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

# Form 10-Q

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

**For the quarterly period ended June 30, 2022**

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

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

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

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

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

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

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

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

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

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

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

As of July 27, 2022, 54,899,913 shares of Common Stock, par value $1 per share, were outstanding.

## FORWARD-LOOKING AND CAUTIONARY STATEMENTS

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

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

- increased credit losses or impairments on public finance obligations that National Public Finance Guarantee Corporation (“National”) insures issued by state, local and territorial governments and finance authorities and other providers of public services, located in the U.S. or abroad, that are experiencing fiscal stress;
- the possibility that loss reserve estimates are not adequate to cover potential claims;
- a disruption in the cash flow from National or an inability to access the capital markets and our exposure to significant fluctuations in liquidity and asset values in the global credit markets as a result of collateral posting requirements;
- our ability to fully implement our strategic plan;
- the possibility that MBIA Insurance Corporation will have inadequate liquidity or resources to timely pay claims as a result of higher than expected losses on certain insured transactions or as a result of a delay or failure in collecting expected recoveries, which could lead the New York State Department of Financial Services (“NYSDFS”) to put MBIA Insurance Corporation into a rehabilitation or liquidation proceeding under Article 74 of the New York Insurance Law and/or take such other actions as the NYSDFS may deem necessary to protect the interests of MBIA Insurance Corporation’s policyholders;
- 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 II, Other Information, Item 1A included in this Quarterly Report on Form 10-Q. The Company encourages readers to review these risk factors in their entirety.

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

## PART I FINANCIAL INFORMATION

### Item 1. Financial Statements

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

| | June 30, 2022 | December 31, 2021 |
|---|---|---|
| **Assets** | | |
| Investments: | | |
| Fixed-maturity securities held as available-for-sale, at fair value (net of allowance for credit losses $3 and $-, amortized cost $2,350 and $2,016) | $ 2,188 | $ 2,157 |
| Investments carried at fair value | 332 | 258 |
| Investments pledged as collateral, at fair value (amortized cost $- and $4) | - | 4 |
| Short-term investments, at fair value (amortized cost $458 and $374) | 458 | 374 |
| Total investments | 2,978 | 2,793 |
| Cash and cash equivalents | 202 | 151 |
| Premiums receivable (net of allowance for credit losses $5 and $5) | 171 | 178 |
| Deferred acquisition costs | 39 | 42 |
| Insurance loss recoverable | 443 | 1,296 |
| Other assets | 85 | 67 |
| Assets of consolidated variable interest entities: | | |
| Cash | 5 | 9 |
| Investments carried at fair value | 51 | 60 |
| Loans receivable at fair value | 68 | 77 |
| Other assets | 25 | 23 |
| **Total assets** | **$ 4,067** | **$ 4,696** |
| **Liabilities and Equity** | | |
| Liabilities: | | |
| Unearned premium revenue | $ 297 | $ 322 |
| Loss and loss adjustment expense reserves | 965 | 894 |
| Long-term debt | 2,359 | 2,331 |
| Medium-term notes (includes financial instruments carried at fair value of $42 and $98) | 493 | 590 |
| Investment agreements | 277 | 274 |
| Derivative liabilities | 72 | 131 |
| Other liabilities | 122 | 163 |
| Liabilities of consolidated variable interest entities: | | |
| Variable interest entity notes carried at fair value | 217 | 291 |
| **Total liabilities** | **4,802** | **4,996** |
| Commitments and contingencies (Refer to Note 13: Commitments and Contingencies) | | |
| Equity: | | |
| Preferred stock, par value $1 per share; authorized shares--10,000,000; issued and outstanding—none | - | - |
| Common stock, par value $1 per share; authorized shares--400,000,000; issued shares--283,186,115 and 283,186,115 | 283 | 283 |
| Additional paid-in capital | 2,919 | 2,931 |
| Retained earnings (deficit) | (567) | (458) |
| Accumulated other comprehensive income (loss), net of tax of $8 and $8 | (231) | 100 |
| Treasury stock, at cost--228,286,399 and 228,630,003 shares | (3,152) | (3,169) |
| Total shareholders' equity of MBIA Inc. | (748) | (313) |
| Preferred stock of subsidiary | 13 | 13 |
| **Total equity** | **(735)** | **(300)** |
| **Total liabilities and equity** | **$ 4,067** | **$ 4,696** |

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

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

| | Three Months Ended June 30, | | | | Six Months Ended June 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2022 | | 2021 | | 2022 | | 2021 | |
| **Revenues** | | | | | | | | |
| Premiums earned: | | | | | | | | |
| Scheduled premiums earned | $ | 10 | $ | 12 | $ | 21 | $ | 27 |
| Refunding premiums earned | | 1 | | 2 | | 5 | | 7 |
| Premiums earned (net of ceded premiums of $- , $1, $1 and $2) | | 11 | | 14 | | 26 | | 34 |
| Net investment income | | 25 | | 14 | | 43 | | 29 |
| Net realized investment gains (losses) | | (21) | | - | | (24) | | (1) |
| Net gains (losses) on financial instruments at fair value and foreign exchange | | 9 | | (20) | | 26 | | 32 |
| Net gains (losses) on extinguishment of debt | | 4 | | 14 | | 4 | | 14 |
| Fees and reimbursements | | 4 | | 1 | | 4 | | 1 |
| Other net realized gains (losses) | | (16) | | - | | (19) | | - |
| Revenues of consolidated variable interest entities: | | | | | | | | |
| Net gains (losses) on financial instruments at fair value and foreign exchange | | 24 | | - | | 20 | | (14) |
| Other net realized gains (losses) | | - | | (5) | | - | | (5) |
| Total revenues | | 40 | | 18 | | 80 | | 90 |
| **Expenses** | | | | | | | | |
| Losses and loss adjustment | | 20 | | 9 | | 69 | | 107 |
| Amortization of deferred acquisition costs | | 1 | | 3 | | 3 | | 5 |
| Operating | | 11 | | 21 | | 30 | | 47 |
| Interest | | 43 | | 41 | | 84 | | 82 |
| Expenses of consolidated variable interest entities: | | | | | | | | |
| Operating | | 1 | | 1 | | 3 | | 3 |
| Interest | | - | | 4 | | - | | 13 |
| Total expenses | | 76 | | 79 | | 189 | | 257 |
| Income (loss) before income taxes | | (36) | | (61) | | (109) | | (167) |
| Provision (benefit) for income taxes | | - | | - | | - | | - |
| **Net income (loss)** | **$** | **(36)** | **$** | **(61)** | **$** | **(109)** | **$** | **(167)** |
| **Net income (loss) per common share** | | | | | | | | |
| Basic | $ | (0.72) | $ | (1.23) | $ | (2.20) | $ | (3.38) |
| Diluted | $ | (0.72) | $ | (1.23) | $ | (2.20) | $ | (3.38) |
| **Weighted average number of common shares outstanding** | | | | | | | | |
| Basic | | 49,826,695 | | 49,488,368 | | 49,729,610 | | 49,373,883 |
| Diluted | | 49,826,695 | | 49,488,368 | | 49,729,610 | | 49,373,883 |

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

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 |
| Net income (loss) | $ (36) | $ (61) | $ (109) | $ (167) |
| Other comprehensive income (loss): | | | | |
| Available-for-sale securities with no credit losses: | | | | |
| Unrealized gains (losses) arising during the period | (126) | 55 | (297) | (32) |
| Reclassification adjustments for (gains) losses included in net income (loss) | (2) | (3) | (2) | (8) |
| Available-for-sale securities with credit losses: | | | | |
| Unrealized gains (losses) arising during the period | (1) | - | (1) | - |
| Foreign currency translation: | | | | |
| Foreign currency translation gains (losses) | 1 | 2 | 1 | 3 |
| Instrument-specific credit risk of liabilities measured at fair value: | | | | |
| Unrealized gains (losses) arising during the period | (6) | 6 | (20) | 1 |
| Reclassification adjustments for (gains) losses included in net income (loss) | (15) | 4 | (12) | 24 |
| Total other comprehensive income (loss) | (149) | 64 | (331) | (12) |
| **Comprehensive income (loss)** | **$ (185)** | **$ 3** | **$ (440)** | **$ (179)** |

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

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 |
| **Common shares** | | | | |
| Balance at beginning and end of period | 283,186,115 | 283,186,115 | 283,186,115 | 283,186,115 |
| **Common stock amount** | | | | |
| Balance at beginning and end of period | $ 283 | $ 283 | $ 283 | $ 283 |
| **Additional paid-in capital** | | | | |
| Balance at beginning of period | $ 2,919 | $ 2,934 | $ 2,931 | $ 2,962 |
| Period change | - | - | (12) | (28) |
| Balance at end of period | $ 2,919 | $ 2,934 | $ 2,919 | $ 2,934 |
| **Retained earnings** | | | | |
| Balance at beginning of period | $ (531) | $ (119) | $ (458) | $ (13) |
| Net income (loss) | (36) | (61) | (109) | (167) |
| Balance at end of period | $ (567) | $ (180) | $ (567) | $ (180) |
| **Accumulated other comprehensive income (loss)** | | | | |
| Balance at beginning of period | $ (82) | $ 39 | $ 100 | $ 115 |
| Other comprehensive income (loss) | (149) | 64 | (331) | (12) |
| Balance at end of period | $ (231) | $ 103 | $ (231) | $ 103 |
| **Treasury shares** | | | | |
| Balance at beginning of period | (228,329,115) | (228,837,465) | (228,630,003) | (229,508,967) |
| Other | 42,716 | 56,925 | 343,604 | 728,427 |
| Balance at end of period | (228,286,399) | (228,780,540) | (228,286,399) | (228,780,540) |
| **Treasury stock amount** | | | | |
| Balance at beginning of period | $ (3,154) | $ (3,179) | $ (3,169) | $ (3,211) |
| Other | 2 | 3 | 17 | 35 |
| Balance at end of period | $ (3,152) | $ (3,176) | $ (3,152) | $ (3,176) |
| **Total shareholders' equity of MBIA Inc.** | | | | |
| Balance at beginning of period | $ (565) | $ (42) | $ (313) | $ 136 |
| Period change | (183) | 6 | (435) | (172) |
| Balance at end of period | **$ (748)** | **$ (36)** | **$ (748)** | **$ (36)** |
| **Preferred stock of subsidiary shares** | | | | |
| Balance at beginning and end of period | 1,315 | 1,315 | 1,315 | 1,315 |
| **Preferred stock of subsidiary amount** | | | | |
| Balance at beginning and end of period | $ 13 | $ 13 | $ 13 | $ 13 |
| **Total equity** | **$ (735)** | **$ (23)** | **$ (735)** | **$ (23)** |

