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

Form 10-Q

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

For the quarterly period ended September 30, 2019

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

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

Not applicable
(Former name, former address and former fiscal year, if changed since last report)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock	MBI	New York Stock Exchange

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

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

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

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

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

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

As of October 29, 2019, 80,051,402 shares of Common Stock, par value $1 per share, were outstanding.

FORWARD-LOOKING AND CAUTIONARY STATEMENTS

This quarterly report of MBIA Inc., together with its consolidated subsidiaries, (collectively, "MBIA", the "Company", "we", "us" or "our") includes statements that are not historical or current facts and are "forward-looking statements" made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. The words "believe", "anticipate", "project", "plan", "expect", "estimate", "intend", "will likely result", "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 National or an inability to access the capital markets and our exposure to significant fluctuations in liquidity and asset values in the global credit markets as a result of collateral posting requirements;
- our ability to fully implement our strategic plan;
- the possibility that MBIA Insurance Corporation will have inadequate liquidity or resources to timely pay claims as a result of higher than expected losses on certain insured transactions or as a result of a delay or failure in collecting expected recoveries, which could lead the New York State Department of Financial Services ("NYSDFS") to put MBIA Insurance Corporation into a rehabilitation or liquidation proceeding under Article 74 of the New York Insurance Law and/or take such other actions as the NYSDFS may deem necessary to protect the interests of MBIA Insurance Corporation's policyholders;
- deterioration in the economic environment and financial markets in the United States or abroad, real estate market performance, credit spreads, interest rates and foreign currency levels; and
- the effects of changes to governmental regulation, including insurance laws, securities laws, tax laws, legal precedents and accounting rules.

The above factors provide a summary of and are qualified in their entirety by the risk factors discussed under "Risk Factors" in Part II Other Information, Item 1A included in this Quarterly Report on Form 10-Q. In addition, refer to "Note1: Business Developments and Risks and Uncertainties" in the Notes to Consolidated Financial Statements included in this Quarterly Report on Form 10-Q for a discussion of certain risks and uncertainties related to our financial statements.

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

PART I FINANCIAL INFORMATION

Item 1. Financial Statements

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

	September 30, 2019	December 31, 2018
Assets		
Investments:		
Fixed-maturity securities held as available-for-sale, at fair value (amortized cost $2,734 and $3,601)	$ 2,840	$ 3,565
Investments carried at fair value	217	222
Investments pledged as collateral, at fair value (amortized cost $14 and $46)	10	43
Short-term investments, at fair value (amortized cost $429 and $241)	428	241
Other investments at amortized cost	-	1
Total investments	3,495	4,072
Cash and cash equivalents	76	222
Premiums receivable	273	296
Deferred acquisition costs	63	74
Insurance loss recoverable	1,843	1,595
Other assets	224	122
Assets of consolidated variable interest entities:		
Cash	5	58
Investments held-to-maturity, at amortized cost (fair value $977 and $925)	890	890
Investments carried at fair value	88	157
Loans receivable at fair value	146	172
Loan repurchase commitments	478	418
Other assets	25	31
Total assets	**$ 7,606**	**$ 8,107**
Liabilities and Equity		
Liabilities:		
Unearned premium revenue	$ 499	$ 587
Loss and loss adjustment expense reserves	859	965
Long-term debt	2,199	2,249
Medium-term notes (includes financial instruments carried at fair value of $106 and $102)	670	722
Investment agreements	310	311
Derivative liabilities	194	199
Other liabilities	195	198
Liabilities of consolidated variable interest entities:		
Variable interest entity notes (includes financial instruments carried at fair value of $472 and $480)	1,632	1,744
Total liabilities	**6,558**	**6,975**
Commitments and contingencies (Refer to Note 14: Commitments and Contingencies)		
Equity:		
Preferred stock, par value $1 per share; authorized shares--10,000,000; issued and outstanding--none	-	-
Common stock, par value $1 per share; authorized shares--400,000,000; issued shares--283,625,689 and 283,625,689	284	284
Additional paid-in capital	2,997	3,025
Retained earnings	850	966
Accumulated other comprehensive income (loss), net of tax of $21 and $8	(43)	(156)
Treasury stock, at cost--203,157,759 and 193,803,976 shares	(3,053)	(3,000)
Total shareholders' equity of MBIA Inc.	1,035	1,119
Preferred stock of subsidiary	13	13
Total equity	**1,048**	**1,132**
Total liabilities and equity	**$ 7,606**	**$ 8,107**

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

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

	Three Months Ended September 30, 2019	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2019	Nine Months Ended September 30, 2018
Revenues				
Premiums earned:				
Scheduled premiums earned	$ 17	$ 44	$ 52	$ 96
Refunding premiums earned	3	18	13	42
Premiums earned (net of ceded premiums of $1, $1, $4 and $4)	20	62	65	138
Net investment income	27	31	89	96
Fees and reimbursements	-	17	1	23
Change in fair value of insured derivatives:				
Realized gains (losses) and other settlements on insured derivatives	(9)	(5)	(10)	(49)
Unrealized gains (losses) on insured derivatives	9	4	23	36
Net change in fair value of insured derivatives	-	(1)	13	(13)
Net gains (losses) on financial instruments at fair value and foreign exchange	44	5	40	18
Net investment losses related to other-than-temporary impairments:				
Other-than-temporary impairments recognized in accumulated other comprehensive income (loss)	-	(1)	(37)	(3)
Net investment losses related to other-than-temporary impairments	-	(1)	(37)	(3)
Net gains (losses) on extinguishment of debt	(1)	3	(1)	3
Other net realized gains (losses)	-	1	2	-
Revenues of consolidated variable interest entities:				
Net investment income	10	9	30	25
Net gains (losses) on financial instruments at fair value and foreign exchange	76	12	112	29
Other net realized gains (losses)	(4)	(33)	(62)	(126)
Total revenues	172	105	252	190
Expenses				
Losses and loss adjustment	(13)	46	89	177
Amortization of deferred acquisition costs	3	9	9	17
Operating	23	18	68	57
Interest	50	52	154	155
Expenses of consolidated variable interest entities:				
Operating	2	3	6	8
Interest	18	22	63	63
Total expenses	83	150	389	477
Income (loss) before income taxes	89	(45)	(137)	(287)
Provision (benefit) for income taxes	18	-	(21)	2
Net income (loss)	**$ 71**	**$ (45)**	**$ (116)**	**$ (289)**
Net income (loss) per common share				
Basic	$ 0.86	$ (0.50)	$ (1.40)	$ (3.24)
Diluted	$ 0.86	$ (0.50)	$ (1.40)	$ (3.24)
Weighted average number of common shares outstanding				
Basic	78,686,542	89,490,267	82,813,523	89,075,892
Diluted	78,686,542	89,490,267	82,813,523	89,075,892

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

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

	Three Months Ended September 30, 2019	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2019	Nine Months Ended September 30, 2018
Net income (loss)	$ 71	$ (45)	$ (116)	$ (289)
Other comprehensive income (loss):				
Unrealized gains (losses) on available-for-sale securities:				
Unrealized gains (losses) arising during the period	39	(4)	164	(61)
Provision (benefit) for income taxes	(11)	-	29	5
Total	50	(4)	135	(66)
Reclassification adjustments for (gains) losses included in net income (loss)	8	(2)	(15)	(3)
Available-for-sale securities with other-than-temporary impairments:				
Other-than-temporary impairments and unrealized gains (losses) arising during the period	(32)	25	(2)	48
Reclassification adjustments for (gains) losses included in net income (loss)	(42)	2	(5)	3
Foreign currency translation:				
Foreign currency translation gains (losses)	1	-	1	2
Instrument-specific credit risk of liabilities measured at fair value:				
Unrealized gains (losses) arising during the period	(27)	28	(27)	(4)
Reclassification adjustments for (gains) losses included in net income (loss)	3	-	26	-
Total other comprehensive income (loss)	(39)	49	113	(20)
Comprehensive income (loss)	**$ 32**	**$ 4**	**$ (3)**	**$ (309)**

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

MBIA INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS’ EQUITY (Unaudited)
(In millions except share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Common shares				
Balance at beginning of period	283,625,689	283,625,689	283,625,689	283,717,973
Common shares issued (cancelled), net	-	-	-	(92,284)
Balance at end of period	283,625,689	283,625,689	283,625,689	283,625,689
Common stock amount				
Balance at beginning and end of period	$ 284	$ 284	$ 284	$ 284
Additional paid-in capital				
Balance at beginning of period	$ 2,995	$ 3,154	$ 3,025	$ 3,171
Treasury shares issued for warrant exercises	-	-	-	(21)
Share-based compensation	2	1	(28)	5
Balance at end of period	$ 2,997	$ 3,155	$ 2,997	$ 3,155
Retained earnings				
Balance at beginning of period	$ 779	$ 1,018	$ 966	$ 1,095
ASU 2016-01 transition adjustment	-	-	-	164
ASU 2018-02 transition adjustment	-	-	-	3
Net income (loss)	71	(45)	(116)	(289)
Balance at end of period	$ 850	$ 973	$ 850	$ 973
Accumulated other comprehensive income (loss)				
Balance at beginning of period	$ (4)	$ (255)	$ (156)	$ (19)
ASU 2016-01 transition adjustment	-	-	-	(164)
ASU 2018-02 transition adjustment	-	-	-	(3)
Other comprehensive income (loss)	(39)	49	113	(20)
Balance at end of period	$ (43)	$ (206)	$ (43)	$ (206)
Treasury shares				
Balance at beginning of period	(198,824,693)	(192,963,698)	(193,803,976)	(192,233,526)
Treasury shares issued for warrant exercises	-	-	-	1,277,620
Treasury shares acquired under share repurchase program	(4,341,232)	-	(10,273,891)	(1,961,711)
Share-based compensation	8,166	27,669	920,108	(18,412)
Balance at end of period	(203,157,759)	(192,936,029)	(203,157,759)	(192,936,029)
Treasury stock amount				
Balance at beginning of period	$ (3,014)	$ (3,098)	$ (3,000)	$ (3,118)
Treasury shares issued for warrant exercises	-	-	-	34
Treasury shares acquired under share repurchase program	(39)	-	(93)	(14)
Share-based compensation	-	-	40	-
Balance at end of period	$ (3,053)	$ (3,098)	$ (3,053)	$ (3,098)
Total shareholders’ equity of MBIA Inc.				
Balance at beginning of period	$ 1,040	$ 1,103	$ 1,119	$ 1,413
Period change	(5)	5	(84)	(305)
Balance at end of period	**$ 1,035**	**$ 1,108**	**$ 1,035**	**$ 1,108**
Preferred stock of subsidiary shares				
Balance at beginning and end of period	1,315	1,315	1,315	1,315
Preferred stock of subsidiary amount				
Balance at beginning and end of period	$ 13	$ 12	$ 13	$ 12
Total equity	**$ 1,048**	**$ 1,120**	**$ 1,048**	**$ 1,120**

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

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

	Nine Months Ended September 30, 2019	Nine Months Ended September 30, 2018
Cash flows from operating activities:		
Premiums, fees and reimbursements received	$ 19	$ 73
Investment income received	143	162
Insured derivative commutations and losses paid	(11)	(49)
Financial guarantee losses and loss adjustment expenses paid	(477)	(367)
Proceeds from recoveries and reinsurance	117	46
Operating and employee related expenses paid	(60)	(68)
Interest paid, net of interest converted to principal	(144)	(119)
Income taxes (paid) received	(2)	(1)
Net cash provided (used) by operating activities	(415)	(323)
Cash flows from investing activities:		
Purchases of available-for-sale investments	(1,759)	(1,684)
Sales of available-for-sale investments	1,875	1,647
Paydowns and maturities of available-for-sale investments	722	245
Purchases of investments at fair value	(129)	(142)
Sales, paydowns, maturities and other proceeds of investments at fair value	583	162
Sales, paydowns and maturities (purchases) of short-term investments, net	(131)	269
Paydowns and maturities of loans receivable	68	365
Consolidation of variable interest entities	72	-
Deconsolidation of variable interest entities	(2)	(7)
(Payments) proceeds for derivative settlements	(95)	(19)
Net cash provided (used) by investing activities	1,204	836
Cash flows from financing activities:		
Proceeds from investment agreements	11	9
Principal paydowns of investment agreements	(13)	(30)
Principal paydowns of medium-term notes	(57)	(62)
Principal paydowns of variable interest entity notes	(671)	(382)
Principal paydowns of long-term debt	(150)	-
Purchases of treasury stock	(96)	(15)
Other financing	(12)	-
Net cash provided (used) by financing activities	(988)	(480)
Net increase (decrease) in cash and cash equivalents	(199)	33
Cash and cash equivalents—beginning of period	280	146
Cash and cash equivalents—end of period	$ 81	$ 179
Reconciliation of net income (loss) to net cash provided (used) by operating activities:		
Net income (loss)	$ (116)	$ (289)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:		
Change in:		
Premiums receivable	40	54
Deferred acquisition costs	9	18
Accrued investment income	19	9
Unearned premium revenue	(88)	(142)
Loss and loss adjustment expense reserves	(34)	50
Insurance loss recoverable	(249)	(192)
Accrued interest payable	75	113
Accrued expenses	5	(10)
Net investment losses related to other-than-temporary impairments	37	3
Unrealized (gains) losses on insured derivatives	(23)	(36)
Net (gains) losses on financial instruments at fair value and foreign exchange	(152)	(47)
Other net realized (gains) losses	60	126
Deferred income tax provision (benefit)	(29)	1
Interest on variable interest entities, net	(4)	14
Other operating	35	5
Total adjustments to net income (loss)	(299)	(34)
Net cash provided (used) by operating activities	$ (415)	$ (323)

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

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MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 1: Business Developments and Risks and Uncertainties

Summary

MBIA Inc., together with its consolidated subsidiaries, (collectively, “MBIA” or the “Company”) operates within the financial guarantee insurance industry. MBIA manages three operating segments: 1) United States (“U.S.”) public finance insurance; 2) corporate; and 3) international and structured finance insurance. The Company’s U.S. public finance insurance business is managed through National Public Finance Guarantee Corporation (“National”), the corporate segment is operated through MBIA Inc. and several of its subsidiaries, including its service company, MBIA Services Corporation (“MBIA Services”) and its international and structured finance insurance business is primarily operated through MBIA Insurance Corporation and its subsidiaries (“MBIA Corp.”).

Refer to “Note 11: Business Segments” for further information about the Company’s operating segments.

Business Developments

Puerto Rico

On January 1, 2019 and July 1, 2019, the Commonwealth of Puerto Rico and certain of its instrumentalities (“Puerto Rico”) defaulted on scheduled debt service for National insured bonds and National paid gross claims in the aggregate of $393 million. As of September 30, 2019, National had $2.4 billion of gross insured par outstanding related to Puerto Rico. Refer to the “Risks and Uncertainties” section below for additional information on the Company’s Puerto Rico exposures.

PREPA RSA

In September of 2019, National agreed to join the restructuring support agreement, as amended (“RSA”), with the Puerto Rico Electric Power Authority (“PREPA”), other monoline insurers, a group of uninsured PREPA bondholders, Puerto Rico, and the Financial Oversight and Management Board for Puerto Rico. The restructuring transaction described in the RSA is intended to, among other things, provide a framework for the consensual resolution of the treatment of National’s insured PREPA revenue bonds in PREPA’s recovery plan. Upon consummation of the restructuring transaction, PREPA’s revenue bonds will be exchanged into new securitization bonds issued by a special purpose entity and secured by a segregated transition charge assessed on customer’s electricity bills. The closing of the restructuring transaction is subject to a number of conditions, including the Title III Court’s approval of the RSA and settlement described therein, support of a minimum of 67% of voting bondholders for a plan of adjustment that includes the proposed treatment of PREPA revenue bonds and confirmation of such plan by the Title III Court, and execution of acceptable documentation and legal opinions.

COFINA Plan of Adjustment

In February of 2019, the District Court confirmed the Puerto Rico Sales Tax Financing Corporation (“COFINA”) Plan of Adjustment, including the settlement agreement between Puerto Rico and COFINA. National insured bondholders were given the option of commuting their insurance policy and receiving uninsured COFINA bonds or placing their new uninsured COFINA bonds into the National Custodial Trusts (the “Trusts”), receive Trust certificates and continue to benefit from a National insurance policy. The Trusts operate on a pass-through basis; as the Trusts receive debt service payments from the new COFINA bonds, or sells these new bonds, the Trusts’ cash will be paid to the Trusts’ certificate holders and National’s insured exposure will reduce accordingly. To the extent National’s policy obligations have not been satisfied by the maturity date of the original National insurance policies, the Trusts’ certificate holders will receive a claim payment from National at their maturity date for any remaining amounts. The Trusts were consolidated as variable interest entities (“VIEs”) within the U.S. public finance segment during the first quarter of 2019. Refer to “Note 4: Variable Interest Entities” for additional information about the COFINA VIEs. During the third quarter of 2019, all of the uninsured bonds held in the Trusts were sold and the proceeds were used to extinguish a substantial amount of debt issued by the Trusts.

MBIA Corp. Financing Facility

In July of 2019, MBIA Corp. consummated a financing facility (the “Refinanced Facility”) between MZ Funding LLC (“MZ Funding”) and certain purchasers, pursuant to which the purchasers or their affiliates (collectively, the “Senior Lenders”), agreed to refinance the outstanding insured senior notes of MZ Funding, and MBIA Inc. received amended subordinated notes of MZ Funding. In connection with the refinancing transaction, MZ Funding and MBIA Corp. entered into an amended and restated credit agreement (the “New Credit Agreement” and the loans thereunder, the “MBIA Loans”). MBIA Corp. issued new financial guarantee insurance policies insuring the Refinanced Facility. Refer to “Note 9: Debt” for further information on the Refinanced Facility.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

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

Risks and Uncertainties

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

U.S. Public Finance Market Conditions

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

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

MBIA Corp. Insured Portfolio

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

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

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

Zohar and RMBS Recoveries

Payment of claims totaling $919 million in November of 2015 and January of 2017, on MBIA Corp.'s policies insuring the Class A-1 and A-2 notes issued by Zohar CDO 2003-1, Limited ("Zohar I") and insuring certain notes issued by Zohar II 2005-1, Limited ("Zohar II"), entitles MBIA Corp. to reimbursement of such amounts plus interest and expenses and/or to exercise certain rights and remedies to seek recovery of such amounts. MBIA Corp. anticipates that the primary source of the recoveries will come from the monetization of the assets of Zohar I and Zohar II, which include, among other things, loans made to, and equity interests in, companies purportedly controlled by the sponsor and former collateral manager of Zohar I and Zohar II (the "Zohar Sponsor") (all the assets of Zohar I and Zohar II, the "Zohar Assets"). On March 11, 2018, the then-director of Zohar I and Zohar II placed those funds into voluntary bankruptcy proceedings in federal bankruptcy court in the District of Delaware (the "Zohar Funds Bankruptcy Cases"). On May 21, 2018, the Court granted the Zohar funds' motion to approve a settlement (the "Zohar Bankruptcy Settlement") which established a process by which the debtor funds, through an independent director and a chief restructuring officer, will work with the original sponsor of the funds to monetize the Zohar Assets and repay creditors, including MBIA Corp. While the stay of litigation provided for in the settlement has expired, on September 27, 2019, the Court ruled that the monetization process will continue, which ruling has been appealed though not stayed. Salvage and subrogation recoveries related to Zohar I and Zohar II are reported within "Insurance loss recoverable" on the Company's consolidated balance sheet. Notwithstanding the Zohar Bankruptcy Settlement, there can be no assurance that the value of the Zohar Assets will be sufficient to permit MBIA Corp. to recover all or substantially all of the payments it made on Zohar I and Zohar II. In particular, on October 17, 2019, one of the companies (Dura Automotive Systems, LLC), and certain of its affiliates, filed for bankruptcy protection in federal bankruptcy court in the Middle District of Tennessee (the "Dura Bankruptcy Cases"). On November 1, 2019, the Court overseeing the Zohar Funds Bankruptcy Cases entered an Order directing that, effective November 8, 2019, the Dura Bankruptcy Cases shall be transferred to the District of Delaware. The Zohar debtors have substantial interests in the Dura debtors, and hold secured term loan indebtedness and an indirect interest in the majority of the equity in the Dura debtors. There can be no assurance that the outcome of the Dura Bankruptcy Cases will not have a material adverse impact on MBIA Corp.'s ability to recover all or substantially all of the payments it made on Zohar II.

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

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

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

Refer to "Note 5: Loss and Loss Adjustment Expense Reserves" for additional information about MBIA Corp.'s recoveries.

Corporate Liquidity

Subsequent to September 30, 2019, National declared and paid a dividend of $110 million to its ultimate parent, MBIA Inc. Based on the Company's projections of National's dividends, additional anticipated releases under its tax sharing agreement and related tax escrow account ("Tax Escrow Account"), and other cash inflows, the Company expects that MBIA Inc. will have sufficient cash to satisfy its debt service and general corporate needs. However, MBIA Inc. continues to have liquidity risk that could be caused by interruption of or reduction in dividends or tax payments received from operating subsidiaries, deterioration in the performance of invested assets, impaired access to the capital markets, as well as other factors, which are not anticipated at this time. Furthermore, failure by MBIA Inc. to settle liabilities that are insured by MBIA Corp. could result in claims on MBIA Corp.

Note 2: Significant Accounting Policies

The Company has disclosed its significant accounting policies in "Note 2: Significant Accounting Policies" in the Notes to Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2018. The following significant accounting policies provide an update to those included in the Company's Annual Report on Form 10-K.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 2: Significant Accounting Policies (continued)

Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X and, accordingly, do not include all of the information and disclosures required by accounting principles generally accepted in the United States of America ("GAAP") for annual periods. These statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Annual Report on Form 10-K for the year ended December 31, 2018. The accompanying consolidated financial statements have not been audited by an independent registered public accounting firm in accordance with the standards of the Public Company Accounting Oversight Board (U.S.), but in the opinion of management such financial statements include all adjustments, consisting only of normal recurring adjustments, necessary for the fair statement of the Company's consolidated financial position and results of operations. All material intercompany balances and transactions have been eliminated.

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

The results of operations for the three and nine months ended September 30, 2019 may not be indicative of the results that may be expected for the year ending December 31, 2019. The December 31, 2018 consolidated balance sheet was derived from audited financial statements, but does not include all disclosures required by GAAP for annual periods.

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 discounts on loss reserves and recoveries is included in loss expense. The Company considers its ability to collect contractual interest on claim payments when developing its expected inflows. The inclusion of such interest may result in the Company recording recoveries in excess of its actual or expected claim payments on a policy.

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.

Beginning with the second quarter of 2019, the Company changed its presentation of its insurance loss recoverable and its loss and loss adjustment expense ("LAE") reserves related to its insured first-lien RMBS exposure. The Company's first-lien RMBS insurance loss recoverable previously represented discounted and probability-weighted estimated recoveries, net of claims expected to be paid, when the result was a net receivable, and its first-lien RMBS loss and LAE reserves previously represented discounted and probability-weighted estimated claims, net of expected recoveries to be collected, when the result was a net payable. The Company now reports its first-lien RMBS insurance loss recoverable gross of expected claim payments and all expected claim payments are reported within loss and LAE reserves on the Company's balance sheet. This treatment is consistent with the Company's balance sheet presentation for insurance loss recoverable and loss and LAE reserves of its other major insured exposures. Certain amounts have been reclassified in prior years' financial statements to conform to the current presentation. This includes a reclassification of $31 million resulting in an increase to insurance loss recoverable and a corresponding increase to loss and LAE reserves on the Company's consolidated balance sheet as of December 31, 2018. This reclassification had no impact on total revenues, total expenses, shareholders' equity, operating cash flows, investing cash flows, or financing cash flows for all periods presented. In addition, prior period amounts included in the Company's disclosures have been updated to reflect the new presentation.

The Company's loss reserve, insurance loss recoverable, and accruals for LAE incurred are disclosed in "Note 5: Loss and Loss Adjustment Expense Reserves."

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 3: Recent Accounting Pronouncements

Recently Adopted Accounting Standards

Leases (Topic 842) (ASU 2016-02)

In February of 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("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.

The Company adopted ASU 2016-02 in its entirety in the first quarter of 2019, using an additional (and optional) modified retrospective transition approach. Comparative periods are presented in accordance with Accounting Standards Codification ("ASC") Topic 840, Leases, and do not include any retrospective adjustments to comparative periods to reflect the adoption of ASU 2016-02. The Company recorded a right-of-use asset and lease liability of $23 million. The gross up of the assets and liabilities does not have a cumulative effect adjustment to the opening balance of retained earnings and does not impact the Company's statement of operations. Refer to "Note 14: Commitments and Contingencies" for information about the Company's lease commitments.

Disclosure Update and Simplification

In August of 2018, the Securities and Exchange Commission ("SEC") published Release No. 33-10532, Disclosure Update and Simplification, which amends certain disclosure requirements that were redundant, duplicative, overlapping, outdated or superseded. In addition, these amendments updated the disclosure requirements for the interim financial statement requirements to include a reconciliation of each caption of shareholders' equity, in the notes or as a separate statement for each period for which a statement of comprehensive income is required to be included. The Company updated the presentation of its consolidated statements of changes in shareholders' equity for all periods presented beginning in the first quarter of 2019.

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

Recent Accounting Developments

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

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

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

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

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 4: Variable Interest Entities

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

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

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

Consolidated VIEs

The carrying amounts of assets and liabilities of consolidated VIEs were $1.6 billion, as of September 30, 2019, and $1.7 billion, as of December 31, 2018. The carrying amounts of assets and liabilities are presented separately in "Assets of consolidated variable interest entities" and "Liabilities of consolidated variable interest entities" on the Company's consolidated balance sheets. VIEs are consolidated or deconsolidated based on an ongoing reassessment of controlling financial interest, when events occur or circumstances arise, and whether the ability to exercise rights that constitute power to direct activities of any VIEs are present according to the design and characteristics of these entities. In the first quarter of 2019, the Company consolidated seven VIEs related to the Trusts. On the initial consolidation of the Trusts, the Company recorded a loss of $42 million, representing the difference between the fair value of the Company's financial guarantee within the trusts and the carrying value of the insurance related balances on the COFINA policies. In the second quarter of 2019, two VIEs were deconsolidated. In the second quarter of 2018, the Company deconsolidated two VIEs related to the Zohar Bankruptcy Settlement. The Company recorded a loss of $93 million which represented the difference between the fair value of the VIE assets that were deconsolidated and the Company's current estimate of salvage and subrogation recoveries from those VIEs under insurance accounting. These consolidation and deconsolidation losses are recorded within "Other net realized gains (losses)" under "Revenues of consolidated variable interest entities" on the Company's consolidated statement of operations. Refer to "Note 1: Business Developments and Risks and Uncertainties" for further information about COFINA and the Zohar Bankruptcy Settlement. In the third quarter of 2018, three VIEs were deconsolidated.

Holders of insured obligations of issuer-sponsored VIEs do not have recourse to the general assets of the Company. 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 the Company.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 4: Variable Interest Entities (continued)

Nonconsolidated VIEs

The following tables present the Company's maximum exposure to loss for nonconsolidated VIEs and carrying values of the assets and liabilities for its interests in these VIEs in its insurance operations as of September 30, 2019 and December 31, 2018. The maximum exposure to loss as a result of MBIA's variable interests in VIEs is represented by insurance in force. Insurance in force is the maximum future payments of principal and interest which may be required under commitments to make payments on insured obligations issued by nonconsolidated VIEs. The Company has aggregated nonconsolidated VIEs based on the underlying credit exposure of the insured obligation. The nature of the Company's variable interests in nonconsolidated VIEs is related to financial guarantees and any investments in obligations issued by nonconsolidated VIEs.

