbursements, investment management fees and other fees.

(2)—Represents intercompany premium income and expense, intercompany asset management fees and expenses, intercompany interest income and expenses pertaining to intercompany receivables and payables and intercompany loans.

(3)—Consists of intercompany reinsurance balances, repurchase agreements and deferred income taxes.

Premiums on financial guarantees and insured derivatives reported within the Company's insurance segments are generated within and outside the U.S. The following table summarizes premiums earned on financial guarantees and insured derivatives by geographic location of risk for the years ended December 31, 2016, 2015 and 2014:

In millions	Years Ended December 31,		
	2016	2015	2014
Total premiums earned:			
United States	\$ 238	\$ 310	\$ 299
United Kingdom	27	30	36
Europe (excluding United Kingdom)	4	4	7
Internationally diversified	3	3	9
Other Americas	26	29	49
Asia	2	3	4
Other	4	6	12
Total	\$ 304	\$ 385	\$ 416

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 13: Insurance in Force

MBIA guarantees the payment of principal of, and interest or other amounts owing on, municipal, asset-backed, mortgage-backed and other non-municipal securities. Additionally, MBIA Corp. has insured CDS primarily on pools of collateral, which it previously considered part of its core financial guarantee business. The pools of collateral are made up of corporate obligations, but also include commercial and RMBS-related assets and ABS securities. MBIA's insurance in force represents the aggregate amount of the insured principal of, and interest or other amounts owing on, insured obligations. MBIA's ultimate exposure to credit loss in the event of nonperformance by the issuer of the insured obligation is represented by the insurance in force in the tables that follow.

The financial guarantees issued by MBIA provide unconditional and irrevocable guarantees of the payment of the principal of, and interest or other amounts owing on, insured obligations when due. The obligations are generally not subject to acceleration, except that MBIA may have the right, at its discretion, to accelerate insured obligations upon default or otherwise. Certain guaranteed investment contracts written by MBIA Inc. and guaranteed by MBIA Corp. are terminable based upon the credit ratings downgrades of MBIA Corp. and if MBIA Inc. were to have insufficient assets to pay the termination payments, MBIA Corp.'s insurance coverage would be drawn on to make such payments. These amounts have been excluded in the tables that follow.

The creditworthiness of each insured obligation is evaluated prior to the issuance of insurance, and each insured obligation must comply with National's or MBIA Corp.'s underwriting guidelines. Further, the payments to be made by the issuer on the bonds or notes may be backed by a pledge of revenues, reserve funds, letters of credit, investment contracts or collateral in the form of mortgages or other assets. The right to such funds or collateral would typically become National's or MBIA Corp.'s upon the payment of a claim by either National or MBIA Corp.

National and MBIA Corp. maintain underwriting guidelines based on those aspects of credit quality that it deems important for each category of obligation considered for insurance.

As of December 31, 2016, insurance in force, which represents principal and interest or other amounts owing on insured obligations, had an expected maturity range of 1 to 41 years. The distribution of MBIA Corp.'s and National's combined insurance in force by geographic location, excluding \$1.9 billion and \$2.2 billion relating to debt obligations guaranteed by MBIA Corp. on behalf of affiliated companies as of December 31, 2016 and 2015, respectively, is presented in the following table:

<u>\$ in billions</u>	<u>As of December 31,</u>			
	<u>2016</u>		<u>2015</u>	
	<u>Insurance in Force</u>	<u>% of Insurance in Force</u>	<u>Insurance in Force</u>	<u>% of Insurance in Force</u>
<u>Geographic Location</u>				
California	\$ 42.7	18.1%	\$ 55.5	17.0%
New York	16.6	7.0%	23.4	7.1%
Illinois	15.4	6.5%	20.5	6.3%
New Jersey	11.5	4.9%	13.7	4.2%
Texas	9.1	3.9%	14.5	4.4%
Florida	8.7	3.7%	15.2	4.7%
Puerto Rico	8.6	3.6%	9.0	2.8%
Virginia	5.2	2.2%	6.2	1.9%
Hawaii	5.2	2.2%	6.1	1.9%
Colorado	5.1	2.2%	6.9	2.1%
Subtotal	128.1	54.3%	171.0	52.4%
Nationally diversified	20.4	8.6%	28.9	8.9%
Other states	57.0	24.2%	90.4	27.6%
Total United States	205.5	87.1%	290.3	88.9%
Internationally diversified	0.5	0.2%	1.1	0.3%
Country specific	29.9	12.7%	35.2	10.8%
Total non-United States	30.4	12.9%	36.3	11.1%
Total	<u>\$ 235.9</u>	<u>100.0%</u>	<u>\$ 326.6</u>	<u>100.0%</u>

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 13: Insurance in Force (continued)

The insurance in force by type of bond, excluding transactions guaranteed by MBIA Corp. on behalf of affiliated companies, is presented in the following table:

<u>\$ in billions</u>	<u>As of December 31,</u>			
	<u>2016</u>		<u>2015</u>	
	<u>Insurance in Force</u>	<u>% of Insurance in Force</u>	<u>Insurance in Force</u>	<u>% of Insurance in Force</u>
Bond type				
Global public finance—United States:				
General obligation ⁽¹⁾	\$ 64.6	27.4%	\$ 89.4	27.4%
General obligation—lease	12.2	5.2%	20.0	6.1%
Municipal utilities	26.1	11.0%	41.8	12.8%
Tax-backed	33.0	14.0%	41.6	12.7%
Transportation	21.7	9.2%	28.9	8.8%
Higher education	6.8	2.9%	13.5	4.1%
Health care	4.2	1.8%	6.6	2.0%
Military housing	16.8	7.1%	17.3	5.3%
Investor-owned utilities ⁽²⁾	3.7	1.6%	5.4	1.7%
Municipal housing	0.7	0.3%	1.5	0.5%
Other ⁽³⁾	1.7	0.7%	1.5	0.5%
Total United States	<u>191.5</u>	<u>81.2%</u>	<u>267.5</u>	<u>81.9%</u>
Global public finance—non-United States:				
International utilities	10.1	4.3%	12.1	3.7%
Sovereign-related and sub-sovereign ⁽⁴⁾	11.3	4.8%	13.7	4.2%
Transportation	7.1	3.0%	7.6	2.3%
Local governments	0.1	0.0%	0.3	0.1%
Tax-backed	0.2	0.1%	0.2	0.1%
Total non-United States	<u>28.8</u>	<u>12.2%</u>	<u>33.9</u>	<u>10.4%</u>
Total global public finance	<u>220.3</u>	<u>93.4%</u>	<u>301.4</u>	<u>92.3%</u>
Global structured finance:				
Collateralized debt obligations	2.7	1.1%	6.4	1.9%
Mortgage-backed residential	6.3	2.7%	8.0	2.5%
Mortgage-backed commercial	0.7	0.3%	0.9	0.3%
Consumer asset-backed	1.2	0.5%	1.6	0.5%
Corporate asset-backed ⁽⁵⁾	4.7	2.0%	8.3	2.5%
Total global structured finance	<u>15.6</u>	<u>6.6%</u>	<u>25.2</u>	<u>7.7%</u>
Total	<u>\$ 235.9</u>	<u>100.0%</u>	<u>\$ 326.6</u>	<u>100.0%</u>

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

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

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

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

(5)—Includes \$2.6 billion and \$5.1 billion of structured insurance securitizations as of December 31, 2016 and 2015, respectively.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 13: Insurance in Force (continued)

Included in the preceding tables, as of December 31, 2016, there was \$18.6 billion of insurance in force related to MBIA UK, which was sold to Assured in January of 2017. Refer to “Note 1: Business Developments and Risks and Uncertainties” for a discussion on the sale of MBIA UK. The insurance operations have entered into certain guarantees of derivative contracts, included in the preceding tables, which are accounted for as derivative instruments. MBIA generally guarantees the timely payment of principal and interest related to these derivatives upon the occurrence of a credit event with respect to a referenced obligation. The maximum amount of future payments that MBIA may be required to make under these guarantees is \$1 billion. MBIA’s guarantees of derivative contracts have a legal maximum maturity range of 1 to 40 years. A small number of insured credit derivative contracts have long-dated maturities, which comprise the longest maturity dates of the underlying collateral. However, the expected maturities of such contracts are much shorter due to amortizations and prepayments in the underlying collateral pools. The fair values of these guarantees as of December 31, 2016 and 2015 are recorded on the consolidated balance sheets as derivative liabilities, representing gross losses, of \$66 million and \$88 million, respectively.

Investment agreement contracts and MTNs issued by the Company’s corporate segment are insured by MBIA Corp. and are not included in the previous tables. If MBIA Inc. or these subsidiaries were to have insufficient assets to pay amounts due, MBIA Corp. would be obligated to make such payments under its insurance policies. As of December 31, 2016, the maximum amount of future payments that MBIA Corp. could be required to make under these guarantees is \$1.9 billion. These guarantees, which have a maximum maturity range of 1 to 21 years, were entered into on an arm’s length basis. MBIA Corp. has both direct recourse provisions and subrogation rights in these transactions. If MBIA Corp. is required to make a payment under any of these affiliate guarantees, it would have the right to seek reimbursement from such affiliate and to liquidate any collateral to recover amounts paid under the guarantee.

Reinsured Exposure

Reinsurance enables the Company to cede exposure for purposes of syndicating risk. When a reinsurer is downgraded by one or more of the rating agencies, less capital credit is given to MBIA under rating agency models and the overall value of the reinsurance to MBIA is reduced. The Company generally retains the right to reassume the business ceded to reinsurers under certain circumstances, including a reinsurer’s rating downgrade below specified thresholds. The Company does not use reinsurance on new policies to decrease its insured exposure.

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

The aggregate amount of insurance in force ceded by MBIA to reinsurers was \$7.6 billion and \$9.5 billion as of December 31, 2016 and 2015, respectively. Included in the reinsurance insurance in force as of December 31, 2016 was \$267 million related to MBIA UK.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 13: Insurance in Force (continued)

As of December 31, 2016, the aggregate amount of insured par outstanding ceded by MBIA to reinsurers under reinsurance agreements was \$4.2 billion compared with \$5.3 billion as of December 31, 2015. As of December 31, 2016, \$3.4 billion of the ceded par outstanding was ceded from the Company's U.S. public finance insurance segment and \$804 million was ceded from the Company's international and structured finance insurance segment. Under National's reinsurance agreement with MBIA Corp., if a reinsurer of MBIA Corp. is unable to pay claims ceded by MBIA Corp. on U.S. public finance exposure, National will assume liability for such ceded claim payments. The following table presents information about the Company's reinsurance agreements as of December 31, 2016 for its U.S. public finance and international and structured finance insurance operations.

In millions

<u>Reinsurers</u>	<u>Standard & Poor's Rating (Status)</u>	<u>Moody's Rating (Status)</u>	<u>Ceded Par Outstanding⁽¹⁾</u>	<u>Letters of Credit/Trust Accounts</u>	<u>Reinsurance Recoverable⁽²⁾</u>
Assured Guaranty Re Ltd.	AA (Stable Outlook)	WR ⁽³⁾	\$ 2,402	\$ 26	\$ —
Assured Guaranty Corp.	AA (Stable Outlook)	A3 (Stable Outlook)	1,391	—	6
Overseas Private Investment Corporation	AA+ (Stable Outlook)	Aaa (Stable Outlook)	264	—	—
Others	A- or above	A2 or above	105	3	—
Total			<u>\$ 4,162</u>	<u>\$ 29</u>	<u>\$ 6</u>

(1)—Includes \$170 million in ceded par outstanding related to MBIA UK.

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

(3)—Represents a withdrawal of ratings.

Premium Summary

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

<u>In millions</u>	<u>Years Ended December 31,</u>		
	<u>2016</u>	<u>2015</u>	<u>2014</u>
Net premiums earned:			
Direct	\$ 305	\$ 379	\$ 407
Assumed	2	2	2
Gross	307	381	409
Ceded	(7)	(9)	(12)
Net	<u>\$ 300</u>	<u>\$ 372</u>	<u>\$ 397</u>

For the year ended December 31, 2016, payments received for claims related to financial guarantee policies under reinsurance contracts totaled \$12 million. For the year ended December 31, 2014, total salvage paid for financial guarantee policies under reinsurance contracts was \$5 million. Ceding commissions from reinsurance, before deferrals and net of returned ceding commissions, were \$1 million, \$1 million and \$2 million for the years ended December 31, 2016, 2015, and 2014, respectively.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 14: Insurance Regulations and Dividends

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

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

For the years ended December 31, 2016 and 2015, National had statutory net income of \$192 million and \$284 million, respectively. As of December 31, 2016, National's statutory capital was \$3.5 billion, consisting of policyholders' surplus of \$2.7 billion and contingency reserves of \$745 million. As of December 31, 2015, National had statutory capital of \$3.4 billion.

In 2016 and 2015, National declared and paid dividends of \$118 million and \$114 million, respectively, to its ultimate parent, MBIA Inc.

In 2016, MBIA Insurance Corporation did not declare or pay any dividends to MBIA Inc. or the holders of its preferred stock. MBIA Insurance Corporation is currently unable to pay dividends, including those related to its preferred stock, as a result of its earned surplus deficit as of December 31, 2016 and is not expected to have any statutory capacity to pay any dividends in the near term. In connection with MBIA Insurance Corporation obtaining approval from the NYSDFS to release excessive contingency reserves in prior periods, as described below, MBIA Insurance Corporation agreed that it would not pay any dividends without prior approval from the NYSDFS.

As of December 31, 2016 and 2015, MBIA Insurance Corporation was in compliance with its aggregate risk limits under the NYIL, but was not in compliance with certain of its single risk limits. If new overages occur with respect to its single risk limits, MBIA Insurance Corporation will report them to the NYSDFS. If MBIA Insurance Corporation is not in compliance with its aggregate risk and its single risk limits, the NYSDFS may prevent MBIA Insurance Corporation from transacting any new financial guarantee insurance business until it no longer exceeds these limitations.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 14: Insurance Regulations and Dividends (continued)

Under the NYIL, MBIA Insurance Corporation is also required to establish a contingency reserve to provide protection to policyholders in the event of extreme losses in adverse economic events. The amount of the reserve is based on the percentage of principal insured or premiums earned, depending on the type of obligation (net of collateral, reinsurance, refunding, refinancings and certain insured securities). Under the NYIL, MBIA Insurance Corporation is required to invest its minimum surplus and contingency reserves, and 50% of its loss reserves and unearned premium reserves, in certain qualifying assets. As of December 31, 2016, MBIA Insurance Corporation maintained its minimum requirement of policyholders' surplus but did not have enough qualifying assets to support its contingency reserves and 50% of its loss reserves and unearned premium reserves. Not having enough qualifying assets to support its contingency reserves limits the amount of earned surplus that might otherwise be available for the payment of dividends. Reductions in the contingency reserve may be recognized based on excess reserves and under certain stipulated conditions, subject to the approval of the Superintendent of the NYSDFS.

Results of operations for MBIA Insurance Corporation determined in accordance with statutory accounting practices for the years ended December 31, 2016 and 2015 were a net operating loss of \$323 million and net income of \$25 million, respectively. For the year ended December 31, 2016, MBIA Insurance Corporation recorded a loss of \$114 million to adjust the carrying value of MBIA UK to its estimated fair value less costs to sell. In addition, MBIA Insurance Corporation's policyholders' surplus was negatively impacted as of December 31, 2016 and 2015 by \$112 million and \$75 million, respectively, as it was not permitted to treat the portion of its investment in subsidiaries in excess of 60% of net admitted assets less the par value of common and preferred stock and liabilities as an admitted asset, as required under NYIL. MBIA Insurance Corporation's policyholders' surplus as of December 31, 2016 and 2015 included negative unassigned surplus of \$1.8 billion and \$1.4 billion, respectively. MBIA Insurance Corporation's policyholders' surplus may be further negatively impacted if future additional insured losses are incurred and the percentage of its assets invested in subsidiaries continues to increase.

As of December 31, 2016, MBIA Insurance Corporation's statutory capital was \$492 million, consisting of policyholders' surplus of \$238 million and contingency reserve of \$254 million. As of December 31, 2015, MBIA Insurance Corporation had statutory capital of \$885 million.

Note 15: Pension and Profit Sharing Plans

The Company maintains a qualified non-contributory defined contribution pension plan to which the Company contributes 10% of each eligible employee's annual compensation. Annual compensation for determining such contributions consists of base salary, bonus and commissions, as applicable, up to a maximum of \$1.5 million. Pension benefits vest over a five-year period with 20% vested after two years, 60% vested after three years, 80% vested after four years and 100% vested after five years. The Company funds the annual pension contribution by the following February of each applicable year. Pension expense related to the Company's qualified pension plan for the years ended December 31, 2016, 2015 and 2014 was \$1 million, \$3 million, and \$4 million, respectively.