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

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

| | Six Months Ended June 30, 2022 | Six Months Ended June 30, 2021 |
|---|---|---|
| Cash flows from operating activities: | | |
| Premiums, fees and reimbursements received | $ 12 | $ 12 |
| Investment income received | 41 | 41 |
| Financial guarantee losses and loss adjustment expenses paid | (356) | (77) |
| Proceeds from recoveries and reinsurance, net of salvage paid to reinsurers | 604 | 49 |
| Proceeds from loan repurchase commitments | - | 600 |
| Operating expenses paid and other operating | (44) | (43) |
| Interest paid, net of interest converted to principal | (25) | (37) |
| Net cash provided (used) by operating activities | 232 | 545 |
| Cash flows from investing activities: | | |
| Purchases of available-for-sale investments | (662) | (671) |
| Sales of available-for-sale investments | 520 | 396 |
| Paydowns and maturities of available-for-sale investments | 221 | 330 |
| Purchases of investments at fair value | (82) | (103) |
| Sales, paydowns, maturities and other proceeds of investments at fair value | 72 | 108 |
| Sales, paydowns and maturities (purchases) of short-term investments, net | (78) | (138) |
| Paydowns and maturities of loans receivable | 4 | 25 |
| (Payments) proceeds for derivative settlements | (7) | (57) |
| Net cash provided (used) by investing activities | (12) | (110) |
| Cash flows from financing activities: | | |
| Proceeds from investment agreements | 3 | - |
| Principal paydowns of investment agreements | (2) | (2) |
| Principal paydowns of medium-term notes | (74) | (49) |
| Principal paydowns of variable interest entity notes | (68) | (203) |
| Principal paydowns of long-term debt | (29) | - |
| Purchases of treasury stock | (2) | (1) |
| Net cash provided (used) by financing activities | (172) | (255) |
| Effect of exchange rate changes on cash and cash equivalents | (1) | - |
| Net increase (decrease) in cash and cash equivalents | 47 | 180 |
| Cash and cash equivalents - beginning of period | 160 | 167 |
| Cash and cash equivalents - end of period | $ 207 | $ 347 |
| Reconciliation of net income (loss) to net cash provided (used) by operating activities: | | |
| Net income (loss) | $ (109) | $ (167) |
| Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities: | | |
| Change in: | | |
| Premiums receivable | 7 | 9 |
| Unearned premium revenue | (25) | (33) |
| Loss and loss adjustment expense reserves | 65 | (40) |
| Insurance loss recoverable | 302 | 116 |
| Loan repurchase commitments | - | 604 |
| Accrued interest payable | 51 | 52 |
| Other liabilities | (54) | (6) |
| Net realized investment gains (losses) | 24 | 1 |
| Net (gains) losses on financial instruments at fair value and foreign exchange | (46) | (22) |
| Other net realized (gains) losses | 19 | 5 |
| Other operating | (2) | 26 |
| Total adjustments to net income (loss) | 341 | 712 |
| Net cash provided (used) by operating activities | $ 232 | $ 545 |
| Supplementary Disclosure of Consolidated Cash Flow Information: | | |
| Fixed-maturity securities held as available-for-sale, received as salvage | $ 459 | $ - |
| Investments carried at fair value, received as salvage | $ 112 | $ - |

The accompanying notes are an integral part of the 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 Mexico S.A. de C.V., ("MBIA Corp.").

Refer to "Note 10: Business Segments" for further information about the Company's operating segments.

### *Business Developments*

*Puerto Rico*

On January 1, 2022, 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 $47 million. As of June 30, 2022, National had $2.1 billion of debt service outstanding related to Puerto Rico.

In addition, on July 1, 2022, Puerto Rico defaulted on scheduled debt service for National insured bonds and National paid gross claims in the aggregate of $142 million, which decreased the $2.1 billion of debt service outstanding related to Puerto Rico.

<u>PREPA</u>

On March 8, 2022, the Puerto Rico Fiscal Agency and Financial Advisory Authority ("AAFAF") and the Puerto Rico Electric Power Authority ("PREPA") terminated the restructuring support agreement, as amended ("RSA"). On April 8, 2022, the Court appointed a new panel of judges to commence mediation among the Financial Oversight and Management Board for Puerto Rico (the "Oversight Board"), the Ad Hoc creditor group as holders of PREPA Senior Bonds, Assured, National and Syncora (the "April 8 Order"). The mediation deadline is currently August 15, 2022. The April 8 Order further provides that nothing therein acts as a stay of any pending adversary proceedings or contested matters in the PREPA case, subject to the Court's pending request to the Oversight Board for a status report by August 15, 2022.

As of June 30, 2022, National has sold approximately 35% of its PREPA bankruptcy claims related to insurance claims paid on matured National-insured PREPA bonds. These sales monetized a portion of National's salvage asset and reduced potential volatility and ongoing risk of remediation around the PREPA credit.

<u>GO and HTA</u>

On February 22, 2021, National agreed to join a plan support agreement, dated as of February 22, 2021 (the "GO PSA"), among the Oversight Board, certain holders of Puerto Rico Commonwealth GO ("GO") Bonds and Puerto Rico Public Buildings Authority ("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 Commonwealth Plan of Adjustment was confirmed on January 18, 2022. The GO PSA was effective and implemented on March 15, 2022, and among other things, National received cash, including certain fees, newly issued General Obligation bonds and a contingent value instrument ("CVI") totaling approximately $1.0 billion. The CVI is intended to provide creditors with additional recoveries based on potential outperformance of Puerto Rico 5.5% Sales and Use Tax receipts based on the projections in the 2020 certified fiscal plan, subject to certain caps. Subsequent to the GO PSA implementation, National made $277 million of acceleration and commutation payments pursuant to the GO PSA. Accordingly, National's GO and PBA gross par outstanding and debt service outstanding have been reduced to zero from approximately $380 million and $495 million, respectively.

On April 12, 2021, National, Assured Guaranty Corp., Assured Guaranty Municipal Corp. and the Oversight Board reached an agreement in principle settling certain clawback claims and providing for a distribution of cash, bonds and a CVI to Puerto Rico Highway and Transportation Authority ("HTA") bondholders subject to completing negotiations on a plan support agreement in respect of a plan of adjustment (the "HTA PSA"). On May 5, 2021, National, Assured Guaranty Corp., Assured Guaranty Municipal Corp. and the Oversight Board entered into the HTA PSA. On May 2, 2022, the Oversight Board filed the Title III Plan of Adjustment for the Puerto Rico Highways and Transportation Authority (the "HTA Plan"), together with the Disclosure Statement and supporting documents. On June 22, 2022, the Disclosure Statement was approved by the Court. Confirmation is scheduled for August 17 and 18, 2022. During July of 2022, National received $33 million of cash and $358 million face amount of CVI relating to HTA. In addition, National expects to receive additional cash and newly issued HTA bonds, or cash equal to the face amount of the newly issued HTA bonds, following the effective date of the HTA Plan.

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

Refer to “Note 5: Loss and Loss Adjustment Expense Reserves” for a further discussion of the Company’s Puerto Rico reserves and recoveries.

***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.

*National’s Insured Portfolio*

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. In particular, HTA and PREPA are currently in bankruptcy-like proceedings in the United States District Court for the District of Puerto Rico, pursuant to PROMESA. Since 2016, Puerto Rico has been unable or unwilling to pay its obligations as and when due, and National has been required to pay claims of unpaid principal and interest when due under its insurance policies as a consequence. Puerto Rico may continue to fail to make payments when due, which could cause National to make additional claims payments which could be material. While National will seek to recover any claim payments it makes under its guarantees, there is no assurance that it will be able to recover such payments. National monitors and analyzes these situations and other stressed credits closely, and the overall extent and duration of this stress is uncertain.

*MBIA Corp.’s Insured Portfolio*

MBIA Corp.’s primary objectives are to satisfy all claims by its policyholders and to maximize future recoveries, if any, for its surplus note holders, and then its preferred stock holders. MBIA Corp. is executing this strategy by, among other things, taking steps to maximize the collection of recoveries and by reducing and mitigating 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 it will receive substantial recoveries on 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 collateralized debt obligations (“CDOs”) referenced above (collectively, the “Zohar Collateral”). Since March of 2018, MBIA Corp. has been pursuing those recoveries in a Delaware bankruptcy proceeding filed by the Zohar CDOs. Pursuant to a plan of liquidation confirmed in such bankruptcy proceeding regarding the Zohar CDOs and the remaining Zohar Collateral not previously monetized, which plan of liquidation became effective on August 2, 2022, MBIA Corp.’s rights to recoveries from any remaining Zohar Collateral were distributed to MBIA Corp. in the form of beneficial interests in certain asset recovery entities, which will be managed by a special manager subject to oversight by MBIA Corp. and another former Zohar creditor. There still remains significant uncertainty with respect to the realizable value of the remaining loans and equity interests that formerly constituted the Zohar Collateral and that comprise the assets of the asset recovery entities. Further, as the monetization of these assets unfolds in coordination with the special manager of the asset recovery entities and the directors and managers in place at the portfolio companies, and new information concerning the financial condition of the portfolio companies is disclosed, the Company will continue to revise its expectations for recoveries.

MBIA Corp. also projects to collect recoveries from prior claims associated with insured residential mortgage-backed securities (“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.

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

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

Refer to “Note 5: Loss and Loss Adjustment Expense Reserves” for additional information about MBIA Corp.’s recoveries.

*Corporate Liquidity*

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**

The Company has disclosed its significant accounting policies in “Note 2: Significant Accounting Policies” in the Notes to Consolidated Financial Statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2021. The following significant accounting policies provide an update to those included in the Company’s Annual Report on Form 10-K.

***Basis of Presentation***

The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X and, accordingly, do not include all of the information and disclosures required by accounting principles generally accepted in the United States of America (“GAAP”) for annual periods. These statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Annual Report on Form 10-K for the year ended December 31, 2021. The accompanying consolidated financial statements have not been audited by an independent registered public accounting firm in accordance with the standards of the Public Company Accounting Oversight Board (U.S.), but in the opinion of management such financial statements include all adjustments, consisting only of normal recurring adjustments, necessary for the fair statement of the Company’s consolidated financial position and results of operations. All material intercompany balances and transactions have been eliminated.

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

The results of operations for the three and six months ended June 30, 2022 may not be indicative of the results that may be expected for the year ending December 31, 2022. The December 31, 2021 consolidated balance sheet was derived from audited financial statements, but does not include all disclosures required by GAAP for annual periods.

***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 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. Investments carried at fair value consist of equity instruments, investments elected under the fair value option, and investments classified as trading. Short-term investments include all fixed-maturity securities held as AFS with a remaining maturity of less than one year at the date of purchase, including commercial paper and money market securities.

Changes in the fair values of investments carried at fair value 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. For fixed-maturity securities classified as trading and for VIE investments carried at fair value, interest income is also recorded as part of fair value changes within “Net gains (losses) on financial instruments at fair value and foreign exchange”. Realized gains and losses from the sale and other dispositions of AFS investments are reflected in earnings as part of “Net realized investment gains (losses)” on the Company’s consolidated statements of operations.

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

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.

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. AFS debt securities in an unrealized loss position 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 amounts of impairment associated with the credit losses are recognized as charges to earnings.

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 of the 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.

**Note 3: Recent Accounting Pronouncements**

***Recently Adopted Accounting Standards***

During the six months ended June 30, 2022, the Company did not adopt any new accounting pronouncements that had a material impact on its consolidated financial statements.

***Recent Accounting Developments***

*Reference Rate Reform (Topic 848): Scope (ASU 2021-01) and Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting (ASU 2020-04)*

In January of 2021, the Financial Accounting Standards Board issued Accounting Standards Update ("ASU") 2021-01, "Reference Rate Reform – Scope," which clarified the scope and application of the original guidance, ASU 2020-04, "Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting," issued in March of 2020. 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. Both ASU 2020-04 and ASU 2021-01 were effective upon issuance, and the Company may elect to apply the amendments prospectively through December 31, 2022. The Company is evaluating the potential impact of adopting ASU 2021-01 and 2020-04 and expect to adopt these ASUs when LIBOR is discontinued by June of 2023.

**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 that most significantly impact the VIE'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 $149 million and $217 million, respectively, as of June 30, 2022 and $169 million and $291 million, respectively, as of December 31, 2021. The carrying amounts of assets and liabilities are presented separately in "Assets of consolidated variable interest entities" and "Liabilities of consolidated variable interest entities" on the Company's consolidated balance sheets. VIEs are consolidated or deconsolidated based on an ongoing reassessment of controlling financial interest, when events occur or circumstances arise, and whether the ability to exercise rights that constitute power to direct activities of any VIEs are present according to the design and characteristics of these entities. In the second quarter of 2022, there was no consolidation or deconsolidation of VIEs by the Company. In the second quarter of 2021, the Company deconsolidated two structured finance VIEs due to the prepayment of the outstanding notes of the VIEs and recorded losses of $5 million primarily due to credit losses in AOCI that were released to earnings. During the first quarter of 2022 and 2021, there were no consolidation or deconsolidation of VIEs by the Company. Consolidation and deconsolidation gains and losses, if any, 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.

