

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

**Form 10-K**

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

For the fiscal year ended December 31, 2020

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 1-9583

**MBIA INC.**

(Exact name of registrant as specified in its charter)

**Connecticut**  
(State of incorporation)

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

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

**10577**  
(Zip Code)

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

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

Title of each class

Trading Symbol(s)

Name of each exchange  
on which registered

**Common Stock**

**MBI**

**New York Stock Exchange**

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

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes  No

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

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

Large accelerated filer   
Non-accelerated filer

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 has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

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

The aggregate market value of the voting stock held by non-affiliates of the Registrant as of June 30, 2020 was \$404,974,161. As of February 22, 2021, 53,726,305 shares of Common Stock, par value \$1 per share, were outstanding.

**Documents incorporated by reference:**

Portions of the Definitive Proxy Statement of the Registrant for its 2020 Annual Meeting, which will be filed on or before March 31, 2021, are incorporated by reference into Part III of this Form 10-K.

## TABLE OF CONTENTS

<b>PART I</b>		
<b>Item 1.</b>	Business .....	1
<b>Item 1A.</b>	Risk Factors .....	15
<b>Item 1B.</b>	Unresolved Staff Comments .....	26
<b>Item 2.</b>	Properties .....	26
<b>Item 3.</b>	Legal Proceedings .....	26
<b>Item 4.</b>	Mine Safety Disclosures .....	26
<b>PART II</b>		
<b>Item 5.</b>	Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities .....	27
<b>Item 6.</b>	Selected Financial Data .....	28
<b>Item 7.</b>	Management's Discussion and Analysis of Financial Condition and Results of Operations .....	29
<b>Item 7A.</b>	Quantitative and Qualitative Disclosures About Market Risk .....	59
<b>Item 8.</b>	Financial Statements and Supplementary Data .....	61
<b>Item 9.</b>	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure .....	140
<b>Item 9A.</b>	Controls and Procedures .....	140
<b>Item 9B.</b>	Other Information .....	140
<b>PART III</b>		
<b>Item 10.</b>	Directors, Executive Officers and Corporate Governance .....	141
<b>Item 11.</b>	Executive Compensation .....	141
<b>Item 12.</b>	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters .....	141
<b>Item 13.</b>	Certain Relationships and Related Transactions, and Director Independence .....	142
<b>Item 14.</b>	Principal Accounting Fees and Services .....	142
<b>PART IV</b>		
<b>Item 15.</b>	Exhibits, Financial Statement Schedules .....	143
	Signatures .....	147
	Schedule I .....	148
	Schedule II .....	149
	Schedule IV .....	154

## FORWARD-LOOKING AND CAUTIONARY STATEMENTS

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

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

- increased credit losses or impairments on public finance obligations that National Public Finance Guarantee Corporation (“National”) insures issued by state, local and territorial governments and finance authorities and other providers of public services, located in the U.S. or abroad, that are experiencing fiscal stress;
- the possibility that loss reserve estimates are not adequate to cover potential claims;
- a disruption in the cash flow from 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 (“NYDFS”) 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 NYDFS may deem necessary to protect the interests of MBIA Insurance Corporation’s policyholders;
- the impact on our insured portfolios or business operations caused by the global spread of the novel coronavirus COVID-19;
- deterioration in the economic environment and financial markets in the United States or abroad, real estate market performance, credit spreads, interest rates and foreign currency levels; and
- the effects of changes to governmental regulation, including insurance laws, securities laws, tax laws, legal precedents and accounting rules.

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

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

## Item 1. Business

### PART I

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

### OVERVIEW

The Company’s operating subsidiaries are running off their portfolios. Today, the Company’s primary objectives are ensuring that adequate liquidity exists at the holding company to satisfy all of its outstanding obligations, mitigating losses at National Public Finance Guarantee Corporation (“National”) and MBIA Corp., including National’s exposures to insured debt obligations of the Commonwealth of Puerto Rico and certain of its instrumentalities (“Puerto Rico”), and maximizing recoveries on paid insurance claims. The Company may also pursue strategic alternatives that could enhance shareholder value.

MBIA’s primary business has been to provide financial guarantee insurance to the United States’ public finance markets through our indirect, wholly-owned subsidiary, National, whose financial guarantee insurance policies provide investors with unconditional and irrevocable guarantees of the payment of the principal, interest or other amounts owing on insured obligations when due. National has ceased pursuing the writing of new financial guarantee policies, and its primary activity today is to provide ongoing surveillance, including remediation activity where warranted, of its existing insured portfolio of \$41.9 billion gross par outstanding as of December 31, 2020.

The Company has also provided financial guarantee insurance in the international and structured finance markets through its subsidiary MBIA Corp. As of December 31, 2020, MBIA Corp.’s total insured gross par outstanding was \$7.7 billion. We do not expect MBIA Corp. to write any significant new policies, and given its capital structure and business prospects, we do not expect its financial performance to have a material economic impact on MBIA Inc. Refer to “Results of Operations—Capital Resources” in Part II, Item 7 of this Form 10-K for a further discussion of MBIA Corp.’s insurance statutory capital.

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

#### MBIA Inc. Capital Management

The Company manages its capital and liquidity in order to ensure that it can service its debt and other financial obligations and pay its operating expenses while maintaining an adequate cushion against potential adverse events. MBIA Inc. has received annual dividends from National, and until 2020, regular releases from a tax escrow account held by MBIA Inc. under the MBIA group’s tax sharing agreement as described further under “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity—Corporate Liquidity” in Part II, Item 7 of this Form 10-K. The Company maintains a stable liquidity position which is expected to allow it to service its obligations over the next several years without needing to access the capital markets. Our capital management strategies include (i) having the Company or National purchase or repurchase outstanding MBIA Inc. common shares to enhance shareholder value when management deems such actions are appropriate, taking into account the price of the stock, anticipated liquidity needs, and other relevant factors and (ii) retiring our unsecured and MBIA Global Funding, LLC (“GFL”) debt through calls and repurchases at prices that create economic benefit to the Company.

During 2020, the Company or National purchased or repurchased 26.4 million shares at a cost of \$198 million under the repurchase authorization approved by the Company’s Board of Directors (the “Board”) in May 2020 and November 2017 and exhausted these share repurchase authorizations. During 2019, the Company or National purchased or repurchased 11.1 million shares at a cost of \$101 million under the repurchase authorization approved by the Board in November 2017. During 2018, the Company or National purchased or repurchased 5.8 million shares at a cost of \$48 million under the repurchase authorization approved by the Board in November 2017.

## **Item 1. Business (continued)**

Unsecured debt includes MBIA Inc.'s senior notes and medium-term notes ("MTNs") issued by its subsidiary, GFL. During 2020, the Company redeemed the remaining \$115 million principal amount of the Company's 6.400% Senior Notes due 2022 at par plus accrued interest. During 2019, the Company redeemed \$150 million principal amount of the Company's 6.400% Senior Notes due 2022 at par plus accrued interest and paid \$57 million par value related to GFL debt maturities. During 2018, the Company repurchased \$78 million and paid \$17 million par value related to GFL debt maturities.

In each of the fourth quarters of 2020 and 2019, National declared and paid dividends of \$81 million and \$134 million, respectively, to its ultimate parent, MBIA Inc.

### **National Risk Mitigation**

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

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

### **MBIA Corp. Risk Mitigation**

MBIA Corp.'s strategy is focused primarily on recovering losses on insured transactions, reducing future expected economic losses in the insured portfolio through commutations and other risk mitigation strategies, and managing liquidity primarily for the benefit of its policyholders and senior creditors. Refer to "Note 6: Loss and Loss Adjustment Expense Reserves" in the Notes to Consolidated Financial Statements in Part II, Item 8 of this Form 10-K for further information regarding loss reserves and recoveries.

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

**Item 1. Business (continued)**

**OUR INSURANCE OPERATIONS**

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

We have been compensated for our insurance policies by insurance premiums that were paid upfront or on an installment basis. Our financial guarantee insurance was offered in both the new issue and secondary markets. In addition, we have provided financial guarantees or sureties to debt service reserve funds. The primary risk in our insurance operations is that of adverse credit performance in the insured portfolio. When writing new business we sought to maintain a diversified insured portfolio and have insured transactions with the aim of managing and diversifying risk based on a variety of criteria including revenue source, issue size, type of asset, industry concentrations, type of bond and geographic location. Despite this objective, there can be no assurance that we will avoid losses on multiple credits as a result of a single event or series of events. In particular, the global outbreak of the novel coronavirus COVID-19 (“COVID-19”) could have an adverse impact on our financial condition and results of operations and other aspects of our business. For additional information relating to the risks arising from COVID-19, refer to the “Legal, Regulatory and Other Risk Factors” section in Part I, Item 1A of this Form 10-K.

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

Our payment obligations after a default vary by deal and by insurance type. Our public finance insurance generally insures scheduled interest and principal. Our structured finance policies generally insure (i) timely interest and ultimate principal; (ii) ultimate principal only at final maturity; or, (iii) payments upon settlement of individual collateral losses as they occur after any deductible or subordination has been exhausted.

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

**National Insured Portfolio**

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

As of December 31, 2020, National had \$41.9 billion of insured gross par outstanding on U.S. public finance obligations covering 2,470 policies and diversified among 1,506 “credits,” which we define as any insured obligations secured by the same revenue source. Insurance in force, which includes all insured debt service, as of December 31, 2020 was \$81.5 billion.

All of the policies were underwritten on the assumption that the insurance will remain in force until maturity or early retirement of the insured obligations. National estimates that the average life of its domestic public finance insurance policies in force as of December 31, 2020 was 9 years. The average life was determined by applying a

## **Item 1. Business (continued)**

weighted average calculation, using the remaining years to contractual maturity and weighting them on the basis of the remaining debt service insured. No assumptions were made for any future refundings, early redemptions or terminations of insured issues. Average annual insured debt service on the portfolio as of December 31, 2020 was \$5.5 billion. National's underwriting guidelines limited the insurance in force for any one insured credit, and for other categories such as geography. In addition, National is subject to regulatory single-risk limits with respect to any insured bond issue. See the "Insurance Regulation" section below for a description of these regulatory requirements. As of December 31, 2020, National's gross par amount outstanding for its ten largest insured U.S. public finance credits totaled \$9.1 billion, representing 21.7% of National's total U.S. public finance gross par amount outstanding. Refer to "Note 13: Insurance in Force" in the Notes to Consolidated Financial Statements in Part II, Item 8 of this Form 10-K for further information regarding the Company's insured portfolio.

### **MBIA Corp. Insured Portfolio**

MBIA Corp.'s insured portfolio consists of policies that insure various types of international public finance and global structured finance obligations that were sold in the new issue and secondary markets or are referenced in Credit Default Swaps ("CDS") contracts. International public finance obligations include bonds and loans extended to entities located outside of the U.S., including utilities, infrastructure projects and sovereign-related and sub-sovereign issuers, such as regions, authorities or their equivalent as well as sovereign owned entities that might be supported by a sovereign state, region or authority. Global structured finance obligations include asset-backed transactions and financing of commercial activities that are typically secured by undivided interests or collateralized by the related assets or cash flows.

As of December 31, 2020, MBIA Corp. had 267 policies outstanding in its insured portfolio. In addition, MBIA Corp. had 38 insurance policies outstanding relating to liabilities issued by MBIA Inc. and its subsidiaries, which are described further under the section "Affiliated Financial Obligations Insured by MBIA Corp." below. MBIA Corp.'s total policies in its insured portfolio are diversified among 178 credits.

As of December 31, 2020, the gross par amount outstanding of MBIA Corp.'s insured obligations (excluding \$0.9 billion of insured affiliated financial obligations and \$26.0 billion of U.S. public finance debt ceded to National), was \$7.7 billion. Insurance in force for the above portfolio, which includes all insured debt service, as of December 31, 2020 was \$9.9 billion.

MBIA Corp. estimates that the average life of its international and structured finance insurance policies in force as of December 31, 2020 is 6 years. The average life was determined by applying a calculation using the remaining years to contractual maturity for international public finance obligations and estimated maturity for structured finance obligations and weighting them on the basis of the remaining debt service insured. No assumptions were made for any future refundings, early redemptions or terminations of insured issues. Average annual insured debt service on the portfolio as of December 31, 2020 was \$1.1 billion. Refer to "Note 13: Insurance in Force" in the Notes to Consolidated Financial Statements in Part II, Item 8 of this Form 10-K for further information regarding the Company's insured portfolio.

### *Affiliated Financial Obligations Insured by MBIA Corp.*

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

MBIA Corp. is a party to 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 Refinanced Facility matures on January 20, 2022 and is secured by a first

## **Item 1. Business (continued)**

priority security interest in all of MBIA Corp.'s right, title and interest in the recovery of its claims from the assets of Zohar CDO 2003-1, Limited ("Zohar I") and Zohar II 2005-1 CDO ("Zohar II") which include, among other things, loans made to, and equity interests in, companies that, until late March of 2020, were purportedly controlled and managed by the sponsor and former collateral manager of Zohar I and Zohar II (the "Zohar Sponsor"). In late March of 2020, the Zohar Sponsor resigned as director and manager of all but one portfolio company, and new directors and managers are currently in place at all but two portfolio companies, which are all subject to a monetization process approved by the Bankruptcy Court overseeing the bankruptcy proceedings for Zohar I and Zohar II. Refer to "Note 10: Debt" in the Notes to Consolidated Financial Statements in Part II, Item 8 of this Form 10-K for information on the Refinanced Facility.

### **Risk Management**

Our largest risk is the credit exposure in our insured portfolio. The Company's credit risk management and remediation functions are managed through committees and units that oversee risks in ongoing portfolio surveillance and remediation. The Company's Insured Portfolio Management Divisions ("IPM") monitor and remediate domestic and international public finance and structured risks. In addition, National and MBIA Corp. each has its own risk committee that, as appropriate, reviews certain portfolio decisions. Additionally, each subsidiary has its own investment committee that reviews its respective investment portfolio and investment-related decisions.

The Company's Risk Oversight Committee (the "Risk Oversight Committee") reviews material transactions and provides firm-wide review of policies and decisions related to credit, market, operational, legal, financial and business risks. The Company and its subsidiaries' respective Loss Reserve Committees review loss reserving activity.

The Company's Board of Directors and related Committees, including Audit, and Finance and Risk, oversee risks faced by the Company and its subsidiaries. The Board regularly evaluates and discusses emerging risks and risks associated with strategic initiatives. On an annual basis, the Board also evaluates and approves the Company's risk tolerance policy. The purpose of the risk tolerance policy is to define the types and amounts of risks the Company is prepared to accept. The assessment includes risks associated with credit, capital adequacy, market, liquidity, legal, operations, cybersecurity and technology. This policy provides the basis upon which risk criteria and procedures are developed and seeks to have these applied consistently across the Company.

The Audit Committee oversees risks associated with financial and other reporting, auditing, legal and regulatory compliance, and risks that may otherwise result from the Company's operations, including cybersecurity risk. The Audit Committee oversees these risks by monitoring (i) the integrity of the financial statements of the Company and of other material financial disclosures made by the Company, (ii) the qualifications, independence and performance of the Company's independent auditor, (iii) the performance of the Company's internal audit function, (iv) the Company's compliance policies and procedures and its compliance with legal and regulatory requirements, and (v) the performance of the Company's operational risk management function. In connection with its oversight of cybersecurity risk, the Audit Committee receives semi-annual, or more frequent as appropriate, briefings from the Company's senior management and Enterprise Security Council concerning, among other topics, the implementation of the Company's Cybersecurity Policy, its ongoing training to prevent, identify and react to security incidents, periodic vulnerability assessments performed by outside vendors, and Internal Audit's periodic reviews of MBIA's data security policies and procedures.

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

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



## **Item 1. Business (continued)**

### *Insurance Surveillance and Remediation*

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

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

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

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

### *Credit Risk Models*

We use credit risk models to test qualitative judgments, to design appropriate structures and to understand sensitivity within transactions and across broader portfolio exposure concentrations. Models are updated to reflect changes in both portfolio and transaction data and also in expectations of stressed future outcomes. For portfolio monitoring we use internal and third-party models based on individual transaction attributes and customized

## **Item 1. Business (continued)**

structures and these models are also used to determine case basis loss reserves and, where applicable, to mark-to-market any insured obligations as may be required for financial reporting. When using third-party models, we generally perform the same review and analyses of the collateral, transaction structure, performance triggers and cash flow waterfalls as when using our internal models. See “Risk Factors—Insured Portfolio Loss Related Risk Factors—Financial modeling involves uncertainty over ultimate outcomes which makes it difficult to estimate liquidity, potential claims payments, loss reserves and fair values” in Part I, Item 1A of this Form 10-K.

### *Market Risk Assessment*

We measure and assess market risk on a consolidated basis as well as at the holding company and subsidiaries on a stand-alone basis. Key market risks include changes in interest rates, credit spreads and foreign exchange rates. We use various models and methodologies to test exposure under market stress scenarios, including parallel and non-parallel shifts in the yield curve, changes in credit spreads, and changes in foreign exchange rates. See “Quantitative and Qualitative Disclosures About Market Risk” in Part II, Item 7A of this Form 10-K for additional information on our market risk exposure. We also analyze stressed liquidity scenarios and stressed counterparty exposures. The analyses are used in testing investment portfolio guidelines. The Risk Oversight Committee and the Finance and Risk Committee of the Company’s Board of Directors receive periodic reports on market risk.

### *Operational Risk Assessment*

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

### *Environmental & Social Responsibility Risk Management*

MBIA recognizes and embraces its responsibilities to the environment and to the promotion of social welfare. The Company’s operations are analytical and administrative in nature and it has no other material locations or operations away from its limited headquarters in an Energy Star certified office complex in Purchase, New York. Thus, while we regularly assess the impact of environmental risk on our insured portfolios, and have demonstrated a strong commitment to environmental and social responsibility, we believe that the nature of our business, small size and current operations provide us with limited opportunities to improve upon that record. Our Risk Oversight Committee nevertheless regularly reviews and implements policies and decisions related to environmental and social governance risks.

### *Environmental Risk Management*

As a financial guaranty insurance company with only 89 employees and a single corporate location dedicated entirely to analytical and administrative functions, MBIA has a very limited impact on the environment. Nonetheless, the Company is committed to responsible stewardship of the environment wherever feasible. The Company has encouraged a move toward a paperless office by removing personal printers from virtually all offices and workstations and requiring the usage of centrally located high-efficiency printer/copiers using recycled paper. Materials for the company’s Board of Directors are distributed electronically and reviewed on company-provided tablets. In addition, the Company has invested heavily in imaging technology and has imaged a substantial portion of its corporate records, allowing users to easily access them without the need for hard-copies. As a result of MBIA’s implementation of the SEC’s Notice and Access program and greater investor acceptance of electronic disclosure, the Company has significantly reduced the number of printed disclosures it produces each year.

### *Climate Change Risk Management*

As part of its Enterprise Risk Management framework, MBIA has identified climate change as an emerging risk to its insured portfolio of public finance credits. While the Company’s insurance subsidiaries are no longer writing

### ***Item 1. Business (continued)***

new business and therefore do not need to assess climate risk in the context of underwriting decisions, its existing insured portfolios will take decades to run off and remain exposed to the impact of climate change.

The significant majority of MBIA's outstanding insured exposure is to U.S. municipalities, which are subject to both direct and indirect effects of climate change including an increasing risk to severe weather events, flooding and droughts. The direct effects include costs to repair storm damage and flooding and to mitigate the impact of future events. Indirect impacts include potential deterioration of tax bases as populations move away from areas prone to severe weather and flooding. The impact of climate change on MBIA's insured portfolio is real but likely to manifest itself over a long period of time. It is as yet unclear what impact attempts to reduce carbon emissions will have. The expense to municipalities of mitigating climate risk may result in financial strain depending upon the nature of the risk being mitigated and the availability of state and/or federal funding.

In response to these threats, MBIA's risk management and insured portfolio management groups have identified the sectors of the insured portfolio that are particularly vulnerable to the impacts of climate change and factor these risks into internal ratings, frequency of review and potential remedial action. Sectors at increased risk to climate-driven events include water and sewer systems, single site/revenue generating assets, bridge and road infrastructure, electric utilities and housing.

#### ***Social Risk Management and Employment Policies***

MBIA is committed to promoting social welfare—for its employees, the communities in which they live and work, and the citizens in the municipalities that benefit from its insurance. It is MBIA's policy to ensure equal employment opportunity for all job applicants and employees with regard to all personnel-related matters, including, but not limited to recruitment, hiring, placement, promotion, compensation, benefits, transfers and training and all other terms and conditions of employment. In all such activities, MBIA prohibits and will not tolerate discrimination or harassment against any persons because of age, gender (including gender identity or gender expression), sex, race, color, religion, creed, marital status, sexual orientation, pregnancy, disability, veteran status, national origin, alien or citizenship status, genetic predisposition or carrier status, military or veteran status, or any other characteristic protected by law.

MBIA's Equal Employment Opportunity and Non-Discrimination and Anti-Harassment Policy applies to all applicants and employees, and other non-employee third-parties and individuals working for or on behalf of MBIA prohibits harassment, discrimination and retaliation whether engaged in by, or directed toward, fellow employees, a supervisor or manager, or third-parties. MBIA prohibits retaliation or adverse employment action against any individual who, in good faith, reports discrimination or harassment or participates in an investigation of such reports.

MBIA reasonably accommodates employees and applicants with disabilities (including temporary disabilities), those who are pregnant, nursing mothers, and those with sincerely held religious beliefs, in accordance with applicable law. If an employee suffers from a disability, is pregnant, or has a sincerely held religious belief that interferes with the employee's ability to perform his or her job, the employee can contact Human Resources to inquire whether a reasonable accommodation may be available and appropriate under the circumstances.

All employees are subject to the Company's Standard of Conduct, which serves as a critical guide for the manner in which it conducts business. All employees are required to read the Standard of Conduct and complete an on-line compliance training program annually.

MBIA offers its employees a comprehensive compensation and benefits package that includes a competitive salary and an annual cash performance bonus, paid time-off benefits, health and welfare voluntary benefits that include medical and dental insurance, a health savings account that includes a company match to employee contributions, and supplemental life insurance. Senior management also receives an annual long-term incentive award linked to shareholders' interests. The company also provides a qualified defined contribution pension, a qualified 401(k) plan and a voluntary non-qualified deferred compensation plan that accepts contributions that exceed limitations established by federal regulations. In addition, the company provides paid and unpaid employee leave of absences such as Safe Time Leave, Family Medical Leave, Parental Leave, Bereavement Leave, Military and Jury Duty Leave.

## **Item 1. Business (continued)**

### *Giving Back to the Community*

MBIA's corporate mission has long included enhancing the strength and vitality of communities, whether through offering its insurance product, which reduces the borrowing costs of towns, cities and municipalities, or through the sponsorship of many diverse philanthropic efforts. MBIA also formed the MBIA Foundation, a 501(c)(3) tax-exempt organization, in 2001, whose mission is to help improve the quality of life in the communities where the company conducts business and where its employees live and work. Since inception, the MBIA Foundation has paid out over \$20 million in matching gifts, almost \$12 million in grants to community organizations and over \$300,000 in Dollars-Doers-Programs in support of employees' volunteer efforts.

Additionally, MBIA promotes its employees' volunteerism in their communities, through offering annual company-wide days of service (since 2009), a Volunteer Initiatives Committee, and special grants to the organizations where employees volunteer or serve as board members. Also, through the Volunteer Initiatives Committee, the Foundation promotes a number of in-kind donation drives each year, including clothing and food drives. The Foundation has also been active in supporting disaster relief efforts through both direct donations from the Foundation as well as by increasing the customary match of 2:1 to 3:1 to further encourage employee donations.

### *COVID-19 Pandemic Risk Management*

In response to the COVID-19 pandemic and in an effort to protect the health and well-being of its employees, the Company implemented its business continuity plans in early March of 2020. All employees are currently working remotely and will continue to do so until, in management's judgment, and consistent with federal, state and local guidance, conditions permit a safe return to the office.

MBIA is committed to fostering the physical, emotional and financial health and well-being of its employees. The Company offers its employees a variety of wellness events on an ongoing basis, which include exercise classes, nutrition seminars, financial counseling, biometric screenings, flu vaccines, annual physical exam incentives and more.

### **Losses and Reserves**

Loss and loss adjustment expense ("LAE") reserves are established by Loss Reserve Committees in each of our operating insurance companies and are reviewed by our executive Loss Reserve Committee, which consists of members of senior management. The Company's loss and LAE reserves as of December 31, 2020 represent case basis reserves and estimates for LAE to be incurred. Case basis reserves represent the Company's estimate of expected losses to be paid under its insurance contracts, net of potential recoveries and discounted using a current risk-free interest rate, for contracts where the estimated loss amount exceeds the unearned premium revenue on the related insurance contract. The Company estimates expected losses net of potential recoveries using the present value of probability-weighted estimated loss payments and recoveries, discounted at a rate equal to the risk-free rate applicable to the currency and weighted average remaining life of the insurance contract as required by accounting principles for financial guarantee contracts. We record case basis loss reserves on insured obligations which have defaulted or are expected to default during the remaining life of the obligation.

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

### **Reinsurance**

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

## **Item 1. Business (continued)**

### *Intercompany Reinsurance Arrangements*

MBIA Corp. and National are parties to a reinsurance agreement pursuant to which National reinsures certain public finance financial guarantee policies originally written by MBIA Corp. In addition, National entered into a second-to-pay policy covering the reinsurance agreement.

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

### **Insurance Regulation**

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

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

### *New York Insurance Regulation*

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

### *New York State Dividend Limitations*

The laws of New York regulate the payment of dividends by National and MBIA Insurance Corporation and provide that a New York domestic stock property/casualty insurance company may not declare or distribute dividends except out of statutory earned surplus. New York law provides that the sum of (i) the amount of

## ***Item 1. Business (continued)***

dividends declared or distributed during the preceding 12-month period and (ii) the dividend to be declared may not exceed the lesser of (a) 10% of policyholders' surplus, as shown by the most recent statutory financial statement on file with the NYSDFS, or (b) 100% of adjusted net investment income for such 12-month period (the net investment income for such 12-month period plus the excess, if any, of net investment income over dividends declared or distributed during the two-year period preceding such 12-month period), unless the Superintendent of Financial Services of the State of New York (the "Superintendent") approves a greater dividend distribution based upon a finding that the insurer will retain sufficient surplus to support its obligations and writings.

Due to its significant earned surplus deficit, MBIA Insurance Corporation has not had the statutory capacity to pay dividends since December 31, 2009, is not expected to have any statutory capacity to pay dividends, and has agreed that it will not pay any dividends without receiving prior approval from the NYSDFS in connection with certain prior approvals to release excessive contingency reserves. The foregoing dividend limitations are determined in accordance with statutory accounting principles ("U.S. STAT").

### *Contingency Reserves*

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

### *Risk Limits*

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

National was in compliance with its aggregate risk limits, but reported to NYSDFS in 2020 that it was not in compliance with certain of its single risk limits as of December 31, 2020 due to changes in its statutory capital. National was in compliance with its aggregate and single risk limits as of December 31, 2019. During 2020 and 2019, MBIA Insurance Corporation reported single risk limit overages to the NYSDFS due to changes in its statutory capital. MBIA Insurance Corporation was in compliance with its aggregate risk limits as of December 31, 2020 and 2019.

### *Holding Company Regulation*

MBIA Inc., National and MBIA Insurance Corporation also are subject to regulation under the insurance holding company statutes of New York. The requirements of holding company statutes vary from jurisdiction to jurisdiction but generally require insurance companies that are part of an insurance holding company system to register and file certain reports describing, among other information, their capital structure, ownership and financial condition. The holding company statutes also generally require prior approval of changes in control, of certain dividends and other inter-corporate transfers of assets, and of certain transactions between insurance companies, their parents and affiliates. The holding company statutes impose standards on certain transactions with related companies,

**Item 1. Business (continued)**

which include, among other requirements, that all transactions be fair and reasonable and those transactions not in the ordinary course of business exceeding specified limits receive prior regulatory approval.

*Change of Control*

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

*Insurance Guarantee Funds*

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

**INVESTMENTS AND INVESTMENT POLICY**

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

Insight North America, LLC manages the investment portfolios of the Company and its subsidiaries in accordance with the guidelines adopted for each such portfolio. The agreements with Insight Investment provide generally that Insight Investment will have the right to manage the fixed-income investment portfolios of the Company and its subsidiaries until December 31, 2022 and guarantee certain minimum revenues thereunder. The agreements are subject to early termination.

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

**RATING AGENCIES**

The Company does not maintain a contractual relationship with Moody’s Investor Services (“Moody’s”), Standard & Poor’s Financial Services LLC, or Kroll Bond Rating Agency, other than a required contract that MBIA Mexico maintains with Moody’s. Moody’s, at its discretion and in the absence of a contract with the Company, continues to maintain ratings on MBIA Inc. and its other subsidiaries.

**CAPITAL FACILITIES**

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

**Item 1. Business (continued)**

**FINANCIAL INFORMATION**

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

**EMPLOYEES AND HUMAN CAPITAL MANAGEMENT**

As of December 31, 2020, MBIA had 89 employees at our single corporate headquarters located at 1 Manhattanville Road, Purchase, New York, none of whom are covered by collective bargaining agreements. In recent years, we have experienced only modest employee turnover and consider our employee relations to be satisfactory. MBIA’s human capital focus has been on identifying and retaining key personnel as the Company runs off its portfolios. MBIA has a succession plan in place and has identified internal candidates that could fill senior management and mid-level management positions as the need arises. The Company’s senior management team and senior employee relations professionals work together on employee-related issues and initiatives, and on an annual basis conduct a full review of personnel to enable managers to provide meaningful feedback and growth opportunities, and to award promotions within the Company where warranted. The Company continues to rely on compensation components (such as salary, cash bonus awards and long-term incentive plan awards) to support employee retention. The Company incorporates performance metrics as part of the annual bonus offering with increased bonus potential for exceptional results. We utilize third-party benchmark data to establish market-based compensation levels. We believe that our current compensation and incentive levels reflect high performance expectations as part of our merit pay philosophy. The targeted use of long-term incentive plan awards for key talent is an important element of MBIA’s long-term retention strategy.

**AVAILABLE INFORMATION**

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

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

The Company is providing public access to certain non-confidential information regarding the assets securing the facility extended by its subsidiary, MZ Funding, on the Company’s MZ Funding web page. It will also make available certain confidential information subject to the execution of a non-disclosure agreement. Instructions for accessing the information are available on the MZ Funding web page. A description of the Refinanced Facility, as well as several documents pertaining thereto, including, among others, the Senior Note Indenture, the Amended and Restated Credit Agreement, and the Amended and Restated Security Agreement, can be found on the Form 8-K filed by the Company on June 10, 2019, available on the Company’s website at [www.mbia.com](http://www.mbia.com).



**Item 1. Business (continued)**

**EXECUTIVE OFFICERS OF THE REGISTRANT**

The executive officers of the Company and their present ages and positions with the Company as of March 1, 2021 are set forth below:

<u>Name</u>	<u>Age</u>	<u>Position and Term of Office</u>
William C. Fallon	61	Chief Executive Officer and Director (executive officer since July 2005)
Anthony McKiernan	51	Executive Vice President and Chief Financial Officer (executive officer since August 2011)
Jonathan C. Harris	49	General Counsel and Secretary (executive officer since September 2017)
Daniel M. Avitabile	47	Assistant Vice President, and President and Chief Risk Officer of MBIA Corp. (executive officer since September 2017)
Adam T. Bergonzi	57	Assistant Vice President and Chief Risk Officer of National (executive officer since September 2017)
Christopher H. Young	48	Assistant Vice President, and Chief Financial Officer of National (executive officer since September 2017)
Joseph R. Schachinger	52	Controller (executive officer since May 2017)

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

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

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

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

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

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

## **Item 1. Business (continued)**

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

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

### **Item 1A. Risk Factors**

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

#### **Insured Portfolio Loss Related Risk Factors**

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

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

In particular, the Commonwealth of Puerto Rico and several of its public corporations and instrumentalities, which have reported significant fiscal stress, are currently in bankruptcy-like proceedings in the United States District Court for the District of Puerto Rico, pursuant to the Puerto Rico Oversight, Management and Economic Stability Act ("PROMESA").

The extent and duration of any aid from the Federal Emergency Management Agency and other federal agencies that may be offered to Puerto Rico is uncertain. Further, greater involvement of the federal government through its action to deliver disaster relief and support services to Puerto Rico heightens the political risk already inherent in the legacy debt restructuring. This risk could lead the independent oversight board created by PROMESA to oversee Puerto Rico's debt restructuring (the "Oversight Board"), Puerto Rico itself, 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 December 31, 2020, National had \$2.9 billion of debt service 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, 2021, Puerto Rico defaulted on scheduled debt service for certain National insured bonds and as a result, National paid gross claims in the aggregate of \$51 million. While National will seek to recover any claim payments it makes under its guarantees, there is no assurance that it will be able to recover such

**Item 1A. Risk Factors (continued)**

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 February 22, 2021, National agreed to join a revised Plan Support Agreement, dated as of February 22, 2021 (the “2021 PSA”), among the Oversight Board, certain holders of GO Bonds and PBA Bonds, Assured Guaranty Corp. and Assured Guaranty Municipal Corp, and Syncora Guarantee Inc. in connection with the Commonwealth of Puerto Rico and Puerto Rico Public Buildings Authority Title III cases. The 2021 PSA provides that, among other things, National shall receive a pro rata share of allocable cash, newly issued General Obligation bonds, a contingent value instrument and certain fees. National has the right to unilaterally terminate its participation in the 2021 PSA on or prior to March 31, 2021, and there can be no assurance that National will not exercise such termination right. Further, while the 2021 PSA contemplates a plan becoming effective on or before December 15, 2021, there can be no assurance that such a plan will ever become effective, or on the contemplated timeline. In the event that National does not terminate its participation in the 2021 PSA on or prior to March 31, 2021, the Oversight Board and National shall jointly request the entry of an order in the Title III court staying National’s actions to lift the automatic stay in the GO and HTA Title III cases and to appoint a trustee in the HTA Title III case pursuant to Section 926, both currently before the First Circuit Court of Appeals, together with other actions related to the clawback of HTA funds from the Commonwealth, and National shall take no further action with respect to those proceedings subject to the Commonwealth plan becoming effective.

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. entered into a Definitive Restructuring Support Agreement which was amended on September 9, 2019 to include National and Syncora Guarantee, Inc. as supporting parties (as amended, the “RSA”). The Rule 9019 hearing to approve the RSA has been delayed several times, and most recently was adjourned due to the coronavirus crisis until further notice. The debt restructuring contemplated by the RSA will not be effective until (i) confirmation of a plan of adjustment under PROMESA, (ii) negotiation and consummation of definitive documentation and legal opinions, (iii) enactment and implementation of supportive Puerto Rico legislation and (iv) receipt of Puerto Rico regulatory approval, each of which outcome is uncertain and subject to varying degrees of risk. In addition, the restructuring the RSA contemplates has received criticism from various parties including members of the Puerto Rico government and other stakeholders. This opposition could adversely affect the ability of the Oversight Board and RSA Parties to obtain the Rule 9019 Order and approve the RSA.

Refer to the “U.S. Public Finance Insurance Puerto Rico Exposures” section in Part II, Item 7 of this Form 10-K for additional information on our Puerto Rico exposures.

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

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

### **Item 1A. Risk Factors (continued)**

not intended to defease long-term liabilities) as of year-end is used to discount each insurer's loss reserves under statutory accounting principles. Accordingly, changes in the risk-free rates or the yield in our insurance companies' fixed-income investment portfolios may materially impact loss reserves.

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

As a financial guarantee company, our insured exposures and our results of operations can be materially affected by general political and economic conditions, both in the U.S. and around the world. General global unrest, including fraud, terrorism, catastrophic events, natural disasters, pandemics or similar events could disrupt the economy in the U.S. and other countries where we have insured exposure or operate our businesses. As a result of the global outbreak of the novel coronavirus COVID-19 ("COVID-19") pandemic in early 2020, we continue to monitor the impact on our portfolios closely. See Risk Factor "The pandemic caused by the spread of COVID-19 could have an adverse impact on our financial condition and results of operations and other aspects of our business" under "Legal, Regulatory and Other Risk Factors" for additional information on COVID-19. In certain jurisdictions outside the U.S., we face higher risks of governmental intervention through nationalization or expropriation of assets, changes in regulation, an inability to enforce our rights in court or otherwise and corruption, which may cause us to incur losses on the exposures we insure or reputational harm.

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

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

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

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

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

## **Item 1A. Risk Factors (continued)**

### **Legal, Regulatory and Other Risk Factors**

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

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

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

#### ***Our insurance companies could become subject to regulatory action.***

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

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

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

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

As further set forth in "Note 19: Commitments and Contingencies" in the Notes to Consolidated Financial Statements of MBIA Inc. and Subsidiaries in Part II, Item 8 of this Form 10-K, the Company and/or its subsidiaries

**Item 1A. Risk Factors (continued)**

are named as defendants in certain litigations, and in the ordinary course of business, may be a defendant in or party to a new or threatened legal action. Although the Company intends to vigorously defend against any current or future action, there can be no assurance that it will prevail in any such action, and any adverse ultimate outcome could result in a loss and/or have a material adverse effect on our reputation, business, results of operations or financial condition.

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

In connection with transactions in our shares from time to time, we may in the future experience an “ownership change” within the meaning of Section 382 of the Internal Revenue Code. In general terms, an ownership change may result from transactions increasing the aggregate ownership of certain stockholders in our stock by more than 50 percentage points over a testing period (generally three years). If an ownership change were to occur, our ability to use certain tax attributes, including certain losses, credits, deductions or tax basis, may be limited. On May 2, 2018, MBIA Inc.’s shareholders ratified an amendment to the Company’s By-Laws, which had been adopted earlier by MBIA Inc.’s Board of Directors. The amendment places restrictions on certain acquisitions of Company stock that otherwise may have increased the likelihood of an ownership change within the meaning of Section 382. The amendment generally prohibits a person from becoming a “Section 382 five-percent shareholder” by acquiring, directly or by attribution, 5% or more of the outstanding shares of the Company’s common stock and will generally restrict existing “Section 382 five-percent shareholders” from increasing their ownership interest under Section 382 by more than one percentage point over their percentage stock ownership immediately prior to the effective date of the amendment or, if lower, their percentage thereafter. Nevertheless, there can be no assurance that MBIA Inc. will not undergo an ownership change at a time when these limitations could have a materially adverse effect on the Company’s financial condition.

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

MBIA Inc. carries a net deferred tax asset whose value is calculated by application of the federal corporate taxation rates in effect at the time of determination. Changes in applicable U.S. tax laws and regulations, or their interpretation and application, including the possibility of retroactive effect, could affect our net deferred tax asset. As a result of the Company having established a full valuation allowance against its net deferred tax asset in 2017, any adjustment to the Company’s net deferred tax asset, will likely result in a corresponding change to the Company’s valuation allowance, resulting in no impact to the Company’s balance sheet or income statement.

***Ineffective internal controls, including internal control over financial reporting, could materially and adversely affect our business, financial condition, results of operations and reputation.***

We cannot be certain that we will not identify control deficiencies or material weaknesses in the future. If we fail to remediate a material weakness or fail to otherwise maintain effective internal control over financial reporting in the future, such failure could result in a material misstatement of our annual or quarterly financial statements that would not be prevented or detected on a timely basis and which could cause investors and other users to lose confidence in our financial statements, limit our ability to raise capital and have a negative effect on the trading price of our common stock. Additionally, failure to remediate a material weakness or otherwise failing to maintain effective internal control over financial reporting may materially and adversely affect our business, financial condition, results of operations and reputation, and could impair our ability to timely file our periodic reports with the SEC, subject us to litigation and regulatory actions and cause us to incur substantial additional costs in future periods relating to the implementation of remedial measures.