The Company also maintains a qualified profit sharing/401(k) plan. The plan is a voluntary contributory plan that allows eligible employees to defer compensation for federal income tax purposes under Section 401(k) of the Internal Revenue Code of 1986, as amended. Employees may contribute, through payroll deductions, up to 25% of eligible compensation. The Company matches employee contributions up to the first 5% of such compensation. The 401(k) matching contributions are made in the form of cash, whereby participants may direct the Company match to an investment of their choice. The 401(k) matching benefits vest over a five-year period with 20% vested after two years, 60% vested after three years, 80% vested after four years and 100% vested after five years. Generally, a participating employee is entitled to distributions from the plans upon termination of employment, retirement, death or disability. Participants who qualify for distribution may receive a single lump sum, transfer the assets to another qualified plan or individual retirement account, or receive a series of specified installment payments. Profit sharing/401(k) expense related to the Company's qualified plan for the years ended December 31, 2016, 2015 and 2014 was \$1 million, \$2 million, and \$2 million, respectively.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 15: Pension and Profit Sharing Plans (continued)

In addition to the above two plans, the Company maintains a non-qualified deferred compensation plan. Contributions to the above qualified plans that exceed limitations established by federal regulations are then contributed to the non-qualified deferred compensation plan. The non-qualified pension expense for the years ended December 31, 2016, 2015 and 2014 was \$2 million, \$1 million, and \$2 million, respectively. The non-qualified profit sharing/401(k) expense for each of the years ended December 31, 2016, 2015 and 2014 was \$1 million for each year.

Note 16: Long-term Incentive Plans

Plan Description

The Company maintains the MBIA Inc. 2005 Omnibus Incentive Plan (the "Omnibus Plan"), as amended on May 7, 2009 and May 1, 2012. Under the Omnibus Plan a maximum of 14,000,000 shares of the Company's common stock can be used for any type of award including stock options, performance shares, performance units, restricted stock, restricted stock units and dividend equivalents. Any shares issued under the Omnibus Plan in connection with stock options shall be counted against this limit as 1 share covered by such option. For all awards other than stock options, any shares issued shall be counted against this limit as 1.28 shares for every share issued after the May 1, 2012 amendment and two shares for every share issued prior to the May 1, 2012 amendment.

The stock option component of the Omnibus Plan enables key employees of the Company and its subsidiaries to acquire shares of common stock of the Company or to benefit from appreciation in the price of the common stock of the Company. The stock option grants, which may be awarded every year, provide the right to purchase shares of common stock at the fair value of the stock on the date of the grant. Options granted will either be Incentive Stock Options ("ISOs") that qualify under Section 422(a) of the Internal Revenue Code, or Non-Qualified Stock Options ("NQSOs"). ISOs and NQSOs are granted at a price not less than 100% of the fair value, defined as the closing price on the grant date, of the Company's common stock. Options are exercisable as specified at the time of grant depending on the level of the recipient (generally five years) and expire either seven or ten years from the date of grant (or shorter if specified or following termination of employment).

Under the restricted stock component of the Omnibus Plan, certain employees are granted restricted shares of the Company's common stock. These awards have a restriction period lasting three to five years depending on the type of award, after which time the awards fully vest. During the vesting period, these shares may not be sold. Restricted stock may be granted to all employees.

There were 5,565,306 shares available for future grants under the Omnibus Plan as of December 31, 2016.

In accordance with accounting guidance for share-based payments, the Company expenses the fair value of employee stock options and other forms of stock-based compensation. In addition, the guidance classifies share-based payment awards as either liability awards, which are remeasured at fair value at each balance sheet date, or equity awards, which are measured on the grant date and not subsequently remeasured. Generally, awards with cash-based settlement repurchase features or that are settled at a fixed dollar amount are classified as liability awards, and changes in fair value will be reported in earnings. Awards with net-settlement features or that permit a cashless exercise with third-party brokers are classified as equity awards and changes in fair value are not reported in earnings. The Company's long-term incentive plans include features which result in equity awards. In addition, the guidance requires the use of a forfeiture estimate. The Company uses historical employee termination information to estimate the forfeiture rate applied to current stock-based awards.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 16: Long-term Incentive Plans (continued)

The Company maintains voluntary retirement benefits, which provide certain benefits to eligible employees of the Company upon retirement. A description of these benefits is included in the Company's proxy statement. One of the components of the retirement program for those employees that are retirement eligible is to continue to vest all performance-based stock options and restricted share awards beyond the retirement date in accordance with the original vesting terms and to immediately vest all outstanding time-based stock options and restricted share grants. The accounting guidance for share-based payment requires compensation costs for those employees to be recognized from the date of grant through the retirement eligible date, unless there is a risk of forfeiture, in which case the compensation cost is recognized in accordance with the original vesting schedule. Accelerated expense, if any, relating to this retirement benefit for both stock option awards and restricted stock awards has been included in the compensation expense amounts.

Restricted Stock

The fair value of the restricted shares awarded, net of cancellations, determined on the grant date was \$5 million and \$4 million for 2016 and 2015, respectively. The amount of unearned compensation, net of estimated forfeitures, was \$9 million as of December 31, 2016, which is expected to be recognized as expense over a weighted average period of 2.1 years. Unearned compensation is amortized to expense over the appropriate three to five-year vesting period.

Compensation expense related to the restricted shares, net of estimated forfeitures, was \$16 million, \$20 million and \$18 million for the years ended December 31, 2016, 2015 and 2014, respectively. The tax charge related to the restricted shares awards during 2016 and 2015 was \$1 million and \$2 million, respectively. The tax benefit related to the restricted share awards during 2014 was \$2 million.

A summary of the Company's restricted shares outstanding as of December 31, 2016, 2015 and 2014, and changes during the years ended on those dates, is presented in the following table:

	Restricted Share Activity					
	2016		2015		2014	
	Number of Shares	Weighted Average Price Per Share	Number of Shares	Weighted Average Price Per Share	Number of Shares	Weighted Average Price Per Share
Outstanding at beginning of year	4,727,319	\$ 9.9302	6,358,826	\$ 10.0047	3,832,115	\$ 7.6438
Granted	756,381	8.2722	481,636	8.8012	3,263,472	12.0284
Vested	(917,039)	13.6196	(2,112,343)	9.8988	(613,641)	5.9661
Forfeited	(650,000)	6.2601	(800)	5.0500	(123,120)	10.2942
Outstanding at end of year	<u>3,916,661</u>	<u>\$ 9.3553</u>	<u>4,727,319</u>	<u>\$ 9.9302</u>	<u>6,358,826</u>	<u>\$ 10.0047</u>

Stock Options

The Company determines the fair value for stock option awards at the date of grant and is estimated using the Black-Scholes option pricing model. This model was developed for use in estimating the fair value of traded options that have no vesting restrictions, are fully transferable, and contain both service and some performance conditions. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility.

During 2016, 2015 and 2014, there were no stock option awards granted. During 2016 and 2015, the Company expensed deferred tax assets of \$1 million and \$2 million, respectively, related to the stock option awards as a charge through the statements of operations. During 2014, the Company expensed a deferred tax asset of \$4 million, related to the stock option awards as a charge to paid-in capital. As of December 31, 2016, there was no remaining unrecognized compensation cost and all stock options had vested.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 16: Long-term Incentive Plans (continued)

A summary of the Company's stock options outstanding as of December 31, 2016, 2015 and 2014, and changes during the years ended on those dates, is presented in the following tables:

Options	2016		2015		2014	
	Number of Shares	Weighted Average Price Per Share	Number of Shares	Weighted Average Price Per Share	Number of Shares	Weighted Average Price Per Share
Outstanding at beginning of year	2,325,300	\$ 6.3703	2,548,000	\$10.9888	3,715,406	\$20.6883
Exercised	(2,050,000)	4.4722	—	—	(400,000)	4.0200
Expired or forfeited	(37,500)	57.5100	(222,700)	59.2118	(767,406)	61.5815
Outstanding at end of year	<u>237,800</u>	<u>\$14.6689</u>	<u>2,325,300</u>	<u>\$ 6.3703</u>	<u>2,548,000</u>	<u>\$10.9888</u>
Exercisable at end of year	237,800	\$14.6689	2,325,300	\$ 6.3703	1,798,000	\$13.4660

The following table summarizes information about outstanding stock options as of December 31, 2016:

Range of Average Exercise Price	Stock Options Outstanding				Stock Options Exercisable			
	Number of Options	Weighted Average Remaining Contractual Life in Years	Weighted Average Exercise Price	Aggregate Intrinsic Value (in millions)	Number of Options	Weighted Average Remaining Contractual Life in Years	Weighted Average Exercise Price	Aggregate Intrinsic Value (in millions)
\$5.05 - \$70.86	237,800	0.20	\$14.6689	\$ 1	237,800	0.20	\$14.6689	\$ 1

Performance Based Awards

During 2014, the Company granted three million restricted shares to certain key employees which have a vesting schedule dependent on the achievement of certain stock price targets of the Company. The grants and corresponding compensation expense have been included in the above restricted stock disclosures. As permitted by the accounting guidance for share-based payments, the Company estimates the fair value of awards that contain market performance conditions at the date of grant using a binomial lattice model with a Monte Carlo simulation. The binomial lattice model can better incorporate assumptions about a stock price path because the model can accommodate a large number of potential stock prices over the award's term in comparison to the Black-Scholes model.

Note 17: Earnings Per Share

Earnings per share is calculated using the two-class method in which earnings are allocated to common stock and participating securities based on their rights to receive nonforfeitable dividends or dividend equivalents. The Company grants restricted stock and restricted stock units to certain employees and non-employee directors in accordance with the Company's long-term incentive programs, which entitle the participants to receive nonforfeitable dividends or dividend equivalents during the vesting period on the same basis as those dividends are paid to common shareholders. These unvested stock awards represent participating securities. During periods of net income, the calculation of earnings per share exclude the income attributable to participating securities in the numerator and the dilutive impact of these securities from the denominator. During periods of net loss, no effect is given to participating securities in the numerator and the denominator excludes the dilutive impact of these securities since they do not share in the losses of the Company.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 17: Earnings Per Share (continued)

Basic earnings per share excludes dilution and is computed by dividing net income available to common shareholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share reflects the dilutive effect of all stock options, warrants and unvested restricted stock outstanding during the period that could potentially result in the issuance of common stock. The dilution from stock options, warrants and unvested restricted stock are calculated by applying the two-class method and using the treasury stock method. The treasury stock method assumes the proceeds from the exercise of stock options and warrants or the unrecognized compensation expense from unvested restricted stock will be used to purchase shares of the Company's common stock at the average market price during the period. During periods of net loss, stock options, warrants and unvested restricted stock are excluded from the calculation because they would have an antidilutive affect. Therefore, in periods of net loss, the calculation of basic and diluted earnings per share would result in the same value. For the years ended December 31, 2016, 2015 and 2014, there were 16,506,438, 17,967,871 and 31,907,852 respectively, of stock options, warrants and unvested restricted stock outstanding that were antidilutive.

The following table presents the computation of basic and diluted earnings per share for the years ended December 31, 2016, 2015 and 2014:

\$ in millions except share and per share amounts	Years Ended December 31,		
	2016	2015	2014
Basic earnings per share:			
Net income (loss)	\$ (338)	\$ 180	\$ 569
Less: undistributed earnings allocated to participating securities	—	6	16
Net income (loss) available to common shareholders	(338)	174	553
Basic weighted average shares ⁽¹⁾	133,001,088	163,936,318	188,171,503
Net income (loss) per basic common share	\$ (2.54)	\$ 1.06	\$ 2.94
Diluted earnings per share:			
Net income (loss)	\$ (338)	\$ 180	\$ 569
Less: undistributed earnings allocated to participating securities	—	6	15
Less: mark-to-market gain (loss) on warrants	—	—	28
Net income (loss) available to common shareholders	(338)	174	526
Basic weighted average shares ⁽¹⁾	133,001,088	163,936,318	188,171,503
Effect of common stock equivalents:			
Stock options	—	933,470	1,104,247
Warrants	—	—	1,622,877
Diluted weighted average shares	133,001,088	164,869,788	190,898,627
Net income (loss) per diluted common share	\$ (2.54)	\$ 1.06	\$ 2.76

(1) Includes 930,406, 617,909 and 412,769 of participating securities that met the service condition and were eligible to receive nonforfeitable dividends or dividend equivalents for the years ended December 31, 2016, 2015 and 2014, respectively.

Note 18: Common and Preferred Stock

Common Stock

Stock Warrants

During 2008, the Company granted Warburg warrants to purchase 11.5 million shares of MBIA common stock at an exercise price of \$30.25 per share, "B" warrant, which, upon obtaining certain approvals, would become exercisable to purchase 9.8 million shares at a price of \$30.25 per share, and "B2" warrant to purchase 4 million shares at a price of \$16.20 per share.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 18: Common and Preferred Stock (continued)

In August of 2013, pursuant to the anti-dilution provisions of warrants issued by MBIA to Warburg, the terms of the warrants issued to Warburg in 2008 were amended, which resulted in (a) Warburg's warrant to purchase 11.5 million shares exercisable at \$30.25 per share was revised to 11.8 million shares at \$29.44 per share ("Warburg Warrant"); (b) Warburg's B warrant to purchase 9.8 million shares exercisable at \$30.25 per share was revised to 10.1 million shares at \$29.44 per share ("Warburg B Warrant"); and (c) Warburg's B2 warrant to purchase 4 million shares exercisable at \$16.20 per share was revised to 4,004,945 shares at \$16.18 per share ("Warburg B2 Warrant"). In addition, under the agreement, Warburg had certain gross-up rights that are triggered in connection with the offering by the Company of any equity securities. As such, MBIA issued Warburg a five-year warrant to purchase 1.91 million shares of MBIA common stock at an exercise price of \$9.59 per share ("Gross-Up Warrant").

In February of 2015, the Company reported the expiration of the Warburg Warrant, Warburg B Warrant and Warburg B2 Warrant. In April of 2016, Warburg transferred the Gross-Up Warrant to Highbridge International LLC.

In May of 2013, MBIA Inc. issued Blue Ridge Investments, L.L.C., an affiliate of Bank of America, a five-year warrant to purchase 9.94 million shares of MBIA Inc. common stock at an exercise price of \$9.59 per share.

Stock warrants are recorded as liabilities and reported within "Other liabilities" on the consolidated balance sheets due to terms and conditions in the agreements that could require net cash settlement. As of December 31, 2016 and 2015, the fair value of the warrants was \$33 million and \$18 million, respectively.

Share Repurchases

Repurchases of common stock may be made from time to time in the open market or in private transactions as permitted by securities laws and other legal requirements. The Company believes that share repurchases can be an appropriate deployment of capital in excess of amounts needed to support the Company's liquidity while maintaining the claims-paying resources of MBIA Corp. and National, as well as other business needs.

On February 1, 2007, the Company's Board of Directors authorized the repurchase of common stock up to \$1 billion under a share repurchase program. During 2014, the Company exhausted any remaining capacity under this share repurchase program.

In the fourth quarter of 2014, the Company's Board of Directors authorized the repurchase of common stock up to \$200 million under a new share repurchase program. On July 29, 2015, the Company's Board of Directors authorized the repurchase by the Company or its subsidiaries of up to \$100 million of its outstanding shares under a new share repurchase program, which superseded and terminated the prior fourth quarter 2014 authorization. The prior authorization had approximately \$61 million of unused capacity at the time it was terminated. On October 28, 2015, the Company's Board of Directors authorized the repurchase by the Company or its subsidiaries of up to \$100 million of its outstanding common stock under a new share repurchase program, as the Company's July 29, 2015 authorization was fully exhausted. During 2016, the Company exhausted any remaining capacity under the October 28, 2015 repurchase program.

On February 23, 2016, the Company's Board of Directors authorized the repurchase by the Company and its subsidiaries of up to \$100 million of its outstanding shares under a new share repurchase authorization. As of December 31, 2016, \$88 million remained available under this new program.

The following table provides information about the Company's share repurchases for the years ended December 31, 2016, 2015 and 2014:

<u>In millions, except per share amounts</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Number of shares repurchased	16.6	39.9	3.3
Average price paid per share	\$6.37	\$7.60	\$10.45
Remaining authorization as of December 31	\$ 88	\$ 94	\$ 188

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 18: Common and Preferred Stock (continued)

During 2016 and 2015, 419,806 and 580,692 shares, respectively, were purchased by the Company for settling awards under the Company's long-term incentive plans.