## Note 4: Variable Interest Entities (continued)

### *Nonconsolidated VIEs*

The following tables present the Company's maximum exposure to loss for nonconsolidated VIEs and carrying values of the assets and liabilities for its interests in these VIEs in its insurance operations as of June 30, 2022 and December 31, 2021. 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.

| | June 30, 2022 | | | | | |
|---|---|---|---|---|---|---|
| | | Carrying Value of Assets | | | Carrying Value of Liabilities | |
| In millions | Maximum Exposure to Loss | Investments | Premiums Receivable | Insurance Loss Recoverable | Unearned Premium Revenue | Loss and Loss Adjustment Expense Reserves |
| Insurance: | | | | | | |
| Global structured finance: | | | | | | |
| Mortgage-backed residential | $ 1,189 | $ 127 | $ 13 | $ 28 | $ 10 | $ 368 |
| Consumer asset-backed | 193 | - | 1 | 3 | - | 5 |
| Corporate asset-backed | 476 | - | 3 | 207 | 4 | - |
| Total global structured finance | 1,858 | 127 | 17 | 238 | 14 | 373 |
| Global public finance | 773 | - | 5 | - | 5 | - |
| Total insurance | $ 2,631 | $ 127 | $ 22 | $ 238 | $ 19 | $ 373 |

| | December 31, 2021 | | | | | |
|---|---|---|---|---|---|---|
| | | Carrying Value of Assets | | | Carrying Value of Liabilities | |
| In millions | Maximum Exposure to Loss | Investments | Premiums Receivable | Insurance Loss Recoverable | Unearned Premium Revenue | Loss and Loss Adjustment Expense Reserves |
| Insurance: | | | | | | |
| Global structured finance: | | | | | | |
| Mortgage-backed residential | $ 1,261 | $ 87 | $ 14 | $ 40 | $ 11 | $ 430 |
| Consumer asset-backed | 226 | - | 1 | 1 | 1 | 6 |
| Corporate asset-backed | 503 | - | 3 | 200 | 4 | 11 |
| Total global structured finance | 1,990 | 87 | 18 | 241 | 16 | 447 |
| Global public finance | 834 | - | 6 | - | 5 | - |
| Total insurance | $ 2,824 | $ 87 | $ 24 | $ 241 | $ 21 | $ 447 |

## Note 5: Loss and Loss Adjustment Expense Reserves

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

U.S. public finance insured transactions consist of municipal bonds, including tax-exempt and taxable indebtedness of U.S. political subdivisions, as well as utilities, airports, health care institutions, higher educational facilities, 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.

*Puerto Rico*

In formulating loss reserves for its Puerto Rico exposures, the Company considers the following: environmental and political impacts on the island; litigation and ongoing discussions with creditors on the Title III proceedings; 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.

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 to default.

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

As part of the GO PSA, in March of 2022, National received certain consideration including cash, bonds and CVI. During July of 2022, in accordance with the HTA PSA, National received cash and CVI related to HTA. In addition, National expects to receive additional cash and newly issued HTA bonds, or cash equal to the face amount of the newly issued HTA bonds, following the effective date of the HTA Plan. The ultimate recovery value to National will depend on the value of these assets upon issuance and over time. Refer to "Note 1: Business Developments and Risks and Uncertainties" for further information on the Company's Puerto Rico exposures and "Note 13: Commitments and Contingencies" for information on the Company's Puerto Rico litigation.

***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 reserves and recoveries on consolidated VIEs, since they are eliminated in consolidation.

*RMBS Case Basis Reserves (Financial Guarantees)*

The Company's RMBS case basis reserves primarily relate to RMBS backed by alternative A-paper and subprime mortgage loans. The Company calculated RMBS case basis reserves as of June 30, 2022 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 first and second-lien loans include historic averages of deal specific voluntary prepayment rates, forward projections of the LIBOR interest rates, and historic averages of deal-specific loss severities. Where applicable, the Company factors in termination scenarios when clean up calls are imminent.

In calculating ultimate cumulative losses for RMBS, the Company estimates the amount of first-lien loans that are expected to be liquidated in the future through foreclosure or short sale, and estimates, the amount of second-lien loans that are expected to be charged-off (deemed uncollectible by servicers of the transactions). 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's RMBS recoveries relate to structural features within the trust structures that allow for the Company to be reimbursed for prior claims paid. These reimbursements for specific trusts include recoveries that are generated from the excess spread of the transactions. Excess spread within insured RMBS securitizations is the difference between interest inflows on mortgage loan collateral and interest outflows on the insured RMBS notes.

*CDO Reserves and Recoveries*

The Company also has loss and loss adjustment expense ("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"), asset-backed securities ("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.

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

Zohar Recoveries

MBIA Corp. is seeking to recover the payments it made (plus interest and expenses) with respect to Zohar I and Zohar II. 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 primarily includes probability-weighted scenarios of the ultimate monetized recovery from the Zohar Collateral. Since March of 2018, MBIA Corp. has been pursuing those recoveries in a Delaware bankruptcy proceeding filed by the Zohar CDOs. Pursuant to a plan of liquidation confirmed in such bankruptcy proceeding regarding the Zohar CDOs and the remaining Zohar Collateral not previously monetized, which plan of liquidation became effective on August 2, 2022, MBIA Corp.'s rights to recoveries from any remaining Zohar Collateral were distributed to MBIA Corp. in the form of beneficial interests in certain asset recovery entities, which will be managed by a special manager subject to oversight by MBIA Corp. and another former Zohar creditor. There still remains significant uncertainty with respect to the realizable value of the remaining loans and equity interests that formerly constituted the Zohar Collateral and that comprise the assets of the asset recovery entities. Further, as the monetization of these assets unfolds in coordination with the special manager of the asset recovery entities and the directors and managers in place at the portfolio companies, and new information concerning the financial condition of the portfolio companies is disclosed, the Company will continue to revise its expectations for recoveries.

***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 June 30, 2022 and December 31, 2021 are presented in the following table:

| In millions | As of June 30, 2022 Balance Sheet Line Item | | As of December 31, 2021 Balance Sheet Line Item | |
|---|---|---|---|---|
| | Insurance loss recoverable | Loss and LAE reserves (1) | Insurance loss recoverable | Loss and LAE reserves (1) |
| **U.S. Public Finance Insurance** | $ 205 | $ 576 | $ 1,054 | $ 425 |
| **International and Structured Finance Insurance:** | | | | |
| Before VIE eliminations | 240 | 596 | 244 | 687 |
| VIE eliminations | (2) | (207) | (2) | (218) |
| Total international and structured finance insurance | 238 | 389 | 242 | 469 |
| **Total** | $ 443 | $ 965 | $ 1,296 | $ 894 |

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

***Changes in Loss and LAE Reserves***

Loss and LAE reserves represent the Company's estimate of future claims and LAE payments, net of any future recoveries of such payments. The following table presents changes in the Company's loss and LAE reserves for the six months ended June 30, 2022. Changes in loss and LAE reserves, with the exception of loss and LAE payments and the impact of the revaluation of loss reserves denominated in amounts other than U.S. dollars, are recorded in "Losses and loss adjustment" expenses in the Company's consolidated statements of operations. As of June 30, 2022, the weighted average risk-free rate used to discount the Company's loss reserves (claim liability) was 3.19%. LAE reserves are generally expected to be settled within a one-year period and are not discounted. As of June 30, 2022 and December 31, 2021, the Company's gross loss and LAE reserves included $20 million and $38 million, respectively, related to LAE.

| In millions | Changes in Loss and LAE Reserves for the Six Months Ended June 30, 2022 | | | | | |
|---|---|---|---|---|---|---|
| Gross Loss and LAE Reserves as of December 31, 2021(1) | Loss and LAE Payments | Accretion of Claim Liability Discount | Changes in Discount Rates | Changes in Assumptions | Changes in Unearned Premium Revenue | Gross Loss and LAE Reserves as of June 30, 2022(1) |
| $894 | $(355) | $10 | $(59) | $473 | $2 | $965 |

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

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

The Company's loss and LAE reserves increased from December 31, 2021, primarily due to a decrease in expected PREPA recoveries on claims not yet paid, which are netted in loss and LAE reserves, as well as higher expected losses due to extending the timing of a settlement. This was partially offset by claim payments made on Puerto Rico exposure for the six months ended June 30, 2022, an increase in estimated expected recoveries related to HTA, which are netted in loss and LAE reserves, and a decline in net reserves on RMBS exposure, as a result of an increase in the risk-free rates used to present value loss reserves.

### *Changes in Insurance Loss Recoverable*

Insurance loss recoverable represents the Company's estimate of expected 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 six months ended June 30, 2022. 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.

| | | Changes in Insurance Loss Recoverable for the Six Months Ended June 30, 2022 | | | | |
|---|---|---|---|---|---|---|
| In millions | Gross Recoverable as of December 31, 2021 | Collections for Cases | Accretion of Recoveries | Changes in Discount Rates | Changes in Assumptions | Gross Recoverable as of June 30, 2022 |
| Insurance loss recoverable | $ 1,296 | $ (1,199) | $ 3 | $ (20) | $ 363 | $ 443 |

The decrease in the Company's insurance loss recoverable reflected in the preceding table was primarily due to the receipt of recoveries from the GO PSA. In addition, insurance loss recoverable declined due to the sale of PREPA bankruptcy claims. These decreases were partially offset by changes in assumptions related to the value of the remaining PREPA recoveries on paid claims.

### *Loss and LAE Activity*

For the three months ended June 30, 2022, loss and LAE incurred primarily related to changes in assumptions used to estimate the fair value of HTA CVI that National received in July of 2022. This was partially offset by an increase in risk-free rates during the second quarter of 2022, which resulted in a decrease in the present value of net case reserves on first-lien RMBS.

For the six months ended June 30, 2022, loss and LAE incurred primarily related to changes in the Company's estimate of expected recoveries on National's PREPA exposure. PREPA loss reserves and recoveries include certain assumptions about the timing and amount of claims payments and recoveries, including assumptions about the values of recoveries on the date the Company expects to receive reimbursement under an implemented plan. During the six months ended June 30, 2022, the Company updated assumptions used to estimate the value of recoveries, the timing and amount of claim payments, as well as the timing of an implemented plan. These assumption changes resulted in a decrease in the Company's estimated present value of expected PREPA recoveries. This was partially offset by loss benefits related to HTA and GO recoveries. During the six months ended June 30, 2022, the Company's HTA recoveries increased, based on updates to the fair value of the HTA CVI that National received in July of 2022 and updated information relating to the values of the expected receipt of HTA bonds, including the consideration of the fair values of similar issued GO bonds. In addition, the Company recorded a loss benefit on its GO recoveries to reflect the fair values of the consideration received as of the acquisition date, which was higher than its previous estimate. Additionally, an increase in risk-free rates during the first six months of 2022, resulted in a decrease in the present value of net case reserves on first-lien RMBS.

For the three months ended June 30, 2021, loss and LAE incurred primarily related to a decline in expected salvage collections related to CDOs and to a lesser extent incurred losses on insured first-lien RMBS transaction due to a decline in the risk-free rates used to discount the present value of net loss reserves. This was partially offset by a decline in expected payments on certain Puerto Rico credits as a result of a decline in risk-free discount rates, which caused long-dated expected recoveries to increase and to a lesser extent accretion.

For the six months ended June 30, 2021, loss and LAE incurred primarily related to a decrease in expected future recoveries on unpaid and paid losses due to an increase in risk-free discount rates and an increase in expected payments on certain Puerto Rico credits as well as a decrease in expected salvage collections related to CDOs. This was partially offset by a decrease in the present value of loss reserves, primarily related to first-lien RMBS transactions, as a result of the increase in risk-free discount rates.