***The pandemic caused by the spread of COVID-19 could have an adverse impact on our financial condition and results of operations and other aspects of our business.***

The global outbreak of the novel coronavirus COVID-19 (“COVID-19”), a respiratory disease caused by a new strain of coronavirus, was declared a pandemic by the World Health Organization in March of 2020 and continues to cause significant global economic turmoil and affect a wide range of economic activities, as well as domestic and global business and financial markets. We continue to closely monitor developments related to the pandemic,

**Item 1A. Risk Factors (continued)**

including the timing and impact of the distribution of vaccines, to assess its impact on our employees, insured portfolios and business. There is no assurance that global and domestic economic conditions will not continue to worsen. It remains challenging to comprehensively quantify, or account for the impact of the outbreak on most of the credits within our insured portfolios, investment portfolios, or general business operations. The extent of such impact will depend on future developments which are highly uncertain, including but not limited to the severity of the pandemic, and the effectiveness of financial and regulatory actions taken at the state and federal levels to contain or address its impact. While governmental and non-governmental organizations are engaging in efforts to combat the spread and severity of the COVID-19 pandemic and related public health issues, the effectiveness of such measures cannot be assured. We also cannot predict how political, legal and regulatory responses to the pandemic, such as the nature of and conditions to aid states or municipalities, tax policy, or programs designed to assist impacted individuals, will impact our business.

Adverse developments on macroeconomic factors resulting from the spread of COVID-19, including without limitation reduced economic activity and certainty, increased unemployment, increased loan defaults or delinquencies, and increased stress on municipal budgets, including due to reduced tax revenues and the inability to raise taxes or limit spending, could materially and adversely affect the performance of our insured portfolio and our business, financial condition and results of operations. Specifically, such adverse effects could impact whether the individual municipal or structured finance credits we insure will be able to continue to meet their debt service obligations or avoid long term impairment, and could therefore result in an increase in defaults and on the amount of claims we will be obligated to pay on the related insurance policies. Such increases could cause us to revise our loss projections or other guidance we have previously provided. In particular, certain insured municipal credits, including those relating to the Commonwealth of Puerto Rico and its instrumentalities, could come under stress depending in part on the nature of the taxes, fees and revenues pledged to debt repayment and their sensitivity to the related slowdown in economic activity. Further, those structured finance policies in which the underlying principal obligations are comprised of residential or commercial mortgages and mortgage-backed securities, could be negatively affected by delays or failures of borrowers to make payments of principal and interest when due, or delays or moratoriums on foreclosures or enforcement actions with respect to delinquent or defaulted mortgages imposed by governmental authorities. These transactions are also subject to servicer risks, which relate to problems with the transaction's servicer that could adversely impact performance of the underlying assets. Additionally, several of our credits, particularly within our international public finance sector, feature large, near term debt-service payments, and there can be no assurance that the liquidity position of MBIA Insurance Corporation will enable it to satisfy any claims that arise if the issuers of such credits are unable or unwilling to refinance or repay their obligations. Further, any national recession that may result from the pandemic and its aftermath could present additional but yet unknown credit risks to all of our insured portfolios.

Additionally, our liquidity position and our investment portfolios (and, specifically, the valuations of investment assets we hold) have been, and may continue to be, adversely affected as a result of market developments from the COVID-19 pandemic and uncertainty regarding its outcome. Changes in interest rates, reduced market liquidity or a continued slowdown in U.S. or global economic conditions may also adversely affect the values and cash flows of these assets or the investment portfolio yield and income. Further, extreme market volatility may impact our ability to efficiently and effectively react to market events. Market dislocations, decreases in observable market activity or unavailability of information, in each case, arising from the spread of COVID-19, may restrict our access to key inputs used to derive certain estimates and assumptions made in connection with estimating the values of financial instruments within our financial reporting or otherwise, including estimates and changes in long term macro-economic assumptions relating to our estimate of current expected credit losses on our financial assets. Restricted access to such inputs may make our financial statement balances and estimates and assumptions used to run our business subject to greater variability and subjectivity.

Further, while we have implemented operational risk management and business continuity plans and taken preventive measures and other precautions that address the pandemic, there can be no assurance that such measures will prevent a material impact on our business operations. Currently, our employees are working remotely. An extended period of remote work arrangements could introduce operational risks including but not limited to cybersecurity risk, and impair our ability to manage our business. We also outsource certain business activities to third parties, and thus rely upon the successful implementation and execution of those third parties' business continuity plans as well. If one or more of the third parties to whom we outsource certain business

## **Item 1A. Risk Factors (continued)**

activities experience operational failures as a result of the impacts from the spread of COVID-19, it may have a material adverse effect on our business, financial condition, results of operations, liquidity and cash flows.

### **Capital, Liquidity and Market Related Risk Factors**

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

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

We may also from time to time seek to raise capital from external sources. The Company’s access to external sources of financing, as well as the cost of such financing would be influenced by various factors, which could include (i) the long-term debt ratings of the Company, (ii) expected dividends from National, (iii) the financial condition and business prospects of our insurance companies and (iv) the perceptions of the financial strength of MBIA Inc. and our insurance companies. There can be no assurance that an inability to obtain adequate capital on favorable terms, or at all, would not adversely affect our business, operating results and financial condition.

Consequently, our inability to maintain access to capital on favorable terms could have an adverse impact on our ability to pay losses and debt obligations, to pay dividends on our capital stock, to pay principal and interest on our indebtedness, to pay our operating expenses and to make capital investments in our subsidiaries. In addition, future capital raises for equity or equity-linked securities could result in dilution to the Company’s shareholders. Also, some securities that the Company could issue, such as preferred stock or securities issued by the Company’s operating subsidiaries may have rights, preferences and privileges that are senior to those of its common shares.

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

As of December 31, 2020, MBIA Inc. had \$710 million of medium-term note liabilities, \$312 million of Senior Notes liabilities and \$269 million of investment agreement liabilities. Our substantial indebtedness and other liabilities could have material consequences because:

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



## **Item 1A. Risk Factors (continued)**

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

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

### ***The level of interest rates and foreign currency exchange rates, and the discontinuance of certain interbank offered rates, could materially and adversely affect our financial condition.***

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

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

Further, a number of our debt issuances, interest rate swap contracts and financial investments are indexed to an interbank offered rate, including the London Interbank Offered Rate ("LIBOR"), and the assets or liabilities related to insured credit transactions may be indexed to LIBOR, as the applicable reference rate. In July 2017, The U.K. Financial Conduct Authority announced that after 2021, it will no longer persuade or require banks to submit rates for LIBOR. Subsequently, on November 30, 2020, ICE Benchmark Administration, the administrator for LIBOR, announced plans to cease publication (i) immediately after December 31, 2021 of one week and two month USD LIBOR settings and (ii) immediately following the LIBOR publication on June 30, 2023 of the remaining USD LIBOR settings i.e., overnight and one, three, six and twelve month settings. These announcements, among other developments, have resulted in uncertainty about the future of LIBOR, and the potential or actual discontinuance of LIBOR as a benchmark rate may adversely affect the value of, return on and trading market for our financial assets and liabilities that are based on or are linked to LIBOR. Furthermore, there can be no assurance that we and other market participants will be adequately prepared for an actual discontinuation of LIBOR which could have an unpredictable impact on contractual mechanics that could also produce an adverse economic impact.

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

### **MBIA Corp. Risk Factors**

As described further and for the reasons stated herein, we believe that MBIA Corp. will not provide significant economic or shareholder value to MBIA Inc. For additional information on MBIA Corp., refer to "Results of

**Item 1A. Risk Factors (continued)**

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

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

MBIA Insurance Corporation is particularly sensitive to the risk that it will not have sufficient capital or liquid resources to meet contractual payment obligations when due or to make settlement payments in order to terminate insured exposures to avoid losses. While management’s expected liquidity and capital forecasts for MBIA Insurance Corporation reflect adequate resources to pay expected claims, there are risks to the capital and liquidity forecasts as MBIA Insurance Corporation’s remaining insured exposures and its expected salvage recoveries are potentially volatile. Such volatility exists in the amount of excess spread, and other salvage that MBIA Insurance Corporation may collect, including in particular recoveries on the claims it paid in respect of the insured notes issued by Zohar CDO 2003-1, Limited and Zohar II 2005-1 CDO (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 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 II, Item 7 of this Form 10-K.

MBIA Insurance Corporation believes that the primary source of funds for the repayment of its obligations under the Refinanced Facility and for reimbursement for the Zohar Claims Payments will come from the monetization of the loans made to, and equity interests in, companies that, until late March of 2020, were purportedly controlled and managed by the sponsor and former collateral manager of the Zohar CDOs referenced above (collectively, the “Zohar Collateral”). In late March of 2020, the original sponsor resigned as director and manager of all but one portfolio company, and new directors and managers are currently in place at all but two portfolio companies.

While MBIA Insurance Corporation believes that it will receive substantial recoveries on the Zohar Collateral, there is significant uncertainty with respect to its realizable value. Further, as the monetization process at the portfolio companies unfolds in coordination with the new directors and managers in place, and new information concerning the financial condition of the portfolio companies is disclosed, we may revise our expectations for recoveries. There can be no assurance that such information will not lead to material revisions to our expectations for the recovery from any individual portfolio company.

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. Further, 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

**Item 1A. Risk Factors (continued)**

the Refinanced 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 material economic long-term liquidity impact on MBIA Inc.

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

MBIA Corp. insures certain structured finance transactions that remain volatile and could result in additional losses, which could be substantial. MBIA Corp. has also recorded significant loss reserves on its Residential Mortgage Backed Securities ("RMBS") and Collateralized Debt Obligation ("CDO") exposures, and there can be no assurance that these reserves will be sufficient, in particular if the economy deteriorates. These transactions are also subject to servicer risk, which relates to problems with the transaction's servicer that could adversely affect performance of the underlying assets. As of December 31, 2020, MBIA Corp. recorded expected excess spread recoveries (the difference between interest inflows on assets and interest outflows on liabilities) of \$177 million, including recoveries related to consolidated VIEs, on our RMBS transactions, in reimbursement of our past and future expected claims. Of this amount, \$112 million is included in "Insurance loss recoverable" and \$65 million is included in "Loss and loss adjustment expense reserves" on the Company's consolidated balance sheets. 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. Excess spread also includes subsequent recoveries on previously charged-off loans associated with insured second-lien RMBS securitizations. There can be no assurance that this recovery will be received in its entirety or in the expected timeframe.

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

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

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

### **Item 1A. Risk Factors (continued)**

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

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

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

#### **General Risk Factors**

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

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

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

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

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

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

**Item 1B. Unresolved Staff Comments**

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

**Item 2. Properties**

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

**Item 3. Legal Proceedings**

For a discussion of the Company's litigation and related matters, see "Note 19: Commitments and Contingencies" in the Notes to Consolidated Financial Statements of MBIA Inc. and Subsidiaries in Part II, Item 8. In the normal course of operating its businesses, MBIA Inc. may be involved in various legal proceedings. As a courtesy, the Company posts on its website under the section "Legal Proceedings," selected information and documents in reference to selected legal proceedings in which the Company is the plaintiff or the defendant. The Company will not necessarily post all documents for each proceeding and undertakes no obligation to revise or update them to reflect changes in events or expectations. The complete official court docket can be publicly accessed by contacting the clerk's office of the respective court where each litigation is pending.

**Item 4. Mine Safety Disclosures**

Not applicable.

## Part II

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

The Company’s common stock is listed on the New York Stock Exchange under the symbol “MBI.” As of February 22, 2021, there were 275 shareholders of record of the Company’s common stock. The Company did not pay cash dividends on its common stock during 2020 or 2019. For information on the ability for certain subsidiaries of the Company to transfer funds to the Company in the form of cash dividends or otherwise, refer to “Item 1. Business—Insurance Regulation” in this annual report.

During 2020, the Company or National purchased or repurchased 26.4 million shares at a cost of \$198 million under the repurchase authorization approved by the Company’s Board of Directors (the “Board”) in May 2020 and November 2017 and exhausted these share repurchase authorizations. During 2019, the Company or National purchased or repurchased 11.1 million shares at a cost of \$101 million under the repurchase authorization approved by the Board in November 2017. During 2018, The Company or National purchased or repurchased 5.8 million shares at a cost of \$48 million under the repurchase authorization approved by the Board in November 2017.

The table below presents repurchases made by the Company or National in each month during the fourth quarter of 2020. See “Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters” in Part III for a further discussion of securities authorized for issuance under long-term incentive plans.

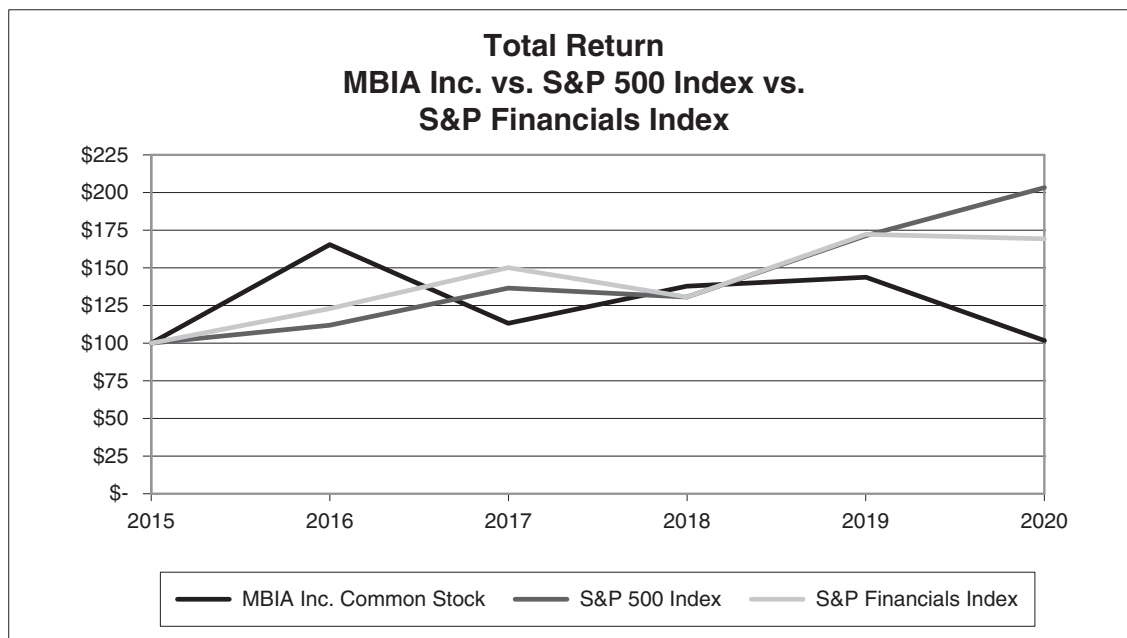
Month	Total Number of Shares Purchased <sup>(1)</sup>	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan	Maximum Amount That May Be Purchased Under the Plan (in millions)
October	133	6.55	—	\$ —
November	174	6.23	—	—
December	4,158	6.53	—	—

(1) Represents shares repurchased in open market transactions as investments in the Company’s non-qualified deferred compensation plan.

As of December 31, 2020, 283,186,115 shares of Common Stock of the Company, par value \$1 per share, were issued and 53,677,148 shares were outstanding.

**Stock Performance Graph** The following graph compares the cumulative total shareholder return (rounded to the nearest whole dollar) of our common stock, the S&P 500 Index (“S&P 500 Index”) and the S&P 500 Financials Sector Index (“S&P Financials Index”) for the last five fiscal years. The graph assumes a \$100 investment at the closing price on December 31, 2014 and reinvestment of dividends in the security/index on the respective dividend payment dates without commissions. This graph does not forecast future performance of our common stock.

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



	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
<b>MBIA Inc. Common Stock</b>	100.00	165.12	112.96	137.65	143.52	101.54
<b>S&amp;P 500 Index</b>	100.00	111.95	136.38	130.39	171.44	202.96
<b>S&amp;P Financials Index</b>	100.00	122.75	149.93	130.38	172.22	169.19

Source: Bloomberg Finance L.P.

**Item 6. Selected Financial Data**

Not applicable.

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

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

*This section of this Form 10-K generally discusses 2020 and 2019 items and year-to-year comparisons between 2020 and 2019. Discussions of 2018 items and year-to-year comparisons between 2019 and 2018 that are not included in this Form 10-K can be found in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Part II, Item 7 of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2019.*

### **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 subsidiary ("MBIA Corp.").

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 significant new business.

### **EXECUTIVE OVERVIEW**

#### **COVID-19**

The global outbreak of the novel coronavirus COVID-19 ("COVID-19"), a respiratory disease caused by a new strain of coronavirus, was declared a pandemic by the World Health Organization in March of 2020 and continues to affect a wide range of economic activities, domestic and global business and financial markets. In December of 2020, the U.S. Food and Drug Administration approved the distribution of two COVID-19 vaccines that, once widely adopted and utilized, may materially reduce the impact of COVID-19 going forward, although the impact of the virus including certain new strains remains uncertain. The impact, scope and duration of any new strains of the virus, and the ability to successfully distribute the vaccines, remain largely unknown. The attendant governmental policy and social responses, and economic and financial consequences, continue to be the subject of considerable attention and development. The Company's employees have continued to work remotely since early March of 2020 when the Company successfully implemented its business continuity plans. We continue to perform all of our traditional operations, including surveilling and, as necessary, remediating, the credits in our insured portfolios.

#### Insured portfolios

The Company continues to regularly assess the financial impact of the pandemic on its operating insurance companies' overall insured portfolios. It remains challenging to comprehensively quantify, or account for the impact of the outbreak on most of the specific credits within our insured portfolios, due to, in part, challenges in determining whether and to what extent the underlying credits will be able or willing to continue to meet their debt



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

**EXECUTIVE OVERVIEW (continued)**

service obligations or avoid long term impairment in this environment. Adverse developments on macroeconomic factors resulting from the spread of COVID-19, including without limitation reduced economic activity and certainty, increased unemployment, increased loan defaults or delinquencies, and increased stress on municipal budgets, including due to reduced tax revenues and the ability to raise taxes or limit spending, could materially and adversely affect the performance of our insured portfolios. The impact of the pandemic on our financial guarantee credits is likely to vary based on the duration of the pandemic, the continued availability of federal aid to state and local governments, and the breadth and speed of economic recovery may all contribute to the ultimate degree and length of the economic stress incurred by the credits in our insured portfolios. Further, any national recession that may result from the pandemic and its aftermath could present additional but yet unknown credit risks to our insured portfolios.

Federal legislation passed to combat the economic impact of the pandemic, principally the \$2.7 trillion Coronavirus Aid, Relief, and Economic Security ("CARES") Act, included significant aid to public sector issuers including states, territories, healthcare, higher education and transportation issuers. In addition, the Federal Reserve has announced several actions in furtherance of its mandate from Congress to promote the stability of the financial system that are directly supportive of the municipal market. It is premature to assess whether these or any subsequent federal responses will prevent or reduce financial distress in the municipal sector. If the issuers of the obligations in National's insured portfolio, including the Commonwealth of Puerto Rico and its instrumentalities ("Puerto Rico"), are unable to raise taxes, reduce spending, or receive federal assistance, we may experience new or additional losses or impairments on those obligations, which could materially and adversely affect our business, financial condition and financial results. In December of 2020, Congress passed an additional \$900 billion coronavirus relief bill, however, this latest aid package does not include direct funding to states and local governments. In January of 2021, a new \$1.9 trillion relief plan was proposed that includes assistance to further stabilize the financial system, help with vaccine distribution, and direct funding for states and local governments.

Certain of MBIA Corp.'s structured finance policies, including those in which the underlying principal obligations are comprised of residential or commercial mortgages and mortgage-backed securities ("MBS"), could be negatively impacted by delays or failures of borrowers to make payments of principal and interest when due, or delays or moratoriums on foreclosures or enforcement actions with respect to delinquent or defaulted mortgages imposed by governmental authorities. MBIA Corp. has recorded significant loss reserves on its residential mortgage-backed securities ("RMBS") and collateralized debt obligations ("CDO") exposures, and there can be no assurance that these reserves will be sufficient if the pandemic causes further deterioration to the economy. These transactions are also subject to servicer risks, which relate to problems with the transaction's servicer that could adversely impact performance of the underlying assets. Additionally, several of our credits, particularly within our international public finance sector, feature large, near term debt-service payments, and there can be no assurance that the liquidity position of MBIA Corp. will enable it to satisfy any claims that arise if the issuers of such credits are unable or unwilling to refinance or repay their obligations. MBIA Corp. has recorded substantial expected recoveries on certain RMBS transactions, and the forbearance options that mortgage borrowers who were facing financial difficulties took advantage of under the CARES Act, may delay or impair collections on these recoveries.

Liquidity

The Company continues to monitor its cash and liquid asset resources using cash forecasting and stress-scenario testing. Members of the Company's senior management meet regularly to review liquidity metrics, discuss contingency plans and establish target liquidity levels. It remains premature to predict the full impact the pandemic may have on our future liquidity position and needs. Declines in the market value or rating eligibility of assets pledged against the Company's obligations as a result of credit market deterioration caused by COVID-19 require additional eligible assets to be pledged in order to meet minimum required collateral amounts against these obligations. This could require the Company to sell assets, potentially with substantial losses or use free cash or other assets to meet the collateral requirements, thus negatively impacting the Company's liquidity position. Associated declines in the yields in our insurance companies' fixed-income portfolios could materially impact investment income.

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

**EXECUTIVE OVERVIEW (continued)**

**2020 Business Developments**

The following is a summary of 2020 business developments:

Puerto Rico (Refer to the "U.S. Public Finance Insurance Puerto Rico Exposures" section for additional information on our Puerto Rico exposures)

- During 2020, 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 \$391 million. On January 1, 2021, Puerto Rico also defaulted on scheduled debt service for National insured bonds and National paid gross claim payments in the aggregate of \$51 million. As of December 31, 2020, National had \$2.9 billion of debt service outstanding related to Puerto Rico.
- In February of 2020, the Financial Oversight and Management Board ("Oversight Board") created under the Puerto Rico Oversight, Management, and Economic Stability Act ("PROMESA") filed a plan and disclosure statement in the Puerto Rico Commonwealth GO ("GO") Title III case based on the Plan Support Agreement ("PSA") previously announced in mid-2019 with certain GO and Puerto Rico Public Buildings Authority ("PBA") bondholders. National was not a party to the PSA. Throughout 2020 and into 2021, at the urging of the Court and the Oversight Board, the PSA parties, as well as additional parties including monoline insurance companies who were not prior parties to the PSA, engaged in discussions on new economics for the PSA. On February 10, 2021, the Oversight Board filed a motion stating it had an agreement in principle with certain PSA parties, not including the monoline insurance companies, representing approximately \$7 billion in GO and PBA Bonds, and requested until March 8, 2021 to file an amended plan. The Court approved the request. On February 22, 2021, National agreed to join a revised PSA, dated as of February 22, 2021 (the "2021 PSA"), among the Oversight Board, certain holders of GO Bonds and PBA Bonds, Assured Guaranty Corp. and Assured Guaranty Municipal Corp, and Syncora Guarantee Inc. in connection with the GO and PBA Title III cases. The 2021 PSA provides that, among other things, National shall receive a pro rata share of allocable cash, newly issued General Obligation bonds, a contingent value instrument and certain fees. National has the right to unilaterally terminate its participation in the 2021 PSA on or prior to March 31, 2021. The 2021 PSA contemplates a plan becoming effective on or before December 15, 2021; however there can be no assurance that such a plan will ever become effective, or on the contemplated timeline.
- In the Puerto Rico Highway and Transportation Authority ("HTA") Title III case, in September of 2020, the Court entered an order denying the motion of National and other monolines seeking to lift the automatic stay to protect HTA bondholders' property interests in certain designated cash flows. On February 4, 2021, the First Circuit Court of Appeals heard argument on the monolines' appeal of the Bankruptcy Court's ruling. A decision is pending. In the event that National does not terminate its participation in the 2021 PSA on or prior to March 31, 2021, the Oversight Board and National shall jointly request the entry of an order in the Title III court staying National's actions to lift the automatic stay in the GO and HTA Title III cases currently before the First Circuit Court of Appeals, and National shall take no further action with respect to the lift stay subject to the Commonwealth plan becoming effective.
- In the second half of 2020, the Oversight Board was reconstituted with the reappointment of three existing members and appointment of four new members for three year terms, with the newly elected Governor sitting as an *ex officio* member. This reconstitution of the board was confirmed in early 2021.

Credit Suisse

In November of 2020, the court overseeing MBIA Corp.'s litigation against Credit Suisse Securities (USA) LLC and DLJ Mortgage Capital, Inc. (collectively, "Credit Suisse"), issued a decision declaring that MBIA Corp. had succeeded at trial in establishing that a majority of the loans in the HEMT 2007-2 RMBS transaction sponsored by Credit Suisse were ineligible. In January of 2021, the Court issued an order declaring that Credit Suisse was liable to MBIA Corp. for approximately \$604 million in damages. On February 9, 2021, the parties to the litigation entered into a settlement agreement pursuant to which Credit Suisse paid MBIA Corp. \$600 million, and on February 11, 2021, the court entered an order dismissing the case. Refer to "Note 6: Loss and Loss Adjustment Expense Reserves" in the Notes to Consolidated Financial Statements for a discussion of our Credit Suisse put-back claims.

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

### EXECUTIVE OVERVIEW (continued)

#### Financial Highlights

The following table presents 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 position under statutory accounting principles ("U.S. STAT").

In millions except for per share amounts	Years Ended December 31,		
	2020	2019	2018
Net income (loss)	\$ (578)	\$ (359)	\$ (296)
Net income (loss) per diluted share	(9.78)	(4.43)	(3.33)
Adjusted net income (loss) <sup>(1)</sup>	(173)	(17)	(38)
Adjusted net income (loss) per diluted share <sup>(1)</sup>	(2.93)	(0.21)	(0.42)
Cost of shares repurchased	198	101	48

(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.

#### Economic and Financial Market Trends

The U.S. economy continued to face significant challenges during the fourth quarter of 2020 due to the COVID-19 pandemic which has remained an ongoing public health crisis around the world. The persistent spread of the coronavirus and the governmental measures taken to contain it have remained a burden on the economy. Some financial conditions have improved due to measures taken by Congress and the Federal Reserve to support the economy and enhance access to credit for U.S. households and businesses, however, economic activity and employment remain well below pre-pandemic levels. The path toward economic recovery is still significantly dependent on the course of the virus throughout the country which will impact economic activity and employment in the short term and may continue to pose meaningful risks to these measures over the medium term. Inflation remained low due to overall weak consumer demand and low oil prices.

Also, for 2021, it is expected that there will be government policy shifts as a result of the new presidential administration and a democratic majority in Congress. However, this will still largely depend on the nation's handling of the COVID-19 pandemic including the significant challenge of managing the largest vaccination campaign in history.

The Federal Open Market Committee maintained its target range for the federal funds rate at 0 to ¼ percent at its January 2021 meeting. The Federal Reserve has committed to keeping interest rates at or near zero in order to lower borrowing costs until they are confident that the economy has stabilized and the health crisis has subsided. Furthermore, the Federal Reserve has remained committed to using all of its resources and tools to support the economy by assisting households, employers, and state and local governments during the coronavirus pandemic.

Economic and financial market trends could impact the Company's financial results. As a result of the pandemic, many states and municipalities will experience financial distress through delayed tax collections, inability to reduce spending and not receiving timely financial assistance. Economic deterioration at the state and local level weakens the credit quality of the issuers of our insured municipal bonds, reduces the performance of our insured U.S. public finance portfolio and could increase the amount of National's potential incurred losses. In addition, lower interest rates could result in decreased returns on our Company's investment portfolios. Refer to the "COVID-19" section above for further information about the pandemic.

#### CRITICAL ACCOUNTING POLICIES AND 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. Refer to "Note 2: Significant Accounting Policies" in the Notes to Consolidated Financial Statements for a discussion of our significant accounting policies and methods used in the preparation of our consolidated financial statements.

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

**CRITICAL ACCOUNTING POLICIES AND ESTIMATES (continued)**

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

**Loss and Loss Adjustment Expense Reserves**

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

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

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

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

**Valuation of Financial Instruments**

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

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

### **CRITICAL ACCOUNTING POLICIES AND ESTIMATES (continued)**

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

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

Instruments that trade infrequently and, therefore, have little or no price transparency are classified within Level 3 of the fair value hierarchy. Also included in Level 3 are financial instruments that have significant unobservable inputs deemed significant to the instrument's overall fair value. Level 3 assets represented approximately 20% and 15% of total assets measured at fair value on a recurring basis as of December 31, 2020 and 2019, respectively. Level 3 liabilities represented approximately 68% and 72% of total liabilities measured at fair value on a recurring basis as of December 31, 2020 and 2019, respectively.

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

### **RECENT ACCOUNTING PRONOUNCEMENTS**

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

### **RESULTS OF OPERATIONS**

#### **Summary of Consolidated Results**

The following table presents a summary of our consolidated financial results for the years ended December 31, 2020, 2019 and 2018:

<b>In millions except for per share amounts</b>	<b>Years Ended December 31,</b>		
	<b>2020</b>	<b>2019</b>	<b>2018</b>
Total revenues	\$ 282	\$ 280	\$ 162
Total expenses	860	637	458
Income (loss) before income taxes	(578)	(357)	(296)
Provision (benefit) for income taxes	—	2	—
Net income (loss)	<u>\$ (578)</u>	<u>\$ (359)</u>	<u>\$ (296)</u>
Net income (loss) per common share:			
Basic	\$ (9.78)	\$ (4.43)	\$ (3.33)
Diluted	\$ (9.78)	\$ (4.43)	\$ (3.33)
Weighted average number of common shares outstanding:			
Basic	59,071,843	81,014,285	89,013,711
Diluted	59,071,843	81,014,285	89,013,711

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

**RESULTS OF OPERATIONS (continued)**

2020 vs. 2019

The increase in consolidated total revenues was primarily due to favorable changes in revenues of consolidated variable interest entities ("VIEs") and in credit losses on investments. These favorable changes were partially offset by unfavorable changes in net gains (losses) on financial instruments at fair value and foreign exchange and net investment income. The favorable change in revenues of consolidated VIEs was primarily due to higher gains from put-back claims on ineligible mortgage loans within a second-lien RMBS VIE in 2020. Credit losses on investments in 2019 primarily related to adverse financial conditions of an issuer of a security, which was sold during the first quarter of 2020. The unfavorable change in net gains (losses) on financial instruments at fair value and foreign exchange was primarily due to realized gains on the sales of uninsured Puerto Rico Electric Power Authority ("PREPA") bonds and Puerto Rico Sales Tax Financing Corporation ("COFINA") bonds in 2019. The unfavorable change in net investment income was primarily due to lower average asset balances in 2020, primarily due to claim payments and purchases of MBIA Inc. common shares.

Consolidated total expenses for the years ended December 31, 2020 and 2019 included net insurance loss and LAE of \$530 million and \$242 million, respectively. The increase in loss and LAE was primarily due to an increase in losses on certain Puerto Rico credits and a decrease in expected salvage collections from insured CDOs. This increase in loss and LAE was partially offset by the impact of declines in the risk-free rates during 2020, which increased the present value of recoveries on certain Puerto Rico credits. Refer to the following "Loss and Loss Adjustment Expenses" sections of National and MBIA Corp. for additional information on our insurance losses and LAE.

**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 economic 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. These amounts fluctuate based on market interest rates, credit spreads 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, impaired securities and extinguishment of debt* – We remove gains (losses) on the sale of investments, net investment losses related to impairment of securities and net gains (losses) on extinguishment of debt since the timing of these transactions are subject to management's assessment of market opportunities and conditions and capital liquidity positions.
- *Income taxes* – The Company applies a zero effective tax rate for federal income tax purposes to its pre-tax adjustments, if applicable.

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

**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 years ended December 31, 2020, 2019 and 2018:

In millions, except share and per share amounts	Years Ended December 31,		
	2020	2019	2018
Net income (loss)	\$(578)	\$(359)	\$(296)
Less: adjusted net income adjustments:			
Income (loss) before income taxes of our international and structured finance insurance segment and eliminations	(391)	(369)	(278)
Adjustments to income before income taxes of our U.S. public finance insurance and corporate segments:			
Mark-to-market gains (losses) on financial instruments <sup>(1)</sup>	(27)	(39)	16
Foreign exchange gains (losses) <sup>(1)</sup>	(34)	8	21
Net gains (losses) on sales of investments <sup>(1)</sup>	47	128	(13)
Net investment losses related to impairments of securities	—	(67)	(5)
Net gains (losses) on extinguishment of debt	—	(1)	3
Other net realized gains (losses)	—	(2)	(2)
Adjusted net income adjustment to the (provision) benefit for income tax <sup>(2)</sup>	—	—	—
Adjusted net income (loss)	<u>\$(173)</u>	<u>\$ (17)</u>	<u>\$ (38)</u>
Adjusted net income (loss) per diluted common share	<u>\$(2.93)<sup>(3)</sup></u>	<u>\$(0.21)<sup>(3)</sup></u>	<u>\$(0.42)<sup>(3)</sup></u>

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

(2)—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 adjusted net income (loss) divided by 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, changes to which we view as an important indicator of financial performance. ABV is also used by management in certain components of management's compensation. Since many of the Company's investors and analysts continue to use ABV to evaluate MBIA's share price and as the basis for their investment decisions, we 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:

- *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 impairments of AFS securities are recorded in book value through earnings.

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

### RESULTS OF OPERATIONS (continued)

- *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.

Since the Company has a full valuation allowance against its net deferred tax asset, the book value per share adjustments 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 December 31, 2020	As of December 31, 2019
Total shareholders' equity of MBIA Inc.	\$ 136	\$ 826
Common shares outstanding	53,677,148	79,433,293
GAAP book value per share	\$ 2.55	\$ 10.40
Management's adjustments described above:		
Remove negative book value per share of MBIA Corp.	(31.97)	(16.81)
Remove net unrealized gains (losses) on available-for-sale securities included in other comprehensive income (loss)	2.86	1.29
Include net unearned premium revenue in excess of expected losses	4.29	3.46

### 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, housing authorities and other similar agencies and obligations issued by private entities that finance projects that serve a substantial public purpose. Municipal bonds and privately issued bonds used for the financing of public purpose projects are generally supported by taxes, assessments, user fees or tariffs related to the use of these projects, lease payments or other similar types of revenue streams. As of December 31, 2020, National had total insured gross par outstanding of \$41.9 billion.

National continues to monitor and remediate its existing insured portfolio and may also pursue strategic alternatives that could enhance shareholder value. Some state and local governments and territory obligors that National insures are experiencing financial and budgetary stress which may be exacerbated by COVID-19. As a result of COVID-19, we have increased our monitoring of certain credits. Financial and budgetary stress 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 had been experiencing significant fiscal stress and constrained liquidity, and in response, Congress passed PROMESA, which established the Oversight Board vested with the sole power to certify fiscal plans for Puerto Rico. Refer to the "U.S. Public Finance Insurance Puerto Rico Exposures" section for additional information on PROMESA and 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.



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

**RESULTS OF OPERATIONS (continued)**

The following table presents our U.S. public finance insurance segment results for the years ended December 31, 2020, 2019 and 2018:

In millions	Years Ended December 31,			Percent Change	
	2020	2019	2018	2020 vs. 2019	2019 vs. 2018
Net premiums earned	\$ 57	\$ 66	\$ 95	-14%	-31%
Net investment income	70	98	111	-29%	-12%
Fees and reimbursements	3	3	2	—%	50%
Net gains (losses) on financial instruments at fair value and foreign exchange	39	139	(21)	-72%	n/m
Net investment losses related to other-than-temporary impairments	—	(67)	(5)	-100%	n/m
Other net realized gains (losses)	(1)	2	—	-150%	n/m
Revenues of consolidated VIEs:					
Net gains (losses) on financial instruments at fair value and foreign exchange	—	64	—	-100%	n/m
Other net realized gains (losses)	—	(43)	—	-100%	n/m
Total revenues	168	262	182	-36%	44%
Losses and loss adjustment	163	53	91	n/m	-42%
Amortization of deferred acquisition costs	11	16	21	-31%	-24%
Operating	48	49	41	-2%	20%
Total expenses	222	118	153	88%	-23%
Income (loss) before income taxes	\$ (54)	\$ 144	\$ 29	-138%	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. The decrease in net premiums earned for 2020 compared with 2019 resulted from a \$7 million decrease in scheduled premiums earned and a \$2 million decrease in refunded premiums earned. 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. In addition, net premiums earned during 2019 included the elimination of \$19 million due to the Company consolidating VIEs related to the COFINA transaction.

**NET INVESTMENT INCOME** The decrease in net investment income for 2020 compared with 2019 was primarily due to a lower average asset base resulting from claim payments and purchases of MBIA Inc. common shares.

**NET GAINS (LOSSES) ON FINANCIAL INSTRUMENTS AT FAIR VALUE AND FOREIGN EXCHANGE** For 2020, net gains (losses) on financial instruments at fair value and foreign exchange included gains from the sales of securities from the ongoing management of our U.S. public finance investment portfolio. For 2019, net gains (losses) on financial instruments at fair value and foreign exchange primarily comprised realized gains from the sales of uninsured PREPA bonds and from the COFINA bond exchange.

**NET INVESTMENT LOSSES RELATED TO OTHER-THAN-TEMPORARY IMPAIRMENTS** Net investment losses related to other-than-temporary-investments ("OTTI") for 2019 were primarily related to an impaired security for which a credit loss was recognized in earnings. This OTTI resulted from adverse financial conditions of the issuer. This impaired security was sold during the first quarter of 2020.

**REVENUES OF CONSOLIDATED VIEs** VIEs within our U.S. public finance insurance segment included the National Custodial Trusts (the "Trusts") established in connection with the COFINA Plan of Adjustment. For 2019, total revenues of consolidated VIEs were \$21 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

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

**RESULTS OF OPERATIONS (continued)**

guidance for consolidation of VIEs and, as such, changes in fair values of these instruments, which included investments held and debt issued, were reflected in earnings. During 2019, all remaining investment assets of the Trusts were sold and National elected to make a voluntary additional payment with the effect of simultaneously reducing the Trust's debt obligations to zero and satisfying in full the obligations under its original insurance policies.

**LOSSES AND LOSS ADJUSTMENT EXPENSES** For the year ended December 31, 2020, losses and LAE primarily related to certain Puerto Rico exposures as well as investor owned utility exposure. For the year ended December 31, 2019, losses and LAE primarily related to certain Puerto Rico exposures.

The following table presents information about our U.S. public finance insurance loss recoverable assets and loss and LAE reserves liabilities as of December 31, 2020 and 2019:

In millions	December 31, 2020	December 31, 2019	Percent Change
<b>Assets:</b>			
Insurance loss recoverable	\$ 1,220	\$ 911	34%
Reinsurance recoverable on paid and unpaid losses <sup>(1)</sup>	6	14	-57%
<b>Liabilities:</b>			
Loss and LAE reserves	469	432	9%
Insurance loss recoverable—ceded <sup>(2)</sup>	48	19	n/m
Net reserve (salvage)	\$ (709)	\$ (474)	50%

(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.

The insurance loss recoverable as of December 31, 2020 increased compared with December 31, 2019 primarily as a result of expected recoveries related to claims paid on certain Puerto Rico exposures and changes in discount rates used to present value those future expected recoveries. Loss and LAE reserves as of December 31, 2020 increased compared with December 31, 2019 primarily due to an increase in expected net payments on our Puerto Rico exposures. This was partially offset by actual payments made and the impact of changes in discount rates used to present value the net future expected payments related to certain Puerto Rico exposures.

**POLICY ACQUISITION COSTS AND OPERATING EXPENSES** U.S. public finance insurance segment expenses for the years ended December 31, 2020, 2019 and 2018 are presented in the following table:

In millions	Years Ended December 31,			Percent Change	
	2020	2019	2018	2020 vs. 2019	2019 vs. 2018
Gross expenses	\$ 48	\$ 49	\$ 41	-2%	20%
Amortization of deferred acquisition costs	\$ 11	\$ 16	\$ 21	-31%	-24%
Operating	48	49	41	-2%	20%
Total insurance expenses	\$ 59	\$ 65	\$ 62	-9%	5%

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

The decrease in the amortization of deferred acquisition costs in 2020 was due to higher refunding activity in prior years. When an insured obligation refunds, we accelerate any remaining deferred acquisition costs associated with the policy covering the refunded insured obligation. We did not defer a material amount of policy acquisition costs during 2020 or 2019.