Preferred Stock

As of December 31, 2016, MBIA Insurance Corporation had 2,759 shares of preferred stock issued and outstanding with a carrying value of \$28 million, including 1,444 shares held by MBIA Inc. that were purchased at a weighted average price of \$10,900 per share or 10.9% of face value and 1,315 shares held by unaffiliated investors. During 2016, MBIA Inc. did not repurchase any additional shares.

In accordance with MBIA's fixed-rate election, the dividend rate on the preferred stock was determined using a fixed-rate equivalent of LIBOR plus 200 basis points. Each share of preferred stock has a par value of \$1,000 with a liquidation preference of \$100,000. The holders of the preferred stock are generally not entitled to any voting rights. Subject to certain requirements, the preferred stock may be redeemed, in whole or in part, at the option of MBIA Corp. at any time or from time to time for cash at a redemption price equal to the liquidation preference per share plus any accrued and unpaid dividends thereon at the date of redemption for the then current dividend period and any previously accumulated dividends payable without interest on such unpaid dividends. As of December 31, 2016 and 2015, there were no dividends declared on the preferred stock. Payment of dividends on MBIA Corp.'s preferred stock is subject to the same restrictions that apply to dividends on common stock under NYIL.

Note 19: Accumulated Other Comprehensive Income

The following table presents the changes in the components of AOCI for the years ended December 31, 2016, 2015 and 2014:

In millions	Unrealized Gains (Losses) on AFS Securities, Net	Foreign Currency Translation, Net	Total
Balance, January 1, 2014	\$ (96)	\$ 10	\$ (86)
Other comprehensive income (loss) before reclassifications	117	(27)	90
Amounts reclassified from AOCI	13	4	17
Net period other comprehensive income (loss)	130	(23)	107
Balance, December 31, 2014	34	(13)	21
Other comprehensive income (loss) before reclassifications	(55)	(26)	(81)
Amounts reclassified from AOCI	(1)	—	(1)
Net period other comprehensive income (loss)	(56)	(26)	(82)
Balance, December 31, 2015	(22)	(39)	(61)
Other comprehensive income (loss) before reclassifications	27	(95)	(68)
Amounts reclassified from AOCI	1	—	1
Total other comprehensive income (loss)	28	(95)	(67)
Balance, December 31, 2016	\$ 6	\$ (134)	\$(128)

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 19: Accumulated Other Comprehensive Income (continued)

The following table presents the details of the reclassifications from AOCI for the years ended December 31, 2016, 2015 and 2014:

In millions	Amounts Reclassified from AOCI Years Ended December 31,			Affected Line Item on the Consolidated Statements of Operations
	2016	2015	2014	
Details about AOCI Components				
Unrealized gains (losses) on AFS securities:				
Realized gain (loss) on sale of securities	\$ 7	\$ 11	\$ (17)	Net gains (losses) on financial instruments at fair value and foreign exchange
OTTI	(4)	(4)	—	Net investment losses related to OTTI
Amortization on securities	(6)	(4)	(4)	Net investment income
	(3)	3	(21)	Income (loss) before income taxes
	(2)	2	(8)	Provision (benefit) for income taxes
	(1)	1	(13)	Net income (loss)
Foreign currency translation:				
Realized gain (loss) on liquidation of foreign entity	—	—	(4)	Net gains (losses) on financial instruments at fair value and foreign exchange
Total reclassifications for the period	<u>\$(1)</u>	<u>\$1</u>	<u>\$(17)</u>	Net income (loss)

Note 20: Commitments and Contingencies

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

Litigation

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

On December 14, 2009, MBIA Corp. commenced an action in New York State Supreme Court, New York County, against Credit Suisse Securities (USA) LLC, DLJ Mortgage Capital, Inc. and Select Portfolio Servicing Inc. (collectively, "Credit Suisse"). The complaint seeks damages for fraud and breach of contractual obligations in connection with the procurement of financial guarantee insurance on the Home Equity Mortgage Trust Series 2007-2 securitization. On January 30, 2013, MBIA Corp. filed an amended complaint. The amended complaint alleges, among other claims, that Credit Suisse falsely represented: (i) the attributes of the securitized loans; (ii) that the loans complied with the governing underwriting guidelines; and (iii) that Credit Suisse had conducted extensive due diligence on and quality control reviews of the securitized loans to ensure compliance with the underwriting guidelines. The complaint further alleges that the defendants breached their contractual obligations to cure or repurchase loans found to be in breach of the representations and warranties applicable thereto and denied MBIA the requisite access to all records and documents regarding the securitized loans. An argument on both parties' motions for partial summary judgment was held on November 15, 2016 and a decision is pending.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 20: Commitments and Contingencies (continued)

MBIA Insurance Corp. v. J.P. Morgan Securities LLC (f/k/a Bear, Stearns & Co. Inc.); Index No. 64676/2012 (N.Y. Sup. Ct., County of Westchester)

On September 14, 2012, MBIA Corp. filed a complaint alleging fraud against J.P. Morgan Securities LLC (f/k/a Bear, Stearns & Co. Inc.) relating to Bear, Stearns & Co. Inc.'s role as lead securities underwriter on the GMAC Mortgage Corporation Home Equity Loan Trust 2006-HE4. On September 18, 2014, the court granted in part MBIA Corp.'s motion to file an amended complaint. MBIA filed its amended complaint on September 29, 2014. J.P. Morgan filed its answer to the amended complaint on October 10, 2014. The parties each cross-appealed the September 18, 2014 decision and those appeals were fully submitted as of June 8, 2015. J.P. Morgan's motion for summary judgment was argued in December of 2015. On June 6, 2016, the court denied J.P. Morgan's motion for summary judgment. J.P. Morgan filed a notice of appeal of that ruling on July 6, 2016. On November 2, 2016, the Second Department of the Appellate Division of the New York State Supreme Court (the "Second Department") issued a decision on J.P. Morgan's separate appeal, and MBIA Corp.'s cross appeal, from the trial court's Order of September 18, 2014, which had granted MBIA's motion for leave to amend its complaint to assert a cause of action for fraudulent concealment, and denied its motion to amend its complaint to assert cause of action alleging material misrepresentation in the procurement of an insurance contract brought under common law as informed by NYIL Section 3105. The Second Department decision affirmed the Order as it pertained to allowing the assertion of the fraudulent concealment claim, and reversed it as to the denial of the motion to add the claim of material misrepresentation in the procurement of an insurance contract. Consistent with the Second Department decision, on February 24, 2017, MBIA Corp. filed a Second Amended Complaint adding a claim for material misrepresentation in the procurement of an insurance contract as informed by NYIL Section 3105.

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

On July 23, 2008, the City of Los Angeles filed a complaint in the Superior Court of the State of California, County of Los Angeles, against a number of financial guarantee insurers, including MBIA. At the same time and subsequently, additional complaints against MBIA and nearly all of the same co-defendants were filed by various municipal entities and quasi-municipal entities, mostly in California. These cases are part of a coordination proceeding in Superior Court, San Francisco County, before Judge Curtis E. A. Karnow, referred to as the Ambac Bond Insurance Cases. In August of 2011, the plaintiffs filed amended versions of their respective complaints. The claims allege violation of California's antitrust laws through maintaining a dual credit rating scale that misstated the credit default risk of certain issuers, thereby creating market demand for bond insurance. The plaintiffs also allege that the individual bond insurers participated in risky financial transactions in other lines of business that damaged each bond insurer's financial condition, and failure to adequately disclose the impact of those transactions on their financial condition. The plaintiffs also assert common law claims of breach of contract and fraud. The non-municipal plaintiffs also allege a California unfair competition cause of action. Following an appeal of the dismissal of the plaintiff's anti-trust claim under California's Cartwright Act, the California Court of Appeal reinstated those claims against the bond insurer defendants on February 18, 2016. On April 8, 2016, Judge Mary E. Wiss recused and disqualified herself from further proceedings in the matter. On April 14, 2016, Judge Curtis E. A. Karnow was assigned to sit as the Coordination Trial Judge. On June 24, 2016, the defendants, including the MBIA parties, filed their answers to the complaints.

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

On November 2, 2015, Lynn Tilton and Patriarch Partners XV, LLC filed a complaint in New York State Supreme Court, Westchester County, against MBIA Inc. and MBIA Corp., alleging fraudulent inducement and related claims arising from purported promises made in connection with insurance policies issued by MBIA Corp. on certain collateralized loan obligations managed by Ms. Tilton and affiliated Patriarch entities, and seeking damages. The plaintiffs filed an amended complaint on January 15, 2016. On December 27, 2016, Justice Alan D. Scheinkman granted in part and denied in part MBIA's motion to dismiss. On January 17, 2017, MBIA filed its answer. A scheduling order was entered on January 6, 2017 setting a Trial Readiness Conference for October 19, 2017.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 20: Commitments and Contingencies (continued)

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

On June 15, 2016, National filed a complaint in federal court in Puerto Rico challenging the Puerto Rico Emergency Moratorium and Financial Rehabilitation Act (Law 21-2016 or the "Moratorium Act") as unconstitutional under the United States Constitution. On June 22, 2016, National filed a motion for partial summary judgment on its claim that the Moratorium Act is preempted by the federal Bankruptcy Code. On July 7, 2016, the Puerto Rico defendants filed a motion to stay the case pursuant to the Puerto Rico Oversight, Management and Economic Stability Act ("PROMESA"), which was granted by the Court in August of 2016. The defendants filed their answer to the complaint on July 26, 2016. On November 15, 2016, the District Court denied National's motion to lift the litigation stay granted pursuant to PROMESA. On January 11, 2017, the U.S. Court of Appeals for the First Circuit affirmed the denial of a separate plaintiff's motion to lift the PROMESA stay in a related action challenging the Moratorium Act. Accordingly, the case remains stayed.

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

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

Headquarters Lease Agreement

The Company leases its headquarters in Purchase, New York. The initial lease term expires in 2030 with the option to terminate the lease in 2025 upon the payment of a termination amount. At the end of the initial lease term, the Company has the option to extend the term of the lease for two additional terms of five years at a fixed annual rent based on the fair market rent at the time of any extension. As of December 31, 2016, total future minimum lease payments remaining was \$39 million. The total future minimum lease payments include annual rent escalation amounts. The lease agreement has been classified as an operating lease, and operating rent expense is recognized on a straight-line basis.

Note 21: Subsequent Events

Refer to "Note 20: Commitments and Contingencies" for information about legal proceedings that occurred after December 31, 2016.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this report, an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934) was performed under the supervision and with the participation of the Company's senior management, including the Chief Executive Officer and the Chief Financial Officer. Based on that evaluation, the Company's management, including the Chief Executive Officer and the Chief Financial Officer, concluded that the Company's disclosure controls and procedures were effective as of the end of the period covered by this report.

Changes in Internal Control over Financial Reporting

As required by Rule 13a-15(d) under the Exchange Act, the Company's management, including its Chief Executive Officer and Chief Financial Officer, has evaluated the Company's internal control over financial reporting to determine whether any changes occurred during the fourth fiscal quarter covered by this annual report that have materially affected or are reasonably likely to materially affect, our internal control over financial reporting. Based on that evaluation, there has been no such change during the fourth fiscal quarter of 2016.

Management's Report on Internal Control over Financial Reporting

Management of MBIA Inc. and its subsidiaries is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control over financial reporting is a process designed under the supervision of the Company's principal executive and principal financial officers to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with accounting principles generally accepted in the United States of America.

MBIA's internal control over financial reporting includes policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets; (2) provide reasonable assurances that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures are being made only in accordance with authorizations of management and the directors of the Company; and, (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the Company's financial statements.

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

Management has assessed the effectiveness of MBIA Inc. internal control over financial reporting as of December 31, 2016. In making its assessment, management conducted an assessment of the effectiveness of the Company's internal control over financial reporting based on the framework established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment and those criteria, management has determined that the Company's internal control over financial reporting as of December 31, 2016 was effective.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2016 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report, which is included in Item 8, "Financial Statements and Supplementary Data."

Item 9B. Other Information

None.

Part III

Item 10. Directors, Executive Officers and Corporate Governance

Information regarding directors will be set forth under “Proposals for Shareholder Approval Recommended by the Board—Proposal 1: Election of Directors” and “Board of Directors Corporate Governance—The Board of Directors and its Committees” in the Company’s Proxy Statement to be filed within 120 days of the end of our fiscal year ended December 31, 2016 (the “Proxy Statement”) and is incorporated by reference.

Information regarding executive officers is set forth under Part I, Item 1, “Business—Executive Officers of the Registrant,” included in this Form 10-K.

Information regarding Section 16(a) beneficial ownership reporting compliance will be set forth in the section “Section 16(a) Beneficial Ownership Reporting Compliance” in the Proxy Statement and is incorporated by reference.

Information regarding the Company’s Audit Committee will be set forth under “Board of Directors Corporate Governance—The Board of Directors and its Committees” in the Proxy Statement and is incorporated by reference.

The Company has adopted a code of ethics that applies to all employees of the Company including its Chief Executive Officer, Chief Financial Officer and its controller. A copy of such code of ethics can be found on the Company’s internet website at www.mbia.com. The Company intends to satisfy the disclosure requirements under Item 10 of Form 8-K regarding an amendment to, or waiver from, a provision of its code of ethics and that relates to a substantive amendment or material departure from a provision of the Code by posting such information on its internet website at www.mbia.com.

Item 11. Executive Compensation

Information regarding compensation of the Company’s directors and executive officers will be set forth under “Board of Directors Corporate Governance—The Board of Directors and its Committees,” “Compensation and Governance Committee Report,” “Compensation Discussion and Analysis” and “Executive Compensation Tables” in the Proxy Statement and is incorporated by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Information regarding security ownership of certain beneficial owners and management will be set forth under “Security Ownership of Certain Beneficial Owners” and “Security Ownership of Directors and Executive Officers” in the Proxy Statement and is incorporated by reference.

The following table provides information as of December 31, 2016, regarding securities authorized for issuance under our equity compensation plans. All outstanding awards relate to our common stock. For additional information about our equity compensation plans refer to “Note 16: Long-term Incentive Plans” in the Notes to Consolidated Financial Statements of this Form 10-K.

Plan category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights ⁽¹⁾	(b) Weighted average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) ⁽²⁾
Equity compensation plans approved by security holders	400,694	\$ 14.67	5,739,696
Equity compensation plans not approved by security holders	—	—	—
Total	400,694	\$ 14.67	5,739,696

(1)— Includes 162,894 phantom shares granted under the Deferred Compensation and Stock Ownership Plan for Non-Employee Directors. The weighted average exercise price in column (b) does not take these awards into account.

(2)— Includes 5,565,306 shares of common stock available for future grants under the MBI Inc. 2005 Omnibus Incentive Plan and 174,390 shares of common stock available for future grants under the Deferred Compensation and Stock Ownership Plan for Non-Employee Directors.

Item 13. Certain Relationships and Related Transactions, and Director Independence

Information regarding certain relationships and related transactions will be set forth under “Certain Relationships and Related Transactions” in the Proxy Statement and is incorporated by reference. Information regarding director independence will be set forth under “Proposals for Shareholder Approval Recommended by the Board—Proposal 1: Election of Directors—Director Independence” in the Proxy Statement and is incorporated by reference.

Item 14. Principal Accounting Fees and Services

Information regarding principal accounting fees and services will be set forth under “Principal Accountant Fees and Services” in the Proxy Statement and is incorporated by reference.

Part IV

Item 15. Exhibits, Financial Statement Schedules

(a) Financial Statements and Financial Statement Schedules and Exhibits

1. Financial Statements

The following financial statements of MBIA Inc. have been included in Part II, Item 8 hereof:

Report of Independent Registered Public Accounting Firm.

Consolidated balance sheets as of December 31, 2016 and 2015.

Consolidated statements of operations for the years ended December 31, 2016, 2015 and 2014.

Consolidated statements of comprehensive income (loss) for the years ended December 31, 2016, 2015 and 2014.

Consolidated statements of changes in shareholders' equity for the years ended December 31, 2016, 2015 and 2014.

Consolidated statements of cash flows for the years ended December 31, 2016, 2015 and 2014.

Notes to consolidated financial statements.

2. Financial Statement Schedules

The following financial statement schedules are filed as part of this report.

<u>Schedule</u>	<u>Title</u>
I.	Summary of investments, other than investments in related parties, as of December 31, 2016.
II.	Condensed financial information of Registrant for December 31, 2016, 2015 and 2014.
IV.	Reinsurance for the years ended December 31, 2016, 2015 and 2014.