	September 30, 2019					
		Carrying Value of Assets			Carrying Value of Liabilities	
In millions	Maximum Exposure to Loss	Investments(1)	Premiums Receivable(2)	Insurance Loss Recoverable(3)	Unearned Premium Revenue(4)	Loss and Loss Adjustment Expense Reserves(5)
Insurance:						
Global structured finance:						
Mortgage-backed residential	$ 2,320	$ 15	$ 17	$ 99	$ 15	$ 447
Mortgage-backed commercial	32	-	-	-	-	-
Consumer asset-backed	406	-	1	2	1	10
Corporate asset-backed	1,057	-	7	795	8	-
Total global structured finance	3,815	15	25	896	24	457
Global public finance	2,076	-	8	-	10	-
Total insurance	$ 5,891	$ 15	$ 33	$ 896	$ 34	$ 457

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

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

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

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

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

	December 31, 2018					
		Carrying Value of Assets			Carrying Value of Liabilities	
In millions	Maximum Exposure to Loss	Investments(1)	Premiums Receivable(2)	Insurance Loss Recoverable(3)	Unearned Premium Revenue(4)	Loss and Loss Adjustment Expense Reserves(5)
Insurance:						
Global structured finance:						
Mortgage-backed residential	$ 3,103	$ 17	$ 19	$ 128	$ 17	$ 345
Mortgage-backed commercial	52	-	-	-	-	-
Consumer asset-backed	560	-	3	1	2	12
Corporate asset-backed	1,338	-	9	858	10	-
Total global structured finance	5,053	17	31	987	29	357
Global public finance	2,231	-	9	-	12	-
Total insurance	$ 7,284	$ 17	$ 40	$ 987	$ 41	$ 357

(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.

Note 5: Loss and Loss Adjustment Expense Reserves

U.S. Public Finance Insurance

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

Certain local governments remain under financial and budgetary stress and a few have filed for protection under Title 11 of the United States Code (the "Bankruptcy Code"), or have entered into state statutory proceedings established to assist municipalities in managing through periods of severe fiscal stress. In the case of Puerto Rico, certain credits that the Company insures have filed petitions for covered instrumentalities under Title III of PROMESA, which incorporates by reference provisions from the Bankruptcy Code. This could lead to an increase in defaults by such entities on the payment of their obligations and losses or impairments in greater amounts on the Company's insured transactions. The filing for protection under the Bankruptcy Code or entering state statutory proceedings does not necessarily result in a default or indicate that an ultimate loss will occur. In February of 2019, the COFINA Plan of Adjustment was confirmed by the District Court and in September of 2019, National agreed to join the RSA with PREPA, other monoline insurers, a group of uninsured PREPA bondholders, Puerto Rico, and the Financial Oversight and Management Board for Puerto Rico. Refer to "Note 1: Business Development and Risk and Uncertainties", for further information on the Company's Puerto Rico exposures.

International and Structured Finance Insurance

The international and structured finance insurance segment's case basis reserves and insurance loss recoveries recorded in accordance with GAAP do not include estimates for a policy insuring a credit derivative or on financial guarantee VIEs that are eliminated in consolidation. The policy insuring a credit derivative contract is accounted for as a derivative and is carried at fair value in the Company's consolidated financial statements under GAAP. The fair value of an insured credit derivative contract is influenced by a variety of market and transaction-specific factors that may be unrelated to potential future claim payments under the Company's insurance policies. Refer to "Note 8: Derivative Instruments" for a further discussion of the Company's use of derivatives and their impact on the Company's consolidated financial statements.

RMBS Case Basis Reserves (Financial Guarantees)

The Company's RMBS reserves and recoveries relate to financial guarantee insurance policies, excluding those on consolidated VIEs. The Company's first-lien RMBS case basis reserves primarily relate to RMBS backed by alternative A-paper and subprime mortgage loans. The Company's second-lien RMBS case basis reserves relate to RMBS backed by home equity lines of credit and closed-end second mortgages. The Company calculated RMBS case basis reserves as of September 30, 2019 for both first and second-lien RMBS transactions using a process called the "Roll Rate Methodology." The Roll Rate Methodology is a multi-step process using databases of loan level information, proprietary internal cash flow models, and commercially available models to estimate potential losses and recoveries on insured bonds. Refer to "Note 6: Loss and Loss Adjustment Expense Reserves" in the Notes to Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2018, for additional information on the Company's Roll Rate methodology for its RMBS case basis reserves.

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

RMBS Recoveries

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

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

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

Excess Spread

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

Second-lien Put-Back Claims Related to Ineligible Loans

The Company has settled the majority of its put-back claims relating to the inclusion of ineligible loans in securitizations it insured. Only its claims against Credit Suisse remain outstanding. Credit Suisse has challenged the Company's assessment of the ineligibility of individual mortgage loans and a trial concerning the dispute was held in July and August of 2019. While the Company's settlement amounts on its prior put-back claims have been consistent with the put-back recoveries that had been included in the Company's financial statements at the times preceding the settlements, there can be no assurance that the Company will prevail in its litigation against Credit Suisse. However, based on the Company's assessment of the strength of its contractual put-back rights against Credit Suisse, as well as on its prior settlements with other sellers/servicers and success of other monolines' put-back settlements, the Company believes it will prevail in enforcing its contractual rights and that it is entitled to collect the full amount of its incurred losses plus contractual interest due. The Company consolidates the RMBS securitization originated by Credit Suisse as a VIE.

The uncertainty remaining with respect to the ultimate outcome of the litigation with Credit Suisse is contemplated in the probability-weighted scenario based-modeling the Company uses. The Credit Suisse recovery scenarios are based on certain probabilities of ultimate resolution of the dispute with Credit Suisse and are discounted using the current risk-free discount rates based on the weighted average life of the transaction.

The Company continues to consider relevant facts and circumstances in developing its assumptions on expected cash inflows, probability of potential recoveries (including the timing and outcome of the litigation) and recovery period. While the Company believes it will be successful in realizing its recoveries from its put-back contract claims against Credit Suisse, the ultimate amount recovered may be materially different from that recorded by the Company given the inherent uncertainty of the manner of resolving the claims (i.e., litigation and/or negotiated out-of-court settlement) and the assumptions used in the required estimation process for accounting purposes which are based, in part, on judgments and other information that are not easily corroborated by historical data or other relevant benchmarks. Refer to "Note 14: Commitments and Contingencies" for further information about the Company's litigation with Credit Suisse.

CDO Reserves and Recoveries

The Company also has loss and LAE reserves on certain transactions within its collateralized debt obligations ("CDO") portfolio, primarily its multi-sector CDO asset class that was insured in the form of financial guarantee policies. MBIA's insured multi-sector CDOs are transactions that include a variety of collateral ranging from corporate bonds to structured finance assets (which includes, but are not limited to, RMBS-related collateral, multi-sector and corporate CDOs). Refer to "Note 6: Loss and Loss Adjustment Expense Reserves" in the Notes to Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2018, for additional information on the Company's process for estimating reserves on these policies.

Zohar Recoveries

MBIA Corp. is seeking to recover the payments it made (plus interest and expenses) with respect to Zohar I and Zohar II. MBIA Corp. anticipates that the primary source of the recoveries will come from the monetization of the Zohar Assets as anticipated in the Zohar Bankruptcy Settlement. Refer to "Note 1: Business Developments and Risks and Uncertainties" for additional information about the estimated Zohar recoveries. Notwithstanding the procedures agreed to in the Zohar Bankruptcy Settlement and confirmed by the Court, there can be no assurance that the value of the Zohar Assets will be sufficient to permit MBIA Corp. to recover all or substantially all of the payments it made on Zohar I and Zohar II. Failure to recover a substantial amount of such payments could impede MBIA Corp.'s ability to make payments when due on other policies. MBIA Corp. believes that if the NYSDFS concludes at any time that MBIA Insurance Corporation will not be able to pay its policyholder claims, the NYSDFS would likely put MBIA Insurance Corporation into a rehabilitation or liquidation proceeding under Article 74 of the 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 (Unaudited)

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

Summary of Loss and LAE Reserves and Recoveries

The Company's loss and LAE reserves and recoveries before consolidated VIE eliminations, along with amounts that were eliminated as a result of consolidating VIEs, which are included in the Company's consolidated balance sheets as of September 30, 2019 and December 31, 2018, are presented in the following table:

In millions	As of September 30, 2019 Balance Sheet Line Item		As of December 31, 2018 Balance Sheet Line Item	
	Insurance loss recoverable	Loss and LAE reserves (2)	Insurance loss recoverable	Loss and LAE reserves (2)
U.S. Public Finance Insurance				
Before VIE eliminations	$ 945	$ 438	$ 571	$ 551
VIE eliminations	-	(64)	-	-
Total U.S. public finance insurance	945	374	571	551
International and Structured Finance Insurance:				
Before VIE eliminations(1)	1,389	797	1,461	668
VIE eliminations(1)	(491)	(312)	(437)	(254)
Total international and structured finance insurance	898	485	1,024	414
Total	$ 1,843	$ 859	$ 1,595	$ 965

(1) - Includes loan repurchase commitments of $478 million and $418 million as of September 30, 2019 and December 31, 2018, respectively.

(2) - Amounts are net of expected recoveries.

Beginning with the second quarter of 2019, the Company changed its presentation of its insurance loss recoverable and its loss and LAE reserves related to its insured first-lien RMBS exposure. Certain amounts have been reclassified in prior years' financial statements to conform to the current presentation. Refer to "Note 2: Significant Accounting Policies" for additional information about this presentation change.

Changes in Loss and LAE Reserves

The following table presents changes in the Company's loss and LAE reserves for the nine months ended September 30, 2019. 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 estimated recoveries on such claims, changes in assumptions and changes in LAE reserves are recorded in "Losses and loss adjustment" expenses in the Company's consolidated statements of operations. As of September 30, 2019, the weighted average risk-free rate used to discount the Company's loss reserves (claim liability) was 1.78%. LAE reserves are generally expected to be settled within a one-year period and are not discounted. As of September 30, 2019 and December 31, 2018, the Company's gross loss and LAE reserves included $37 million and $60 million, respectively, related to LAE.

In millions	Changes in Loss and LAE Reserves for the Nine Months Ended September 30, 2019							
Gross Loss and LAE Reserves as of December 31, 2018(1)	Loss Payments	Accretion of Claim Liability Discount	Changes in Discount Rates	Changes in Assumptions	Changes in Unearned Premium Revenue	Changes in LAE Reserves	Other	Gross Loss and LAE Reserves as of September 30, 2019(1)
$ 965	$ (425)	$ 14	$ (59)	$ 369	$ 24	$ (23)	$ (6)	$ 859

(1) - Amounts are net of expected recoveries of unpaid claims.

The decrease in the Company's loss reserves primarily relates to payments made on certain Puerto Rico credits and the consolidation of credits with loss reserves as VIEs. This was partially offset by an increase in reserves related to certain Puerto Rico credits as well as first-lien RMBS transactions.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

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

Changes in Insurance Loss Recoverable

Insurance loss recoverable represents the Company's estimate of recoveries on paid claims and LAE. The following table presents changes in the Company's insurance loss recoverable for the nine months ended September 30, 2019. Changes in insurance loss recoverable attributable to the accretion of the discount on the recoverable, changes in discount rates, changes in amount and timing of estimated collections, changes in assumptions and changes in LAE recoveries are recorded in "Losses and loss adjustment" expenses in the Company's consolidated statements of operations.

		Changes in Insurance Loss Recoverable for the Nine Months Ended September 30, 2019					
In millions	Gross Reserve as of December 31, 2018	Collections for Cases	Accretion of Recoveries	Changes in Discount Rates	Changes in Assumptions(1)	Other(2)	Gross Reserve as of September 30, 2019
Insurance loss recoverable	$ 1,595	$ (110)	$ 27	$ 87	$ 216	$ 28	$ 1,843

(1) - Includes amounts related to paid claims and LAE that are expected to be recovered in the future.

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

The increase in the Company's insurance loss recoverable reflected in the preceding table was primarily due to amounts related to the anticipated recovery of claims paid on certain Puerto Rico credits and additional recoveries on insured RMBS transactions partially offset by collections on insured RMBS transactions and a decline in expected recoveries on CDOs.

Loss and LAE Activity

For the three and nine months ended September 30, 2019, loss and LAE activity primarily related to an increase in losses incurred on first-lien RMBS and CDOs, partially offset by an incurred benefit related to certain Puerto Rico transactions as a result of a decline in risk-free interest rates. For the three and nine months ended September 30, 2018, losses and LAE primarily related to increases in actual and expected payments on Puerto Rico exposures.

Costs associated with remediating insured obligations assigned to the Company's surveillance categories are recorded as LAE and are included in "Losses and loss adjustment" expenses on the Company's consolidated statements of operations. For the three months ended September 30, 2019 and 2018, gross LAE related to remediating insured obligations was $16 million and $6 million, respectively. For the nine months ended September 30, 2019 and 2018, gross LAE related to remediating insured obligations were $26 million and $28 million, respectively.

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MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

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

Surveillance Categories

The following table provides information about the financial guarantees and related claim liability included in each of MBIA's surveillance categories as of September 30, 2019:

	Surveillance Categories				
$ in millions	Caution List Low	Caution List Medium	Caution List High	Classified List	Total
Number of policies	46	19	-	216	281
Number of issues [(1)]	13	5	-	97	115
Remaining weighted average contract period (in years)	7.2	7.2	-	8.0	7.7
Gross insured contractual payments outstanding: [(2)]					
Principal	$ 1,625	$ 256	$ -	$ 3,850	$ 5,731
Interest	2,173	117	-	1,669	3,959
Total	$ 3,798	$ 373	$ -	$ 5,519	$ 9,690
Gross Claim Liability [(3)]	$ -	$ -	$ -	$ 944	$ 944
Less:					
Gross Potential Recoveries [(4)]	-	-	-	2,321	2,321
Discount, net [(5)]	-	-	-	(417)	(417)
Net claim liability (recoverable)	$ -	$ -	$ -	$ (960)	$ (960)
Unearned premium revenue	$ 7	$ 3	$ -	$ 39	$ 49
Reinsurance recoverable on paid and unpaid losses [(6)]					$ 16

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

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

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

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

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

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

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

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

The following table provides information about the financial guarantees and related claim liability included in each of MBIA's surveillance categories as of December 31, 2018:

	Surveillance Categories				
$ in millions	Caution List Low	Caution List Medium	Caution List High	Classified List	Total
Number of policies	50	18	-	233	301
Number of issues (1)	16	4	-	102	122
Remaining weighted average contract period (in years)	6.7	8.0	-	9.7	8.9
Gross insured contractual payments outstanding: (2)					
Principal	$ 1,604	$ 249	$ -	$ 5,353	$ 7,206
Interest	2,118	123	-	5,414	7,655
Total	$ 3,722	$ 372	$ -	$ 10,767	$ 14,861
Gross Claim Liability (3)	$ -	$ -	$ -	$ 1,085	$ 1,085
Less:					
Gross Potential Recoveries (4)	-	-	-	2,363	2,363
Discount, net (5)	-	-	-	(670)	(670)
Net claim liability (recoverable)	$ -	$ -	$ -	$ (608)	$ (608)
Unearned premium revenue	$ 5	$ 4	$ -	$ 63	$ 72
Reinsurance recoverable on paid and unpaid losses (6)					$ 21

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

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

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

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

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

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

As a result of the Company changing its presentation of its insurance loss recoverable and its loss and LAE reserves related to its first-lien exposure as discussed above, the amounts in the preceding table related to gross claim liability and gross potential recoveries have both been increased by $108 million as of December 31, 2018 with no impact to the net claim liability (recoverable).

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 6: Fair Value of Financial Instruments

Fair Value Measurement

Financial Assets

Financial assets held by the Company primarily consist of investments in debt securities. Substantially all of the Company's investments are priced by independent third parties, including pricing services and brokers. Typically, the Company receives one pricing service value or broker quote for each instrument, which represents a non-binding indication of value. The Company, along with its third-party portfolio manager, reviews the assumptions, inputs and methodologies used by pricing services and brokers to obtain reasonable assurance that the prices used in its valuations reflect fair value. When the Company and its third-party portfolio manager believe a third-party quotation differs significantly from its internally developed expectation of fair value, whether higher or lower, the Company reviews its data or assumptions with the provider. This review includes comparing significant assumptions such as prepayment speeds, default ratios, forward yield curves, credit spreads and other significant quantitative inputs to internal assumptions, and working with the price provider to reconcile the differences. The price provider may subsequently provide an updated price. In the event that the price provider does not update its price, and the Company still does not agree with the price provided, its third-party portfolio manager will obtain a price from another third-party provider or use an internally developed price which it believes represents the fair value of the investment. The fair values of investments for which internal prices were used were not significant to the aggregate fair value of the Company's investment portfolio as of September 30, 2019 and December 31, 2018. All challenges to third-party prices are reviewed by staff of the Company as well as its third-party portfolio manager with relevant expertise to ensure reasonableness of assumptions. A pricing analysis is reviewed and approved by the Company's valuation committee.

Financial Liabilities (excluding derivative liabilities)

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

Derivative Liabilities

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

Internal Review Process

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

Valuation Techniques

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

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

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

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 6: Fair Value of Financial Instruments (continued)

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

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

As of December 31, 2018, the investment in money market securities was also 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. These funds were backed by high quality, very liquid short-term instruments and the probability is remote that the funds would be sold for a value other than net asset value.

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

Cash and Cash Equivalents

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

Loans Receivable at Fair Value

Loans receivable at fair value are comprised of loans and other instruments held by consolidated VIEs consisting of residential mortgage loans are categorized in Level 3 of the fair value hierarchy. Fair values of residential mortgage loans are determined using quoted prices for MBS issued by the respective VIE and adjusted for the fair values of the financial guarantees provided by MBIA Corp. on the related MBS. The fair values of the financial guarantees consider expected claim payments, net of recoveries, under MBIA Corp.'s policies.

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. These assets represent 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 and contractual interest. Loan repurchase commitments are not securities and no quoted prices or comparable market transaction information are observable or available. Fair values of loan repurchase commitments are determined using discounted cash flow techniques and are categorized in Level 3 of the fair value hierarchy.

Other Assets

A VIE consolidated by the Company has entered into a derivative instrument consisting of a cross currency swap. The cross currency swap is entered into to manage the variability in cash flows resulting from fluctuations in foreign currency rates. The fair value of the VIE derivative is determined based on inputs from unobservable cash flows projection of the derivative, discounted using observable discount rates. As the significant inputs are unobservable, the derivative contract is categorized in Level 3 of the fair value hierarchy.

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

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 6: Fair Value of Financial Instruments (continued)

Medium-term Notes at Fair Value

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

Variable Interest Entity Notes

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

Derivatives

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

Derivatives—Insurance

The derivative contracts insured by the Company cannot be legally traded and generally do not have observable market prices. The Company determines the fair values of insured credit derivatives using valuation models based on observable inputs and considering nonperformance risk of the Company. Negotiated settlements are also considered to validate the valuation models and to reflect assumptions the Company believes market participants would use. The Company uses an internally developed Direct Price Model to value its insured credit derivative that incorporates market prices or estimated prices for all collateral within the transaction, the present value of the market-implied potential losses, and nonperformance risk. The valuation of the insured credit derivative includes the impact of its credit standing. The insured credit derivative is categorized in Level 3 of the fair value hierarchy based on unobservable inputs that are significant to the fair value measurement in its entirety.

Derivatives—Other

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

Other Liabilities

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

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 6: Fair Value of Financial Instruments (continued)

Significant Unobservable Inputs

The following tables provide quantitative information regarding the significant unobservable inputs used by the Company for assets and liabilities measured at fair value on a recurring basis as of September 30, 2019 and December 31, 2018.

In millions	Fair Value as of September 30, 2019	Valuation Techniques	Unobservable Input	Range (Weighted Average)
Assets of consolidated VIEs:				
Loans receivable at fair value	$ 146	Market prices adjusted for financial guarantees provided to VIE obligations	Impact of financial guarantee(1)	-12% - 83% (21%)
Loan repurchase commitments	478	Discounted cash flow	Recovery rates(2)	
			Breach rates(2)	
Liabilities of consolidated VIEs:				
Variable interest entity notes	348	Market prices of VIE assets adjusted for financial guarantees provided	Impact of financial guarantee	34% - 72% (59%)
Credit derivative liabilities:				
CMBS	10	Direct Price Model	Nonperformance risk	54% - 54% (54%)
Other derivative liabilities	30	Discounted cash flow	Cash flows	$0 - $49 ($25)(3)

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

In millions	Fair Value as of December 31, 2018	Valuation Techniques	Unobservable Input	Range (Weighted Average)
Assets of consolidated VIEs:				
Loans receivable at fair value	$ 172	Market prices adjusted for financial guarantees provided to VIE obligations	Impact of financial guarantee(1)	-17% - 75% (7%)
Loan repurchase commitments	418	Discounted cash flow	Recovery rates(2)	
			Breach rates(2)	
Liabilities of consolidated VIEs:				
Variable interest entity notes	366	Market prices of VIE assets adjusted for financial guarantees provided	Impact of financial guarantee	0% - 63% (39%)
Credit derivative liabilities:				
CMBS	33	Direct Price Model	Nonperformance risk	54% - 54% (54%)
Other derivative liabilities	7	Discounted cash flow	Cash flows	$0 - $49 ($25)(3)

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

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

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

Sensitivity of Significant Unobservable Inputs

The significant unobservable input used in the fair value measurement of the Company's residential loans receivable at fair value of consolidated VIEs is the impact of the financial guarantee. The fair value of residential loans receivable is calculated by subtracting the value of the financial guarantee from the market value of VIE liabilities. The value of a financial guarantee is estimated by the Company as the present value of expected cash payments, net of recoveries, under the policy. If there is a lower expected cash flow on the underlying loans receivable of the VIE, the value of the financial guarantee provided by the Company under the insurance policy increases. This results in a lower fair value of the residential loans receivable in relation to the obligations of the VIE.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 6: 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 input used in the fair value measurement of MBIA Corp.'s commercial mortgage-backed securities ("CMBS") credit derivative, which is valued using the Direct Price Model, is nonperformance risk. The nonperformance risk is an assumption of MBIA Corp.'s own ability to pay and whether MBIA Corp. will have the necessary resources to pay the obligations as they come due. Any significant increase or decrease in MBIA Corp.'s nonperformance risk would result in a decrease or increase in the fair value of the derivative liabilities, respectively.

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

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 6: Fair Value of Financial Instruments (continued)

Fair Value Measurements

The following tables present the fair value of the Company's assets (including short-term investments) and liabilities measured and reported at fair value on a recurring basis as of September 30, 2019 and December 31, 2018:

	Fair Value Measurements at Reporting Date Using				
In millions	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Counterparty and Cash Collateral Netting	Balance as of September 30, 2019
Assets:					
Fixed-maturity investments:					
U.S. Treasury and government agency	$ 775	$ 99	$ -	$ -	$ 874
State and municipal bonds	-	230	-	-	230
Foreign governments	-	9	-	-	9
Corporate obligations	-	1,333	-	-	1,333
Mortgage-backed securities:					
Residential mortgage-backed agency	-	310	-	-	310
Residential mortgage-backed non-agency	-	21	-	-	21
Commercial mortgage-backed	-	26	-	-	26
Asset-backed securities:					
Collateralized debt obligations	-	130	-	-	130
Other asset-backed	-	280	1	-	281
Total fixed-maturity investments	775	2,438	1	-	3,214
Money market securities	164	-	-	-	164
Perpetual debt and equity securities	28	37	-	-	65
Fixed-income fund	-	-	-	-	52(1)
Cash and cash equivalents	76	-	-	-	76
Derivative assets:					
Non-insured derivative assets:					
Interest rate derivatives	-	2	-	-	2

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 6: Fair Value of Financial Instruments (continued)

In millions	Fair Value Measurements at Reporting Date Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Counterparty and Cash Collateral Netting	Balance as of September 30, 2019
Assets of consolidated VIEs:					
Corporate obligations	-	8	-	-	8
Mortgage-backed securities:					
Residential mortgage-backed non-agency	-	47	-	-	47
Commercial mortgage-backed	-	16	-	-	16
Asset-backed securities:					
Collateralized debt obligations	-	6	-	-	6
Other asset-backed	-	11	-	-	11
Cash	5	-	-	-	5
Loans receivable at fair value:					
Residential loans receivable	-	-	146	-	146
Loan repurchase commitments	-	-	478	-	478
Other assets:					
Currency derivatives	-	-	8	-	8
Other	-	-	17	-	17
Total assets	$ 1,048	$ 2,565	$ 650	$ -	$ 4,315
Liabilities:					
Medium-term notes	$ -	$ -	$ 106	$ -	$ 106
Derivative liabilities:					
Insured derivatives:					
Credit derivatives	-	2	10	-	12
Non-insured derivatives:					
Interest rate derivatives	-	152	-	-	152
Other	-	-	30	-	30
Other liabilities:					
Other payable	-	-	4	-	4
Liabilities of consolidated VIEs:					
Variable interest entity notes	-	124	348	-	472
Total liabilities	$ -	$ 278	$ 498	$ -	$ 776

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

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 6: Fair Value of Financial Instruments (continued)

In millions	Fair Value Measurements at Reporting Date Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance as of December 31, 2018
Assets:				
Fixed-maturity investments:				
U.S. Treasury and government agency	$ 1,028	$ 90	$ -	$ 1,118
State and municipal bonds	-	728	-	728
Foreign governments	-	9	-	9
Corporate obligations	-	1,410	-	1,410
Mortgage-backed securities:				
Residential mortgage-backed agency	-	219	-	219
Residential mortgage-backed non-agency	-	28	-	28
Commercial mortgage-backed	-	47	7	54
Asset-backed securities:				
Collateralized debt obligations	-	121	-	121
Other asset-backed	-	181	3	184
Total fixed-maturity investments	1,028	2,833	10	3,871
Money market securities	-	-	-	67(1)
Perpetual debt and equity securities	23	35	-	58
Fixed-income fund	-	-	-	75(1)
Cash and cash equivalents	222	-	-	222
Derivative assets:				
Non-insured derivative assets:				
Interest rate derivatives	-	2	-	2

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 6: Fair Value of Financial Instruments (continued)

In millions	Fair Value Measurements at Reporting Date Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance as of December 31, 2018
Assets of consolidated VIEs:				
Corporate obligations	-	9	5	14
Mortgage-backed securities:				
Residential mortgage-backed non-agency	-	92	-	92
Commercial mortgage-backed	-	34	-	34
Asset-backed securities:				
Collateralized debt obligations	-	6	1	7
Other asset-backed	-	10	-	10
Cash	58	-	-	58
Loans receivable at fair value:				
Residential loans receivable	-	-	172	172
Loan repurchase commitments	-	-	418	418
Other assets:				
Currency derivatives	-	-	17	17
Other	-	-	14	14
Total assets	$ 1,331	$ 3,021	$ 637	$ 5,131
Liabilities:				
Medium-term notes	$ -	$ -	$ 102	$ 102
Derivative liabilities:				
Insured derivatives:				
Credit derivatives	-	2	33	35
Non-insured derivatives:				
Interest rate derivatives	-	157	-	157
Other	-	-	7	7
Other liabilities:				
Other payable	-	-	5	5
Liabilities of consolidated VIEs:				
Variable interest entity notes	-	114	366	480
Total liabilities	$ -	$ 273	$ 513	$ 786

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

Level 3 assets at fair value as of September 30, 2019 and December 31, 2018 represented approximately 15% and 12%, respectively, of total assets measured at fair value. Level 3 liabilities at fair value as of September 30, 2019 and December 31, 2018 represented approximately 64% and 65%, respectively, of total liabilities measured at fair value.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 6: Fair Value of Financial Instruments (continued)

The following tables present the fair values and carrying values of the Company's assets and liabilities that are disclosed at fair value but not reported at fair value on the Company's consolidated balance sheets as of September 30, 2019 and December 31, 2018:

	Fair Value Measurements at Reporting Date Using				
In millions	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value Balance as of September 30, 2019	Carry Value Balance as of September 30, 2019
Assets:					
Other investments	$ -	$ -	$ -	$ -	$ -
Assets of consolidated VIEs:					
Investments held-to-maturity	-	-	977	977	890
Total assets	$ -	$ -	$ 977	$ 977	$ 890
Liabilities:					
Long-term debt	$ -	$ 1,092	$ -	$ 1,092	$ 2,199
Medium-term notes	-	-	400	400	564
Investment agreements	-	-	414	414	310
Liabilities of consolidated VIEs:					
Variable interest entity notes	-	290	977	1,267	1,160
Total liabilities	$ -	$ 1,382	$ 1,791	$ 3,173	$ 4,233
Financial Guarantees:					
Gross liability (recoverable)	$ -	$ -	$ 1,236	$ 1,236	$ (485)
Ceded	-	-	78	78	21

	Fair Value Measurements at Reporting Date Using				
In millions	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value Balance as of December 31, 2018	Carry Value Balance as of December 31, 2018
Assets:					
Other investments	$ -	$ 1	$ -	$ 1	$ 1
Assets of consolidated VIEs:					
Investments held-to-maturity	-	-	925	925	890
Total assets	$ -	$ 1	$ 925	$ 926	$ 891
Liabilities:					
Long-term debt	$ -	$ 1,101	$ -	$ 1,101	$ 2,249
Medium-term notes	-	-	422	422	620
Investment agreements	-	-	388	388	311
Liabilities of consolidated VIEs:					
Variable interest entity notes	-	378	925	1,303	1,264
Total liabilities	$ -	$ 1,479	$ 1,735	$ 3,214	$ 4,444
Financial Guarantees:					
Gross liability (recoverable)	$ -	$ -	$ 993	$ 993	$ (43)
Ceded	-	-	65	65	35

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Note 6: Fair Value of Financial Instruments (continued)

The following tables present information about changes in Level 3 assets (including short-term investments) and liabilities measured at fair value on a recurring basis for the three months ended September 30, 2019 and 2018:

Changes in Level 3 Assets and Liabilities Measured at Fair Value on a Recurring Basis for the Three Months Ended September 30, 2019

In millions	Balance, Beginning of Period	Realized Gains / (Losses)	Unrealized Gains / (Losses) Included in Earnings	Unrealized Gains / (Losses) Included in OCI	Foreign Exchange Recognized in OCI or Earnings	Purchases	Issuances	Settlements	Sales	Transfers into Level 3(1)	Transfers out of Level 3(1)	Ending Balance	Change in Unrealized Gains (Losses) for the Period Included in Earnings for Assets still held as of September 30, 2019
Assets:													
Commercial mortgage-backed	$ 4	$ -	$ -	$ -	$ -	$ -	$ -	$ (1)	$ -	$ -	$ (3)	$ -	$ -
Other asset-backed	1	-	-	-	-	-	-	-	-	-	-	1	-
Assets of consolidated VIEs:													
Loans receivable-residential	154	-	(3)	-	-	-	-	(5)	-	-	-	146	(3)
Loan repurchase commitments	428	-	50	-	-	-	-	-	-	-	-	478	50
Currency derivatives	11	-	(4)	-	1	-	-	-	-	-	-	8	(4)
Other	15	-	2	-	-	-	-	-	-	-	-	17	2
Total assets	$ 613	$ -	$ 45	$ -	$ 1	$ -	$ -	$ (6)	$ -	$ -	$ (3)	$ 650	$ 45

In millions	Balance, Beginning of Period	Realized (Gains) / Losses	Unrealized (Gains) / Losses Included in Earnings	Unrealized (Gains) / Losses Included in Credit Risk in OCI	Foreign Exchange Recognized in OCI or Earnings	Purchases	Issuances	Settlements	Sales	Transfers into Level 3(1)	Transfers out of Level 3(1)	Ending Balance	Change in Unrealized (Gains) Losses for the Period Included in Earnings for Liabilities still held as of September 30, 2019
Liabilities:													
Medium-term notes	$ 110	$ -	$ 3	$ (5)	$ (2)	$ -	$ -	$ -	$ -	$ -	$ -	$ 106	$ 1
Credit derivatives	18	10	(9)	-	-	-	-	(9)	-	-	-	10	(9)
Other derivatives	16	-	14	-	-	-	-	-	-	-	-	30	14
Other payable	3	-	1	-	-	-	-	-	-	-	-	4	1
Liabilities of consolidated VIEs:													
VIE notes	342	14	(9)	10	(2)	-	3	(10)	-	-	-	348	(11)
Total liabilities	$ 489	$ 24	$ -	$ 5	$ (4)	$ -	$ 3	$ (19)	$ -	$ -	$ -	$ 498	$ (4)

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

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Note 6: Fair Value of Financial Instruments (continued)

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

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

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

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

For the three months ended September 30, 2018, sales included the impact of the deconsolidation of VIEs. Refer to "Note 4: Variable Interest Entities" for additional information about the deconsolidation of VIEs.

For the three months ended September 30, 2019, there were no transfers into Level 3 and out of Level 2. CMBS comprised the instruments transferred out of Level 3 where inputs, which are significant to their valuation, became observable during the quarter. These inputs included spreads, prepayment speeds, default speeds, default severities, yield curves observable at commonly quoted intervals, and market corroborated inputs.

For the three months ended September 30, 2018, transfers into Level 3 and out of Level 2 were related to CMBS, where inputs, which are significant to their valuation, became unobservable during the quarter. Other asset-backed comprised the instruments transferred out of Level 3 where inputs, which are significant to their valuation, became observable during the quarter. These inputs included spreads, prepayment speeds, default speeds, default severities, yield curves observable at commonly quoted intervals, and market corroborated inputs.

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Notes to Consolidated Financial Statements (Unaudited)

Note 6: Fair Value of Financial Instruments (continued)

There were no transfers into or out of Level 1 for the three months ended September 30, 2019 and 2018.

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

The following tables present information about changes in Level 3 assets (including short-term investments) and liabilities measured at fair value on a recurring basis for the nine months ended September 30, 2019 and 2018:

Changes in Level 3 Assets and Liabilities Measured at Fair Value on a Recurring Basis for the Nine Months Ended September 30, 2019

In millions	Balance, Beginning of Year	Realized Gains / (Losses)	Unrealized Gains / (Losses) Included in Earnings	Unrealized Gains / (Losses) Included in OCI	Foreign Exchange Recognized in OCI or Earnings	Purchases	Issuances	Settlements	Sales	Transfers into Level 3(1)	Transfers out of Level 3(1)	Ending Balance	Change in Unrealized Gains (Losses) for the Period Included in Earnings for Assets still held as of September 30, 2019
Assets:													
Commercial mortgage-backed	$ 7	$ -	$ -	$ -	$ -	$ -	$ -	$ (4)	$ -	$ -	$ (3)	$ -	$ -
Other asset-backed	3	(1)	-	-	-	-	-	(1)	-	-	-	1	-
Assets of consolidated VIEs:													
Corporate obligations	5	-	-	-	-	-	-	(2)	-	-	(3)	-	-
Collateralized debt obligations	1	-	-	-	-	-	-	-	(1)	-	-	-	-
Loans receivable-residential	172	-	40	-	-	-	-	(18)	(48)	-	-	146	35
Loan repurchase commitments	418	-	60	-	-	-	-	-	-	-	-	478	60
Currency derivatives	17	-	(9)	-	-	-	-	-	-	-	-	8	(9)
Other	14	-	3	-	-	-	-	-	-	-	-	17	3
Total assets	$ 637	$ (1)	$ 94	$ -	$ -	$ -	$ -	$ (25)	$ (49)	$ -	$ (6)	$ 650	$ 89

In millions	Balance, Beginning of Year	Realized (Gains) / Losses	Unrealized (Gains) / Losses Included in Earnings	Unrealized (Gains) / Losses Included in Credit Risk in OCI	Foreign Exchange Recognized in OCI or Earnings	Purchases	Issuances	Settlements	Sales	Transfers into Level 3(1)	Transfers out of Level 3(1)	Ending Balance	Change in Unrealized (Gains) Losses for the Period Included in Earnings for Liabilities still held as of September 30, 2019
Liabilities:													
Medium-term notes	$ 102	$ -	$ 8	$ 1	$ (2)	$ -	$ -	$ (3)	$ -	$ -	$ -	$ 106	$ 1
Credit derivatives	33	11	(23)	-	-	-	-	(11)	-	-	-	10	(23)
Other derivatives	7	-	23	-	-	-	-	-	-	-	-	30	23
Other payable	5	-	2	-	-	-	-	(3)	-	-	-	4	2
Liabilities of consolidated VIEs:													
VIE notes	366	21	33	3	(1)	-	7	(21)	(60)	-	-	348	32
Total liabilities	$ 513	$ 32	$ 43	$ 4	$ (3)	$ -	$ 7	$ (38)	$ (60)	$ -	$ -	$ 498	$ 35

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

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MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 6: Fair Value of Financial Instruments (continued)

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

In millions	Balance, Beginning of Year	Realized Gains / (Losses)	Unrealized Gains / (Losses) Included in Earnings	Unrealized Gains / (Losses) Included in OCI	Foreign Exchange Recognized in OCI or Earnings	Purchases	Issuances	Settlements	Sales	Transfers into Level 3(1)	Transfers out of Level 3(1)	Ending Balance	Change in Unrealized Gains (Losses) for the Period Included in Earnings for Assets still held as of September 30, 2018
Assets:													
Corporate obligations	$ 2	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ (2)	$ -	$ -
Commercial mortgage-backed	7	-	-	-	-	-	-	-	-	7	(7)	7	-
Other asset-backed	5	-	-	-	-	5	-	(2)	(2)	-	(2)	4	-
Assets of consolidated VIEs:													
Corporate obligations	-	-	-	-	-	-	-	(1)	-	6	-	5	-
Commercial mortgage-backed	6	-	-	-	-	-	-	-	-	-	(6)	-	-
Collateralized debt obligations	1	-	-	-	-	-	-	-	-	-	-	1	-
Loans receivable-residential	759	-	26	-	-	-	-	(106)	(251)	-	-	428	23
Loans receivable-corporate	920	-	11	-	-	-	-	(6)	(925)	-	-	-	-
Loan repurchase commitments	407	-	8	-	-	-	-	-	-	-	-	415	8
Currency derivatives	19	-	(3)	-	(2)	-	-	-	-	-	-	14	(5)
Other	14	-	1	-	-	-	-	-	-	-	-	15	1
Total assets	$ 2,140	$ -	$ 43	$ -	$ (2)	$ 5	$ -	$ (115)	$ (1,178)	$ 13	$ (17)	$ 889	$ 27

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

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

For the nine months ended September 30, 2019 and 2018, sales include the impact of the deconsolidation of VIEs. Refer to “Note 4: Variable Interest Entities” for additional information about the deconsolidation of VIEs.

For the nine months ended September 30, 2019, there were no transfers into Level 3 and out of Level 2. CMBS and corporate obligations comprised the majority of the instruments transferred out of Level 3 where inputs, which are significant to their valuation, became observable during the period. These inputs included spreads, prepayment speeds, default speeds, default severities, yield curves observable at commonly quoted intervals, and market corroborated inputs. There were no transfers into or out of Level 1.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 6: Fair Value of Financial Instruments (continued)

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

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

Gains and losses (realized and unrealized) included in earnings related to Level 3 assets and liabilities for the three months ended September 30, 2019 and 2018 are reported on the Company's consolidated statements of operations as follows:

	Three Months Ended September 30, 2019		Three Months Ended September 30, 2018	
In millions	Total Gains (Losses) Included in Earnings	Change in Unrealized Gains (Losses) for the Period Included in Earnings for Assets and Liabilities still held as of September 30, 2019	Total Gains (Losses) Included in Earnings	Change in Unrealized Gains (Losses) for the Period Included in Earnings for Assets and Liabilities still held as of September 30, 2018
Revenues:				
Unrealized gains (losses) on insured derivatives	$ 9	$ 9	$ 4	$ 4
Realized gains (losses) and other settlements on insured derivatives	(10)	-	(6)	-
Net gains (losses) on financial instruments at fair value and foreign exchange	(15)	(15)	4	(1)
Other net realized gains (losses)	(1)	(1)	-	-
Revenues of consolidated VIEs:				
Net gains (losses) on financial instruments at fair value and foreign exchange	43	56	3	14
Total	$ 26	$ 49	$ 5	$ 17

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 6: Fair Value of Financial Instruments (continued)

Gains and losses (realized and unrealized) included in earnings relating to Level 3 assets and liabilities for the nine months ended September 30, 2019 and 2018 are reported on the Company's consolidated statements of operations as follows:

In millions	Nine Months Ended September 30, 2019 Total Gains (Losses) Included in Earnings	Nine Months Ended September 30, 2019 Change in Unrealized Gains (Losses) for the Period Included in Earnings for Assets and Liabilities still held as of September 30, 2019	Nine Months Ended September 30, 2018 Total Gains (Losses) Included in Earnings	Nine Months Ended September 30, 2018 Change in Unrealized Gains (Losses) for the Period Included in Earnings for Assets and Liabilities still held as of September 30, 2018
Revenues:				
Unrealized gains (losses) on insured derivatives	$ 23	$ 23	$ 36	$ 36
Realized gains (losses) and other settlements on insured derivatives	(11)	-	(49)	-
Net gains (losses) on financial instruments at fair value and foreign exchange	(24)	(24)	10	5
Net investment losses related to other-than-temporary impairments	(1)	-	-	-
Other net realized gains (losses)	(2)	(2)	(2)	(2)
Revenues of consolidated VIEs:				
Net gains (losses) on financial instruments at fair value and foreign exchange	41	57	28	36
Total	$ 26	$ 54	$ 23	$ 75

Fair Value Option

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

The following table presents the gains and (losses) included in the Company's consolidated statements of operations for the three and nine months ended September 30, 2019 and 2018 for financial instruments for which the fair value option was elected:

In millions	Three Months Ended September 30, 2019	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2019	Nine Months Ended September 30, 2018
Investments carried at fair value(1)	$ 2	$ 1	$ 13	$ (4)
Fixed-maturity securities held at fair value-VIE(2)	38	(7)	94	(19)
Loans receivable at fair value:				
Residential mortgage loans(2)	(3)	(3)	40	(79)
Corporate loans(2)	-	-	-	11
Loan repurchase commitments(2)	50	-	60	9
Other assets-VIE(2)	2	1	3	1
Medium-term notes(1)	(1)	7	(1)	14
Other liabilities(3)	-	-	(2)	(2)
Variable interest entity notes (2)	3	23	(77)	106

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

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

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

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 6: Fair Value of Financial Instruments (continued)

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

As of September 30, 2019 and December 31, 2018, the cumulative changes in instrument-specific credit risk of liabilities elected under the fair value option were losses of $111 million and $110 million, respectively, reported in “Accumulated other comprehensive income” on the Company’s consolidated balance sheets. Changes in value attributable to instrument-specific credit risk were derived principally from changes in the Company’s credit spread. For liabilities of VIEs, additional adjustments to instrument-specific credit risk are required, which is determined by an analysis of deal specific performance of collateral that support these liabilities. During the three months ended September 30, 2019 and 2018, the portions of instrument-specific credit risk included in accumulated other comprehensive income (“AOCI”) that were recognized in earnings due to settlement of liabilities were losses of $3 million and $38 million, respectively. During the nine months ended September 30, 2019 and 2018, the portions of instrument-specific credit risk included in AOCI that were recognized in earnings due to settlement of liabilities were losses of $26 million and $48 million, respectively.

The following table reflects the difference between the aggregate fair value and the aggregate remaining contractual principal balance outstanding as of September 30, 2019 and December 31, 2018 for loans and notes for which the fair value option was elected:

	As of September 30, 2019			As of December 31, 2018		
In millions	Contractual Outstanding Principal	Fair Value	Difference	Contractual Outstanding Principal	Fair Value	Difference
Loans receivable at fair value:						
Residential mortgage loans	$ 109	$ 109	$ -	$ 168	$ 164	$ 4
Residential mortgage loans (90 days or more past due)	147	37	110	153	8	145
Total loans receivable and other instruments at fair value	$ 256	$ 146	$ 110	$ 321	$ 172	$ 149
Variable interest entity notes	$ 1,183	$ 472	$ 711	$ 1,295	$ 480	$ 815
Medium-term notes	$ 109	$ 106	$ 3	$ 114	$ 102	$ 12

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

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 7: Investments

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

The following tables present the amortized cost, fair value, corresponding gross unrealized gains and losses and OTTI for AFS and HTM investments in the Company's consolidated investment portfolio as of September 30, 2019 and December 31, 2018:

	September 30, 2019				
In millions	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Other-Than-Temporary Impairments(1)
AFS Investments					
Fixed-maturity investments:					
U.S. Treasury and government agency	$ 807	$ 59	$ (1)	$ 865	$ -
State and municipal bonds	205	24	-	229	-
Foreign governments	8	-	-	8	-
Corporate obligations	1,239	58	(34)	1,263	(33)
Mortgage-backed securities:					
Residential mortgage-backed agency	297	4	(1)	300	-
Residential mortgage-backed non-agency	25	1	(5)	21	-
Commercial mortgage-backed	23	1	-	24	-
Asset-backed securities:					
Collateralized debt obligations	129	-	(2)	127	-
Other asset-backed	275	1	-	276	-
Total AFS investments	$ 3,008	$ 148	$ (43)	$ 3,113	$ (33)
HTM Investments					
Assets of consolidated VIEs:					
Corporate obligations	$ 890	$ 87	$ -	$ 977	$ -
Total HTM investments	$ 890	$ 87	$ -	$ 977	$ -

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

	December 31, 2018				
In millions	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Other-Than-Temporary Impairments(1)
AFS Investments					
Fixed-maturity investments:					
U.S. Treasury and government agency	$ 1,093	$ 26	$ (10)	$ 1,109	$ -
State and municipal bonds	641	97	(11)	727	42
Foreign governments	9	-	-	9	-
Corporate obligations	1,473	6	(131)	1,348	(68)
Mortgage-backed securities:					
Residential mortgage-backed agency	218	1	(5)	214	-
Residential mortgage-backed non-agency	30	1	(4)	27	-
Commercial mortgage-backed	53	-	(2)	51	-
Asset-backed securities:					
Collateralized debt obligations	122	-	(3)	119	-
Other asset-backed	178	-	(1)	177	-
Total AFS investments	$ 3,817	$ 131	$ (167)	$ 3,781	$ (26)
HTM Investments					
Assets of consolidated VIEs:					
Corporate obligations	$ 890	$ 35	$ -	$ 925	$ -
Total HTM investments	$ 890	$ 35	$ -	$ 925	$ -

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

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 7: Investments (continued)

The following table presents the distribution by contractual maturity of AFS and HTM fixed-maturity securities at amortized cost and fair value as of September 30, 2019. Contractual maturity may differ from expected maturity as borrowers may have the right to call or prepay obligations.

	AFS Securities		HTM Securities	
			Consolidated VIEs	
In millions	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$ 598	$ 599	$ -	$ -
Due after one year through five years	496	503	-	-
Due after five years through ten years	436	423	-	-
Due after ten years	729	840	890	977
Mortgage-backed and asset-backed	749	748	-	-
Total fixed-maturity investments	$ 3,008	$ 3,113	$ 890	$ 977

Deposited and Pledged Securities

The fair value of securities on deposit with various regulatory authorities as of September 30, 2019 and December 31, 2018 was $11 million. These deposits are required to comply with state insurance laws.

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

Investment agreement obligations require the Company to pledge securities as collateral. Securities pledged in connection with investment agreements may not be repledged by the investment agreement counterparty. As of September 30, 2019 and December 31, 2018, the fair value of securities pledged as collateral for these investment agreements approximated $317 million and $314 million, respectively. The Company's collateral as of September 30, 2019 consisted principally of U.S. Treasury and government agency and corporate obligations, and was primarily held with major U.S. banks. Additionally, the Company pledged cash as collateral under investment agreements in the amount of $6 million as of September 30, 2019.

Refer to "Note 8: Derivative Instruments" for information about securities posted to derivative counterparties.

Impaired Investments

The following tables present the gross unrealized losses related to AFS and HTM investments as of September 30, 2019 and December 31, 2018:

	September 30, 2019					
	Less than 12 Months		12 Months or Longer		Total	
In millions	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
AFS Investments						
Fixed-maturity investments:						
U.S. Treasury and government agency	$ 102	$ -	$ 84	$ (1)	$ 186	$ (1)
State and municipal bonds	5	-	26	-	31	-
Foreign governments	5	-	-	-	5	-
Corporate obligations	182	(1)	55	(33)	237	(34)
Mortgage-backed securities:						
Residential mortgage-backed agency	35	(1)	32	-	67	(1)
Residential mortgage-backed non-agency	-	-	11	(5)	11	(5)
Commercial mortgage-backed	6	-	-	-	6	-
Asset-backed securities:						
Collateralized debt obligations	43	-	68	(2)	111	(2)
Other asset-backed	16	-	9	-	25	-
Total AFS investments	$ 394	$ (2)	$ 285	$ (41)	$ 679	$ (43)

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MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 7: Investments (continued)

	December 31, 2018					
	Less than 12 Months		12 Months or Longer		Total	
In millions	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
AFS Investments						
Fixed-maturity investments:						
U.S. Treasury and government agency	$ 231	$ (1)	$ 278	$ (9)	$ 509	$ (10)
State and municipal bonds	60	(1)	135	(10)	195	(11)
Foreign governments	5	-	2	-	7	-
Corporate obligations	900	(41)	335	(90)	1,235	(131)
Mortgage-backed securities:						
Residential mortgage-backed agency	29	(1)	118	(4)	147	(5)
Residential mortgage-backed non-agency	2	-	13	(4)	15	(4)
Commercial mortgage-backed	24	-	21	(2)	45	(2)
Asset-backed securities:						
Collateralized debt obligations	98	(3)	7	-	105	(3)
Other asset-backed	127	-	35	(1)	162	(1)
Total AFS investments	$ 1,476	$ (47)	$ 944	$ (120)	$ 2,420	$ (167)

Gross unrealized losses on AFS investments decreased as of September 30, 2019 compared with December 31, 2018 primarily due to lower interest rates and tightening credit spreads.

With the weighting applied on the fair value of each security relative to the total fair value, the weighted average contractual maturity of securities in an unrealized loss position as of September 30, 2019 and December 31, 2018 was 7 and 11 years, respectively. As of September 30, 2019 and December 31, 2018, there were 68 and 182 securities, respectively, that were in an unrealized loss position for a continuous twelve-month period or longer, of which, fair values of 15 and 64 securities, respectively, were below book value by more than 5%.

The following table presents the distribution of securities in an unrealized loss position for a continuous twelve-month period or longer where fair value was below book value by more than 5% as of September 30, 2019:

	AFS Securities		
Percentage of Fair Value Below Book Value	Number of Securities	Book Value (in millions)	Fair Value (in millions)
> 5% to 15%	9	$ 19	$ 19
> 15% to 25%	1	1	-
> 25% to 50%	2	14	10
> 50%	3	63	30
Total	15	$ 97	$ 59

The Company concluded that it does not have the intent to sell securities in an unrealized loss position and it is more likely than not, that it would not have to sell these securities before recovery of their cost basis. In making this conclusion, the Company examined the cash flow projections for its investment portfolios, the potential sources and uses of cash in its businesses, and the cash resources available to its business other than sales of securities. It also considered the existence of any risk management or other plans as of September 30, 2019 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.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 7: Investments (continued)

Other-Than-Temporary Impairments

The Company's fixed-maturity securities for which fair value is less than amortized cost are reviewed quarterly in order to determine whether a credit loss exists. The portion of certain OTTI losses on fixed-maturity securities that does not represent credit losses is recognized in AOCI. Refer to "Note 8: Investments" in the Notes to Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2018 for a discussion of the Company's policy for OTTI and its determination of credit loss. The following table presents the amount of credit loss impairments recognized in earnings on fixed-maturity securities held by MBIA as of the dates indicated, for which a portion of the OTTI losses was recognized in AOCI, and the corresponding changes in such amounts. The additional credit loss impairments for the nine months ended September 30, 2019 and the three and nine months ended September 30, 2018 were primarily related to an impaired security for which a loss was recognized as the difference between the amortized cost and net present value of projected cash flows. This OTTI resulted from liquidity concerns and other adverse financial conditions of the issuer.

In millions	Three Months Ended September 30,		Nine Months Ended September 30,	
Credit Losses Recognized in Earnings Related to Other-Than-Temporary Impairments	2019	2018	2019	2018
Beginning balance	$ 74	$ 34	$ 37	$ 32
Additions for credit loss impairments recognized in the current period on securities previously impaired	-	1	37	3
Ending balance	$ 74	$ 35	$ 74	$ 35

The Company does not recognize OTTI on securities insured by MBIA Corp. and National since those securities, whether or not owned by the Company, are evaluated for impairments in accordance with its loss reserving policy. The following table provides information about securities held by the Company as of September 30, 2019 that were in an unrealized loss position and insured by a financial guarantor, along with the amount of insurance loss reserves corresponding to the par amount owned by the Company:

In millions	Fair Value	Unrealized Loss	Insurance Loss Reserve (2)
Mortgage-backed:			
MBIA(1)	$ 11	$ (5)	$ 19

(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.

Sales of Available-for-Sale Investments

Gross realized gains and losses are recorded within "Net gains (losses) on financial instruments at fair value and foreign exchange" on the Company's consolidated statements of operations. The proceeds and the gross realized gains and losses from sales of fixed-maturity securities held as AFS for the three and nine months ended September 30, 2019 and 2018 are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
In millions	2019	2018	2019	2018
Proceeds from sales	$ 508	$ 583	$ 1,875	$ 1,647
Gross realized gains	$ 79	$ 1	$ 100	$ 4
Gross realized losses	$ -	$ (2)	$ (3)	$ (15)

Equity Investments

Unrealized gains and losses recognized on equity investments held as of the end of each period for the three and nine months ended September 30, 2019 and 2018 are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
In millions	2019	2018	2019	2018
Net gains (losses) recognized during the period on equity securities	$ 2	$ 3	$ 9	$ 3
Less:				
Net gains (losses) recognized during the period on equity securities sold during the period	-	-	1	1
Unrealized gains (losses) recognized during the period on equity securities still held at the reporting date	$ 2	$ 3	$ 8	$ 2

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 8: Derivative Instruments

U.S. Public Finance Insurance

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

Corporate

The Company has entered into derivative instruments primarily consisting of interest rate swaps to manage the risks associated with fluctuations in interest rates affecting the value of certain assets. During the third quarter of 2019, the Company terminated a portion of its outstanding interest rate swaps. The termination amount paid in cash reflected the fair values of the swaps at the termination date and all collateral held by the counterparty to the interest rate swaps was returned to the Company. The termination of these swaps was executed to reduce future exposure to interest rate movements.

International and Structured Finance Insurance

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

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

Variable Interest Entities

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

Credit Derivatives Sold

The following tables present information about credit derivatives sold by the Company's insurance operations that were outstanding as of September 30, 2019 and December 31, 2018. Credit ratings represent the lower of underlying ratings assigned to the collateral by Moody's, S&P or MBIA.