**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

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

**RESULTS OF OPERATIONS (continued)**

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 December 31, 2020 and 2019. Capital appreciation bonds (“CABs”) are reported at the par amount at the time of issuance of the insurance policy. All ratings are as of the period presented and represent S&P underlying ratings, where available. If transactions are not rated by S&P, a Moody’s equivalent rating is used. If transactions are not rated by either S&P or Moody’s, an internal equivalent rating is used.

In millions Rating	Gross Par Outstanding			
	December 31, 2020		December 31, 2019	
	Amount	%	Amount	%
AAA	\$ 2,080	5.0%	\$ 2,709	5.5%
AA	16,299	39.0%	19,155	39.2%
A	12,888	30.8%	15,022	30.7%
BBB	7,019	16.7%	8,225	16.8%
Below investment grade	3,570	8.5%	3,809	7.8%
Total	<u>\$41,856</u>	<u>100.0%</u>	<u>\$48,920</u>	<u>100.0%</u>

**U.S. Public Finance Insurance Puerto Rico Exposures**

The following is a summary of exposures within the insured portfolio of our U.S. public finance insurance segment related to Puerto Rico as of December 31, 2020.

In millions	Gross Par Outstanding	Debt Service Outstanding	National Internal Rating
Puerto Rico Electric Power Authority (PREPA)	\$ 903	\$ 1,225	d
Puerto Rico Commonwealth GO	290	378	d
Puerto Rico Public Buildings Authority (PBA) <sup>(1)</sup>	169	223	d
Puerto Rico Highway and Transportation Authority Transportation Revenue (PRHTA)	523	882	d
Puerto Rico Highway and Transportation Authority—Subordinated Transportation Revenue (PRHTA)	27	35	d
Puerto Rico Highway and Transportation Authority Highway Revenue (PRHTA)	41 <sup>(2)</sup>	61	d
University of Puerto Rico System Revenue	73	98	d
Inter American University of Puerto Rico Inc.	19	23	a3
Total	<u>\$ 2,045</u>	<u>\$ 2,925</u>	

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

(2)—Includes CABs that reflect the gross par amount at the time of issuance of the insurance policy. As of December 31, 2020, gross par outstanding plus CABs accreted interest was \$43 million.

On June 30, 2016, PROMESA was signed into law by the President of the United States. PROMESA provides for the creation of the Oversight Board with powers relating to the development and implementation of a fiscal plan for the Commonwealth and each of its instrumentalities as well as a court-supervised Title III process that allows Puerto Rico to restructure its debt if voluntary agreements cannot be reached with creditors through a collective action process. Following the resignation and replacement of several Oversight Board members, the Oversight

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

**RESULTS OF OPERATIONS (continued)**

Board has been reconstituted with four new members while three existing members have been reappointed by the President for another three year term. The newly elected Governor of Puerto Rico has appointed himself as a non-voting member of the reconstituted Oversight Board.

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 the Commonwealth. Under separate petitions, the Oversight Board subsequently commenced Title III proceedings for COFINA, PRHTA, PREPA and PBA on May 5, 2017, May 21, 2017, July 2, 2017 and September 27, 2019, respectively. One of the proceedings was resolved on February 4, 2019, when 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, and as of December 31, 2019, we no longer have exposure to COFINA. There can be no assurance that the other Title III proceedings will be resolved with similar outcomes.

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 \$1.6 billion relating to GO bonds, PBA bonds, PREPA bonds and PRHTA bonds through December 31, 2020, inclusive of the commutation payment and the additional payment in the amount of \$66 million on December 17, 2019 related to COFINA. Subsequently, National paid gross claims in the aggregate amount of approximately \$51 million relating to debt service due on January 1, 2021.

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. After an approximately five-month stay of litigation entered by the Court on July 24, 2019, these adversary proceedings resumed pursuant to an interim schedule entered by the Court in December 2019. On February 5, 2020, National and Assured Guaranty Municipal Corp. filed a motion to dismiss the adversary proceeding. The adversary proceeding hearing was stayed indefinitely by further order of the Court.

On June 17, 2019, the Oversight Board announced it had reached a plan support agreement ("PSA") 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. On February 9, 2020, the Oversight Board posted an amended PSA. National was not a party to the amended PSA, and the Commonwealth also did not support the amended PSA. On February 10, 2021, following several months of Court recommended mediation, the Oversight Board filed a motion stating it had an agreement in principle with certain PSA parties representing approximately \$7 billion in GO and PBA Bonds, and requested until March 8, 2021 to file an amended plan. The Court approved the request. On February 22, 2021, National agreed to join a revised PSA, dated as of February 22, 2021 (the "2021 PSA"), among the Oversight Board, certain holders of GO Bonds and PBA Bonds, Assured Guaranty Corp. and Assured Guaranty Municipal Corp, and Syncora Guarantee Inc. in connection with the GO and PBA Title III cases. The 2021 PSA provides that, among other things, National shall receive a pro rata share of allocable cash, newly issued General Obligation bonds, a contingent value instrument and certain fees. National has the right to unilaterally terminate its participation in the 2021 PSA on or prior to March 31, 2021. The 2021 PSA contemplates a plan becoming effective on or before December 15, 2021; however there can be no assurance that such a plan will ever become effective, or on the contemplated timeline. In the event that National does not terminate its participation in the 2021 PSA on or prior to March 31, 2021, the Oversight Board and National shall jointly request the entry of an order in the Title III court staying National's actions to lift the automatic stay in the GO and HTA Title III cases and to appoint a trustee in the HTA Title III case pursuant to Section 926, both currently before the First Circuit Court of Appeals, together with other actions related to the clawback of HTA funds from the Commonwealth, and National shall take no further action with respect to those proceedings subject to the Commonwealth plan becoming effective.

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. Pursuant to interim schedules entered by the Court in December 2019, the PBA

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

**RESULTS OF OPERATIONS (continued)**

adversary proceeding and the HTA adversary proceeding were to remain stayed until March 11, 2020, but the Court subsequently stayed all such adversary proceedings indefinitely subject to the progress of the GO confirmation process.

**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.

On September 27, 2019, the Oversight Board filed a Title III petition for the PBA.

**PREPA**

National's largest exposure to Puerto Rico, by gross par outstanding, is to PREPA.

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"). This motion is stayed pending a resolution of the 9019 Order, discussed below.

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") entered into the RSA which was amended on September 9, 2019 to include National and Syncora Guarantee, Inc. ("Syncora") as supporting parties. Approximately 90% of PREPA's bondholders have joined the RSA.

The RSA initially contemplated the filing of a plan of adjustment for PREPA by March 31, 2020; the timing of that action is now uncertain.

Pursuant to the RSA, the Oversight Board filed a Rule 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 Receiver Motion and the Motion to Dismiss the Receiver Motion have been delayed several times, and most recently were adjourned due to the outbreak of COVID-19 until further notice. The debt restructuring contemplated by the RSA will not be effective until (i) confirmation of a plan of adjustment under the Puerto Rico Oversight, Management and Economic Stability Act ("PROMESA"), (ii) negotiation and consummation of definitive documentation and legal opinions, (iii) enactment and implementation of supportive Puerto Rico legislation and (iv) receipt of Puerto Rico regulatory approval, each of which outcome is uncertain and subject to varying degrees of risk. In addition, the restructuring the RSA contemplates has received criticism from various parties including members of the Puerto Rico government and other stakeholders. This opposition could adversely affect the ability of the Oversight Board and RSA Parties to obtain the Rule 9019 Order and approve the RSA.

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

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

**RESULTS OF OPERATIONS (continued)**

have any lien on or recourse to PREPA's assets, including pursuant to the RSA. All litigation on this matter has been stayed until the Court places the 9019 Motion back on the calendar for hearing.

On June 22, 2020, the Oversight Board and the Puerto Rico P3 Authority announced an agreement and contract with LUMA Energy, LLC ("LUMA") which calls for LUMA to take full responsibility for the operation and maintenance of PREPA's transmission and distribution system; the contract runs for 15-years following a transition period expected to take 12 months. PREPA retains ownership of the system as well as responsibility for the power generation system.

On September 18, 2020, FEMA and the PR COR3 Authority announced the commitment by FEMA to provide approximately \$11.6 billion (net of the required 10% cost share) to fund projects built by PREPA and the PR Department of Education; approximately \$9.4 billion (net) of this amount is designated for PREPA.

**PRHTA**

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. Pursuant to an interim schedule entered by the Court in December 2019, the Court has stayed the proceedings, with the understanding that the issues raised in these proceedings would be addressed in new adversary proceedings filed by the Oversight Board on January 16, 2020. Subsequent to those filings, these proceedings were stayed by order of the Court.

On August 23, 2019, National and Assured (the "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. Pursuant to an interim schedule entered by the Court in December 2019, the HTA Movants, along with Ambac Assurance Corporation and FGIC, amended the motion on January 16, 2020. Following a preliminary hearing held on June 4, 2020, on July 2, 2020, Judge Swain held that the Movants had failed to satisfy its burden of presenting a colorable claim that they had a statutory, contractual or equitable lien on HTA Revenues, including Excise Taxes or Toll Revenues. On September 9, 2020, the Court entered a final order denying the HTA lift stay motion, finding a balancing of factors does not support stay relief. National filed a notice of appeal to the First Circuit on September 23, 2020. The First Circuit heard the appeal on February 4, 2021. A decision is pending. In the event that National does not terminate its participation in the 2021 PSA with respect to the Commonwealth plan on or prior to March 31, 2021, the Oversight Board and National shall jointly request the entry of an order in the Title III court staying National's actions to lift the automatic stay in the GO and HTA Title III cases, and National shall take no further action subject to a plan resolving the GO Title III case becoming effective.

**Status of Puerto Rico's Fiscal Plans**

In January of 2020, the Oversight Board requested that the Puerto Rico government submit a proposed updated Fiscal Plan for the Commonwealth in light of recent and recurring earthquakes and considering Puerto Rico's current state of emergency. The Commonwealth submitted a revised fiscal plan on May 3, 2020. On May 27, 2020, after deeming the Puerto Rico government's fiscal plan as non-compliant, the Oversight Board certified its own revised fiscal plan for the Commonwealth. The revised fiscal plan reflects a significantly reduced the cumulative surplus of \$4.4 billion over the six-year projection period (after measures and structural reforms, but before contractual debt service) due primarily to the impact of the COVID-19 pandemic. The new surplus is about 65% lower than the previous plan, which reflected a surplus of approximately \$13.7 billion. For the remaining component units, the Oversight Board certified fiscal plans for both the University of Puerto Rico (the "University") and PRHTA on June 12, 2020 and June 26, 2020, while certifying a revised Fiscal Plan for PREPA on June 29, 2020. The Oversight Board also certified the fiscal year 2020 budgets for Commonwealth, PREPA, the University and PRHTA.

***University of Puerto Rico***

The University is not a debtor in Title III and continues to be current on its debt service payment. However, the University is subject to a standstill agreement with its senior bondholders, which has been extended to February 28, 2021. National is not a party to the standstill agreement.

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

**RESULTS OF OPERATIONS (continued)**

The following table presents our scheduled gross debt service due on our Puerto Rico insured exposures as of December 31, 2020, for each of the subsequent five years ending December 31 and thereafter:

	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>Thereafter</u>	<u>Total</u>
Puerto Rico Electric Power Authority (PREPA)	\$140	\$140	\$137	\$137	\$105	\$ 566	\$1,225
Puerto Rico Commonwealth GO	83	19	14	13	75	174	378
Puerto Rico Public Buildings Authority (PBA)	24	9	27	43	36	84	223
Puerto Rico Highway and Transportation Authority Transportation Revenue (PRHTA)	27	27	36	33	36	723	882
Puerto Rico Highway and Transportation Authority— Subordinated Transportation Revenue (PRHTA)	1	9	1	1	1	22	35
Puerto Rico Highway and Transportation Authority Highway Revenue (PRHTA)	4	2	4	2	2	47	61
University of Puerto Rico System Revenue	7	7	12	11	16	45	98
Inter American University of Puerto Rico Inc.	3	3	3	3	3	8	23
Total	<u>\$289</u>	<u>\$216</u>	<u>\$234</u>	<u>\$243</u>	<u>\$274</u>	<u>\$ 1,669</u>	<u>\$2,925</u>

**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 years ended December 31, 2020, 2019 and 2018:

<u>In millions</u>	<u>Years Ended December 31,</u>			<u>Percent Change</u>	
	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2020 vs. 2019</u>	<u>2019 vs. 2018</u>
Net investment income	\$ 30	\$ 37	\$ 37	-19%	—%
Fees	56	53	39	6%	36%
Net gains (losses) on financial instruments at fair value and foreign exchange	(63)	(54)	22	17%	n/m
Net gains (losses) on extinguishment of debt	—	(1)	3	-100%	-133%
Other net realized gains (losses)	—	(2)	(2)	-100%	—%
Total revenues	<u>23</u>	<u>33</u>	<u>99</u>	<u>-30%</u>	<u>-67%</u>
Operating	72	73	50	-1%	46%
Interest	84	92	95	-9%	-3%
Total expenses	<u>156</u>	<u>165</u>	<u>145</u>	<u>-5%</u>	<u>14%</u>
Income (loss) before income taxes	<u>\$(133)</u>	<u>\$(132)</u>	<u>\$(46)</u>	<u>—%</u>	<u>n/m</u>

n/m—Percent change not meaningful.

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

**RESULTS OF OPERATIONS (continued)**

**NET INVESTMENT INCOME** The decrease in net investment income for 2020 compared with 2019 was primarily due to lower yields on investment assets in 2020.

**NET GAINS (LOSSES) ON FINANCIAL INSTRUMENTS AT FAIR VALUE AND FOREIGN EXCHANGE** The unfavorable change in net gains (losses) on financial instruments at fair value and foreign exchange for 2020 compared with 2019 was primarily due to foreign exchange losses on Euro denominated liabilities in 2020 due to the weakening of the U.S. dollar versus foreign exchange gains in 2019 on Euro denominated liabilities due to the strengthening of the U.S. dollar. This was partially offset by higher fair value losses in 2019 compared with 2020 on interest rate swaps, primarily due to decreases in interest rates in 2019. During 2019, we terminated a portion of these interest rate swaps and 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.

**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 LLC ("MZ Funding"). MBIA Corp. had 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 covered 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 CDS contracts except for potential transactions related to the restructuring of existing exposures. MBIA Insurance Corporation provides 100% reinsurance to its subsidiary, 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. Based on MBIA Corp.'s current projected earnings and our expectation that it will not write significant 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 economic impact on MBIA Inc.



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

**RESULTS OF OPERATIONS (continued)**

The following table presents our international and structured finance insurance segment results for the years ended December 31, 2020, 2019 and 2018:

In millions	Years Ended December 31,			Percent Change	
	2020	2019	2018	2020 vs. 2019	2019 vs. 2018
Net premiums earned	\$ 24	\$ 27	\$ 78	-11%	-65%
Net investment income	5	7	6	-29%	17%
Fees and reimbursements	12	21	47	-43%	-55%
Change in fair value of insured derivatives:					
Realized gains (losses) and other settlements on insured derivatives	(1)	(10)	(56)	-90%	-82%
Unrealized gains (losses) on insured derivatives	7	25	31	-72%	-19%
Net change in fair value of insured derivatives	6	15	(25)	-60%	n/m
Net gains (losses) on financial instruments at fair value and foreign exchange	(14)	(33)	(18)	-58%	83%
Other net realized gains (losses)	1	4	2	-75%	100%
Revenues of consolidated VIEs:					
Net investment income	18	34	35	-47%	-3%
Net gains (losses) on financial instruments at fair value and foreign exchange	108	41	25	n/m	64%
Other net realized gains (losses)	37	(20)	(171)	n/m	n/m
Total revenues	197	96	(21)	105%	n/m
Losses and loss adjustment	367	189	(28)	94%	n/m
Amortization of deferred acquisition costs	16	21	31	-24%	-32%
Operating	27	26	21	4%	24%
Interest	116	131	129	-11%	2%
Expenses of consolidated VIEs:					
Operating	5	9	11	-44%	-18%
Interest	57	89	93	-36%	-4%
Total expenses	588	465	257	26%	81%
Income (loss) before income taxes	\$ (391)	\$ (369)	\$ (278)	6%	33%

n/m—Percent change not meaningful.

As of December 31, 2020, MBIA Corp.'s total insured gross par outstanding was \$7.7 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 are eliminated in our consolidated financial statements as a result of the Company consolidating VIEs. In addition, we generate net premiums from insured credit derivatives that are included in "Realized gains (losses) and other settlements on insured derivatives" on our consolidated statements of operations. The following table provides net premiums earned from our financial guarantee contracts for the years ended December 31, 2020, 2019 and 2018:

In millions	Years Ended December 31,			Percent Change	
	2020	2019	2018	2020 vs. 2019	2019 vs. 2018
Net premiums earned:					
Non-U.S.	\$ 18	\$ 21	\$ 68	-14%	-69%
U.S.	6	6	10	—%	-40%
Total net premiums earned	\$ 24	\$ 27	\$ 78	-11%	-65%
VIEs (eliminated in consolidation)	\$ (7)	\$ (3)	\$ 7	133%	-143%

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

### 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. Negative VIE net premiums earned (eliminated in consolidation) are related to reversing previously eliminated net premiums primarily from a policy termination and premium receivable write-offs.

**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. For 2020 and 2019, realized losses on insured derivatives resulted from claim payments on commercial mortgage-backed securities ("CMBS") exposure.

For 2020, unrealized gains on insured derivatives were driven by the reversal of a liability due to the termination of CMBS exposure at an amount below the previously recorded fair value. For 2019, unrealized gains on insured derivatives were principally due to the reversal of unrealized losses resulting from gross par amortization of transactions.

**NET GAINS (LOSSES) ON FINANCIAL INSTRUMENTS AT FAIR VALUE AND FOREIGN EXCHANGE** The net losses on financial instruments at fair value and foreign exchange for 2020 were primarily related to unfavorable mark-to-market fluctuations on derivatives. The net losses on financial instruments at fair value and foreign exchange for 2019 were primarily related to unfavorable mark-to-market fluctuations on derivatives and losses from foreign currency revaluations of loss reserves denominated in Mexican peso as a result of the weakening of the U.S. dollar and the foreign currency revaluations of premium receivables denominated in Chilean unidad de fomento as a result of the strengthening of the U.S. dollar.

**REVENUES OF CONSOLIDATED VIEs** For 2020, total revenues of consolidated VIEs were \$163 million compared with \$55 million for 2019. The increase in revenues of consolidated VIEs for 2020 compared with 2019 was primarily due to higher gains from put-back claims on ineligible mortgage loans within a second-lien RMBS VIE in 2020 and a reversal of an allowance for credit losses in 2020 versus losses on the deconsolidation of VIEs in 2019, partially offset by lower net investment income in 2020 due to the deconsolidation of a VIE in the first quarter of 2020.

**LOSSES AND LOSS ADJUSTMENT EXPENSES** For 2020, loss and LAE primarily related to a decrease in expected salvage collections from insured CDOs and declines in the risk-free rates used to discount expected claims and salvage during 2020, which increased the present value of net loss reserves, primarily on our insured first-lien RMBS transactions. These increases in losses and LAE were partially offset by an increase in expected net recoveries related to second-lien RMBS. For 2019, losses and LAE primarily related to a decrease in expected salvage collections related to CDOs and an increase in expected payments on insured first-lien RMBS transactions. As a result of the consolidations of VIEs, losses and LAE includes the elimination of a losses and LAE benefit of \$144 million and \$40 million for 2020 and 2019, respectively.

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. As a result of COVID-19, we have increased our monitoring of certain credits. Refer to "Note 6: Loss and Loss Adjustment Expense Reserves" in the Notes to Consolidated Financial Statements for a description of the Company's loss reserving policy and additional information related to its loss reserves. The following table presents information about our insurance loss recoverable and loss and LAE reserves as of December 31, 2020 and 2019:

In millions	December 31, 2020	December 31, 2019	Percent Change
<b>Assets:</b>			
Insurance loss recoverable	\$ 457	\$ 783	-42%
Reinsurance recoverable on paid and unpaid losses <sup>(1)</sup>	5	5	—%
<b>Liabilities:</b>			
Loss and LAE reserves	521	469	11%
Net reserve (salvage)	\$ 59	\$ (319)	-118%

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

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

### **RESULTS OF OPERATIONS (continued)**

Insurance loss recoverable primarily relates to reimbursement rights arising from the payment of claims on MBIA Corp.'s policies insuring certain CDOs. Such payments also entitle MBIA Corp. to exercise certain rights and remedies to seek recovery of its reimbursement entitlements. Refer to "Note 1: Business Developments and Risks and Uncertainties" in the Notes to Consolidated Financial Statements for additional information regarding our estimates of recoveries.

Refer to "Note 6: Loss and Loss Adjustment Expense Reserves" in the Notes to Consolidated Financial Statements for additional information about our loss reserving policy, loss reserves and recoverables.

POLICY ACQUISITION COSTS AND OPERATING EXPENSES International and structured finance insurance segment expenses for the years ended December 31, 2020, 2019 and 2018 are presented in the following table:

In millions	Years Ended December 31,			Percent Change	
	2020	2019	2018	2020 vs. 2019	2019 vs. 2018
Gross expenses	\$28	\$26	\$22	8%	18%
Amortization of deferred acquisition costs	\$16	\$21	\$31	-24%	-32%
Operating	27	26	21	4%	24%
Total insurance expenses	\$43	\$47	\$52	-9%	-10%

Gross expenses represent total insurance expenses before the deferral of any policy acquisition costs. We did not defer a material amount of policy acquisition costs during 2020 or 2019. 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 December 31, 2020 and 2019, 24% and 27%, 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 December 31, 2020, MBIA Corp. insured \$277 million of CDOs and related instruments. We may experience considerable incurred losses 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 RMBS 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.

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

### RESULTS OF OPERATIONS (continued)

also insures MBS backed by first-lien alternative A-paper ("Alt-A") and subprime mortgage loans directly through RMBS securitizations. The following table presents the gross par outstanding of MBIA Corp.'s total direct RMBS insured exposure as of December 31, 2020 and 2019. Amounts include the gross par outstanding related to transactions that the Company consolidates under accounting guidance for VIEs.

In millions Collateral Type	Gross Par Outstanding as of		Percent Change
	December 31, 2020	December 31, 2019	
HELOC Second-lien	\$ 269	\$ 381	-29%
CES Second-lien	104	136	-24%
Alt-A First-lien <sup>(1)</sup>	825	909	-9%
Subprime First-lien	285	343	-17%
Prime First-lien	6	7	-14%
Total	<u>\$ 1,489</u>	<u>\$ 1,776</u>	<u>-16%</u>

(1)—Includes international exposure of \$237 million and \$248 million as of December 31, 2020 and 2019, respectively.

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

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

### Taxes

#### Provision for Income Taxes

The Company's income taxes and the related effective tax rates for the years ended December 31, 2020, 2019 and 2018 are presented in the following table:

In millions	Years Ended December 31,		
	2020	2019	2018
Income (loss) before income taxes	\$(578)	\$(357)	\$(296)
Provision (benefit) for income taxes	\$ —	\$ 2	\$ —
Effective tax rate	0.0%	-0.6%	0.0%

For 2020 and 2019, our effective tax rate applied to our loss before income taxes was lower than the U.S. statutory tax rate of 21% due to the full valuation allowance on the changes in our net deferred tax asset.

As of December 31, 2020 and 2019, the Company's valuation allowance against its net deferred tax asset was \$966 million and \$873 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 11: Income Taxes" in the Notes to Consolidated Financial Statements for a further discussion of income taxes, including the valuation allowance against the Company's net deferred tax asset and its accounting for tax uncertainties.

The CARES Act established new tax provisions including, but not limited to: (1) five-year carryback of NOLs generated in 2018, 2019 and 2020; (2) accelerated refund of alternative minimum tax ("AMT") credit carryforwards; and (3) retroactive changes to allow accelerated depreciation for certain depreciable property. The

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

**RESULTS OF OPERATIONS (continued)**

legislation does not have a material impact on the Company's tax positions due to the lack of taxable income in the carryback periods. As of December 31, 2020, the Company had received a cash benefit for its remaining AMT credits as provided by the CARES Act.

On December 21, 2020, The Consolidated Appropriations Act ("Act") was passed by Congress to respond to the health and economic impacts of COVID-19. The Act includes a number of tax law changes, including the expansion of the Employee Retention Credit, important changes to the Paycheck Protection Program, and extension of a variety of expiring tax provisions. The legislation does not have a material impact on the Company's tax positions.

**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 MBIA Corp.'s financing facility between MZ Funding and certain purchasers, pursuant to which the purchasers or their affiliates agreed to refinance the outstanding insured senior notes of MZ Funding ("Refinanced Facility"). Total capital resources were \$1.6 billion and \$2.4 billion as of December 31, 2020 and 2019, respectively.

In addition to scheduled debt maturities, from time to time, we reduce unsecured debt through calls or repurchases. Also, MBIA Inc. may repurchase or National may purchase outstanding MBIA Inc. common shares when we deem it beneficial to our shareholders. Purchases or 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 acquire or redeem outstanding common shares of MBIA Inc. and outstanding debt obligations at prices when we deem it beneficial to our shareholders. Refer to "Note 17: Common and Preferred Stock" in the Notes to Consolidated Financial Statements for information about MBIA Inc.'s share repurchases and National's share purchases and "Note 10: Debt" in the Notes to Consolidated Financial Statements for information about debt repurchases or redemptions. 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 this Form 10-K and the "Liquidity—Corporate Liquidity" section included herein for additional information about MBIA Inc.'s liquidity.

**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 ("NYDFS"). 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 NYDFS 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.

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

**CAPITAL RESOURCES (continued)**

*National*

Capital and Surplus

National had statutory capital of \$2.0 billion as of December 31, 2020 compared with \$2.4 billion as of December 31, 2019. The decrease in National's statutory capital was primarily driven by acquisitions of MBIA Inc. common shares, which the Company does not admit as assets supporting National's statutory capital, and its statutory net loss of \$82 million for year ended December 31, 2020. As of December 31, 2020, National's unassigned surplus was \$937 million. Refer to the "Claims-Paying Resources (Statutory Basis)" section below for additional information on National's statutory capital.

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. As of December 31, 2020, National was in compliance with its aggregate risk limits under New York Insurance Law ("NYIL"), but was not in compliance with certain of its single risk limits.

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

National had positive earned surplus as of December 31, 2020 from which it may pay dividends, subject to the limitations described above. During 2020, National declared and paid a dividend of \$81 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.

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

**CAPITAL RESOURCES (continued)**

National's CPR and components thereto, as of December 31, 2020 and 2019 are presented in the following table:

In millions	As of December 31, 2020	As of December 31, 2019
Policyholders' surplus	\$ 1,526	\$ 1,891
Contingency reserves	445	485
Statutory capital	1,971	2,376
Unearned premiums	355	411
Present value of installment premiums <sup>(1)</sup>	129	139
Premium resources <sup>(2)</sup>	484	550
Net loss and LAE reserves <sup>(1)</sup>	(301)	(169)
Salvage reserves on paid claims <sup>(1)</sup>	961	789
Gross loss and LAE reserves	660	620
Total claims-paying resources	<u>\$ 3,115</u>	<u>\$ 3,546</u>

(1)—Calculated using a discount rate of 3.49% as of December 31, 2020 and 3.64% as of December 31, 2019.

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

**MBIA Insurance Corporation**

**Capital and Surplus**

MBIA Insurance Corporation had statutory capital of \$273 million as of December 31, 2020 compared with \$476 million as of December 31, 2019. As of December 31, 2020, MBIA Insurance Corporation's negative unassigned surplus was \$1.9 billion. For the year ended December 31, 2020, MBIA Insurance Corporation had a statutory net loss of \$202 million. Refer to the "Claims-Paying Resources (Statutory Basis)" section below for additional information on MBIA Insurance Corporation's statutory capital.

As of December 31, 2020, MBIA Insurance Corporation recognized estimated salvage on a statutory basis related to put-back claims against Credit Suisse, recoveries related to CDOs and excess spread recoveries on RMBS. In November of 2020, following a trial and post-trial briefing, the court overseeing the litigation issued a decision declaring that MBIA Corp. had succeeded in establishing that a majority of the loans in the transaction were ineligible. In January of 2021, the Court issued an order declaring that Credit Suisse was liable to MBIA Corp. for approximately \$604 million in damages. On February 9, 2021, the parties to the litigation entered into a settlement agreement pursuant to which Credit Suisse paid MBIA Corp. \$600 million, an amount materially in excess of its prior estimated recoveries.

In order to maintain its New York State financial guarantee insurance license, MBIA Insurance Corporation is required to maintain a minimum of \$65 million of policyholders' surplus. As of December 31, 2020, 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 December 31, 2020, MBIA Insurance Corporation maintained its minimum requirement of policyholders' surplus but did not have enough qualifying assets to support its contingency reserves and 50% of its loss reserves and unearned premium reserves. As of December 31, 2020, 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.

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.

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

### CAPITAL RESOURCES (continued)

The NYSDFS has not approved MBIA Insurance Corporation's requests to make interest payments on MBIA Insurance Corporation's Surplus Notes due January 15, 2033 (the "Surplus Notes") since, and including, the January 15, 2013 interest payment. The NYSDFS has cited both MBIA Insurance Corporation's liquidity and financial condition as well as the availability of "free and divisible surplus" as the basis for such non-approvals. As of January 15, 2021, the most recent scheduled interest payment date, there was \$1.0 billion of unpaid interest on the par amount outstanding of \$953 million of the Surplus Notes. Under Section 1307 of the NYIL and the Fiscal Agency Agreement governing the surplus notes, Surplus Note payments may be made only with the prior approval by the NYSDFS and if MBIA Insurance Corporation has sufficient "Eligible Surplus", or as we believe, "free and divisible surplus" as an appropriate calculation of "Eligible Surplus." As of December 31, 2020, MBIA Insurance Corporation had "free and divisible surplus" of \$88 million. There is no assurance the NYSDFS will approve Surplus Note payments, notwithstanding the sufficiency of MBIA Insurance Corporation's liquidity and financial condition. The unpaid interest on the Surplus Notes will become due on the first business day on or after which MBIA Insurance Corporation obtains approval to pay some or all of such unpaid interest. No interest has been accrued or will accrue on the deferred interest.

### Claims-Paying Resources (Statutory Basis)

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

MBIA Corp.'s CPR and components thereto, as of December 31, 2020 and 2019 are presented in the following table:

In millions	As of December 31, 2020	As of December 31, 2019
Policyholders' surplus	\$ 106	\$ 282
Contingency reserves	167	194
Statutory capital	273	476
Unearned premiums	79	93
Present value of installment premiums <sup>(1) (2)</sup>	73	92
Premium resources	152	185
Net loss and LAE reserves <sup>(1)</sup>	(478)	(669)
Salvage reserves on paid claims <sup>(1) (3)</sup>	1,045	1,247
Gross loss and LAE reserves	567	578
Total claims-paying resources	\$ 992	\$ 1,239

(1)—Calculated using a discount rate of 5.10% as of December 31, 2020 and 5.21% as of December 31, 2019.

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

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

### 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. Additionally, we



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

### **LIQUIDITY (continued)**

continue to monitor the current COVID-19 pandemic with respect to our cash and liquid asset positions and resources. It remains premature to predict the full impact the pandemic may have on our future liquidity position and needs. Refer to the "Executive Overview—COVID-19" section for additional information about liquidity and COVID-19. 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:

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

As of December 31, 2020 and 2019, National held cash and investments of \$2.1 billion and \$2.7 billion, respectively, of which \$359 million and \$442 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;
- 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.

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

**LIQUIDITY (continued)**

As of December 31, 2020 and 2019, the liquidity positions of MBIA Inc. were \$294 million and \$375 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.

During 2020, MBIA Inc. returned \$49 million of tax payments to National as a result of tax losses incurred by National in 2019, of which \$9 million was in cash. The return was pursuant to the terms of the tax sharing agreement. Under the CARES Act, National's 2019 taxable loss became subject to a five-year NOL carry-back, which allowed it to recover taxes paid in years in which the tax rate was 35%. A taxable loss generated in 2020 will also be subject to a five-year NOL carry-back under the CARES Act, after which the two-year NOL carry-back provision will again become effective. 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. During 2020, National declared and paid a dividend of \$81 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 dividends or utilize the Company's tax escrow account 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.

**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.

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

### LIQUIDITY (continued)

As of December 31, 2020 and 2019, MBIA Corp. held cash and investments of \$243 million and \$230 million, respectively, of which \$130 million and \$124 million, respectively, were cash and cash equivalents or liquid investments comprised of money market funds and municipal, U.S. Treasury and corporate bonds that were immediately available to MBIA Insurance Corporation.

Insured transactions that require payment of scheduled debt service payments insured when due or 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 is made. 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 6: Loss and Loss Adjustment Expense Reserves" in the Notes to Consolidated Financial Statements for a discussion of our loss process.

During 2020, MBIA Corp. requested and was denied permission by the NYSDFS to prepay approximately \$26 million of the Refinanced Facility. The NYSDFS has cited MBIA Corp.'s liquidity position as the basis for such non-approval.

### Advances Agreement

MBIA Inc., National, MBIA Insurance Corporation and certain other affiliates are party to an intercompany advances agreement (the "MBIA Advances Agreement"). The MBIA Advances Agreement permits National to make advances to MBIA Inc. and other MBIA group companies that are party to the agreement at a rate per annum equal to LIBOR plus 0.25%. The agreement also permits other affiliates to make advances to National or MBIA Insurance Corporation at a rate per annum equal to LIBOR minus 0.10%. Advances by National cannot exceed 3% of its net admitted assets as of the last quarter end. As of December 31, 2020 and 2019, there were no amounts drawn under the agreement.

### Consolidated Cash Flows

Information about our consolidated cash flows by category is presented on our consolidated statements of cash flows. The following table summarizes our consolidated cash flows for the years ended December 31, 2020, 2019 and 2018:

In millions	Years Ended December 31,			Percent Change	
	2020	2019	2018	2020 vs. 2019	2019 vs. 2018
Statement of cash flow data:					
Net cash provided (used) by:					
Operating activities	\$ (390)	\$ (368)	\$ (319)	6%	15%
Investing activities	1,738	1,267	1,206	37%	5%
Financing activities	(1,265)	(1,096)	(752)	15%	46%
Effect of exchange rate changes on cash and cash equivalents	1	—	(1)	n/m	-100%
Cash and cash equivalents—beginning of year	83	280	146	-70%	92%
Cash and cash equivalents—end of year	\$ 167	\$ 83	\$ 280	101%	-70%

n/m—Percent change not meaningful.

### Operating activities

Net cash used by operating activities increased for the year ended December 31, 2020 compared with 2019 primarily due to decreases in proceeds from insurance recoveries and reinsurance of \$71 million and investment income received of \$58 million. These decreases were partially offset by a decrease in interest paid of \$96 million.

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

### ***LIQUIDITY (continued)***

This was primarily due to the refinancing and partial paydowns of the MBIA Corp. Financing Facility in 2019 and an increase in paid-in-kind interest in 2020.

#### ***Investing activities***

Net cash provided by investing activities increased for the year ended December 31, 2020 compared with 2019 primarily due to an increase in net cash provided by VIE activity. During 2020, two VIEs were terminated and deconsolidated which resulted in \$890 million of net proceeds from HTM investments compared with the sale of investments at fair value related to the COFINA bonds which resulted in \$422 million of net proceeds in 2019.

#### ***Financing activities***

Net cash used by financing activities increased for the year ended December 31, 2020 compared with 2019 primarily due to increases in principal repayments of VIE notes of \$149 million due to the deconsolidation of VIEs and purchases of treasury stock of \$94 million. These increases were partially offset by a decrease in principal paydowns of medium-term notes of \$57 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 2: Significant Accounting Policies," and "Note 8: Investments" in the Notes to Consolidated Financial Statements for further information about our accounting policies and investments.

#### ***Credit Quality***

The credit quality distribution of the Company's AFS fixed-maturity investment portfolios, excluding short-term investments, are based on ratings from Moody's and alternate ratings sources, such as S&P or the best estimate of the ratings assigned by the Company, have been used for a small percentage of securities that are not rated by Moody's. As of December 31, 2020, the weighted average credit quality rating of the Company's AFS fixed-maturity investment portfolio, excluding short-term investments, was Aa and 96% of the investments were investment grade.

#### ***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. If the Company determines that declines in the fair values of third-party Insured Investments are related to credit loss, the Company will establish an allowance for credit losses and recognize the credit component through earnings.

As of December 31, 2020, Insured Investments at fair value represented \$193 million or 7% of consolidated investments, of which \$167 million or 6% of consolidated investments were Company-Insured Investments. As of December 31, 2020, 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

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

**LIQUIDITY (continued)**

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 December 31, 2020, based on actual or estimated underlying ratings, the weighted average rating of the consolidated investment portfolio was in the Aa range. The weighted average rating of only the Company-Insured Investments was in the below investment grade range, and investments rated below investment grade in the Company-Insured Investments were 5% of the total consolidated investment portfolio.

**Contractual Obligations**

The following table summarizes the Company's future estimated cash payments relating to contractual obligations as of December 31, 2020. Estimating these payments requires management to make estimates and assumptions regarding these obligations. The estimates and assumptions used by management are described below. Since these estimates and assumptions are subjective, actual payments in future periods may vary from those reported in the following table. Refer to "Note 13: Insurance in Force" in the Notes to Consolidated Financial Statements for information about the Company's exposure under insurance contracts.

In millions	As of December 31, 2020						
	2021	2022	2023	2024	2025	Thereafter	Total
U.S. public finance insurance segment:							
Gross insurance claim obligations <sup>(1)</sup>	\$ 5	\$ 1	\$ —	\$ —	\$ —	\$ —	\$ 6
Lease liability	3	3	3	3	3	14	29
Corporate segment:							
Long-term debt	20	20	20	20	66	318	464
Investment agreements	11	11	27	32	43	265	389
Medium-term notes	5	67	17	128	66	692	975
International and structured finance insurance segment:							
Surplus notes	1,066	108	108	108	108	1,724	3,222
Gross insurance claim obligations <sup>(1)</sup>	117	34	28	23	22	878	1,102
Refinanced Facility	33	277	—	—	—	—	310
<b>Total</b>	<b>\$1,260</b>	<b>\$521</b>	<b>\$203</b>	<b>\$314</b>	<b>\$308</b>	<b>\$ 3,891</b>	<b>\$6,497</b>

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

Gross insurance claim obligations represent the future value of probability-weighted payments MBIA expects to make (before reinsurance and the consolidation of VIEs) under insurance policies for which the Company has recorded loss reserves. Certain policies included in gross insurance claim obligations are presented net of expected recoveries. The discounted value of estimated payments included in the table, along with probability-weighted estimated recoveries and estimated negotiated early settlements, on policies accounted for as financial guarantee insurance contracts is reported as case basis reserves within "Loss and loss adjustment expense reserves" on the Company's consolidated balance sheets. Estimated potential claim payments and principal and interest due on the Refinanced Facility for obligations issued by VIEs consolidated in our international and structured finance insurance segment are included within "Gross insurance claim obligations" and "Refinanced Facility", respectively, in the preceding table. Obligations of these VIEs, except for the Refinanced Facility, are collateralized by assets held by the VIEs, and investors in such obligations do not have recourse to the general credit of MBIA. As of December 31, 2020, VIE notes issued by issuer-sponsored consolidated VIEs totaled \$350 million and are not considered contractual obligations of MBIA beyond MBIA's insurance claim obligation. The Company's involvement with VIEs is continually reassessed as required by consolidation guidance, and may result in consolidation or deconsolidation of VIEs in future periods. As the Company consolidates and deconsolidates VIEs, the amount of VIE debt obligations recorded on its balance sheet may change significantly.

Long-term debt, investment agreements, MTNs, surplus notes and the Refinanced Facility include principal and interest and exclude premiums or discounts. Liabilities issued at discounts reflect principal due at maturity. Interest payments on floating rate obligations are estimated using applicable forward rates. Principal and interest

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

**LIQUIDITY (continued)**

on callable obligations or obligations that allow investors to withdraw funds prior to legal maturity are based on the expected call or withdrawal dates of such obligations. Liabilities denominated in foreign currencies are presented in U.S. dollars using applicable exchange rates as of December 31, 2020.