The report of the Registrant's Independent Registered Public Accounting Firm with respect to the above listed financial statement schedules is included within the report listed under Item 15.1 above.

All other schedules are omitted because they are not applicable or the required information is shown in the consolidated financial statements or notes thereto.

3. Exhibits

An exhibit index immediately preceding the Exhibits indicates the exhibit number where each exhibit filed as part of this report can be found.

(Note Regarding Reliance on Statements in Our Contracts: In reviewing the agreements included as exhibits to this Annual Report on Form 10-K, please remember that they are included to provide you with information regarding their terms and are not intended to provide any other factual or disclosure information about MBIA Inc., its subsidiaries or the other parties to the agreements. The agreements contain representations and warranties by each of the parties to the applicable agreement. These representations and warranties have been made solely for the benefit of the other parties to the applicable agreement and (i) should not in all instances be treated as categorical statements of fact, but rather as a way of allocating the risk to one of the parties if those statements prove to be inaccurate; (ii) have been qualified by disclosures that were made to the other party in connection with the negotiation of the applicable agreement, which disclosures are not necessarily reflected in the agreement; (iii) may apply standards of materiality in a way that is different from what may be viewed as material to investors; and (iv) were made only as of the date of the applicable agreement or such other date or dates as may be specified in the agreement and are subject to more recent developments. Accordingly, these representations and warranties may not describe the actual state of affairs as of the date they were made or at any other time.)

Item 15. Exhibits, Financial Statement Schedules (continued)

3. Articles of Incorporation and By-Laws.

3.1. Amended and Restated Certificate of Incorporation, dated May 5, 2005, incorporated by reference to Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2005.

3.2. By-Laws as Amended as of July 14, 2009, incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed on July 16, 2009.

4. Instruments Defining the Rights of Security Holders, including Indentures.

4.1. Indenture, dated as of August 1, 1990, between MBIA Inc. and The First National Bank of Chicago, Trustee, incorporated by reference to Exhibit 10.72 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1992 as amended by the First Supplemental Indenture, dated as of August 22, 2002, between MBIA Inc. and Bank One Trust Company, N.A., as Trustee, in connection with the \$300,000,000 6.4% senior notes due 2022, incorporated by reference to the Exhibit 4.04 to the Company's Current Report on Form 8-K filed on August 22, 2002, and the Second Supplemental Indenture, dated as of November 21, 2012, between MBIA Inc. and The Bank of New York Mellon, as Trustee, incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed on November 26, 2012.

4.2. Senior Indenture, dated as of November 24, 2004, between MBIA Inc. and The Bank of New York, as Trustee, incorporated by reference to Exhibit 4.01 to the Company's Current Report on Form 8-K filed on November 29, 2004 as amended by the First Supplemental Indenture, dated as of November 24, 2004, between MBIA Inc. and The Bank of New York, as Trustee, in connection with the \$350,000,000 5.70% senior notes due 2034, incorporated by reference to Exhibit 4.02 to the Company's Current Report on Form 8-K filed on November 29, 2004 as amended by the Second Supplemental Indenture, dated as of November 21, 2012, between MBIA Inc. and The Bank of New York Mellon, as Trustee, incorporated by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K filed on November 26, 2012.

4.3. Fiscal Agency Agreement, dated as of January 16, 2008, between MBIA Insurance Corporation and The Bank of New York, incorporated by reference to Exhibit 4.01 to the Company's Current Report on Form 8-K filed on January 17, 2008.

4.4. Form of MBIA Corp. 14% Fixed-to-Floating Rate Global Note due January 15, 2033, incorporated by reference to Exhibit 4.02 to the Company's Current Report on Form 8-K filed on January 17, 2008.

4.5. Warrant Agreement, dated as of May 6, 2013, between MBIA Inc. and Blue Ridge Investments, L.L.C., incorporated by reference to Exhibit 4.1 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2013.

4.6. Warrant Agreement, dated as of August 5, 2013, between MBIA Inc. and Warburg Pincus Private Equity X, L.P., incorporated by reference to Exhibit 4.2 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2013.

4.7. Senior Note Indenture, dated as of January 10, 2017, between MZ Funding LLC and Wilmington Savings Fund Society, FSB, as Trustee and Collateral Agent, incorporated by reference to Exhibit 99.1 to the Company's Current Report on Form 8-K filed on January 10, 2017.

4.8. Form of MZ Funding LLC \$328,250,000 14% Senior Secured Note due January 20, 2020, incorporated by reference to Exhibit 99.2 to the Company's Current Report on Form 8-K filed on January 10, 2017.

4.9. Subordinated Note Indenture, dated as of January 10, 2017, between MZ Funding LLC and Wilmington Savings Fund Society, FSB, as Trustee and Collateral Agent, incorporated by reference to Exhibit 99.3 to the Company's Current Report on Form 8-K filed on January 10, 2017.

4.10. Form of MZ Funding LLC \$88,000,000 14% Senior Secured Note due January 20, 2020, incorporated by reference to Exhibit 99.4 to the Company's Current Report on Form 8-K filed on January 10, 2017.

4.11. Credit Agreement dated as of January 10, 2017 between MBIA Insurance Corp. and MZ Funding LLC, incorporated by reference to Exhibit 99.5 to the Company's Current Report on Form 8-K filed on January 10, 2017.

Item 15. Exhibits, Financial Statement Schedules (continued)

4.12. Security Agreement dated as of January 10, 2017 between MBIA Insurance Corp. as Grantor and MZ Funding LLC as Secured Party, incorporated by reference to Exhibit 99.6 to the Company's Current Report on Form 8-K filed on January 10, 2017.

4.13. Security Agreement dated as of January 10, 2017 between MZ Funding LLC as Grantor and Wilmington Savings Fund Society, FSB as Collateral Agent under the Senior Note Indenture referenced herein as Exhibit 4.8 and incorporated by reference to Exhibit 99.7 to the Company's Current Report on Form 8-K filed on January 10, 2017.

4.14. Security Agreement dated as of January 10, 2017 between MZ Funding LLC as Grantor and Wilmington Savings Fund Society, FSB as Collateral Agent under the Subordinated Note Indenture referenced herein as Exhibit 4.9 and incorporated by reference to Exhibit 99.8 to the Company's Current Report on Form 8-K filed on January 10, 2017.

4.15. Pledge Agreement dated as of January 10, 2017 between MBIA Inc. as Pledgor and Wilmington Savings Fund Society, FSB as Collateral Agent under the Subordinated Note Indenture referenced herein as Exhibit 4.7 and incorporated by reference to Exhibit 99.9 to the Company's Current Report on Form 8-K filed on January 10, 2017.

4.16. Intercreditor Agreement dated as of January 10, 2017 amongst Wilmington Savings Fund Society, FSB as Trustee, MZ Funding LLC and MBIA Insurance Corp. as Insurer, incorporated by reference to Exhibit 99.10 to the Company's Current Report on Form 8-K filed on January 10, 2017.

10. Material Contracts

Executive Compensation Plans and Arrangements

The following Exhibits identify all existing executive compensation plans and arrangements:

10.1. MBIA Inc. Annual Incentive Plan, effective January 1, 2016, incorporated by reference to Exhibit A to the Company's Proxy Statement filed on March 24, 2015.

10.2. MBIA Inc. 2005 Omnibus Incentive Plan, as amended through March, 2012, incorporated by reference to Exhibit A to the Company's Proxy Statement filed on March 19, 2012, as amended by the Amendment thereto, effective as of May 2, 2013.

10.3. Key Employee Employment Protection Plan, amended as of February 27, 2007, incorporated by reference to Exhibit 10.80 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2007, as further amended by Amendment No. 2, effective February 22, 2010, incorporated by reference to Exhibit 10.15 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2009.

10.4. Form of Key Employee Employment Protection Agreement, amended as of February 27, 2007, incorporated by reference to Exhibit 10.81 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2007.

10.5. MBIA Inc. 2005 Non-Employee Director Deferred Compensation Plan (as amended through February 2014), incorporated by reference to Exhibit 10.1 to the Company's Form S-8 filed on March 5, 2014 (Reg. No. 333-194335).

10.6. Amended and Restated MBIA Inc. Deferred Compensation and Excess Benefit Plan, effective as of March 22, 2010, incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2010.

Item 15. Exhibits, Financial Statement Schedules (continued)

10.7. Cash Retention Award and Restricted Stock Agreement, dated as of December 21, 2012, between MBIA Inc. and William C. Fallon, incorporated by reference to Exhibit 10.16 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2012.

10.8. Cash Retention Award and Restricted Stock Agreement, dated as of December 21, 2012, between MBIA Inc. and Anthony McKiernan, incorporated by reference to Exhibit 10.17 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2012.

10.9. Cash Retention Award and Restricted Stock Agreement, dated as of December 21, 2012, between MBIA Inc. and Ram Wertheim, incorporated by reference to Exhibit 10.18 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2012.

10.10. Restricted Stock Award Agreement between MBIA Inc. and Joseph W. Brown, dated as of March 17, 2014, incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2014.

10.11. Amended Restricted Stock Award Agreement between MBIA Inc. and Joseph W. Brown, dated as of March 2, 2015, incorporated by reference to Exhibit 10.16 to the Company's Annual Report on Form 10-K for the year ended December 31, 2014.

10.12. Separation Agreement, dated as of January 22, 2016, between MBIA Services Corporation and C. Edward Chaplin, incorporated by reference to Exhibit 10.15 to the Company's Annual Report on Form 10-K for the year ended December 31, 2015.

+10.13. Conformed copy of Amended and Restated MBIA Inc. Deferred Compensation and Excess Benefit Plan, effective as of March 22, 2010, that reflects all amendments to the plan as of March 1, 2017.

+10.14. Separation Agreement, dated as of February 28, 2017, between MBIA Services Corporation and Ram Wertheim.

+21. List of Subsidiaries.

+23. Consent of PricewaterhouseCoopers LLP.

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

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

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

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

99.1. Quota Share Reinsurance Agreement between MBIA Insurance Corporation and MBIA Insurance Corp. of Illinois dated February 17, 2009, incorporated by reference to Exhibit 99.1 to the Company's Current Report on Form 8-K filed on February 20, 2009.

99.2. Novation Agreement, dated as of September 14, 2012, between Financial Guaranty Insurance Company and National Public Finance Guarantee Corporation, incorporated by reference to Exhibit 99.3 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2013.

99.3. Amended and Restated Tax Sharing Agreement, dated as of September 8, 2011, between MBIA Inc. and certain of its subsidiaries, incorporated by reference to Exhibit 99.3 to the Company's Annual Report on Form 10-K for the year ended December 31, 2014.

Item 15. Exhibits, Financial Statement Schedules (continued)

99.4. Share Purchase Agreement, dated as of September 29, 2016, between MBIA UK. (Holdings) Limited and Assured Guaranty Corp., incorporated by reference to Exhibit 99.2 to the Company's Current Report on Form 8-K filed on September 29, 2016.

+101. Additional Exhibits—MBIA Inc. and Subsidiaries Consolidated Financial Statements and Notes to Consolidated Financial Statements from the Company's Annual Report on Form 10-K for the year ended December 31, 2016, formatted in XBRL.

+ Filed Herewith

* Furnished Herewith

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

MBIA Inc.
(Registrant)

Dated: March 1, 2017

By /s/ Joseph W. Brown

Name: Joseph W. Brown

Title: Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Joseph W. Brown</u> Joseph W. Brown	Director and Chief Executive Officer	March 1, 2017
<u>/s/ Anthony McKiernan</u> Anthony McKiernan	Chief Financial Officer	March 1, 2017
<u>/s/ Douglas C. Hamilton</u> Douglas C. Hamilton	Assistant Vice President and Controller (chief accounting officer)	March 1, 2017
<u>/s/ Charles R. Rinehart</u> Charles R. Rinehart	Chairman and Director	March 1, 2017
<u>/s/ Maryann Bruce</u> Maryann Bruce	Director	March 1, 2017
<u>/s/ Francis Y. Chin</u> Francis Y. Chin	Director	March 1, 2017
<u>/s/ Keith D. Curry</u> Keith D. Curry	Director	March 1, 2017
<u>/s/ Steven J. Gilbert</u> Steven J. Gilbert	Director	March 1, 2017
<u>/s/ Lois A. Scott</u> Lois A. Scott	Director	March 1, 2017
<u>/s/ Theodore Shasta</u> Theodore Shasta	Director	March 1, 2017
<u>/s/ Richard C. Vaughan</u> Richard C. Vaughan	Director	March 1, 2017

SCHEDULE I
MBIA INC. AND SUBSIDIARIES
SUMMARY OF INVESTMENTS, OTHER THAN INVESTMENTS IN RELATED PARTIES
December 31, 2016
(In millions)

<u>Type of investment</u>	December 31, 2016		
	Cost	Fair Value	Amount at which shown in the balance sheet
Available-for-sale:			
U.S. Treasury and government agency	\$ 843	\$ 863	\$ 863
State and municipal bonds	1,382	1,439	1,439
Foreign governments	5	5	5
Corporate obligations	1,332	1,250	1,250
Mortgage-backed securities:			
Residential mortgage-backed agency	871	862	862
Residential mortgage-backed non-agency	50	45	45
Commercial mortgage-backed	41	41	41
Asset-backed securities:			
Collateralized debt obligations	22	22	22
Other asset-backed	293	292	292
Total long-term available-for-sale	4,839	4,819	4,819
Short-term available-for-sale	607	607	607
Equity available-for-sale	4	5	5
Total available-for-sale	5,450	5,431	5,431
Investments at fair value	195	199	199
Other investments	3	3	3
Total investments	\$5,648	\$ 5,633	\$ 5,633
Assets of consolidated variable interest entities:			
Investments at fair value	198	255	255
Held-to-maturity:			
Corporate obligations	890	876	890
Loans receivable	589	1,066	1,066
Total investments of consolidated variable interest entities	\$1,677	\$ 2,197	\$ 2,211

SCHEDULE II
MBIA INC. (PARENT COMPANY)
CONDENSED BALANCE SHEETS
(In millions except share and per share amounts)

	<u>December 31,</u> <u>2016</u>	<u>December 31,</u> <u>2015</u>
Assets		
Investments:		
Fixed-maturity securities held as available-for-sale, at fair value (amortized cost \$687 and \$749)	\$ 725	\$ 801
Investments carried at fair value	6	7
Investments pledged as collateral, at fair value (amortized cost \$242 and \$329)	233	291
Short-term investments held as available-for-sale, at fair value (amortized cost \$278 and \$245)	278	245
Other investments	<u>2</u>	<u>4</u>
Total investments	1,244	1,348
Cash and cash equivalents	13	35
Investment in wholly-owned subsidiaries	3,673	4,085
Deferred income taxes, net	1,003	991
Other assets	<u>107</u>	<u>103</u>
Total assets	<u>\$ 6,040</u>	<u>\$ 6,562</u>
Liabilities and Shareholders' Equity		
Liabilities:		
Investment agreements	\$ 361	\$ 423
Long-term debt	576	575
Affiliate loans payable	901	1,022
Income taxes payable	696	573
Other liabilities	<u>279</u>	<u>240</u>
Total liabilities	<u>2,813</u>	<u>2,833</u>
Shareholders' Equity:		
Preferred stock, par value \$1 per share; authorized shares—10,000,000; issued and outstanding—none	—	—
Common stock, par value \$1 per share; authorized shares—400,000,000; issued shares—283,989,999 and 281,833,618	284	282
Additional paid-in capital	3,160	3,138
Retained earnings	2,700	3,038
Accumulated other comprehensive income (loss), net of tax	(128)	(61)
Treasury stock, at cost—148,789,168 and 130,303,241 shares	<u>(2,789)</u>	<u>(2,668)</u>
Total shareholders' equity of MBIA Inc.	<u>3,227</u>	<u>3,729</u>
Total liabilities and shareholders' equity	<u>\$ 6,040</u>	<u>\$ 6,562</u>

The condensed financial statements should be read in conjunction with the consolidated financial statements and notes thereto and the accompanying notes.