$ in millions	As of September 30, 2019							
		Notional Value						
Credit Derivatives Sold	Weighted Average Remaining Expected Maturity	AAA	AA	A	BBB	Below Investment Grade	Total Notional	Fair Value Asset (Liability)
Insured credit default swaps	0.3 Years	$ -	$ -	$ -	$ -	$ 34	$ 34	$ (10)
Insured swaps	14.8 Years	-	66	1,295	461	-	1,822	(2)
Total notional		$ -	$ 66	$ 1,295	$ 461	$ 34	$ 1,856	
Total fair value		$ -	$ -	$ (1)	$ (1)	$ (10)		$ (12)

$ in millions	As of December 31, 2018							
		Notional Value						
Credit Derivatives Sold	Weighted Average Remaining Expected Maturity	AAA	AA	A	BBB	Below Investment Grade	Total Notional	Fair Value Asset (Liability)
Insured credit default swaps	1.0 Years	$ -	$ -	$ -	$ -	$ 70	$ 70	$ (33)
Insured swaps	15.7 Years	-	74	1,463	896	-	2,433	(2)
Total notional		$ -	$ 74	$ 1,463	$ 896	$ 70	$ 2,503	
Total fair value		$ -	$ -	$ (1)	$ (1)	$ (33)		$ (35)

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Note 8: Derivative Instruments (continued)

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

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

Counterparty Credit Risk

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

Under these agreements, the Company may receive or provide cash, U.S. Treasury or other highly rated securities to secure counterparties' exposure to the Company or its exposure to counterparties, respectively. Such collateral is available to the holder to pay for replacing the counterparty in the event that the counterparty defaults. As of September 30, 2019 and December 31, 2018, the Company did not hold or post cash collateral to derivative counterparties.

As of September 30, 2019 and December 31, 2018, the Company had securities with a fair value of $210 million and $205 million, respectively, posted to derivative counterparties and these amounts are included within "Fixed-maturity securities held as available-for-sale, at fair value" on the Company's consolidated balance sheets.

As of September 30, 2019 and December 31, 2018, the fair value on one Credit Support Annex ("CSA") was $2 million. This CSA governs collateral posting requirements between MBIA and its derivative counterparties. The Company did not receive collateral due to the Company's credit rating, which was below the CSA minimum credit ratings level for holding counterparty collateral. As of September 30, 2019 and December 31, 2018, the counterparty was rated Aa3 by Moody's and A+ by S&P.

Financial Statement Presentation

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

The following table presents the total fair value of the Company's derivative assets and liabilities by instrument and balance sheet location, before counterparty netting, as of September 30, 2019:

In millions		Derivative Assets (1)		Derivative Liabilities (1)	
Derivative Instruments	Notional Amount Outstanding	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Not designated as hedging instruments:					
Insured credit default swaps	$ 34	Other assets	$ -	Derivative liabilities	$ (10)
Insured swaps	1,822	Other assets	-	Derivative liabilities	(2)
Interest rate swaps	440	Other assets	2	Derivative liabilities	(152)
Interest rate swaps-embedded	227	Medium-term notes	-	Medium-term notes	(17)
Currency swaps-VIE	56	Other assets-VIE	8	Derivative liabilities-VIE	-
All other	49	Other assets	-	Derivative liabilities	(30)
Total non-designated derivatives	$ 2,628		$ 10		$ (211)

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

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 8: Derivative Instruments (continued)

The following table presents the total fair value of the Company's derivative assets and liabilities by instrument and balance sheet location, before counterparty netting, as of December 31, 2018:

In millions		Derivative Assets (1)		Derivative Liabilities (1)	
Derivative Instruments	Notional Amount Outstanding	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Not designated as hedging instruments:					
Insured credit default swaps	$ 70	Other assets	$ -	Derivative liabilities	$ (33)
Insured swaps	2,433	Other assets	-	Derivative liabilities	(2)
Interest rate swaps	712	Other assets	2	Derivative liabilities	(157)
Interest rate swaps-embedded	293	Medium-term notes	-	Medium-term notes	(13)
Currency swaps-VIE	62	Other assets-VIE	16	Derivative liabilities-VIE	-
All other	49	Other assets	-	Derivative liabilities	(7)
Total non-designated derivatives	$ 3,619		$ 18		$ (212)

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

The following table presents the effect of derivative instruments on the consolidated statements of operations for the three months ended September 30, 2019 and 2018:

In millions Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized in Income on Derivative	Three Months Ended September 30, 2019	Three Months Ended September 30, 2018
Insured credit default swaps	Unrealized gains (losses) on insured derivatives	$ 9	$ 4
Insured credit default swaps	Realized gains (losses) and other settlements on insured derivatives	(10)	(5)
Interest rate swaps	Net gains (losses) on financial instruments at fair value and foreign exchange	(30)	7
Currency swaps-VIE	Net gains (losses) on financial instruments at fair value and foreign exchange-VIE	(3)	-
All other	Net gains (losses) on financial instruments at fair value and foreign exchange	(14)	(4)
Total		$ (48)	$ 2

The following table presents the effect of derivative instruments on the consolidated statements of operations for the nine months ended September 30, 2019 and 2018:

In millions Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized in Income on Derivative	Nine Months Ended September 30, 2019	Nine Months Ended September 30, 2018
Insured credit default swaps	Unrealized gains (losses) on insured derivatives	$ 23	$ 36
Insured credit default swaps	Realized gains (losses) and other settlements on insured derivatives	(11)	(49)
Interest rate swaps	Net gains (losses) on financial instruments at fair value and foreign exchange	(85)	33
Currency swaps-VIE	Net gains (losses) on financial instruments at fair value and foreign exchange-VIE	(8)	(5)
All other	Net gains (losses) on financial instruments at fair value and foreign exchange	(23)	(4)
Total		$ (104)	$ 11

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 9: Debt

The Company has disclosed its debt in "Note 10: Debt" in the Notes to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2018. The following debt discussion is an update and should be read in conjunction with the Company's Annual Report on Form 10-K.

Long-Term Debt

During the nine months ended September 30, 2019, the Company redeemed $150 million principal amount of its 6.400% Senior Notes due 2022 at a cost of 100% of par value plus accrued interest.

Other Borrowing Arrangements

MBIA Corp. Financing Facility

In connection with the Refinanced Facility, original notes issued by MZ Funding on January 10, 2017 (the "Original MZ Funding Notes") were redeemed or amended, as applicable, and the Senior Lenders purchased new senior notes issued by MZ Funding (the "Insured Senior Notes") with an aggregate principal amount of $278 million. In addition, MBIA Inc. received amended subordinated notes issued by MZ Funding (the "Insured Subordinated Notes" and together with the Insured Senior Notes, the "New MZ Funding Notes") with an aggregate principal amount of $54 million (with the New MZ Funding Notes replacing the Original MZ Funding Notes). The New MZ Funding Notes mature on January 20, 2022 and bear interest at 12% per annum. The Refinanced Facility is secured by a first priority security interest in all of MBIA Corp.'s right, title and interest in the recovery of its claims from the assets of Zohar I and Zohar II which include, among other things, loans made to, and equity interests in, certain portfolio companies purportedly controlled by the Zohar Sponsor and claims that may exist against the Zohar Sponsor.

The Company recorded the refinancing of the MZ Funding debt in accordance with ASC Topic 470, "Debt", which resulted in a portion of the refinancing being accounted for as a debt modification and a portion of the refinancing being accounted for as a debt extinguishment. In connection with the Refinanced Facility, the Company paid debt issuance costs of $6 million, of which $3 million was expensed and the remainder is being amortized over the term of the Refinanced Facility. The Company also recorded debt extinguishment costs of $1 million to write off the previously capitalized debt issuance costs. These costs are included in "Other net realized gains (losses)" under "Expenses of consolidated variable interest entities" on the Company's consolidated statement of operations.

Note 10: Income Taxes

The Company's income taxes and the related effective tax rates for the three and nine months ended September 30, 2019 and 2018 are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
In millions	2019	2018	2019	2018
Income (loss) before income taxes	$ 89	$ (45)	$ (137)	$ (287)
Provision (benefit) for income taxes	$ 18	$ -	$ (21)	$ 2
Effective tax rate	20.2%	0.0%	15.3%	-0.7%

For the nine months ended September 30, 2019, the Company' effective tax rate applied to its loss before income taxes was lower than the U.S. statutory tax rate due to the full valuation allowance on the changes in its net deferred tax asset and the application of intraperiod tax accounting, partially offset by state income tax expense. There is an offsetting expense recorded to other comprehensive income for the change in the valuation allowance related to the application of intraperiod tax accounting.

For the nine months ended September 30, 2018, the Company's effective tax rate applied to its loss before income taxes was lower than the U.S. statutory rate due to the full valuation allowance on the changes in its net deferred tax asset.

Deferred Tax Asset, Net of Valuation Allowance

The Company assesses the available positive and negative evidence to estimate whether sufficient future taxable income will be generated to permit use of its existing deferred tax assets. A significant piece of objective negative evidence evaluated was the Company having a three-year cumulative loss. Such objective evidence limits the ability to consider other subjective evidence, such as the Company's projections of pre-tax income. On the basis of this evaluation, the Company has recorded a full valuation allowance against its net deferred tax asset of $832 million and $834 million as of September 30, 2019 and December 31, 2018, respectively. The Company will continue to analyze the valuation allowance on a quarterly basis.

Note 10: Income Taxes (continued)

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

Accounting for Uncertainty in Income Taxes

The Company's policy is to record and disclose any change in unrecognized tax benefit ("UTB") and related interest and/or penalties to income tax in the consolidated statements of operations. The Company includes interest as a component of income tax expense. As of September 30, 2019 and December 31, 2018, the Company had no UTB.

Federal income tax returns through 2011 have been examined or surveyed. As of September 30, 2019, the Company's NOL is approximately $2.5 billion. The NOL will expire between tax years 2032 through 2039. As of September 30, 2019, the Company has a foreign tax credit carryforward of $62 million, which will expire between tax years 2019 through 2029. As of September 30, 2019, the Company has an alternative minimum tax ("AMT") credit carryforward of $26 million, which does not expire. As a result of tax reform, AMT credits are now fully refundable no later than 2022. The AMT credit has been reclassed out of the deferred tax asset and into other assets as the AMT credits are now a receivable.

Section 382 of the Internal Revenue Code

On May 2, 2018, MBIA Inc.'s shareholders ratified an amendment to the Company's By-Laws, which had been adopted earlier by MBIA Inc.'s Board of Directors. The amendment places restrictions on certain acquisitions of Company stock that otherwise may have increased the likelihood of an ownership change within the meaning of Section 382 of the Internal Revenue Code. The amendment generally prohibits a person from becoming a "Section 382 five-percent shareholder" by acquiring, directly or by attribution, 5% or more of the outstanding shares of the Company's common stock and will generally restrict existing "Section 382 five-percent shareholders" from increasing their ownership interest under Section 382 by more than one percentage point over their percentage stock ownership immediately prior to the effective date of the amendment or, if lower, their percentage thereafter.

Note 11: Business Segments

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

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

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

U.S. Public Finance Insurance

The Company's U.S. public finance insurance portfolio is managed through National. The financial guarantees issued by National provide unconditional and irrevocable guarantees of the payment of the principal of, and interest or other amounts owing on, U.S. public finance insured obligations when due. The obligations are not subject to acceleration, except that National may have the right, at its discretion, to accelerate insured obligations upon default or otherwise. National's guarantees insure municipal bonds, including tax-exempt and taxable indebtedness of U.S. political subdivisions, as well as utilities, airports, health care institutions, higher educational facilities, student loan issuers, housing authorities and other similar agencies and obligations issued by private entities that finance projects that serve a substantial public purpose. Municipal bonds and privately issued bonds used for the financing of public purpose projects are generally supported by taxes, assessments, fees or tariffs related to the use of these projects, lease payments or other similar types of revenue streams.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 11: Business Segments (continued)

Corporate

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

International and Structured Finance Insurance

The Company's international and structured finance insurance segment is principally conducted through MBIA Corp. The financial guarantees issued by MBIA Corp. generally provide unconditional and irrevocable guarantees of the payment of principal of, and interest or other amounts owing on, non-U.S. public finance and global structured finance insured obligations when due, or in the event MBIA Corp. has the right, at its discretion, to accelerate insured obligations upon default or otherwise. MBIA Corp. insures the investment contracts written by MBIA Inc., and if MBIA Inc. were to have insufficient assets to pay amounts due upon maturity or termination, MBIA Corp. would make such payments. MBIA Corp. insures debt obligations of the following affiliates:

- MBIA Inc.;
- GFL;
- IMC;
- MZ Funding LLC; and
- LaCrosse Financial Products, LLC, a wholly-owned affiliate, to which MBIA Insurance Corporation has written insurance policies guaranteeing the obligations under CDS. Certain policies cover payments potentially due under CDS, including termination payments that may become due in certain circumstances, including the occurrence of certain insolvency or payment defaults under the CDS or derivatives contracts by the insured counterparty or by the guarantor.

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

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 11: Business Segments (continued)

Segments Results

The following tables provide the Company's segment results for the three months ended September 30, 2019 and 2018:

	Three Months Ended September 30, 2019				
In millions	U.S. Public Finance Insurance	Corporate	International and Structured Finance Insurance	Eliminations	Consolidated
Revenues(1)	$ 30	$ 6	$ 11	$ -	$ 47
Net gains (losses) on financial instruments at fair value and foreign exchange	78	(20)	(14)	-	44
Net gains (losses) on extinguishment of debt	-	(1)	-	-	(1)
Other net realized gains (losses)	-	(1)	1	-	-
Revenues of consolidated VIEs	32	-	50	-	82
Inter-segment revenues(2)	7	15	6	(28)	-
Total revenues	147	(1)	54	(28)	172
Losses and loss adjustment	(90)	-	77	-	(13)
Operating	4	15	7	-	26
Interest	-	17	33	-	50
Expenses of consolidated VIEs	-	-	20	-	20
Inter-segment expenses(2)	14	6	8	(28)	-
Total expenses	(72)	38	145	(28)	83
Income (loss) before income taxes	$ 219	$ (39)	$ (91)	$ -	$ 89
Identifiable assets	$ 4,271	$ 939	$ 4,678	$ (2,282) (3)	$ 7,606

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

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 11: Business Segments (continued)

In millions	U.S. Public Finance Insurance	Corporate	International and Structured Finance Insurance	Eliminations	Consolidated
	Three Months Ended September 30, 2018				
Revenues[1]	$ 45	$ 7	$ 58	$ -	$ 110
Net change in fair value of insured derivatives	-	-	(1)	-	(1)
Net gains (losses) on financial instruments at fair value and foreign exchange	1	17	(13)	-	5
Net investment losses related to other-than-temporary impairments	(1)	-	-	-	(1)
Net gains (losses) on extinguishment of debt	-	3	-	-	3
Other net realized gains (losses)	-	-	1	-	1
Revenues of consolidated VIEs	-	-	(12)	-	(12)
Inter-segment revenues[2]	7	11	6	(24)	-
Total revenues	52	38	39	(24)	105
Losses and loss adjustment	48	-	(2)	-	46
Operating	5	13	9	-	27
Interest	-	20	32	-	52
Expenses of consolidated VIEs	-	-	25	-	25
Inter-segment expenses[2]	10	5	9	(24)	-
Total expenses	63	38	73	(24)	150
Income (loss) before income taxes	$ (11)	$ -	$ (34)	$ -	$ (45)
Identifiable assets	$ 4,453	$ 1,062	$ 5,058	$ (2,180)[3]	$ 8,393

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

The following tables provide the Company's segment results for the nine months ended September 30, 2019 and 2018:

In millions	U.S. Public Finance Insurance	Corporate	International and Structured Finance Insurance	Eliminations	Consolidated
	Nine Months Ended September 30, 2019				
Revenues[1]	$ 106	$ 21	$ 28	$ -	$ 155
Net change in fair value of insured derivatives	-	-	13	-	13
Net gains (losses) on financial instruments at fair value and foreign exchange	135	(71)	(24)	-	40
Net investment losses related to other-than-temporary impairments	(37)	-	-	-	(37)
Net gains (losses) on extinguishment of debt	-	(1)	-	-	(1)
Other net realized gains (losses)	1	(2)	3	-	2
Revenues of consolidated VIEs	38	-	41	1	80
Inter-segment revenues[2]	22	48	15	(85)	-
Total revenues	265	(5)	76	(84)	252
Losses and loss adjustment	(34)	-	123	-	89
Operating	8	53	16	-	77
Interest	-	56	98	-	154
Expenses of consolidated VIEs	-	-	69	-	69
Inter-segment expenses[2]	41	17	26	(84)	-
Total expenses	15	126	332	(84)	389
Income (loss) before income taxes	$ 250	$ (131)	$ (256)	$ -	$ (137)
Identifiable assets	$ 4,271	$ 939	$ 4,678	$ (2,282)[3]	$ 7,606

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

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 11: Business Segments (continued)

	Nine Months Ended September 30, 2018				
In millions	U.S. Public Finance Insurance	Corporate	International and Structured Finance Insurance	Eliminations	Consolidated
Revenues(1)	$ 139	$ 20	$ 98	$ -	$ 257
Net change in fair value of insured derivatives	-	-	(13)	-	(13)
Net gains (losses) on financial instruments at fair value and foreign exchange	(13)	48	(17)	-	18
Net investment losses related to other-than-temporary impairments	(3)	-	-	-	(3)
Net gains (losses) on extinguishment of debt	-	3	-	-	3
Other net realized gains (losses)	-	(2)	2	-	-
Revenues of consolidated VIEs	-	-	(72)	-	(72)
Inter-segment revenues(2)	20	36	18	(74)	-
Total revenues	143	105	16	(74)	190
Losses and loss adjustment	184	-	(7)	-	177
Operating	14	39	21	-	74
Interest	-	60	95	-	155
Expenses of consolidated VIEs	-	-	71	-	71
Inter-segment expenses(2)	34	14	27	(75)	-
Total expenses	232	113	207	(75)	477
Income (loss) before income taxes	$ (89)	$ (8)	$ (191)	$ 1	$ (287)
Identifiable assets	$ 4,453	$ 1,062	$ 5,058	$ (2,180) (3)	$ 8,393

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

Note 12: 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 to certain employees and non-employee directors in accordance with the Company's long-term incentive programs, which entitle the participants to receive nonforfeitable dividends or dividend equivalents during the vesting period on the same basis as those dividends are paid to common shareholders. These unvested stock awards represent participating securities. During periods of net income, the calculation of earnings per share exclude the income attributable to participating securities in the numerator and the dilutive impact of these securities from the denominator. During periods of net loss, no effect is given to participating securities in the numerator and the denominator excludes the dilutive impact of these securities since they do not share in the losses of the Company.

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

In the second quarter of 2018, the holder of all of the outstanding MBIA Inc. warrants exercised its right to purchase shares of MBIA Inc. common stock. As of September 30, 2019, there were no warrants outstanding.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 12: Earnings Per Share (continued)

The following table presents the computation of basic and diluted earnings per share for the three and nine months ended September 30, 2019 and 2018:

In millions except per share amounts	Three Months Ended September 30, 2019	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2019	Nine Months Ended September 30, 2018
Basic earnings per share:				
Net income (loss)	$ 71	$ (45)	$ (116)	$ (289)
Less: undistributed earnings allocated to participating securities	4	-	-	-
Net income (loss) available to common shareholders	67	(45)	(116)	(289)
Basic weighted average shares (1)	78.7	89.5	82.8	89.1
Net income (loss) per basic common share	$ 0.86	$ (0.50)	$ (1.40)	$ (3.24)
Diluted earnings per share:				
Net income (loss)	$ 71	$ (45)	$ (116)	$ (289)
Less: undistributed earnings allocated to participating securities	4	-	-	-
Net income (loss) available to common shareholders	67	(45)	(116)	(289)
Diluted weighted average shares	78.7	89.5	82.8	89.1
Net income (loss) per diluted common share	$ 0.86	$ (0.50)	$ (1.40)	$ (3.24)
Potentially dilutive securities excluded from the calculation of diluted EPS because of antidilutive affect	4.5	1.4	4.5	1.4

(1) - Includes 1.1 million and 0.9 million of participating securities that met the service condition and were eligible to receive nonforfeitable dividends or dividend equivalents for the three months ended September 30, 2019 and 2018, respectively. Includes 1.0 million and 0.8 million of participating securities that met the service condition and were eligible to receive nonforfeitable dividends or dividend equivalents for the nine months ended September 30, 2019 and 2018, respectively.

Note 13: Accumulated Other Comprehensive Income

The following table presents the changes in the components of AOCI for the nine months ended September 30, 2019:

In millions	Unrealized Gains (Losses) on AFS Securities, Net	Foreign Currency Translation, Net	Instrument-Specific Credit Risk of Liabilities Measured at Fair Value, Net	Total
Balance, December 31, 2018	$ (39)	$ (7)	$ (110)	$ (156)
Other comprehensive income (loss) before reclassifications	133	1	(27)	107
Amounts reclassified from AOCI	(20)	-	26	6
Net period other comprehensive income (loss)	113	1	(1)	113
Balance, September 30, 2019	$ 74	$ (6)	$ (111)	$ (43)

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 13: Accumulated Other Comprehensive Income (continued)

The following table presents the details of the reclassifications from AOCI for the three and nine months ended September 30, 2019 and 2018:

In millions	Amounts Reclassified from AOCI				
	Three Months Ended September 30,		Nine Months Ended September 30,		
Details about AOCI Components	2019	2018	2019	2018	Affected Line Item on the Consolidated Statements of Operations
Unrealized gains (losses) on AFS securities:					
Realized gains (losses) on sale of securities	$ (7)	$ 2	$ 16	$ 4	Net gains (losses) on financial instruments at fair value and foreign exchange
OTTI	42	(2)	5	(3)	Net investment losses related to OTTI
Amortization on securities	(1)	-	(1)	(1)	Net investment income
Total unrealized gains (losses) on AFS securities	34	-	20	-	
Instrument-specific credit risk of liabilities:					
Settlement of liabilities	(3)	-	(26)	-	Net gains (losses) on financial instruments at fair value and foreign exchange
Total reclassifications for the period	$ 31	$ -	$ (6)	$ -	Net income (loss)

Note 14: Commitments and Contingencies

The following commitments and contingencies provide an update of those discussed in "Note 20: Commitments and Contingencies" in the Notes to Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2018, and should be read in conjunction with the complete descriptions provided in the aforementioned Form 10-K.

Litigation

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

On September 13, 2018, the Appellate Division of the Supreme Court, First Judicial Department issued a ruling on the parties' cross-appeals from the court's March 31, 2017 decision and order on the parties' summary judgment motions. The ruling affirmed the trial court's decision, except reversed as to the trial court's determination to interpret as a matter of law, prior to trial, certain of the representations and warranties that form the predicate for certain of MBIA Corp.'s breach of contract claims. Trial began on July 22, 2019 and concluded on August 2, 2019. Post-trial briefs were exchanged on October 17, 2019, and replies are due November 21, 2019, following which the case will be under submission to the Court.

Lynn Tilton and Patriarch Partners XV, LLC v. MBIA Inc. and MBIA Insurance Corp.; No. 7:19-cv-09733-WHP (S.D.N.Y.)

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 March 11, 2018, Ms. Tilton commenced the Zohar Funds Bankruptcy Cases. On May 21, 2018, the court approved the Zohar Bankruptcy Settlement. Subsequently, the parties to the above-captioned litigation jointly filed a request to stay the case for, at minimum, fifteen months, which was granted by Justice Walsh on June 11, 2018. On September 30, 2019, the parties' agreed-upon stay expired. On October 21, 2019, the Company removed the case to the United States District Court for the Southern District, where it is currently pending.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 14: Commitments and Contingencies (continued)

Patriarch Partners, LLC et al. v. MBIA Ins. Corp. et al., Case No. 17-cv-00307 (WHP) (S.D.N.Y.) (the "SDNY Action")

On November 22, 2017, in a previously pending litigation commenced by the Zohar Funds against Lynn Tilton and her various Patriarch Partners and Octaluna affiliates (collectively "Tilton"), Tilton filed twenty-two counterclaims and third-party claims against MBIA Inc., MBIA Corp., the Zohar Funds and other entities involved in the Zohar transactions. With respect to the twelve claims asserted against MBIA Inc. and MBIA Corp., Tilton alleged causes of action based on fraud and breaches of fiduciary duty and contract, among others, relating to Tilton's resignation as collateral manager of the Zohar Funds, the December 2016 auction of collateral assets belonging to Zohar I and the parties' various disputes concerning the ownership and control over the portfolio companies to which the Zohar Funds made loans and hold certain equity interests. Following Tilton's commencement of the Zohar Funds Bankruptcy Cases on March 11, 2018 and approval of the Zohar Bankruptcy Settlement, the court stayed the action until October 8, 2019, on which date the court ordered the parties to conduct briefing regarding the court's jurisdiction to hear the case and the Zohar Funds' anticipated motion to transfer the case to Delaware to be heard with the Zohar Funds Bankruptcy Cases. Briefing on those issues is scheduled to commence on November 7, 2019, and argument is scheduled for January 23, 2020.

Tilton et al. v. MBIA Inc. et al., Adversary Case No. 19-50390 (KBO) (Bankr. Del.) (the "Delaware Adversary Proceeding")

On October 1, 2019, Lynn Tilton and her various Patriarch Partners and Octaluna affiliated entities commenced an adversary proceeding in the Zohar Funds Bankruptcy Cases by filing a complaint against MBIA Inc., MBIA Corp. and other Zohar Fund creditors seeking the equitable subordination of those creditors' claims with respect to the Zohar Funds. The plaintiffs claim they are entitled to subordination of the defendants' claims in the Zohar Funds based on similar allegedly inequitable and unfair conduct described in plaintiffs' allegations in the Westchester Action and SDNY Action. The plaintiffs further allege that MBIA Inc. and MBIA Corp. engaged in inequitable conduct following the commencement of the Zohar Funds Bankruptcy Cases.

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

On May 21, 2017, the Oversight Board filed a petition under Title III of PROMESA to adjust the debts for the Puerto Rico Highways & Transportation Authority ("PRHTA"). On June 3, 2017, National, together with Assured Guaranty Corp. and Assured Guaranty Municipal Corp. and Financial Guaranty Insurance Company, filed an adversary complaint in the case commenced by the Title III filing, alleging that the Commonwealth and PRHTA are unlawfully diverting pledged special revenues from the payment of certain PRHTA bonds to the Commonwealth's General Fund. Motions to dismiss were filed on June 28, 2017, and oral arguments were heard on November 21, 2017. On January 30, 2018, the court granted the Commonwealth defendants' motion to dismiss the PRHTA-related adversary complaint. On February 9, 2018, National, together with Assured, Assured Guaranty Municipal Corp. and Financial Guaranty Insurance Company filed their notice of appeal of the motions to dismiss to the United States Court of Appeals for the First Circuit. Appellants filed their opening brief on May 9, 2018, and Appellees filed their opposition brief on July 9, 2018. Appellants' reply brief was filed on August 8, 2018. Oral argument was held on November 5, 2018. On March 26, 2019, the First Circuit held that consensual prepetition liens on special revenues will remain in place after the filing of the bankruptcy petition, but agreed with the district court that the provision "does not mandate the turnover of special revenues or require continuity of payments of the PRHTA Bonds during the pendency of the Title III proceeding." Appellants have submitted a motion seeking review of this opinion by the full First Circuit panel, and will determine within the 90 days of this decision whether to file a writ of certiorari for hearing before the United States Supreme Court. On July 31, 2019, the First Circuit denied the request for full panel review, which permits the movants to file a writ of certiorari requesting a Supreme Court review of the First Circuit's ruling. On September 20, 2019, Appellants filed a petition for a writ of certiorari requesting Supreme Court review of the First Circuit's ruling.

Motion of Assured Guaranty Corp., Assured Guaranty Municipal Corp., and National Public Finance Guarantee Corporation for Adequate Protection or, in the Alternative, for Relief from the Automatic Stay, Case No. 17 BK 3567-LTS (D.P.R. August 23, 2019) (Swain, J.)

On August 23, 2019, National and Assured ("Movants") filed a motion in the Title III case for PRHTA for adequate protection or, in the alternative, relief from the automatic stay. The motion argues that the revenues securing the bonds insured by Movants are being improperly diverted away from PRHTA, despite such revenues being the exclusive property of PRHTA and its bondholders. The proceeding is currently stayed until December 31, 2019 pending the outcome of mandatory mediation ordered by the Title III Court.