Included in international and structured finance insurance segment's surplus notes for 2021 is \$985 million of unpaid interest related to the 2013 through 2020 interest payments in which MBIA Insurance Corporation's requests for approval to pay was not approved by the NYSDFS. This does not include the amount due to MBIA Inc., which is eliminated in our consolidated financial statements. This deferred interest payment will be due on the first business day on or after which MBIA Insurance Corporation obtains approval to make such payment. No interest will accrue on the deferred interest. There can be no assurance that the NYSDFS will approve any subsequent payments, or that it will approve any payment by the scheduled interest payment date. Refer to "Capital Resources – MBIA Insurance Corporation" section for additional information on MBIA Insurance Corporation's surplus notes and statutory capital. Principal payments under investment agreements are based on expected withdrawal dates. All other principal payments are based on contractual maturity dates.

**Item 7A. Quantitative and Qualitative Disclosures About Market Risk**

The Company's market risk exposures relate to changes in interest rates, foreign exchange rates and credit spreads that affect the fair value of its financial instruments, primarily investment securities, MTNs 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.

**INTEREST RATE SENSITIVITY**

Interest rate sensitivity can be estimated by projecting a hypothetical instantaneous increase or decrease in interest rates. The following table presents the estimated pre-tax change in fair value of the Company's financial instruments as of December 31, 2020 from instantaneous shifts in interest rates:

In millions	Change in Interest Rates					
	300 Basis Point Decrease	200 Basis Point Decrease	100 Basis Point Decrease	100 Basis Point Increase	200 Basis Point Increase	300 Basis Point Increase
Estimated change in fair value	\$ 226	\$ 125	\$ 53	\$ (41)	\$ (76)	\$ (105)

**FOREIGN EXCHANGE RATE SENSITIVITY**

The Company is exposed to foreign exchange rate risk in respect of liabilities denominated in currencies other than U.S. dollars. Certain liabilities included in our corporate segment are denominated in currencies other than U.S. dollars. The majority of the Company's foreign exchange rate risks is with the Euro. Foreign exchange rate sensitivity can be estimated by projecting a hypothetical instantaneous increase or decrease in foreign exchange rates. The following table presents the estimated pre-tax change in fair value of the Company's financial instruments as of December 31, 2020 from instantaneous shifts in foreign exchange rates:

In millions	Change in Foreign Exchange Rates			
	Dollar Weakens		Dollar Strengthens	
	20%	10%	10%	20%
Estimated change in fair value	\$ (72)	\$ (36)	\$ 36	\$ 72

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

**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 December 31, 2020 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:

In millions	Change in Credit Spreads		
	50 Basis Point Decrease	50 Basis Point Increase	200 Basis Point Increase
Estimated change in fair value	\$ 42	\$ (40)	\$ (138)

## Item 8. Financial Statements

### MBIA INC. AND SUBSIDIARIES INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Report of Independent Registered Public Accounting Firm	62
Consolidated Balance Sheets as of December 31, 2020 and 2019	65
Consolidated Statements of Operations for the years ended December 31, 2020, 2019 and 2018	66
Consolidated Statements of Comprehensive Income (Loss) for the years ended December 31, 2020, 2019 and 2018	67
Consolidated Statements of Changes in Shareholders' Equity for the years ended December 31, 2020, 2019 and 2018	68
Consolidated Statements of Cash Flows for the years ended December 31, 2020, 2019 and 2018	69
Notes to Consolidated Financial Statements	70
Note 1: Business Developments and Risks and Uncertainties	70
Note 2: Significant Accounting Policies	74
Note 3: Recent Accounting Pronouncements	80
Note 4: Variable Interest Entities	81
Note 5: Insurance Premiums	83
Note 6: Loss and Loss Adjustment Expense Reserves	85
Note 7: Fair Value of Financial Instruments	93
Note 8: Investments	106
Note 9: Derivative Instruments	112
Note 10: Debt	116
Note 11: Income Taxes	119
Note 12: Business Segments	122
Note 13: Insurance in Force	126
Note 14: Insurance Regulations and Dividends	129
Note 15: Benefit Plans	131
Note 16: Earnings Per Share	133
Note 17: Common and Preferred Stock	134
Note 18: Accumulated Other Comprehensive Income	135
Note 19: Commitments and Contingencies	136



## Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of MBIA Inc.

### ***Opinions on the Financial Statements and Internal Control over Financial Reporting***

We have audited the accompanying consolidated balance sheets of MBIA Inc. and its subsidiaries (the "Company") as of December 31, 2020 and 2019, and the related consolidated statements of operations, of comprehensive income (loss), of changes in shareholders' equity and of cash flows for each of the three years in the period ended December 31, 2020, including the related notes and financial statement schedules listed in the index appearing under Item 15(a)(2) (collectively referred to as the "consolidated financial statements"). We also have audited the Company's internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2020 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the COSO.

### ***Basis for Opinions***

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

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

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

### ***Definition and Limitations of Internal Control over Financial Reporting***

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

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

### ***Critical Audit Matters***

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that (i) relates to accounts or disclosures that are material to the consolidated financial statements and (ii) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

### ***Certain Loss and Loss Adjustment Expense (LAE) Reserves and Insurance Loss Recoverable***

As described in Notes 1, 2 and 6 to the consolidated financial statements, management recognizes loss reserves on a contract-by-contract basis when the present value of probability-weighted 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. Management estimates the likelihood of possible claim payments and possible recoveries of such claim payments using probability-weighted expected cash flows based on information available as of the measurement date, including market information. As of December 31, 2020, total loss and LAE reserves were \$990 million. A portion of the total loss and LAE reserves relates to residential mortgage backed securities (RMBS) and exposures to insured debt obligations of Puerto Rico. The establishment of the appropriate level of loss reserves is an uncertain process involving numerous assumptions, estimates and subjective judgments by management that depend primarily on the nature of the underlying insured obligation, including 1) the nature and creditworthiness of the issuers of the insured obligations, 2) expected recovery rates on unsecured obligations, 3) the projected cash flow or market value of any assets pledged as collateral on secured obligations, 4) the expected rates of recovery, cash flow or market values on such obligations or assets, 5) economic conditions and trends, 6) political developments, 7) the extent to which sellers/servicers comply with the representations or warranties made in connection therewith, 8) levels of interest rates, 9) borrower behavior, 10) the default rate and salvage values of specific collateral, 11) management's ability to enforce contractual rights through litigation and otherwise, including the collection of contractual interest on claim payments, and 12) management's remediation strategy for an insured obligation that has defaulted or is expected to default. In addition, management 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. As of December 31, 2020, total insurance loss recoverable was \$1,677 million. As disclosed by management, a portion of the total insurance loss recoverable relates to RMBS excess spread recoverables, recoverables on paid Puerto Rico losses, and recoverables from claims paid in respect of insured notes issued by Zohar CDO 2003-1, Limited ("Zohar I") and Zohar II 2005-1, Limited ("Zohar II"). 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 1) future delinquency trends, 2) average time to charge-off/liquidate delinquent loans, 3) the future spread between Prime and the LIBOR interest rates, and 4) subsequent recoveries on previously charged-off loans associated with insured second-lien RMBS securitizations. For recoverables on paid Puerto Rico losses, the estimates include assumptions related to 1) economic conditions and trends, 2) political developments, 3) the Company's ability to enforce contractual rights through litigation and otherwise, 4) management's discussions with other creditors and the obligors and any existing proposals, and 5) the remediation strategy for an insured obligation that has defaulted or is expected to default. As disclosed by management, for the estimated insurance loss recoverable for Zohar I and Zohar II, the primary source of the recoveries will come from the monetization of the assets of Zohar I and Zohar II. Management's estimate of the insurance loss recoverable for Zohar I and Zohar II includes probability-weighted scenarios of the ultimate monetized recovery from the Zohar I and Zohar II assets.

The principal considerations for our determination that performing procedures relating to the estimation of certain loss and LAE reserves and insurance loss recoverable is a critical audit matter are (i) the significant judgment by management in determining the estimates for the loss and LAE reserves and insurance loss recoverable related to RMBS and Puerto Rico, and recoveries on paid claims related to the Zohar I and Zohar II assets, which in turn led to a high degree of auditor subjectivity and judgment in performing procedures related to these estimates; (ii) the significant audit effort and judgment in evaluating the audit evidence relating to the aforementioned assumptions, cash flow models, estimates and subjective judgments; and (iii) the audit effort included the involvement of professionals with specialized skill and knowledge to assist in performing these procedures and evaluating the audit evidence obtained.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to the estimation of certain loss and LAE reserves and insurance loss recoverable, including controls over the cash flow models and the development of significant assumptions. These procedures, for a sample of contracts, also included, among others, the involvement of professionals with specialized skill and knowledge to assist in i) independently estimating a range of net cash flows that support the estimation of loss and LAE reserves and insurance loss recoverable related to RMBS and the Zohar I and Zohar II assets, using industry data and other benchmarks, and comparing the independently estimated range to management's projected net cash flows; and ii) for the portion of loss and LAE reserves and insurance loss recoverable related to Puerto Rico, evaluating the appropriateness of management's cash flow models and the reasonableness of the aforementioned assumptions. Evaluating the reasonableness of management's estimates involved testing the completeness and accuracy of data provided by management.

/s/ PricewaterhouseCoopers  
New York, New York  
March 1, 2021

We have served as the Company's auditor since at least 1986. We have not been able to determine the specific year we began serving as auditor of the Company.

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

	December 31, 2020	December 31, 2019
<b>Assets</b>		
Investments:		
Fixed-maturity securities held as available-for-sale, at fair value (amortized cost \$2,078 and \$2,705)	\$ 2,257	\$ 2,820
Investments carried at fair value	196	209
Investments pledged as collateral, at fair value (amortized cost \$6 and \$15)	1	10
Short-term investments, at fair value (amortized cost \$281 and \$423)	282	423
	2,736	3,462
Total investments		
Cash and cash equivalents	158	75
Premiums receivable (net of allowance for credit losses \$5 and \$—)	216	249
Deferred acquisition costs	50	60
Insurance loss recoverable	1,677	1,694
Other assets	84	115
Assets of consolidated variable interest entities:		
Cash	9	8
Investments held-to-maturity, at amortized cost (fair value \$— and \$892)	—	890
Investments carried at fair value	77	83
Loans receivable at fair value	120	136
Loan repurchase commitments	604	486
Other assets	20	26
	20	26
<b>Total assets</b>	<b>\$ 5,751</b>	<b>\$ 7,284</b>
<b>Liabilities and Equity</b>		
Liabilities:		
Unearned premium revenue	\$ 405	\$ 482
Loss and loss adjustment expense reserves	990	901
Long-term debt	2,229	2,228
Medium-term notes (includes financial instruments carried at fair value of \$110 and \$108)	710	680
Investment agreements	269	304
Derivative liabilities	215	175
Other liabilities	161	136
Liabilities of consolidated variable interest entities:		
Variable interest entity notes (includes financial instruments carried at fair value of \$350 and \$403)	623	1,539
	623	1,539
<b>Total liabilities</b>	<b>5,602</b>	<b>6,445</b>
Commitments and contingencies (Refer to Note 19)		
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—283,186,115 and 283,433,401	283	283
Additional paid-in capital	2,962	2,999
Retained earnings (deficit)	(13)	607
Accumulated other comprehensive income (loss), net of tax of \$8 and \$8	115	(2)
Treasury stock, at cost—229,508,967 and 204,000,108 shares	(3,211)	(3,061)
	136	826
Total shareholders' equity of MBIA Inc.		
Preferred stock of subsidiary	13	13
	13	13
<b>Total equity</b>	<b>149</b>	<b>839</b>
<b>Total liabilities and equity</b>	<b>\$ 5,751</b>	<b>\$ 7,284</b>

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

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

	Years Ended December 31,		
	2020	2019	2018
<b>Revenues:</b>			
Premiums earned:			
Scheduled premiums earned	\$ 59	\$ 68	\$ 114
Refunding premiums earned	14	17	48
Premiums earned (net of ceded premiums of \$5, \$5 and \$5)	73	85	162
Net investment income	76	114	130
Fees and reimbursements	2	1	25
Change in fair value of insured derivatives:			
Realized gains (losses) and other settlements on insured derivatives	(1)	(10)	(56)
Unrealized gains (losses) on insured derivatives	7	25	31
Net change in fair value of insured derivatives	6	15	(25)
Net gains (losses) on financial instruments at fair value and foreign exchange	(38)	52	(17)
Net investment losses related to other-than-temporary impairments:			
Other-than-temporary impairments recognized in accumulated other comprehensive income (loss)	—	(67)	(5)
Net investment losses related to other-than-temporary impairments	—	(67)	(5)
Net gains (losses) on extinguishment of debt	—	(1)	3
Other net realized gains (losses)	—	4	—
Revenues of consolidated variable interest entities:			
Net investment income	18	34	35
Net gains (losses) on financial instruments at fair value and foreign exchange	108	105	25
Other net realized gains (losses)	37	(62)	(171)
Total revenues	282	280	162
<b>Expenses:</b>			
Losses and loss adjustment	530	242	63
Amortization of deferred acquisition costs	10	11	20
Operating	87	92	71
Interest	178	201	206
Expenses of consolidated variable interest entities:			
Operating	5	9	11
Interest	50	82	87
Total expenses	860	637	458
Income (loss) before income taxes	(578)	(357)	(296)
Provision (benefit) for income taxes	—	2	—
<b>Net income (loss)</b>	<b>\$ (578)</b>	<b>\$ (359)</b>	<b>\$ (296)</b>
<b>Net income (loss) per common share:</b>			
Basic	\$ (9.78)	\$ (4.43)	\$ (3.33)
Diluted	\$ (9.78)	\$ (4.43)	\$ (3.33)
<b>Weighted average number of common shares outstanding:</b>			
Basic	59,071,843	81,014,285	89,013,711
Diluted	59,071,843	81,014,285	89,013,711

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

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

	<u>Years Ended December 31,</u>		
	<u>2020</u>	<u>2019</u>	<u>2018</u>
Net income (loss)	\$(578)	\$(359)	\$(296)
Other comprehensive income (loss):			
Available-for-sale securities with no credit losses:			
Unrealized gains (losses) arising during the period	83	139	(60)
Provision (benefit) for income taxes	<u>—</u>	<u>—</u>	<u>5</u>
Total	83	139	(65)
Reclassification adjustments for (gains) losses included in net income (loss)	(19)	(13)	(5)
Available-for-sale securities with credit losses:			
Unrealized gains (losses) arising during the period	—	—	41
Reclassification adjustments for (gains) losses included in net income (loss)	<u>—</u>	<u>25</u>	<u>5</u>
Total	—	25	5
Foreign currency translation:			
Foreign currency translation gains (losses)	<u>(3)</u>	<u>—</u>	<u>2</u>
Total	(3)	—	2
Instrument-specific credit risk of liabilities measured at fair value:			
Unrealized gains (losses) arising during the period	50	(25)	52
Reclassification adjustments for (gains) losses included in net income (loss)	<u>6</u>	<u>28</u>	<u>—</u>
Total other comprehensive income (loss)	<u>117</u>	<u>154</u>	<u>30</u>
<b>Comprehensive income (loss)</b>	<b><u>\$(461)</u></b>	<b><u>\$(205)</u></b>	<b><u>\$(266)</u></b>

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

**MBIA INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**  
For the Years Ended December 31, 2020, 2019 and 2018  
(In millions except share amounts)

	2020	2019	2018
<b>Common shares</b>			
Balance at beginning of year	283,433,401	283,625,689	283,717,973
Common shares issued (cancelled), net	(247,286)	(192,288)	(92,284)
Balance at end of year	283,186,115	283,433,401	283,625,689
<b>Common stock amount</b>			
Balance at beginning and end of year	\$ 283	\$ 284	\$ 284
Period change	—	(1)	—
Balance at end of period	\$ 283	\$ 283	\$ 284
<b>Additional paid-in capital</b>			
Balance at beginning of year	\$ 2,999	\$ 3,025	\$ 3,171
Treasury shares issued for warrant exercises	—	—	(21)
Share-based compensation	(37)	(26)	(125)
Balance at end of year	\$ 2,962	\$ 2,999	\$ 3,025
<b>Retained earnings (deficit)</b>			
Balance at beginning of year	\$ 607	\$ 966	\$ 1,095
ASU 2016-13 transition adjustment	(42)	—	—
ASU 2016-01 transition adjustment	—	—	164
ASU 2018-02 transition adjustment	—	—	3
Net income (loss)	(578)	(359)	(296)
Balance at end of year	\$ (13)	\$ 607	\$ 966
<b>Accumulated other comprehensive income (loss)</b>			
Balance at beginning of year	\$ (2)	\$ (156)	\$ (19)
ASU 2016-01 transition adjustment	—	—	(164)
ASU 2018-02 transition adjustment	—	—	(3)
Other comprehensive income (loss)	117	154	30
Balance at end of year	\$ 115	\$ (2)	\$ (156)
<b>Treasury shares</b>			
Balance at beginning of year	(204,000,108)	(193,803,976)	(192,233,526)
Treasury shares issued for warrant exercises	—	—	1,277,620
Treasury shares acquired under share repurchase program	(26,430,768)	(11,098,995)	(5,842,567)
Share-based compensation	921,909	902,863	2,994,497
Balance at end of year	(229,508,967)	(204,000,108)	(193,803,976)
<b>Treasury stock amount</b>			
Balance at beginning of year	\$ (3,061)	\$ (3,000)	\$ (3,118)
Treasury shares issued for warrant exercises	—	—	34
Treasury shares acquired under share repurchase program	(198)	(101)	(48)
Share-based compensation	48	40	132
Balance at end of year	\$ (3,211)	\$ (3,061)	\$ (3,000)
<b>Total shareholders' equity of MBIA Inc.</b>			
Balance at beginning of year	\$ 826	\$ 1,119	\$ 1,413
Period change	(690)	(293)	(294)
Balance at end of year	\$ 136	\$ 826	\$ 1,119
<b>Preferred stock of subsidiary shares</b>			
Balance at beginning and end of year	1,315	1,315	1,315
<b>Preferred stock of subsidiary amount</b>			
Balance at beginning of year	\$ 13	\$ 13	\$ 12
Period change	—	—	1
Balance at end of year	13	13	13
<b>Total equity</b>	\$ 149	\$ 839	\$ 1,132

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

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

	Years Ended December 31,		
	2020	2019	2018
Cash flows from operating activities:			
Premiums, fees and reimbursements received	\$ 28	\$ 47	\$ 86
Investment income received	118	176	205
Insured derivative commutations and losses paid	(1)	(11)	(56)
Financial guarantee losses and loss adjustment expenses paid	(475)	(489)	(385)
Proceeds from recoveries and reinsurance	84	155	61
Operating and employee related expenses paid	(73)	(77)	(83)
Interest paid, net of interest converted to principal	(84)	(180)	(146)
Income taxes (paid) received	13	11	(1)
Net cash provided (used) by operating activities	<u>(390)</u>	<u>(368)</u>	<u>(319)</u>
Cash flows from investing activities:			
Purchases of available-for-sale investments	(1,133)	(2,140)	(2,265)
Sales of available-for-sale investments	1,095	2,195	2,117
Paydowns and maturities of available-for-sale investments	724	857	329
Purchases of investments at fair value	(179)	(151)	(189)
Sales, paydowns and maturities of investments at fair value	198	617	212
Sales, paydowns and maturities (purchases) of short-term investments, net	143	(157)	420
Sales, paydowns and maturities of held-to-maturity investments	890	—	—
Paydowns and maturities of loans receivable and other instruments at fair value	16	74	614
Consolidation of variable interest entities	—	72	—
Deconsolidation of variable interest entities	—	(2)	(7)
(Payments) proceeds for derivative settlements	(16)	(98)	(24)
Capital expenditures	—	—	(1)
Net cash provided (used) by investing activities	<u>1,738</u>	<u>1,267</u>	<u>1,206</u>
Cash flows from financing activities:			
Proceeds from investment agreements	12	15	12
Principal paydowns of investment agreements	(48)	(25)	(37)
Principal paydowns of medium-term notes	—	(57)	(85)
Principal paydowns of variable interest entity notes	(914)	(765)	(598)
Principal paydowns of long-term debt	(115)	(150)	—
Purchases of treasury stock	(200)	(106)	(44)
Other financing	—	(8)	—
Net cash provided (used) by financing activities	<u>(1,265)</u>	<u>(1,096)</u>	<u>(752)</u>
Effect of exchange rate changes on cash and cash equivalents	1	—	(1)
Net increase (decrease) in cash and cash equivalents	84	(197)	134
Cash and cash equivalents—beginning of year	83	280	146
Cash and cash equivalents—end of year	<u>\$ 167</u>	<u>\$ 83</u>	<u>\$ 280</u>
Reconciliation of net income (loss) to net cash provided (used) by operating activities:			
Net income (loss)	\$ (578)	\$ (359)	\$ (296)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:			
Change in:			
Premiums receivable	29	62	60
Deferred acquisition costs	10	12	21
Accrued investment income	6	20	8
Unearned premium revenue	(77)	(105)	(165)
Loss and loss adjustment expense reserves	86	—	(46)
Insurance loss recoverable	16	(99)	(213)
Accrued interest payable	133	106	157
Accrued expenses	34	12	(9)
Net investment losses related to other-than-temporary impairments	—	67	5
Unrealized (gains) losses on insured derivatives	(7)	(25)	(31)
Net (gains) losses on financial instruments at fair value and foreign exchange	(70)	(157)	(8)
Other net realized (gains) losses	(37)	58	171
Deferred income tax provision (benefit)	12	13	—
Interest on variable interest entities, net	6	(3)	17
Other operating	47	30	10
Total adjustments to net income (loss)	<u>188</u>	<u>(9)</u>	<u>(23)</u>
Net cash provided (used) by operating activities	<u>\$ (390)</u>	<u>\$ (368)</u>	<u>\$ (319)</u>

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



**MBIA Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**

**Note 1: Business Developments and Risks and Uncertainties**

**Summary**

MBIA Inc., together with its consolidated subsidiaries, (collectively, “MBIA” or the “Company”) operates 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 subsidiary (“MBIA Corp.”).

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

**Business Developments**

*Puerto Rico*

During 2020, 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 \$391 million. On January 1, 2021, Puerto Rico also defaulted on scheduled debt service for National insured bonds and National paid gross claim payments in the aggregate of \$51 million. As of December 31, 2020, National had \$2.9 billion of debt service 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 “Oversight Board”). The Rule 9019 hearing to approve the RSA has been delayed several times, and most recently was adjourned due to the outbreak of the novel coronavirus COVID-19 (“COVID-19”) until further notice. The debt restructuring contemplated by the RSA will not be effective until (i) confirmation of a plan of adjustment under the Puerto Rico Oversight, Management and Economic Stability Act (“PROMESA”), (ii) negotiation and consummation of definitive documentation and legal opinions, (iii) enactment and implementation of supportive Puerto Rico legislation and (iv) receipt of Puerto Rico regulatory approval, each of which outcome is uncertain and subject to varying degrees of risk. In addition, the restructuring the RSA contemplates has received criticism from various parties including members of the Puerto Rico government and other stakeholders. This opposition could adversely impact the ability of the Oversight Board and RSA Parties to obtain final approval of the RSA.

GO PSA

On June 17, 2019, the Oversight Board announced it had reached a plan support agreement (“PSA”) with certain Commonwealth General Obligation (“GO”) bondholders and guaranteed Puerto Rico Buildings Authority (“PBA”) bondholders on a framework for a plan of adjustment to resolve \$35.0 billion worth of debt and unsecured claims against the Commonwealth. On February 9, 2020, the Oversight Board posted an amended PSA. National and the other monolines were not parties to the amended PSA. On February 10, 2021, following several months of Court recommend mediation, the Oversight Board filed a motion stating it had an agreement in principle with certain PSA parties representing approximately \$7 billion in GO and PBA Bonds, and requested until March 8, 2021 to file an amended plan. The Court approved the request. On February 22, 2021, National agreed to join a revised PSA, dated as of February 22, 2021 (the “2021 PSA”), among the Oversight Board, certain holders of GO Bonds and PBA Bonds, Assured Guaranty Corp. and Assured Guaranty Municipal Corp, and Syncora Guarantee Inc. in connection with the GO and PBA Title III cases. The 2021 PSA provides that, among other things, National shall receive a pro rata share of allocable cash, newly issued General Obligation bonds, a contingent value instrument and certain fees. National has the right to unilaterally terminate its participation in the 2021 PSA on or prior to March 31, 2021. The 2021 PSA contemplates a plan becoming effective on or before December 15, 2021.

**MBIA Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**

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

In the event that National does not terminate its participation in the 2021 PSA on or prior to March 31, 2021, the Oversight Board and National shall jointly request the entry of an order in the Title III court staying National's actions to lift the automatic stay in the GO and HTA cases and to appoint a trustee in the HTA Title III case pursuant to Section 926, both currently before the First Circuit Court of Appeals, together with other actions related to the clawback of HTA funds from the Commonwealth, and National shall take no further action with respect to those proceedings subject to the Commonwealth plan becoming effective.

On October 5, 2020, National filed a motion seeking entry of an order directing an investigation into whether certain hedge funds violated the Court's orders by trading in the debtors' securities, including GO bonds and PBA bonds, during the Title III mediation process. On October 28, 2020, the Court heard argument and denied National's motion.

*Credit Suisse*

In November of 2020, the court overseeing MBIA Corp.'s litigation against Credit Suisse Securities (USA) LLC and DLJ Mortgage Capital, Inc. (collectively, "Credit Suisse"), issued a decision declaring that MBIA Corp. had succeeded at trial in establishing that a majority of the loans in the HEMT 2007-2 RMBS transaction sponsored by Credit Suisse were ineligible. In January of 2021, the Court issued an order declaring that Credit Suisse was liable to MBIA Corp. for approximately \$604 million in damages. On February 9, 2021, the parties to the litigation entered into a settlement agreement pursuant to which Credit Suisse paid MBIA Corp. \$600 million and on February 11, 2021, the court entered an order dismissing the case. Refer to "Note 6: Loss and Loss Adjustment Expense Reserves" for a discussion of the Company's Credit Suisse put-back claims.

***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 materially 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.

*COVID-19*

COVID-19, a respiratory disease caused by a new strain of coronavirus, was declared a pandemic by the World Health Organization in March of 2020 and continues to affect a wide range of economic activities, as well as domestic and global business and financial markets. In December of 2020, the U.S. Food and Drug Administration approved the distribution of COVID-19 vaccines that, once widely adopted and utilized, may materially reduce the impact of COVID-19 going forward, although the impact of the virus including certain new strains remain uncertain. The impact, scope and duration of any new strains of the virus, and the ability to successfully distribute the vaccines, remain largely unknown. The attendant governmental policy and social responses, and economic and financial consequences, continue to be the subject of considerable attention and development. The Company continues to perform all of its traditional operations, including surveilling and, as necessary, remediating, the credits in its insured portfolios.

Insured portfolios

The Company continues to regularly assess the financial impact of the pandemic on its operating insurance companies' overall insured portfolios. It remains challenging to comprehensively quantify, or account for the impact of the outbreak on most of the specific credits within the Company's insured portfolios, due to, in part, challenges in determining whether and to what extent the underlying credits will be able or willing to continue to meet their debt service obligations or avoid long term impairment in this environment. Adverse developments on

**MBIA Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**

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

macroeconomic factors resulting from the spread of COVID-19, including without limitation reduced economic activity and certainty, increased unemployment, increased loan defaults or delinquencies, and increased stress on municipal budgets, including due to reduced tax revenues and the ability to raise taxes or limit spending, could materially and adversely affect the performance of the Company's insured portfolios. The impact of the pandemic on the Company's financial guarantee credits is likely to vary based on the nature of the taxes, fees and revenues pledged to debt repayment and their sensitivity to the related slowdown in economic activity. The duration of the pandemic, the availability of federal aid to state and local governments, and the breadth and speed of economic recovery may all contribute to the ultimate degree and length of the economic stress incurred by the credits in the Company's insured portfolios. Further, any national recession that may result from the pandemic and its aftermath could present additional but yet unknown credit risks to the Company's insured portfolios.

Federal legislation passed to combat the economic impact of the pandemic, principally the \$2.7 trillion Coronavirus Aid, Relief, and Economic Security ("CARES") Act, included significant aid to public sector issuers including states, territories, healthcare, higher education and transportation issuers. In addition, the Federal Reserve has announced several actions in furtherance of its mandate from Congress to promote the stability of the financial system that are directly supportive of the municipal market. It is premature to assess whether these or any subsequent federal responses will prevent or reduce financial distress in the municipal sector. If the issuers of the obligations in National's insured portfolio, including Puerto Rico, are unable to raise taxes, reduce spending, or receive federal assistance, the Company may experience new or additional losses or impairments on those obligations, which could materially and adversely affect its business, financial condition and financial results. In December of 2020, Congress passed an additional \$900 billion coronavirus relief bill, however, this latest aid package does not include direct funding to states and local governments. In January of 2021, a new \$1.9 trillion relief plan was proposed that includes assistance to further stabilize the financial system, help with vaccine distribution, and direct funding for states and local governments.

Certain of MBIA Corp.'s structured finance policies, including those in which the underlying principal obligations are comprised of residential or commercial mortgages and mortgage-backed securities ("MBS"), could be negatively impacted by delays or failures of borrowers to make payments of principal and interest when due, or delays or moratoriums on foreclosures or enforcement actions with respect to delinquent or defaulted mortgages imposed by governmental authorities. MBIA Corp. has recorded significant loss reserves on its residential mortgage-backed securities ("RMBS") and collateralized debt obligations ("CDO") exposures, and there can be no assurance that these reserves will be sufficient if the pandemic causes further deterioration to the economy. These transactions are also subject to servicer risks, which relate to problems with the transaction's servicer that could adversely impact performance of the underlying assets. Additionally, several of the Company's credits, particularly within its international public finance sector, feature large, near term debt-service payments, and there can be no assurance that the liquidity position of MBIA Corp. will enable it to satisfy any claims that arise if the issuers of such credits are unable or unwilling to refinance or repay their obligations. MBIA Corp. has recorded substantial expected recoveries on certain RMBS transactions, and the forbearance options that mortgage borrowers who were facing financial difficulties took advantage of under the CARES Act, may delay or impair collections on these recoveries.

Liquidity

The Company continues to monitor its cash and liquid asset resources using cash forecasting and stress-scenario testing. Members of the Company's senior management meet regularly to review liquidity metrics, discuss contingency plans and establish target liquidity levels. It remains premature to predict the full impact the pandemic may have on the Company's future liquidity position and needs. Declines in the market value or rating eligibility of assets pledged against the Company's obligations as a result of credit market deterioration caused by COVID-19 require additional eligible assets to be pledged in order to meet minimum required collateral amounts against these obligations. This could require the Company to sell assets, potentially with substantial losses or use free cash or other assets to meet the collateral requirements, thus negatively impacting the Company's liquidity position. Associated declines in the yields in its insurance companies' fixed-income portfolios could materially impact investment income.

**MBIA Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**

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

*U.S. Public Finance Market Conditions*

National continues to monitor and remediate its existing insured portfolio and may also pursue strategic alternatives that could enhance shareholder value. 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.

*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.

Zohar and RMBS Recoveries

Payment of claims on MBIA Corp.'s policies insuring the Class A-1 and A-2 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. MBIA Corp. anticipates that the primary source of the recoveries will come from the monetization of the assets of Zohar I and Zohar II (the "Zohar Assets"), which include, among other things, loans made to, and equity interests in, companies that, until late March of 2020, were purportedly controlled and managed by the sponsor and former collateral manager of Zohar I and Zohar II (the "Zohar Sponsor"). In late March of 2020, the Zohar Sponsor resigned as director and manager of all but one portfolio company, and new directors and managers are currently in place at all but two portfolio companies, which are all subject to a monetization process approved by the Court. However, there can be no assurance that the monetization of the Zohar Assets will yield amounts sufficient to permit MBIA Corp. to recover a substantial portion of the payments it made on Zohar I and Zohar II. In particular, as the monetization process unfolds in coordination with the new directors and managers in place, and new information concerning the financial condition of the portfolio companies is disclosed, the Company may revise its expectations for recoveries. For example, at a June 3, 2020 hearing, counsel for one of the portfolio companies announced that the monetization process for that company would be delayed as a consequence of having to investigate issues relating to the integrity of the company's financial statements.

MBIA Corp. also projects to collect excess spread from insured RMBS; however, the amount and timing of these collections are uncertain.

Failure to collect 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

**MBIA Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**

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

Corp., including the termination of 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 6: Loss and Loss Adjustment Expense Reserves” for additional information about MBIA Corp.’s recoveries.

*Corporate Liquidity*

Based on the Company’s projections of National’s dividends 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 from National, 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**

***Basis of Presentation***

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

***Consolidation***

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

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

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

***Investments***

The Company classifies its investments as available-for-sale (“AFS”), held-to-maturity (“HTM”), or trading. AFS investments are reported in the consolidated balance sheets at fair value with non-credit related unrealized gains

**MBIA Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**

**Note 2: Significant Accounting Policies (continued)**

and losses, net of applicable deferred income taxes, reflected in accumulated other comprehensive income (loss) ("AOCI") in shareholders' equity. The specific identification method is used to determine realized gains and losses on AFS securities. HTM investments, for which the Company had the ability and intent to hold such investments to maturity, were redeemed during 2020, and were reported in the consolidated balance sheets at amortized cost (net of an allowance for credit losses). Investments carried at fair value consist of equity instruments, and certain investments elected under the fair value option, or classified as trading. Short-term investments held as AFS include all fixed-maturity securities with a remaining maturity of less than one year at the date of purchase, commercial paper and money market securities. Changes in fair value of investments carried at fair value and realized gains and losses from the sale of investment securities are reflected in earnings as part of "Net gains (losses) on financial instruments at fair value and foreign exchange" on the Company's consolidated statements of operations.

Investment income is recorded as earned which includes the current period interest accruals deemed collectible. Accrued interest income is recorded as part of "Other assets" on the Company's consolidated balance sheets. Bond discounts and premiums are amortized using the effective yield method over the remaining term of the securities and reported in "Net investment income" on the Company's consolidated statements of operations. However, premiums on certain callable debt securities are amortized to the earliest call date. For MBS and asset-backed securities ("ABS"), discounts and premiums are amortized using the retrospective or prospective method.

As part of the adoption of Accounting Standards Update ("ASU") 2016-13, effective January 1, 2020, accrued interest income on debt securities is not assessed for credit losses since the Company reverses any past due accrued interest income through earnings as a charge against net investment income. Interest income is subsequently recognized to the extent cash is received.

*Credit Losses on Debt Securities*

For AFS debt securities, the Company's consolidated statements of operations reflect the full impairment (the difference between a security's amortized cost basis and fair value) if the Company intends to sell or would more likely than not be required to sell before the expected recovery of the amortized cost basis. For AFS debt securities in an unrealized loss position and HTM debt securities held prior to their redemption during 2020, the securities are evaluated on a quarterly basis to determine if credit losses exist. The Company considers that credit losses exist when the Company does not expect to recover the entire amortized cost basis of the debt security. The Company measures an allowance for credit losses on a security-by-security basis as the difference between the recorded investment and the present value of the cash flows expected to be collected, discounted at the instrument's effective interest rate. Only the amount of impairment associated with the credit losses are recognized as charges to earnings.

As part of the adoption of ASU 2016-13, effective January 1, 2020, the Company no longer records impairments for credit losses as adjustments to the amortized cost of the debt securities, but rather records an allowance for credit losses. The carrying values of debt securities are presented net of any allowance for credit losses. For AFS debt securities, adjustments to the amortized cost basis are recorded if there is an intent to sell before recovery from impairment. For debt securities with an allowance for credit loss, changes in credit losses including accretion of the allowance for credit losses are recognized in earnings through other net realized gains (losses) with a corresponding change to the allowance for credit losses.

**Cash and Cash Equivalents**

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

**Deferred Acquisition Costs**

The Company deferred acquisition costs that were directly related to new or renewal insurance business. Acquisition costs are costs to acquire an insurance contract which result directly from and are essential to the

**MBIA Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**

**Note 2: Significant Accounting Policies (continued)**

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

**Derivatives**

Derivative instruments are reported at fair value on the consolidated balance sheets as either assets or liabilities depending on the rights or obligations under the contract, and changes in fair value are reported in the consolidated statements of operations within “Net gains (losses) on financial instruments at fair value and foreign exchange” or “Unrealized gains (losses) on insured derivatives” depending on the nature of the derivative. The net change in the fair value of the Company’s insured derivatives has two primary components: (i) realized gains (losses) and other settlements on insured derivatives and (ii) unrealized gains (losses) on insured derivatives. “Realized gains (losses) and other settlements on insured derivatives” include (i) premiums received and receivable on sold CDS contracts, (ii) premiums paid and payable to reinsurers in respect to CDS contracts, (iii) net amounts received or paid on reinsurance commutations, (iv) losses paid and payable to CDS contract counterparties due to the occurrence of a credit event or settlement agreement, (v) losses recovered and recoverable on purchased CDS contracts due to the occurrence of a credit event or settlement agreement and (vi) fees relating to CDS contracts. “Unrealized gains (losses) on insured derivatives” include all other changes in the fair values of the insured derivative contracts. As of December 31, 2020, the Company had no remaining insured exposure accounted for as an insured CDS derivative.

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

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

**Fair Value Measurements—Definition and Hierarchy**

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

The accounting guidance establishes a fair value hierarchy that categorizes into three levels, the inputs used to measure fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available and reliable. Observable inputs are those that

**MBIA Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**

**Note 2: Significant Accounting Policies (continued)**

the Company believes market participants would use in pricing an asset or liability based on available market data. Unobservable inputs are those that reflect the Company's beliefs about the assumptions market participants would use in pricing the asset or liability based on the best information available. The three levels of the fair value hierarchy are defined as follows:

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

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

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

**Loss and Loss Adjustment Expenses**

The Company recognizes loss reserves on a contract-by-contract basis when the present value of probability-weighted 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 loss reserves are recognized as loss expense or benefit in the period of change. Measurement and recognition of loss reserves are reported gross of any reinsurance on the Company's consolidated balance sheets. The Company estimates the likelihood of possible claim payments and possible recoveries of such claim payments 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 cash inflows present valued at applicable risk-free rates as of the measurement date. Such amounts are reported within "Insurance loss recoverable" on the Company's consolidated balance sheets. To the extent the Company had recorded potential recoveries in its loss reserves previous to a claim payment, such recoveries are reclassified to "Insurance loss recoverable" upon payment of the related claim and remeasured each reporting period.

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



**MBIA Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**

**Note 2: Significant Accounting Policies (continued)**

**Long-term Debt**

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

**Medium-Term Notes and Investment Agreements**

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

**Financial Guarantee Insurance Premiums**

*Unearned Premium Revenue and Receivable for Future Premiums*

The Company recognizes a liability for unearned premium revenue at the inception of financial guarantee insurance and reinsurance contracts on a contract-by-contract basis. Unearned premium revenue recognized at inception of a contract is measured at the present value of the premium due. For most financial guarantee insurance contracts, the Company receives the entire premium due at the inception of the contract, and recognizes unearned premium revenue liability at that time. For certain other financial guarantee contracts, the Company receives premiums in installments over the term of the contract. Unearned premium revenue and a receivable for future premiums are recognized at the inception of an installment contract, and measured at the present value of premiums expected to be collected over the contract period or expected period using a risk-free discount rate. The expected period is used in the present value determination of unearned premium revenue and receivable for future premiums for contracts where (a) the insured obligation is contractually prepayable, (b) prepayments are probable, (c) the amount and timing of prepayments are reasonably estimable, and (d) a homogenous pool of assets is the underlying collateral for the insured obligation. Premiums receivable for policies that use the expected period of risk due to expected prepayments are adjusted in subsequent measurement periods when prepayment assumptions change using the risk-free discount rate as of the remeasurement date. The Company has determined that substantially all of its installment contracts meet the conditions required to be treated as expected period contracts. Premiums receivable also includes the current amount of premiums due from installment policies insuring consolidated VIEs when the premiums are payable by third-parties on behalf of the consolidated VIEs. The receivable for future premiums is reduced as installment premiums are collected. The Company reports the accretion of the discount on installment premiums receivable as premium revenue and discloses the amount recognized in "Note 5: Insurance Premiums." As premium revenue is recognized, the unearned premium revenue liability is reduced.