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

Costs associated with remediating insured obligations assigned to the Company's surveillance categories are recorded as LAE and are included in "Losses and loss adjustment" expenses on the Company's consolidated statements of operations. For the three months ended June 30, 2022 and 2021, gross LAE related to remediating insured obligations were a benefit of $17 thousand and an expense of $1 million, respectively. For the six months ended June 30, 2022 and 2021, gross LAE related to remediating insured obligations were $5 million and $13 million, respectively

***Surveillance Categories***

The following table provides information about the financial guarantees and related claim liability included in each of MBIA's surveillance categories as of June 30, 2022:

| | Surveillance Categories | | | | |
|---|---|---|---|---|---|
| $ in millions | Caution List Low | Caution List Medium | Caution List High | Classified List | Total |
| Number of policies | 55 | 3 | - | 170 | 228 |
| Number of issues (1) | 16 | 2 | - | 85 | 103 |
| Remaining weighted average contract period (in years) | 5.9 | 2.1 | - | 8.3 | 7.4 |
| Gross insured contractual payments outstanding: (2) | | | | | |
| Principal | $1,309 | $ 6 | $ - | $ 2,292 | $3,607 |
| Interest | 1,812 | 1 | - | 1,036 | 2,849 |
| Total | $3,121 | $ 7 | $ - | $ 3,328 | $6,456 |
| Gross Claim Liability (3) | $ - | $ - | $ - | $ 1,246 | $1,246 |
| Less: | | | | | |
| Gross Potential Recoveries (4) | - | - | - | 504 | 504 |
| Discount, net (5) | - | - | - | 217 | 217 |
| Net claim liability (recoverable) | $ - | $ - | $ - | $ 525 | $ 525 |
| Unearned premium revenue | $ 7 | $ - | $ - | $ 24 | $ 31 |
| Reinsurance recoverable on paid and unpaid losses (6) | | | | | $ 17 |

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

The following table provides information about the financial guarantees and related claim liability included in each of MBIA's surveillance categories as of December 31, 2021:

| $ in millions | Caution List Low (Surveillance Categories) | Caution List Medium | Caution List High | Classified List | Total |
|---|---|---|---|---|---|
| Number of policies | 55 | 3 | - | 202 | 260 |
| Number of issues [1] | 16 | 2 | - | 88 | 106 |
| Remaining weighted average contract period (in years) | 6.1 | 2.6 | - | 8.1 | 7.4 |
| Gross insured contractual payments outstanding: [2] | | | | | |
| Principal | $ 1,366 | $ 6 | $ - | $ 2,719 | $ 4,091 |
| Interest | 1,867 | 1 | - | 1,214 | 3,082 |
| Total | $ 3,233 | $ 7 | $ - | $ 3,933 | $ 7,173 |
| Gross Claim Liability [3] | $ - | $ - | $ - | $ 1,051 | $ 1,051 |
| Less: | | | | | |
| Gross Potential Recoveries [4] | - | - | - | 1,498 | 1,498 |
| Discount, net [5] | - | - | - | (32) | (32) |
| Net claim liability (recoverable) | $ - | $ - | $ - | $ (415) | $ (415) |
| Unearned premium revenue | $ 8 | $ - | $ - | $ 29 | $ 37 |
| Reinsurance recoverable on paid and unpaid losses [6] | | | | | $ 7 |

(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 6: 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 and loans receivables at fair value 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 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, credit default swap ("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.

**Note 6: Fair Value of Financial Instruments (continued)**

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 assets held by consolidated VIEs consisting of residential mortgage loans and are categorized in Level 3 of the fair value hierarchy. Fair values of residential mortgage loans are determined using quoted prices for similar securities or internal cash flow models, 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.

*Other Assets*

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

Other assets also include receivables representing the right to receive reimbursement payments on claim payments expected to be made on certain insured VIE liabilities due to risk mitigating transactions with third parties executed to effectively defease, or, in-substance commute the Company's exposure on its financial guarantee policies. The right to receive reimbursement payments is based on the value of the Company's financial guarantee determined using a 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 medium-term notes ("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 or internal cash flow models. Fair values based on quoted prices of similar securities and internal cash flow models may be adjusted for factors unique to the securities, including any credit enhancement. Observable inputs include interest rate yield curves, bond spreads of similar securities and MBIA Corp.'s CDS spreads. Unobservable inputs include the value of any credit enhancement. VIE notes are categorized in 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 of the fair value hierarchy based on the lowest level input that is significant to the fair value measurement in its entirety.

**Note 6: Fair Value of Financial Instruments (continued)**

***Significant Unobservable Inputs***

The following tables provide quantitative information regarding the significant unobservable inputs used by the Company for assets and liabilities measured at fair value on a recurring basis as of June 30, 2022 and December 31, 2021:

| In millions | Fair Value as of June 30, 2022 | Valuation Techniques | Unobservable Input | Range (Weighted Average) |
|---|---|---|---|---|
| Assets of consolidated VIEs: | | | | |
| Loans receivable at fair value | $ 68 | Market prices of similar liabilities or internal cash flow models adjusted for financial guarantees provided to VIE obligations | Impact of financial guarantee | 12% - 82% (55%)(1) |
| Liabilities of consolidated VIEs: | | | | |
| Variable interest entity notes | 217 | Market prices of VIE assets adjusted for financial guarantees provided or market prices of similar liabilities | Impact of financial guarantee | 39% - 77% (66%)(1) |

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

| In millions | Fair Value as of December 31, 2021 | Valuation Techniques | Unobservable Input | Range (Weighted Average) |
|---|---|---|---|---|
| Assets of consolidated VIEs: | | | | |
| Loans receivable at fair value | $ 77 | Market prices of similar liabilities adjusted for financial guarantees provided to VIE obligations | Impact of financial guarantee | 23% - 72% (55%)(1) |
| Liabilities of consolidated VIEs: | | | | |
| Variable interest entity notes | 291 | Market prices of VIE assets adjusted for financial guarantees provided or market prices of similar liabilities | Impact of financial guarantee | 33% - 73% (59%)(1) |

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

***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 similar instruments to that of the VIE liabilities or the market value derived from internal cash flow models. 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.

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. When the VIE note is backed by RMBS, the fair value of the VIE liability is calculated by applying the market value of similar instruments to that of the VIE liabilities or internal cash flow models. 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.

**Note 6: Fair Value of Financial Instruments (continued)**

***Fair Value Measurements***

The following tables present the fair value of the Company's assets (including short-term investments) and liabilities measured and reported at fair value on a recurring basis as of June 30, 2022 and December 31, 2021:

| | Fair Value Measurements at Reporting Date Using | | | |
|---|---|---|---|---|
| In millions | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Balance as of June 30, 2022 |
| Assets: | | | | |
| Fixed-maturity investments: | | | | |
| U.S. Treasury and government agency | $ 630 | $ 81 | $ - | $ 711 |
| State and municipal bonds | - | 451 | - | 451 |
| Foreign governments | - | 18 | - | 18 |
| Corporate obligations | - | 878 | - | 878 |
| Mortgage-backed securities: | | | | |
| Residential mortgage-backed agency | - | 198 | - | 198 |
| Residential mortgage-backed non-agency | - | 89 | 55 | 144 |
| Commercial mortgage-backed | - | 17 | - | 17 |
| Asset-backed securities: | | | | |
| Collateralized debt obligations | - | 167 | - | 167 |
| Other asset-backed | - | 154 | - | 154 |
| Total fixed-maturity investments | 630 | 2,053 | 55 | 2,738 |
| Money market securities | 181 | - | - | 181 |
| Perpetual debt and equity securities | 39 | 20 | - | 59 |
| Cash and cash equivalents | 202 | - | - | 202 |
| Derivative assets: | | | | |
| Non-insured interest rate derivatives | - | 1 | - | 1 |
| Assets of consolidated VIEs: | | | | |
| Corporate obligations | - | 4 | - | 4 |
| Mortgage-backed securities: | | | | |
| Residential mortgage-backed non-agency | - | 24 | - | 24 |
| Commercial mortgage-backed | - | 10 | - | 10 |
| Asset-backed securities: | | | | |
| Collateralized debt obligations | - | 6 | - | 6 |
| Other asset-backed | - | 7 | - | 7 |
| Cash | 5 | - | - | 5 |
| Loans receivable at fair value: | | | | |
| Residential loans receivable | - | - | 68 | 68 |
| Other assets: | | | | |
| Currency derivatives | - | - | 9 | 9 |
| Other | - | - | 16 | 16 |
| Total assets | $ 1,057 | $ 2,125 | $ 148 | $ 3,330 |
| Liabilities: | | | | |
| Medium-term notes | $ - | $ - | $ 42 | $ 42 |
| Derivative liabilities: | | | | |
| Non-insured interest rate derivatives | - | 72 | - | 72 |
| Liabilities of consolidated VIEs: | | | | |
| Variable interest entity notes | - | - | 217 | 217 |
| Total liabilities | $ - | $ 72 | $ 259 | $ 331 |

**Note 6: Fair Value of Financial Instruments (continued)**

| In millions | Fair Value Measurements at Reporting Date Using: Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Balance as of December 31, 2021 |
|---|---|---|---|---|
| Assets: | | | | |
| Fixed-maturity investments: | | | | |
| U.S. Treasury and government agency | $ 750 | $ 95 | $ - | $ 845 |
| State and municipal bonds | - | 168 | - | 168 |
| Foreign governments | - | 17 | - | 17 |
| Corporate obligations | - | 1,050 | - | 1,050 |
| Mortgage-backed securities: | | | | |
| Residential mortgage-backed agency | - | 198 | - | 198 |
| Residential mortgage-backed non-agency | - | 98 | - | 98 |
| Commercial mortgage-backed | - | 13 | - | 13 |
| Asset-backed securities: | | | | |
| Collateralized debt obligations | - | 150 | - | 150 |
| Other asset-backed | - | 106 | - | 106 |
| Total fixed-maturity investments | 750 | 1,895 | - | 2,645 |
| Money market securities | 78 | - | - | 78 |
| Perpetual debt and equity securities | 47 | 23 | - | 70 |
| Cash and cash equivalents | 151 | - | - | 151 |
| Derivative assets: | | | | |
| Non-insured interest rate derivatives | - | 1 | - | 1 |
| Assets of consolidated VIEs: | | | | |
| Corporate obligations | - | 5 | - | 5 |
| Mortgage-backed securities: | | | | |
| Residential mortgage-backed non-agency | - | 27 | - | 27 |
| Commercial mortgage-backed | - | 10 | - | 10 |
| Asset-backed securities: | | | | |
| Collateralized debt obligations | - | 6 | 4 | 10 |
| Other asset-backed | - | 8 | - | 8 |
| Cash | 9 | - | - | 9 |
| Loans receivable at fair value: | | | | |
| Residential loans receivable | - | - | 77 | 77 |
| Other assets: | | | | |
| Currency derivatives | - | - | 9 | 9 |
| Other | - | - | 14 | 14 |
| Total assets | $ 1,035 | $ 1,975 | $ 104 | $ 3,114 |
| Liabilities: | | | | |
| Medium-term notes | $ - | $ - | $ 98 | $ 98 |
| Derivative liabilities: | | | | |
| Insured credit derivatives | - | 1 | - | 1 |
| Non-insured interest rate derivatives | - | 130 | - | 130 |
| Liabilities of consolidated VIEs: | | | | |
| Variable interest entity notes | - | - | 291 | 291 |
| Total liabilities | $ - | $ 131 | $ 389 | $ 520 |

Level 3 assets at fair value as of June 30, 2022 and December 31, 2021 represented approximately 4% and 3%, respectively, of total assets measured at fair value. Level 3 liabilities at fair value as of June 30, 2022 and December 31, 2021 represented approximately 78% and 75%, respectively, of total liabilities measured at fair value.