The Financial Oversight and Management Board for Puerto Rico, as Representative of the Puerto Rico Highways and Transportation Authority, et al. v. National Public Finance Guarantee Corporation, et al., Case No. 19-00363 (D.P.R. May 20, 2019) (Swain, J.)

On May 20, 2019, the Oversight Board and the Official Committee of Unsecured Creditors of all Title III Debtors filed an adversary complaint against National and numerous other defendants, challenging the extent and enforceability of certain security interests in PRHTA revenues. The proceeding is currently stayed until December 31, 2019, pending the outcome of mandatory mediation ordered by the Title III Court.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 14: Commitments and Contingencies (continued)

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

On July 18, 2017, National, together with other PREPA bondholders, asked the court overseeing PREPA's Title III bankruptcy proceeding to lift the automatic bankruptcy stay, and permit bondholders to seek appointment of a receiver to oversee PREPA. On September 14, 2017, the court held that PROMESA barred relief from the stay because the appointment of a receiver would (i) interfere with PREPA's property and governmental powers, and (ii) violate the court's exclusive jurisdiction over PREPA's property. The court also held that a comparison of the harms facing both parties pointed towards denying relief from the stay. The bondholders appealed the decision to the First Circuit. As of April 23, 2018, the appeal was fully briefed. The First Circuit heard oral argument on June 5, 2018. On August 8, 2018, the United State Court of Appeals for the First Circuit issued an order reversing Judge Swain's decision on jurisdictional grounds and remanding the motion. On October 3, 2018, National, together with Assured Guaranty Corp., Assured Guaranty Municipal Corp., and Syncora Guarantee Inc. (collectively, "Movants") filed an updated motion for relief from the automatic stay to allow Movants to exercise their statutory right to have a receiver appointed at PREPA (the "Receiver Motion"). Discovery in connection with the Receiver Motion is ongoing. The Oversight Board filed a Motion to Dismiss the Receiver Motion (together with the Receiver Motion, the "Motions"). The Title III Court approved a number of requests to extend the deadline for the Oversight Board to respond to the Receiver Motion and for Movants to respond to the Motion to Dismiss the Receiver Motion. The Motions have been stayed until the Court rules on the motion currently scheduled to be heard on January 14, 2020 seeking to approve the Definitive Restructuring Support Agreement (as amended, the "RSA").

Definitive Restructuring Support Agreement for PREPA

On May 3, 2019, PREPA, the Oversight Board, the Puerto Rico Fiscal Agency and Financial Advisory Authority ("AAFAF"), the Ad Hoc Group of PREPA bondholders (the "Ad Hoc Group"), and Assured Guaranty Corp. and Assured Guaranty Municipal Corp. ("Assured") (together, the "RSA Parties") previously entered into the RSA. On September 9, 2019 National, and Syncora Guarantee Inc. ("Syncora"), and the RSA Parties agreed on an amendment to the RSA pursuant to which National and Syncora joined the RSA.

Among other things, the RSA contemplates a transaction pursuant to which, upon the effective date of a plan of adjustment, PREPA's legacy bonds will be exchanged for new securitization bonds to be issued in two tranches (the "Securitization Bonds"). In addition, beginning on the last day of the month in which the order approving the RSA is entered, holders of bonds that are subject to the RSA will receive monthly settlement payments funded by a settlement charge to be included on customer bills (the "Settlement Payments") until the effective date of a plan of adjustment for PREPA. The Settlement Payments are subject to increase if a plan of adjustment is not confirmed before March 31, 2021. The RSA provides that supporting parties will receive an administrative claim equal to interest accrued on certain of the securitization bonds, less the amount of any Settlement Payments made on account of such bonds, which administrative claim shall survive termination of the RSA. Additionally, pursuant to the RSA, supporting creditors will also receive certain fees and expense reimbursements. The RSA contemplates the filing of a plan of adjustment for PREPA by March 31, 2020.

Pursuant to the RSA, the Oversight Board filed a 9019 motion with the Title III court in May 2019 seeking approval of the RSA (the "Settlement Motion"). The RSA requires, upon entry of the order approving the Settlement Motion (the "9019 Order"), that Movants will withdraw the Receiver Motion, and the Ad Hoc Group will support such withdrawal. The RSA further states that the hearing for approval of the Settlement Motion is contingent on receiving no later than two business days prior to such hearing the support of holders or insurers representing a minimum of 60% in aggregate principal amount of all legacy bonds. Approximately 90% of PREPA's bondholders have joined the deal.

As contemplated by the RSA, on July 1, 2019, the Oversight Board and AAFAF also filed an adversary complaint against the Trustee for the PREPA Bonds, challenging the validity of the liens arising under the Trust Agreement that secure insured obligations of National. The adversary proceeding is stayed until the earlier of (a) 60 days after the Court denies the Settlement Motion, (b) consummation of a Plan, (c) 60 days after the filing by the Oversight Board and AAFAF of a Litigation Notice, or (d) further order of the Court.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 14: Commitments and Contingencies (continued)

Cortland Capital Market Services LLC, et al. v. The Financial Oversight and Management Board for Puerto Rico et, al., Case No. 19-00396 (D.P.R. July 9, 2019) (Swain, J.)

On July 9, 2019, the “Fuel Line Lenders,” parties who extended approximately $700 million in working capital to PREPA beginning in 2012 to fund fuel purchases, filed an adversary complaint against the Oversight Board, PREPA, AAFAF, and the Trustee for the PREPA Bonds, alleging that they are entitled to be paid in full before National and other bondholders have any lien on or recourse to PREPA’s assets, including pursuant to the RSA. On September 17, 2019, National, Assured, Syncora, and the Ad Hoc Group moved to intervene in the proceeding. On September 30, 2019, the Fuel Line Lenders filed an amended complaint which added National, Assured, Syncora, and the Ad Hoc Group as defendants.

Sistema de Retiro de los Empleados de la Autoridad de Energa Elctrica (SREAEE) v. The Financial Oversight and Management Board for Puerto Rico et, al., Case No. 19-00405 (D.P.R. August 6, 2019) (Swain, J.)

On August 6, 2019, the Sistema de Retiro de los Empleados de la Autoridad de Energía Eléctrica filed an adversary complaint against the Oversight Board, PREPA, AAFAF, and the Trustee for the PREPA Bonds, which asserts an entitlement under the Trust Agreement to payment priority ahead of PREPA’s bondholders. On September 17, 2019, National, Assured, Syncora, and the Ad Hoc Group moved to intervene in the proceeding. Responses to the intervention motion were filed October 7, 2019, and replies were filed October 18, 2019.

The Third Amended Title III Plan of Adjustment for COFINA

On June 5, 2018, the Commonwealth and COFINA Agents agreed in principle to settle the Commonwealth-COFINA Dispute regarding the pledge of sales and use taxes and related issues under the Agents’ mediation authority. The Title III Court held a hearing to approve the settlement agreement, as amended by the parties, and confirm a plan of adjustment in the COFINA case incorporating the settlement on January 16 and 17, 2019 (the “Confirmation Hearing”). On February 4, 2019, the District Court for the District of Puerto Rico entered the order confirming the Third Amended Title III Plan of Adjustment for COFINA. The Plan effective date was February 12, 2019.

The Financial Oversight and Management Board for Puerto Rico, as Representative of the Commonwealth of Puerto Rico, et al. v. the Puerto Rico Public Buildings Authority, Case No. 18-00149 (D.P.R. December 21, 2018) (Swain, J.)

On December 21, 2018, the Oversight Board and the Official Committee of Unsecured Creditors of all Debtors other than COFINA filed an adversary complaint against the Puerto Rico Public Buildings Authority (“PBA”), seeking a declaration that leases purportedly entered into by PBA are in fact disguised financing transactions and that PBA therefore has no right under PROMESA or the Bankruptcy Code to receive post-petition payments from the Title III debtors or administrative claims against the debtors. On January 28, 2019, National filed a motion to intervene in the proceeding. On March 12, 2019, the Court granted National’s intervention motion. On March 19, 2019, National filed an answer to the complaint. The proceeding is currently stayed until December 31, 2019, pending the outcome of mandatory mediation ordered by the Title III Court.

The Financial Oversight and Management Board for Puerto Rico, as Representative of the Commonwealth of Puerto Rico, et al. v. National Public Finance Guarantee Corporation, et al., Case No. 19-00291 (D.P.R. May 2, 2019) (Swain, J.)

On May 2, 2019, the Oversight Board and the Official Committee of Unsecured Creditors of all Title III Debtors filed an adversary complaint against National and numerous other defendants, challenging the existence, extent, and enforceability of asserted consensual and statutory liens on general obligation bonds issued by the Commonwealth. The proceeding is currently stayed until December 31, 2019, pending the outcome of mandatory mediation ordered by the Title III Court.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 14: Commitments and Contingencies (continued)

National Public Finance Guarantee Corporation et al. v. UBS Financial Services, Inc. et al., No. 19-422-LTS (D.P.R.), removed from No. SJ2019CV07932 (Superior Court San Juan)

On August 8, 2019, National and MBIA Corp. filed suit in the Court of First Instance in San Juan, Puerto Rico against UBS Financial Services, Inc., UBS Securities LLC, Citigroup Global Markets Inc., Goldman Sachs & Co. LLC, J.P. Morgan Securities LLC, Morgan Stanley & Co. LLC, Merrill Lynch, Fenner & Smith Inc., RBC Capital Markets LLC, and Santander Securities LLC, bringing two claims under Puerto Rico law: doctrina de actos propios (the doctrine of one's own acts) and unilateral declaration of will. These claims concern the insurance by National and MBIA of bonds issued by the Commonwealth of Puerto Rico and its instrumentalities that were underwritten by these defendants. National and MBIA allege that, when the defendants solicited bond insurance, they represented through their acts that they would investigate certain information they provided to National and MBIA and that they had a reasonable basis to believe that information was true and complete. National and MBIA further allege, however, that the defendants, contrary to their representations, did not perform such investigations and that key information was untrue or incomplete. National and MBIA relied on defendants' acts to their detriment. National and MBIA seek damages to be proven at trial. On September 9, 2019, Defendants removed National's claims to federal court in the District of Puerto Rico. National filed its motion to remand the case on October 9, 2019. Defendants' opposition is due no later than November 8, 2019 and National expects to file its reply no later than November 29, 2019.

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

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

Lease Commitments

The Company has a lease agreement for its headquarters in Purchase, New York as well as other immaterial leases for offices in New York, New York and San Francisco, California, as well as office equipment. The Purchase, New York initial lease term expires in 2030 with the option to terminate the lease in 2025 upon the payment of a termination amount. This lease agreement included an incentive amount to fund certain leasehold improvements, renewal options, escalation clauses and a free rent period. This lease agreement has been classified as an operating lease, and operating rent expense is recognized on a straight-line basis. The following table provides information about the Company's leases as of September 30, 2019:

$ in millions	As of September 30, 2019	Balance Sheet Location
Right-of-use asset	$ 22	Other assets
Lease liability	$ 22	Other liabilities
Weighted average remaining lease term (years)	8.2	
Discount rate used for operating leases	7.5%	
Total future minimum lease payments	$ 33	

Note 15: Subsequent Events

Refer to "Note 14: Commitments and Contingencies" for information about legal proceedings that occurred after September 30, 2019.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of financial condition and results of operations of MBIA Inc. should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2018 and the consolidated financial statements and notes thereto included in this Form 10-Q. In addition, this discussion and analysis of financial condition and results of operations includes statements of the opinion of MBIA Inc.'s management which may be forward-looking statements made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These statements are subject to certain risks and uncertainties that could cause actual results to differ materially from historical earnings and those presently anticipated or projected. Refer to "Forward-Looking Statements" and "Risk Factors" in Part I, Item 1A of MBIA Inc.'s Annual Report on Form 10-K for the year ended December 31, 2018 for a further discussion of risks and uncertainties.

INTRODUCTION

MBIA Inc., together with its consolidated subsidiaries, (collectively, "MBIA", the "Company", "we", "us", or "our") operates within the financial guarantee insurance industry. MBIA manages its business within three operating segments: 1) United States ("U.S.") public finance insurance; 2) corporate; and 3) international and structured finance insurance. Our U.S. public finance insurance portfolio is managed through National Public Finance Guarantee Corporation ("National"), our corporate segment is managed through MBIA Inc. and several of its subsidiaries, including our service company, MBIA Services Corporation ("MBIA Services") and our international and structured finance insurance business is primarily managed through MBIA Insurance Corporation and its subsidiaries ("MBIA Corp."). References to MBIA Inc. generally refer to activities within our corporate segment.

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

EXECUTIVE OVERVIEW

Financial Highlights

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
In millions except per share amounts	**2019**	**2018**	**2019**	**2018**
Net income (loss)	$ 71	$ (45)	$ (116)	$ (289)
Net income (loss) per diluted share	$ 0.86	$ (0.50)	$ (1.40)	$ (3.24)
Adjusted net income (loss) (1)	$ 115	$ (32)	$ 78	$ (144)
Adjusted net income (loss) per diluted share(1)	$ 1.46	$ (0.35)	$ 0.94	$ (1.62)
Cost of shares repurchased	$ 40	$ -	$ 94	$ 14

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

2019 Events

- On January 1, 2019 and July 1, 2019, the Commonwealth of Puerto Rico and certain of its instrumentalities ("Puerto Rico"), defaulted on scheduled debt service for National insured bonds and National paid gross claims in the aggregate of $393 million.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

EXECUTIVE OVERVIEW (continued)

- In February of 2019, the Plan of Adjustment for the Puerto Rico Sales Tax Financing Corporation ("COFINA") was implemented. National insured bondholders were given the option of commuting their insurance policy and receiving uninsured COFINA bonds or placing their new uninsured COFINA bonds into National Custodial Trusts (the "Trusts") and continue to benefit from a National insurance policy. As a result, seven Trusts were formed and consolidated as variable interest entities ("VIEs") by the Company. National tendered and commuted $182 million market value of National insured COFINA bonds it owned for new uninsured COFINA bonds, which in conjunction with other tendered and commuted bonds, resulted in a reduction to National's insured exposure to COFINA. Since the closing date and initial distribution of cash and bonds, National has elected to sell all of the new uninsured bonds held in the Trusts during the second and third quarters of 2019. The sale of bonds held in the Trusts resulted in a further reduction to National's exposure to COFINA. Since this transaction was implemented through September 30, 2019, National's COFINA gross par outstanding, gross par outstanding plus capital appreciation bonds ("CABs") accreted interest and debt service outstanding declined by approximately $648 million, $1.1 billion and $4.0 billion, respectively.
- In July of 2019, MBIA Corp. consummated a financing facility (the "Refinanced Facility") between MZ Funding LLC ("MZ Funding") and certain purchasers, pursuant to which the purchasers or their affiliates (collectively, the "Senior Lenders"), agreed to refinance the outstanding insured senior notes of MZ Funding, and MBIA Inc. received amended subordinated notes of MZ Funding (the Senior Lenders and MBIA Inc. being referred to herein as, the "Lenders"). In connection with the refinancing transaction, MZ Funding and MBIA Corp. entered into an amended and restated credit agreement (the "New Credit Agreement" and the loans thereunder, the "MBIA Loans"). MBIA Corp. issued new financial guarantee insurance policies (the "MBIA Corp. Policies") insuring the Refinanced Facility. Refer to the "Liquidity" section for additional information on the Refinanced Facility.
- In September of 2019, National agreed to join the restructuring support agreement, as amended ("RSA"), with the Puerto Rico Electric Power Authority ("PREPA"), other monoline insurers, a group of uninsured PREPA bondholders, Puerto Rico, and the Financial Oversight and Management Board for Puerto Rico. The restructuring transaction described in the RSA is intended to, among other things, provide a framework for the consensual resolution of the treatment of National's insured PREPA revenue bonds in PREPA's recovery plan. Upon consummation of the restructuring transaction, PREPA's revenue bonds will be exchanged into new securitization bonds issued by a special purpose entity and secured by a segregated transition charge assessed on customer's electricity bills. The closing of the restructuring transaction is subject to a number of conditions, including the Title III Court's approval of the RSA and settlement described therein, support of a minimum of 67% of voting bondholders for a plan of adjustment that includes the proposed treatment of PREPA revenue bonds and confirmation of such plan by the Title III Court, and execution of acceptable documentation and legal opinions.

Economic and Financial Market Trends

The U.S. economy remained healthy during the third quarter of 2019 due to a strong labor market and low inflation. Economic activity has seen moderate gains due to an increase in household spending from earlier in the year, however, fixed investment in the business sector has been tepid. In addition, increases in U.S. home prices across the country have continued to slow.

The Federal Open Market Committee ("FOMC") lowered the federal funds rate by 25 basis points at each of its July, September and October of 2019 meetings. The FOMC cited potential global developments including lingering trade uncertainties affecting the economic outlook along with reduced inflationary pressures. The FOMC stated that it will continue to assess various economic factors including labor market developments, inflation stresses and domestic and international environments relative to its objectives of maximum employment and 2% inflation. In addition, the FOMC emphasized patience with respect to future adjustments to the federal funds target rate based on global economic and financial developments.

Economic and financial market trends could impact the Company's financial results. Many states and municipalities have experienced growing tax collections that resulted from increased economic activity and higher assessed property valuations. Economic improvement at the state and local level strengthens the credit quality of the issuers of our insured municipal bonds, improves the performance of our insured U.S. public finance portfolio and could reduce the amount of National's potential incurred losses. In addition, higher projected interest rates could yield increased returns on our Company's investment portfolio.

CRITICAL ACCOUNTING ESTIMATES

We prepare our consolidated financial statements in accordance with accounting principles generally accepted in the United States of America ("GAAP"), which requires the use of estimates and assumptions. Management has discussed and reviewed the development, selection, and disclosure of critical accounting estimates with the Company's Audit Committee. Our most critical accounting estimates include loss and loss adjustment expense ("LAE") reserves and valuation of financial instruments, since these estimates require significant judgment. Any modifications in these estimates could materially impact our financial results.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

CRITICAL ACCOUNTING ESTIMATES (continued)

For a discussion of the Company's critical accounting estimates, refer to "Critical Accounting Estimates" in Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in the Company's Annual Report on Form 10-K for the year ended December 31, 2018. In addition, refer to "Note 5: Loss and Loss Adjustment Expense Reserves" and "Note 6: Fair Value of Financial Instruments" in the Notes to Consolidated Financial Statements for a current description of estimates used in our insurance loss reserving process and information about our financial assets and liabilities that are accounted for at fair value, including valuation techniques and significant inputs.

RECENT ACCOUNTING PRONOUNCEMENTS

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

RESULTS OF OPERATIONS

Summary of Consolidated Results

The following table presents a summary of our consolidated financial results for the three and nine months ended September 30, 2019 and 2018:

	Three Months Ended September 30,		Nine Months Ended September 30,	
In millions except per share amounts	**2019**	**2018**	**2019**	**2018**
Total revenues	$ 172	$ 105	$ 252	$ 190
Total expenses	83	150	389	477
Income (loss) before income taxes	89	(45)	(137)	(287)
Provision (benefit) for income taxes	18	-	(21)	2
Net income (loss)	$ 71	$ (45)	$ (116)	$ (289)
Net income (loss) per common share:				
Basic	$ 0.86	$ (0.50)	$ (1.40)	$ (3.24)
Diluted	$ 0.86	$ (0.50)	$ (1.40)	$ (3.24)
Weighted average number of common shares outstanding:				
Basic	78.7	89.5	82.8	89.1
Diluted	78.7	89.5	82.8	89.1

Three Months Ended September 30, 2019 vs. Three Months Ended September 30, 2018

Consolidated total revenues increased for the three months ended September 30, 2019 compared with the same period of 2018 primarily due to favorable changes in revenues of consolidated VIEs and realized gains from the sale of uninsured PREPA bonds. The favorable change in revenues of consolidated VIEs was primarily due to an increase in net gains from second-lien residential mortgage-backed securities ("RMBS") put-back claims on ineligible mortgage loans and lower losses related to the deconsolidation of consolidated VIEs in the third quarter of 2018. These increases were partially offset by lower premiums earned as a result of the acceleration of premiums related to the termination of several international public finance policies in 2018 and overall decreases in premiums from maturities and early settlements of other insured transactions with no meaningful writings of new insurance policies.

Consolidated total expenses for the three months ended September 30, 2019 included a loss and LAE benefit of $13 million compared with an expense of $46 million for the same period of 2018. The decrease in loss and LAE for the three months ended September 30, 2019 compared with the same period of 2018 was primarily due to decreases in losses on certain Puerto Rico credits, partially offset by increases in losses on insured collateralized debt obligations ("CDO") and insured first-lien RMBS.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

RESULTS OF OPERATIONS (continued)

Nine Months Ended September 30, 2019 vs. Nine Months Ended September 30, 2018

Consolidated total revenues increased for the nine months ended September 30, 2019 compared with the same period of 2018 primarily due to favorable changes in revenues of consolidated VIEs, realized gains from the sale of uninsured PREPA bonds and a decrease in net losses on an insured derivative. The favorable change in revenues of consolidated VIEs was primarily due to lower losses related to the deconsolidation of consolidated VIEs in 2018. These increases were partially offset by (i) lower premiums earned as a result of the acceleration of premiums related to the termination of several international public finance policies in 2018 and overall decreases in premiums from maturities and early settlements of other insured transactions with no meaningful writings of new insurance policies and, (ii) an increase in net investment losses related to other-than-temporary impairments ("OTTI"). Net investment losses related to OTTI primarily related to an impaired security for which a loss was recognized as the difference between the amortized cost and net present value of projected cash flows.

Consolidated total expenses for the nine months ended September 30, 2019 and 2018 included $89 million and $177 million, respectively, of net insurance losses and LAE. The decrease in loss and LAE for the nine months ended September 30, 2019 compared with the same period of 2018 was primarily due to a decrease in losses incurred on certain Puerto Rico exposures, partially offset by an increase in losses incurred on insured first-lien RMBS and insured CDOs.

Non-GAAP Adjusted Net Income (Loss)

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

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

- *Mark-to-market gains (losses) on financial instruments* – We remove 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.
- *Foreign exchange gains (losses)* – We remove foreign exchange gains (losses) on the remeasurement of certain assets and liabilities and transactions in non-functional currencies. Given the possibility of volatility in foreign exchange markets, we exclude the impact of foreign exchange gains (losses) to provide a measurement of comparability of adjusted net income (loss).
- *Net gains (losses) on sales of investments, OTTI and extinguishment of debt* – We remove gains (losses) on the sale of investments, net investment losses related to OTTI and net gains (losses) on extinguishment of debt since the timing of these transactions are subject to management's assessment of market opportunities and capital liquidity positions.
- *Income taxes* – We remove the tax impact of maintaining a full valuation allowance against the Company's net deferred tax asset. The Company applies a zero effective tax rate for federal income tax purposes to its pre-tax adjustments.

Management further adjusts non-GAAP adjusted net income (loss) and adjusted net income (loss) per diluted common share by removing the impact of our U.S. public finance insurance segment VIE consolidations. GAAP requires the Company to consolidate certain VIEs that have issued debt obligations insured by the Company. However, since the Company does not own such VIEs, management uses certain measures adjusted to remove the impact of VIE consolidations for our U.S. public finance insurance segment in order to reflect financial exposure limited to its financial guarantee contracts. Wherever appropriate, the Company has separately disclosed the effect of our U.S. public finance insurance segment VIE consolidations.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

RESULTS OF OPERATIONS (continued)

The following table presents our adjusted net income (loss) and adjusted net income (loss) per diluted common share and provides a reconciliation of GAAP net income (loss) to adjusted net income (loss) for the three and nine months ended September 30, 2019 and 2018:

In millions except share and per share amounts	Three Months Ended September 30, 2019	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2019	Nine Months Ended September 30, 2018
Net income (loss)	$ 71	$ (45)	$ (116)	$ (289)
Less: adjusted net income (loss) adjustments:				
Income (loss) before income taxes of our international and structured finance insurance segment and eliminations	(94)	(34)	(257)	(190)
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)	(31)	18	(69)	45
Foreign exchange gains (losses)(1)	16	2	18	15
Net gains (losses) on sales of investments(1)	78	(1)	125	(12)
Net investment losses related to OTTI	-	(1)	(37)	(3)
Net gains (losses) on extinguishment of debt	(1)	3	(1)	3
Other net realized gains (losses)	(1)	-	(2)	(2)
Adjusted net income adjustment to the (provision) benefit for income tax(2)	(11)	-	29	(1)
Adjusted net income (loss)	$ 115	$ (32)	$ 78	$ (144)
Adjusted net income (loss) per diluted common share(3)	$ 1.46	$ (0.35)	$ 0.94	$ (1.62)
Gain (loss) related to our U.S. public finance insurance segment VIE consolidations included in adjusted net income (loss)	37	-	17	-
Gain (loss) related to our U.S. public finance insurance segment VIE consolidations per diluted common share included in adjusted net income (loss) per diluted common share	0.46	-	0.20	-

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

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

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

Book Value Adjustments Per Share

In addition to GAAP book value per share, for internal purposes management also analyzes adjusted book value ("ABV") per share, which we consider a measure of fundamental Company value; we also view changes in this measure an important indicator of financial performance. ABV is used by management in certain components of management's compensation. Previously and through our Form 10-K for the fiscal year ended December 31, 2018, for the benefit of investors and analysts, management presented non-GAAP ABV together with a reconciliation from GAAP book value per share in its periodic GAAP reporting. Beginning with the first quarter of 2019, however, based on the SEC's continued and evolving interpretations of its guidance on non-GAAP financial measures, the Company is no longer publicly disclosing its internal ABV measurement. However, since many of the Company's investors and analysts may continue to use ABV to evaluate MBIA's share price and as the basis for their investment decisions, going forward we will continue to present GAAP book value per share as well as the individual adjustments used by management to calculate its internal ABV metric.

Management adjusts GAAP book value to remove the book value of MBIA Corp. and for certain items which the Company believes will reverse from GAAP book value through GAAP earnings and comprehensive income, as well as add in the impact of certain items which the Company believes will be realized in GAAP book value in future periods. The Company has limited such adjustments to those items that it deems to be important to fundamental value and performance and for which the likelihood and amount can be reasonably estimated. The following provides a description of management's adjustments to GAAP book value:

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

RESULTS OF OPERATIONS (continued)

- *Negative Book value of MBIA Corp.* – We remove the negative book value of MBIA Corp. based on our view that given MBIA Corp.'s current financial condition, the regulatory regime in which it operates, the priority given to its policyholders, surplus note holders and preferred stock holders with respect to the distribution of assets, and its legal structure, it is not and will not likely be in a position to upstream any economic benefit to MBIA Inc. Further, MBIA Inc. does not face any material financial liability arising from MBIA Corp.
- *Net unrealized (gains) losses on available-for-sale ("AFS") securities excluding MBIA Corp.* – We remove net unrealized gains and losses on AFS securities recorded in accumulated other comprehensive income since they will reverse from GAAP book value when such securities mature. Gains and losses from sales and OTTI of AFS securities are recorded in book value through earnings.
- *Net unearned premium revenue in excess of expected losses of National* - We include net unearned premium revenue in excess of expected losses. Net unearned premium revenue in excess of expected losses consists of the financial guarantee unearned premium revenue of National in excess of expected insurance losses, net of reinsurance and deferred acquisition costs. In accordance with GAAP, a loss reserve on a financial guarantee policy is only recorded when expected losses exceed the amount of unearned premium revenue recorded for that policy. As a result, we only add to GAAP book value the amount of unearned premium revenue in excess of expected losses for each policy in order to reflect the full amount of our expected losses. The Company's net unearned premium revenue will be recognized in GAAP book value in future periods, however, actual amounts could differ from estimated amounts due to such factors as credit defaults and policy terminations, among others.
- *Gain (loss) related to National VIE consolidations* – We remove the impact of VIE consolidations by National. GAAP requires the Company to consolidate certain VIEs as a result of the Company's insurance policies. However, since the Company does not own such VIEs, management uses certain measures adjusted to remove the impact of VIE consolidations for National in order to reflect financial exposure limited to its financial guarantee contracts.