*Credit Losses on Premium Receivables*

The Company evaluates the collectability of outstanding premium receivables on a quarterly basis and measures any allowance for credit losses as the difference between the recorded premium receivable amount and the current projected net present value of premiums expected to be collected, discounted at the effective interest rate, which is the applicable risk-free rate described in the preceding paragraph. Estimating the allowance for credit losses involves substantial judgment, including forecasting an insured transaction's cash flows, such as the future performance of the transaction's underlying assets and the impact of certain macro-economic factors, as well as incorporating any historical experience of uncollectible balances and a transaction's liability structure, including the seniority of premium payments to the Company.

*Premium Revenue Recognition*

The Company recognizes and measures premium revenue over the period of the contract in proportion to the amount of insurance protection provided. Premium revenue is measured by applying a constant rate to the insured principal amount outstanding in a given period to recognize a proportionate share of the premium

**MBIA Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**

**Note 2: Significant Accounting Policies (continued)**

received or expected to be received on a financial guarantee insurance contract. A constant rate for each respective financial guarantee insurance contract is calculated as the ratio of (a) the present value of premium received or expected to be received over the period of the contract to (b) the sum of all insured principal amounts outstanding during each period over the term of the contract.

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

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

**Fee and Reimbursement Revenue Recognition**

The Company collects insurance related fees for services performed in connection with certain transactions. Fees are earned when the related services are completed. Types of fees include work, waiver and consent, and termination fees.

**Stock-Based Compensation**

The Company recognizes in earnings all stock-based payment transactions at the fair value of the stock-based compensation provided. Refer to "Note 15: Benefit Plans" for a further discussion regarding the methodology utilized in recognizing employee stock compensation expense.

**Foreign Currency Translation**

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

**Income Taxes**

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

MBIA Inc. and its eligible U.S. subsidiaries file a consolidated federal income tax return. The U.S. income taxes are allocated based on the provisions of the Company's tax sharing agreement which governs the intercompany

**MBIA Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**

**Note 2: Significant Accounting Policies (continued)**

settlement of tax obligations and benefits. The method of allocation between the members is based upon calculations as if each member filed its separate tax return. Under the Company's tax sharing agreement, each member with a NOL will receive the benefits of its tax losses and credits as it is able to earn them out in the future.

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

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

**Note 3: Recent Accounting Pronouncements**

**Recently Adopted Accounting Standards**

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

In June of 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("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 a 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 Accounting Standards Codification Topic 944, "Financial Services-Insurance." ASU 2016-13 also makes targeted amendments to the current impairment model for AFS debt securities, which include requiring the recognition of an allowance rather than a direct write-down of the investment's cost basis. An allowance on an AFS investment may be reversed in the event that the credit quality of the issuer improves. The new guidance also replaces the model for purchased credit impaired debt securities and requires the establishment of an allowance for credit losses at acquisition of such securities by grossing up the purchase price when recording the initial amortized cost. 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 adopted ASU 2016-13 in its entirety as of January 1, 2020. For financial assets held by the Company and measured at amortized cost, which primarily include HTM debt securities, premiums receivable, accrued investment income and reinsurance recoverables, the Company's aggregate cumulative-effect adjustment, net of tax, related to allowances for credit losses as of the date of adoption was a \$42 million reduction in retained earnings. In addition, the Company updated its models and implemented or modified processes and controls necessary for the proper identification, measurement and recording of expected credit losses on financial assets within the scope of 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

**MBIA Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**

**Note 3: Recent Accounting Pronouncements (continued)**

disclosure requirements on fair value measurements. ASU 2018-13 was 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. Since the amendments of ASU 2018-13 only impact disclosure requirements, the adoption of ASU 2018-13 did not impact the Company's consolidated financial statements. The Company adopted the amendments of ASU 2018-13 in its entirety as of January 1, 2020. The adoption of ASU 2018-13 only impacted the fair value disclosures within the Company's consolidated financial statements and did not impact amounts reported on the Company's balance sheet, statement of operations, statement of comprehensive income or statement of cash flows.

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

**Recent Accounting Developments**

*Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting (ASU 2020-04)*

In March of 2020, the FASB issued ASU 2020-04, "Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting." ASU 2020-04 provides optional expedients and exceptions for applying GAAP to contract modifications and hedging relationships that reference London Interbank Offered Rate ("LIBOR") or other rates that are expected to be discontinued, subject to meeting certain criteria. ASU 2020-04 is effective as of March 12, 2020 through December 31, 2022. The Company is evaluating the impact of adopting ASU 2020-04.

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

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

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

**MBIA Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**

**Note 4: Variable Interest Entities (continued)**

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 \$830 million and \$623 million, respectively, as of December 31, 2020 and \$1.6 billion and \$1.5 billion, respectively, as of December 31, 2019. 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 2020, the Company deconsolidated two structured finance VIEs due to the prepayment of the outstanding notes of the VIEs. The allowance for credit losses on HTM assets held by one of the structured finance VIEs was reduced to zero. Refer to "Note 8: Investments" for further information on credit losses on investments. Also in 2020, the Puerto Rico Sales Tax Financing Corporation ("COFINA") Trusts established in 2019 (the "Trusts") were legally dissolved and the seven related VIEs were deconsolidated. There was no impact on the Company's consolidated statement of operations due to the deconsolidation of these VIEs. In the first quarter of 2019, the Company consolidated seven VIEs related to the Trusts established in connection with the COFINA Plan of Adjustment. 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. During 2019, all of the uninsured bonds held in the Trusts were sold and the proceeds were used to reduce National's obligations under its original insurance policies upon passing the proceeds through the Trusts to certificate holders. In addition, in 2019, National elected to make a voluntary additional payment in the amount of \$66 million with the effect of simultaneously reducing the Trust's obligations to zero and satisfying in full the obligations under its original insurance policies. Also in 2019, two structured finance VIEs were deconsolidated as a result of the termination of the Company's insurance policies related to those VIEs and the Company recorded losses of \$16 million primarily due to credit losses in AOCI that were released to earnings. Consolidation and deconsolidation gains and losses are recorded within "Other net realized gains (losses)" under "Revenues of consolidated variable interest entities" on the Company's consolidated statements of operations.

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.

**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 December 31, 2020 and 2019. 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.

**MBIA Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**

**Note 4: Variable Interest Entities (continued)**

December 31, 2020						
In millions	Maximum Exposure to Loss	Carrying Value of Assets			Carrying Value of Liabilities	
		Investments	Premiums Receivable	Insurance Loss Recoverable	Unearned Premium Revenue	Loss and Loss Adjustment Expense Reserves
Insurance:						
Global structured finance:						
Mortgage-backed residential	\$ 1,835	\$ 21	\$ 16	\$ 90	\$ 14	\$ 482
Consumer asset-backed	293	—	1	1	1	15
Corporate asset-backed	735	—	5	364	5	—
Total global structured finance	2,863	21	22	455	20	497
Global public finance	1,434	—	7	—	7	2
Total insurance	<u>\$ 4,297</u>	<u>\$ 21</u>	<u>\$ 29</u>	<u>\$ 455</u>	<u>\$ 27</u>	<u>\$ 499</u>

December 31, 2019						
In millions	Maximum Exposure to Loss	Carrying Value of Assets			Carrying Value of Liabilities	
		Investments	Premiums Receivable	Insurance Loss Recoverable	Unearned Premium Revenue	Loss and Loss Adjustment Expense Reserves
Insurance:						
Global structured finance:						
Mortgage-backed residential	\$ 2,253	\$ 15	\$ 19	\$ 107	\$ 16	\$ 436
Mortgage-backed commercial	26	—	—	—	—	—
Consumer asset-backed	384	—	1	1	1	11
Corporate asset-backed	937	—	6	673	7	—
Total global structured finance	3,600	15	26	781	24	447
Global public finance	1,926	—	8	—	9	—
Total insurance	<u>\$ 5,526</u>	<u>\$ 15</u>	<u>\$ 34</u>	<u>\$ 781</u>	<u>\$ 33</u>	<u>\$ 447</u>

**Note 5: Insurance Premiums**

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

As of December 31, 2020, the Company recorded \$5 million as an allowance for credit losses on premium receivables. Refer to “Note 2: Significant Accounting Policies” and “Note 3: Recent Accounting Pronouncements” for further information regarding the accounting related to credit losses on premium receivables.

As of December 31, 2020 and 2019, the weighted average risk-free rates used to discount future installment premiums were 2.7% and 2.8%, respectively, and the weighted average expected collection term of the premiums receivable was 8.75 years and 8.86 years, respectively. As of December 31, 2020 and 2019, reinsurance premiums payable was \$15 million and \$17 million, respectively, and is included in “Other liabilities” in the Company’s consolidated balance sheets. The reinsurance premiums payable is accreted and paid to reinsurers as premiums due to MBIA are accreted and collected.

**MBIA Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**

**Note 5: Insurance Premiums (continued)**

The following tables present a roll forward of the Company's premiums receivable for the years ended December 31, 2020 and 2019.

In millions			Adjustments			Premiums Receivable as of December 31, 2020
Premiums Receivable as of December 31, 2019	Premium Payments Received	Premiums from New Business Written	Changes in Expected Term of Policies	Accretion of Premiums Receivable Discount <sup>(1)</sup>	Other <sup>(2)</sup>	
\$ 249	\$ (30)	\$ —	\$ (1)	\$ 6	\$ (8)	\$ 216

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

(2)—The change primarily relates to a reduction in installment premiums due to refunding activity and the recording of an allowance for credit losses under Financial Instruments-Credit Losses, partially offset by changes in foreign exchange currency rates.

In millions			Adjustments			Premiums Receivable as of December 31, 2019
Premiums Receivable as of December 31, 2018	Premium Payments Received	Premiums from New Business Written	Changes in Expected Term of Policies	Accretion of Premiums Receivable Discount <sup>(1)</sup>	Other <sup>(2)</sup>	
\$ 296	\$ (43)	\$ —	\$ (4)	\$ 7	\$ (7)	\$ 249

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

(2)—Primarily relates to the write off of uncollectible premiums and to a lesser extent realized gains due to changes in foreign currency exchange rates.

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

In millions	Expected Collection of Premiums
Three months ending:	
March 31, 2021	\$ 3
June 30, 2021	10
September 30, 2021	5
December 31, 2021	10
Twelve months ending:	
December 31, 2022	24
December 31, 2023	22
December 31, 2024	20
December 31, 2025	18
Five years ending:	
December 31, 2030	64
December 31, 2035	45
December 31, 2040 and thereafter	54
Total	\$ 275

**MBIA Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**

**Note 5: Insurance Premiums (continued)**

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

In millions	Unearned Premium Revenue	Expected Future Premium Earnings		Accretion	Total Expected Future Premium Earnings
		Upfront	Installments		
December 31, 2020	\$ 405				
Three months ending:					
March 31, 2021	392	\$ 6	\$ 7	\$ 1	\$ 14
June 30, 2021	379	6	7	1	14
September 30, 2021	367	6	6	2	14
December 31, 2021	355	6	6	1	13
Twelve months ending:					
December 31, 2022	310	21	24	5	50
December 31, 2023	271	19	20	4	43
December 31, 2024	235	17	19	4	40
December 31, 2025	204	15	16	4	35
Five years ending:					
December 31, 2030	104	50	50	15	115
December 31, 2035	50	24	30	9	63
December 31, 2040 and thereafter	—	16	34	9	59
Total		<u>\$ 186</u>	<u>\$ 219</u>	<u>\$ 55</u>	<u>\$ 460</u>

**Note 6: Loss and Loss Adjustment Expense Reserves**

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

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

Remediation actions may involve, among other things, waivers or renegotiations of financial covenants or triggers, waivers of contractual provisions, the granting of consents, transfer of servicing, consideration of restructuring



**MBIA Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**

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

plans, acceleration, security or collateral enforcement, actions in bankruptcy or receivership, litigation and similar actions. The types of remedial actions pursued are based on the insured obligation's risk type and the nature and scope of the event giving rise to the remediation. As part of any such remedial actions, the Company seeks to improve its security position and to obtain concessions from the issuer of the insured obligation. From time to time, the issuer of an insured obligation by the Company may, with the consent of the Company, restructure the insured obligation by extending the term, increasing or decreasing the par amount or decreasing the related interest rate, with the Company insuring the restructured obligation.

The Company does not establish any case basis reserves for insured obligations that are assigned to "Caution List—Low," "Caution List—Medium" or "Caution List—High." In the event MBIA expects to pay a claim with respect to an insured transaction, it places the insured transaction on its "Classified List" and establishes a case basis reserve. The following provides a description of each surveillance category:

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

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

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

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

The establishment of the appropriate level of loss reserves is an inherently uncertain process involving numerous assumptions, estimates and subjective judgments by management that depend primarily on the nature of the underlying insured obligation. These variables include the nature and creditworthiness of the issuers of the insured obligations, expected recovery rates on unsecured obligations, the projected cash flow or market value of any assets pledged as collateral on secured obligations, and the expected rates of recovery, cash flow or market values on such obligations or assets. Factors that may affect the actual ultimate realized losses for any policy include economic conditions and trends, political developments, the extent to which sellers/servicers comply with the representations or warranties made in connection therewith, levels of interest rates, borrower behavior, the default rate and salvage values of specific collateral, and the Company's ability to enforce contractual rights through litigation and otherwise, including the collection of contractual interest on claim payments. The Company's remediation strategy for an insured obligation that has defaulted or is expected to default may also have an impact on the Company's loss reserves.

In establishing case basis loss reserves, the Company calculates the present value of probability-weighted estimated loss payments, net of estimated recoveries, using a discount rate equal to the risk-free rate applicable to the currency and the weighted average remaining life of the insurance contract as required by accounting

**MBIA Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**

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

principles for financial guarantee contracts. Yields on U.S. Treasury offerings are used to discount loss reserves denominated in U.S. dollars, which represent the majority of the loss reserves. Similarly, yields on foreign government offerings are used to discount loss reserves denominated in currencies other than the U.S. dollar. Significant changes in discount rates from period to period may have a material impact on the present value of the Company's loss reserves and expected recoveries. In addition, if the Company were to apply different discount rates, its case basis reserves may have been higher or lower than those established as of December 31, 2020. For example, a higher discount rate applied to expected future payments would have decreased the amount of a case basis reserve established by the Company and a lower rate would have increased the amount of a reserve established by the Company. Similarly, a higher discount rate applied to the potential future recoveries would have decreased the amount of a loss recoverable established by the Company and a lower rate would have increased the amount of a loss recoverable established by the Company.

***U.S. Public Finance Insurance***

U.S. public finance insured transactions consist of municipal bonds, including tax-exempt and taxable indebtedness of U.S. political subdivisions, as well as utilities, airports, health care institutions, higher educational facilities, 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 state and local governments and territory obligors that National insures are under financial and budgetary stress. In addition, the COVID-19 pandemic may present additional but unknown credit risks to National's insured portfolio. Puerto Rico had been experiencing significant fiscal stress and constrained liquidity, and in response, the U.S. Congress passed PROMESA. In formulating loss reserves, the Company considers the following: environmental and political impacts; litigation; ongoing discussions with creditors; timing and amount of debt service payments and future recoveries; existing proposed restructuring plans or agreements; and deviations from these proposals in its probability-weighted scenarios. 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 Oversight Board. Refer to "Note 1: Business Developments and Risk and Uncertainties", for further information on COVID-19 and the Company's Puerto Rico exposures.

***Recoveries on Puerto Rico Losses***

For recoveries on paid Puerto Rico losses, the estimates include assumptions related to the following: economic conditions and trends; political developments; the Company's ability to enforce contractual rights through litigation and otherwise; discussions with other creditors and the obligors, any existing proposals; and the remediation strategy for an insured obligation that has defaulted or is expected for default.

***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 financial guarantee VIEs that are eliminated in consolidation. In addition, COVID-19 may present additional but unknown credit risks to MBIA Corp.'s insured portfolio. Refer to "Note 1: Business Developments and Risk and Uncertainties", for further information on COVID-19.

***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

**MBIA Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**

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

to RMBS backed by home equity lines of credit and closed-end second mortgages. The Company calculated RMBS case basis reserves as of December 31, 2020 for both first and second-lien RMBS transactions using a process called the Roll Rate Methodology (“Roll Rate Methodology”). The Roll Rate Methodology is a multi-step process using databases of loan level information, proprietary internal cash flow models, and commercially available models to estimate potential losses and recoveries on insured bonds. Roll Rate is defined as the probability that current loans become delinquent and subsequently default and loans in the delinquent pipeline are charged-off or liquidated. The loss reserve estimates are based on a probability-weighted average of potential scenarios of loan losses. Additional data used for both second and first-liens include historic averages of deal specific voluntary prepayment rates, forward projections of the LIBOR interest rates, and historic averages of deal-specific loss severities. In addition, for second-lien RMBS backed by home equity lines of credit, the Company assumes a constant basis spread between Prime and LIBOR interest rates.

In calculating ultimate cumulative losses for RMBS, the Company estimates the amount of second-lien loans that are expected to be charged-off (deemed uncollectible by servicers of the transactions) and, for first-lien RMBS, the Company estimates the amount of loans that are expected to be liquidated in the future through foreclosure or short sale. The time to liquidation for a defaulted loan is specific to the loan’s delinquency bucket.

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

The Company monitors RMBS 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 and re-evaluate its assumptions.

*RMBS Recoveries*

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

Excess Spread

Excess spread within insured RMBS securitizations is the difference between interest inflows on mortgage loan collateral and interest outflows on the insured RMBS notes. The aggregate amount of excess spread depends on the future loss trends, which include future delinquency trends, average time to charge-off/liquidate delinquent loans, the future spread between Prime and the LIBOR interest rates, and borrower refinancing behavior (which may be affected by changes in the interest rate environment) that results in voluntary prepayments. 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

As of December 31, 2020, the Company had settled all of its put-back claims relating to the inclusion of ineligible loans in securitizations it insured, with only its claims against Credit Suisse outstanding. In the litigation brought to pursue these claims, Credit Suisse had challenged the Company’s assessment of the ineligibility of individual mortgage loans. In November of 2020, following a trial and post-trial briefing, the court overseeing the litigation issued a decision declaring that MBIA Corp. had succeeded in establishing that a majority of the loans in the transaction were ineligible. In January of 2021, the Court issued an order declaring that Credit Suisse was liable

**MBIA Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**

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

to MBIA Corp. for approximately \$604 million in damages. On February 9, 2021, the parties to the litigation entered into a settlement agreement pursuant to which Credit Suisse paid MBIA Corp. \$600 million, and on February 11, 2021, the court entered an order dismissing the case. Refer to “Note 19: Commitments and Contingencies” for further information about the Company’s litigation with Credit Suisse. As of December 31, 2020, the Company consolidated the RMBS securitization originated by Credit Suisse as a VIE and, therefore, eliminates its estimate of recoveries from its insurance accounting and reflects such recoveries in its accounting for the loan repurchase commitments asset of the VIE using a fair value measurement.

*CDO Reserves and Recoveries*

The Company also has loss and LAE reserves on certain transactions within its 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, commercial mortgage-backed securities (“CMBS”), ABS and CDO collateral). The Company’s process for estimating reserves and credit impairments on these policies is determined as the present value of the probability-weighted potential future losses, net of estimated recoveries, across multiple scenarios. The Company considers several factors when developing the range of potential outcomes and their impact on MBIA. A range of loss scenarios is considered under different default and severity rates for each transaction’s collateral. Additionally, each transaction is evaluated for its commutation potential.

Zohar Recoveries

MBIA Corp. is seeking to recover the payments it made (plus interest and expenses) with respect to Zohar I and Zohar II. In March of 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”). In May of 2018, MBIA and certain parties to the Zohar Funds Bankruptcy Cases agreed to a stay of litigation and a process, among other things (the “Zohar Bankruptcy Settlement”) by which the debtor funds, through an independent director and a chief restructuring officer, would 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 Zohar Bankruptcy Settlement has expired, the court has ruled that the monetization process will continue, a decision that was affirmed by the federal District Court for the District of Delaware in July of 2020.

While MBIA Corp. anticipates that the primary source of the recoveries will come from the monetization of the Zohar Assets, significant uncertainty remains with respect to realizable value. In late March of 2020, the original sponsor of the Zohar Funds resigned from her role as director and manager of all but one of the portfolio companies, which companies have debt and equity that comprise, in part, the Zohar Assets. New directors and managers are currently in place at all but two of the portfolio companies, which are all subject to the above-referenced monetization process. There can be no assurance, however, that the recent coronavirus outbreak and/or other developments will not cause the monetization of the Zohar Assets to be delayed or impacted. Salvage and subrogation recoveries related to Zohar I and Zohar II are reported within “Insurance loss recoverable” on the Company’s consolidated balance sheet. The Company’s estimate of the insurance loss recoverable for Zohar I and Zohar II includes probability-weighted scenarios of the ultimate monetized recovery from the Zohar Assets.

Notwithstanding the procedures agreed to in the Zohar Bankruptcy Settlement and confirmed by the court, there can be no assurance that the monetization of the Zohar Assets will yield amounts sufficient to permit MBIA Corp. to recover a substantial portion of the payments it made on Zohar I and Zohar II. In particular, as the monetization process unfolds in coordination with the new directors and managers in place, and new information concerning the financial condition of the portfolio companies is disclosed, the Company may revise its expectations for recoveries. For example, at a June 3, 2020 hearing, counsel for one of the portfolio companies announced that the monetization process for that company would be delayed as a consequence of having to investigate issues relating to the integrity of the company’s financial statements. Failure to recover a substantial portion of the payments made on Zohar I and Zohar II 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

**MBIA Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**

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

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.

**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 for the international and structured finance insurance segment, which are included in the Company's consolidated balance sheets as of December 31, 2020 and 2019 are presented in the following table:

In millions	As of December 31, 2020		As of December 31, 2019	
	Balance Sheet Line Item	Balance Sheet Line Item	Balance Sheet Line Item	Balance Sheet Line Item
	Insurance loss recoverable	Loss and LAE reserves <sup>(2)</sup>	Insurance loss recoverable	Loss and LAE reserves <sup>(2)</sup>
<b>U.S. Public Finance Insurance</b>	\$ 1,220	\$ 469	\$ 911	\$ 432
<b>International and Structured Finance Insurance:</b>				
Before VIE eliminations <sup>(1)</sup>	1,082	780	1,286	749
VIE eliminations <sup>(1)</sup>	(625)	(259)	(503)	(280)
Total international and structured finance insurance	457	521	783	469
<b>Total</b>	<u>\$ 1,677</u>	<u>\$ 990</u>	<u>\$ 1,694</u>	<u>\$ 901</u>

(1)—Includes loan repurchase commitments of \$604 million and \$486 million as of December 31, 2020 and 2019, respectively.

(2)—Amounts are net of expected recoveries.

**Changes in Loss and LAE Reserves**

The following table presents changes in the Company's loss and LAE reserves for the years ended December 31, 2020 and 2019. Changes in loss and LAE reserves, with the exception of loss and LAE payments are recorded in "Losses and loss adjustment" expenses in the Company's consolidated statements of operations. As of December 31, 2020, the weighted average risk-free rate used to discount the Company's loss reserves (claim liability) was 0.92%. LAE reserves are generally expected to be settled within a one-year period and are not discounted. As of December 31, 2020 and 2019 the Company's gross loss and LAE reserves included \$30 million and \$34 million, respectively, related to LAE.

In millions	Changes in Loss and LAE Reserves for the Year Ended December 31, 2020						Gross Loss and LAE Reserves as of December 31, 2020 <sup>(1)</sup>	
	Loss Payments	Accretion of Claim Liability Discount	Changes in Discount Rates	Changes in Assumptions	Changes in Unearned Premium Revenue	Other		
Gross Loss and LAE Reserves as of December 31, 2019 <sup>(1)</sup>	\$ 901	\$ (441)	\$ 11	\$ (86)	\$ 606	\$ 8	\$ (9)	\$ 990

(1)—Includes changes in amount and timing of estimated payments and recoveries.

In millions	Changes in Loss and LAE Reserves for the Year Ended December 31, 2019						Gross Loss and LAE Reserves as of December 31, 2019 <sup>(1)</sup>		
	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 December 31, 2018 <sup>(1)</sup>	\$ 965	\$ (431)	\$ 18	\$ (54)	\$ 407	\$ 23	\$ (26)	\$ (1)	\$ 901

(1)—Includes changes in amount and timing of estimated payments and recoveries.

**MBIA Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**

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

The increase in the Company's loss and LAE reserves for the year ended December 31, 2020, primarily related to an increase in expected payments on certain Puerto Rico exposures and an increase in losses on insured first-lien RMBS due to the decline in risk-free rates during 2020 used to present value loss reserves. This increase was partially offset by actual payments made and favorable changes in future recoveries on unpaid losses due to the decline in risk-free rates on certain Puerto Rico exposures.

The decrease in the Company's loss reserves during 2019 primarily relates to payments on certain Puerto Rico exposures and the elimination of COFINA loss reserves due to the consolidation of the Trusts as VIEs. These decreases were partially offset by an increase in loss reserves related to certain Puerto Rico exposures and first-lien RMBS transactions.

**Changes in Insurance Loss Recoverable**

Insurance loss recoverable represents the Company's estimate of recoveries on paid claims and LAE. The Company recognizes potential recoveries on paid claims based on the probability-weighted net cash inflows present valued at applicable risk-free rates as of the measurement date. The following table presents changes in the Company's insurance loss recoverable for the years ended December 31, 2020 and 2019. Changes in insurance loss recoverable with the exception of collections, are recorded in "Losses and loss adjustment" expenses in the Company's consolidated statements of operations.

In millions	Changes in Insurance Loss Recoverable for the Year Ended December 31, 2020						Gross Reserve as of December 31, 2020
	Gross Reserve as of December 31, 2019	Collections for Cases	Accretion of Recoveries	Changes in Discount Rates	Changes in Assumptions <sup>(1)</sup>	Other	
Insurance loss recoverable	\$ 1,694	\$ (49)	\$ 14	\$ 115	\$ (94)	\$ (3)	\$ 1,677

(1)—Includes amounts related to paid claims and LAE.

In millions	Changes in Insurance Loss Recoverable for the Year Ended December 31, 2019						Gross Reserve as of December 31, 2019
	Gross Reserve as of December 31, 2018	Collections for Cases	Accretion of Recoveries	Changes in Discount Rates	Changes in Assumptions <sup>(1)</sup>	Other <sup>(2)</sup>	
Insurance loss recoverable	\$ 1,595	\$ (148)	\$ 35	\$ 70	\$ 105	\$ 37	\$ 1,694

(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 decrease in the Company's insurance loss recoverable during 2020 was primarily due to a decline in expected recoveries on CDOs. This was partially offset by certain Puerto Rico claim payments that are expected to be recovered in the future as well as a decline in risk-free rates on certain Puerto Rico exposures.

The increase in the Company's insurance loss recoverable during 2019 was primarily due to estimated recoveries of claims paid on certain Puerto Rico credits, partially offset by amounts received related to recoveries on second-lien RMBS and CDO transactions and a decline in the amount of estimated future recoveries related to CDO transactions.

**Loss and LAE Activity**

For the year ended December 31, 2020, loss and LAE incurred primarily related to a decrease in expected salvage collections related to CDOs, an increase in actual and expected payments on certain Puerto Rico credits and an increase in losses on first-lien RMBS due to the decline in risk-free rates during 2020 used to present value loss reserves. During 2020, overall, risk-free rates used to discount loss reserve and recovery cash flows declined. The decline in risk-free rates had the impact of increasing the present value of recoveries, primarily on certain Puerto Rico credits, which was partially offset by the impact of increasing the present value of future claim payments across the Company's insured portfolio.

**MBIA Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**

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

For the year ended December 31, 2019, loss and LAE incurred primarily related to a decrease in expected salvage collections related to CDOs and an increase in expected payments on insured first-lien RMBS transactions and certain Puerto Rico exposures.

For the year ended December 31, 2018, losses and LAE incurred primarily related to an increase in expected payments on Puerto Rico exposures, partially offset by a decrease in expected payments on second-lien RMBS transactions and an increase in expected collections from CDOs.

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 years ended December 31, 2020, 2019 and 2018 gross LAE related to remediating insured obligations were \$51 million, \$29 million and \$23, respectively.

**Surveillance Categories**

The following table provides information about the financial guarantees and related claim liability included in each of MBIA's surveillance categories as of December 31, 2020:

\$ in millions	Surveillance Categories				
	Caution List Low	Caution List Medium	Caution List High	Classified List	Total
Number of policies	46	16	—	219	281
Number of issues <sup>(1)</sup>	16	3	—	100	119
Remaining weighted average contract period (in years)	6.4	6.4	—	7.9	7.4
Gross insured contractual payments outstanding: <sup>(2)</sup>					
Principal	\$1,422	\$ 123	\$ —	\$ 3,302	\$4,847
Interest	1,974	54	—	1,441	3,469
Total	<u>\$3,396</u>	<u>\$ 177</u>	<u>\$ —</u>	<u>\$ 4,743</u>	<u>\$8,316</u>
Gross Claim Liability <sup>(3)</sup>	\$ —	\$ —	\$ —	\$ 1,088	\$1,088
Less:					
Gross Potential Recoveries <sup>(4)</sup>	—	—	—	1,947	1,947
Discount, net <sup>(5)</sup>	—	—	—	(173)	(173)
Net claim liability (recoverable)	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ (686)</u>	<u>\$ (686)</u>
Unearned premium revenue	\$ 10	\$ —	\$ —	\$ 35	\$ 45
Reinsurance recoverable on paid and unpaid losses <sup>(6)</sup>					\$ 11

(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**

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

The following table provides information about the financial guarantees and related claim liability included in each of MBIA's surveillance categories as of December 31, 2019:

<u>\$ in millions</u>	<u>Surveillance Categories</u>				
	<u>Caution List Low</u>	<u>Caution List Medium</u>	<u>Caution List High</u>	<u>Classified List</u>	<u>Total</u>
Number of policies	45	19	—	212	276
Number of issues <sup>(1)</sup>	13	5	—	94	112
Remaining weighted average contract period (in years)	7.3	7.2	—	7.9	7.7
Gross insured contractual payments outstanding: <sup>(2)</sup>					
Principal	\$1,546	\$ 248	\$ —	\$ 3,794	\$5,588
Interest	2,107	110	—	1,668	3,885
Total	<u>\$3,653</u>	<u>\$ 358</u>	<u>\$ —</u>	<u>\$ 5,462</u>	<u>\$9,473</u>
Gross Claim Liability <sup>(3)</sup>	\$ —	\$ —	\$ —	\$ 965	\$ 965
Less:					
Gross Potential Recoveries <sup>(4)</sup>	—	—	—	2,184	2,184
Discount, net <sup>(5)</sup>	—	—	—	(453)	(453)
Net claim liability (recoverable)	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ (766)</u>	<u>\$ (766)</u>
Unearned premium revenue	\$ 6	\$ 3	\$ —	\$ 39	\$ 48
Reinsurance recoverable on paid and unpaid losses <sup>(6)</sup>					\$ 19

(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.

**Note 7: Fair Value of Financial Instruments**

**Fair Value Measurement**

*Financial Assets and Liabilities*

Financial assets held by the Company primarily consist of investments in debt securities, loans receivables at fair value and loan repurchase commitments held by consolidated VIEs. Financial liabilities, excluding derivative liabilities, issued by the Company primarily consist of debt issued for general corporate purposes within its corporate segment, MTNs, investment agreements and debt issued by consolidated VIEs. The Company's derivative liabilities are primarily interest rate swaps and insured credit derivatives.

**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, MBS, ABS, money market securities, and perpetual debt and equity securities.

Substantially all of these investments are valued based on recently executed transaction prices or quoted market prices by independent third parties, including pricing services and brokers. When quoted market prices are not



**MBIA Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**

**Note 7: Fair Value of Financial Instruments (continued)**

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. During 2020, the investment in the fixed-income fund was redeemed. The investment in the fixed-income fund as of December 31, 2019 is included as "Investments carried as fair value" on the Company's consolidated balance sheet.

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

*Cash and Cash Equivalents*

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

*Loans Receivable at Fair Value*

Loans receivable at fair value are comprised of loans 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

**MBIA Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**

**Note 7: Fair Value of Financial Instruments (continued)**

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.

*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 and do not include accrued interest.

*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 certain insured credit derivatives using valuation models based on observable inputs and considering nonperformance risk of the Company. These insured credit derivatives are categorized in Level 2 of the fair value hierarchy.

Prior to the termination in the fourth quarter of 2020 of its remaining insured CDS contract carried at fair value, the Company used an internally developed Direct Price Model to value its insured credit derivative that incorporated 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 included the impact of its credit standing. The insured credit derivative was categorized in Level 3 of the fair value hierarchy based on unobservable inputs that were 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.

**MBIA Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**

**Note 7: Fair Value of Financial Instruments (continued)**

*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.

**Significant Unobservable Inputs**

The following tables provide quantitative information regarding the significant unobservable inputs used by the Company for assets and liabilities measured at fair value on a recurring basis as of December 31, 2020 and 2019:

In millions	Fair Value as of December 31, 2020	Valuation Techniques	Unobservable Input	Range (Weighted Average)
Assets of consolidated VIEs:				
Loans receivable at fair value	\$ 120	Market prices adjusted for financial guarantees provided to VIE obligations	Impact of financial guarantee <sup>(2)</sup>	-28%—109% (22%) <sup>(1)</sup>
Loan repurchase commitments	604	Discounted cash flow	Recovery value <sup>(3)</sup>	
Liabilities of consolidated VIEs:				
Variable interest entity notes	303	Market prices of VIE assets adjusted for financial guarantees provided	Impact of financial guarantee	30%—73% (57%) <sup>(1)</sup>
Other derivative liabilities	49	Discounted cash flow	Cash flows	\$49—\$49 (\$49)

(1)—Weighted average represents the total MBIA guarantees as a percentage of total instrument fair value.

(2)—Negative percentage represents financial guarantee policies in a receivable position.

(3)—Recovery value reflects an estimate of the amount to be awarded to the Company as part of litigation seeking to enforce its contractual rights.

In millions	Fair Value as of December 31, 2019	Valuation Techniques	Unobservable Input	Range (Weighted Average)
Assets of consolidated VIEs:				
Loans receivable at fair value	\$ 136	Market prices adjusted for financial guarantees provided to VIE obligations	Impact of financial guarantee <sup>(1)</sup>	-20%—99% (22%)
Loan repurchase commitments	486	Discounted cash flow	Recovery rates <sup>(2)</sup> Breach rates <sup>(2)</sup>	
Liabilities of consolidated VIEs:				
Variable interest entity notes	347	Market prices of VIE assets adjusted for financial guarantees provided	Impact of financial guarantee	37%—76% (61%)
Credit derivative liabilities—CMBS	7	Direct Price Model	Nonperformance risk	54%—54% (54%)
Other derivative liabilities	34	Discounted cash flow	Cash flows	\$0—\$49 (\$25) <sup>(3)</sup>

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

(2)—Recovery rates include assumptions about legal risk in the enforcement of the Company's contract and breach rates represent estimates of the percentage of ineligible loans.

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

**MBIA Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**

**Note 7: Fair Value of Financial Instruments (continued)**

**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 had been 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 would have been higher. This would have resulted in a lower fair value of the residential loans receivable in relation to the obligations of the VIE.

As of December 31, 2020, the significant unobservable input used in the fair value measurement of the Company's loan repurchase commitments of consolidated VIEs is a recovery value, which reflects an estimate of the amount to be awarded to the Company as part of litigation seeking to enforce its contractual rights. The Company's remaining loan repurchase commitments were settled in the first quarter of 2021 for \$600 million. As of December 31, 2019, the significant unobservable inputs used in the fair value measurement of the Company's loan repurchase commitments of consolidated VIEs are a breach rate, which represented the percentage of ineligible loans held within a trust, and a recovery rate, which reflected the estimate of future cash receipts including legal risk in the enforcement of the Company's contractual rights.

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. If the value of the guarantee provided by the Company to the obligations issued by the VIE had increased, the credit support would have added value to the liabilities of the VIE. This would have resulted in an increased fair value of the liabilities of the VIE.

As of December 31, 2019, the significant unobservable input used in the fair value measurement of MBIA Corp.'s CMBS credit derivative, which was 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 have resulted 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 have resulted in an increase or decrease in the fair value of the derivative liability, respectively. This derivative contract was settled in the first quarter of 2021 for an amount consistent with the amount reported at fair value as of December 31, 2020.

**MBIA Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**

**Note 7: Fair Value of Financial Instruments (continued)**

**Fair Value Measurements**

The following tables present the fair value of the Company's assets (including short-term investments) and liabilities measured and reported at fair value on a recurring basis as of December 31, 2020 and 2019:

In millions	Fair Value Measurements at Reporting Date Using			Balance as of December 31, 2020
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Assets:				
Fixed-maturity investments:				
U.S. Treasury and government agency	\$ 750	\$ 105	\$ —	\$ 855
State and municipal bonds	—	195	—	195
Foreign governments	—	15	—	15
Corporate obligations	—	975	—	975
Mortgage-backed securities:				
Residential mortgage-backed agency	—	319	—	319
Residential mortgage-backed non-agency	—	32	—	32
Commercial mortgage-backed	—	20	—	20
Asset-backed securities:				
Collateralized debt obligations	—	121	—	121
Other asset-backed	—	141	—	141
Total fixed-maturity investments	750	1,923	—	2,673
Money market securities	1	—	—	1
Perpetual debt and equity securities	37	25	—	62
Cash and cash equivalents	158	—	—	158
Derivative assets:				
Non-insured derivative assets:				
Interest rate derivatives	—	1	—	1

**MBIA Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**

**Note 7: Fair Value of Financial Instruments (continued)**

In millions	Fair Value Measurements at Reporting Date Using			Balance as of December 31, 2020
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Assets of consolidated VIEs:				
Corporate obligations	—	6	—	6
Mortgage-backed securities:				
Residential mortgage-backed non-agency	—	40	—	40
Commercial mortgage-backed	—	16	—	16
Asset-backed securities:				
Collateralized debt obligations	—	8	—	8
Other asset-backed	—	7	—	7
Cash	9	—	—	9
Loans receivable at fair value:				
Residential loans receivable	—	—	120	120
Loan repurchase commitments	—	—	604	604
Other assets:				
Currency derivatives	—	—	6	6
Other	—	—	14	14
<b>Total assets</b>	<b>\$ 955</b>	<b>\$ 2,026</b>	<b>\$ 744</b>	<b>\$ 3,725</b>
Liabilities:				
Medium-term notes	\$ —	\$ —	\$ 110	\$ 110
Derivative liabilities:				
Insured derivatives:				
Credit derivatives	—	2	—	2
Non-insured derivatives:				
Interest rate derivatives	—	164	—	164
Other	—	—	49	49
Liabilities of consolidated VIEs:				
Variable interest entity notes	—	47	303	350
<b>Total liabilities</b>	<b>\$ —</b>	<b>\$ 213</b>	<b>\$ 462</b>	<b>\$ 675</b>

**MBIA Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**

**Note 7: Fair Value of Financial Instruments (continued)**

In millions	Fair Value Measurements at Reporting Date Using			Balance as of December 31, 2019
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Assets:				
Fixed-maturity investments:				
U.S. Treasury and government agency	\$ 791	\$ 97	\$ —	\$ 888
State and municipal bonds	—	200	—	200
Foreign governments	—	10	—	10
Corporate obligations	—	1,266	—	1,266
Mortgage-backed securities:				
Residential mortgage-backed agency	—	330	—	330
Residential mortgage-backed non-agency	—	19	—	19
Commercial mortgage-backed	—	22	—	22
Asset-backed securities:				
Collateralized debt obligations	—	140	—	140
Other asset-backed	—	326	1	327
Total fixed-maturity investments	791	2,410	1	3,202
Money market securities	154	—	—	154
Perpetual debt and equity securities	30	25	—	55
Fixed-income fund	—	—	—	51 <sup>(1)</sup>
Cash and cash equivalents	75	—	—	75
Derivative assets:				
Non-insured derivative assets:				
Interest rate derivatives	—	1	—	1

**MBIA Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**

**Note 7: Fair Value of Financial Instruments (continued)**

In millions	Fair Value Measurements at Reporting Date Using			Balance as of December 31, 2019
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Assets of consolidated VIEs:				
Corporate obligations	—	8	—	8
Mortgage-backed securities:				
Residential mortgage-backed non-agency	—	45	—	45
Commercial mortgage-backed	—	16	—	16
Asset-backed securities:				
Collateralized debt obligations	—	6	—	6
Other asset-backed	—	8	—	8
Cash	8	—	—	8
Loans receivable at fair value:				
Residential loans receivable	—	—	136	136
Loan repurchase commitments	—	—	486	486
Other assets:				
Currency derivatives	—	—	8	8
Other	—	—	18	18
<b>Total assets</b>	<b>\$ 1,058</b>	<b>\$ 2,519</b>	<b>\$ 649</b>	<b>\$ 4,277</b>
Liabilities:				
Medium-term notes	\$ —	\$ —	\$ 108	\$ 108
Derivative liabilities:				
Insured derivatives:				
Credit derivatives	—	2	7	9
Non-insured derivatives:				
Interest rate derivatives	—	132	—	132
Other	—	—	34	34
Other liabilities:				
Other payable	—	—	4	4
Liabilities of consolidated VIEs:				
Variable interest entity notes	—	56	347	403
<b>Total liabilities</b>	<b>\$ —</b>	<b>\$ 190</b>	<b>\$ 500</b>	<b>\$ 690</b>

(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 December 31, 2020 and 2019 represented approximately 20% and 15%, respectively, of total assets measured at fair value. Level 3 liabilities at fair value as of December 31, 2020 and 2019 represented approximately 68% and 72%, respectively, of total liabilities measured at fair value.