SCHEDULE II
MBIA INC. (PARENT COMPANY)
CONDENSED STATEMENTS OF OPERATIONS
(In millions)

	Years ended December 31,		
	<u>2016</u>	<u>2015</u>	<u>2014</u>
Revenues:			
Net investment income	\$ 29	\$ 35	\$ 44
Net gains (losses) on financial instruments at fair value and foreign exchange	(13)	59	24
Investment losses related to other-than-temporary impairments:			
Investment losses related to other-than-temporary impairments	(1)	(3)	—
Other-than-temporary impairments recognized in accumulated other comprehensive income (loss)	—	(1)	—
Net investment losses related to other-than-temporary impairments	(1)	(4)	—
Net gains (losses) on extinguishment of debt	5	—	1
Other net realized gains (losses)	(5)	21	1
Total revenues	<u>15</u>	<u>111</u>	<u>70</u>
Expenses:			
Operating	16	24	25
Interest	90	95	104
Total expenses	<u>106</u>	<u>119</u>	<u>129</u>
Gain (loss) before income taxes and equity in earnings of subsidiaries	(91)	(8)	(59)
Provision (benefit) for income taxes	(15)	1	(165)
Gain (loss) before equity in earnings of subsidiaries	(76)	(9)	106
Equity in net income (loss) of subsidiaries	(262)	189	463
Net income (loss)	<u><u>\$(338)</u></u>	<u><u>\$180</u></u>	<u><u>\$ 569</u></u>

The condensed financial statements should be read in conjunction with the consolidated financial statements and notes thereto and the accompanying notes.

SCHEDULE II
MBIA INC. (PARENT COMPANY)
CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(In millions)

	Years ended December 31,		
	2016	2015	2014
Net income (loss)	\$(338)	\$ 180	\$ 569
Other comprehensive income (loss):			
Unrealized gains (losses) on available-for-sale securities:			
Unrealized gains (losses) arising during the period	21	(66)	126
Provision (benefit) for income taxes	<u>2</u>	<u>(7)</u>	<u>14</u>
Total	19	(59)	112
Reclassification adjustments for (gains) losses included in net income (loss)	12	4	23
Provision (benefit) for income taxes	<u>4</u>	<u>1</u>	<u>8</u>
Total	8	3	15
Available-for-sale securities with other-than-temporary impairments:			
Other-than-temporary impairments and unrealized gains (losses) arising during the period	2	—	—
Provision (benefit) for income taxes	<u>1</u>	<u>—</u>	<u>—</u>
Total	1	—	—
Reclassification adjustments for (gains) losses included in net income (loss)	—	—	4
Provision (benefit) for income taxes	<u>—</u>	<u>—</u>	<u>1</u>
Total	—	—	3
Foreign currency translation:			
Foreign currency translation gains (losses)	<u>(95)</u>	<u>(26)</u>	<u>(23)</u>
Total other comprehensive income (loss)	<u>(67)</u>	<u>(82)</u>	<u>107</u>
Comprehensive income (loss)	<u><u>\$(405)</u></u>	<u><u>\$ 98</u></u>	<u><u>\$ 676</u></u>

The condensed financial statements should be read in conjunction with the consolidated financial statements and notes thereto and the accompanying notes.

SCHEDULE II
MBIA INC. (PARENT COMPANY)
CONDENSED STATEMENTS OF CASH FLOWS
(In millions)

	Years ended December 31,		
	2016	2015	2014
Cash flows from operating activities:			
Fees and reimbursements received	\$ 4	\$ —	\$ 1
Investment income received	144	142	256
Operating expenses paid	(19)	(25)	(35)
Interest paid, net of interest converted to principal	(84)	(88)	(93)
Income taxes (paid) received	73	108	59
Net cash provided (used) by operating activities	<u>118</u>	<u>137</u>	<u>188</u>
Cash flows from investing activities:			
Purchases of available-for-sale investments	(129)	(606)	(125)
Sales of available-for-sale investments	165	325	268
Paydowns and maturities of available-for-sale investments	90	186	98
Purchases of investments at fair value	(57)	(144)	(266)
Sales, paydowns and maturities of investments at fair value	58	171	280
Sales, paydowns and maturities (purchases) of short-term investments, net	1	232	(242)
(Payments) proceeds for derivative settlements	(37)	43	(26)
Collateral (to) from swap counterparty	52	(31)	144
Contributions to subsidiaries, net	(10)	16	(20)
Advances to subsidiaries, net	—	—	(12)
Other investing	—	24	—
Net cash provided (used) by investing activities	<u>133</u>	<u>216</u>	<u>99</u>
Cash flows from financing activities:			
Proceeds from investment agreements	16	21	23
Principal paydowns of investment agreements	(80)	(111)	(181)
Principal paydowns of long-term debt	—	(11)	—
Payments for affiliate loans	(111)	(103)	(153)
Purchases of treasury stock	(106)	(233)	(32)
Restricted stock awards settlements	8	19	16
Net cash provided (used) by financing activities	<u>(273)</u>	<u>(418)</u>	<u>(327)</u>
Net increase (decrease) in cash and cash equivalents	(22)	(65)	(40)
Cash and cash equivalents—beginning of year	35	100	140
Cash and cash equivalents—end of year	<u>\$13</u>	<u>\$35</u>	<u>\$100</u>
Reconciliation of net income (loss) to net cash provided (used) by operating activities:			
Net income (loss)	\$(338)	\$ 180	\$ 569
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:			
Change in:			
Intercompany accounts receivable	(10)	(21)	(24)
Current income taxes	78	109	70
Equity in earnings of subsidiaries	262	(189)	(463)
Dividends from subsidiaries	118	116	225
Net investment losses related to other-than-temporary impairments	1	4	—
Net (gains) losses on financial instruments at fair value and foreign exchange	13	(59)	(24)
Other net realized (gains) losses	5	(21)	(1)
Deferred income tax benefit	(20)	—	(176)
(Gains) losses on extinguishment of debt	(5)	—	(1)
Other operating	14	18	13
Total adjustments to net income (loss)	<u>456</u>	<u>(43)</u>	<u>(381)</u>
Net cash provided (used) by operating activities	<u>\$ 118</u>	<u>\$ 137</u>	<u>\$ 188</u>

The condensed financial statements should be read in conjunction with the consolidated financial statements and notes thereto and the accompanying notes.

SCHEDULE II
MBIA INC. (PARENT COMPANY)
NOTES TO CONDENSED FINANCIAL STATEMENTS

1. Condensed Financial Statements

Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. It is suggested that these condensed financial statements be read in conjunction with the Company's consolidated financial statements and the notes thereto.

The activities of MBIA Inc. consist of general corporate activities and funding activities, which principally include holding and managing investments, servicing outstanding corporate debt, investment agreements issued by MBIA Inc. and its subsidiaries, and posting collateral under investment agreement and derivative contracts.

MBIA Inc. is subject to the same liquidity risks and uncertainties as described in footnote 1 to the Company's consolidated financial statements. As of December 31, 2016, MBIA Inc. had \$403 million of cash and highly liquid assets available for general corporate liquidity purposes.

2. Accounting Policies

MBIA Inc. (the "Parent Company") carries its investments in subsidiaries under the equity method.

Certain amounts have been reclassified in prior years' financial statements to conform to the current presentation. This includes a change in the presentation of short-term investments held as available-for-sale ("AFS") to classify only fixed-maturity securities with a remaining maturity of less than one year at the date of purchase in "Short-term investments held as available-for-sale, at fair value" on the Parent Company's condensed balance sheet. In prior periods, short-term investments held as AFS previously included all fixed-maturity securities with a remaining effective term to maturity of less than one year. The change in presentation effected "Short-term investments held as available-for-sale, at fair value" and "Fixed maturities held as available-for-sale, at fair value" on the Parent Company's condensed balance sheet in prior periods. The reclassifications had no impact on total revenues, expenses, assets, liabilities, shareholders' equity, operating cash flows, investing cash flows, or financing cash flows for all periods presented.

Interest-Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs (ASU 2015-03)

In April of 2015, the Financial Accounting Standards Board issued ASU 2015-03, "Interest-Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs." ASU 2015-03 requires debt issuance costs related to a debt liability measured at amortized cost to be reported in the balance sheet as a direct deduction from the face amount of the debt liability. ASU 2015-03 was effective for interim and annual periods beginning January 1, 2016. The adoption of ASU 2015-03 was applied retrospectively and all previously reported amounts have been conformed to the current presentation. The adoption of ASU 2015-03 did not materially impact the Parent Company's condensed financial statements.

For a further discussion of significant accounting policies and recent accounting pronouncements, refer to footnotes 2 and 3 to the Company's consolidated financial statements.

3. Dividends from Subsidiaries

During 2016, National Public Finance Guarantee Holdings, Inc. declared and paid a dividend of \$118 million to MBIA Inc.

During 2015, National Public Finance Guarantee Holdings, Inc. declared and paid a dividend of \$114 million to MBIA Inc., Trifinium Holdings Limited declared and paid dividends of \$1 million to MBIA Inc. and MBIA Services Corp. declared and paid a dividend of \$1 million to MBIA Inc.

During 2014, National Public Finance Guarantee Holdings, Inc. declared and paid a dividend of \$220 million to MBIA Inc. and Trifinium Holdings Limited declared and paid dividends of \$5 million to MBIA Inc.

4. Obligations under Investment Agreements

Investment agreements, as described in footnote 10 to the Company's consolidated financial statements, are conducted by both MBIA Inc. and its wholly-owned subsidiary, MBIA Investment Management Corp.

5. Pledged Collateral

Substantially all of the obligations under investment agreements require MBIA Inc. to pledge securities as collateral. As of December 31, 2016 and 2015, the fair value of securities pledged as collateral with respect to these investment agreements approximated \$394 million and \$402 million, respectively. The Parent Company's collateral as of December 31, 2016, consisted principally of U.S. Treasury and government agency and state and municipal bonds, and was primarily held with major U.S. banks. Additionally, the Parent Company pledged cash and money market securities as collateral under investment agreements in the amount of \$6 million and \$12 million as of December 31, 2016 and 2015, respectively.

Under derivative contracts entered into by MBIA Inc., collateral postings are required by either MBIA Inc. or the counterparty when the aggregate market value of derivative contracts entered into with the same counterparty exceeds a predefined threshold. As of December 31, 2016, MBIA Inc. pledged securities with a fair value of \$276 million to derivative counterparties. As of December 31, 2015, MBIA Inc. pledged securities with a fair value of \$259 million to derivative counterparties.

6. Affiliate Loans Payable

Affiliate loans payable consists of loans payable to MBIA Global Funding, LLC ("GFL"). GFL raised funds through the issuance of medium-term notes with varying maturities, which were, in turn, guaranteed by MBIA Corp. GFL lent the proceeds of these medium-term note issuances to MBIA Inc.

SCHEDULE IV
MBIA INC. AND SUBSIDIARIES
REINSURANCE

Years Ended December 31, 2016, 2015 and 2014
(In millions)

Column A Insurance Premium Written	Column B Direct Amount	Column C Ceded to Others	Column D Assumed From Other Companies	Column E Net Amount	Column F Percentage of Amount Assumed to Net
2016	\$ 37	\$ 1	\$ —	\$ 36	0%
2015	\$ 11	\$ 1	\$ —	\$ 10	0%
2014	\$ (18)	\$ 2	\$ —	\$ (20)	0%

Securities and Exchange Commission
Washington, D.C. 20549
Exhibits
to
Form 10-K
Annual Report Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934
For the fiscal year ended December 31, 2016
Commission File No. 1-9583

MBIA Inc.
Exhibit Index

- 10.13. Conformed copy of Amended and Restated MBIA Inc. Deferred Compensation and Excess Benefit Plan, effective as of March 22, 2010, that reflects all amendments to the plan as of March 1, 2017.
- 10.14. Separation Agreement, dated as of February 28, 2017, between MBIA Services Corporation and Ram Wertheim.
- 21. List of Subsidiaries.
- 23. Consent of PricewaterhouseCoopers LLP.
- 31.1. Chief Executive Officer—Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2. Chief Financial Officer—Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- *32.1. Chief Executive Officer—Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- *32.2. Chief Financial Officer—Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 101. Additional Exhibits—MBIA Inc. and Subsidiaries Consolidated Financial Statements and Notes to Consolidated Financial Statements from the Company's Annual Report on Form 10-K for the year ended December 31, 2016, formatted in XBRL.

* Furnished Herewith

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**AMENDED AND RESTATED
MBIA INC. DEFERRED COMPENSATION AND EXCESS BENEFIT PLAN**

(Formerly the MBIA Inc. 2005 Deferred Compensation and Excess Benefit Plan and the MBIA Inc.
Pre-2005 Deferred Compensation and Excess Benefit Plan)

1. **Purpose.** The purpose of the Amended and Restated MBIA Inc. Deferred Compensation and Excess Benefit Plan (the “**Plan**”) is to permit selected employees of MBIA Inc. to defer compensation and to permit all affected employees to receive benefits, subject to the terms and conditions hereof, which could not otherwise be provided in accordance with the terms of the Money Purchase Plan and the 401(k) Plan by reason of the benefit limitation and nondiscrimination provisions of the Code.

2. **Definitions.**

“**Account**” means the account maintained by the Company for the benefit of any one Participant as described in Section 4 below. A Participant’s Account shall include, as may be applicable, any elective deferrals, Discretionary Contributions, Excess Allocations, and Company Matching Contributions credited on behalf of such Participant.

“**Beneficiary**” means any person or persons, estate or trust designated in accordance with Section 7 below, to receive the amount payable under this Plan upon the death of a Participant.

“**Board**” means the Board of Directors of the Company.

“**Change of Control**” shall have the meaning set forth in Section 4(h).

“**Code**” means the Internal Revenue Code of 1986, as amended, or any subsequent income tax law of the United States. References to Code sections shall be deemed to include all subsequent amendments of those sections or the corresponding provisions of any subsequent income tax law.

“**Committee**” means the Compensation and Governance Committee of the Board, or any successor to such committee, or if there is no such committee, the Board.

“**Company**” means MBIA Inc., its successors and assigns and any Subsidiary.

“**Compensation**” means the aggregate salary and annual bonus paid to a Participant in any Plan Year (including amounts that would have been paid to him but for his election to defer part or all of such amounts under this or any other plan of deferred compensation of the Company) for services rendered as an employee; provided, however, that amounts earned by an employee before becoming a Participant shall be excluded; provided further that with respect to the Plan Years beginning on or after January 1, 2017, amounts earned in excess of \$2,000,000 shall be disregarded for purposes of determining Excess Allocations.

“**Deferral Election**” means the election described in Section 3(a) below.

“**Disability**” means any medically determined physical or mental impairment which is expected to last for a continuous period of not less than 12 months, and which results in the Participant (i) being absent from work for a continuous period of not less than 12 months and (ii) receiving income replacement benefits for a period of not less than 3 months under an accident and health plan maintained for the Company’s employees.

“**Discretionary Contribution**” means amounts credited by the Company to a Participant’s Account pursuant to Section 3(d) below.

“Eligible Employee” means any employee of the Company selected by the Committee to participate in the Plan, based on the office or position held by the employee, the employee’s degree of responsibility for and opportunity to contribute to the growth and success of the Company, the employee’s term of service and such other factors as the Committee may deem proper and relevant, and who is eligible to make “Elective Contributions” under the 401(k) Plan. Notwithstanding the foregoing, with respect to Excess Allocations, the term “Eligible Employee” shall include each employee whose benefits under the Money Purchase Plan or the 401(k) plan are limited by reason of the application of Section 415 of the Code.

“Excess Allocation” shall mean an allocation to a Participant’s Account pursuant to Section 3(c) in lieu of a contribution under the Money Purchase Plan.

“401(k) Plan” means the MBIA Inc. Employees 401(k) Plan, as it may be amended from time to time, and any successor plan thereto or similar plan or plans established by the Company.

“Matching Contributions” means amounts credited by the Company to a Participant’s Account pursuant to Section 3(b) below.

“Maximum Elective Contributions” shall have the meaning set forth in Section 3(a)(ii) below.

“Money Purchase Plan” means the MBIA Inc. Employees Pension Plan, as it may be amended from time to time, and any successor plan thereto or similar plan or plans established by the Company.

“Participant” means any Eligible Employee from and after the date his Deferral Election become effective or with respect to whom an Account is being maintained. Notwithstanding the foregoing, the term Participant shall also include any employee who is an Eligible Employee only with respect to Excess Allocations.

“Phantom Fund” means a mutual fund or other investment vehicle which shall be used to determine the hypothetical investment experience of all or a portion of a Participant’s Account under the Plan.

“Plan Year” means the calendar year.

“Subsidiary” means a corporation, the majority of the voting stock of which is owned directly or indirectly by the Company.

“Valuation Date” means the last day of any calendar quarter.

“Year of Service” has the meaning ascribed to such term in the MBIA Inc. Employee 401(k) Plan.

3. Participation.

(a) Deferred Compensation.

(i) An Eligible Employee may make an irrevocable election with respect to any Plan Year to have a portion of his Compensation for such year deferred under this Plan (a “Deferral Election”). Any such election shall be:

(A) made no later than the end of the Plan Year preceding the Plan Year during which the services giving rise to the compensation are performed, to be effective with the first pay period in such subsequent Plan Year, except as provided in Section 3(a)(iii) or 3(a)(iv) below; and

(B) subject to such other terms and conditions as are determined by the Committee.