**Note 6: Fair Value of Financial Instruments (continued)**

The following tables present the fair values and carrying values of the Company's assets and liabilities that are disclosed at fair value but not reported at fair value on the Company's consolidated balance sheets as of June 30, 2022 and December 31, 2021. The majority of the financial assets and liabilities that the Company requires fair value reporting or disclosures are valued based on the Company's or a third-party's estimate of discounted cash flow model estimates, or quoted market values for identical or similar products.

| In millions | Fair Value Measurements at Reporting Date Using: Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Fair Value Balance as of June 30, 2022 | Carry Value Balance as of June 30, 2022 |
|---|---|---|---|---|---|
| Liabilities: | | | | | |
| Long-term debt | $ - | $ 449 | $ - | $ 449 | $ 2,359 |
| Medium-term notes | - | - | 302 | 302 | 451 |
| Investment agreements | - | - | 321 | 321 | 277 |
| Total liabilities | $ - | $ 449 | $ 623 | $ 1,072 | $ 3,087 |
| Financial Guarantees: | | | | | |
| Gross liability (recoverable) | $ - | $ - | $ 1,084 | $ 1,084 | $ 819 |
| Ceded recoverable (liability) | - | - | 29 | 29 | 17 |

| In millions | Fair Value Measurements at Reporting Date Using: Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Fair Value Balance as of December 31, 2021 | Carry Value Balance as of December 31, 2021 |
|---|---|---|---|---|---|
| Liabilities: | | | | | |
| Long-term debt | $ - | $ 433 | $ - | $ 433 | $ 2,331 |
| Medium-term notes | - | - | 322 | 322 | 490 |
| Investment agreements | - | - | 355 | 355 | 274 |
| Total liabilities | $ - | $ 433 | $ 677 | $ 1,110 | $ 3,095 |
| Financial Guarantees: | | | | | |
| Gross liability (recoverable) | $ - | $ - | $ 848 | $ 848 | $ (80) |
| Ceded recoverable (liability) | - | - | 30 | 30 | (42) |

The following tables present information about changes in Level 3 assets (including short-term investments) and liabilities measured at fair value on a recurring basis for the three months ended June 30, 2022 and 2021:

## Note 6: Fair Value of Financial Instruments (continued)

### Changes in Level 3 Assets and Liabilities Measured at Fair Value on a Recurring Basis for the Three Months Ended June 30, 2022

| In millions | Balance, Beginning of Period | Total Gains / (Losses) Included in Earnings | Unrealized Gains / (Losses) Included in OCI[1] | 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 June 30, 2022 | Change in Unrealized Gains (Losses) for the Period Included in OCI for Assets still held as of June 30, 2022[1] |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Assets: | | | | | | | | | | | | |
| Residential mortgage-backed non-agency | $ 38 | $ 1 | $ (5) | $ 21 | $ - | $ - | $ - | $ - | $ - | $ 55 | $ - | $ (3) |
| Assets of consolidated VIEs: | | | | | | | | | | | | |
| Loans receivable -residential | 76 | (6) | - | - | - | (2) | - | - | - | 68 | (8) | - |
| Currency derivatives | 9 | - | - | - | - | - | - | - | - | 9 | - | - |
| Other | 15 | 1 | - | - | - | - | - | - | - | 16 | 1 | - |
| Total assets | $ 138 | $ (4) | $ (5) | $ 21 | $ - | $ (2) | $ - | $ - | $ - | $ 148 | $ (7) | $ (3) |

| In millions | Balance, Beginning of Period | Total (Gains) / Losses Included in Earnings | Unrealized (Gains) / Losses Included in in OCI[2] | 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 June 30, 2022 | Change in Unrealized (Gains) Losses for the Period Included in OCI for Liabilities still held as of June 30, 2022[2] |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Liabilities: | | | | | | | | | | | | |
| Medium-term notes | $ 99 | $ (13) | $ 3 | $ - | $ - | $ (47) | $ - | $ - | $ - | $ 42 | $ (12) | $ 5 |
| Liabilities of consolidated VIEs: | | | | | | | | | | | | |
| VIE notes | 285 | (30) | 18 | - | - | (56) | - | - | - | 217 | (6) | 3 |
| Total liabilities | $ 384 | $ (43) | $ 21 | $ - | $ - | $ (103) | $ - | $ - | $ - | $ 259 | $ (18) | $ 8 |

(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 Three Months Ended June 30, 2021

| In millions | Balance, Beginning of Period | Total Gains / (Losses) Included in Earnings | Unrealized Gains / (Losses) Included in OCI[1] | 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 June 30, 2021 | Change in Unrealized Gains (Losses) for the Period Included in OCI for Assets still held as of June 30, 2021[1] |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Assets: | | | | | | | | | | | | |
| Assets of consolidated VIEs: | | | | | | | | | | | | |
| Loans receivable-residential | $ 124 | $ 24 | $ - | $ - | $ - | $ (5) | $ (14) | $ - | $ - | $ 129 | $ 24 | $ - |
| Currency derivatives | 9 | (1) | - | - | - | - | - | - | - | 8 | (1) | - |
| Other | 14 | (1) | - | - | - | - | - | - | - | 13 | (1) | - |
| Total assets | $ 147 | $ 22 | $ - | $ - | $ - | $ (5) | $ (14) | $ - | $ - | $ 150 | $ 22 | $ - |

| In millions | Balance, Beginning of Period | Total (Gains) / Losses Included in Earnings | Unrealized (Gains) / Losses Included in OCI[2] | 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 June 30, 2021 | Change in Unrealized (Gains) Losses for the Period Included in OCI for Liabilities still held as of June 30, 2021[2] |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Liabilities: | | | | | | | | | | | | |
| Medium-term notes | $ 105 | $ (2) | $ 2 | $ - | $ - | $ - | $ - | $ - | $ - | $ 105 | $ (2) | $ 2 |
| Liabilities of consolidated VIEs: | | | | | | | | | | | | |
| VIE notes | 280 | 26 | (8) | - | - | (3) | (5) | - | - | 290 | 24 | (7) |
| Total liabilities | $ 385 | $ 24 | $ (6) | $ - | $ - | $ (3) | $ (5) | $ - | $ - | $ 395 | $ 22 | $ (5) |

(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.

For the three months ended June 30, 2022 and 2021, there were no transfers into or out of Level 3.

**Note 6: Fair Value of Financial Instruments (continued)**

The following tables present information about changes in Level 3 assets (including short-term investments) and liabilities measured at fair value on a recurring basis for the six months ended June 30, 2022 and 2021:

**Changes in Level 3 Assets and Liabilities Measured at Fair Value on a Recurring Basis for the Six Months Ended June 30, 2022**

| In millions | Balance, Beginning of Year | Total Gains / (Losses) Included in Earnings | Unrealized Gains / (Losses) Included in OCI[1] | 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 June 30, 2022 | Change in Unrealized Gains (Losses) for the Period Included in OCI for Assets still held as of June 30, 2022[1] |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Assets: | | | | | | | | | | | | |
| Residential mortgage-backed non-agency | $ - | $ 1 | $ (5) | $ 59 | $ - | $ - | $ - | $ - | $ - | $ 55 | $ - | $ - |
| Assets of consolidated VIEs: | | | | | | | | | | | | |
| Collateralized debt obligations | 4 | - | - | - | - | (4) | - | - | - | - | - | - |
| Loans receivable - residential | 77 | (5) | - | - | - | (4) | - | - | - | 68 | (9) | - |
| Currency derivatives | 9 | - | - | - | - | - | - | - | - | 9 | - | - |
| Other | 14 | 2 | - | - | - | - | - | - | - | 16 | 2 | - |
| Total assets | $ 104 | $ (2) | $ (5) | $ 59 | $ - | $ (8) | $ - | $ - | $ - | $ 148 | $ (7) | $ - |

| In millions | Balance, Beginning of Year | Total (Gains) / Losses Included in Earnings | Unrealized (Gains) / Losses Included in Credit Risk in OCI[2] | 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 June 30, 2022 | Change in Unrealized (Gains) Losses for the Period Included in OCI for Liabilities still held as of June 30, 2022[2] |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Liabilities: | | | | | | | | | | | | |
| Medium-term notes | $ 98 | $ (22) | $ 13 | $ - | $ - | $ (47) | $ - | $ - | $ - | $ 42 | $ (20) | $ 14 |
| Liabilities of consolidated VIEs: | | | | | | | | | | | | |
| VIE notes | 291 | (26) | 20 | - | - | (68) | - | - | - | 217 | (8) | 6 |
| Total liabilities | $ 389 | $ (48) | $ 33 | $ - | $ - | $ (115) | $ - | $ - | $ - | $ 259 | $ (28) | $ 20 |

(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 Six Months Ended June 30, 2021**

| In millions | Balance, Beginning of Year | Total Gains / (Losses) Included in Earnings | Unrealized Gains / (Losses) Included in OCI[1] | 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 June 30, 2021 | Change in Unrealized Gains (Losses) for the Period Included in Earnings for Assets still held as of June 30, 2021[1] |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Assets: | | | | | | | | | | | | |
| Assets of consolidated VIEs: | | | | | | | | | | | | |
| Loans receivable - residential | $ 120 | $ 34 | $ - | $ - | $ - | $ (11) | $ (14) | $ - | $ - | $ 129 | $ 31 | $ - |
| Loan repurchase commitments | 604 | (4) | - | - | - | (600) | - | - | - | - | - | - |
| Currency derivatives | 6 | 2 | - | - | - | - | - | - | - | 8 | 2 | - |
| Other | 14 | (1) | - | - | - | - | - | - | - | 13 | (1) | - |
| Total assets | $ 744 | $ 31 | $ - | $ - | $ - | $ (611) | $ (14) | $ - | $ - | $ 150 | $ 32 | $ - |

**Note 6: Fair Value of Financial Instruments (continued)**

| In millions | Balance, Beginning of Year | Total (Gains) / Losses Included in Earnings | Unrealized (Gains) / Losses Included in OCI(2) | 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 June 30, 2021 | Change in Unrealized (Gains) Losses for the Period Included in OCI for Liabilities still held as of June 30, 2021(2) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Liabilities: | | | | | | | | | | | | |
| Medium-term notes | $ 110 | $ (9) | $ 4 | $ - | $ - | $ - | $ - | $ - | $ - | $ 105 | $ (9) | $ 4 |
| Other derivatives | 49 | - | - | - | - | (49) | - | - | - | - | - | - |
| Liabilities of consolidated VIEs: | | | | | | | | | | | | |
| VIE notes | 303 | 48 | (24) | - | - | (32) | (5) | - | - | 290 | 28 | (5) |
| Total liabilities | $ 462 | $ 39 | $ (20) | $ - | $ - | $ (81) | $ (5) | $ - | $ - | $ 395 | $ 19 | $ (1) |

(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.

For the six months ended June 30, 2022 and 2021, there were no transfers into or out of Level 3.