The following tables present the fair values and carrying values of the Company's assets and liabilities that are disclosed at fair value but not reported at fair value on the Company's consolidated balance sheets as of December 31, 2020 and 2019. The majority of the financial assets and liabilities that the Company requires 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.



**MBIA Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**

**Note 7: Fair Value of Financial Instruments (continued)**

In millions	Fair Value Measurements at Reporting Date Using			Fair Value Balance as of December 31, 2020	Carry Value Balance as of December 31, 2020
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)		
<b>Liabilities:</b>					
Long-term debt	\$ —	\$ 631	\$ —	\$ 631	\$ 2,229
Medium-term notes	—	—	396	396	598
Investment agreements	—	—	376	376	269
<b>Liabilities of consolidated VIEs:</b>					
Variable interest entity notes	—	276	—	276	273
<b>Total liabilities</b>	<b>\$ —</b>	<b>\$ 907</b>	<b>\$ 772</b>	<b>\$ 1,679</b>	<b>\$ 3,369</b>
<b>Financial Guarantees:</b>					
Gross liability (recoverable)	\$ —	\$ —	\$ 811	\$ 811	\$ (282)
Ceded recoverable (liability)	—	—	45	45	(17)
In millions	Fair Value Measurements at Reporting Date Using			Fair Value Balance as of December 31, 2019	Carry Value Balance as of December 31, 2019
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)		
<b>Assets:</b>					
<b>Assets of consolidated VIEs:</b>					
Investments held-to-maturity	\$ —	\$ —	\$ 892	\$ 892	\$ 890
<b>Total assets</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 892</b>	<b>\$ 892</b>	<b>\$ 890</b>
<b>Liabilities:</b>					
Long-term debt	\$ —	\$ 1,073	\$ —	\$ 1,073	\$ 2,228
Medium-term notes	—	—	396	396	570
Investment agreements	—	—	394	394	304
<b>Liabilities of consolidated VIEs:</b>					
Variable interest entity notes	—	261	892	1,153	1,136
<b>Total liabilities</b>	<b>\$ —</b>	<b>\$ 1,334</b>	<b>\$ 1,682</b>	<b>\$ 3,016</b>	<b>\$ 4,238</b>
<b>Financial Guarantees:</b>					
Gross liability (recoverable)	\$ —	\$ —	\$ 556	\$ 556	\$ (311)
Ceded recoverable (liability)	—	—	56	56	24

**MBIA Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**

**Note 7: Fair Value of Financial Instruments (continued)**

The following tables present information about changes in Level 3 assets (including short-term investments) and liabilities measured at fair value on a recurring basis for the years ended December 31, 2020 and 2019:

**Changes in Level 3 Assets and Liabilities Measured at Fair Value on a Recurring Basis for the Year Ended December 31, 2020**

In millions	Balance, Beginning of Year	Total Gains / (Losses) Included in Earnings	Unrealized Gains / (Losses) Included in OCI <sup>(1)</sup>	Purchases	Issuances	Settlements	Sales	Transfers into Level 3	Transfers out of Level 3	Ending Balance	Change in Unrealized Gains (Losses) for the Period Included in Earnings for Assets still held as of December 31, 2020	Change in Unrealized Gains (Losses) for the Period Included in OCI for Assets still held as of December 31, 2020 <sup>(1)</sup>
Assets:												
Other asset-backed	\$ 1	\$ —	\$ —	\$ —	\$ —	\$ —	(1)	\$ —	\$ —	\$ —	\$ —	\$ —
Assets of consolidated VIEs:												
Loans receivable-residential	136	—	—	—	—	(16)	—	—	—	120	(4)	—
Loan repurchase commitments	486	118	—	—	—	—	—	—	—	604	118	—
Currency derivatives	8	(2)	—	—	—	—	—	—	—	6	(2)	—
Other	18	(4)	—	—	—	—	—	—	—	14	(4)	—
Total assets	\$ 649	\$ 112	\$ —	\$ —	\$ —	(17)	\$ —	\$ —	\$ —	\$ 744	\$ 108	\$ —

In millions	Balance, Beginning of Year	Total (Gains) / Losses Included in Earnings	Unrealized (Gains) / Losses Included in Credit Risk in OCI <sup>(2)</sup>	Purchases	Issuances	Settlements	Sales	Transfers into Level 3	Transfers out of Level 3	Ending Balance	Change in Unrealized (Gains) Losses for the Period Included in Earnings for Liabilities still held as of December 31, 2020	Change in Unrealized (Gains) Losses for the Period Included in OCI for Liabilities still held as of December 31, 2020 <sup>(2)</sup>
Liabilities:												
Medium-term notes	\$ 108	\$ 15	\$ (13)	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 110	\$ 15	\$ (13)
Credit derivatives	7	(6)	—	—	—	(1)	—	—	—	—	—	—
Other derivatives	34	15	—	—	—	—	—	—	—	49	15	—
Other payable	4	—	—	—	—	(4)	—	—	—	—	—	—
Liabilities of consolidated VIEs:												
VIE notes	347	11	(40)	—	—	(15)	—	—	—	303	5	(38)
Total liabilities	\$ 500	\$ 35	\$ (53)	\$ —	\$ —	(20)	\$ —	\$ —	\$ —	\$ 462	\$ 35	\$ (51)

(1)—Reported within the “Unrealized gains (losses) on available-for-sale securities” on MBIA’s Consolidated Statement of Comprehensive Income/Loss.

(2)—Reported within the “Instrument-specific credit risk of liabilities measured at fair value” on MBIA’s Consolidated Statement of Comprehensive Income/Loss.

**Changes in Level 3 Assets and Liabilities Measured at Fair Value on a Recurring Basis for the Year Ended December 31, 2019**

In millions	Balance, Beginning of Year	Total Gains / (Losses) Included in Earnings	Unrealized Gains / (Losses) Included in OCI	Purchases	Issuances	Settlements	Sales	Transfers into Level 3 <sup>(1)</sup>	Transfers out of Level 3 <sup>(1)</sup>	Ending Balance	Change in Unrealized Gains (Losses) for the Period Included in Earnings for Assets still held as of December 31, 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	35	—	—	—	(23)	(48)	—	—	136	26
Loan repurchase commitments	418	68	—	—	—	—	—	—	—	486	68
Currency derivatives	17	(9)	—	—	—	—	—	—	—	8	(9)
Other	14	4	—	—	—	—	—	—	—	18	4
Total assets	\$ 637	\$ 97	\$ (1)	\$ —	\$ —	(29)	\$(49)	\$ —	\$ (6)	\$ 649	\$ 89

**MBIA Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**

**Note 7: Fair Value of Financial Instruments (continued)**

In millions	Balance, Beginning of Year	Total (Gains) / Losses Included in Earnings	Unrealized (Gains) / Losses Included in OCI	Purchases	Issuances	Settlements	Sales	Transfers into Level 3 <sup>(1)</sup>	Transfers out of Level 3 <sup>(1)</sup>	Ending Balance	Change in Unrealized (Gains) Losses for the Period Included in Earnings for Liabilities still held
											as of December 31, 2019
<b>Liabilities:</b>											
Medium-term notes	\$ 102	\$ —	\$ 6	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 108	\$ —
Credit derivatives	33	(15)	—	—	—	(11)	—	—	—	7	(25)
Other derivatives	7	27	—	—	—	—	—	—	—	34	27
Other payable	5	2	—	—	—	(3)	—	—	—	4	2
Liabilities of consolidated VIEs: VIE notes	366	45	11	—	10	(25)	(60)	—	—	347	21
<b>Total liabilities</b>	<b>\$ 513</b>	<b>\$ 59</b>	<b>\$ 17</b>	<b>\$ —</b>	<b>\$ 10</b>	<b>\$ (39)</b>	<b>\$(60)</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 500</b>	<b>\$ 25</b>

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

For the year ended December 31, 2019, 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 year ended December 31, 2019, there were no transfers into Level 3 and out of Level 2. CMBS and corporate obligations comprised 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.

Gains and losses (realized and unrealized) included in earnings relating to Level 3 assets and liabilities for the years ended December 31, 2020, 2019 and 2018 are reported on the Company’s consolidated statements of operations as follows:

In millions	Total Gains (Losses) Included in Earnings			Change in Unrealized Gains (Losses) for the Period Included in Earnings for Assets and Liabilities still held as of December 31,		
	2020	2019	2018	2020	2019	2018
<b>Revenues:</b>						
Unrealized gains (losses) on insured derivatives	\$ 7	\$ 25	\$ 30	\$ —	\$ 25	\$ 30
Realized gains (losses) and other settlements on insured derivatives	(1)	(10)	(56)	—	—	—
Net gains (losses) on financial instruments at fair value and foreign exchange	(30)	(26)	17	(30)	(27)	8
Net investment losses related to other-than-temporary impairments	—	(1)	—	—	—	—
Other net realized gains (losses)	—	(2)	(1)	—	(2)	(1)
<b>Revenues of consolidated VIEs:</b>						
Net gains (losses) on financial instruments at fair value and foreign exchange	101	53	25	103	68	17
<b>Total</b>	<b>\$ 77</b>	<b>\$ 39</b>	<b>\$ 15</b>	<b>\$ 73</b>	<b>\$ 64</b>	<b>\$ 54</b>

**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.

**MBIA Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**

**Note 7: Fair Value of Financial Instruments (continued)**

The following table presents the gains and (losses) included in the Company's consolidated statements of operations for the years ended December 31, 2020, 2019 and 2018 for financial instruments for which the fair value option was elected:

In millions	Years Ended December 31,		
	2020	2019	2018
Investments carried at fair value <sup>(1)</sup>	\$ 2	\$ 15	\$ (11)
Fixed-maturity securities held at fair value-VIE <sup>(2)</sup>	4	95	(25)
Loans receivable and other instruments at fair value:			
Residential mortgage loans <sup>(2)</sup>	—	35	(100)
Corporate loans and other instruments <sup>(2)</sup>	—	—	11
Loan repurchase commitments <sup>(2)</sup>	118	68	12
Other assets-VIE <sup>(2)</sup>	(4)	4	—
Medium-term notes <sup>(1)</sup>	(15)	1	19
Other liabilities <sup>(3)</sup>	—	(2)	(2)
Variable interest entity notes <sup>(2)</sup>	(12)	(89)	118

(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.

The following table reflects the difference between the aggregate fair value and the aggregate remaining contractual principal balance outstanding as of December 31, 2020 and 2019 for loans and notes for which the fair value option was elected:

In millions	As of December 31, 2020			As of December 31, 2019		
	Contractual Outstanding Principal	Fair Value	Difference	Contractual Outstanding Principal	Fair Value	Difference
Loans receivable at fair value:						
Residential mortgage loans—current	\$ 89	\$ 89	\$ —	\$ 107	\$107	\$ —
Residential mortgage loans (90 days or more past due)	147	31	116	154	29	125
Total loans receivable and other instruments at fair value	\$ 236	\$120	\$ 116	\$ 261	\$136	\$ 125
Variable interest entity notes	\$ 1,117	\$350	\$ 767	\$ 1,126	\$403	\$ 723
Medium-term notes	\$ 122	\$110	\$ 12	\$ 112	\$108	\$ 4

The differences 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 (90 days or more past due), 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.

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

As of December 31, 2020 and 2019, the cumulative changes in instrument-specific credit risk of liabilities elected under the fair value option were losses of \$51 million and \$107 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 years ended December 31, 2020, 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 \$6 million, \$28 million and \$97 million, respectively.

**MBIA Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**

**Note 8: Investments**

Investments, excluding those elected under the fair value option, include debt and equity securities classified as AFS.

The following table presents the amortized cost, allowance for credit losses, corresponding gross unrealized gains and losses and fair value for AFS investments in the Company's consolidated investment portfolio as of December 31, 2020:

In millions	December 31, 2020				
	Amortized Cost	Allowance for Credit Losses	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>AFS Investments</b>					
Fixed-maturity investments:					
U.S. Treasury and government agency	\$ 775	\$ —	\$ 75	\$ (1)	\$ 849
State and municipal bonds	162	—	32	—	194
Foreign governments	11	—	1	—	12
Corporate obligations	827	—	64	(1)	890
Mortgage-backed securities:					
Residential mortgage-backed agency	305	—	8	(1)	312
Residential mortgage-backed non-agency	22	—	3	—	25
Commercial mortgage-backed	17	—	1	—	18
Asset-backed securities:					
Collateralized debt obligations	120	—	—	(2)	118
Other asset-backed	121	—	—	—	121
Total AFS investments	<u>\$ 2,360</u>	<u>\$ —</u>	<u>\$ 184</u>	<u>\$ (5)</u>	<u>\$2,539</u>

**MBIA Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**

**Note 8: Investments (continued)**

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

In millions	December 31, 2019				Other-Than-Temporary Impairments <sup>(1)</sup>
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	
<b>AFS Investments</b>					
Fixed-maturity investments:					
U.S. Treasury and government agency	\$ 838	\$ 46	\$ (2)	\$ 882	\$ —
State and municipal bonds	178	22	—	200	—
Foreign governments	8	1	—	9	—
Corporate obligations	1,140	52	(1)	1,191	—
Mortgage-backed securities:					
Residential mortgage-backed agency	317	3	—	320	—
Residential mortgage-backed non-agency	23	1	(5)	19	—
Commercial mortgage-backed	20	—	—	20	—
Asset-backed securities:					
Collateralized debt obligations	139	—	(2)	137	—
Other asset-backed	321	1	(1)	321	—
Total AFS investments	<u>\$ 2,984</u>	<u>\$ 126</u>	<u>\$ (11)</u>	<u>\$3,099</u>	<u>\$ —</u>
<b>HTM Investments</b>					
Assets of consolidated VIEs:					
Corporate obligations	\$ 890	\$ 2	\$ —	\$ 892	\$ —
Total HTM investments	<u>\$ 890</u>	<u>\$ 2</u>	<u>\$ —</u>	<u>\$ 892</u>	<u>\$ —</u>

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

HTM investments declined due to the early redemption of assets and liabilities within structured finance VIEs that were deconsolidated during 2020.

The following table presents the distribution by contractual maturity of AFS fixed-maturity securities at amortized cost, net of allowance for credit losses, and fair value as of December 31, 2020. Contractual maturity may differ from expected maturity as borrowers may have the right to call or prepay obligations.

In millions	AFS Securities	
	Net Amortized Cost	Fair Value
Due in one year or less	\$ 509	\$ 511
Due after one year through five years	363	379
Due after five years through ten years	266	296
Due after ten years	637	759
Mortgage-backed and asset-backed	585	594
Total fixed-maturity investments	<u>\$ 2,360</u>	<u>\$2,539</u>

**Deposited and Pledged Securities**

The fair value of securities on deposit with various regulatory authorities as of December 31, 2020 and 2019 was \$11 million. These deposits are required to comply with state insurance laws.

**MBIA Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**

**Note 8: Investments (continued)**

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 December 31, 2020 and 2019, the fair value of securities pledged as collateral for these investment agreements approximated \$282 million and \$313 million, respectively. The Company's collateral as of December 31, 2020 consisted principally of U.S. Treasury and government agency and corporate obligations, and was primarily held with major U.S. banks.

Refer to "Note 9: Derivative Instruments" for information about securities posted to derivative counterparties.

**Impaired Investments**

The following tables present the non-credit related gross unrealized losses related to AFS investments as of December 31, 2020 and 2019:

In millions	December 31, 2020					
	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<b>AFS Investments</b>						
Fixed-maturity investments:						
U.S. Treasury and government agency	\$ 99	\$ (1)	\$ —	\$ —	\$ 99	\$ (1)
Foreign governments	2	—	—	—	2	—
Corporate obligations	103	(1)	7	—	110	(1)
Mortgage-backed securities:						
Residential mortgage-backed agency	53	(1)	—	—	53	(1)
Residential mortgage-backed non-agency	2	—	1	—	3	—
Commercial mortgage-backed	—	—	5	—	5	—
Asset-backed securities:						
Collateralized debt obligations	37	—	78	(2)	115	(2)
Other asset-backed	29	—	—	—	29	—
<b>Total AFS investments</b>	<b>\$ 325</b>	<b>\$ (3)</b>	<b>\$ 91</b>	<b>\$ (2)</b>	<b>\$ 416</b>	<b>\$ (5)</b>

In millions	December 31, 2019					
	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<b>AFS Investments</b>						
Fixed-maturity investments:						
U.S. Treasury and government agency	\$ 148	\$ (1)	\$ 79	\$ (1)	\$ 227	\$ (2)
State and municipal bonds	11	—	15	—	26	—
Corporate obligations	53	(1)	10	—	63	(1)
Mortgage-backed securities:						
Residential mortgage-backed agency	62	—	7	—	69	—
Residential mortgage-backed non-agency	—	—	11	(5)	11	(5)
Commercial mortgage-backed	5	—	—	—	5	—
Asset-backed securities:						
Collateralized debt obligations	44	—	77	(2)	121	(2)
Other asset-backed	48	(1)	7	—	55	(1)
<b>Total AFS investments</b>	<b>\$ 371</b>	<b>\$ (3)</b>	<b>\$ 206</b>	<b>\$ (8)</b>	<b>\$ 577</b>	<b>\$ (11)</b>

**MBIA Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**

**Note 8: Investments (continued)**

Gross unrealized losses on AFS investments decreased as of December 31, 2020 compared with December 31, 2019 primarily due to lower interest rates, partially offset by widening credit spreads.

With the weighting applied on the fair value of each security relative to the total fair value, the weighted average contractual maturity of securities in an unrealized loss position as of December 31, 2020 and 2019 was 9 and 10 years, respectively. As of December 31, 2020 and 2019, there were 42 and 63 securities, respectively, that were in an unrealized loss position for a continuous twelve-month period or longer, of which, fair values of 9 and 16 securities, respectively, were below book value by more than 5%.

The following table presents the distribution of securities in an unrealized loss position for a continuous twelve-month period or longer where fair value was below book value by more than 5% as of December 31, 2020:

Percentage of Fair Value Below Book Value	AFS Securities		
	Number of Securities	Book Value (in millions)	Fair Value (in millions)
> 5% to 15%	6	\$ 3	\$ 3
> 15% to 25%	1	—	—
> 50%	2	—	—
Total	9	\$ 3	\$ 3

Impaired securities that the Company intends to sell before the expected recovery of such securities' fair values have been written down to fair value. During the second quarter of 2020, the Company impaired intent to sell securities in an unrealized loss position to fair value. These securities were subsequently sold in the third quarter of 2020. As of December 31, 2020, the Company concluded that it does not have the intent to sell securities in an unrealized loss position and it is more likely than not, that it would not have to sell these securities before recovery of their cost basis. In making this conclusion, the Company examined the cash flow projections for its investment portfolios, the potential sources and uses of cash in its businesses, and the cash resources available to its business other than sales of securities. It also considered the existence of any risk management or other plans as of December 31, 2020 that would require the sale of impaired securities.

**Credit Losses on Investments**

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

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

**Determination of Credit Losses on ABS, MBS and Corporate Obligations**

AFS ABS investments are evaluated for credit loss using historical collateral performance, deal waterfall and structural protections, credit ratings, and forward looking projections of collateral performance based on business and economic conditions specific to each collateral type and risk. The underlying collateral is evaluated to identify any specific performance concerns, and stress scenarios are considered in forecasting ultimate returns of principal. Based on this evaluation, if a principal default is projected for a security, estimated future cash flows are discounted at the security's effective interest rate used to recognize interest income on the security. For CDO



**MBIA Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**

**Note 8: Investments (continued)**

investments, the Company uses the same tools as its RMBS investments discussed below, aggregating the bond level cash flows to the CDO investment level. If the present value of cash flows is less than the Company's amortized cost for the security, the difference is recorded as a credit loss.

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

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

For HTM corporate obligation investments, credit losses are evaluated based on quarterly estimates of the probability-weighted amount of principal and interest cash flows expected to be collected over the estimated remaining lives of the security. Developing the Company's probability-weighted expected future cash flows is a quantitative and qualitative process that incorporates information received from third-party sources along with certain internal assumptions regarding the future performance. The Company's considerations include, but are not limited to, (a) changes in the financial conditions of the security's underlying collateral, (b) whether the issuer is current on contractually obligated interest and principal payments, (c) changes in the financial condition, credit rating and near-term prospects of the issuer, (d) level of excess cash flows generated from the underlying collateral supporting the principal and interest payments of the security. Estimates of collectability require the use of significant management judgment and include the probability and timing of issuer's default and loss severity estimates. In addition, cash flow projections may change when these factors are reviewed and updated as appropriate.

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

The Company does not recognize credit losses on securities insured by MBIA Corp. and National since those securities, whether or not owned by the Company, are evaluated for impairments in accordance with its loss reserving policy. Refer to "Note 2: Significant Accounting Policies" included herein for information about the Company's loss reserving policy and "Note 6: Loss and Loss Adjustment Expense Reserves" for information about loss reserves.

**MBIA Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**

**Note 8: Investments (continued)**

The following table provides information about securities held by the Company as of December 31, 2020 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. The Company did not hold any securities in an unrealized loss position that were insured by a third-party financial guarantor as of December 31, 2020.

In millions	Fair Value	Unrealized Loss	Insurance Loss Reserve <sup>(1)</sup>
Mortgage-backed	\$ 3	\$ —	\$ 1
Total	\$ 3	\$ —	\$ 1

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

*Allowance for Credit Losses Rollforward*

The Company did not establish an allowance for credit losses for AFS securities as of December 31, 2020 or purchase any credit-deteriorated assets for the year ended December 31, 2020.

The following table presents the rollforward of the allowance for credit losses on HTM investments for the year ended December 31, 2020. As of December 31, 2020, the allowance for credit losses was reduced to zero as a result of the repayment of the assets, at par, during the fourth quarter of 2020.

In millions	Year Ended December 31, 2020					Balance as of December 31, 2020
	Balance as of January 1, 2020 <sup>(1)</sup>	Current period provision for expected credit losses	Initial allowance recognized for PCD assets	Write-Offs	Recoveries	
<b>HTM Investments</b>						
Assets of consolidated VIEs:						
Corporate obligations	\$ 37	\$ (37)	\$ —	\$ —	\$ —	\$ —
Total Allowance on HTM investments	\$ 37	\$ (37)	\$ —	\$ —	\$ —	\$ —

(1)—Represents transition adjustment upon adoption of ASU 2016-13.

*Credit Loss Rollforward for AFS*

The portion of certain unrealized losses on fixed-maturity securities that does not represent credit losses is recognized in AOCI. For these impairments, the net amount recognized in earnings represents the difference between the amortized cost of the security and the net present value of its projected future discounted cash flows prior to impairment. Any remaining difference between the fair value and amortized cost is recognized in AOCI. The following table presents the amount of credit loss impairments recognized in earnings on fixed-maturity securities held by MBIA as of the dates indicated, for which a portion of the non-credit related losses was recognized in AOCI, and the corresponding changes in such amounts. The additional credit loss impairments on securities previously impaired for the year ended December 31, 2018 primarily related to a corporate obligation that incurred liquidity concerns, ongoing credit risk and other adverse financial conditions. In 2019, due to the

**MBIA Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**

**Note 8: Investments (continued)**

Company's intent to sell, this security was impaired to fair value with any incremental impairment recorded as a credit loss impairments in earnings, as well as a reduction of inception-to-date recognized credit loss impairments.

In millions	Years Ended December 31,	
	2019	2018
<b>Credit Losses Recognized in Earnings Related to OTTI</b>		
Beginning balance	\$ 37	\$ 32
Additions for credit loss impairments recognized in the current period on securities previously impaired	67	5
Reductions for credit loss impairments previously recognized on securities impaired to fair value during the period	(104)	—
Ending balance	\$ —	\$ 37

**Sales of Available-for-Sale Investments**

Gross realized gains and losses are recorded within "Net gains (losses) on financial instruments at fair value and foreign exchange" on the Company's consolidated statements of operations. The proceeds and the gross realized gains and losses from sales of fixed-maturity securities held as AFS for the years ended December 31, 2020, 2019 and 2018 are as follows:

In millions	Years Ended December 31,		
	2020	2019	2018
Proceeds from sales	\$ 1,095	\$ 2,195	\$ 2,117
Gross realized gains	\$ 59	\$ 103	\$ 6
Gross realized losses	\$ (15)	\$ (4)	\$ (19)

**Equity Investments**

Unrealized gains and losses recognized on equity investments held as of the end of each period for the years ended December 31, 2020, 2019 and 2018 are as follows:

In millions	Years Ended December 31,		
	2020	2019	2018
Net gains and (losses) recognized during the period on equity securities	\$ 3	\$ 11	\$(4)
Less:			
Net gains and (losses) recognized during the period on equity securities sold during the period	(1)	1	1
Unrealized gains and (losses) recognized during the period on equity securities still held at the reporting date	\$ 4	\$ 10	\$(5)

**Note 9: Derivative Instruments**

**U.S. Public Finance Insurance**

The Company's derivative exposure within its U.S. public finance insurance operations primarily consists of insured interest rate and inflation-linked swaps related to insured U.S. public finance debt issues. These derivatives do not qualify for the financial guarantee scope exception and are accounted for as derivative instruments. Changes in the fair values of the Company's insured derivatives within its U.S. Public Finance segment are included in "Net change in fair value of insured derivatives" on the Company's consolidated statements of operations.

**MBIA Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**

**Note 9: Derivative Instruments (continued)**

**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. Changes in the fair values of the Company's derivatives within its Corporate segment are included in "Net gains (losses) on financial instruments at fair value and foreign exchange" on the Company's consolidated statements of operations.

**International and Structured Finance Insurance**

During the fourth quarter of 2020, the Company terminated its remaining insured CDS contract carried at fair value, which was entered into to provide financial guarantee insurance to a structured finance transaction that did not qualify for the financial guarantee insurance scope exception. As of December 31, 2020, the Company's derivative exposure within its international and structured finance insurance segment includes insured interest rate and inflation-linked swaps related to insured debt issues. Changes in the fair values of the Company's insured derivatives within its International and Structured Finance segment are included in "Net change in fair value of insured derivatives" on the Company's consolidated statements of operations.

The Company has also entered into a derivative contract in connection with the commutation of certain insurance exposure, which occurred in 2014. Changes in the fair value of this 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. This derivative contract was settled in the first quarter of 2021 for an amount consistent with the amount reported at fair value as of December 31, 2020.

**Variable Interest Entities**

A VIE consolidated by the Company is party to a cross currency swap, which was entered into to manage the variability in cash flows resulting from fluctuations in foreign currency rates. Changes in the fair value of the VIE derivative are included in "Net gains (losses) on financial instruments at fair value and foreign exchange-VIE" on the Company's consolidated statements of operations.

**Credit Derivatives Sold**

The following tables present information about credit derivatives sold by the Company's insurance operations that were outstanding as of December 31, 2020 and 2019. Credit ratings represent the lower of underlying ratings assigned to the collateral by Moody's Investor Services ("Moody's"), Standard & Poor's Financial Services, LLC ("S&P") or MBIA.

<u>\$ in millions</u>	<u>As of December 31, 2020</u>							
	<u>Weighted Average Remaining Expected Maturity</u>	<u>Notional Value</u>					<u>Fair Value Asset (Liability)</u>	
<u>Credit Derivatives Sold</u>		<u>AAA</u>	<u>AA</u>	<u>A</u>	<u>BBB</u>	<u>Below Investment Grade</u>	<u>Total Notional</u>	
Insured swaps	13.9 Years	\$ —	\$58	\$1,327	\$358	\$ —	\$ 1,743	\$ (2)
Total notional		<u>\$ —</u>	<u>\$58</u>	<u>\$1,327</u>	<u>\$358</u>	<u>\$ —</u>	<u>\$ 1,743</u>	
Total fair value		<u>\$ —</u>	<u>\$ —</u>	<u>\$ (1)</u>	<u>\$ (1)</u>	<u>\$ —</u>		<u>\$ (2)</u>

**MBIA Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**

**Note 9: Derivative Instruments (continued)**

<u>\$ in millions</u>	As of December 31, 2019							
	Notional Value						Total Notional	Fair Value Asset (Liability)
Credit Derivatives Sold	Weighted Average Remaining Expected Maturity	AAA	AA	A	BBB	Below Investment Grade		
Insured credit default swaps	1.0 Years	\$ —	\$ —	\$ —	\$ —	\$ 32	\$ 32	\$ (7)
Insured swaps	14.0 Years	—	121 <sup>(1)</sup>	1,371 <sup>(2)</sup>	433 <sup>(3)</sup>	—	1,925 <sup>(4)</sup>	(2)
Total notional		<u>\$ —</u>	<u>\$121</u>	<u>\$1,371</u>	<u>\$433</u>	<u>\$ 32</u>	<u>\$ 1,957</u>	
Total fair value		<u>\$ —</u>	<u>\$ —</u>	<u>\$ (1)</u>	<u>\$ (1)</u>	<u>\$ (7)</u>		<u>\$ (9)</u>

(1)—The Company revised its previously reported amount of \$66 million to \$121 million.

(2)—The Company revised its previously reported amount of \$1,284 million to \$1,371 million.

(3)—The Company revised its previously reported amount of \$445 million to \$433 million.

(4)—The Company revised its previously reported amount of \$1,795 million to \$1,925 million.

Internal credit ratings assigned by MBIA on the underlying credit exposures are assigned 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. The maximum potential amount of future payments (undiscounted) on insured swaps that are primarily insured interest rate swaps is estimated as the net interest settlements plus principal payments where applicable, on amortizing swaps.

MBIA may hold recourse provisions through subrogation rights of the swap counterparty, whereby if MBIA makes a claim payment, it may be entitled to receive net swap settlements from the issuer under the swap agreement.

**Counterparty Credit Risk**

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

Under these agreements, the Company may receive or provide cash, U.S. Treasury or other highly rated securities to secure counterparties' exposure to the Company or its exposure to counterparties, respectively. Such collateral is available to the holder to pay for replacing the counterparty in the event that the counterparty defaults. As of December 31, 2020 and 2019, the Company did not hold or post cash collateral to derivative counterparties.

As of December 31, 2020 and 2019, the Company had securities with a fair value of \$214 million and \$181 million, respectively, posted to derivative counterparties and these amounts are included within "Fixed-maturity securities held as available-for-sale, at fair value" on the Company's consolidated balance sheets.

As of December 31, 2020 and 2019, the fair value on one Credit Support Annex ("CSA") was \$1 million. This CSA governs collateral posting requirements between MBIA and its derivative counterparties. The Company did not receive collateral due to the Company's credit rating, which was below the CSA minimum credit ratings level for holding counterparty collateral. As of December 31, 2020 and 2019, the counterparty was rated Aa3 by Moody's and A+ by S&P.

**MBIA Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**

**Note 9: Derivative Instruments (continued)**

**Financial Statement Presentation**

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

The following table presents the total fair value of the Company's derivative assets and liabilities by instrument and balance sheet location, before counterparty netting, as of December 31, 2020:

<u>In millions</u>	<u>Notional Amount Outstanding</u>	<u>Derivative Assets<sup>(1)</sup></u>		<u>Derivative Liabilities<sup>(1)</sup></u>	
		<u>Balance Sheet Location</u>	<u>Fair Value</u>	<u>Balance Sheet Location</u>	<u>Fair Value</u>
<b>Derivative Instruments</b>					
Not designated as hedging instruments:					
Insured swaps	\$ 1,743	Other assets	\$ —	Derivative liabilities	\$ (2)
Interest rate swaps	437	Other assets	1	Derivative liabilities	(164)
Interest rate swaps-embedded	252	Medium-term notes	—	Medium-term notes	(10)
Currency swaps-VIE	53	Other assets-VIE	6	Derivative liabilities-VIE	—
All other	49	Other assets	—	Derivative liabilities	(49)
Total non-designated derivatives	<u>\$ 2,534</u>		<u>\$ 7</u>		<u>\$(225)</u>

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

The following table presents the total fair value of the Company's derivative assets and liabilities by instrument and balance sheet location, before counterparty netting, as of December 31, 2019:

<u>In millions</u>	<u>Notional Amount Outstanding</u>	<u>Derivative Assets<sup>(1)</sup></u>		<u>Derivative Liabilities<sup>(1)</sup></u>	
		<u>Balance Sheet Location</u>	<u>Fair Value</u>	<u>Balance Sheet Location</u>	<u>Fair Value</u>
<b>Derivative Instruments</b>					
Not designated as hedging instruments:					
Insured credit default swaps	\$ 32	Other assets	\$ —	Derivative liabilities	\$ (7)
Insured swaps	1,925 <sup>(2)</sup>	Other assets	—	Derivative liabilities	(2)
Interest rate swaps	441	Other assets	1	Derivative liabilities	(132)
Interest rate swaps-embedded	232	Medium-term notes	—	Medium-term notes	(15)
Currency swaps-VIE	58	Other assets-VIE	8	Derivative liabilities-VIE	—
All other	49	Other assets	—	Derivative liabilities	(34)
Total non-designated derivatives	<u>\$ 2,737</u>		<u>\$ 9</u>		<u>\$(190)</u>

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

(2)—The Company revised its previously reported amount of \$1,795 million to \$1,925 million.

**MBIA Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**

**Note 9: Derivative Instruments (continued)**

The following table presents the effect of derivative instruments on the consolidated statements of operations for the years ended December 31, 2020, 2019 and 2018:

<u>In millions</u>		<u>Years Ended December 31,</u>		
<u>Derivatives Not Designated as Hedging Instruments</u>	<u>Location of Gain (Loss) Recognized in Income on Derivative</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Insured credit default swaps	Unrealized gains (losses) on insured derivatives	\$ 7	\$ 25	\$ 31
Insured credit default swaps	Realized gains (losses) and other settlements on insured derivatives	(1)	(10)	(56)
Interest rate swaps	Net gains (losses) on financial instruments at fair value and foreign exchange	(42)	(66)	4
Currency swaps-VIE	Net gains (losses) on financial instruments at fair value and foreign exchange-VIE	(2)	(8)	(2)
All other	Net gains (losses) on financial instruments at fair value and foreign exchange	(15)	(26)	(4)
Total		<u>\$(53)</u>	<u>\$(85)</u>	<u>\$(27)</u>

**Note 10: Debt**

**Long-Term Debt**

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

<u>In millions</u>	<u>As of December 31,</u>	
	<u>2020</u>	<u>2019</u>
6.400% Senior Notes due 2022	\$ —	\$ 115
7.000% Debentures due 2025	46	46
7.150% Debentures due 2027	100	100
6.625% Debentures due 2028	141	141
5.700% Senior Notes due 2034 <sup>(1)</sup>	21	21
Surplus Notes due 2033 <sup>(2)</sup>	940	940
Accrued interest	991	877
Debt issuance costs	(10)	(12)
Total	<u>\$ 2,229</u>	<u>\$ 2,228</u>

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

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

During 2020 and 2019, the Company redeemed \$115 million and \$150 million, respectively, principal amount of its 6.400% Senior Notes due 2022 at a cost of 100% of par value plus accrued interest. In addition to the preceding table, as of December 31, 2020, National owned \$308 million principal amount of the 5.700% Senior Notes due 2034 and \$10 million principal amount of MBIA Inc. 7.000% Debentures due 2025, and MBIA Inc., through its corporate segment, owned \$13 million of MBIA Corp. surplus notes. These amounts are eliminated in the Company's consolidated financial statements.

Interest and principal payments on the surplus notes are subject to prior approval by the NYSDFS. From the January 15, 2013 interest payment to the present, MBIA Corp.'s requests for approval of the note interest payments have not been approved by the NYSDFS. MBIA Corp. provides notice to the Fiscal Agent when it will not make a scheduled interest payment. The deferred interest payment will become due on the first business day on or after which MBIA Corp. obtains approval to make such payment. No interest will accrue on the deferred interest. The surplus notes were callable at par at the option of MBIA Corp. on the fifth anniversary of the date of issuance, and are callable at par on January 15, 2023 and every fifth anniversary thereafter and are callable on

**MBIA Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**

**Note 10: Debt (continued)**

any other date at par plus a make-whole amount, subject to prior approval by the Superintendent and other restrictions. The cash received from the issuance of surplus notes was used for general business purposes and the deferred debt issuance costs are being amortized over the term of the surplus notes.

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

In millions	2021	2022	2023	2024	2025	Thereafter	Total
Corporate debt	\$ —	\$ —	\$ —	\$ —	\$ 46	\$ 262	\$ 308
Surplus Notes due 2033	—	—	—	—	—	940	940
Total debt obligations due	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 46</u>	<u>\$ 1,202</u>	<u>\$1,248</u>

**Investment Agreements**

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

Investment agreements have been issued with fixed interest rates in U.S. dollars. As of December 31, 2020 and 2019, the annual interest rates on these agreements ranged from 4.78% to 6.88% and the weighted average interest rates were 5.86%. Expected principal payments due under these investment agreements in each of the next five years ending December 31, and thereafter, based upon contractual maturity dates, are as follows:

In millions	Principal Amount
Maturity date:	
2021	\$ 2
2022	3
2023	19
2024	23
2025	35
Thereafter (through 2037)	<u>225</u>
Total expected principal payments <sup>(1)</sup>	\$ 307
Less discount and other adjustments <sup>(2)</sup>	<u>38</u>
Total	<u>\$ 269</u>

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

(2)—Discount is net of carrying amount adjustment of \$3 million and accrued interest adjustment of \$4 million.



**MBIA Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**

**Note 10: Debt (continued)**

**Medium-Term Notes**

MTNs are denominated in U.S. dollars or non-USD currencies and accrue interest based on fixed or floating interest rates. Certain MTNs are measured at fair value in accordance with the accounting guidance in Accounting Standards Codification (“ASC”) Topic 815, “Derivatives and Hedging”. As of December 31, 2020 and 2019, the interest rates of the MTNs ranged from 0% to 6.00% and the weighted average interest rates were 2.97% and 3.07%, respectively. Expected principal payments due under MTN obligations based on their contractual maturity dates are as follows:

<u>In millions</u>	<u>Principal Amount</u>
Maturity date:	
2021	\$ —
2022	62
2023	12
2024	123
2025	61
Thereafter (through 2036)	659
Total expected principal payments <sup>(1)</sup>	\$ 917
Less discount and other adjustments <sup>(2)</sup>	207
Total	<u>\$ 710</u>

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

(2)—Discount is net of carrying amount and market value adjustments of \$29 million and accrued interest adjustment of \$4 million.

**Variable Interest Entity Notes**

VIE notes elected to be recorded at fair value are debt instruments that were issued primarily in U.S. dollars by consolidated VIEs within the Company’s international and structured finance insurance segment. These VIE notes consist of debt instruments issued by issuer-sponsored consolidated VIEs collateralized by assets held by those consolidated VIEs. Holders of insured obligations of issuer-sponsored VIEs do not have recourse to the general assets of the Company. In the event of non-payment of an obligation issued by a consolidated VIE, the Company is obligated to pay principal and interest, when due, on MBIA-insured obligations only.