(ii) An Eligible Employee making a Deferral Election shall indicate the aggregate percentage of his salary and bonus to be withheld and deferred under both the 401(k) Plan and this Plan. The portion

of any such deferrals to be contributed under the 401(k) Plan shall be determined pursuant to the applicable provisions of the 401(k) Plan and the remaining portion (the “**Non-Qualified Deferral Percentage**”) shall be deferred under this Plan, by holding back such Non-Qualified Deferral Percentage from each payment of the Participant’s salary and bonus during the applicable Plan Year. With respect to any Plan Year, in no event shall the actual amount deferred under this Plan pursuant to a Participant’s Deferral Election be more than or less than the excess of (A) the aggregate amount elected for deferral under this Section 3(a)(ii) over (B) the maximum amount of elective deferrals permitted to be made by such Participant (including any catch-up contributions) under the 401(k) Plan pursuant to Section 402(g) of the Code (the “**Maximum Elective Contributions**”).

(iii) Notwithstanding anything in Section 3(a)(i) above, subject to such additional rules as the Committee shall establish from time to time, an Eligible Employee who, pursuant to the requirements of Section 409A of the Code is eligible to make a Deferral Election with respect to compensation that constitutes “performance-based compensation” within the meaning of Section 409A of the Code may make a Deferral Election in respect of such performance-based compensation not later than six months before the end of the performance period, provided that the Participant performs services continuously from the later of the beginning of the performance period or the date the performance criteria are established through the date the Deferral Election is made and provided further that, in no event may an election to defer performance-based compensation be made after such compensation has become “readily ascertainable” within the meaning of the regulations promulgated under Section 409A of the Code.

(iv) An employee who does not participate and is not otherwise eligible to participate in an “Account Balance Plan” of the Company within the meaning of Section 409A of the Code who first becomes an Eligible Employee during a Plan Year may make an initial Deferral Election within 30 days of first becoming eligible to participate in the Plan. Such election shall be effective only with respect to compensation in respect of services performed after the date on which the Eligible Employee makes the election and, with respect to deferrals of performance-based compensation made after the performance period has begun, shall apply only to the portion of the compensation that is attributable on a pro rata basis to the portion of the performance period that follows such election.

(v) A Deferral Election shall be effective for the Plan Year to which it relates and for each future Plan Year until revoked or changed for future Plan Years; provided that no Deferral Election may be revoked or changed after the Plan Year to which it relates has commenced.

(b) **Matching Contributions**. The Company shall make a Matching Contribution on behalf of any Participant making a Deferral Election in the amount of one dollar for each dollar deferred pursuant to his Deferral Election, provided that for any payroll period the total of the Company’s Matching Contributions under this Section 3(b) shall not exceed (i) five percent of the Participant’s Compensation for such payroll period minus (ii) the Maximum Elective Contributions allocable to such payroll period. Matching Contributions shall be credited to each Participant’s Account as of the end of the payroll period with respect to which the corresponding amount is withheld pursuant to the Participant’s Deferral Election.

(c) **Limitation on Deferrals**. For any Plan Year, the amount a Participant defers under the Plan pursuant to a Deferral Election shall not exceed the difference of (A) twenty-five percent of such Participant’s Compensation for such Plan Year minus (B) the Maximum Elective Contributions.

(d) **Excess Allocation**. Each employee who is eligible to participate in the Money Purchase Plan and who is credited with contributions under such Money Purchase Plan for a given Plan Year which are less than the amount which would have been contributed but for any limitation imposed under the Code, including, but not limited to, the provisions of Sections 401(a)(4), 401(a)(17) and 415, shall have an Excess Allocation credited to his Account at such time as, and in an amount equal to that amount of, the prohibited contribution which would have been made under the Money Purchase Plan but for such limitations.

(e) Discretionary Contributions. Notwithstanding anything in this Plan to the contrary, the Company may make one or more additional contributions on behalf of any Participant in such amounts as may be determined by the Committee. Unless the Committee shall determine that the Participant does not otherwise have a legally binding right to such contributions (within the meaning of Section 409A of the Code) at the time the commitment is made in respect of such contributions, the Participant's right to be credited with any such contributions shall be established in a calendar year prior to the calendar year in which services relevant to such contributions are to be performed.

4. Participant Accounts and Allocations.

(a) Accounts. The Company shall establish and maintain an Account for each Participant and shall make additions to and subtractions from such Account as provided in this Section 4. At the times provided in Sections 3(a)(ii), 3(b), 3(c) and 3(d) above, each Participant's Account shall be credited with:

- (i) any amount withheld and deferred under this Plan pursuant to his Deferral Election,
- (ii) any Matching Contributions made by the Company,
- (iii) any Excess Allocation creditable for a Plan Year, and
- (iv) any Discretionary Contributions made by the Company.

(b) Additions to Account. Compensation allocated to a Participant's Account pursuant to this Section 4 shall be credited to such Account as of the date such compensation would otherwise have been paid to the Participant.

(c) Designation of Phantom Investment Funds. The Committee shall select one or more Phantom Funds which shall be used to determine the hypothetical investment experience of Participants' Accounts under the Plan; provided, however, that unless the Committee otherwise determines, the hypothetical investment experience for any calendar quarter shall be based upon the average of the long-term component of the Lehman Brothers Government/Corporate Bond Index for the preceding three (3) months.

(d) Investment Election. In the event the Company establishes multiple Phantom Funds, each Participant (or, during the period in which installment payments are being made under Section 6, each Beneficiary) shall from time to time designate on a form approved by the Committee the Phantom Fund or Funds that shall determine the investment experience with respect to such Participant's Account; provided, however, that the Committee may require that the Participant's Account be credited or debited as though such Account were invested in the same Phantom Funds, and in the same percentages, as such Participant's account balance is invested from time to time under the 401(k) Plan. The Committee may, in its discretion, (i) establish minimum amounts (in terms of dollar amounts or a percentage of a Participant's Account), which may be allocated to any Phantom Fund, (ii) preclude any Participant who is an executive officer of the Company from designating any Phantom Fund which invests primarily in securities issued by the Company, (iii) establish rules regarding the time at which any such election (or any change in such election permitted under Section 4(e)) shall become effective, and (iv) permit different designations with respect to a Participant's existing Account balance and amounts to be credited to such Account under Section 4(b) after the date the election form is filed with the Company. If a Participant (or Beneficiary, if applicable) fails to make a valid election with respect to any portion of his Account (or if any such election ceases to be effective for any reason), such Participant (or Beneficiary) shall be deemed to have elected to have his entire Account deemed invested in the Phantom Fund which the Committee determines generally to have the least risk of loss of principal.

(e) Change in Designation of Phantom Fund. Effective as of the first business day of the calendar quarter commencing more than 10 business days after the proper form is filed with the Company (or such other time as the Committee shall require or permit), a Participant (or, during the period in which installments are being made under Section 6, a Beneficiary) may change the Phantom Funds designated with respect to all or any portion of such Participant's Account. Any such change shall comply with all rules applicable with respect to any initial designation of such Phantom Funds.

(f) Crediting of Phantom Investment Experience. As of the end of each day (or such other time as the Committee shall establish from time to time), each Participant's Account shall be credited or debited, as the case may be, with an amount equal to the net investment gain or loss which such Participant would have realized had he actually invested in each Phantom Fund an amount equal to the portion of his Account designated as deemed invested in such Phantom Fund during that calendar quarter (or such other period as may have been established by the Committee). In the event the balance of a Participant's Account is to be distributed in installments pursuant to Section 5(a), or, subsequent to a Participant's death, pursuant to Section 6, the balance of such Account shall continue to be credited (or charged) with the hypothetical investment experience provided for in this Section 4(f) until the entire amount subject to installment distribution has been paid.

(g) No Actual Investment. Notwithstanding anything else in this Section 4 to the contrary, no amount standing to the credit of any Participant's Account shall be set aside or invested in any actual fund on behalf of such Participant; provided, however, that, nothing in this Section 4(g) shall be deemed to preclude the Company from making investments for its own account in any Phantom Funds (whether directly or through a grantor trust) to assist it in meeting its obligations to the Participants (or Beneficiaries) hereunder.

(h) Vesting of Accounts. A Participant's right to amounts withheld and deferred under this Plan pursuant to his Deferral Election, together with any earnings thereon, shall at all times be fully vested. A Participant's right to Matching Contributions and any Excess Allocation made on his behalf under Sections 3(b) and 3(c) above, and unless otherwise determined by the Committee, Discretionary Contributions under Section 3(d), together with any earnings thereon, shall become vested in accordance with the following schedule:

<u>Participant's Years of Service</u>	<u>Vested Percentage</u>
1	0%
2	20%
3	60%
4	80%
5	100%

Upon a Participant's termination of employment for any reason, that portion of his Account which has not become vested pursuant to the above schedule shall be forfeited. Amounts thus forfeited shall not be reallocated to other Participants.

Notwithstanding the vesting schedule above, or any other provision of this Section 4(h), a Participant shall be 100% vested with respect to Matching Contributions and any Excess Allocation made on his behalf under Sections 3(b) and 3(c) above, and unless otherwise determined by the Committee, Discretionary Contributions under Section 3(d), together with any earnings thereon, upon a "Change of Control" (as defined below). A "Change of Control" shall mean the happening of any of the following:

(i) The acquisition by any person (within the meaning of Section 3(a)(9) the Securities Exchange Act of 1934, as amended (the "Exchange Act", including any group (within the meaning of Rule 13d-5(b) under the Exchange Act), but excluding any of the Company, any Subsidiary or any employee benefit plan sponsored or maintained by the Company or any Subsidiary, of "beneficial ownership" (within the meaning of Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing 25% or more of the combined voting power of the Company's securities, notwithstanding anything else contained in such clause to the contrary, the acquisition by Warburg Pincus Equity Fund X (the "WP Fund"), of beneficial ownership of twenty-five percent (25%) or more of either the then outstanding shares of stock or the combined voting power of the Company's then outstanding voting securities, whether pursuant to the Investment Agreement, dated as of December 10, 2007, between the WP Fund and the Company or otherwise, shall not constitute a Change in Control; or

(ii) Within any 24-month period, the persons who were directors of the Company at the beginning of such period (the “**Incumbent Directors**”) shall cease to constitute at least a majority of the Board or the board of directors of any successor to the Company; provided, however, that any director elected to the Board, or nominated for election, by a majority of the Incumbent Directors then still in office shall be deemed to be an Incumbent Director for purposes of this subclause (ii); or

(iii) Upon the consummation of a merger, consolidation, share exchange, division, sale or other disposition of all or substantially all of the assets of the Company which has been approved by the shareholders of the Company (a “**Corporate Event**”), and immediately following the consummation of which the stockholders of the Company immediately prior to such Corporate Event do not hold, directly or indirectly, a majority of the voting power of (x) in the case of a merger or consolidation, the surviving or resulting corporation, (y) in the case of a share exchange, the acquiring corporation or (z) in the case of a division or a sale or other disposition of assets, each surviving, resulting or acquiring corporation which, immediately following the relevant Corporate Event, holds more than 25% of the consolidated assets of the Company immediately prior to such Corporate Event.

5. Distribution of Accounts.

(a) Method and Time of Distributions.

(i) Upon a separation from service (within the meaning of Section 409A of the Code) of a Participant from the Company for any reason, the Committee shall determine the value of the Participant’s Account as of the Valuation Date coincident with or next succeeding the date of the Participant’s separation from service based on such Participant’s account balance under the Plan (as determined in accordance with the terms of the Plan), and shall cause the vested portion of such Participant’s Account to be distributed in one lump sum during the 90 day period commencing immediately following such Valuation Date.

(ii) Upon the death or Disability of a Participant, the Committee shall determine the value of the Participant’s Account as of the Valuation Date coincident with or next succeeding the date of the Participant’s death or Disability based on such Participant’s account balance under the Plan (as determined in accordance with the terms of the Plan), and shall cause the vested portion of such Participant’s Account to be distributed in one lump sum during the 90 day period commencing immediately following such Valuation Date.

(iii) Notwithstanding the foregoing, other than with respect to Discretionary Contributions, a Participant may elect to receive a distribution from his or her Account in a number of annual installments (such number not to exceed 10) as the Participant shall designate, if such election is made at the time of the initial Deferral Election or in an amended Deferral Election pursuant to Section 5(b) below, and subject to such other conditions as the Committee may impose. Unless a Participant otherwise elects an alternative commencement date pursuant to rules as established by the Committee, in the case of any distribution being made in annual installments, the first installment payable hereunder shall be paid no later than the end of the first calendar month of the Plan Year immediately following the Participant’s death, Disability or separation from service and each subsequent installment shall be paid no later than the end of the first calendar month of each succeeding Plan Year until the entire amount subject to such installment election shall have been paid. Any installment payments hereunder shall be calculated in a uniform and non-discriminatory manner as may be determined by the Committee from time to time in a manner consistent with Section 409A of the Code.

(iv) Notwithstanding Section 5(a)(i) above, a Participant who is a “specified employee” under Section 409A of the Code may not receive distributions in connection with a separation from service earlier than 6 months after the date of such separation and any distribution that would have been made to such employee within such 6 month period shall instead be made on the first business day following such 6 month period.

(v) Solely in respect of amounts deferred for Plan Years ending prior to January 1, 2010, in lieu of distributions upon a separation from service, death or disability, as set forth in clauses (i), (ii) and (iii) of

this Section 5(a), a Participant may, subject to such other conditions and limitations as the Committee or its delegate may impose, elect (i) to receive a distribution from his or her Account in one lump-sum payment, or in such number of annual installments (not to exceed ten) as the Participant may designate and (ii) the year in which such lump sum shall be paid or such annual installment payments shall commence (with each subsequent annual installment made during each succeeding year). Such election may also specify that payment shall be made (or commence to be made) as of the earlier or the later of such pre-determined year and the date on which the Participant experiences a separation from service, death, and/or Disability. Any such election shall be made at the time of the initial Deferral Election or in an amended Deferral Election pursuant to Section 5(b) below). Any installment payments hereunder shall be calculated in a uniform and non-discriminatory manner as may be determined by the Committee or its delegate from time to time in a manner consistent with Section 409A of the Code.

(vi) The right to a series of installment payments under this Plan shall be treated as a right to a series of separate payments within the meaning of Section 409A.

(b) Amendment of Distribution Election.

(i) A Participant may, at any time and from time to time during active employment, elect to change the method in which distributions from his or her Account shall be made from that determined under Section 5(a) to any other method of distribution that would have been permitted under Section 5(a); provided, however, that (A) no such amended Deferral Election shall be effective unless it is filed not later than one year prior to the date the first payment otherwise would have been paid and (B) installment payments and any lump sum payment made pursuant to the amended Deferral Elections shall not begin until at least 5 years after the first payment otherwise would have been paid. Such election shall take effect one year after the amended Deferral Election is made and shall be subject to such other conditions as the Committee may impose. Any election made pursuant to this Section 5(b) that does not meet the conditions specified herein (or any other conditions imposed by the Committee) shall be void and without effect and any distribution to the Participant shall be made at the time and in the form determined under Section 5(a). For purposes of this Section 5(b)(i), a Participant may change the method in which Discretionary Contributions are distributed to any method permitted for Deferral Elections.

(ii) In Plan Year 2006, a Participant may elect to change the method in which distributions from his or her Account shall be made from that determined under Section 5(a) to any other method of distribution that would have been permitted under Section 5(a) without regard to Section 5(b)(i)(A) or Section 5(b)(i)(B), above, provided that no such amendment shall (A) change a Deferral Election with respect to distributions that the Participant otherwise would receive in Plan Year 2006 or (B) cause a distribution to occur in 2006.

(iii) In Plan Year 2007, a Participant may elect to change the method in which distributions from his or her Account shall be made from that determined under Section 5(a) to any other method of distribution that would have been permitted under Section 5(a) without regard to Section 5(b)(i)(A) or Section 5(b)(i)(B), above, provided that no such amendment shall (A) change a Deferral Election with respect to distributions that the Participant otherwise would receive in Plan Year 2007 or (B) cause a distribution to occur in 2007.

(iv) In Plan Year 2008, a Participant may elect to change the method in which distributions from his or her Account shall be made from that determined under Section 5(a) to any other method of distribution that would have been permitted under Section 5(a) without regard to Section 5(b)(i)(A) or Section 5(b)(i)(B), above, provided that no such amendment shall (A) change a Deferral Election with respect to distributions that the Participant otherwise would receive in Plan Year 2008 or (B) cause a distribution to occur in 2008.