Gains and losses (realized and unrealized) included in earnings related to Level 3 assets and liabilities for the three months ended June 30, 2022 and 2021 are reported on the Company’s consolidated statements of operations as follows:

| | Three Months Ended June 30, 2022 | | Three Months Ended June 30, 2021 | |
|---|---|---|---|---|
| In millions | Total Gains (Losses) Included in Earnings | Change in Unrealized Gains (Losses) for the Period Included in Earnings for Assets and Liabilities still held as of June 30, 2022 | Total Gains (Losses) Included in Earnings | Change in Unrealized Gains (Losses) for the Period Included in Earnings for Assets and Liabilities still held as of June 30, 2021 |
| Revenues: | | | | |
| Net gains (losses) on financial instruments at fair value and foreign exchange | $ 14 | $ 12 | $ 2 | $ 2 |
| Revenues of consolidated VIEs: | | | | |
| Net gains (losses) on financial instruments at fair value and foreign exchange | 25 | (1) | (4) | (2) |
| Total | $ 39 | $ 11 | $ (2) | $ - |

**Note 6: Fair Value of Financial Instruments (continued)**

Gains and losses (realized and unrealized) included in earnings relating to Level 3 assets and liabilities for the six months ended June 30, 2022 and 2021 are reported on the Company's consolidated statements of operations as follows:

| In millions | Six Months Ended June 30, 2022 Total Gains (Losses) Included in Earnings | Six Months Ended June 30, 2022 Change in Unrealized Gains (Losses) for the Period Included in Earnings for Assets and Liabilities still held as of June 30, 2022 | Six Months Ended June 30, 2021 Total Gains (Losses) Included in Earnings | Six Months Ended June 30, 2021 Change in Unrealized Gains (Losses) for the Period Included in Earnings for Assets and Liabilities still held as of June 30, 2021 |
|---|---|---|---|---|
| Revenues: | | | | |
| Net gains (losses) on financial instruments at fair value and foreign exchange | $ 23 | $ 20 | $ 9 | $ 9 |
| Revenues of consolidated VIEs: | | | | |
| Net gains (losses) on financial instruments at fair value and foreign exchange | 23 | 1 | (17) | 4 |
| Total | $ 46 | $ 21 | $ (8) | $ 13 |

***Fair Value Option***

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

The following table presents the gains and (losses) included in the Company's consolidated statements of operations for the three and six months ended June 30, 2022 and 2021 for financial instruments for which the fair value option was elected:

| In millions | Three Months Ended June 30, 2022 | Three Months Ended June 30, 2021 | Six Months Ended June 30, 2022 | Six Months Ended June 30, 2021 |
|---|---|---|---|---|
| Investments carried at fair value(1) | $ (26) | $ 3 | $ (34) | $ 6 |
| Fixed-maturity securities held at fair value-VIE(2) | (2) | 1 | (3) | 2 |
| Loans receivable at fair value: | | | | |
| Residential mortgage loans(2) | (6) | 24 | (5) | 34 |
| Loan repurchase commitments(2) | - | - | - | (4) |
| Other assets-VIE(2) | 1 | (1) | 2 | (1) |
| Medium-term notes(1) | 13 | 2 | 22 | 9 |
| Variable interest entity notes (2) | 28 | (26) | 23 | (50) |

(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.

**Note 6: Fair Value of Financial Instruments (continued)**

The following table reflects the difference between the aggregate fair value and the aggregate remaining contractual principal balance outstanding as of June 30, 2022 and December 31, 2021 for loans and notes for which the fair value option was elected:

| In millions | As of June 30, 2022 Contractual Outstanding Principal | Fair Value | Difference | As of December 31, 2021 Contractual Outstanding Principal | Fair Value | Difference |
|---|---|---|---|---|---|---|
| Loans receivable at fair value: | | | | | | |
| Residential mortgage loans - current | $ 40 | $ 40 | $ - | $ 40 | $ 40 | $ - |
| Residential mortgage loans (90 days or more past due) | 144 | 28 | 116 | 141 | 37 | 104 |
| Total loans receivable and other instruments at fair value | $ 184 | $ 68 | $ 116 | $ 181 | $ 77 | $ 104 |
| Variable interest entity notes | $ 832 | $ 217 | $ 615 | $ 922 | $ 291 | $ 631 |
| Medium-term notes | $ 52 | $ 42 | $ 10 | $ 108 | $ 98 | $ 10 |

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, all of which resulted in depressed pricing of the financial instruments.

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

As of June 30, 2022 and December 31, 2021, the cumulative changes in instrument-specific credit risk of liabilities elected under the fair value option were losses of $64 million and $32 million, respectively, reported in “Accumulated other comprehensive income” on the Company’s consolidated balance sheets. Changes in value attributable to instrument-specific credit risk were derived principally from changes in the Company’s credit spread. For liabilities of VIEs, additional adjustments to instrument-specific credit risk are required, which is determined by an analysis of deal specific performance of collateral that support these liabilities. During the three months ended June 30, 2022 and 2021, the portions of instrument-specific credit risk included in accumulated other comprehensive income (“AOCI”) that were recognized in earnings due to settlement of liabilities were gains of $15 million and losses of $4 million, respectively. During the six months ended June 30, 2022 and 2021, the portions of instrument-specific credit risk included in AOCI that were recognized in earnings due to settlement of liabilities were gains of $12 million and losses of $24 million, respectively.

**Note 7: Investments**

Investments, excluding equity instruments, those elected under the fair value option and those classified as trading, consist of debt instruments classified as available-for-sale (“AFS”).

The following tables present 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 June 30, 2022 and December 31, 2021:

| In millions | June 30, 2022 Amortized Cost | Allowance for Credit Losses | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|---|
| **AFS Investments** | | | | | |
| Fixed-maturity investments: | | | | | |
| U.S. Treasury and government agency | $ 716 | $ - | $ 15 | $ (30) | $ 701 |
| State and municipal bonds | 353 | - | 7 | (7) | 353 |
| Foreign governments | 21 | - | - | (4) | 17 |
| Corporate obligations | 909 | (3) | 2 | (112) | 796 |
| Mortgage-backed securities: | | | | | |
| Residential mortgage-backed agency | 205 | - | - | (14) | 191 |
| Residential mortgage-backed non-agency | 144 | - | 4 | (11) | 137 |
| Commercial mortgage-backed | 17 | - | - | (1) | 16 |
| Asset-backed securities: | | | | | |
| Collateralized debt obligations | 122 | - | - | (5) | 117 |
| Other asset-backed | 140 | - | - | (3) | 137 |
| Total AFS investments | $ 2,627 | $ (3) | $ 28 | $ (187) | $2,465 |

**Note 7: Investments (continued)**

| | December 31, 2021 | | | | |
|---|---|---|---|---|---|
| In millions | Amortized Cost | Allowance for Credit Losses | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| **AFS Investments** | | | | | |
| Fixed-maturity investments: | | | | | |
| U.S. Treasury and government agency | $ 782 | $ - | $ 54 | $ (2) | $ 834 |
| State and municipal bonds | 140 | - | 27 | - | 167 |
| Foreign governments | 13 | - | 1 | - | 14 |
| Corporate obligations | 905 | - | 53 | (5) | 953 |
| Mortgage-backed securities: | | | | | |
| Residential mortgage-backed agency | 190 | - | 3 | (1) | 192 |
| Residential mortgage-backed non-agency | 80 | - | 12 | - | 92 |
| Commercial mortgage-backed | 10 | - | - | - | 10 |
| Asset-backed securities: | | | | | |
| Collateralized debt obligations | 101 | - | - | - | 101 |
| Other asset-backed | 95 | - | - | (1) | 94 |
| Total AFS investments | $ 2,316 | $ - | $ 150 | $ (9) | $2,457 |

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 June 30, 2022. Contractual maturity may differ from expected maturity as borrowers may have the right to call or prepay obligations.

| | AFS Securities | |
|---|---|---|
| In millions | Net Amortized Cost | Fair Value |
| Due in one year or less | $ 349 | $ 349 |
| Due after one year through five years | 354 | 345 |
| Due after five years through ten years | 392 | 358 |
| Due after ten years | 901 | 815 |
| Mortgage-backed and asset-backed | 628 | 598 |
| Total fixed-maturity investments | $ 2,624 | $2,465 |

***Deposited and Pledged Securities***

The fair value of securities on deposit with various regulatory authorities as of June 30, 2022 and December 31, 2021 was $11 million. These deposits are required to comply with state insurance laws.

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

Investment agreement obligations require the Company to pledge securities as collateral. Securities pledged in connection with investment agreements may not be repledged by the investment agreement counterparty. As of June 30, 2022 and December 31, 2021, the fair value of securities pledged as collateral for these investment agreements approximated $296 million and $280 million, respectively. The Company’s collateral as of June 30, 2022 consisted principally of U.S. Treasury and government agency and corporate obligations, and was primarily held with major U.S. banks.

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

**Note 7: Investments (continued)**

***Impaired Investments***

The following tables present the non-credit related gross unrealized losses related to AFS investments as of June 30, 2022 and December 31, 2021:

| | June 30, 2022 | | | | | |
|---|---|---|---|---|---|---|
| | Less than 12 Months | | 12 Months or Longer | | Total | |
| In millions | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| **AFS Investments** | | | | | | |
| Fixed-maturity investments: | | | | | | |
| U.S. Treasury and government agency | $ 318 | $ (27) | $ 19 | $ (3) | $ 337 | $ (30) |
| State and municipal bonds | 53 | (7) | - | - | 53 | (7) |
| Foreign governments | 15 | (4) | 1 | - | 16 | (4) |
| Corporate obligations | 732 | (105) | 25 | (7) | 757 | (112) |
| Mortgage-backed securities: | | | | | | |
| Residential mortgage-backed agency | 146 | (7) | 41 | (7) | 187 | (14) |
| Residential mortgage-backed non-agency | 118 | (11) | 1 | - | 119 | (11) |
| Commercial mortgage-backed | 16 | (1) | - | - | 16 | (1) |
| Asset-backed securities: | | | | | | |
| Collateralized debt obligations | 81 | (3) | 36 | (2) | 117 | (5) |
| Other asset-backed | 132 | (3) | 1 | - | 133 | (3) |
| Total AFS investments | $ 1,611 | $ (168) | $ 124 | $ (19) | $ 1,735 | $ (187) |

| | December 31, 2021 | | | | | |
|---|---|---|---|---|---|---|
| | Less than 12 Months | | 12 Months or Longer | | Total | |
| In millions | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| **AFS Investments** | | | | | | |
| Fixed-maturity investments: | | | | | | |
| U.S. Treasury and government agency | $ 161 | $ (1) | $ 16 | $ (1) | $ 177 | $ (2) |
| State and municipal bonds | 11 | - | - | - | 11 | - |
| Foreign governments | 3 | - | - | - | 3 | - |
| Corporate obligations | 270 | (5) | 8 | - | 278 | (5) |
| Mortgage-backed securities: | | | | | | |
| Residential mortgage-backed agency | 94 | (1) | 1 | - | 95 | (1) |
| Residential mortgage-backed non-agency | 3 | - | 1 | - | 4 | - |
| Commercial mortgage-backed | 2 | - | - | - | 2 | - |
| Asset-backed securities: | | | | | | |
| Collateralized debt obligations | 60 | - | 29 | - | 89 | - |
| Other asset-backed | 72 | (1) | - | - | 72 | (1) |
| Total AFS investments | $ 676 | $ (8) | $ 55 | $ (1) | $ 731 | $ (9) |

Gross unrealized losses on AFS investments increased as of June 30, 2022 compared with December 31, 2021 primarily due to higher interest rates and 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 June 30, 2022 and December 31, 2021 was 14 and 11 years, respectively. As of June 30, 2022 and December 31, 2021, there were 89 and 36 securities, respectively, that were in an unrealized loss position for a continuous twelve-month period or longer, of which, fair values of 81 and 7 securities, respectively, were below book value by more than 5%.

**Note 7: Investments (continued)**

The following table presents the distribution of securities in an unrealized loss position for a continuous twelve-month period or longer where fair value was below book value by more than 5% as of June 30, 2022:

| | AFS Securities | | |
|---|---|---|---|
| Percentage of Fair Value Below Book Value | Number of Securities | Book Value (in millions) | Fair Value (in millions) |
| > 5% to 15% | 36 | $ 53 | $ 49 |
| > 15% to 25% | 18 | 51 | 42 |
| > 25% to 50% | 24 | 15 | 10 |
| > 50% | 3 | - | - |
| Total | 81 | $ 119 | $ 101 |

As of June 30, 2022, the Company concluded that it does not have the intent to sell securities in an unrealized loss position and it is more likely than not, that it would not have to sell these securities before recovery of their cost basis. In making this conclusion, the Company examined the cash flow projections for its investment portfolios, the potential sources and uses of cash in its businesses, and the cash resources available to its business other than sales of securities. It also considered the existence of any risk management or other plans as of June 30, 2022 that would require the sale of impaired securities. Impaired securities that the Company intends to sell before the expected recovery of such securities' fair values have been written down to fair value. For the three and six months ended June 30, 2022, impairment loss due to intent to sell securities in an unrealized loss position was $19 million and reported in "Other net realized gains (losses)" on the Company's consolidated results of operation.