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

The following table provides the Company's GAAP book value per share and management's adjustments to book value per share used in our internal analysis:

In millions except share and per share amounts	As of September 30, 2019	As of December 31, 2018
Total shareholders' equity of MBIA Inc.	$ 1,035	$ 1,119
Common shares outstanding	80,467,930	89,821,713
GAAP book value per share	$ 12.86	$ 12.46
Management's adjustments described above:		
Remove negative book value per share of MBIA Corp.	(15.08)	(10.93)
Remove net unrealized gains (losses) on available-for-sale securities included in other comprehensive income (loss)	1.14	(0.46)
Include net unearned premium revenue in excess of expected losses	3.54	3.53
Remove gain (loss) related to National VIE consolidations	-	-

U.S. Public Finance Insurance

Our U.S. public finance insurance portfolio is managed through National. The financial guarantees issued by National provide unconditional and irrevocable guarantees of the payment of the principal of, and interest or other amounts owing on, insured obligations when due or, in the event National has exercised, at its discretion, the right to accelerate the payment under its policies upon the acceleration of the underlying insured obligations due to default or otherwise. National's guarantees insure municipal bonds, including tax-exempt and taxable indebtedness of U.S. political subdivisions, as well as utility districts, airports, healthcare institutions, higher educational facilities, student loan issuers, housing authorities and other similar agencies and obligations issued by private entities that finance projects that serve a substantial public purpose. Municipal bonds and privately issued bonds used for the financing of public purpose projects are generally supported by taxes, assessments, user fees or tariffs related to the use of these projects, lease payments or other similar types of revenue streams. As of September 30, 2019, National had total insured gross par outstanding of $51.3 billion.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

RESULTS OF OPERATIONS (continued)

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

The following table presents our U.S. public finance insurance segment results for the three and nine months ended September 30, 2019 and 2018:

In millions	Three Months Ended September 30, 2019	Three Months Ended September 30, 2018	Percent Change	Nine Months Ended September 30, 2019	Nine Months Ended September 30, 2018	Percent Change
Net premiums earned	$ 14	$ 24	-42%	$ 50	$ 75	-33%
Net investment income	23	27	-15%	76	83	-8%
Fees and reimbursements	-	1	-100%	2	2	-%
Net gains (losses) on financial instruments at fair value and foreign exchange	78	1	n/m	135	(14)	n/m
Net investment losses related to other-than-temporary impairments	-	(1)	-100%	(37)	(3)	n/m
Other net realized gains (losses)	-	-	-%	1	-	n/m
Revenues of consolidated VIEs:						
Net gains (losses) on financial instruments at fair value and foreign exchange	32	-	n/m	81	-	n/m
Other net realized gains (losses)	-	-	-%	(43)	-	n/m
Total revenues	147	52	n/m	265	143	85%
Losses and loss adjustment	(90)	48	n/m	(34)	184	-118%
Amortization of deferred acquisition costs	4	6	-33%	13	17	-24%
Operating	14	9	56%	36	31	16%
Total expenses	(72)	63	n/m	15	232	-94%
Income (loss) before income taxes	$ 219	$ (11)	n/m	$ 250	$ (89)	n/m

n/m - Percent change not meaningful.

NET PREMIUMS EARNED Net premiums earned on financial guarantees represent gross premiums earned net of premiums ceded to reinsurers, and include scheduled premium earnings and premium earnings from refunded issues. Certain premiums are eliminated in our consolidated financial statements as a result of the Company consolidating VIEs. The decrease in net premiums earned for the three months ended September 30, 2019 compared with the same period of 2018 resulted from decreases in refunded premiums earned of $7 million and scheduled premiums earned of $3 million. The decrease in net premiums earned for the nine months ended September 30, 2019 compared with the same period of 2018 resulted from decreases in refunded premiums earned of $22 million and scheduled premiums earned of $3 million. Refunding activity over the past several years has accelerated premium earnings in prior years and reduced the amount of scheduled premiums that would have been earned in the current year. Net premiums earned during the three and nine months ended September 30, 2019 includes the elimination of $14 million and $16 million, respectively, due to the consolidation of VIEs. The Company did not consolidate any VIEs in its U.S. Public Finance segment during the nine months ended September 30, 2018.

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 the three months ended September 30, 2019 compared with the same period of 2018 was primarily due to realized gains from the sale of uninsured PREPA bonds. The favorable change in net gains (losses) on financial instruments at fair value and foreign exchange for the nine months ended September 30, 2019 compared with the same period of 2018 was principally due to gains from the sales of uninsured PREPA bonds and from the COFINA bond exchange.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

RESULTS OF OPERATIONS (continued)

NET INVESTMENT LOSSES RELATED TO OTHER-THAN-TEMPORARY IMPAIRMENTS Net investment losses related to OTTI for the nine months ended September 30, 2019 were primarily related to an impaired security for which a loss was recognized as the difference between the amortized cost and net present value of projected cash flows. This OTTI resulted from liquidity concerns and other adverse financial conditions of the issuer.

REVENUES OF CONSOLIDATED VIEs VIEs within our U.S. Public Finance Insurance segment comprise the Trusts established in connection with the COFINA Plan of Adjustment. For the three months ended September 30, 2019, total revenues of consolidated VIEs were $32 million. This was primarily due to net gains from increases in the fair values of collateral since consolidating the VIEs. For the nine months ended September 30, 2019, total revenues of consolidated VIEs were $38 million. This was primarily due to net gains from increases in the fair values of collateral since consolidating the VIEs, partially offset by a loss on the initial consolidation of the VIEs in February of 2019. 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 values of these instruments, which include investments held and debt issued, are reflected in earnings. During the third quarter of 2019, all remaining investment assets of the Trusts were sold and the proceeds were used to extinguish a substantial amount of debt issued by the Trusts. Refer to the following "U.S. Public Finance Insurance Puerto Rico Exposures" section for additional information.

LOSS AND LOSS ADJUSTMENT EXPENSES Our U.S. public finance insured portfolio management 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 our assessed performance of the insured issue. Refer to "Note 5: Loss and Loss Adjustment Expense Reserves" in the Notes to Consolidated Financial Statements for additional information related to the Company's loss reserves.

The following table presents information about our U.S. public finance insurance loss and LAE expenses for the three and nine months ended September 30, 2019 and 2018:

In millions	Three Months Ended September 30, 2019	Three Months Ended September 30, 2018	Percent Change	Nine Months Ended September 30, 2019	Nine Months Ended September 30, 2018	Percent Change
Losses and loss adjustment expenses (1)	$ (90)	$ 48	n/m	$ (34)	$ 184	-118%

(1) - As a result of consolidation of VIEs, loss and LAE includes the elimination of an expense of $15 million and a benefit of $9 million for the three and nine months ended September 30, 2019, respectively.

n/m - Percent change not meaningful.

For the three and nine months ended September 30, 2019 and 2018, losses and LAE primarily related to certain Puerto Rico exposures.

The following table presents information about our U.S. public finance insurance loss recoverable and loss and LAE reserves as of September 30, 2019 and December 31, 2018:

In millions	September 30, 2019	December 31, 2018	Percent Change
Assets:			
Insurance loss recoverable	$ 945	$ 571	65%
Reinsurance recoverable on paid and unpaid losses (1)	10	16	-38%
Liabilities:			
Loss and LAE reserves	374	551	-32%
Insurance loss recoverable - ceded (2)	20	15	33%
Net reserve (salvage)	$ (561)	$ (21)	n/m

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

(2) - Reported within "Other liabilities" on our consolidated balance sheets.

n/m - Percent change not meaningful.

Insurance loss recoverable as of September 30, 2019 increased compared with December 31, 2018 primarily as a result of expected recoveries related to claims paid on certain Puerto Rico exposures in 2019 and changes in discount rates. Loss and LAE reserves as of September 30, 2019 decreased compared with December 31, 2018 primarily due to actual and expected payments related to certain Puerto Rico exposures, as well as consolidating the COFINA Trusts as VIEs which resulted in the elimination of the COFINA loss and LAE reserve.

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RESULTS OF OPERATIONS (continued)

POLICY ACQUISITION COSTS AND OPERATING EXPENSES U.S. public finance insurance segment expenses for the three and nine months ended September 30, 2019 and 2018 are presented in the following table:

In millions	Three Months Ended September 30, 2019	Three Months Ended September 30, 2018	Percent Change	Nine Months Ended September 30, 2019	Nine Months Ended September 30, 2018	Percent Change
Gross expenses	$ 14	$ 10	40%	$ 36	$ 32	13%
Amortization of deferred acquisition costs	$ 4	$ 6	-33%	$ 13	$ 17	-24%
Operating	14	9	56%	36	31	16%
Total insurance operating expenses	$ 18	$ 15	20%	$ 49	$ 48	2%

Gross expenses represent total insurance expenses before the deferral of any policy acquisition costs. Operating expenses increased for the three and nine months ended September 30, 2019 compared with the same periods of 2018 due to an increase in legal costs.

Amortization of deferred acquisition costs decreased for the nine months ended September 30, 2019 compared with the same period of 2018 due to a decrease in refunding activity in the current year. When an insured obligation refunds, we accelerate any remaining deferred acquisition costs associated with the policy covering the refunded insured obligation. We did not defer a material amount of policy acquisition costs during the first nine months of 2019 or 2018.

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

The following table presents the credit quality distribution of National's U.S. public finance outstanding gross par insured as of September 30, 2019 and December 31, 2018. CABs are reported at the par amount at the time of issuance of the insurance policy. All ratings are as of the period presented and represent S&P underlying ratings, where available. If transactions are not rated by S&P, a Moody's equivalent rating is used. If transactions are not rated by either S&P or Moody's, an internal equivalent rating is used.

In millions	Gross Par Outstanding			
	September 30, 2019		December 31, 2018	
Rating	Amount	%	Amount	%
AAA	$ 2,815	5.5%	$ 3,108	5.4%
AA	20,265	39.6%	22,162	38.3%
A	15,870	31.0%	18,495	32.0%
BBB	8,526	16.6%	9,166	15.8%
Below investment grade	3,778	7.3%	4,934	8.5%
Total	$ 51,254	100.0%	$ 57,865	100.0%

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RESULTS OF OPERATIONS (continued)

U.S. Public Finance Insurance Puerto Rico Exposures

The following is a summary of exposures within the insured portfolio of our U.S. public finance insurance segment related to Puerto Rico as of September 30, 2019.

In millions	Gross Par Outstanding	Gross Par Outstanding Plus CABs Accreted Interest	Debt Service Outstanding	National Internal Rating
Puerto Rico Electric Power Authority (PREPA)	$ 968	$ 968	$ 1,340	d
Puerto Rico Commonwealth GO	485	485	600	d
Puerto Rico Public Buildings Authority (PBA)(2)	170	170	233	d
Puerto Rico Highway and Transportation Authority Transportation Revenue (PRHTA)	523	523	909	d
Puerto Rico Highway and Transportation Authority - Subordinated Transportation Revenue (PRHTA)	27	27	36	d
Puerto Rico Sales Tax Financing Corporation (COFINA)	36(1)	65	220	d
Puerto Rico Highway and Transportation Authority Highway Revenue (PRHTA)	54(1)	56	77	d
University of Puerto Rico System Revenue	76	76	105	d
Inter American University of Puerto Rico Inc.	21	21	28	a3
Total	$ 2,360	$ 2,391	$ 3,548	

(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.

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 for the creation of an independent oversight board (the "Oversight Board") with powers relating to the development and implementation of a fiscal plan for Puerto Rico as well as a court-supervised process that allows Puerto Rico to restructure its debt if voluntary agreements cannot be reached with creditors through a collective action process.

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

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

On April 24, 2019, the Oversight Board filed a request with the First Circuit to extend the 90 day stay indefinitely pending Supreme Court review. On April 29, 2019, Aurelius, Assured and UTIER filed briefs in opposition, arguing that the stay request should be denied because the Oversight Board cannot demonstrate that at least five Justices would vote to reverse this First Circuit's Appointments Clause decision. On May 6, 2019, the First Circuit entered an order denying the Oversight Board's request but extended the stay of its mandate 60 days until July 15, 2019. On June 18, 2019, the Oversight Board filed a motion asking the First Circuit to stay the issuance of its mandate pending the Supreme Court's disposition of multiple certification petitions appealing the February 15 decision. On June 20, 2019, the Supreme Court granted the certification petitions. On July 2, 2019, the First Circuit granted the Oversight Board's motion to stay the mandate pending the Supreme Court's final disposition. The Supreme Court heard oral arguments on October 15, 2019 and a decision is not expected until 2020.

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RESULTS OF OPERATIONS (continued)

As a result of prior defaults, various stays and the Title III cases, Puerto Rico failed to make certain scheduled debt service payments for National insured bonds. As a consequence, National has paid gross claims in the aggregate amount of $1.1 billion relating to general obligation ("GO") bonds, PBA bonds, PREPA bonds and PRHTA bonds through September 30, 2019. Inclusive of the commutation payment related to the COFINA Plan of Adjustment, National has paid total gross claims in the aggregate amount of approximately $1.1 billion related to Puerto Rico.

On May 2, 2019, the Oversight Board and the Official Committee of Unsecured Creditors of all Title III Debtors (other than COFINA) (the "Committee") filed lien avoidance adversary complaints against several hundred defendants, including National, challenging the existence, extent, and enforceability of GO bondholders' liens. The Court has stayed the proceedings until December 31, 2019.

On June 17, 2019, the Oversight Board announced it reached an agreement with certain Commonwealth GO bondholders and guaranteed PBA bondholders on a framework for a plan of adjustment to resolve $35.0 billion worth of debt and unsecured claims against the Commonwealth. The supporting creditors, which collectively hold about $3.0 billion of bonds, executed a Plan Support Agreement (the "PSA"), that, if implemented, purports to reduce the amount of Commonwealth related bonds to less than $12.0 billion from about $18.0 billion. The PSA provides for a range of recoveries for pre-2012 GO bondholders, ranging from 64.1% and 89.4%. PBA bondholders would receive a slightly higher range of recoveries due on sourced recoveries. The PSA also provides a mechanism to settle outstanding litigation relating to the invalidation of $6.0 billion in Commonwealth general obligations bonds issued in 2012 and 2014. These late vintage bondholders would have the option to litigate for equal treatment as the pre-2012 bonds or settle at levels meaningfully below the early vintage bonds' floor recovery. The recovery for the pre-2012 bonds adjusts depending on the outcome of the litigation and number of bondholders that opt to participate in the PSA settlement terms.

On July 24, 2019, Judge Swain entered an order staying certain adversary proceedings and contested matters until December 31, 2019, and imposing mandatory mediation under Judge Houser. Among the matters stayed in which National is either a party in interest or intervenor are the (i) PBA adversary proceeding seeking to recharacterize the PBA bonds as financings and (ii) GO adversary and HTA adversary proceedings, both challenging bondholder liens.

On September 27, 2019, the Oversight Board filed a joint proposed plan of adjustment, and disclosure statement based on the PSA. The proposed plan of adjustment would restructure Commonwealth claims, including GO bonds, PBA bonds, ERS bonds, among other agreements, and the Government's pension liabilities. The Governor of Puerto Rico has publicly expressed support for the proposed plan, though Puerto Rico's Chief Financial Officer and executive director of the Puerto Rico Fiscal Agency and Financial Advisory Authority ("AAFAF") has stated that he views a one-year timeline for confirming the plan as a "best case scenario." National insures only pre-2012 bonds and is not party to the PSA.

PBA

On December 21, 2018, the Oversight Board filed an adversary complaint seeking to disallow the PBA's administrative rent claims against the Commonwealth. The PBA bonds are payable from the rent the Commonwealth pays under its lease agreements with the PBA. The Oversight Board alleges that the Commonwealth has no obligation to make rent payments under section 365(d)(3) of the Bankruptcy Code and that the PBA is not entitled to a priority administrative expense claim under the leases. On April 16, 2019, Judge Swain entered an order setting a discovery schedule. The proceeding is currently stayed until December 31, 2019 pending the outcome of mediation.

On September 27, 2019, in connection with the joint proposed plan of adjustment filed that same day, the Oversight Board filed a Title III petition for the PBA.

COFINA

The Oversight Board filed a Plan of Adjustment and Disclosure Statement on October 19, 2018. The Plan of Adjustment was the culmination of efforts by interested parties to resolve the Commonwealth-COFINA dispute over the ownership of the territory's sales and use taxes. The Plan of Adjustment reflected the settlement of the Commonwealth-COFINA dispute by allocating an amount up to 53.65% of the Pledged Sales Tax Base Amount in any given year to COFINA and the balance (46.35%) of the annual Pledged Sales Tax Base Amount to the Commonwealth. The Plan of Adjustment further provided for senior COFINA bondholders to receive a 93.0% recovery on their prepetition bond claims and subordinate bondholders to receive approximately 56.4% of their prepetition claims. In addition, to compensate bondholders for the cost of negotiating and executing the PSA, bondholders that were party to the PSA received, subject to certain exceptions, a pro rata share of additional cash in an amount equal to 2.0% of the aggregate amount of existing COFINA bond claims. A hearing regarding the Commonwealth's motion for approval of the Settlement Agreement and to confirm the Plan of Adjustment was held on January 16 and 17, 2019 in San Juan, Puerto Rico. A confirmation order was issued on February 4, 2019 and the closing occurred on February 12, 2019.

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RESULTS OF OPERATIONS (continued)

As part of the Plan of Adjustment, National tendered and commuted $182 million market value of National insured COFINA bonds it owned for new uninsured COFINA bonds, which in conjunction with other tendered and commuted bonds, resulted in a reduction to National’s insured exposure to COFINA. The Plan of Adjustment also provided for the establishment of Trusts to hold new uninsured COFINA bonds for the benefit of insured bondholders and to track National’s original obligation as adjusted. Since the closing date and initial distribution of cash and bonds, National elected to sell all of the new uninsured bonds held in the Trusts during the second and third quarters of 2019. The sales of bonds held in the Trusts were used to extinguish a substantial amount of debt issued by the Trusts, thereby resulting in a further reduction to National’s exposure to COFINA. Since the transaction was implemented through September 30, 2019, National’s COFINA gross par outstanding, gross par outstanding plus CABs accreted interest and debt service outstanding declined by approximately $648 million, $1.1 billion and $4.0 billion, respectively. The impact of such exposure reductions is reflected in the preceding table.

PREPA

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

The most recent PREPA revised Fiscal Plan certified on June 27, 2019 outlines a wholesale transformation of PREPA to at least a partially privatized entity further expanding on initiatives previously announced. Advisors to the Oversight Board have taken steps to assess investor interest for privatization though details and timing of any potential transaction remain unclear.

Separately, the government of Puerto Rico enacted its own privatization legislation which proposes the sale and privatization of generating assets and concessionaire agreement for transmission and distribution assets. Many important details remain under development. In October of 2018, the Commonwealth issued a request for qualifications seeking to identify qualified potential concessionaires. Four respondents were selected to participate in a confidential request for proposal process with a stated goal of selecting a preferred proposal by the end of 2019; the Government recently announced it was abandoning the sale of the generating assets in favor of long-term operation and maintenance agreements to be finalized later. Separately the Puerto Rican Senate passed legislation in December 2018 to establish the regulatory and legislative framework to govern such an arrangement, which was enacted into law in April 2019.

On July 30, 2018, PREPA, the Oversight Board, the AAFAF and the Governor announced a preliminary restructuring support agreement with certain members of the Ad Hoc Group of PREPA bondholders.

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

On May 3, 2019, PREPA, the Oversight Board, the AAFAF, the Ad Hoc Group of PREPA bondholders (the “Ad Hoc Group”), and Assured Guaranty Corp. and Assured Guaranty Municipal Corp. (“Assured”) entered into a Definitive Restructuring Support Agreement which was amended on September 9, 2019 to include National and Syncora Guarantee, Inc. (“Syncora”) as supporting parties.

Among other things, the RSA contemplates a transaction pursuant to which, upon the effective date of a plan of adjustment, PREPA’s legacy bonds will be exchanged for new securitization bonds to be issued in two tranches (the “Securitization Bonds”). In addition, beginning on the last day of the month in which the order approving the RSA is entered, holders of bonds that are subject to the RSA will receive monthly settlement payments funded by a settlement charge to be included on customer bills (the “Settlement Payments”) until the effective date of a plan of adjustment for PREPA. The Settlement Payments are subject to increase if a plan of adjustment is not confirmed before March 31, 2021. The RSA provides that supporting parties will receive an administrative claim equal to interest accrued on certain of the securitization bonds, less the amount of any Settlement Payments made on account of such bonds, which administrative claim shall survive termination of the RSA. Additionally, pursuant to the RSA, supporting creditors will also receive certain fees and expense reimbursements. The RSA contemplates the filing of a plan of adjustment for PREPA by March 31, 2020.

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RESULTS OF OPERATIONS (continued)

Pursuant to the RSA, the Oversight Board filed a 9019 motion with the Title III court in May 2019 seeking approval of the RSA (the "Settlement Motion") and a Motion to Dismiss the Receiver Motion. The RSA requires, upon entry of the order approving the Settlement Motion (the "9019 Order"), that Movants will withdraw the Receiver Motion, and the Ad Hoc Group will support such withdrawal. The RSA further states that the hearing for approval of the Settlement Motion is contingent on receiving no later than two business days prior to such hearing the support of holders or insurers representing a minimum of 60% in aggregate principal amount of all legacy bonds. Approximately 90% of PREPA's bondholders have already joined the deal. The Title III Court has scheduled a hearing on the Motions for January 14, 2020. The Receiver Motion and the Motion to Dismiss the Receiver Motion have been stayed until the Court rules on the Settlement Motion.

As contemplated by the RSA, on July 1, 2019 the Oversight Board and AAFAF also filed an adversary complaint against the Trustee for the PREPA Bonds, challenging the validity of the liens arising under the Trust Agreement that secure insured obligations of National. The adversary proceeding is stayed until the earlier of (a) 60 days after the Court denies the 9019 Motion, (b) consummation of a Plan, (c) 60 days after the filing by the Oversight Board and AAFAF of a Litigation Notice, or (d) further order of the Court.

Certain objectors to the RSA have filed adversary proceedings challenging the payment priority arising under the PREPA Trust Agreement, alleging that they are entitled to be paid in full before National and other bondholders have any lien on or recourse to PREPA's assets, including pursuant to the RSA. On July 9, 2019, the "Fuel Line Lenders," parties who extended approximately $700 million in working capital to PREPA beginning in 2012 to fund fuel purchases, filed one such adversary complaint against the Oversight Board, PREPA, AAFAF, and the Trustee for the PREPA Bonds. On September 17, 2019, National, Assured, Syncora, and the Ad Hoc Group moved to intervene in the proceeding. On September 30, 2019, the Fuel Line Lenders filed an amended complaint which adds National, Assured, Syncora, and the Ad Hoc Group as defendants.

On August 6, 2019, the Sistema de Retiro de los Empleados de la Autoridad de Energía Eléctrica also filed an adversary complaint against the Oversight Board, PREPA, AAFAF, and the Trustee for the PREPA Bonds, which asserts an entitlement under the Trust Agreement to payment priority ahead of PREPA's bondholders. On September 17, 2019, National, Assured, Syncora, and the Ad Hoc Group moved to intervene in the proceeding. Responses to the intervention motion were due October 7, 2019, and replies were due October 18, 2019.

On September 26, 2019, National sold its entire holding of uninsured PREPA bonds purchased in 2016 with a par value of $139 million.

PRHTA

On May 21, 2017, the Oversight Board commenced a Title III case for PRHTA. On June 3, 2017, National, together with Assured and Assured Guaranty Municipal Corp., filed an adversary proceeding seeking to enforce the special revenue protections of the Bankruptcy Code which are incorporated into PROMESA. These provisions ensure, among other things, that (i) current tax and toll revenues remain subject to liens and (ii) the automatic stay resulting from a filing of a Title III petition does not stay or limit application of these pledged special revenues to the repayment of PRHTA debt. On January 30, 2018, the court granted motions to dismiss the adversary proceeding. The plaintiffs appealed this decision to the United States Court of Appeals for the First Circuit and oral argument was held on November 5, 2018 in San Juan, Puerto Rico. On March 26, 2019, the First Circuit held that the special revenue provision of Chapter 9, incorporated into Title III, permit, but do not require, continued payment of special revenues by a debtor during the pendency of bankruptcy proceedings. The Court further held that consensual prepetition liens on special revenues will remain in place after the filing of the bankruptcy petition, but agreed with the district court that the provision "does not mandate the turnover of special revenues or require continuity of payments of the PRHTA Bonds during the pendency of the Title III proceeding." Appellants have submitted a motion seeking review of this opinion by the full First Circuit panel, and will determine within the 90 days of this decision whether to file a writ of certiorari for hearing before the United States Supreme Court. On July 31, 2019, the First Circuit denied the request for full panel review. On September 20, 2019, Appellants filed a petition for writ of certiorari requesting a Supreme Court review of the First Circuit's ruling.

On May 20, 2019, the Oversight Board and the Committee filed a lien avoidance adversary complaint against fiscal agents, holders, and insurers of certain PRHTA bonds, including National. The complaint challenges the extent and enforceability of certain security interests in PRHTA's revenues. The Court has stayed the proceedings until September 1, 2019. This adversary proceeding was subsequently stayed by order of the Title II Court until December 31, 2019 pending the outcome of mediation.

On August 23, 2019, National and Assured ("HTA Movants") filed a motion in the Title III case for PRHTA for adequate protection or, in the alternative, relief from the automatic stay. The motion argues that the revenues securing the bonds insured by HTA Movants are being improperly diverted away from PRHTA, despite such revenues being the exclusive property of PRHTA and its bondholders. The proceeding is currently stayed until December 31, 2019 pending the outcome of mediation.

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RESULTS OF OPERATIONS (continued)

Status of Puerto Rico's Fiscal Plans

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

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

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

On May 9, 2019, after requesting approval to amend its fiscal plans and the submission of several non-compliant versions by the Puerto Rico government, the Oversight Board certified its own revised fiscal plan for the Commonwealth. The revised fiscal plan reflects a cumulative surplus of $13.7 billion over the six-year projection period (after measures and structural reforms, but before contractual debt service). The new surplus is about $3.5 billion lower than the previous plan, which reflected a surplus of almost $17.0 billion. For the remaining component units, the Oversight Board certified fiscal plans for both PRHTA and the University of Puerto Rico (the "University") on June 5, 2019, while certifying a revised Fiscal Plan for PREPA on June 27, 2019. The Oversight Board also certified the fiscal year 2020 budgets for Commonwealth, PREPA, the University and PRHTA.

Other

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

On January 10, 2019, the University received notification from the Middle States Commission on Higher Education (the "Commission") placing the University's 11 institutions on "show cause" status. The University had until the end of January 2019 to submit requested reports and argue why its accreditation should not be revoked. On January 14, 2019, the University submitted audited financial statements, among other things, to the accreditation agency. Subsequently, the Commission announced at its meeting on June 27, 2019, that it removed all 11 institutions of the University from show cause and reaffirmed the University's accreditation following compliance with the Commission's standards for accreditation and requirements for affiliations.