(c) Crediting of Investment Experience on Installment Payments. Where a Participant receives the balance of his Account in annual installments, the amount of each installment shall reflect the investment experience as provided for in Section 4(b).

(d) Distributions for Unforeseeable Emergencies. During a Participant's employment with the Company or during the period in which installment payments are being made to a Participant under Section 5(a) (or, subsequent to a Participant's death, to a Beneficiary under Section 6), a Participant (or, if applicable, a Beneficiary) may request that all or a portion of the vested amount credited to the Participant's Account be distributed to him. Such a distribution shall be permitted only on account of an "unforeseeable emergency" as defined in Section 409A(a)(2)(B)(ii) of the Code. The amount distributed shall not exceed the amounts necessary to satisfy the emergency plus amounts necessary to pay taxes reasonably anticipated as a result of the distribution, after taking into account the extent to which the unforeseeable emergency is or may be relieved through reimbursement or compensation by insurance or otherwise or by liquidation of the participant's assets (to the extent the liquidation of the assets would not itself cause severe financial hardship), or any other limits set by Section 409A of the Code. Payment with respect to an unforeseeable emergency shall be made 10 days following the date on which the request for distribution is received by the Company. The Participant (or Beneficiary) shall provide the Committee with financial data to support his request for distribution and shall certify as to the financial need and the availability of funds from other resources. Any action on a Participant's (or Beneficiary's) request will be within the exclusive discretion of the Committee. Such decision shall be final and binding on all interested parties. If a distribution for an unforeseeable emergency occurs other than on a Valuation Date, the amount distributed shall reduce the Participant's Account as of the immediately preceding Valuation Date.

(e) Termination of Accounts. Upon a complete distribution of a Participant's Account, such Account shall be terminated.

(f) Acceleration of Payment. Notwithstanding anything in the Plan to the contrary, neither the Participant nor the Company may change the Participant's Distribution Election so as to accelerate the date of distribution, other than as described in Section 5(b)(ii), Section 5(g) or Section 6 or otherwise permit a deferral or distribution in violation of Section 409A of the Code.

(g) Change of Control. Notwithstanding the foregoing, upon a Change of Control (as defined in Section 4(h)) that also constitutes a "change in control" within the meaning of Section 409A of the Code, a Participant's Account shall immediately be distributed to a Participant in a lump sum distribution within 15 days following the occurrence of such Change of Control.

(h) Form of distribution. Unless otherwise determined by the Committee, distributions from any Phantom Fund which invests primarily in securities issued by the Company shall be in the form of such securities and all other distributions shall be in the form of cash.

6. Distribution on Death. If a Participant shall die before payment of all amounts credited to such Participant's Account has been completed, the total unpaid balance then credited to such Participant's Account shall be paid to the Participant's designated Beneficiary or Beneficiaries or to the legal representative of the Participant's estate as provided in Section 7 in a single lump-sum payment during the 90 day period commencing with the date of the Participant's death. Notwithstanding the foregoing, at the time he or she becomes a Participant or at the time and subject to the conditions specified in Section 5(b), a Participant may elect that upon such Participant's death the unpaid balance credited to such Participant's Account shall be distributed in such number of annual installments (not to exceed 10) as the Participant may designate.

7. Designation of Beneficiary. Unless a Participant shall designate a different beneficiary in accordance with this Section 7, in the event of the death of the Participant, the Beneficiary designated by the Participant to receive such Participant's benefits under the MBIA Inc. Employees' Pension Plan shall receive the amount which the Participant would have been entitled to receive pursuant to Section 5 above. A Participant may at any time designate a Beneficiary solely for the purposes of this Plan (subject to such limitations as to the classes and number of Beneficiaries and contingent Beneficiaries and such other limitations as the Committee may from time to time prescribe) or revoke or change any designation of Beneficiary. No such designation shall be valid unless in writing and signed by the Participant, dated and filed with the Company. Any such designation shall be

controlling over any testamentary or other disposition. In the case of a failure of a designation or the death of a Beneficiary without a designated successor, distribution shall be made to the legal representative of the Participant, in which case, the Company, the Committee and any members thereof shall not be under any further liability to any other person.

8. Administration of this Plan.

(a) Authority of Committee. Except as otherwise expressly provided herein, full power and authority to construe, interpret and administer this Plan shall be vested in the Committee. All expenses of administering this Plan shall be paid by the Company. The Committee shall adopt such rules, regulations, policies and practices as it considers desirable for the conduct of its business and the administration of this Plan, provided they do not conflict with this Plan. The Committee may at any time terminate, amend, modify or suspend such rules, regulations, policies and practices as it, in its sole discretion, may determine in connection with the administration of or the performance of its responsibilities under this Plan. The Committee may delegate responsibility with respect to the administration and operation of the Plan to such employees or group of employees of the Company as it shall determine. The Committee or its delegates may hire such agents and consultants, including legal counsel, as it or they shall determine to be necessary or appropriate to fulfill its or their duties hereunder.

(b) Determination of Committee. Each determination made pursuant to the provisions of this Plan by the Committee shall be final and shall be binding and conclusive for all purposes and upon all persons.

(c) Notices and Elections. All notices given and elections made under this Plan shall be deemed given or made when received by the Committee.

(d) Operation of the Plan; Good Faith Compliance with Section 409A. From January 1, 2005 and until December 31, 2008, this Plan was administered in good faith compliance with Section 409A of the Code.

9. Rights of Participants to Accounts. Anything to the contrary notwithstanding, nothing contained herein shall be deemed to create a trust of any kind or create any fiduciary relationship. Amounts deemed invested under this Plan shall continue for all purposes to be part of the general funds of the Company and no person other than the Company shall, by virtue of the provisions of this Plan, have any interest in such funds. To the extent that any person acquires the right to receive payments from the Company under this plan, such right shall be no greater than the right of any unsecured general creditor of the Company.

10. Amendment of this Plan. The Committee shall have the right to amend or modify this Plan at any time and from time to time; provided, however, that no such amendment or modification shall affect any right or obligation with respect to any deferral or allocation previously made.

11. Code Section 409A. Notwithstanding anything else in the Plan, all deferrals hereunder are intended to comply with Section 409A of the Code.

12. No Right to Continued Employment. Neither the establishment of this Plan nor any payment hereunder nor any action of the Company or of the Committee shall be held or construed to confer upon a Participant any right to continued employment with the Company, nor shall it interfere in any way with the right of the Company to terminate a Participant's employment at any time.

13. Withholding. The Company shall provide for the withholding of any taxes required to be withheld by federal, state or local law in respect of any payment or distribution made pursuant to this Plan.

14. Inalienability of Accounts. Except as otherwise required or permitted by law, a Participant's Account shall not be assignable or otherwise transferable, or subject to surrender, anticipation, the debts of any person, or legal process.

15. **Governing Law.** This Plan shall be governed by the laws of the State of New York without regard to the principles of conflict of laws.

16. **No Rights as Shareholder.** No Participant or Beneficiary shall have any rights as a shareholder with respect to any securities of the Company to be distributed under the Plan until he or she has become the holder thereof.

17. **Compliance with Legal and Exchange Requirements.** The Plan and any obligations of the Company under the Plan, shall be subject to all applicable federal, state, and foreign country laws, rules, and regulations, and to such approvals by any regulatory or governmental agency as may be required, and to any rules or regulations of any exchange on which the Company's securities are listed. The Company, in its discretion, may postpone the issuance or delivery of securities or any other action permitted under the Plan to permit the Company, with reasonable diligence, to complete such stock exchange listing or registration or qualification of such securities or other required action under any federal, state or foreign country law, rule, or regulation and may require any Participant to make such representations and furnish such information as it may consider appropriate in connection with the issuance or delivery of securities in compliance with applicable laws, rules, and regulations. The Company shall not be obligated by virtue of any provision of the Plan to sell or issue securities in violation of any such laws, rules, or regulations.

SEPARATION AGREEMENT

Separation Agreement (“**Agreement**”), by and between Ram D. Wertheim who resides at Two Catamount Road Westport, CT 06880 (the “**Executive**”) and MBIA Services Corporation (the “**Employer**”) on behalf of any of its past or present parent entities, subsidiaries, divisions, affiliates and related business entities, assets, employee benefit plans or funds, successors and assigns, and any of its or their past or present directors, officers, fiduciaries, agents, trustees, administrators, employees and assigns (collectively the “**MBIA Entities and Persons**”).

1. Separation from Employment. The Executive agrees that from and after March 2, 2017, he will step down from his position as Chief Legal Officer and Secretary of MBIA Inc. (“**MBIA**”) and will resign from all of his other positions with MBIA and/or its affiliates (including the Employer) (collectively, the “**MBIA Entities**”), except that, unless terminated by the Executive or the Employer earlier, the Executive will remain employed as an employee of the Employer and retain the title of Executive Vice President of MBIA until January 1, 2018, which (unless terminated by the Executive or the Employer earlier) shall be the last day of the Executive’s employment (the last day of employment being referred to herein as the “**Separation Date**”). From and after March 2, 2017 through the Separation Date, the Executive will make himself available to the Employer as may be reasonably necessary to provide transition and other reasonable services as the Employer may request.

2. Consideration for this Agreement. Subject to the Executive’s compliance with the terms and conditions of this Agreement, the Executive shall be entitled to the payments and benefits described in the Severance Terms attached as Exhibit A to this Agreement (the “**Severance Terms**”). The Executive’s right to receive the payments and benefits set forth in Section 2 of the Severance Terms (the “**Severance Benefits**”) is conditioned upon the Executive’s executing and not revoking a release of claims in favor of the MBIA Entities and Persons, a form of which is attached as Exhibit B to this Agreement, after the Separation Date but not later than 28 days after the Separation Date. The Executive acknowledges that the Severance Benefits: (i) in his view, exceed any payment, benefit, or other thing of value to which he might otherwise be entitled under any policy, plan, or procedure of the MBIA Entities or pursuant to any prior agreement or contract (oral, written or otherwise) between any MBIA Entity and the Executive; and (ii) shall be in full discharge of any and all liabilities and obligations of the MBIA Entities to the Executive, monetarily or with respect to employee benefits (except for vested benefits under any MBIA employee benefit pension plan) or otherwise, any and all obligations arising under any alleged written or oral employment agreement, policy, plan or procedure of the MBIA Entities and/or any alleged understanding or arrangement between the Executive and any MBIA Entity.

3. Restrictions on Post-Employment Activities. Payment of the Severance Benefits is conditional on the Executive’s compliance with the restrictions of this paragraph during the Executives employment and for a period of two years following the Separation Date (the “**Restriction Period**”). During the Restriction Period, the Executive shall not engage in any of the activities described below:

a. Except with the prior written consent of the Employer’s CEO, directly or indirectly, own any interest in, operate, join, control or participate as a partner, director, principal, officer, or agent of, enter into the employment of, act as a consultant to, or perform any services for any monoline financial guarantee company, whether currently in existence or formed after the date hereof, which currently includes Assured Guaranty, BAM, AMBAC, FGIC, Syncora or any of their affiliates or successors or with any other company that is established for the purposes of providing financial guaranty or similar credit enhancement products, that would compete with MBIA. Notwithstanding anything herein to the contrary, the foregoing shall not prevent the Executive from acquiring as an investment securities representing not more than two percent (2%) of the outstanding voting securities of any publicly held corporation or from the general practice of law.

b. Directly or indirectly (i) hire, solicit, or help another person or entity to hire or solicit any employee of any MBIA Entity or any person who has been an employee of any MBIA Entity within a one year period prior to the first date on which the Executive attempts to hire, solicit or help another person or entity to hire or solicit such person or (ii) induce or encourage any employee of any MBIA Entity to leave such MBIA Entity's employ.

4. Confidential Information. Subject to Section 11, the Executive agrees that he will not use for his own benefit or disclose to third parties any Confidential Information, as defined herein, relating to any MBIA Entity and its businesses, including any Confidential Information of customers of any MBIA Entity, obtained by him during his employment and not otherwise public knowledge or known within the applicable industry (other than by acts by the Executive in violation of this Agreement). For purposes of this Agreement, "**Confidential Information**" shall include, without limitation, information not otherwise known in the applicable industry and/or not previously disclosed to the public by any MBIA Entity or its management (other than the Executive) with respect to the operations, facilities and methods, strategies, trade secrets and other intellectual property, systems, procedures, technical know-how, methods of investment, processes, customers, clients, investors, markets, marketing methods, manuals, confidential reports, fee information, finances, financial or listing information (including, without limitation, the revenues, costs or profits associated with any activities or products of the MBIA Entities, business plans, prospects, budgetary objectives, opportunities or other information of or relating to the MBIA Entities). "Confidential Information" shall not include information which is known within the applicable industry or is or becomes generally available to the public other than as a result of disclosure by the Executive in violation of this paragraph.

5. Non-Disparagement.

a. Subject to Section 11, the Executive agrees that he will not publicly disparage or encourage or induce others to publicly disparage the MBIA Entities and Persons. For the purposes of this Agreement, the term "disparage" includes, without limitation, comments or statements to the press and/or media, the MBIA Entities and Persons or any individual or entity with whom any MBIA Entity has a business relationship which would adversely affect in any manner (i) the conduct of the business of the MBIA Entities (including, without limitation, any business plans or prospects) and/or (ii) the business reputation of the MBIA Entities and Persons.

b. The Executive agrees that he will direct all requests for employment references or verification to the Managing Director, Human Resources of the Employer (currently Liz Blasius, located at 1 Manhattanville Rd., Suite 301, Purchase, NY 10577), and to no other person at the MBIA Entities. The Managing Director, Human Resources of the Employer shall respond to any such request in accordance with Employer policy providing only neutral employment information, and will make no statements that disparage the Executive.

6. Cooperation.

a. The Executive agrees that, subject to his reasonable scheduling needs, he will reasonably cooperate, including participation in telephonic or in-person meetings or interviews reasonably requested from time to time, with the MBIA Entities and their counsel in connection with any investigation, administrative proceeding or litigation relating to any matter that occurred during his employment in which he was involved or of which he has knowledge. MBIA will reimburse the Executive for reasonable out-of-pocket expenses incurred and relating to his compliance with requests from the MBIA Entities made in accordance with or in furtherance of this paragraph.

b. Subject to Section 11, the Executive agrees that, in the event he is subpoenaed or otherwise required by any person or entity (including, but not limited to, any government agency) to give testimony (in a deposition, court proceeding or otherwise) which in any way relates to his employment with any MBIA Entity, he will give prompt notice of such request to the Managing Director, Human Resources of the Employer (currently Liz Blasius, located at 1 Manhattanville Rd., Suite 301, Purchase, NY 10577), and will make no disclosure until the MBIA Entities have had a reasonable opportunity to contest the right of the requesting person or entity to such disclosure. The Executive understands that nothing contained in this Agreement is intended to prohibit or restrict the Executive from providing truthful information concerning his employment with any MBIA Entity or the MBIA Entities' business, to any governmental, regulatory or self-regulatory agency or in response to any inquiry or investigation conducted by any such governmental or regulatory or self-regulatory authority, or in any legal action in which he is subpoenaed pursuant to properly issued legal process.

7. Return of Company Property. The Executive agrees that, upon his termination of employment, he shall promptly return to the Employer all Employer property and all copies thereof in his possession or control.

8. Injunctive Relief and Other Remedies with Respect to Promises Made. The Executive agrees that if he breaches any of the terms of paragraphs (including subparagraphs) 3 through 7, it shall constitute a material breach of this Agreement as to which the MBIA Entities and Persons may seek all available relief under law, including, but not limited to, recoupment of the amounts paid to the Executive pursuant to the Severance Terms. The Executive also agrees that his obligations with respect to the restrictive covenants contained in paragraph 3 herein relate to special, unique and extraordinary matters and a violation of any of the terms of such covenants and obligations will cause the MBIA Entities and Persons irreparable injury for which adequate remedies are not available at law. Therefore, the MBIA Entities and Persons shall be entitled to an injunction, restraining order or such other equitable relief (without the requirement to post bond) restraining the Executive from committing any violation of the covenants and obligations contained herein. These remedies are cumulative and are in addition to any other rights and remedies the MBIA Entities may have at law or in equity. In the event the Executive breaches any provision of this Agreement in any material respect, in addition to any remedy at law or in equity, the Executive shall not be entitled to receive any Severance Benefits.

9. Non-Admission. This Agreement is not intended, and shall not be construed, as an admission that any of the MBIA Entities and Persons has or have violated any federal, state or local law (statutory or decisional), ordinance or regulation, breached any contract or committed any wrong whatsoever against the Executive.