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, original notes issued by MZ Funding in January of 2017 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 (and together with the Insured Senior Notes, the “New MZ Funding Notes”) with an aggregate principal amount of \$54 million. As of December 31, 2020 and 2019, the consolidated outstanding amount of the Refinanced Facility was \$273 million and \$246 million, respectively. 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. If funds received from MBIA Corp. under the Refinanced Facility are insufficient to pay interest on interest payment dates, MZ Funding may elect to pay interest in kind, which increases the outstanding principal amount.

The 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

**MBIA Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**

**Note 10: Debt (continued)**

being accounted for as a debt extinguishment. In connection with the Refinanced Facility, the Company paid debt issuance costs in 2019 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.

As of December 31, 2020 and 2019, the aggregate unpaid contractual principal of consolidated VIE notes was \$1.4 billion and \$2.3 billion, respectively. As of December 31, 2020 and 2019, the unpaid contractual principal of MBIA-insured consolidated VIE notes was \$722 million and \$1.6 billion, respectively, which excludes liabilities where the Company’s insured exposure has been fully offset by way of loss remediation transactions. Refer to “Note 7: Fair Value of Financial Instruments” for information about the fair values of consolidated VIE notes. As of December 31, 2020, the only remaining VIE note not accounted for at fair value is the MZ Funding note with a contractual interest rate of 12%. As of December 31, 2019, for VIE notes not accounted for at fair value, contractual interest rates ranged from 3.71% to 12.00% and the weighted average interest rate was 5.57%.

The following table provides the expected principal payments due under MBIA-insured consolidated VIE notes as of December 31, 2020. For RMBS consolidated VIEs, principal amounts are based on the expected maturity dates and for all other consolidated VIEs, principal amounts are based on the contractual maturity dates.

<u>In millions</u>	<u>Insured Principal Amount</u>
Maturity date:	
2021	\$ 42
2022	308
2023	28
2024	14
2025	24
Thereafter (through 2038)	306
Total	<u>\$ 722</u>

**Note 11: Income Taxes**

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

<u>In millions</u>	<u>Years Ended December 31,</u>		
	<u>2020</u>	<u>2019</u>	<u>2018</u>
Domestic	\$(578)	\$(357)	\$(287)
Foreign	—	—	(9)
Income (loss) before income taxes	<u>\$(578)</u>	<u>\$(357)</u>	<u>\$(296)</u>

**MBIA Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**

**Note 11: Income Taxes (continued)**

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

In millions	Years Ended December 31,		
	2020	2019	2018
Current taxes:			
Federal	\$ —	\$ —	\$ —
State	—	2	1
Deferred taxes:			
Federal	—	—	(1)
Foreign	—	—	—
Provision (benefit) for income taxes	—	2	—
Income taxes charged (credited) to shareholders' equity related to:			
Change in unrealized gains (losses) on AFS securities	—	—	5
Change in AFS securities with OTTI	—	—	—
Change in foreign currency translation	—	—	—
Total income taxes charged (credited) to shareholders' equity	—	—	5
Total effect of income taxes	\$ —	\$ 2	\$ 5

A reconciliation of the U.S. federal statutory tax rate to the Company's effective income tax rate for the years ended December 31, 2020, 2019 and 2018 is presented in the following table:

	Years Ended December 31,		
	2020	2019	2018
Federal income tax computed at the statutory rate	21.0%	21.0%	21.0%
Increase (reduction) in taxes resulting from:			
Mark-to-market on warrants	0.0%	0.0%	(0.7)%
Change in valuation allowance	(20.3)%	(20.7)%	(20.9)%
State income tax, net of federal benefit	0.0%	(0.4)%	0.0%
Deferred inventory adjustments	0.0%	0.0%	(1.0)%
Other	(0.7)%	(0.5)%	1.6%
Effective tax rate	0.0%	(0.6)%	0.0%

**Deferred Tax Asset, Net of Valuation Allowance**

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

**MBIA Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**

**Note 11: Income Taxes (continued)**

The tax effects of temporary differences that give rise to deferred tax assets and liabilities as of December 31, 2020 and 2019 are presented in the following table:

In millions	As of	
	December 31, 2020	December 31, 2019
Deferred tax liabilities:		
Unearned premium revenue	\$ 48	\$ 54
Deferred acquisition costs	10	13
Net unrealized gains and losses in accumulated other comprehensive income	25	—
Net deferred taxes on VIEs	53	51
Other	6	—
Total gross deferred tax liabilities	142	118
Deferred tax assets:		
Compensation and employee benefits	9	8
Accrued interest	210	185
Partnership basis difference	10	10
Loss and loss adjustment expense reserves	98	101
Net operating loss	656	590
Foreign tax credits	61	61
Other-than-temporary impairments	—	2
Net unrealized gains and losses on insured derivatives	10	9
Net gains and losses on financial instruments at fair value and foreign exchange	54	21
Other	—	4
Total gross deferred tax assets	1,108	991
Valuation allowance	966	873
Net deferred tax asset	\$ —	\$ —

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 \$966 million and \$873 million as of December 31, 2020 and 2019, respectively. The Company will continue to analyze the valuation allowance on a quarterly basis.

NOLs of property and casualty insurance companies are permitted to be carried back two years and carried forward 20 years, except where modified by the CARES Act as outlined below. NOLs of property and casualty insurance companies are not subject to the 80 percent taxable income limitation and indefinite lived carryforward period required by the Tax Cuts and Jobs Act applicable to general corporate NOLs.

**Treatment of Undistributed Earnings of Certain Foreign Subsidiaries—“Accounting for Income Taxes—Special Areas”**

The Company's amount of undistributed earnings of certain foreign subsidiaries was not material as of December 31, 2020.

**MBIA Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**

**Note 11: Income Taxes (continued)**

**Accounting for Uncertainty in Income Taxes**

The Company's policy is to record and disclose any change in UTB and related interest and/or penalties to income tax in the consolidated statements of operations. The Company includes interest as a component of income tax expense. As of December 31, 2020 and 2019, the Company had no UTB.

Federal income tax returns through 2011 have been examined or surveyed. As of December 31, 2020, the Company's NOL is approximately \$3.1 billion. NOLs generated prior to tax reform and property and casualty NOLs generated after tax reform will expire between tax years 2031 through 2040. As of December 31, 2020, the Company has a foreign tax credit carryforward of \$61 million, which will expire between tax years 2021 through 2030.

**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. With certain exceptions, 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.

**Coronavirus Aid, Relief, and Economic Security Act**

On March 27, 2020, as part of the business stimulus package in response to COVID-19, the U.S. government enacted the CARES Act. The CARES Act established new tax provisions including, but not limited to: (1) five-year carryback of NOLs generated in 2018, 2019 and 2020; (2) accelerated refund of alternative minimum tax ("AMT") credit carryforwards; and (3) retroactive changes to allow accelerated depreciation for certain depreciable property. The legislation does not have a material impact on the Company's tax positions due to the lack of taxable income in the carryback periods. As of December 31, 2020, the Company had received a cash benefit for its remaining AMT credits as provided by the CARES Act.

**Consolidated Appropriations Act**

On December 21, 2020, The Consolidated Appropriations Act ("Act") passed by Congress to respond to the health and economic impacts of COVID-19. The Act includes a number of tax law changes, including the expansion of Employee Retention Credit, important changes to Paycheck Protection Program, and extension of a variety of expiring tax provisions. The legislation does not have a material impact on the Company's tax position.

**Note 12: Business Segments**

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

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

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

**MBIA Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**

**Note 12: Business Segments (continued)**

**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, housing authorities and other similar agencies and obligations issued by private entities that finance projects that serve a substantial public purpose. Municipal bonds and privately issued bonds used for the financing of public purpose projects are generally supported by taxes, assessments, fees or tariffs related to the use of these projects, lease payments or other similar types of revenue streams.

**Corporate**

The Company's corporate segment consists of general corporate activities, including providing support services to MBIA Inc.'s subsidiaries as well as asset and capital management. Support services are provided by the Company's service company, MBIA Services, 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 had written insurance policies guaranteeing the obligations under CDS. Certain policies covered 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. The Company no longer insures new CDS contracts except for potential transactions related to the restructuring of existing exposures.

**MBIA Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**

**Note 12: Business Segments (continued)**

MBIA Corp. insures non-U.S. public finance and global structured finance obligations, including asset-backed obligations. MBIA Corp. has insured sovereign-related and sub-sovereign bonds, utilities, privately issued bonds used for the financing of projects that include toll roads, bridges, airports, public transportation facilities, and other types of infrastructure projects serving a substantial public purpose. Global structured finance and asset-backed obligations typically are securities repayable from expected cash flows generated by a specified pool of assets, such as residential and commercial mortgages, insurance policies, consumer loans, corporate loans and bonds, trade and export receivables, and leases for equipment, aircraft and real estate property. MBIA Corp. has also written policies guaranteeing obligations under certain other derivative contracts, including termination payments that may become due upon certain insolvency or payment defaults of the financial guarantor or the issuer. MBIA Corp. has not written any meaningful amount of business since 2008.

**Segments Results**

The following tables provide the Company's segment results for the years ended December 31, 2020, 2019 and 2018:

In millions	Year Ended December 31, 2020				
	U.S. Public Finance Insurance	Corporate	International and Structured Finance Insurance	Eliminations	Consolidated
Revenues <sup>(1)</sup>	\$ 102	\$ 20	\$ 29	\$ —	\$ 151
Net change in fair value of insured derivatives	—	—	6	—	6
Net gains (losses) on financial instruments at fair value and foreign exchange	39	(63)	(14)	—	(38)
Other net realized gains (losses)	(1)	—	1	—	—
Revenues of consolidated VIEs	—	—	163	—	163
Inter-segment revenues <sup>(2)</sup>	28	66	12	(106)	—
Total revenues	168	23	197	(106)	282
Losses and loss adjustment	163	—	367	—	530
Operating	14	69	14	—	97
Interest	—	65	113	—	178
Expenses of consolidated VIEs	—	—	55	—	55
Inter-segment expenses <sup>(2)</sup>	45	22	39	(106)	—
Total expenses	222	156	588	(106)	860
Income (loss) before income taxes	\$ (54)	\$ (133)	\$ (391)	\$ —	\$ (578)
Identifiable assets	\$ 3,644	\$ 954	\$ 3,671	\$ (2,518) <sup>(3)</sup>	\$ 5,751

(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 principally of intercompany reinsurance balances.

**MBIA Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**

**Note 12: Business Segments (continued)**

In millions	Year Ended December 31, 2019				
	U.S. Public Finance Insurance	Corporate	International and Structured Finance Insurance	Eliminations	Consolidated
Revenues <sup>(1)</sup>	\$ 139	\$ 27	\$ 34	\$ —	\$ 200
Net change in fair value of insured derivatives	—	—	15	—	15
Net gains (losses) on financial instruments at fair value and foreign exchange	139	(54)	(33)	—	52
Net investment losses related to other-than-temporary impairments	(67)	—	—	—	(67)
Net gains (losses) on extinguishment of debt	—	(1)	—	—	(1)
Other net realized gains (losses)	2	(2)	4	—	4
Revenues of consolidated VIEs	21	1	55	—	77
Inter-segment revenues <sup>(2)</sup>	28	62	21	(111)	—
Total revenues	262	33	96	(111)	280
Losses and loss adjustment	53	—	189	—	242
Operating	13	69	21	—	103
Interest	—	73	128	—	201
Expenses of consolidated VIEs	—	—	91	—	91
Inter-segment expenses <sup>(2)</sup>	52	23	36	(111)	—
Total expenses	118	165	465	(111)	637
Income (loss) before income taxes	\$ 144	\$ (132)	\$ (369)	\$ —	\$ (357)
Identifiable assets	\$ 4,019	\$ 1,041	\$ 4,504	\$ (2,280) <sup>(3)</sup>	\$ 7,284

(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**

**Note 12: Business Segments (continued)**

In millions	Year Ended December 31, 2018				
	U.S. Public Finance Insurance	Corporate	International and Structured Finance Insurance	Eliminations	Consolidated
Revenues <sup>(1)</sup>	\$ 178	\$ 31	\$ 108	\$ —	\$ 317
Net change in fair value of insured derivatives	—	—	(25)	—	(25)
Net gains (losses) on financial instruments at fair value and foreign exchange	(20)	22	(19)	—	(17)
Net investment losses related to other-than-temporary impairments	(5)	—	—	—	(5)
Net gains (losses) on extinguishment of debt	—	3	—	—	3
Other net realized gains (losses)	—	(2)	2	—	—
Revenues of consolidated VIEs	—	—	(111)	—	(111)
Inter-segment revenues <sup>(2)</sup>	29	45	24	(98)	—
<b>Total revenues</b>	<b>182</b>	<b>99</b>	<b>(21)</b>	<b>(98)</b>	<b>162</b>
Losses and loss adjustment	91	—	(28)	—	63
Operating	18	47	26	—	91
Interest	—	78	128	—	206
Expenses of consolidated VIEs	—	—	98	—	98
Inter-segment expenses <sup>(2)</sup>	44	20	33	(97)	—
<b>Total expenses</b>	<b>153</b>	<b>145</b>	<b>257</b>	<b>(97)</b>	<b>458</b>
Income (loss) before income taxes	\$ 29	\$ (46)	\$ (278)	\$ (1)	\$ (296)

(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.

Premiums on financial guarantees and insured derivatives reported within the Company's insurance segments are generated within and outside the U.S. The following table summarizes premiums earned on financial guarantees and insured derivatives by geographic location of risk for the years ended December 31, 2020, 2019 and 2018:

In millions	Years Ended December 31,		
	2020	2019	2018
Total premiums earned:			
United States	\$ 55	\$ 63	\$ 94
Other Americas	16	17	68
Other	2	5	—
<b>Total</b>	<b>\$ 73</b>	<b>\$ 85</b>	<b>\$ 162</b>

**Note 13: Insurance in Force**

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

The financial guarantees issued by the Company provide unconditional and irrevocable guarantees of the payment of the principal of, and interest or other amounts owing on, insured obligations when due. The

**MBIA Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**

**Note 13: Insurance in Force (continued)**

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

As of December 31, 2020, insurance in force, which represents principal and interest or other amounts owing on insured obligations, had an expected maturity through 2058. The distribution of MBIA Corp.'s and National's combined insurance in force by geographic location, excluding financial obligations guaranteed by MBIA Corp. on behalf of affiliated companies, is presented in the following table:

<u>\$ in billions</u>	<u>As of December 31,</u>			
	<u>2020</u>		<u>2019</u>	
	<u>Insurance in Force</u>	<u>% of Insurance in Force</u>	<u>Insurance in Force</u>	<u>% of Insurance in Force</u>
<u>Geographic Location</u>				
California	\$ 20.0	21.9%	\$ 22.4	20.9%
Illinois	8.9	9.7%	10.2	9.5%
New Jersey	5.4	5.9%	6.0	5.6%
Hawaii	4.1	4.4%	4.2	3.9%
Texas	3.7	4.0%	4.0	3.7%
Virginia	3.2	3.6%	3.6	3.3%
New York	3.0	3.3%	4.7	4.4%
Puerto Rico	2.9	3.2%	3.3	3.1%
Oregon	2.7	2.9%	2.9	2.7%
Colorado	2.1	2.3%	2.8	2.6%
Subtotal	56.0	61.2%	64.1	59.7%
Nationally Diversified	8.7	9.5%	11.8	11.0%
Other states	19.8	21.7%	23.5	21.8%
Total United States	84.5	92.4%	99.4	92.5%
Internationally Diversified	0.3	0.3%	0.3	0.3%
Country specific	6.6	7.3%	7.8	7.2%
Total non-United States	6.9	7.6%	8.1	7.5%
Total	<u>\$ 91.4</u>	<u>100.0%</u>	<u>\$ 107.5</u>	<u>100.0%</u>

**MBIA Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**

**Note 13: Insurance in Force (continued)**

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

<u>\$ in billions</u>	<u>As of December 31,</u>			
	<u>2020</u>		<u>2019</u>	
	<u>Insurance in Force</u>	<u>Gross Par Amount</u>	<u>Insurance in Force</u>	<u>Gross Par Amount</u>
<b>Bond type</b>				
Global public finance—United States:				
General obligation <sup>(1)</sup>	\$ 25.0	\$ 12.1	\$ 29.1	\$ 14.3
Tax-backed	15.7	7.9	17.7	9.2
Military housing	14.8	7.0	15.2	7.1
Municipal utilities	10.6	7.3	12.0	8.1
Transportation	9.2	3.0	10.6	3.9
General obligation—lease	2.4	1.9	3.1	2.3
Higher education	1.5	1.1	2.2	1.5
Health care	1.2	0.8	1.4	1.0
Investor-owned utilities <sup>(2)</sup>	0.9	0.6	1.4	0.9
Municipal housing	0.1	0.1	0.2	0.1
Other <sup>(3)</sup>	0.1	0.1	0.8	0.5
Total United States	<u>81.5</u>	<u>41.9</u>	<u>93.7</u>	<u>48.9</u>
Global public finance—non-United States:				
Sovereign-related and sub-sovereign <sup>(4)</sup>	2.8	2.1	3.0	2.3
Transportation	2.1	1.8	2.7	2.3
International utilities	0.9	0.8	1.1	1.0
Other <sup>(5)</sup>	0.1	0.1	0.2	0.1
Total non-United States	<u>5.9</u>	<u>4.8</u>	<u>7.0</u>	<u>5.7</u>
Total global public finance	<u>87.4</u>	<u>46.7</u>	<u>100.7</u>	<u>54.6</u>
Global structured finance:				
Mortgage-backed residential	2.0	1.5	2.5	1.8
Corporate asset-backed <sup>(6)</sup>	0.8	0.6	3.0	1.7
Mortgage-backed commercial	0.5	0.2	0.5	0.2
Collateralized debt obligations	0.4	0.3	0.4	0.3
Consumer asset-backed	0.3	0.3	0.4	0.3
Total global structured finance	<u>4.0</u>	<u>2.9</u>	<u>6.8</u>	<u>4.3</u>
Total	<u>\$ 91.4</u>	<u>\$ 49.6</u>	<u>\$ 107.5</u>	<u>\$ 58.9</u>

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

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

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

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

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

(6)—As of December 31, 2020, all remaining insurance in force and gross par relating to structured insurance securitizations was terminated. As of December 31, 2019, includes structured insurance securitizations of \$2.1 billion and \$1.0 billion of insurance in force and gross par amount, respectively.

**Affiliated Financial Obligations Insured by MBIA Corp.**

Investment agreement contracts and MTNs issued by the Company's corporate segment and the Refinanced Facility issued by the Company's international and structured finance insurance segment are insured by MBIA Corp. and are not included in the previous tables. If MBIA Inc. or these subsidiaries were to have insufficient

**MBIA Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**

**Note 13: Insurance in Force (continued)**

assets to pay amounts due, MBIA Corp. would be obligated to make such payments under its insurance policies. As of December 31, 2020, the maximum amount of future payments that MBIA Corp. could be required to make under these guarantees is \$1.7 billion. These guarantees, which mature through 2037, were entered into on an arm's length basis. MBIA Corp. has both direct recourse provisions and subrogation rights in these transactions. If MBIA Corp. is required to make a payment under any of these affiliate guarantees, it would have the right to seek reimbursement from such affiliate and to liquidate any collateral to recover amounts paid under the guarantee.

**Reinsured Exposure**

Reinsurance enables the Company to cede exposure for purposes of syndicating risk. The Company generally retains the right to reassume the business ceded to reinsurers under certain circumstances, including a reinsurer's rating downgrade below specified thresholds. At this time, the Company does not intend to utilize reinsurance to decrease the insured exposure in its portfolio.

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

The aggregate amount of insurance in force ceded by MBIA to reinsurers was \$3.0 billion and \$3.5 billion as of December 31, 2020 and 2019, respectively.

As of December 31, 2020, the aggregate amount of insured par outstanding ceded by MBIA to reinsurers under reinsurance agreements was \$1.5 billion compared with \$1.8 billion as of December 31, 2019. As of December 31, 2020, \$1.1 billion of the ceded par outstanding was ceded from the Company's U.S. public finance insurance segment and \$413 million was ceded from the Company's international and structured finance insurance segment. Under National's reinsurance agreement with MBIA Corp., if a reinsurer of MBIA Corp. is unable to pay claims ceded by MBIA Corp. on U.S. public finance exposure, National will assume liability for such ceded claim payments. The following table presents information about the Company's reinsurance agreements as of December 31, 2020 for its U.S. public finance and international and structured finance insurance operations.

In millions

<u>Reinsurers</u>	<u>Standard &amp; Poor's Rating (Status)</u>	<u>Moody's Rating (Status)</u>	<u>Ceded Par Outstanding</u>	<u>Letters of Credit/Trust Accounts</u>	<u>Reinsurance Recoverable/(Payable)<sup>(1)</sup></u>
Assured Guaranty Re Ltd.	AA (Stable Outlook)	WR <sup>(2)</sup>	\$ 584	\$ 21	\$ —
Assured Guaranty Corp.	AA (Stable Outlook)	A3 (Stable Outlook)	620	—	(37)
Overseas Private Investment Corporation	AA+ (Stable Outlook)	Aaa (Stable Outlook)	221	—	—
Others	A+ or above	WR or above <sup>(2)</sup>	55	—	(1)
Total			<u>\$ 1,480</u>	<u>\$ 21</u>	<u>\$ (38)</u>

(1)—Total reinsurance recoverable/(payable) is primarily related to recoverables on unpaid losses net of (payables) on salvage received.

(2)—Represents a withdrawal of ratings.

**Note 14: Insurance Regulations and Dividends**

National and MBIA Insurance Corporation are subject to insurance regulations and supervision of the State of New York (their state of domicile) and all U.S. and non-U.S. jurisdictions in which they are licensed to conduct insurance business. In order to maintain their New York State financial guarantee insurance license, National and MBIA Insurance Corporation are required to maintain a minimum of \$65 million of policyholders' surplus. MBIA

**MBIA Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**

**Note 14: Insurance Regulations and Dividends (continued)**

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. The extent of insurance regulation and supervision varies by jurisdiction, but New York and most other jurisdictions have laws and regulations prescribing minimum standards of solvency and business conduct, which must be maintained by insurance companies. Among other things, these laws prescribe permitted classes and concentrations of investments and limit both the aggregate and individual securities risks that National and MBIA Insurance Corporation may insure on a net basis based on the type of obligations insured. In addition, some insurance laws and regulations require the approval or filing of policy forms and rates. National and MBIA Insurance Corporation are required to file detailed annual financial statements with the NYSDFS. The operations and accounts of National and MBIA Insurance Corporation are subject to examination by regulatory agencies at regular intervals.

**Statutory Capital and Regulations**

*National*

For the years ended December 31, 2020 and 2019, National had a statutory net loss of \$82 million and statutory net income of \$39 million, respectively. As of December 31, 2020, National's statutory capital was \$2.0 billion, consisting of policyholders' surplus of \$1.5 billion and contingency reserves of \$445 million. As of December 31, 2019, National had statutory capital of \$2.4 billion.

As of December 31, 2020, National was in compliance with its aggregate risk limits under NYIL, but was not in compliance with certain of its single risk limits.

*MBIA Insurance Corporation*

For the years ended December 31, 2020 and 2019, MBIA Insurance Corporation had statutory net losses of \$202 million and \$141 million, respectively. As of December 31, 2020, MBIA Insurance Corporation's statutory capital was \$273 million, consisting of policyholders' surplus of \$106 million and contingency reserves of \$167 million. As of December 31, 2019, MBIA Insurance Corporation had statutory capital of \$476 million. MBIA Insurance Corporation's policyholders' surplus as of December 31, 2020 and 2019 included negative unassigned surplus of \$1.9 billion. MBIA Insurance Corporation's policyholders' surplus may be further negatively impacted if future additional insured losses are incurred.

As of December 31, 2020, MBIA Insurance Corporation was in compliance with its aggregate risk limits under the NYIL, but was not in compliance with certain of its single risk limits. If new overages occur with respect to its single risk limits, MBIA Insurance Corporation will report them to the NYSDFS.

Under NYIL, MBIA Insurance Corporation is required to establish a contingency reserve to provide protection to policyholders in the event of extreme losses in adverse economic events. The amount of the reserve is based on the percentage of principal insured or premiums earned, depending on the type of obligation (net of collateral, reinsurance, refunding, refinancings and certain insured securities). Under NYIL, MBIA Insurance Corporation is required to invest its minimum surplus and contingency reserves, and 50% of its loss reserves and unearned premium reserves, in certain qualifying assets. As of December 31, 2020, MBIA Insurance Corporation maintained its minimum requirement of policyholders' surplus but did not have enough qualifying assets to support its contingency reserves and 50% of its loss reserves and unearned premium reserves. Not having enough qualifying assets to support its contingency reserves limits the amount of earned surplus that might otherwise be available for the payment of dividends. Reductions in the contingency reserve may be recognized based on excess reserves and under certain stipulated conditions, subject to the approval of the Superintendent of the NYSDFS. 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.

**MBIA Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**

**Note 14: Insurance Regulations and Dividends (continued)**

**Dividends**

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

During 2020 and 2019, National declared and paid dividends of \$81 million and \$134 million, respectively, to its ultimate parent, MBIA Inc.

In 2020, MBIA Insurance Corporation did not declare or pay any dividends to MBIA Inc. or the holders of its preferred stock. MBIA Insurance Corporation is currently unable to pay dividends, including those related to its preferred stock, as a result of its earned surplus deficit as of December 31, 2020 and is not expected to have any statutory capacity to pay dividends in the near term. In connection with MBIA Insurance Corporation obtaining approval from the NYSDFS to release excess contingency reserves in previous periods, MBIA Insurance Corporation agreed that it would not pay any dividends without prior approval from the NYSDFS.

**Note 15: Benefit Plans**

**Long-term Incentive Plans**

*Plan Description*

The Company maintains the MBIA Inc. 2005 Omnibus Incentive Plan (the "Omnibus Plan"), as amended on May 7, 2009, May 1, 2012 and May 5, 2020. Under the Omnibus Plan a maximum of 16,500,000 shares of the Company's common stock can be used for any type of award including stock options, performance shares, performance units, restricted stock, restricted stock units and dividend equivalents. Any shares issued under the Omnibus Plan in connection with stock options shall be counted against this limit as 1 share covered by such option. For all awards other than stock options, any shares issued shall be counted against this limit as 1.28 shares for every share issued after the May 1, 2012 amendment and two shares for every share issued prior to the May 1, 2012 amendment. Currently, the Company grants restricted stock.

Under the restricted stock component of the Omnibus Plan, certain employees are granted restricted shares of the Company's common stock. These awards have a restriction period lasting between three to seven years depending on the type of award, after which time the awards fully vest. During the vesting period, these shares may not be sold. Restricted stock may be granted to all employees.

There were 3,338,822 shares available for future grants under the Omnibus Plan as of December 31, 2020.

In accordance with accounting guidance for share-based payments, the Company expenses the fair value of stock-based compensation. In addition, the guidance classifies share-based payment awards as either liability awards, which are remeasured at fair value at each balance sheet date, or equity awards, which are measured on the grant date and not subsequently remeasured. Generally, awards with cash-based settlement repurchase features or that are settled at a fixed dollar amount are classified as liability awards, and changes in fair value will be reported in earnings. Awards with net-settlement features are classified as equity awards and changes in fair value are not reported in earnings. The Company's long-term incentive plans include features which result in equity awards. In addition, the guidance requires the use of a forfeiture estimate. The Company uses historical employee termination information to estimate the forfeiture rate applied to current stock-based awards.

The Company maintains voluntary retirement benefits, which provide certain benefits to eligible employees of the Company upon retirement. A description of these benefits is included in the Company's proxy statement. One of

**MBIA Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**

**Note 15: Benefit Plans (continued)**

the components of the retirement program for those employees that are retirement eligible is to continue to vest all performance-based restricted stock awards beyond the retirement date in accordance with the original vesting terms and to immediately vest all outstanding time-based restricted stock grants. The accounting guidance for share-based payment requires compensation costs for those employees to be recognized from the date of grant through the retirement eligible date. Accelerated expense, if any, relating to this retirement benefit for restricted stock awards has been included in the compensation expense amounts. Refer to the "Performance Based Awards" section below for additional information on compensation expense.

*Restricted Stock*

The fair value of the restricted shares awarded, net of cancellations, determined on the grant date was \$7 million and \$8 million for 2020 and 2019, respectively. The amount of unearned compensation, net of estimated forfeitures, was \$26 million as of December 31, 2020, which is expected to be recognized as expense over a weighted average period of 2.45 years. Unearned compensation is amortized to expense over the appropriate vesting period.

Compensation expense related to the restricted shares, net of estimated forfeitures, was \$11 million, \$12 million and \$6 million for the years ended December 31, 2020, 2019 and 2018, respectively. There was no tax charge related to the restricted share awards during 2020, 2019 and 2018 after consideration of the Company's valuation allowance.

A summary of the Company's restricted shares outstanding as of December 31, 2020, 2019 and 2018, and changes during the years ended on those dates, is presented in the following table:

	Restricted Share Activity					
	2020		2019		2018	
	Number of Shares	Weighted Average Price Per Share	Number of Shares	Weighted Average Price Per Share	Number of Shares	Weighted Average Price Per Share
Outstanding at beginning of year	5,146,828	\$ 10.0958	5,044,616	\$ 9.7986	2,392,978	\$ 9.6142
Granted	1,003,720	6.8150	711,176	11.4185	3,668,801	9.9711
Vested	(448,455)	8.9834	(416,676)	9.0332	(267,163)	10.0705
Forfeited	(247,286)	11.1800	(192,288)	9.4917	(750,000)	9.9576
Outstanding at end of year	<u>5,454,807</u>	<u>\$ 9.5344</u>	<u>5,146,828</u>	<u>\$ 10.0958</u>	<u>5,044,616</u>	<u>\$ 9.7986</u>

*Performance Based Awards*

During 2020, 2019 and 2018, the Company granted 502,738, 221,213 and 247,286 restricted shares to certain key employees which have a vesting schedule dependent on the achievement of certain stock price targets of the Company, respectively. The grants and corresponding compensation expense have been included in the above restricted stock disclosures. As permitted by the accounting guidance for share-based payments, the Company estimates the fair value of awards that contain market performance conditions at the date of grant using a binomial lattice model with a Monte Carlo simulation and recognizes compensation cost over the requisite service period. The binomial lattice model can better incorporate assumptions about a stock price path because the model can accommodate a large number of potential stock prices over the award's term in comparison to the Black-Scholes model. The Company estimates the fair value of awards that contain internal performance conditions at the date of grant and recognizes compensation cost over the requisite service period if it is probable that the internal performance conditions will be achieved. The Company reassesses the probability of vesting at each reporting period and the final compensation cost associated with awards dependent on the achievement of certain internal performance conditions will reflect only those awards that ultimately vest. As of December 31, 2020 and 2019 certain previously awarded grants did not meet the stock price performance target or the internal performance conditions. The corresponding cancellation of shares and expense reversal, if applicable, has been included in the above restricted stock disclosures.

**MBIA Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**

**Note 15: Benefit Plans (continued)**

**Pension, 401(k) and Deferred Compensation Plans**

The Company maintains a qualified non-contributory defined contribution pension plan to which the Company contributes 10% of each eligible employee's annual compensation. Annual compensation for determining such contributions consists of base salary and bonus, as applicable, up to a maximum of \$2 million. Pension benefits vest over the first five-year period of employment with 20% vested after two years, 60% vested after three years, 80% vested after four years and 100% vested after five years. The Company funds the annual pension contribution by the following February of each applicable year.

The Company also maintains a qualified 401(k) plan. The plan is a voluntary contributory plan that allows eligible employees to defer compensation for federal income tax purposes under Section 401(k) of the Internal Revenue Code of 1986, as amended. Employees may contribute, through payroll deductions, up to 25% of eligible compensation. The Company matches employee contributions up to the first 5% of such compensation. The 401(k) matching contributions are made in the form of cash, whereby participants may direct the Company match to an investment of their choice. The 401(k) matching benefits vest over the first five-year period of employment with 20% vested after two years, 60% vested after three years, 80% vested after four years and 100% vested after five years. Generally, a participating employee is entitled to distributions from the plans upon termination of employment, retirement, death or disability.

In addition to the above two plans, the Company maintains a non-qualified deferred compensation plan. Contributions to the above qualified plans that exceed limitations established by federal regulations are then contributed to the non-qualified deferred compensation plan.

Expenses related to these plans for the years ended December 31, 2020, 2019 and 2018 were \$4 million, \$4 million, and \$3 million, respectively.

**Note 16: 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 (loss) 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 unvested restricted stock outstanding during the period that could potentially result in the issuance of common stock. The dilution from unvested restricted stock is calculated by applying the two-class method and using the treasury stock method. The treasury stock method assumes the proceeds from 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 become 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, unvested restricted stock is excluded from the calculation because they would have an antidilutive affect. Therefore, in periods of net loss, the calculation of basic and diluted earnings per share would result in the same value.



**MBIA Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**

**Note 16: Earnings Per Share (continued)**

The following table presents the computation of basic and diluted earnings per share for the years ended December 31, 2020, 2019 and 2018:

<u>In millions except per share amounts</u>	<u>Years Ended December 31,</u>		
	<u>2020</u>	<u>2019</u>	<u>2018</u>
<b>Basic earnings per share:</b>			
Net income (loss) available to common shareholders	\$ (578)	\$ (359)	\$ (296)
Basic weighted average shares <sup>(1)</sup>	59.1	81.0	89.0
Net income (loss) per basic common share	\$(9.78)	\$(4.43)	\$(3.33)
<b>Diluted earnings per share:</b>			
Net income (loss) available to common shareholders	(578)	(359)	(296)
Diluted weighted average shares	59.1	81.0	89.0
Net income (loss) per diluted common share	\$(9.78)	\$(4.43)	\$(3.33)
Potentially dilutive securities excluded from the diluted EPS because of antidilutive affect	4.6	4.3	4.4

(1) Includes 0.9 million, 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 years ended December 31, 2020, 2019 and 2018, respectively.

**Note 17: Common and Preferred Stock**

**Common Stock**

*Share Repurchases*

Purchases or repurchases of common stock may be made from time to time in the open market or in private transactions as permitted by securities laws and other legal requirements. The Company believes that share purchases or repurchases can be an appropriate deployment of capital in excess of amounts needed to support the Company's liquidity while maintaining the claims-paying resources of MBIA Corp. and National, as well as other business needs.

The following table provides information about the Company's or National's share purchases or repurchases for the years ended December 31, 2020, 2019 and 2018:

<u>In millions, except per share amounts</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Number of shares purchased or repurchased	26.4	11.1	5.8
Average price paid per share	\$7.50	\$9.12	\$8.21
Remaining authorization as of December 31	\$ —	\$ 101	\$ 202

**Preferred Stock**

As of December 31, 2020, MBIA Insurance Corporation had 2,759 shares of preferred stock issued and outstanding with a carrying value of \$28 million, including 1,444 shares held by MBIA Inc. that were purchased at a weighted average price of \$10,900 per share or 10.9% of face value and 1,315 shares held by unaffiliated investors. During 2020, MBIA Inc. did not repurchase any additional shares.

In accordance with MBIA's fixed-rate election, the dividend rate on the preferred stock was determined using a fixed-rate equivalent of LIBOR plus 200 basis points. Each share of preferred stock has a par value of \$1,000 with a liquidation preference of \$100,000. The holders of the preferred stock are generally not entitled to any voting rights. Subject to certain requirements, the preferred stock may be redeemed, in whole or in part, at the option of MBIA Corp. at any time or from time to time for cash at a redemption price equal to the liquidation preference per share plus any accrued and unpaid dividends thereon at the date of redemption for the then current dividend period and any previously accumulated dividends payable without interest on such unpaid dividends. As of December 31, 2020 and 2019, there were no dividends declared on the preferred stock. Payment of dividends on

**MBIA Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**

**Note 17: Common and Preferred Stock (continued)**

MBIA Corp.'s preferred stock is subject to the same restrictions that apply to dividends on common stock under NYIL.

**Note 18: Accumulated Other Comprehensive Income**

The following table presents the changes in the components of AOCI for the years ended December 31, 2020, 2019 and 2018:

In millions	Unrealized Gains (Losses) on AFS Securities, Net	Foreign Currency Translation, Net	Instrument-Specific Credit Risk of Liabilities Measured at Fair Value, Net	Total
Balance, January 1, 2018	\$ (10)	\$ (9)	\$ —	\$ (19)
ASU 2016-01 transition adjustment	(2)	—	(162)	(164)
ASU 2018-02 transition adjustment	(3)	—	—	(3)
Net period other comprehensive income (loss)	(24)	2	52	30
Balance, December 31, 2018	\$ (39)	\$ (7)	\$ (110)	\$(156)
Other comprehensive income (loss) before reclassifications	139	—	(25)	114
Amounts reclassified from AOCI	12	—	28	40
Net period other comprehensive income (loss)	151	—	3	154
Balance, December 31, 2019	\$ 112	\$ (7)	\$ (107)	\$ (2)
Other comprehensive income (loss) before reclassifications	83	(3)	50	130
Amounts reclassified from AOCI	(19)	—	6	(13)
Net period other comprehensive income (loss)	64	(3)	56	117
Balance, December 31, 2020	\$ 176	\$ (10)	\$ (51)	\$ 115

The following table presents the details of the reclassifications from AOCI for the years ended December 31, 2020, 2019 and 2018:

In millions	Amounts Reclassified from AOCI Years Ended December 31,			Affected Line Item on the Consolidated Statements of Operations
	2020	2019	2018	
<b>Details about AOCI Components</b>				
Unrealized gains (losses) on AFS securities:				
Realized gain (loss) on sale of securities	\$ 19	\$ 14	\$ 6	Net gains (losses) on financial instruments at fair value and foreign exchange
Credit losses	—	(25)	(5)	Net investment losses related to OTTI
Amortization on securities	—	(1)	(1)	Net investment income
	19	(12)	—	Income (loss) before income taxes
	19	(12)	—	Net income (loss)
Instrument-specific credit risk of liabilities:				
Settlement of liabilities	(6)	(28)	—	Net gains (losses) on financial instruments at fair value and foreign exchange
Total reclassifications for the period	\$ 13	\$ (40)	\$ —	Net income (loss)

**MBIA Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**

**Note 19: Commitments and Contingencies**

MBIA has received subpoenas or informal inquiries from a variety of regulators, regarding a variety of subjects. MBIA has cooperated fully with each of these regulators and has or is in the process of satisfying all such requests. MBIA may receive additional inquiries from these or other regulators and expects to provide additional information to such regulators regarding their inquiries in the future.

**Litigation**

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

On December 14, 2009, MBIA Corp. commenced an action in New York State Supreme Court, New York County, against Credit Suisse. The complaint seeks damages for claims in connection with the procurement of financial guarantee insurance on the Home Equity Mortgage Trust Series 2007-2 securitization. On January 30, 2013, MBIA Corp. filed an amended complaint. In November of 2020, following a trial and post-trial briefing, the court overseeing the litigation issued a decision declaring that MBIA Corp. had succeeded in establishing that a majority of the loans in the transaction were ineligible. In January of 2021, the Court issued an order declaring that Credit Suisse was liable to MBIA Corp. for approximately \$604 million in damages. On February 9, 2021, the parties to the litigation entered into a settlement agreement pursuant to which Credit Suisse paid MBIA Corp. \$600 million, and on February 11, 2021, the court entered an order dismissing the case.

*Tilton v. MBIA Inc.*, Index No. 68880/2015 (N.Y. Sup. Ct., Westchester County)

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., seeking damages based on allegations of 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. Plaintiffs filed an amended complaint on January 15, 2016. The parties completed discovery in 2017. In February of 2021, the parties submitted respective cross-motions for summary judgment.

*Zohar CDO 2003-1, Ltd., et al. v. Patriarch Partners, LLC et al.*, Case No. 1:17-cv-0307-WHP (S.D.N.Y.)