The following table presents our scheduled gross debt service due on our Puerto Rico insured exposures for the three months ending December 31, 2019, for each of the subsequent four years ending December 31 and thereafter:

	Three Months Ending December 31, 2019	2020	2021	2022	2023	Thereafter	Total
Puerto Rico Electric Power Authority (PREPA)	$ -	$ 115	$ 140	$ 140	$ 137	$ 808	$ 1,340
Puerto Rico Commonwealth GO	-	223	82	19	14	262	600
Puerto Rico Public Buildings Authority (PBA)	-	10	24	9	27	163	233
Puerto Rico Highway and Transportation Authority Transportation Revenue (PRHTA)	-	27	27	27	36	792	909
Puerto Rico Highway and Transportation Authority - Subordinated Transportation Revenue (PRHTA)	-	1	1	9	1	24	36
Puerto Rico Sales Tax Financing Corporation (COFINA)	-	-	-	-	-	220	220
Puerto Rico Highway and Transportation Authority Highway Revenue (PRHTA)	-	16	4	2	4	51	77
University of Puerto Rico System Revenue	-	7	7	7	12	72	105
Inter American University of Puerto Rico Inc.	2	3	3	3	3	14	28
Total	$ 2	$ 402	$ 288	$ 216	$ 234	$ 2,406	$ 3,548

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Corporate

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

The following table summarizes the consolidated results of our corporate segment for the three and nine months ended September 30, 2019 and 2018:

In millions	Three Months Ended September 30, 2019	Three Months Ended September 30, 2018	Percent Change	Nine Months Ended September 30, 2019	Nine Months Ended September 30, 2018	Percent Change
Net investment income	$ 9	$ 9	-%	$ 28	$ 27	4%
Fees	12	9	33%	41	29	41%
Net gains (losses) on financial instruments at fair value and foreign exchange	(20)	17	n/m	(71)	48	n/m
Net gains (losses) on extinguishment of debt	(1)	3	-133%	(1)	3	-133%
Other net realized gains (losses)	(1)	-	n/m	(2)	(2)	-%
Total revenues	(1)	38	-103%	(5)	105	-105%
Operating	16	14	14%	56	41	37%
Interest	22	24	-8%	70	72	-3%
Total expenses	38	38	-%	126	113	12%
Income (loss) before income taxes	$ (39)	$ -	n/m	$ (131)	$ (8)	n/m

n/m - Percent change not meaningful.

FEES The increases in fees for the three and nine months ended September 30, 2019 compared with the same periods of 2018 were due to increases in fees paid by our U.S. public finance segment as a result of the transfer of employees into our corporate segment. The transfer of employees increased compensation expenses in the corporate segment which were recharged to our U.S. public finance segment.

NET GAINS (LOSSES) ON FINANCIAL INSTRUMENTS AT FAIR VALUE AND FOREIGN EXCHANGE The unfavorable changes in net gains (losses) on financial instruments at fair value and foreign exchange for the three and nine months ended September 30, 2019 compared with the same periods of 2018 were primarily due to fair value losses on our interest rate swaps. These fair value losses resulted from the impact of decreases in interest rates during 2019 on interest rate swaps for which we receive floating rates.

OPERATING EXPENSES Operating expenses increased for the three months ended September 30, 2019 compared with the same period of 2018 primarily due to increases in compensation expense as a result of the transfer of employees from our U.S. public finance insurance segment. Operating expenses increased for the nine months ended September 30, 2019 compared with the same period of 2018 primarily due to increases in compensation expense as a result of the transfer of employees from our U.S. public finance insurance segment and additional restricted stock expense. Higher operating expenses related to the transfer of employees also resulted in higher fees revenue in our corporate segment as services were recharged to our U.S. public finance segment.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

RESULTS OF OPERATIONS (continued)

International and Structured Finance Insurance

Our international and structured finance insurance portfolio is managed through MBIA Corp. The financial guarantees issued by MBIA Corp. generally provide unconditional and irrevocable guarantees of the payment of the principal of, and interest or other amounts owing on, non-U.S. public finance and global structured finance insured obligations when due or, in the event MBIA Corp. has the right, at its discretion, to accelerate insured obligations upon default or otherwise.

MBIA Corp. has insured sovereign-related and sub-sovereign bonds, privately issued bonds used for the financing of utilities, toll roads, bridges, airports, public transportation facilities, and other types of infrastructure projects serving a substantial public purpose. Global structured finance and asset-backed obligations typically are securities repayable from cash flows generated by a specified pool of assets, such as residential and commercial mortgages, insurance policies, consumer loans, corporate loans and bonds, trade and export receivables, and leases for equipment, aircraft and real estate property. MBIA Insurance Corporation insures the investment agreements written by MBIA Inc., and if MBIA Inc. were to have insufficient assets to pay amounts due upon maturity or termination, MBIA Insurance Corporation would be required to make such payments under its insurance policies. MBIA Insurance Corporation also insured debt obligations of other affiliates, including GFL, IMC and MZ Funding. MBIA Corp. has also written insurance policies guaranteeing the obligations under credit default swap ("CDS") contracts of an affiliate, LaCrosse Financial Products, LLC and certain other derivative contracts. Certain policies cover payments potentially due under CDS, including termination payments that may become due in certain circumstances, including the occurrence of certain insolvency or payment defaults under the CDS or derivative contracts by the insured counterparty or by the guarantor. We no longer insure new credit derivative contracts except for transactions related to the restructuring or reduction of existing derivative exposure. MBIA Insurance Corporation provides 100% reinsurance to MBIA Mexico S.A. de C.V. ("MBIA Mexico").

MBIA Corp. has contributed to the Company's net operating loss ("NOL") carryforward, which is used in the calculation of our consolidated income taxes. If MBIA Corp. becomes profitable, it is not expected to make any tax payments under our tax sharing agreement. Refer to "Note 10: Income Taxes" in the Notes to Consolidated Financial Statements for further information about taxes. Based on MBIA Corp.'s current projected earnings and our expectation that it will not write meaningful new business, we believe it is unlikely that MBIA Corp. will generate significant income in the near future. As a result of MBIA Corp.'s capital structure and business prospects, we do not expect its financial performance to have a material impact on MBIA Inc.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

RESULTS OF OPERATIONS (continued)

The following table presents our international and structured finance insurance segment results for the three and nine months ended September 30, 2019 and 2018:

In millions	Three Months Ended September 30, 2019	Three Months Ended September 30, 2018	Percent Change	Nine Months Ended September 30, 2019	Nine Months Ended September 30, 2018	Percent Change
Net premiums earned	$ 7	$ 40	-83%	$ 20	$ 71	-72%
Net investment income	2	1	100%	6	4	50%
Fees and reimbursements	8	23	-65%	17	41	-59%
Change in fair value of insured derivatives:						
Realized gains (losses) and other settlements on insured derivatives	(9)	(5)	80%	(10)	(49)	-80%
Unrealized gains (losses) on insured derivatives	9	4	125%	23	36	-36%
Net change in fair value of insured derivatives	-	(1)	-100%	13	(13)	n/m
Net gains (losses) on financial instruments at fair value and foreign exchange	(14)	(13)	8%	(24)	(17)	41%
Other net realized gains (losses)	1	1	-%	3	2	50%
Revenues of consolidated VIEs:						
Net investment income	10	9	11%	30	25	20%
Net gains (losses) on financial instruments at fair value and foreign exchange	44	12	n/m	31	29	7%
Other net realized gains (losses)	(4)	(33)	-88%	(20)	(126)	-84%
Total revenues	54	39	38%	76	16	n/m
Losses and loss adjustment	77	(2)	n/m	123	(7)	n/m
Amortization of deferred acquisition costs	7	11	-36%	16	26	-38%
Operating	6	5	20%	19	16	19%
Interest	33	32	3%	100	96	4%
Expenses of consolidated VIEs:						
Operating	2	3	-33%	6	8	-25%
Interest	20	24	-17%	68	68	-%
Total expenses	145	73	99%	332	207	60%
Income (loss) before income taxes	$ (91)	$ (34)	n/m	$ (256)	$ (191)	34%

n/m - Percent change not meaningful.

As of September 30, 2019, MBIA Corp.'s total insured gross par outstanding was $10.3 billion.

NET PREMIUMS EARNED Our international and structured finance insurance segment generates net premiums from insurance policies accounted for as financial guarantee contracts. Certain premiums may be eliminated in our consolidated financial statements as a result of the Company consolidating VIEs. In addition, we generate net premiums from insured credit derivatives that are included in "Realized gains (losses) and other settlements on insured derivatives" on our consolidated statements of operations. The following table provides net premiums earned from our financial guarantee contracts for the three and nine months ended September 30, 2019 and 2018:

In millions	Three Months Ended September 30, 2019	Three Months Ended September 30, 2018	Percent Change	Nine Months Ended September 30, 2019	Nine Months Ended September 30, 2018	Percent Change
Net premiums earned:						
U.S.	$ 1	$ 2	-50%	$ 4	$ 7	-43%
Non-U.S.	6	38	-84%	16	64	-75%
Total net premiums earned	$ 7	$ 40	-83%	$ 20	$ 71	-72%
VIEs (eliminated in consolidation)	$ (3)	$ 2	n/m	$ -	$ 5	-100%

n/m - Percent change not meaningful.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

RESULTS OF OPERATIONS (continued)

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 the three and nine months ended September 30, 2019 compared with the same periods of 2018 primarily due to the acceleration of premiums related to the termination of several international public finance policies in 2018.

FEES AND REIMBURSEMENTS The decreases in fees and reimbursements for the three and nine months ended September 30, 2019 compared with the same periods of 2018 were primarily due to decreases in termination and waiver and consent fees related to the ongoing management of our international and structured finance insurance business. Due to the transaction-specific nature inherent in fees and reimbursements, these revenues can vary significantly from period to period.

NET CHANGE IN FAIR VALUE OF INSURED DERIVATIVES Realized losses on insured derivatives include payments made net of premiums and fees earned and salvage received. Premiums earned related to insured credit derivatives will decrease over time as a result of settlements prior to maturity and amortization. For the three and nine months ended September 30, 2019 and 2018, realized losses on insured derivatives resulted from claim payments on commercial mortgage-backed securities exposure.

For the nine months ended September 30, 2019, unrealized gains on insured derivatives were principally due to the reversal of unrealized losses resulting from gross par amortization, partially offset by unfavorable changes in the estimated value of the remaining underlying collateral. For the nine months ended September 30, 2018, unrealized gains on insured derivatives were principally the result of par amortization, partially offset by the effects of favorable changes in the market's perception of MBIA Corp.'s nonperformance risk on its derivative liabilities.

As of September 30, 2019 and December 31, 2018, the fair value of MBIA Corp.'s insured CDS liability was $10 million and $33 million, respectively. As of September 30, 2019, MBIA Corp. had $34 million of gross par outstanding on an insured credit derivative compared with $70 million as of December 31, 2018.

NET GAINS (LOSSES) ON FINANCIAL INSTRUMENTS AT FAIR VALUE AND FOREIGN EXCHANGE The net losses on financial instruments and foreign exchange for the three and nine months ended September 30, 2019 were primarily related to unfavorable mark-to-market fluctuations on derivatives. The net losses on financial instruments and foreign exchange for the three and nine months ended September 30, 2018 were primarily related to losses from foreign currency revaluations on Chilean Unidad de Fomento denominated premium receivables due to the strengthening of the U.S. dollar and the revaluation of loss reserves on Mexican and Euro denominated policies as a result of the weakening of the U.S. dollar.

REVENUES OF CONSOLIDATED VIEs For the three months ended September 30, 2019, total revenues of consolidated VIEs were $50 million compared with a loss of $12 million for the same period of 2018. The increase was primarily due to higher gains in the third quarter of 2019 from second-lien RMBS put-back claims on ineligible mortgage loans compared with net losses in the third quarter of 2018 from the deconsolidation of VIEs. For the nine months ended September 30, 2019, total revenues of consolidated VIEs were $41 million compared with a loss of $72 million for the same period of 2018. This increase was primarily due to the deconsolidation of VIEs in the second and third quarters of 2018, including two VIEs related to the Zohar bankruptcy settlement, which resulted in a loss of $93 million, and higher gains from second-lien RMBS put-back claims on ineligible mortgage loans in 2019. The loss from the Zohar VIE deconsolidation in 2018 resulted from the difference between the fair value of the VIE assets that were deconsolidated and our then current estimate of salvage and subrogation recoveries from those VIEs under insurance accounting. Refer to "Note 1: Business Developments and Risks and Uncertainties" in the Notes to Consolidated Financial Statements for additional information regarding the Zohar bankruptcy settlement. We elected to record at fair value certain instruments that are consolidated under accounting guidance for consolidation of VIEs, and as such, changes in fair value are reflected in earnings.

LOSSES AND LOSS ADJUSTMENT EXPENSES Our international and structured finance insured portfolio management group is responsible for monitoring international and structured finance insured obligations. The level and frequency of monitoring of any insured obligation depends on the type, size, rating and our assessed performance of the insured issue. Refer to "Note 5: Loss and Loss Adjustment Expense Reserves" in the Notes to Consolidated Financial Statements for a description of the Company's loss reserving policy and additional information related to its loss reserves.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

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 three and nine months ended September 30, 2019 and 2018:

In millions	Three Months Ended September 30, 2019	Three Months Ended September 30, 2018	Percent Change	Nine Months Ended September 30, 2019	Nine Months Ended September 30, 2018	Percent Change
Losses and loss adjustment expenses (1)	$ 77	$ (2)	n/m	$ 123	$ (7)	n/m

(1) - As a result of consolidation of VIEs, these amounts include the elimination of a loss and LAE benefit of $32 million and $20 million for the three months ended September 30, 2019 and 2018, respectively, and loss and LAE expense of $4 million and a loss and LAE benefit of $39 million for the nine months ended September 30, 2019 and 2018, respectively.

n/m - Percent change not meaningful.

For the three and nine months ended September 30, 2019, loss and LAE primarily related to increases in losses incurred on insured first-lien RMBS and CDOs.

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

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

Refer to "Note 5: Loss and Loss Adjustment Expense Reserves" in the Notes to Consolidated Financial Statements for further information about our insurance loss recoverable and loss and LAE reserves. The following table presents information about our insurance loss recoverable and loss and LAE reserves as of September 30, 2019 and December 31, 2018.

In millions	September 30, 2019	December 31, 2018	Percent Change
Assets:			
Insurance loss recoverable	$ 898	$ 1,024	-12%
Reinsurance recoverable on paid and unpaid losses (1)	6	5	20%
Liabilities:			
Loss and LAE reserves	485	414	17%
Insurance loss recoverable - ceded (2)	1	-	n/m
Net reserve (salvage)	$ (418)	$ (615)	-32%

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

(2) - Reported within "Other liabilities" on our consolidated balance sheets.

n/m - Percent change not meaningful.

Beginning with the second quarter of 2019, the Company changed its presentation of its insurance loss recoverable and its loss and LAE reserves related to its insured first-lien RMBS exposure. Certain amounts have been reclassified in prior years' financial statements to conform to the current presentation, including an increase of $31 million in insurance loss recoverable and an equal and offsetting increase in loss and LAE reserves as of December 31, 2018. Refer to "Note 2: Significant Accounting Policies" in the Notes to Consolidated Financial Statements for additional information about this presentation change.

Payment of claims totaling $919 million in November of 2015 and January of 2017 on MBIA Corp.'s policies insuring certain notes issued by Zohar CDO 2003-1, Limited ("Zohar I") and Zohar II 2005-1, Limited ("Zohar II") entitles MBIA Corp. to reimbursement of such amounts plus interest and expenses and/or to exercise certain rights and remedies to seek recovery of such amounts. Refer to "Note 1: Business Developments and Risks and Uncertainties" in the Notes to Consolidated Financial Statements for additional information regarding the estimated Zohar recoveries.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

RESULTS OF OPERATIONS (continued)

POLICY ACQUISITION COSTS AND OPERATING EXPENSES International and structured finance insurance segment expenses for the three and nine months ended September 30, 2019 and 2018 are presented in the following table:

In millions	Three Months Ended September 30, 2019	Three Months Ended September 30, 2018	Percent Change	Nine Months Ended September 30, 2019	Nine Months Ended September 30, 2018	Percent Change
Gross expenses	$ 6	$ 5	20%	$ 19	$ 16	19%
Amortization of deferred acquisition costs	$ 7	$ 11	-36%	$ 16	$ 26	-38%
Operating	6	5	20%	19	16	19%
Total insurance operating expenses	$ 13	$ 16	-19%	$ 35	$ 42	-17%

Gross expenses represent total insurance expenses before the deferral of any policy acquisition costs.

The decrease in the amortization of deferred acquisition costs for the nine months ended September 30, 2019 compared with the same period of 2018 was due to lower refunding activity in the current year. We did not defer a material amount of policy acquisition costs during the first nine months of 2019 or 2018. Policy acquisition costs in these periods were primarily related to ceding commissions and premium taxes on installment policies written in prior periods.

International and Structured Finance Insurance Portfolio Exposures

Credit Quality

The credit quality of our international and structured finance insured portfolio is assessed in the same manner as our U.S. public finance insured portfolio. As of September 30, 2019 and December 31, 2018, 28% and 31%, respectively, of our international and structured finance insured portfolio was rated below investment grade, before giving effect to MBIA's guarantees, based on MBIA's internal ratings, which are generally more current than the underlying ratings provided by S&P and Moody's for this subset of our insured portfolio.

Selected Portfolio Exposures

The following is a summary of selected significant exposures within our residential mortgage insured portfolio of our international and structured finance insurance segment. In addition, as of September 30, 2019, MBIA Corp. insured $318 million of CDOs and related instruments. We may experience considerable incurred losses and future expected payments in certain of these sectors. There can be no assurance that the loss reserves recorded in our financial statements will be sufficient or that we will not experience losses on transactions on which we currently have no loss reserves, in particular if the economy deteriorates. We may seek to purchase, directly or indirectly, obligations guaranteed by MBIA Corp. or seek to commute policies. The amount of insurance exposure reduced, if any, and the nature of any such actions will depend on market conditions, pricing levels from time to time, and other considerations. In some cases, these activities may result in a reduction of loss reserves, but in all cases they are intended to limit our ultimate losses and reduce the future volatility in loss development on the related policies. Our ability to purchase guaranteed obligations and to commute policies will depend on management's assessment of available liquidity.

Residential Mortgage Exposure

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

The following table presents the gross par outstanding of MBIA Corp.'s total direct RMBS insured exposure as of September 30, 2019 and December 31, 2018. Amounts include the gross par outstanding related to transactions that the Company consolidates under accounting guidance for VIEs.

In millions	Gross Par Outstanding as of		
Collateral Type	September 30, 2019	December 31, 2018	Percent Change
HELOC Second-lien	$ 411	$ 511	-20%
CES Second-lien	143	591	-76%
Alt-A First-lien(1)	914	983	-7%
Subprime First-lien	356	439	-19%
Prime First-lien	13	15	-13%
Total	$ 1,837	$ 2,539	-28%

(1) - Includes international exposure of $238 million and $245 as of September 30, 2019 and December 31, 2018, respectively.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

RESULTS OF OPERATIONS (continued)

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

Reinsurance enables the Company to cede exposure for purposes of syndicating risk. The Company generally retains the right to reassume the business ceded to reinsurers under certain circumstances, including a reinsurer's rating downgrade below specified thresholds. Currently, we do not intend to use reinsurance to decrease the insured exposure in our portfolio.

As of September 30, 2019, the aggregate amount of insured par outstanding ceded by MBIA to reinsurers under reinsurance agreements was $1.9 billion compared with $2.2 billion as of December 31, 2018. 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. For a discussion of the Company's reinsurance, refer to "Note 13: Insurance in Force" in the Notes to Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2018.

Taxes

Provision for Income Taxes

The Company's income taxes and the related effective tax rates for the three and nine months ended September 30, 2019 and 2018 are presented in the following table:

	Three Months Ended September 30,		Nine Months Ended September 30,	
In millions	**2019**	**2018**	**2019**	**2018**
Income (loss) before income taxes	$ 89	$ (45)	$ (137)	$ (287)
Provision (benefit) for income taxes	$ 18	$ -	$ (21)	$ 2
Effective tax rate	20.2%	-%	15.3%	-0.7%

For the nine months ended September 30, 2019, our effective tax rate applied to our loss before income taxes was lower than the U.S. statutory tax rate due to the full valuation allowance on the changes in our net deferred tax asset and the application of intraperiod tax accounting, partially offset by state income tax expense. There is an offsetting expense recorded to other comprehensive income for the change in the valuation allowance related to the application of intraperiod tax accounting.

For the nine months ended September 30, 2018, our effective tax rate applied to our loss before income taxes was lower than the U.S. statutory rate due to the full valuation allowance on the changes in our net deferred tax asset.

As of September 30, 2019 and December 31, 2018, the Company's valuation allowance against its net deferred tax asset was $832 million and $834 million, respectively.

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

Refer to "Note 10: Income Taxes" in the Notes to Consolidated Financial Statements for a further discussion of income taxes, including the valuation allowance against the Company's net deferred tax asset and its accounting for tax uncertainties.

CAPITAL RESOURCES

The Company manages its capital resources to minimize its cost of capital while maintaining appropriate claims-paying resources ("CPR") for National and MBIA Corp. The Company's capital resources consist of total shareholders' equity, total debt issued by MBIA Inc. for general corporate purposes, surplus notes issued by MBIA Corp., and the Refinanced Facility. Total capital resources were $2.7 billion as of September 30, 2019 and $3.0 billion as of December 31, 2018.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

CAPITAL RESOURCES (continued)

In addition to scheduled debt maturities, from time to time, we reduce unsecured debt through calls or repurchases. MBIA Inc. or National may also repurchase outstanding MBIA Inc. common shares when we deem it beneficial to our shareholders. MBIA Inc. supports the MTN and investment agreement obligations issued by the Company. We seek to maintain sufficient liquidity and capital resources to meet the Company's general corporate needs and debt service. Based on MBIA Inc.'s debt service requirements and expected operating expenses, we expect that MBIA Inc. will have sufficient resources to satisfy its debt obligations and its general corporate needs over time from distributions from its operating subsidiaries; however, there can be no assurance that MBIA Inc. will have sufficient resources to do so. In addition, the Company may also consider raising third-party capital. Refer to "Capital, Liquidity and Market Related Risk Factors" in Part I, Item 1A of Form 10-K for the year ended December 31, 2018 and the "Liquidity—Corporate Liquidity" section included herein for additional information about MBIA Inc.'s liquidity.

Securities Repurchases

Repurchases of debt and common stock may be made from time to time in the open market or in private transactions as permitted by securities laws and other legal requirements. We may also choose to redeem debt obligations where permitted by the relevant agreements. MBIA Inc. or National may repurchase or redeem outstanding common shares of MBIA Inc. and outstanding debt obligations when we deem beneficial to our shareholders.

Equity securities

MBIA Inc.'s and National's share repurchases that were authorized under share repurchase programs for the nine months ended September 30, 2019 and 2018 are presented in the following table:

In millions except per share amounts	Nine Months Ended September 30, 2019	Nine Months Ended September 30, 2018
Number of shares repurchased	10.3	2.0
Average price paid per share	$ 9.11	$ 7.25
Remaining authorization as of September 30	$ 108	$ 236

Debt securities

During the nine months ended September 30, 2019, we redeemed $150 million principal amount of the Company's 6.400% Senior Notes due 2022 at a cost of 100% of par value plus accrued interest.

Insurance Statutory Capital

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

National

Capital and Surplus

National had statutory capital of $2.5 billion as of September 30, 2019 and December 31, 2018. As of September 30, 2019, statutory capital comprised $2.0 billion of policyholders' surplus and $495 million of contingency reserves. For the nine months ended September 30, 2019, National had statutory net income of $35 million. As of September 30, 2019, National's unassigned surplus was $1.4 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.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

CAPITAL RESOURCES (continued)

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

National had positive earned surplus as of September 30, 2019, from which it may pay dividends, subject to the limitations described above. Subsequent to September 30, 2019, National declared and paid a dividend of $110 million to its ultimate parent, MBIA Inc. We expect the as-of-right declared and paid dividend amounts from National to be limited to prior year adjusted net investment income for the foreseeable future.

Claims-Paying Resources (Statutory Basis)

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

National's CPR and components thereto, as of September 30, 2019 and December 31, 2018 are presented in the following table:

In millions	As of September 30, 2019	As of December 31, 2018
Policyholders' surplus	$ 2,012	$ 1,998
Contingency reserves	495	522
Statutory capital	2,507	2,520
Unearned premiums	426	496
Present value of installment premiums (1)	142	150
Premium resources (2)	568	646
Net loss and LAE reserves (1)	(162)	71
Salvage reserves (1)	825	607
Gross loss and LAE reserves	663	678
Total claims-paying resources	$ 3,738	$ 3,844

(1) - Calculated using a discount rate of 3.67% as of September 30, 2019 and December 31, 2018.

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

MBIA Insurance Corporation

Capital and Surplus

MBIA Insurance Corporation had statutory capital of $533 million as of September 30, 2019 compared with $555 million as of December 31, 2018. As of September 30, 2019, statutory capital comprised $340 million of policyholders' surplus and $193 million of contingency reserves. For the nine months ended September 30, 2019, MBIA Insurance Corporation had a statutory net loss of $68 million. MBIA Insurance Corporation's policyholders' surplus included negative unassigned surplus of $1.7 billion as of September 30, 2019. MBIA Insurance Corporation's policyholders' surplus may be further negatively impacted if future additional insured losses are incurred.

As of September 30, 2019, MBIA Insurance Corporation recognized estimated recoveries on a statutory basis related to put-back claims against Credit Suisse, excess spread recoveries on RMBS and recoveries related to CDOs. There can be no assurance that we will be successful or that we will not be delayed in realizing these recoveries. Refer to "Note 5: Loss and Loss Adjustment Expense Reserves" in the Notes to Consolidated Financial Statements for additional information about these recoveries.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

CAPITAL RESOURCES (continued)

In order to maintain its New York State financial guarantee insurance license, MBIA Insurance Corporation is required to maintain a minimum of $65 million of policyholders' surplus. As of September 30, 2019, MBIA Corp. met the required minimum requirement. Under NYIL, MBIA Insurance Corporation is required to invest its minimum surplus and contingency reserves and 50% of its loss reserves and unearned premium reserves in certain qualifying assets. As of September 30, 2019, MBIA Insurance Corporation maintained its minimum requirement of policyholders' surplus but did not have enough qualifying assets to support its contingency reserves and 50% of its loss reserves and unearned premium reserves. As of September 30, 2019, MBIA Insurance Corporation was in compliance with its aggregate risk limits under the NYIL, but was not in compliance with certain of its single risk limits. If MBIA Insurance Corporation does not comply with the above mentioned requirements, the NYSDFS may prevent MBIA Insurance Corporation from transacting any new financial guarantee insurance business until it no longer exceeds the limitations.

Due to its significant earned surplus deficit, MBIA Insurance Corporation has not had the statutory capacity to pay dividends since December 31, 2009. Based on estimated future income, MBIA Insurance Corporation is not expected to have any statutory capacity to pay dividends.

The NYSDFS has not approved MBIA Insurance Corporation's requests to make interest payments on MBIA Insurance Corporation's 14% Fixed-to-Floating Rate Surplus Notes due January 15, 2033 (the "Surplus Notes") since, and including, the January 15, 2013 interest payment. The NYSDFS has cited both MBIA Insurance Corporation's liquidity and financial condition as well as the availability of "free and divisible surplus" as the basis for such non-approvals. As of October 15, 2019, the most recent scheduled interest payment date, there was $856 million of unpaid interest on the par amount outstanding of $953 million of the Surplus Notes. Under Section 1307 of the NYIL and the Fiscal Agency Agreement governing the surplus notes, Surplus Note payments may be made only with the prior approval by the NYSDFS and if MBIA Insurance Corporation has sufficient "Eligible Surplus", or as we believe, "free and divisible surplus" as an appropriate calculation of "Eligible Surplus." As of September 30, 2019, MBIA Insurance Corporation had "free and divisible surplus" of $323 million. There is no assurance the NYSDFS will approve Surplus Note payments, notwithstanding the sufficiency of MBIA Insurance Corporation's liquidity and financial condition. The unpaid interest on the Surplus Notes will become due on the first business day on or after which MBIA Insurance Corporation obtains approval to pay some or all of such unpaid interest. No interest has been accrued or will accrue on the deferred interest.