10. Severability; Reformation. If any provision of this Agreement is held by a court of competent jurisdiction to be illegal, void, or unenforceable, such provision shall be of no force and effect, and such provision shall have no effect upon, and shall not impair the enforceability of, any other provision of this Agreement. If a court should determine that any provision of this Agreement is overbroad or unreasonable, such provision shall be given effect to the maximum extent possible by narrowing or enforcing in part that aspect of the provision found to be overbroad or unreasonable. In addition, upon any finding by a court or agency of competent jurisdiction that any provision of this Agreement is illegal, void, or unenforceable, the Executive agrees, unless otherwise prohibited by law, to execute a release, waiver and/or covenant that is/are legal and enforceable; provided that the expiration of the Restriction Period set forth in paragraph 3 shall not be extended.

11. Permitted Actions. Nothing in this Agreement, including but not limited to any confidentiality, non-disclosure, non-disparagement, or cooperation provisions, waives or limits the Executive's right to report possible violations of law or regulation to any governmental agency or federal or state regulatory authority or self-regulatory organization, making other disclosures that are protected under any law or regulation, or to cooperate with any investigation or proceeding by a governmental agency, federal or state regulatory authority, or self-regulatory organization.

12. Agreement as Evidence. The Executive agrees that this Agreement may only be used as evidence in a subsequent proceeding in which one of the parties alleges a breach of and/or indemnification under this Agreement.

13. Governing Law. This Agreement shall be construed and enforced in accordance with the laws of the State of New York without regard to the principles of conflict of law.

14. Binding Effect. This Agreement is binding upon, and shall inure to the benefit of, the parties and their respective heirs, executors, administrators, successors and assigns.

15. Entire Agreement. The Executive understands that this Agreement and the documents referred to herein, constitute the complete understanding between the MBIA Entities and the Executive, and supersedes any and all agreements, understandings, and discussions, whether written or oral between the Executive and the MBIA Entities. No other promises or agreements shall be binding unless in writing and signed by both MBIA or the Employer and the Executive.

16. No Waiver by Breach or Default. Waiver by any party hereto of any breach or default by the other party of any of the terms of this Agreement shall not operate as a waiver of any other breach or default, whether similar to or different from the breach or default waived. No waiver of any provision of this Agreement shall be implied from any course of dealing between the parties hereto or from any failure by either party hereto to assert any rights hereunder on any occasion or series of occasions.

17. Headings and Captions. The headings and captions in this Agreement are provided for reference and convenience only. They shall not be considered part of the Agreement and shall not be employed in the construction of the Agreement.

Signature: /s/ Ram Wertheim
Ram D. Wertheim

Dated: February 28, 2017

MBIA Services Corporation

By: /s/ Elizabeth Blasius
Name: Elizabeth Blasius
Title: Managing Director

Date: February 28, 2017

**Confidential
Severance Terms
For Ram D. Wertheim**

This document sets forth the severance benefits that Ram D. Wertheim (“you”) will be eligible to receive as described below. The severance benefits being offered to you as described below are subject to the terms set forth in the Separation Agreement of which this Exhibit is a part (the “**Agreement**”), including without limitation, your executing and not revoking a release as provided in Section 2 of the Agreement.

Section 1: Compensation and Benefits For Services Performed During 2017

- **2017 Salary and Benefits:** During your continued employment, you will continue to receive your base salary at the current level and to participate in the same benefit plans available to all employees of the Employer as long as you continue to be an employee of Employer.
- **2017 Performance Bonus and LTI Grant:** Unless your employment is terminated for “cause”, you will be entitled to receive a cash performance bonus for 2017 based on individual and company performance with the target bonus amount being \$600,000 for the year. In addition, unless your employment is terminated for “cause”, in lieu of the long term incentive restricted stock award for 2017, you will receive a cash payment in an amount equal to the target LTI amount of \$750,000. Such amounts will be paid to you at the same time as they are paid to other members of the senior management team regardless of whether you are employed by MBIA when they are paid. Further, on April 2, 2019, the Company will pay you \$60,000 in lieu of the contribution it would have made to your non-qualified deferred compensation retirement account in respect of the 2017 bonus that will be paid in 2018.

Section 2: Severance Benefits

- **Severance:** Unless your employment is terminated for “cause”, you will be eligible to receive a severance payment in an amount of \$750,000 (the “**Severance Payment**”). In addition, the Company will pay to you the sum of \$250,000 (the “**Additional Amount**”) in consideration for your agreement that the unvested grant of 100,000 shares of performance based restricted stock pursuant to Section 3(c) of the Cash Retention Award and Restricted Stock Agreement dated December 21, 2012 is hereby forfeited in its entirety. The Severance Payment and the Additional Amount (less applicable taxes and withholdings) will be paid to you as practicable following your last day of employment, but not later than March 15, 2018.
- **Continued Vesting of Restricted Stock:** Notwithstanding your termination of employment as contemplated hereunder and subject to your continued compliance with Section 3 of the Separation Agreement, all unvested grants to you of Restricted Stock including the 59,242 shares of restricted granted to you on March 3, 2016 and all shares of restricted stock to be granted to you in March 2017 for the 2016 performance year, will not be subject to forfeiture as a result of your termination of employment hereunder but shall continue to vest in accordance with the terms of such grants and shall be treated as follows:
 - (i) any unvested shares of time based restricted stock shall all vest on January 2, 2020 and shall not be subject to any restrictions on transfer from and after January 2, 2020 and you shall have the option to satisfy any tax liability arising from such vesting through “net share settlement” consistent with the Company’s practices for net share settlements for executives of the Company (the “**Net Settlement Procedures**”); and
 - (ii) the number of shares of performance based restricted stock to be granted to you in March of 2017 (the “**Performance Based Shares**”) that shall have been earned by you in accordance with the terms of the grant shall be fully vested on January 2, 2020 and you shall have the option to satisfy any tax liability arising from such vesting through the Net Settlement Procedures; provided that you shall be restricted from transferring or selling any net shares of the Performance Based Shares you receive on January 2, 2020 after application of the Net Settlement Procedures until January 2, 2022 (other than any transfers for estate planning purposes or after your death or disability as may be permitted in accordance with the terms of such grants).

- **KEEPA Plan:** Effective immediately, you will no longer be covered under the Key Employee Protection Plan and your agreement thereunder with MBIA is terminated.
- **Pre-65 Retiree Medical / Dental Benefits:** If you are enrolled in MBIA's medical and/or dental plan, you may elect to continue your current coverage for the period starting on the Separation Date and ending May 15, 2019 (or such later date in accordance with applicable law), at which time your coverage will cease. The Company shall pay the cost of such coverage for a period of up to nine months after the Separation Date after which you may continue the coverage at your own expense.
- **Financial Planning/Outplacement:** The Company shall pay you \$10,000 to cover the cost of financial planning and/or outplacement.

If you die before receiving any of the payments and benefits set forth herein, they shall accrue to your estate.

As used herein, "cause" means (i) your willful failure to perform substantially your duties as an employee (other than as a result of incapacity due to physical or mental illness); (ii) an intentional act of fraud, embezzlement, theft or any other material violation of law that occurs during or in the course of your employment; (iii) your engaging in serious misconduct that is injurious to the company or its affiliates in any way, including, but not limited to, by way of damage to its/their respective reputations or standings, (iv) your being charged with, convicted of, or entering a plea of nolo contendere to, a crime that constitutes a felony or which involves moral turpitude; (v) your intentional disclosure or misuse of confidential information; (vi) intentional engagement in any competitive activity which would constitute a breach of your duty of loyalty to the company or its affiliates; or (vi) intentional material breach of any of the company's or its affiliates' policies or intentional misuse or material damage to their property.

Section 3 Accrued Benefits

In addition, you will be eligible to receive the following benefits to which you are entitled regardless of whether you sign the Agreement.

- **Pension / 401k:** You may contact Fidelity Investments directly at (800) 421-3844 or on-line at 401k.com regarding your retirement account balances, distribution options and income tax implications.
- **MBIA Inc. Deferred Compensation Plan:** Any vested retirement assets must be distributed following your separation date in the form of lump sum or in installment payments as previously elected. As a "specified employee", any distribution is subject to a six month waiting period from the Separation Date in accordance with IRC 409A. Any payments to you will be made in accordance with the plan.
- **Vacation:** You will receive payment for any accrued and unused vacation days as of your last day of employment.

General Release

By and in consideration of the Severance Benefits to be provided by MBIA Services Corporation (the "**Company**") pursuant to the Separation Agreement (the "**Agreement**"), dated _____, 2018, between the Company and Ram D. Wertheim (the "**Executive**"), whereby the Executive terminates his employment with the Company effective _____, 201____, the Executive hereby agrees that:

1. General Release of Claims.

a. The Executive for himself and for his heirs, executors, administrators, and assigns (hereinafter referred to collectively as "**Releasors**"), forever releases and discharges the Company on behalf of any of its past or present parent entities, subsidiaries, divisions, affiliates and related business entities, assets, employee benefit plans or funds, successors and assigns, and any of its or their past or present directors, officers, fiduciaries, agents, trustees, administrators, employees and assigns (collectively the "**MBIA Entities and Persons**"), from any and all claims, demands, causes of action, fees and liabilities of any kind whatsoever, whether known or unknown, which the Executive ever had, now has, or may have against the MBIA Entities and Persons by reason of any actual or alleged act, omission, transaction, practice, conduct, statement, occurrence, or other matter arising out of the Executive's employment, and/ or retirement from employment, up to and including the date on which the Executive signs this General Release.

b. Without limiting the generality of the foregoing, this General Release is intended to and shall release the MBIA Entities and Persons from any and all claims, whether known or unknown, which Releasors ever had, now have, or may have against the MBIA Entities and Persons arising out of the Executive's employment, and/or termination of that employment, including but not limited to any claim under: (i) the Age Discrimination in Employment Act; (ii) Title VII of the Civil Rights Act; (iii) the American with Disabilities Act; (iv) the New York State Human Rights Law; (v) the New York City Administrative Code; (vi) any claim under any other federal, state or local law (statutory or decisional), regulation or ordinance relating to and/or prohibiting employment discrimination, harassment and/or retaliation; (vii) any claim under the Employee Retirement Income Security Act (excluding claims for accrued, vested benefits under any employee benefit pension plan of the Company in accordance with the terms and conditions of such plan and applicable law); (viii) any claim under the Family and Medical Leave Act; (ix) any other claim (whether based on federal, state, or local law, statutory or decisional) relating to or arising out of the Executive's employment, the terms and conditions of such employment, the separation of such employment, including but not limited to breach of contract (express or implied), wrongful discharge, detrimental reliance, defamation, emotional distress or compensatory or punitive damages; and (x) any claim for attorneys' fees, costs, disbursements and/or the like. Nothing in this General Release shall be a waiver of claims that may (1) arise after the date on which the Executive signs this General Release, (2) are preserved by the Agreement, or (3) relate to the Executive's rights as a shareholder of MBIA.

c. Nothing in the provisions above shall be construed to prevent the Executive from filing a charge with, or participating in any investigation conducted by, a governmental agency. Nevertheless, the Executive acknowledges and agrees that by virtue of the foregoing, he has waived any relief available to him (including without limitation, monetary damages, equitable relief and reinstatement) under any of the claims and/or causes of action waived above. Therefore the Executive agrees that he will not accept any award or settlement from any source or proceeding (including but not limited to any proceeding brought by any other person or by any government agency) with respect to any claim or right waived in this General Release.

2. Governing Law. This General Release shall be construed and enforced in accordance with, and governed by, the laws of the State of New York, without reference to principles of conflict of laws.

3. Acknowledgments. The Executive acknowledges that: (a) he has been advised by the Company in writing to consult with an attorney of his choosing in connection with this General Release; (b) he has carefully read this General Release in its entirety; (c) he has had the opportunity to consider fully for at least forty-five (45) days the terms of this General Release; (d) he fully understands the significance of all of the terms and conditions of this General Release and he has discussed it with independent legal counsel, or has had a reasonable opportunity to do so; (e) he has had answered to his satisfaction any questions he has asked with regard to the meaning and significance of any of the provisions of this General Release; and (f) he is signing this General Release voluntarily and of his own free will and assent to all the terms and conditions contained herein with the intent to be bound hereby.

4. Acceptance. The Executive hereby accepts this General Release by fully executing it and returning it to the Managing Director, Human Resources of the Company (currently Liz Blasius, located at 1 Manhattanville Rd., Suite 301, Purchase, NY 10577), no sooner than the Separation Date (as defined in the Agreement), and no later than 21 days following the Separation Date. After executing this General Release, the Executive shall have seven (7) days (the "**Revocation Period**") to revoke this General Release by indicating his desire to do so in writing addressed and delivered to the Managing Director, Human Resources of the Company (currently Liz Blasius, located at 1 Manhattanville Rd., Suite 301, Purchase, NY 10577), no later than the close of business on the seventh (7th) day following the date the Executive executes this General Release. In the event the Executive does not accept this General Release as set forth above, or in the event he revokes this General Release during the Revocation Period, the obligation of the Company to provide the Severance Benefits which are conditioned on his signing and not revoking this General Release shall be deemed automatically null and void.

Dated: _____

Signature: _____

Ram D. Wertheim

STATE OF _____)

) SS.:

COUNTY OF _____)

On this __ day of _____ 201__, before me personally came _____ to be known and known to me to be the person described and who executed the foregoing General Release, and he duly acknowledged to me that he executed the same.

_____ Notary Public

SUBSIDIARIES OF MBIA INC.

<u>Name of Subsidiary</u>	<u>State/Country of Incorporation</u>
LaCrosse Financial Products, LLC	Delaware
LaCrosse Financial Products Member, LLC	Delaware
MBIA Capital Corp.	Delaware
MBIA Global Funding, LLC	Delaware
MBIA Insurance Corporation	New York
MBIA Investment Management Corp.	Delaware
MBIA Mexico, S.A. de C.V.	Mexico
MBIA Services Corporation	Delaware
MBIA UK (Holdings) Limited	England and Wales
MBIA UK Insurance Limited	England and Wales
Municipal Issuers Service Corporation	New York
MZ Funding LLC	Delaware
National Public Finance Guarantee Holdings, Inc.	Delaware
National Public Finance Guarantee Corporation	New York
Promotora de Infraestructura Registral II, S.A. de C.V., SOFOM, E.R.	Mexico
Trifinium Services Limited	England and Wales

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (No. 333-213028) and Form S-8 (Nos. 033-46062, 333-152894, 333-159648, 333-165713, 333-183529, 333-190738 and 333-194335) of MBIA Inc. of our report dated March 1, 2017 relating to the consolidated financial statements, financial statement schedules and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP
New York, New York
March 1, 2017

**CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Joseph W. Brown, certify that:

1. I have reviewed the Annual Report of MBIA Inc. (the "Company") on Form 10-K for the period ending December 31, 2016 as filed with the Securities and Exchange Commission on the date hereof (the "Report");
2. Based on my knowledge, this Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Report;
3. Based on my knowledge, the financial statements, and other financial information included in this Report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this Report;
4. The Company's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:
 - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this Report is being prepared;
 - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this Report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this Report based on such evaluation; and
 - (d) disclosed in this Report that there were no changes in the Company's internal control over financial reporting that occurred during the Company's fourth quarter of 2016 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting; and
5. The Company's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and to the audit committee of the board of directors:
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

/s/ Joseph W. Brown _____

Joseph W. Brown
Chief Executive Officer
March 1, 2017

**CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Anthony McKiernan, certify that:

1. I have reviewed the Annual Report of MBIA Inc. (the "Company") on Form 10-K for the period ending December 31, 2016 as filed with the Securities and Exchange Commission on the date hereof (the "Report");
2. Based on my knowledge, this Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Report;
3. Based on my knowledge, the financial statements, and other financial information included in this Report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this Report;
4. The Company's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:
 - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this Report is being prepared;
 - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this Report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this Report based on such evaluation; and
 - (d) disclosed in this Report that there were no changes in the Company's internal control over financial reporting that occurred during the Company's fourth quarter of 2016 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting; and
5. The Company's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and to the audit committee of the board of directors:
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

/s/ Anthony McKiernan _____

Anthony McKiernan
Chief Financial Officer
March 1, 2017

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of MBIA Inc. (the "Company") on Form 10-K for the period ending December 31, 2016 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Joseph W. Brown, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Joseph W. Brown _____

Joseph W. Brown
Chief Executive Officer
March 1, 2017

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of MBIA Inc. (the "Company") on Form 10-K for the period ending December 31, 2016 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Anthony McKiernan, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Anthony McKiernan _____

Anthony McKiernan
Chief Financial Officer
March 1, 2017

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