***Credit Losses on Investments***

The Company's fixed-maturity securities for which fair value is less than amortized cost are reviewed quarterly in order to determine whether a credit loss exists. If the Company determines that the declines in the fair value are related to credit loss, the Company will establish an allowance for credit losses and recognize the credit component through earnings. Refer to "Note 8: Investments" in the Notes to Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2021 for a discussion of the Company's policy for its determination of credit losses. The Company did not purchase any credit-deteriorated assets for the six months ended June 30, 2022 and 2021.

*Allowance for Credit Losses Rollforward*

The following tables present the rollforward of allowance for credit losses on AFS investments for the three and six months ended June 30, 2022:

| | Three Months Ended June 30, 2022 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| In millions | Balance as of March 31, 2022 | Additions not previously recorded | Additions arising from PCD Assets | Reductions from Securities Sold | Reductions- Intent to sell or MLTN | Change in Allowance Previously Recorded | Write Offs | Recoveries | Balance as of June 30, 2022 |
| **AFS Investments** | | | | | | | | | |
| Fixed-maturity investments: | | | | | | | | | |
| Corporate obligations | $ 3 | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ 3 |
| Total Allowance on AFS investments | $ 3 | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ 3 |

| | Six Months Ended June 30, 2022 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| In millions | Balance as of December 31, 2021 | Additions not previously recorded | Additions arising from PCD Assets | Reductions from Securities Sold | Reductions- Intent to sell or MLTN | Change in Previously Allowance Recorded | Write Offs | Recoveries | Balance as of June 30, 2022 |
| **AFS Investments** | | | | | | | | | |
| Fixed-maturity investments: | | | | | | | | | |
| Corporate obligations | $ - | $ 3 | $ - | $ - | $ - | $ - | $ - | $ - | $ 3 |
| Total Allowance on AFS investments | $ - | $ 3 | $ - | $ - | $ - | $ - | $ - | $ - | $ 3 |

The additions to credit losses for the six months ended June 30, 2022 were related to concerns on an issuer's credit deterioration as a result of the Ukraine and Russia conflict. The Company did not record any allowance for credit losses for the three or six months ended June 30, 2021.

**Note 7: Investments (continued)**

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. The following table provides information about securities held by the Company as of June 30, 2022 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 June 30, 2022.

| In millions | Fair Value | Unrealized Loss | Insurance Loss Reserve (1) |
|---|---|---|---|
| Mortgage-backed | $ 110 | $ (10) | $ 125 |
| Corporate obligations | 86 | (16) | - |
| Total | $ 196 | $ (26) | $ 125 |

(1) - Insurance loss reserve estimates are based on the proportion of par value owned to the total amount of par value insured and are discounted using a discount rate equal to the risk-free rate applicable to the currency and weighted average remaining life of the insurance contract and may differ from the fair value.

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

Gross realized gains and losses from sales of AFS investments are recorded within "Net realized investment gains (losses)" on the Company's consolidated statements of operations. The proceeds and the gross realized gains and losses from sales of fixed-maturity securities held as AFS for the three and six months ended June 30, 2022 and 2021 are as follows:

| In millions | Three Months Ended June 30, 2022 | Three Months Ended June 30, 2021 | Six Months Ended June 30, 2022 | Six Months Ended June 30, 2021 |
|---|---|---|---|---|
| Proceeds from sales | $ 414 | $ 218 | $ 520 | $ 396 |
| Gross realized gains | $ 1 | $ 2 | $ 1 | $ 6 |
| Gross realized losses | $ (22) | $ (3) | $ (25) | $ (8) |

***Equity and Trading Investments***

Equity and trading investments are included within "Investments carried at fair value" on the Company's consolidated balance sheets. Investments designated as trading include the CVI received in the first quarter of 2022 in connection with the implementation of the GO PSA. Unrealized gains and losses recognized on equity and trading investments held as of the end of each period for the three and six months ended June 30, 2022 and 2021 are as follows:

| In millions | Three Months Ended June 30, 2022 | Three Months Ended June 30, 2021 | Six Months Ended June 30, 2022 | Six Months Ended June 30, 2021 |
|---|---|---|---|---|
| Net gains (losses) recognized during the period on equity and trading securities | $ (18) | $ 3 | $ (28) | $ 5 |
| Less: | | | | |
| Net gains (losses) recognized during the period on equity and trading securities sold during the period | (1) | - | - | - |
| Unrealized gains (losses) recognized during the period on equity and trading securities still held at the reporting date | $ (17) | $ 3 | $ (28) | $ 5 |

**Note 8: Derivative Instruments**

The Company has primarily entered into derivative instruments consisting of interest rate swaps to manage the risks associated with fluctuations in interest rates affecting the value of certain assets in the corporate segment. Additionally, the Company has insured interest rate swaps and inflation-linked swaps related to its insured debt issuances in the U.S. public finance insurance and the international and structured finance insurance segments. These derivatives do not qualify for the financial guarantee scope exception and are accounted for as derivative instruments. The Company's international and structured finance insurance segment consolidated a VIE which is party to a cross currency swap, entered into to manage the variability in cash flows resulting from fluctuations in foreign currency rates.

**Note 8: Derivative Instruments (continued)**

***Credit Derivatives Sold***

The following tables present information about credit derivatives sold by the Company's insurance operations that were outstanding as of June 30, 2022 and December 31, 2021. 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.

| $ in millions | As of June 30, 2022 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Credit Derivatives Sold | Weighted Average Remaining Expected Maturity | AAA | AA | A | BBB | Below Investment Grade | Total Notional | Fair Value Asset (Liability) |
| Insured swaps | 14.1 Years | $ - | $ 53 | $ 1,026 | $ 292 | $ - | $ 1,371 | $ - |
| Total fair value | | $ - | $ - | $ - | $ - | $ - | | $ - |

| $ in millions | As of December 31, 2021 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Credit Derivatives Sold | Weighted Average Remaining Expected Maturity | AAA | AA | A | BBB | Below Investment Grade | Total Notional | Fair Value Asset (Liability) |
| Insured swaps | 14.1 Years | $ - | $ 61 | $ 1,136 | $ 292 | $ - | $ 1,489 | $ (1) |
| Total fair value | | $ - | $ - | $ (1) | $ - | $ - | | $ (1) |

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 June 30, 2022 and December 31, 2021, the Company did not hold or post cash collateral to derivative counterparties.

As of June 30, 2022 and December 31, 2021, the Company had securities with a fair value of $92 million and $159 million, respectively, posted to derivative counterparties and these amounts are included within "Fixed-maturity securities held as available-for-sale, at fair value" on the Company's consolidated balance sheets.

As of June 30, 2022 and December 31, 2021, 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 June 30, 2022 and December 31, 2021, the counterparty was rated Aa3 by Moody's and A+ by S&P.

**Note 8: 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 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 tables present the total fair value of the Company's derivative assets and liabilities by instrument and balance sheet location, before counterparty netting, as of June 30, 2022 and December 31, 2021:

| In millions | June 30, 2022 | | | | |
|---|---|---|---|---|---|
| | | Derivative Assets (1) | | Derivative Liabilities (1) | |
| Derivative Instruments | Notional Amount Outstanding | Balance Sheet Location | Fair Value | Balance Sheet Location | Fair Value |
| Not designated as hedging instruments: | | | | | |
| Insured swaps | $ 1,371 | Other assets | $ - | Derivative liabilities | $ - |
| Interest rate swaps | 379 | Other assets | 1 | Derivative liabilities | (72) |
| Interest rate swaps-embedded | 190 | Medium-term notes | - | Medium-term notes | (4) |
| Currency swaps-VIE | 47 | Other assets-VIE | 9 | Derivative liabilities-VIE | - |
| Total non-designated derivatives | $ 1,987 | | $ 10 | | $ (76) |

(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.

| In millions | December 31, 2021 | | | | |
|---|---|---|---|---|---|
| | | Derivative Assets (1) | | Derivative Liabilities (1) | |
| Derivative Instruments | Notional Amount Outstanding | Balance Sheet Location | Fair Value | Balance Sheet Location | Fair Value |
| Not designated as hedging instruments: | | | | | |
| Insured swaps | $ 1,489 | Other assets | $ - | Derivative liabilities | $ (1) |
| Interest rate swaps | 399 | Other assets | 1 | Derivative liabilities | (130) |
| Interest rate swaps-embedded | 206 | Medium-term notes | - | Medium-term notes | (9) |
| Currency swaps-VIE | 50 | Other assets-VIE | 9 | Derivative liabilities-VIE | - |
| Total non-designated derivatives | $ 2,144 | | $ 10 | | $ (140) |

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

The following table presents the effect of derivative instruments on the consolidated statements of operations for the three months ended June 30, 2022 and 2021:

| In millions | | Three Months Ended June 30, | |
|---|---|---|---|
| Derivatives Not Designated as Hedging Instruments | Location of Gain (Loss) Recognized in Income on Derivative | 2022 | 2021 |
| Insured swaps | Net gains (losses) on financial instruments at fair value and foreign exchange | $ 1 | $ - |
| Interest rate swaps | Net gains (losses) on financial instruments at fair value and foreign exchange | 26 | (18) |
| Currency swaps-VIE | Net gains (losses) on financial instruments at fair value and foreign exchange-VIE | - | (1) |
| Total | | $ 27 | $ (19) |

**Note 8: Derivative Instruments (continued)**

The following table presents the effect of derivative instruments on the consolidated statements of operations for the six months ended June 30, 2022 and 2021:

| In millions | | Six Months Ended June 30, | |
|---|---|---|---|
| Derivatives Not Designated as Hedging Instruments | Location of Gain (Loss) Recognized in Income on Derivative | 2022 | 2021 |
| Insured swaps | Net gains (losses) on financial instruments at fair value and foreign exchange | $ 1 | $ - |
| Interest rate swaps | Net gains (losses) on financial instruments at fair value and foreign exchange | 56 | 17 |
| Currency swaps-VIE | Net gains (losses) on financial instruments at fair value and foreign exchange-VIE | - | 1 |
| Total | | $ 57 | $ 18 |

## Note 9: Income Taxes

The Company's income taxes and the related effective tax rates for the three and six months ended June 30, 2022 and 2021 are as follows:

| In millions | Three Months Ended June 30, 2022 | Three Months Ended June 30, 2021 | Six Months Ended June 30, 2022 | Six Months Ended June 30, 2021 |
|---|---|---|---|---|
| Income (loss) before income taxes | $ (36) | $ (61) | $ (109) | $ (167) |
| Provision (benefit) for income taxes | $ - | $ - | $ - | $ - |
| Effective tax rate | 0.0% | 0.0% | 0.0% | 0.0% |

For the six months ended June 30, 2022 and 2021, the Company's effective tax rate applied to its loss before income taxes was lower than the U.S. statutory tax rate due to the full valuation allowance on the changes in its net deferred tax asset.

### *Deferred Tax Asset, Net of Valuation Allowance*

The Company assesses the available positive and negative evidence to estimate whether sufficient future taxable income will be generated to permit use of its existing deferred tax assets. A significant piece of objective negative evidence evaluated was the Company having a three-year cumulative loss. Such objective evidence limits the ability to consider other subjective evidence, such as the Company's projections of pre-tax income. On the basis of this evaluation, the Company has recorded a full valuation allowance against its net deferred tax asset of $1.1 billion as of June 30, 2022 and December 31, 2021. The Company will continue to analyze the valuation allowance on a quarterly basis.

Net operating losses ("NOLs") of property and casualty insurance companies are permitted to be carried back two years and carried forward 20 years. 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.

### *Accounting for Uncertainty in Income Taxes*

The Company's policy is to record and disclose any change in unrecognized tax benefit ("UTB") and related interest and/or penalties to income tax in the consolidated statements of operations. The Company includes interest as a component of income tax expense. As of June 30, 2022 and December 31, 2021, the Company had no UTB.