Claims-Paying Resources (Statutory Basis)

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

MBIA Corp.'s CPR and components thereto, as of September 30, 2019 and December 31, 2018 are presented in the following table:

In millions	As of September 30, 2019	As of December 31, 2018
Policyholders' surplus	$ 340	$ 356
Contingency reserves	193	199
Statutory capital	533	555
Unearned premiums	97	109
Present value of installment premiums (1) (4)	120	139
Premium resources (2)	217	248
Net loss and LAE reserves (1)	(761)	(865)
Salvage reserves (1) (3)	1,352	1,402
Gross loss and LAE reserves	591	537
Total claims-paying resources	$ 1,341	$ 1,340

(1) - Calculated using a discount rate of 5.17% as of September 30, 2019 and December 31, 2018.

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

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

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

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

LIQUIDITY

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

National Liquidity

The primary sources of cash available to National are:

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

The primary uses of cash by National are:

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

As of September 30, 2019 and December 31, 2018, National held cash and investments of $2.8 billion and $3.2 billion, respectively, of which $639 million and $488 million, respectively, were cash and cash equivalents or short-term investments comprised of highly rated commercial paper, money market funds and municipal, U.S. agency and corporate bonds.

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

Corporate Liquidity

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

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

The primary uses of cash by MBIA Inc. are:

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

As of September 30, 2019 and December 31, 2018, the liquidity positions of MBIA Inc. were $232 million and $457 million, respectively, and included cash and cash equivalents and other investments comprised of highly rated commercial paper and U.S. government and asset-backed bonds.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

LIQUIDITY (continued)

During the nine months ended September 30, 2019, $91 million was released from the Tax Escrow Account to MBIA Inc., of which $56 million was in cash, related to deposits made by National for the 2016 tax year. Also, $5 million was returned to National as a result of capital losses incurred in 2018 that can be carried back to prior years. The releases were pursuant to the terms of the tax sharing agreement following the expiration of National's two-year NOL carry-back period under U.S. tax rules. In addition to releases or returns following the expiration of National's two-year NOL carry-back period, from time to time, MBIA Inc. is permitted to withdraw assets from the Tax Escrow Account if the aggregate market value of all assets held in the Tax Escrow Account exceeds the required minimum balance. There can be no assurance that any future payments under the Tax Escrow Account from subsidiaries will be released to MBIA Inc. due to deductible or creditable tax attributes of those subsidiaries and/or the market value performance of the assets supporting the Tax Escrow Account.

Based on our projections of National's and MBIA Corp.'s future earnings and losses, we expect that for the foreseeable future National will be the primary source of payments to MBIA Inc. Subsequent to September 30, 2019, National declared and paid a dividend of $110 million to its ultimate parent, MBIA Inc. There can be no assurance as to the amount and timing of any such future dividends or payments from the tax escrow account under the tax sharing agreement. Also, absent a special dividend subject to the approval of the NYSDFS, we expect the declared and paid dividend amounts from National to be limited to the prior twelve months of adjusted net investment income as reported in its most recent statutory filings. Refer to the "Capital Resources – Insurance Statutory Capital" section for additional information on payments of dividends. We do not expect MBIA Inc. to receive distributions from MBIA Corp.

Currently, a significant portion of the cash and securities held by MBIA Inc. is pledged against investment agreement liabilities, the Asset Swap (simultaneous repurchase and reverse repurchase agreement) and derivatives, which limits its ability to raise liquidity through asset sales. As the market value or rating eligibility of the assets which are pledged against MBIA Inc.'s obligations declines, we are 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.

During the third quarter of 2019, we terminated a portion of our interest rate swaps. The termination amount paid in cash reflected the fair values of the swaps at the termination date and all collateral held by the counterparty to the interest rate swaps was returned to the Company. The termination of these swaps was executed to reduce future exposure to interest rate movements.

MBIA Corp. Liquidity

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

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

The primary uses of cash by MBIA Corp. are:

- loss and LAE or commutation payments on insured transactions;
- repayment of the Refinanced Facility; and
- payments of operating expenses.

As of September 30, 2019 and December 31, 2018, MBIA Corp. held cash and investments of $222 million and $242 million, respectively, of which $115 million and $145 million, respectively, were cash and cash equivalents or liquid investments comprised of money market funds and municipal, U.S. agency and corporate bonds that were immediately available to MBIA Insurance Corporation.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

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. In order to monitor liquidity risk and maintain appropriate liquidity resources, we use the same methodology as we use to monitor credit quality and losses within our insured portfolio, including stress scenarios. Refer to "Note 5: Loss and Loss Adjustment Expense Reserves" in the Notes to Consolidated Financial Statements for a discussion of our loss process.

During the nine months ended September 30, 2019, MBIA Corp. collected $90 million from insured RMBS transactions related to excess spread recoveries. As of September 30, 2019, MBIA Corp. has expected excess spread recoveries of $178 million, including recoveries related to consolidated VIEs. MBIA Corp. has also recorded expected recovery amounts related to its claims against Credit Suisse for ineligible mortgage loans and recoveries related to CDOs. There can be no assurance that we will be successful or not be delayed in realizing these recoveries.

During the nine months ended September 30, 2019, MBIA Corp. requested and was granted permission by the NYSDFS to prepay approximately $83 million of the MZ Funding Facility and the Refinanced Facility.

MBIA Corp. Financing Facility

In connection with the Refinanced Facility, original notes issued by MZ Funding on January 10, 2017 (the "Original MZ Funding Notes") were redeemed or amended, as applicable, and the Senior Lenders purchased new senior notes issued by MZ Funding (the "Insured Senior Notes") with an aggregate principal amount of $278 million. In addition, MBIA Inc. received amended subordinated notes issued by MZ Funding (the "Insured Subordinated Notes" and together with the Insured Senior Notes, the "New MZ Funding Notes") with an aggregate principal amount of $54 million (with the New MZ Funding Notes replacing the Original MZ Funding Notes). The New MZ Funding Notes mature on January 20, 2022 and bear interest at 12% per annum, payable quarterly in arrears. Interest on the New MZ Funding Notes are payable in cash, but may be payable in kind at the option of MBIA Corp.; however, proceeds of, or recoveries on, the collateral and the cash sweep amount (referred to below) must be used to pay interest or principal in cash.

MZ Funding and MBIA Corp. are parties to a credit agreement (the "Original Credit Agreement") entered into on the date of issuance of the Original MZ Funding Notes, pursuant to which MZ Funding lent the proceeds of the Original MZ Funding Notes to MBIA Corp. In connection with the refinance transaction, MZ Funding and MBIA Corp. entered into an amended and restated credit agreement (the "New Credit Agreement" and the loans thereunder, the "MBIA Loans"), pursuant to which MZ Funding lent the proceeds of the New MZ Funding Notes to MBIA Corp. to refinance the Original Credit Agreement. The maturity date of the New Credit Agreement and the New MZ Funding Notes is January 20, 2022. The MBIA Corp. Policies unconditionally and irrevocably guarantee the timely payment of all principal and interest payments under the New MZ Funding Notes, which obligations are pari passu with the other insurance policy obligations of MBIA Corp., replacing the policies that had been issued on the Original MZ Funding Notes. The MBIA Corp. Policies are held for the benefit of all holders of the New MZ Funding Notes, the benefit of which is automatically transferred without any restriction to any new holder when such New MZ Funding Notes are transferred.

The Refinanced Facility is secured by a first priority security interest in all of MBIA Corp.'s right, title and interest in the recovery of its claims from the assets of Zohar I and Zohar II which include, among other things, loans made to, and equity interests in, certain portfolio companies purportedly controlled by the sponsor and former collateral manager of Zohar I and Zohar II (the "Zohar Sponsor") and claims that may exist against the Zohar Sponsor. The monetization of the collateral is subject to the terms of a Settlement Agreement between, among other parties, MBIA Corp., the Zohar Sponsor, and the Zohar debtors, which was filed with and approved by the Bankruptcy Court for the District of Delaware presiding over the chapter 11 cases of Zohar I and Zohar II.

If at the end of any fiscal quarter, MBIA Corp's "Available Liquidity" (as defined in the Refinanced Facility) exceeds $100 million and MBIA Corp.'s "Statutory Surplus" (as defined in the Refinanced Facility) exceeds $250 million, MBIA Corp. will make a payment, subject to the approval, or non-disapproval, of the NYSDFS on the MBIA Loans in the amount by which the Available Liquidity exceeds $100 million. Any repayment of original principal on the MBIA Loans during the first 12 months will be subject to a make-whole payment, which effectively ensures that the Senior Lenders are entitled to 12% interest on the entire original principal amount of the Insured Senior Notes for one year. 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.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

LIQUIDITY (continued)

Consolidated Cash Flows

Information about our consolidated cash flows by category is presented on our consolidated statements of cash flows. The following table presents a summary of our consolidated cash flows for the nine months ended September 30, 2019 and 2018:

In millions	Nine Months Ended September 30, 2019	Nine Months Ended September 30, 2018	Percent Change
Statement of cash flow data:			
Net cash provided (used) by:			
Operating activities	$ (415)	$ (323)	28%
Investing activities	1,204	836	44%
Financing activities	(988)	(480)	106%
Cash and cash equivalents - beginning of period	280	146	92%
Cash and cash equivalents - end of period	$ 81	$ 179	-55%

Operating activities

Net cash used by operating activities increased for the nine months ended September 30, 2019 compared with the same period of 2018 primarily due to an increase in losses and LAE paid of $110 million and a decrease in premiums, fees and reimbursements received of $54 million, partially offset by an increase in proceeds from recoveries and reinsurance of $71 million.

Investing activities

Net cash provided by investing activities increased for the nine months ended September 30, 2019 compared with the same period of 2018 primarily due to increases in sales, paydowns and maturities of AFS securities of $705 million, partially offset by an increase in purchases of short-term investments of $408 million.

Financing activities

Net cash used by financing activities increased for the nine months ended September 30, 2019 compared with the same period of 2018 primarily due to increases in principal paydowns of VIE notes of $289 million, principal paydowns of long-term debt of $150 million and purchases of treasury stock of $81 million.

Investments

The following discussion of investments, including references to consolidated investments, excludes investments reported under "Assets of consolidated variable interest entities" on our consolidated balance sheets. Investments of VIEs support the repayment of VIE obligations and are not available to settle obligations of MBIA. Our AFS investments comprise high-quality fixed-income securities and short-term investments. Refer to "Note 7: Investments" in the Notes to Consolidated Financial Statements for detailed discussion about our investments.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

LIQUIDITY (continued)

The following table presents our investment portfolio as of September 30, 2019 and December 31, 2018:

In millions	As of September 30, 2019	As of December 31, 2018	Percent Change
Available-for-sale investments:(1)			
U.S. public finance insurance:			
Amortized cost	$ 2,210	$ 2,704	-18%
Unrealized net gain (loss)	19	(64)	-130%
Fair value	2,229	2,640	-16%
Corporate:			
Amortized cost	619	921	-33%
Unrealized net gain (loss)	73	24	n/m
Fair value	692	945	-27%
International and structured finance insurance:			
Amortized cost	179	192	-7%
Unrealized net gain (loss)	13	4	n/m
Fair value	192	196	-2%
Total available-for-sale investments:			
Amortized cost	3,008	3,817	-21%
Unrealized net gain (loss)	105	(36)	n/m
Total available-for-sale investments at fair value	3,113	3,781	-18%
Investments carried at fair value:(2)			
U.S. public finance insurance	280	198	41%
Corporate	94	73	29%
International and structured finance insurance	8	19	-58%
Total investments carried at fair value	382	290	32%
Other investments at amortized cost:			
U.S. public finance insurance	-	1	-100%
Consolidated investments at carrying value	$ 3,495	$ 4,072	-14%

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

(2) - Changes in fair value and realized gains and losses from the sale of these investments are reflected in net income.
n/m - Percent change not meaningful.

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

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

LIQUIDITY (continued)

Credit Quality

The credit quality distribution of the Company's AFS fixed-maturity investment portfolios, excluding short-term investments, are based on ratings from Moody's and alternate ratings sources, such as S&P or the best estimate of the ratings assigned by the Company, have been used for a small percentage of securities that are not rated by Moody's. As of September 30, 2019, the weighted average credit quality ratings and percentage of investment grade of the Company's AFS fixed-maturity investment portfolios, excluding short-term investments, are presented in the following table:

	U.S. Public Finance Insurance	Corporate	International and Structured Finance Insurance	Total
Weighted average credit quality ratings	Aa	Aa	Aa	Aa
Investment grade percentage	95%	99%	92%	96%

Insured Investments

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

As of September 30, 2019, Insured Investments at fair value represented $217 million or 6% of consolidated investments, of which $192 million or 5% of consolidated investments were Company-Insured Investments. As of September 30, 2019, based on the actual or estimated underlying ratings of our consolidated investment portfolio, without giving effect to financial guarantees, the weighted average rating of only the Insured Investments in the investment portfolio would be in the Baa range. Without giving effect to the National and MBIA Corp. guarantees of the Company-Insured Investments in the consolidated investment portfolio, as of September 30, 2019, 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 Baa range, and investments rated below investment grade in the Company-Insured Investments were 4% of the total consolidated investment portfolio.

Contractual Obligations

For a discussion of the Company's contractual obligations, refer to "Liquidity-Contractual Obligations" in Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in the Company's Annual Report on Form 10-K for the year ended December 31, 2018. In July of 2019, MBIA Corp. consummated the Refinanced Facility. Refer to the "MBIA Corp. Liquidity" section above for additional information on the Refinanced Facility. In August of 2019, we redeemed $150 million principal amount of the Company's 6.400% Senior Notes due 2022. There were no other material changes in contractual obligations since December 31, 2018.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The Company's market risk exposures relate to changes in interest rates, foreign exchange rates and credit spreads that affect the fair value of its financial instruments, primarily investment securities, MTNs and investment agreement liabilities. The Company's investments are primarily U.S. dollar-denominated fixed-income securities including municipal bonds, U.S. government bonds, corporate bonds, MBS and asset-backed securities. In periods of rising and/or volatile interest rates, foreign exchange rates and credit spreads, profitability could be adversely affected should the Company have to liquidate these securities. The Company minimizes its exposure to interest rate risk, foreign exchange risk and credit spread movement through active portfolio management to ensure a proper mix of the types of securities held and to stagger the maturities of its fixed-income securities. The following tables present updates in our market risk relating to interest rates and credit spreads. There were no material changes in market risk since December 31, 2018 related to foreign exchange rates. For a discussion of our quantitative and qualitative disclosures about market risk related to foreign exchange rates, refer to Part II, Item 7A, "Quantitative and Qualitative Disclosures About Market Risk" included in the Company's Annual Report on Form 10-K for the year ended December 31, 2018.

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 September 30, 2019 from instantaneous shifts in interest rates:

	Change in Interest Rates					
In millions	300 Basis Point Decrease	200 Basis Point Decrease	100 Basis Point Decrease	100 Basis Point Increase	200 Basis Point Increase	300 Basis Point Increase
Estimated change in fair value	$ 262	$ 148	$ 64	$ (52)	$ (95)	$ (129)

CREDIT SPREAD 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 September 30, 2019 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. The changes in fair value reflect partially offsetting effects as the value of the investment portfolios generally changes in an opposite direction from the liability portfolio:

	Change in Credit Spreads		
In millions	50 Basis Point Decrease	50 Basis Point Increase	200 Basis Point Increase
Estimated change in fair value	$ 17	$ (17)	$ (58)

Item 4. 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 such term is defined in Rules 13a-15(e) and 15(d)-15(e) under the Securities Exchange Act of 1934) was performed under the supervision and with the participation of the Company's senior management, including the Chief Executive Officer and the Chief Financial Officer. Based on that evaluation, the Company's Chief Executive Officer and the Chief Financial Officer have concluded that the Company's disclosure controls and procedures were not effective because of a material weakness in internal control over financial reporting related to the process used to estimate its loss reserves and recoveries for residential mortgage-backed securities insured by MBIA Insurance Corporation that was disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2018. Management did not identify a material misstatement within its consolidated financial statements in this or any prior filed Quarterly Report on Form 10-Q or Annual Report on Form 10-K as a result of the material weakness.

REMEDIATION PLAN ACTIVITIES

As previously disclosed in Part II, Item 9A of the Company's Annual Report on Form 10-K for the year ended December 31, 2018, we commenced a remediation plan with the goal of remediating the material weakness as soon as possible. In carrying out our remediation plan, management modified existing key controls and implemented new key controls at a sufficient level of precision to verify the reliability of data, the reasonableness of assumptions and the accuracy of calculations used in its RMBS loss reserve and recovery models during the quarter ended June 30, 2019, and we are in the process of testing the operational effectiveness of these key controls. The material weakness will not be considered remediated until the applicable controls operate for a sufficient period of time for management to conclude, through testing, that such controls are operating effectively. We expect that the material weakness will be remediated before the end of 2019.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There were no changes in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934) during the quarter to which this report relates that have materially affected, or are likely to material affect, the Company's internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

For a discussion of the Company's litigation and related matters, see "Note 14: Commitments and Contingencies" in the Notes to Consolidated Financial Statements of MBIA Inc. and Subsidiaries in Part I, Item 1. In the normal course of operating its businesses, MBIA Inc. may be involved in various legal proceedings. As a courtesy, the Company posts on its website under the section "Legal Proceedings," selected information and documents in reference to selected legal proceedings in which the Company is the plaintiff or the defendant. The Company will not necessarily post all documents for each proceeding and undertakes no obligation to revise or update them to reflect changes in events or expectations. The complete official court docket can be publicly accessed by contacting the clerk's office of the respective court where each litigation is pending.

Item 1A. Risk Factors

The following should be read in conjunction with and supplements the risk factors described under Part I, Item 1A, "Risk Factors" of the Company's Annual Report on Form 10-K for the year ended December 31, 2018.

Insured Portfolio Loss Related Risk Factors

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

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

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

On May 3, 2017, the Oversight Board certified and filed a bankruptcy-like petition under Title III of PROMESA for Puerto Rico with the District Court of Puerto Rico thereby commencing a bankruptcy-like case for Puerto Rico. Under a separate petition, the Oversight Board also commenced a Title III proceeding for Puerto Rico Sales Tax Financing Corporation ("COFINA") on May 5, 2017. Subsequently, the Oversight Board also certified and filed voluntary petitions under Title III of PROMESA for several municipalities, including the Puerto Rico Highway and Transportation Authority ("PRHTA") and the Puerto Rico Electric Power Authority ("PREPA") on May 21, 2017 and July 2, 2017, respectively. On February 4, 2019, the District Court for the District of Puerto Rico entered the order confirming the Third Amended Title III Plan of Adjustment for COFINA. The plan became effective on February 12, 2019.

Item 1A. Risk Factors (continued)

Puerto Rico continues in its efforts to rebuild its infrastructure and to otherwise recover from the impact of Hurricane Maria in 2017, aided in part by Federal Emergency Management Agency and other federal agencies. The extent and duration of such aid is inherently uncertain, and the necessary and greater involvement of the federal government, through its actions to deliver disaster relief and other support services, in addition to the evolving role of the Oversight Board and the role of Puerto Rico in its own recovery, heightens political risk in connection with the restructuring of legacy debt. This risk could lead the Oversight Board, Puerto Rico or the federal government to seek to extract greater concessions from creditors based on the uncertainty of Puerto Rico's long term recovery prospects. In this event, losses at National on select Puerto Rico exposures could increase materially.

As of September 30, 2019, National had $2.4 billion of gross insured par outstanding related to Puerto Rico. Puerto Rico may be unable or unwilling to pay their obligations as and when due, in which case National would be required to pay claims of unpaid principal and interest when due under its insurance policies, which could be material. On January 1, 2019 and July 1, 2019, Puerto Rico defaulted on scheduled debt service for certain National insured bonds and National paid gross claims in the aggregate of $393 million as a result. While National will seek to recover any claim payments it makes under its guarantees, there is no assurance that it will be able to recover such payments. To the extent that its claims payments are ultimately substantially greater than its claims recoveries, National would experience losses on those obligations, which could materially and adversely affect our business, financial condition and results of operations.

On May 3, 2019, PREPA, the Oversight Board, the AAFAF, the Ad Hoc Group of PREPA bondholders (the "Ad Hoc Group"), and Assured Guaranty Corp. and Assured Guaranty Municipal Corp. ("Assured") entered into a Definitive Restructuring Support Agreement which was amended on September 9, 2019 to include National and Syncora Guarantee, Inc. ("Syncora") as supporting parties (as amended, the "RSA"). Among other things, the RSA contemplates a transaction pursuant to which, upon the effective date of a plan of adjustment, PREPA's legacy bonds will be exchanged for new securitization bonds to be issued in two tranches. In addition, beginning on the last day of the month in which the order approving the RSA is entered, holders of bonds that are subject to the RSA will receive monthly settlement payments funded by a settlement charge to be included on customer bills (the "Settlement Payments") until the effective date of a plan of adjustment for PREPA. The Settlement Payments are subject to increase if a plan of adjustment is not confirmed before March 31, 2021. The RSA provides that supporting parties will receive an administrative claim equal to interest accrued on certain of the securitization bonds, less the amount of any Settlement Payments made on account of such bonds, which administrative claim shall survive termination of the RSA. Additionally, pursuant to the RSA, supporting creditors will also receive certain fees and expense reimbursements. The RSA contemplates the filing of a plan of adjustment for PREPA by March 31, 2020. Refer to the "U.S. Public Finance Insurance Puerto Rico Exposures" section in Part I Financial Information, Item 2 of this Form 10-Q for additional information on our Puerto Rico exposures.

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

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

In July of 2019, MBIA Insurance Corporation consummated a financing facility (the "Refinanced Facility") between MZ Funding LLC ("MZ Funding") and certain purchasers, pursuant to which the purchasers or their affiliates (collectively, the "Senior Lenders"), agreed to refinance the outstanding insured senior notes of MZ Funding, and MBIA Inc. received amended subordinated notes of MZ Funding. In connection with the Refinanced Facility, the Senior Lenders purchased new senior notes issued by MZ Funding with an aggregate principal amount of $278 million. In addition, MBIA Inc. received amended subordinated notes issued by MZ Funding Notes with an aggregate principal amount of $54 million. The Refinanced Facility is described in more detail under the "Liquidity—MBIA Corp. Liquidity" section in Part I, Item 2 of this Form 10-Q.

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

Item 1A. Risk Factors (continued)

While MBIA Insurance Corporation believes there will be sufficient recoveries on the Zohar Collateral to both repay amounts due under the Refinanced Facility and to substantially reimburse it for the Zohar Claims Payments, there is significant uncertainty with respect to the realizable value of the Zohar Collateral. If the amount of recoveries on the Zohar Collateral is not sufficient to repay amounts due under the Refinanced 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. In particular, on October 17, 2019, one of the companies (Dura Automotive Systems, LLC), and certain of its affiliates, filed for bankruptcy protection in federal bankruptcy court in the Middle District of Tennessee (the “Dura Bankruptcy Cases”). On November 1, 2019, the Court overseeing the Zohar Funds Bankruptcy Cases entered an Order directing that, effective November 8, 2019, the Dura Bankruptcy Cases shall be transferred to the District of Delaware. The Zohar debtors have substantial interests in the Dura debtors, and hold secured term loan indebtedness and an indirect interest in the majority of the equity in the Dura debtors. There can be no assurance that the outcome of the Dura Bankruptcy Cases will not have a material adverse impact on MBIA Corp.’s ability to recover all or substantially all of the payments it made on Zohar II.

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 2. Unregistered Sales of Equity Securities and Use of Proceeds

On November 3, 2017, the Company’s Board of Directors authorized the repurchase by the Company or National of up to $250 million of its outstanding shares under a new share repurchase authorization. During the nine months ended September 30, 2019, we repurchased 10.3 million common shares of MBIA Inc. at an average share price of $9.11 under the November 3, 2017 repurchase program.

The table below presents repurchases made by the Company in each month during the third quarter of 2019:

Month	Total Number of Shares Purchased (1)	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan	Maximum Amount That May Be Purchased Under the Plan (in millions)
July	45,194	$ 9.27	45,072	$ 148
August	3,203,755	9.10	3,203,628	118
September	1,092,653	9.17	1,092,532	108
	4,341,602	$ 9.12	4,341,232	$ 108

(1) - 122 shares in July, 127 shares in August and 121 shares in September were repurchased in open market transactions as investments in the Company’s non-qualified deferred compensation plan.

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Item 6. Exhibits

* 10.1	Senior Note Indenture, between MZ Funding, as issuer, and WSFS, as trustee and collateral agent.
* 10.2	Form of $277,678,000 12% Senior Secured Notes, due January 2022, issued pursuant to the Senior Note Indenture.
* 10.3	Amended and Restated Subordinated Note Indenture, between MZ Funding, as issuer, and WSFS, as indenture trustee and collateral agent.
* 10.4	Form of Amended and Restated $53,836,742.98 12% Subordinated Secured Notes, due January 2022, issued pursuant to the Amended and Restated Subordinated Note Indenture.
* 10.5	Amended and Restated Credit Agreement, between MBIA Corp., as borrower, and MZ Funding, as lender.
* 10.6	Amended and Restated Security Agreement, between MBIA Corp., as grantor, and MZ Funding, as secured party.
* 10.7	Security Agreement, between MZ Funding, as grantor, and WSFS, as collateral agent under the Senior Note Indenture.
* 10.8	Amended and Restated Security Agreement, between MZ Funding, as grantor, and WSFS, as collateral agent under the Amended and Restated Subordinated Note Indenture.
* 10.9	Pledge Agreement, between the Company, as pledgor, and WSFS, as collateral agent under the Senior Note Indenture.
* 10.10	Intercreditor Agreement, among WSFS, in its capacities as trustee under the Senior Note Indenture and the Amended and Restated Subordinated Note Indenture, MBIA Corp., as insurer, and MZ Funding.
**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.INS.	XBRL Instance Document – the instance document does not appear in the Interactive Data File because iXBRL tags are embedded within the Inline XBRL document.
**101.SCH.	XBRL Taxonomy Extension Schema Document.
**101.CAL.	XBRL Taxonomy Extension Calculation Linkbase Document.
**101.DEF.	XBRL Taxonomy Extension Definition Linkbase Document.
**101.LAB.	XBRL Taxonomy Extension Label Linkbase Document.
**101.PRE.	XBRL Taxonomy Extension Presentation Linkbase Document.
**104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).

* Incorporated by reference to MBIA Inc.’s Current Report on Form 8-K filed with the U.S. Securities Exchange Commission on July 10, 2019.
** Filed herewith.
*** Furnished herewith.

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SIGNATURES

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

	MBIA Inc. Registrant
Date: November 5, 2019	/s/ Anthony McKiernan
	Anthony McKiernan Chief Financial Officer
Date: November 5, 2019	/s/ Joseph R. Schachinger
	Joseph R. Schachinger Controller (Chief Accounting Officer)

Exhibit 31.1

CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, William C. Fallon, certify that:

1. I have reviewed the Quarterly Report of MBIA Inc. (the "Company") on Form 10-Q for the period ending September 30, 2019 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 any change in the Company's internal control over financial reporting that occurred during the Company's third quarter of 2019 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting; and
5. The Company's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and to the audit committee of the board of directors:
   (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and
   (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

/s/ William C. Fallon

William C. Fallon
Chief Executive Officer
November 5, 2019

Exhibit 31.2

CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Anthony McKiernan, certify that:

1. I have reviewed the Quarterly Report of MBIA Inc. (the “Company”) on Form 10-Q for the period ending September 30, 2019 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 any change in the Company’s internal control over financial reporting that occurred during the Company’s third quarter of 2019 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
November 5, 2019

Exhibit 32.1

**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 Quarterly Report of MBIA Inc. (the "Company") on Form 10-Q for the period ending September 30, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, William C. Fallon, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ William C. Fallon

William C. Fallon
Chief Executive Officer
November 5, 2019

Exhibit 32.2

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 Quarterly Report of MBIA Inc. (the “Company”) on Form 10-Q for the period ending September 30, 2019 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
November 5, 2019