On November 27, 2017, Lynn Tilton and certain affiliated entities commenced a third-party complaint against MBIA Inc., MBIA Insurance Corp. and other Zohar Fund stakeholders seeking damages for alleged breaches of the contracts governing the Zohar Funds and additional alleged legal duties and obligations relating to the Funds. On December 22, 2020, the Company and the other third-party defendants moved to dismiss the third-party complaint. Briefing on those motions to dismiss is complete and the motions are under submission.

*Tilton et al. v. MBIA Inc. et al.*, Adversary Case No. 19-50390 (KBO) (Bankr. Del.)

On October 1, 2019, Lynn Tilton and certain affiliated entities commenced an adversary proceeding in the Zohar Funds Bankruptcy Cases against MBIA Inc., MBIA Corp. and other Zohar Funds creditor seeking the equitable subordination of those creditors' claims with respect to the Zohar Funds. Plaintiffs claim they are entitled to relief due to inequitable and unfair conduct by defendants. The Company and the other defendants filed their respective motions to dismiss on October 30, 2020. Briefing on those motions is anticipated to be completed as of March of 2021.

*MBIA Insurance Corp. v. Tilton et al.*, Adversary Case No. 20-50776 (KBO) (Bankr. Del.)

On July 30, 2020, MBIA Corp. commenced an adversary proceeding in the Zohar Funds Bankruptcy Cases against Lynn Tilton and certain affiliated entities seeking damages incurred by MBIA Corp. in connection with insurance policies it issued on senior notes issued by Zohar I and Zohar II. Tilton and her affiliated defendants moved to dismiss the complaint on October 23, 2020. The briefing on such motion is complete and the motion is under submission.

**MBIA Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**

**Note 19: Commitments and Contingencies (continued)**

*National Public Finance Guarantee Corporation et al. v. UBS Financial Services, Inc. et al.*, 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 of bonds issued by the Commonwealth of Puerto Rico and its instrumentalities that were underwritten by these defendants. National alleges that, when the defendants solicited bond insurance, they represented through their acts that they would investigate certain information they provided to National and that they had a reasonable basis to believe that information was true and complete. National further alleges that the defendants did not perform such investigations and that key information was untrue or incomplete. National seeks damages to be proven at trial. On September 16, 2020, Defendants filed a motion to dismiss the complaint. National filed its objection to that motion on October 7, 2020, and briefing concluded on November 30, 2020. A decision is pending.

*Motion of Assured Guaranty Corp., Assured Guaranty Municipal Corp., Ambac Assurance Corporation and National Public Finance Guarantee Corporation for Relief from the Automatic Stay or, in the Alternative, for Adequate Protection*, Case No. 17 BK 3567-LTS (D.P.R. January 16, 2020) (Swain, J.)

On January 16, 2020, National, Ambac and Assured ("Movants") filed a renewed motion in the PRHTA Title III case for relief from the automatic stay or, in the alternative, adequate protection. The motion seeks leave to file a complaint in Puerto Rico, and 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. Following a preliminary lift stay hearing held on June 4, 2020, on July 2, 2020, Judge Swain ruled that the Movants had failed to satisfy its burden of presenting a colorable claim that they had a statutory, contractual or equitable lien on HTA. On September 9, 2020, the Court entered a final order denying the HTA lift stay motion, finding that a balancing of factors does not support stay relief. The Movants appealed, and the case was argued before the First Circuit Court of Appeals on February 4, 2021. A decision is pending. In the event that National does not terminate its participation in the 2021 PSA, on or prior to March 31, 2021, the Oversight Board and National shall jointly request the entry of an order in the Title III court staying National's actions to lift the automatic stay in the GO and HTA Title III cases, and National shall take no further action with respect to that proceeding subject to the plan resolving the GO Title III case becoming effective.

*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.

*Complaint Objecting to Defendants' Claims and Seeking Related Relief*, Case No. 17-03283-LTS (D.P.R. January 16, 2020) (Swain J.)

On January 16, 2020, the Oversight Board filed an adversary complaint against National, Ambac, Assured Guaranty, Assured Guaranty Municipal Corp., Financial Guaranty Insurance Company, Peaje Investments LLC and the Bank of New York Mellon as fiscal agent. The Oversight Board challenges the claims and validity of the liens asserted against the Commonwealth by holders of HTA bonds. The complaint contains 201 counts against the bondholder parties objecting to proofs of claim and security interests asserted regarding the Commonwealth's retention of certain revenues previously assigned to HTA. This matter is currently stayed but the Court permitted the Oversight Board to file certain limited cross motions on April 28, 2020. The cross motions for summary judgment were filed on July 16, 2020. On September 23, 2020, Judge Swain heard argument on the limited cross motions for summary judgment, which remain pending. On January 20, 2021, Judge Swain issued an order deferring the adjudication of the summary judgment motions so that defendant monolines can seek limited

**MBIA Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**

**Note 19: Commitments and Contingencies (continued)**

discovery from the Oversight Board on all documents related to the collection and flow of Excise Taxes and pledged revenue into and out of its accounts, among other things.

*Complaint Objecting to Defendants' Claims and Seeking Related Relief*, Case No. 20-00007-LTS (January 16, 2020) (Swain J.)

On January 16, 2020, the Oversight Board and the Creditors Committee filed an adversary complaint against National and other defendants challenging the claims and validity of the liens asserted against HTA by holders and insurers of HTA bonds. The complaint contains 302 counts challenging the claims and liens asserted against HTA.

*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 case 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. The bondholders appealed the decision to the United States Court of Appeals for the First Circuit. On August 8, 2018, the First Circuit issued an order reversing Judge Swain's decision on jurisdictional grounds and remanding the motion. On October 3, 2018, National, along with other monolines filed an updated motion for relief from the automatic stay to allow them to exercise their statutory right to have a receiver appointed at PREPA. The Oversight Board filed a motion to dismiss the receiver motion. These motions have been stayed until five business days following the ruling on the PREPA 9019 Settlement Motion. The PREPA 9019 Settlement Motion has been adjourned until further order of the Court.

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, and Assured Guaranty Corp. and Assured Guaranty Municipal Corp. (together, the "RSA Parties") previously entered into the Restructuring Support Agreement ("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. The RSA includes the agreement for resolving PREPA's restructuring plan issues and arrangements.

Pursuant to the RSA, the Oversight Board filed a Rule 9019 motion with the Title III court in May of 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. 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. The hearing for the Settlement Motion has been adjourned until further order of the Court. The RSA, by its terms, requires certain legislation be enacted and such legislation may not receive sufficient votes for passage. In addition, the restructuring the RSA contemplates has received criticism from various parties including members of the Puerto Rico government and other stakeholders. This opposition could adversely affect the ability of the Oversight Board and RSA Parties to consummate the Settlement Motion and RSA.

*The Financial Oversight and Management Board for Puerto Rico, as Representative of the Commonwealth of Puerto Rico, et al. v. Autonomy Master Fund Limited et al.*, Case No. 19-00291 (D.P.R. May 5, 2019) (Swain, J.)

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. After an approximately five-month stay of litigation entered by the Court on July 24, 2019, these adversary proceedings resumed pursuant to an interim schedule entered by the Court in December 2019. On February 5, 2020, National and Assured Guaranty Municipal Corp. filed a motion to dismiss the adversary proceeding. The motion has been stayed indefinitely by order of the Court.

**MBIA Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**

**Note 19: 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 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 30, 2019, the Fuel Line Lenders filed an amended complaint which added National, Assured, Syncora, and the Ad Hoc Group as defendants. Defendants moved to dismiss the Fuel Line Lenders’ adversary complaint on November 11, 2019. The Fuel Line Lenders filed their opposition to the motion to dismiss on December 5, 2019. Defendants’ reply in support of the motion to dismiss was filed February 3, 2020. The hearing on the motion to dismiss was adjourned until the Court determines when the 9019 Settlement Motion and related litigation will recommence.

*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 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. On September 27, 2019, the Oversight Board filed a voluntary petition for relief for PBA pursuant to PROMESA, commencing a case under Title III. The complaint has been stayed indefinitely by order of the Court.

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.

**Leases**

The Company has a lease agreement for its headquarters in Purchase, New York as well as an immaterial lease for an office in San Francisco, California. The Purchase, New York initial lease term expires in 2030 with the option to terminate the lease in 2025 upon the payment of a termination amount. This lease agreement included an incentive amount to fund certain leasehold improvements, renewal options, escalation clauses and a free rent period. This lease agreement has been classified as an operating lease and the Company recognizes operating rent expense on a straight-line basis. The following below table presents the Company’s operating lease information as of December 31, 2020:

<u>\$ in millions</u>	<u>As of December 31, 2020</u>	<u>Balance Sheet Location</u>
Right-of-use asset	\$ 20	Other assets
Lease liability	\$ 20	Other liabilities
Weighted average remaining lease term (years)	8.3	
Discount rate used for operating leases	7.5%	
Total future minimum lease payments	\$ 29	

## **Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

None.

### **Item 9A. Controls and Procedures**

#### **Evaluation of Disclosure Controls and Procedures**

As of the end of the period covered by this Annual Report on Form 10-K, an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) 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 effective as of December 31, 2020, the end of the period covered by this report.

#### **Management's Report on Internal Control over Financial Reporting**

Management of MBIA Inc. and its subsidiaries is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control over financial reporting is a process designed under the supervision of the Company's principal executive and principal financial officers to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

MBIA's internal control over financial reporting includes policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets; (2) provide reasonable assurances that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures are being made only in accordance with authorizations of management and the directors of the Company; and, (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the Company's financial statements.

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

Management has assessed the effectiveness of MBIA Inc.'s internal control over financial reporting as of December 31, 2020. In making its assessment, management used the criteria described in *Internal Control—Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment and those criteria, management has determined that the Company's internal control over financial reporting as of December 31, 2020 was effective.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2020 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report, which is included in Item 8, "Financial Statements."

#### **Changes in Internal Control over Financial Reporting**

As required by Rule 13a-15(d) under the Exchange Act, the Company's management, including its Chief Executive Officer and Chief Financial Officer, has evaluated the Company's internal control over financial reporting to determine whether any changes occurred during the fourth fiscal quarter covered by this annual report that have materially affected or are reasonably likely to materially affect, our internal control over financial reporting. Based on that evaluation, there has been no such change during the fourth fiscal quarter of 2020.

### **Item 9B. Other Information**

None.

## Part III

### Item 10. Directors, Executive Officers and Corporate Governance

Information regarding directors will be set forth under “Proposals for Shareholder Approval Recommended by the Board—Proposal 1: Election of Directors” and “Board of Directors Corporate Governance—The Board of Directors and its Committees” in the Company’s Proxy Statement to be filed within 120 days of the end of our fiscal year ended December 31, 2020 (the “Proxy Statement”) and is incorporated by reference.

Information regarding executive officers is set forth under Part I, Item 1, “Business—Executive Officers of the Registrant,” included in this annual report.

Information regarding Section 16(a) beneficial ownership reporting compliance will be set forth in the section “Section 16(a) Beneficial Ownership Reporting Compliance” in the Proxy Statement and is incorporated by reference.

Information regarding the Company’s Audit Committee will be set forth under “Board of Directors Corporate Governance—The Board of Directors and its Committees” in the Proxy Statement and is incorporated by reference.

The Company has adopted a code of ethics that applies to all employees of the Company including its Chief Executive Officer, Chief Financial Officer and its controller. A copy of such code of ethics can be found on the Company’s internet website at [www.mbia.com](http://www.mbia.com). The Company intends to satisfy the disclosure requirements under Item 10 of Form 8-K regarding an amendment to, or waiver from, a provision of its code of ethics and that relates to a substantive amendment or material departure from a provision of the Code by posting such information on its internet website at [www.mbia.com](http://www.mbia.com).

### Item 11. Executive Compensation

Information regarding compensation of the Company’s directors and executive officers will be set forth under “Board of Directors Corporate Governance—The Board of Directors and its Committees,” “Compensation and Governance Committee Report,” “Compensation Discussion and Analysis” and “Executive Compensation Tables” in the Proxy Statement and is incorporated by reference.

### Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Information regarding security ownership of certain beneficial owners and management will be set forth under “Security Ownership of Certain Beneficial Owners” and “Security Ownership of Directors and Executive Officers” in the Proxy Statement and is incorporated by reference.

The following table provides information as of December 31, 2020, regarding securities authorized for issuance under our equity compensation plans. All outstanding awards relate to our common stock. For additional information about our equity compensation plans refer to “Note 15: Benefit Plans” in the Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K.

Plan category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights <sup>(1)</sup>	(b) Weighted average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) <sup>(2)</sup>
Equity compensation plans approved by security holders	104,862	\$ 13.41	3,496,683
Equity compensation plans not approved by security holders	—	—	—
<b>Total</b>	<b>104,862</b>	<b>\$ 13.41</b>	<b>3,496,683</b>

(1)—Represents phantom shares granted under the Deferred Compensation and Stock Ownership Plan for Non-Employee Directors.

(2)—Includes 3,338,822 shares of common stock available for future grants under the MBIA Inc. 2005 Omnibus Incentive Plan and 157,861 shares of common stock available for future grants under the Deferred Compensation and Stock Ownership Plan for Non-Employee Directors.



**Item 13. Certain Relationships and Related Transactions, and Director Independence**

Information regarding certain relationships and related transactions will be set forth under “Certain Relationships and Related Transactions” in the Proxy Statement and is incorporated by reference. Information regarding director independence will be set forth under “Proposals for Shareholder Approval Recommended by the Board—Proposal 1: Election of Directors—Director Independence” in the Proxy Statement and is incorporated by reference.

**Item 14. Principal Accounting Fees and Services**

Information regarding principal accounting fees and services will be set forth under “Principal Accountant Fees and Services” in the Proxy Statement and is incorporated by reference.

## Part IV

### Item 15. Exhibits, Financial Statement Schedules

(a) Financial Statements and Financial Statement Schedules and Exhibits

#### 1. Financial Statements

The following financial statements of MBIA Inc. have been included in Part II, Item 8 hereof:

Report of Independent Registered Public Accounting Firm.

Consolidated balance sheets as of December 31, 2020 and 2019.

Consolidated statements of operations for the years ended December 31, 2020, 2019 and 2018.

Consolidated statements of comprehensive income (loss) for the years ended December 31, 2020, 2019 and 2018.

Consolidated statements of changes in shareholders' equity for the years ended December 31, 2020, 2019 and 2018.

Consolidated statements of cash flows for the years ended December 31, 2020, 2019 and 2018.

Notes to consolidated financial statements.

#### 2. Financial Statement Schedules

The following financial statement schedules, which appear on pages 148-154, are filed as part of this Annual Report on Form 10-K.

<u>Schedule</u>	<u>Title</u>
I.	Summary of investments, other than investments in related parties, as of December 31, 2020.
II.	Condensed financial information of Registrant: Condensed balance sheets as of December 31, 2020 and 2019. Condensed statements of operations for the years ended December 31, 2020, 2019 and 2018. Condensed statements of cash flows for the years ended December 31, 2020, 2019 and 2018. Notes to condensed financial statements.
IV.	Reinsurance for the years ended December 31, 2020, 2019 and 2018.

The report of the Registrant's Independent Registered Public Accounting Firm with respect to the above listed financial statement schedules is included within the report listed under Item 15.1 above.

All other schedules are omitted because they are not applicable or the required information is shown in the consolidated financial statements or notes thereto.

#### 3. Exhibits

An exhibit index immediately preceding the Exhibits indicates the exhibit number where each exhibit filed as part of this report can be found.

**(Note Regarding Reliance on Statements in Our Contracts:** *In reviewing the agreements included as exhibits to this Annual Report on Form 10-K, please remember that they are included to provide you with information regarding their terms and are not intended to provide any other factual or disclosure information about MBIA Inc., its subsidiaries or the other parties to the agreements. The agreements contain representations and warranties by each of the parties to the applicable agreement. These representations and warranties have been made solely for the benefit of the other parties to the applicable agreement and (i) should not in all instances be treated as categorical statements of fact, but rather as a way of allocating the risk to one of the parties if those statements prove to be inaccurate; (ii) have been qualified by disclosures that were made to the other party in connection with the negotiation of the applicable agreement, which disclosures are not necessarily reflected in the agreement; (iii) may apply standards of materiality in a way that is different from what may be viewed as material to investors; and (iv) were made only as of the date of the applicable agreement or such other date or dates as may be specified in the agreement and are subject to more recent developments. Accordingly, these representations and warranties may not describe the actual state of affairs as of the date they were made or at any other time.*)

**Item 15. Exhibits, Financial Statement Schedules (continued)**

3. Articles of Incorporation and By-Laws.

3.1. Amended and Restated Certificate of Incorporation, dated May 5, 2005, incorporated by reference to Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2005.

3.2. By-Laws as Amended as of February 28, 2019, incorporated by reference to Exhibit 3.2 to the Company's Annual Report on Form 10-K/A for the fiscal year ended December 31, 2018.

4. Instruments Defining the Rights of Security Holders, including Indentures.

4.1. Indenture, dated as of August 1, 1990, between MBIA Inc. and The First National Bank of Chicago, Trustee, incorporated by reference to Exhibit 10.72 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1992 as amended by the First Supplemental Indenture, dated as of August 22, 2002, between MBIA Inc. and Bank One Trust Company, N.A., as Trustee, in connection with the \$300,000,000 6.4% senior notes due 2022, incorporated by reference to the Exhibit 4.04 to the Company's Current Report on Form 8-K filed on August 22, 2002, and the Second Supplemental Indenture, dated as of November 21, 2012, between MBIA Inc. and The Bank of New York Mellon, as Trustee, incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed on November 26, 2012.

4.2. Senior Indenture, dated as of November 24, 2004, between MBIA Inc. and The Bank of New York, as Trustee, incorporated by reference to Exhibit 4.01 to the Company's Current Report on Form 8-K filed on November 29, 2004 as amended by the First Supplemental Indenture, dated as of November 24, 2004, between MBIA Inc. and The Bank of New York, as Trustee, in connection with the \$350,000,000 5.70% senior notes due 2034, incorporated by reference to Exhibit 4.02 to the Company's Current Report on Form 8-K filed on November 29, 2004 as amended by the Second Supplemental Indenture, dated as of November 21, 2012, between MBIA Inc. and The Bank of New York Mellon, as Trustee, incorporated by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K filed on November 26, 2012.

4.3. Fiscal Agency Agreement, dated as of January 16, 2008, between MBIA Insurance Corporation and The Bank of New York, incorporated by reference to Exhibit 4.01 to the Company's Current Report on Form 8-K filed on January 17, 2008.

4.4. Form of MBIA Corp. 14% Fixed-to-Floating Rate Global Note due January 15, 2033, incorporated by reference to Exhibit 4.02 to the Company's Current Report on Form 8-K filed on January 17, 2008.

4.5. Senior Note Indenture, dated as of January 10, 2017, between MZ Funding LLC and Wilmington Savings Fund Society, FSB, as Trustee and Collateral Agent, incorporated by reference to Exhibit 99.1 to the Company's Current Report on Form 8-K filed on January 10, 2017.

4.6. Form of MZ Funding LLC \$328,250,000 14% Senior Secured Note due January 20, 2020, incorporated by reference to Exhibit 99.2 to the Company's Current Report on Form 8-K filed on January 10, 2017.

4.7. Subordinated Note Indenture, dated as of January 10, 2017, between MZ Funding LLC and Wilmington Savings Fund Society, FSB, as Trustee and Collateral Agent, incorporated by reference to Exhibit 99.3 to the Company's Current Report on Form 8-K filed on January 10, 2017.

4.8. Form of MZ Funding LLC \$88,000,000 14% Senior Secured Note due January 20, 2020, incorporated by reference to Exhibit 99.4 to the Company's Current Report on Form 8-K filed on January 10, 2017.

4.9. Credit Agreement dated as of January 10, 2017 between MBIA Insurance Corp. and MZ Funding LLC, incorporated by reference to Exhibit 99.5 to the Company's Current Report on Form 8-K filed on January 10, 2017.

4.10. Security Agreement dated as of January 10, 2017 between MBIA Insurance Corp. as Grantor and MZ Funding LLC as Secured Party, incorporated by reference to Exhibit 99.6 to the Company's Current Report on Form 8-K filed on January 10, 2017.

4.11. Security Agreement dated as of January 10, 2017 between MZ Funding LLC as Grantor and Wilmington Savings Fund Society, FSB as Collateral Agent under the Senior Note Indenture referenced herein as Exhibit 4.8 and incorporated by reference to Exhibit 99.7 to the Company's Current Report on Form 8-K filed on January 10, 2017.

**Item 15. Exhibits, Financial Statement Schedules (continued)**

4.12. Security Agreement dated as of January 10, 2017 between MZ Funding LLC as Grantor and Wilmington Savings Fund Society, FSB as Collateral Agent under the Subordinated Note Indenture referenced herein as Exhibit 4.9 and incorporated by reference to Exhibit 99.8 to the Company's Current Report on Form 8-K filed on January 10, 2017.

4.13. Pledge Agreement dated as of January 10, 2017 between MBIA Inc. as Pledgor and Wilmington Savings Fund Society, FSB as Collateral Agent under the Subordinated Note Indenture referenced herein as Exhibit 4.7 and incorporated by reference to Exhibit 99.9 to the Company's Current Report on Form 8-K filed on January 10, 2017.

4.14. Intercreditor Agreement dated as of January 10, 2017 amongst Wilmington Savings Fund Society, FSB as Trustee MZ Funding LLC and MBIA Insurance Corp. as Insurer, incorporated by reference to Exhibit 99.10 to the Company's Current Report on Form 8-K filed on January 10, 2017.

**10. Material Contracts**

**Executive Compensation Plans and Arrangements**

The following Exhibits identify all existing executive compensation plans and arrangements:

10.1. MBIA Inc. Annual Incentive Plan, effective January 1, 2016, incorporated by reference to Exhibit A to the Company's Proxy Statement filed on March 24, 2015.

10.2. MBIA Inc. 2005 Omnibus Incentive Plan, as amended through March, 2012, incorporated by reference to Exhibit A to the Company's Proxy Statement filed on March 19, 2012, as amended by the Amendment thereto, effective as of May 2, 2013.

10.3. Key Employee Employment Protection Plan, amended as of February 27, 2007, incorporated by reference to Exhibit 10.80 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2007, as further amended by Amendment No. 2, effective February 22, 2010, incorporated by reference to Exhibit 10.13 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2009.

10.4. Form of Key Employee Employment Protection Agreement, amended as of February 27, 2007, incorporated by reference to Exhibit 10.81 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2007.

10.5. MBIA Inc. 2005 Non-Employee Director Deferred Compensation Plan (as amended through February 2014), incorporated by reference to Exhibit 10.1 to the Company's Form S-8 filed on March 5, 2014 (Reg. No. 333-194335).

10.6. Amended and Restated MBIA Inc. Deferred Compensation and Excess Benefit Plan, effective as of March 22, 2010, incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2010.

10.7. Restricted Stock Agreement, dated as of November 8, 2018, between MBIA Inc. and Daniel M. Avitabile, incorporated by reference to Exhibit 10.7 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2018.

10.8. Restricted Stock Agreement, dated as of November 8, 2018, between MBIA Inc. and Adam T. Bergonzi, incorporated by reference to Exhibit 10.8 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2018.

10.9. Restricted Stock Agreement, dated as of November 8, 2018, between MBIA Inc. and William C. Fallon, incorporated by reference to Exhibit 10.9 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2018.

10.10. Restricted Stock Agreement, dated as of November 8, 2018, between MBIA Inc. and Jonathan C. Harris, incorporated by reference to Exhibit 10.10 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2018.

10.11. Restricted Stock Agreement, dated as of November 8, 2018, between MBIA Inc. and Anthony McKiernan, incorporated by reference to Exhibit 10.11 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2018.

10.12. Restricted Stock Agreement, dated as of November 8, 2018, between MBIA Inc. and Christopher H. Young, incorporated by reference to Exhibit 10.12 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2018.

21. List of Subsidiaries.

23. Consent of PricewaterhouseCoopers LLP.

**Item 15. Exhibits, Financial Statement Schedules (continued)**

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

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

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

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

99.1. Quota Share Reinsurance Agreement between MBIA Insurance Corporation and MBIA Insurance Corp. of Illinois dated February 17, 2009, incorporated by reference to Exhibit 99.1 to the Company's Current Report on Form 8-K filed on February 20, 2009.

99.2. Novation Agreement, dated as of September 14, 2012, between Financial Guaranty Insurance Company and National Public Finance Guarantee Corporation, incorporated by reference to Exhibit 99.3 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2013.

99.3. Amended and Restated Tax Sharing Agreement, dated as of September 8, 2011, between MBIA Inc. and certain of its subsidiaries, incorporated by reference to Exhibit 99.3 to the Company's Annual Report on Form 10-K for the year ended December 31, 2014.

101.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)

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: March 1, 2021

MBIA Inc.  
(Registrant)

By /s/ William C. Fallon

Name: William C. Fallon

Title: Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ William C. Fallon</u> William C. Fallon	Director and Chief Executive Officer	March 1, 2021
<u>/s/ Anthony McKiernan</u> Anthony McKiernan	Chief Financial Officer	March 1, 2021
<u>/s/ Joseph R. Schachinger</u> Joseph R. Schachinger	Assistant Vice President and Controller (Chief Accounting Officer)	March 1, 2021
<u>/s/ Charles R. Rinehart</u> Charles R. Rinehart	Chairman and Director	March 1, 2021
<u>/s/ Diane L. Dewbrey</u> Diane L. Dewbrey	Director	March 1, 2021
<u>/s/ Steven J. Gilbert</u> Steven J. Gilbert	Director	March 1, 2021
<u>/s/ Theodore Shasta</u> Theodore Shasta	Director	March 1, 2021
<u>/s/ Richard C. Vaughan</u> Richard C. Vaughan	Director	March 1, 2021

**SCHEDULE I**  
**MBIA INC. AND SUBSIDIARIES**  
**SUMMARY OF INVESTMENTS, OTHER THAN INVESTMENTS IN RELATED PARTIES**  
**December 31, 2020**  
**(In millions)**

Type of investment	December 31, 2020		
	Cost	Fair Value	Amount at which shown in the balance sheet
Available-for-sale:			
U.S. Treasury and government agency	\$ 556	\$ 631	\$ 631
State and municipal bonds	162	194	194
Foreign governments	9	10	10
Corporate obligations	767	830	830
Mortgage-backed securities:			
Residential mortgage-backed agency	305	312	312
Residential mortgage-backed non-agency	23	25	25
Commercial mortgage-backed	17	17	17
Asset-backed securities:			
Collateralized debt obligations	120	118	118
Other asset-backed	121	121	121
Total long-term available-for-sale	2,080	2,258	2,258
Short-term available-for-sale	280	281	281
Total available-for-sale	2,360	2,539	2,539
Investments at fair value	189	197	197
Total investments	\$2,549	\$ 2,736	\$ 2,736
Assets of consolidated variable interest entities:			
Investments at fair value	96	77	77
Loans receivable	124	120	120
Total investments of consolidated variable interest entities	\$ 220	\$ 197	\$ 197

**SCHEDULE II**  
**MBIA INC. (PARENT COMPANY)**  
**CONDENSED BALANCE SHEETS**  
(In millions except share and per share amounts)

	<u>December 31,</u> <u>2020</u>	<u>December 31,</u> <u>2019</u>
<b>Assets</b>		
Investments:		
Fixed-maturity securities held as available-for-sale, at fair value (amortized cost \$621 and \$610)	\$ 719	\$ 674
Investments carried at fair value	1	1
Investments pledged as collateral, at fair value (amortized cost \$10 and \$19)	1	11
Short-term investments held as available-for-sale, at fair value (amortized cost \$31 and \$167)	31	167
Total investments	<u>752</u>	<u>853</u>
Cash and cash equivalents	26	11
Investment in wholly-owned subsidiaries	728	1,456
Other assets	139	123
<b>Total assets</b>	<b><u>\$ 1,645</u></b>	<b><u>\$ 2,443</u></b>
<b>Liabilities and Shareholders' Equity</b>		
Liabilities:		
Investment agreements	\$ 269	\$ 274
Long-term debt	312	427
Affiliate loans payable	695	658
Income taxes payable	12	60
Derivative liabilities	164	133
Other liabilities	57	65
<b>Total liabilities</b>	<b><u>1,509</u></b>	<b><u>1,617</u></b>
Shareholders' Equity:		
Preferred stock, par value \$1 per share; authorized shares—10,000,000; issued and outstanding—none	—	—
Common stock, par value \$1 per share; authorized shares—400,000,000; issued shares—283,186,115 and 283,433,401	283	283
Additional paid-in capital	2,962	2,999
Retained earnings (deficit)	(13)	607
Accumulated other comprehensive income (loss), net of tax	115	(2)
Treasury stock, at cost—229,508,967 and 204,000,108 shares	(3,211)	(3,061)
<b>Total shareholders' equity of MBIA Inc.</b>	<b><u>136</u></b>	<b><u>826</u></b>
<b>Total liabilities and shareholders' equity</b>	<b><u>\$ 1,645</u></b>	<b><u>\$ 2,443</u></b>

The condensed financial statements should be read in conjunction with the consolidated financial statements and notes thereto and the accompanying notes.



**SCHEDULE II**  
**MBIA INC. (PARENT COMPANY)**  
**CONDENSED STATEMENTS OF OPERATIONS**  
(In millions)

	<u>Years ended December 31,</u>		
	<u>2020</u>	<u>2019</u>	<u>2018</u>
<b>Revenues:</b>			
Net investment income	\$ 28	\$ 35	\$ 35
Net gains (losses) on financial instruments at fair value and foreign exchange	(67)	(57)	20
Net gains (losses) on extinguishment of debt	—	(1)	3
Other net realized gains (losses)	—	(2)	(2)
Total revenues	<u>(39)</u>	<u>(25)</u>	<u>56</u>
<b>Expenses:</b>			
Operating	10	10	11
Interest	83	90	93
Total expenses	<u>93</u>	<u>100</u>	<u>104</u>
Gain (loss) before income taxes and equity in earnings of subsidiaries	(132)	(125)	(48)
Provision (benefit) for income taxes	(4)	(99)	(35)
Gain (loss) before equity in earnings of subsidiaries	(128)	(26)	(13)
Equity in net income (loss) of subsidiaries	(450)	(333)	(283)
<b>Net income (loss)</b>	<u><u>\$(578)</u></u>	<u><u>\$(359)</u></u>	<u><u>\$(296)</u></u>

The condensed financial statements should be read in conjunction with the consolidated financial statements and notes thereto and the accompanying notes.

**SCHEDULE II**  
**MBIA INC. (PARENT COMPANY)**  
**CONDENSED STATEMENTS OF CASH FLOWS**  
(In millions)

	<u>Years ended December 31,</u>		
	<u>2020</u>	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:			
Investment income received	\$ 101	\$ 156	\$ 132
Operating expenses paid	(47)	(17)	(17)
Interest paid, net of interest converted to principal	(60)	(88)	(91)
Income taxes (paid) received	5	34	(16)
Net cash provided (used) by operating activities	<u>(1)</u>	<u>85</u>	<u>8</u>
Cash flows from investing activities:			
Purchases of available-for-sale investments	(216)	(278)	(495)
Sales of available-for-sale investments	183	319	175
Paydowns and maturities of available-for-sale investments	41	179	101
Purchases of investments at fair value	(2)	5	(9)
Sales, paydowns and maturities of investments at fair value	2	—	10
Sales, paydowns and maturities (purchases) of short-term investments, net	137	(61)	262
(Payments) proceeds for derivative settlements	(16)	(98)	(24)
Contributions (to) from subsidiaries, net	—	(14)	51
Advances (to) from subsidiaries, net	—	—	3
Net cash provided (used) by investing activities	<u>129</u>	<u>52</u>	<u>74</u>
Cash flows from financing activities:			
Proceeds from investment agreements	12	15	11
Principal paydowns of investment agreements	(18)	(20)	(35)
Proceeds from long-term debt	—	—	40
Principal paydowns of long-term debt	(115)	(150)	—
Payments for affiliate loans	—	(19)	(71)
Restricted stock awards settlements	8	8	4
Net cash provided (used) by financing activities	<u>(113)</u>	<u>(166)</u>	<u>(51)</u>
Effect of exchange rates on cash and cash equivalents	—	—	(1)
Net increase (decrease) in cash and cash equivalents	15	(29)	30
Cash and cash equivalents—beginning of year	11	40	10
Cash and cash equivalents—end of year	<u>\$ 26</u>	<u>\$ 11</u>	<u>\$ 40</u>
Reconciliation of net income (loss) to net cash provided (used) by operating activities:			
Net income (loss)	\$(578)	\$(359)	\$(296)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:			
Change in:			
Intercompany accounts receivable	(39)	(16)	(9)
Current income taxes	5	23	(15)
Equity in earnings of subsidiaries	450	333	283
Dividends from subsidiaries	81	134	112
Net (gains) losses on financial instruments at fair value and foreign exchange	67	57	(20)
Deferred income tax provision (benefit)	(4)	(88)	(35)
(Gains) losses on extinguishment of debt	—	1	(3)
Other operating	17	—	(9)
Total adjustments to net income (loss)	<u>577</u>	<u>444</u>	<u>304</u>
Net cash provided (used) by operating activities	<u>\$ (1)</u>	<u>\$ 85</u>	<u>\$ 8</u>

**The condensed financial statements should be read in conjunction with the consolidated financial statements and notes thereto and the accompanying notes.**

**SCHEDULE II**  
**MBIA INC. (PARENT COMPANY)**  
**NOTES TO CONDENSED FINANCIAL STATEMENTS**

**1. Condensed Financial Statements**

Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. This includes the statements of comprehensive income (loss) which is exactly the same as the Company's consolidated statements of comprehensive income (loss). It is suggested that these condensed financial statements be read in conjunction with the Company's consolidated financial statements and the notes thereto.

The activities of MBIA Inc. (the "Parent Company") consist of general corporate activities and funding activities, which principally include holding and managing investments, servicing outstanding corporate debt, investment agreements issued by the Parent Company and its subsidiaries, and posting collateral under investment agreement and derivative contracts.

The Parent Company is subject to the same liquidity risks and uncertainties as described in footnote 1 to the Company's consolidated financial statements. As of December 31, 2020, the liquidity position of the Parent Company, which included cash and cash equivalents or short-term investments comprised of highly rated commercial paper, money market funds and municipal, U.S. agency and corporate bonds for general corporate purposes, excluding the amount held in escrow under its tax sharing agreement, was \$294 million.

During 2020 and 2019, the Parent Company redeemed \$115 million and \$150 million, respectively, principal amount of its 6.400% Senior Notes due 2022 at a cost of 100% of par value plus accrued interest. As of December 31, 2020, National owned \$308 million principal amount of the 5.700% Senior Notes due 2034 and \$10 million principal amount of MBIA Inc. 7.000% Debentures due 2025, and MBIA Inc., through its corporate segment, owned \$13 million of MBIA Corp. surplus notes. These amounts are eliminated from the Parent Company's condensed balance sheet.

**2. Accounting Policies**

The Parent Company carries its investments in subsidiaries under the equity method.

For a further discussion of significant accounting policies and recent accounting pronouncements, refer to footnotes 2 and 3 to the Company's consolidated financial statements.

**3. Dividends from Subsidiaries**

During 2020, National declared and paid a dividend of \$81 million to its ultimate parent, MBIA Inc.

During 2019, National declared and paid dividends of \$134 million to its ultimate parent, MBIA Inc.

During 2018, National Public Finance Guarantee Holdings, Inc. declared and paid a dividend of \$108 million to the Parent Company. In addition, National Public Finance Guarantee Holdings, Inc. declared and paid a dividend of \$1 million to the Parent Company and MBIA Capital Corp. declared and paid a dividend of \$3 million to the Parent Company.

**4. Deferred Tax Asset, Net of Valuation Allowance**

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

The Parent Company 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 Parent Company having a three-year cumulative loss. Such objective evidence limits the ability to consider other subjective evidence, such as the Parent Company's projections of pre-tax income. On the basis of this evaluation, the Parent Company has recorded a full valuation allowance against its net deferred tax asset.

For a further discussion of the net deferred tax asset, refer to footnote 11 to the Company's consolidated financial statements.

## **5. Obligations under Investment Agreements**

Investment agreements, as described in footnote 10 to the Company's consolidated financial statements, are conducted by both the Parent Company and its wholly-owned subsidiary, MBIA Investment Management Corp.

## **6. Pledged Collateral**

Substantially all of the obligations under investment agreements require the Parent Company and its subsidiaries to pledge securities as collateral. As of December 31, 2020 and 2019, the fair value of securities pledged as collateral with respect to these investment agreements approximated \$282 million and \$313 million, respectively. The Parent Company's collateral as of December 31, 2020, consisted principally of U.S. Treasury and government agency and state and municipal bonds, and was primarily held with major U.S. banks.

Under derivative contracts entered into by the Parent Company, collateral postings are required by either the Parent Company or the counterparty when the aggregate market value of derivative contracts entered into with the same counterparty exceeds a predefined threshold. As of December 31, 2020 and 2019, the Parent Company and its subsidiaries pledged securities with a fair value of \$214 million and \$181 million, respectively, to derivative counterparties.

## **7. Affiliate Loans Payable**

Affiliate loans payable consists of loans payable to MBIA Global Funding, LLC ("GFL"). GFL raised funds through the issuance of medium-term notes with varying maturities, which were, in turn, guaranteed by MBIA Corp. GFL lent the proceeds of these medium-term note issuances to the Parent Company.

**SCHEDULE IV**  
**MBIA INC. AND SUBSIDIARIES**  
**REINSURANCE**

**Years Ended December 31, 2020, 2019 and 2018**  
(In millions)

Column A Insurance Premium Written	Column B Direct Amount	Column C Ceded to Others	Column D Assumed From Other Companies	Column E Net Amount	Column F Percentage of Amount Assumed to Net
2020	\$ 1	\$ 1	\$ —	\$ —	0%
2019	\$ 3	\$ —	\$ —	\$ 3	0%
2018	\$ 3	\$ 1	\$ —	\$ 2	0%

**SUBSIDIARIES OF MBIA INC.**

<b><u>Name of Subsidiary</u></b>	<b><u>State/Country of Incorporation</u></b>
Alliance For Responsible Municipal Government, LLC	Delaware
LaCrosse Financial Products, LLC	Delaware
LaCrosse Financial Products Member, LLC	Delaware
MBIA Capital Corp.	Delaware
MBIA Global Funding, LLC	Delaware
MBIA Insurance Corporation	New York
MBIA Investment Management Corp.	Delaware
MBIA Mexico, S.A. de C.V.	Mexico
MBIA Services Corporation	Delaware
Municipal Issuers Service Corporation	New York
MZ Funding LLC	Delaware
National Public Finance Guarantee Holdings, Inc.	Delaware
National Public Finance Guarantee Corporation	New York
Promotora de Infraestructura Registral II, S.A. de C.V., SOFOM, E.R.	Mexico

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (Nos. 333-34101, 033-46062, 333-84300, 333-127539, 333-149839, 333-152894, 333-159648, 333-165713, 333-183529, 333-190738 and 333-194335) of MBIA Inc. of our report dated March 1, 2021 relating to the financial statements and financial statement schedules and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP  
New York, New York  
March 1, 2021

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

I, William C. Fallon, certify that:

1. I have reviewed the Annual Report of MBIA Inc. (the "Company") on Form 10-K for the period ending December 31, 2020 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 fourth quarter of 2020 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting; and
5. The Company's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and to the audit committee of the board of directors:
  - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and
  - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

/s/ William C. Fallon

William C. Fallon  
Chief Executive Officer  
March 1, 2021



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

I, Anthony McKiernan, certify that:

1. I have reviewed the Annual Report of MBIA Inc. (the "Company") on Form 10-K for the period ending December 31, 2020 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 fourth quarter of 2020 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting; and
5. The Company's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and to the audit committee of the board of directors:
  - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and
  - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

/s/ Anthony McKiernan

Anthony McKiernan

Chief Financial Officer

March 1, 2021

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of MBIA Inc. (the "Company") on Form 10-K for the period ending December 31, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, William C. Fallon, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ William C. Fallon

---

William C. Fallon  
Chief Executive Officer  
March 1, 2021

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of MBIA Inc. (the "Company") on Form 10-K for the period ending December 31, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Anthony McKiernan, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Anthony McKiernan

Anthony McKiernan  
Chief Financial Officer  
March 1, 2021