Federal income tax returns through 2011 have been examined or surveyed. As of June 30, 2022, the Company's NOL is approximately $3.8 billion. NOLs generated prior to tax reform and property and casualty NOLs generated after tax reform will expire between tax years 2031 through 2042. As of June 30, 2022, the Company has a foreign tax credit carryforward of $58 million, which will expire between tax years 2022 through 2032.

### *Section 382 of the Internal Revenue Code*

Included in the Company's Amended By-Laws are 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 By-Laws generally prohibit 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.

**Note 10: Business Segments**

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

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

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

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

The Company's U.S. public finance insurance portfolio is managed through National. The financial guarantees issued by National provide unconditional and irrevocable guarantees of the payment of the principal of, and interest or other amounts owing on, U.S. public finance insured obligations when due. The obligations are not subject to acceleration, except that National may have the right, at its discretion, to accelerate insured obligations upon default or otherwise. National's guarantees insure municipal bonds, including tax-exempt and taxable indebtedness of U.S. political subdivisions, as well as utilities, airports, health care institutions, higher educational facilities, 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 subsidiary, MBIA Global Funding, LLC ("GFL"). 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. MBIA Inc. also 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 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, structured settlements, consumer loans, and corporate loans and bonds. 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 Insurance Corporation also insures debt obligations of GFL. During the three months ended June 30, 2022, debt obligations affiliated with MZ Funding LLC matured and were repaid in full. MBIA Corp. has also written policies guaranteeing obligations under certain 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.

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

**Note 10: Business Segments (continued)**

***Segments Results***

The following tables provide the Company's segment results for the three months ended June 30, 2022 and 2021:

| In millions | Three Months Ended June 30, 2022 U.S. Public Finance Insurance | Corporate | International and Structured Finance Insurance | Eliminations | Consolidated |
|---|---|---|---|---|---|
| Revenues[1] | $ (13) | $ 4 | $ 12 | $ - | $ 3 |
| Net gains (losses) on financial instruments at fair value and foreign exchange | (21) | 37 | (7) | - | 9 |
| Net gains (losses) on extinguishment of debt | - | 4 | - | - | 4 |
| Revenues of consolidated VIEs | - | - | 24 | - | 24 |
| Inter-segment revenues[2] | 6 | 14 | 2 | (22) | - |
| Total revenues | (28) | 59 | 31 | (22) | 40 |
| Losses and loss adjustment | 49 | - | (29) | - | 20 |
| Amortization of deferred acquisition costs and operating | 1 | 8 | 3 | - | 12 |
| Interest | - | 14 | 29 | - | 43 |
| Expenses of consolidated VIEs | - | - | 1 | - | 1 |
| Inter-segment expenses[2] | 10 | 6 | 5 | (21) | - |
| Total expenses | 60 | 28 | 9 | (21) | 76 |
| Income (loss) before income taxes | $ (88) | $ 31 | $ 22 | $ (1) | $ (36) |
| Identifiable assets | $ 3,079 | $ 665 | $ 1,729 | $ (1,406)[3] | $ 4,067 |

(1) - Consists of net premiums earned, net investment income, net realized investment gains (losses), fees and reimbursements and other net realized gains (losses).
(2) - Primarily represents intercompany service charges and intercompany net investment income and expenses.
(3) - Consists principally of intercompany reinsurance balances.

| In millions | Three Months Ended June 30, 2021 U.S. Public Finance Insurance | Corporate | International and Structured Finance Insurance | Eliminations | Consolidated |
|---|---|---|---|---|---|
| Revenues[1] | $ 21 | $ 2 | $ 6 | $ - | $ 29 |
| Net gains (losses) on financial instruments at fair value and foreign exchange | 3 | (18) | (5) | - | (20) |
| Net gains (losses) on extinguishment of debt | - | 14 | - | - | 14 |
| Revenues of consolidated VIEs | - | - | (5) | - | (5) |
| Inter-segment revenues[2] | 6 | 18 | 4 | (28) | - |
| Total revenues | 30 | 16 | - | (28) | 18 |
| Losses and loss adjustment | (42) | - | 51 | - | 9 |
| Amortization of deferred acquisition costs and operating | 4 | 17 | 3 | - | 24 |
| Interest | - | 14 | 27 | - | 41 |
| Expenses of consolidated VIEs | - | - | 5 | - | 5 |
| Inter-segment expenses[2] | 11 | 4 | 11 | (26) | - |
| Total expenses | (27) | 35 | 97 | (26) | 79 |
| Income (loss) before income taxes | $ 57 | $ (19) | $ (97) | $ (2) | $ (61) |

(1) - Consists of net premiums earned, net investment income, net realized investment gains (losses), fees and reimbursements and other net realized gains (losses).
(2) - Primarily represents intercompany service charges and intercompany net investment income and expenses.

The following tables provide the Company's segment results for the six months ended June 30, 2022 and 2021:

**Note 10: Business Segments (continued)**

| In millions | Six Months Ended June 30, 2022 U.S. Public Finance Insurance | Corporate | International and Structured Finance Insurance | Eliminations | Consolidated |
|---|---|---|---|---|---|
| Revenues[(1)] | $ 7 | $ 6 | $ 17 | $ - | $ 30 |
| Net gains (losses) on financial instruments at fair value and foreign exchange | (37) | 76 | (13) | - | 26 |
| Net gains (losses) on extinguishment of debt | - | 4 | - | - | 4 |
| Revenues of consolidated VIEs | - | - | 20 | - | 20 |
| Inter-segment revenues[(2)] | 14 | 31 | 5 | (50) | - |
| Total revenues | (16) | 117 | 29 | (50) | 80 |
| Losses and loss adjustment | 136 | - | (67) | - | 69 |
| Amortization of deferred acquisition costs and operating | 4 | 23 | 6 | - | 33 |
| Interest | - | 28 | 56 | - | 84 |
| Expenses of consolidated VIEs | - | - | 3 | - | 3 |
| Inter-segment expenses[(2)] | 23 | 12 | 14 | (49) | - |
| Total expenses | 163 | 63 | 12 | (49) | 189 |
| Income (loss) before income taxes | $ (179) | $ 54 | $ 17 | $ (1) | $ (109) |
| Identifiable assets | $ 3,079 | $ 665 | $ 1,729 | $ (1,406)[(3)] | $ 4,067 |

(1) - Consists of net premiums earned, net investment income, net realized investment gains (losses), fees and reimbursements and other net realized gains (losses).
(2) - Primarily represents intercompany service charges and intercompany net investment income and expenses.
(3) - Consists principally of intercompany reinsurance balances.

| In millions | Six Months Ended June 30, 2021 U.S. Public Finance Insurance | Corporate | International and Structured Finance Insurance | Eliminations | Consolidated |
|---|---|---|---|---|---|
| Revenues[(1)] | $ 44 | $ 6 | $ 13 | $ - | $ 63 |
| Net gains (losses) on financial instruments at fair value and foreign exchange | - | 38 | (6) | - | 32 |
| Net gains (losses) on extinguishment of debt | - | 14 | - | - | 14 |
| Revenues of consolidated VIEs | - | - | (19) | - | (19) |
| Inter-segment revenues[(2)] | 14 | 36 | 8 | (58) | - |
| Total revenues | 58 | 94 | (4) | (58) | 90 |
| Losses and loss adjustment | 67 | - | 40 | - | 107 |
| Amortization of deferred acquisition costs and operating | 8 | 38 | 6 | - | 52 |
| Interest | - | 28 | 54 | - | 82 |
| Expenses of consolidated VIEs | - | - | 16 | - | 16 |
| Inter-segment expenses[(2)] | 25 | 10 | 21 | (56) | - |
| Total expenses | 100 | 76 | 137 | (56) | 257 |
| Income (loss) before income taxes | $ (42) | $ 18 | $ (141) | $ (2) | $ (167) |

(1) - Consists of net premiums earned, net investment income, net realized investment gains (losses), fees and reimbursements and other net realized gains (losses).
(2) - Primarily represents intercompany service charges and intercompany net investment income and expenses.

**Note 11: 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.

**Note 11: Earnings Per Share (continued)**

Basic earnings per share excludes dilution and is computed by dividing net income available to common shareholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share reflects the dilutive effect of all 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 it would have an antidilutive effect. Therefore, in periods of net loss, the calculation of basic and diluted earnings per share would result in the same value.

The following table presents the computation of basic and diluted earnings per share for the three and six months ended June 30, 2022 and 2021:

| In millions except per share amounts | Three Months Ended June 30, 2022 | Three Months Ended June 30, 2021 | Six Months Ended June 30, 2022 | Six Months Ended June 30, 2021 |
|---|---|---|---|---|
| **Basic earnings per share:** | | | | |
| Net income (loss) | $ (36) | $ (61) | $ (109) | $ (167) |
| Less: undistributed earnings allocated to participating securities | - | - | - | - |
| Net income (loss) available to common shareholders | $ (36) | $ (61) | $ (109) | $ (167) |
| Basic weighted average shares (1) | 49.8 | 49.5 | 49.7 | 49.4 |
| Net income (loss) per basic common share | $ (0.72) | $ (1.23) | $ (2.20) | $ (3.38) |
| **Diluted earnings per share:** | | | | |
| Net income (loss) | $ (36) | $ (61) | $ (109) | $ (167) |
| Less: undistributed earnings allocated to participating securities | - | - | - | - |
| Net income (loss) available to common shareholders | $ (36) | $ (61) | $ (109) | $ (167) |
| Diluted weighted average shares | 49.8 | 49.5 | 49.7 | 49.4 |
| Net income (loss) per diluted common share | $ (0.72) | $ (1.23) | $ (2.20) | $ (3.38) |
| **Potentially dilutive securities excluded from the calculation of diluted EPS because of antidilutive affect** | 5.0 | 4.9 | 5.0 | 4.9 |

(1) - Includes 0.8 million and 0.9 million of participating securities that met the service condition and were eligible to receive nonforfeitable dividends or dividend equivalents for each of the three months and six months ended June 30, 2022 and 2021, respectively.

**Note 12: Accumulated Other Comprehensive Income**

The following table presents the changes in the components of AOCI for the six months ended June 30, 2022:

| In millions | Unrealized Gains (Losses) on AFS Securities, Net | Foreign Currency Translation, Net | Instrument-Specific Credit Risk of Liabilities Measured at Fair Value, Net | Total |
|---|---|---|---|---|
| Balance, December 31, 2021 | $ 138 | $ (6) | $ (32) | $ 100 |
| Other comprehensive income (loss) before reclassifications | (298) | 1 | (20) | (317) |
| Amounts reclassified from AOCI | (2) | - | (12) | (14) |
| Net period other comprehensive income (loss) | (300) | 1 | (32) | (331) |
| Balance, June 30, 2022 | $ (162) | $ (5) | $ (64) | $ (231) |

## Note 12: Accumulated Other Comprehensive Income (continued)

The following table presents the details of the reclassifications from AOCI for the three and six months ended June 30, 2022 and 2021:

| In millions | Amounts Reclassified from AOCI | | | | |
|---|---|---|---|---|---|
| | Three Months Ended June 30, | | Six Months Ended June 30, | | |
| Details about AOCI Components | 2022 | 2021 | 2022 | 2021 | Affected Line Item on the Consolidated Statements of Operations |
| Unrealized gains (losses) on AFS securities: | | | | | |
| Realized gains (losses) on sale of securities | $ 2 | $ 3 | $ 2 | $ 8 | Net realized investment gains (losses) |
| Total unrealized gains (losses) on AFS securities | 2 | 3 | 2 | 8 | |
| Instrument-specific credit risk of liabilities: | | | | | |
| Settlement of liabilities | 15 | (4) | 12 | (24) | Net gains (losses) on financial instruments at fair value and foreign exchange - VIE |
| Total reclassifications for the period | $ 17 | $ (1) | $ 14 | $ (16) | Net income (loss) |

## Note 13: Commitments and Contingencies

The following commitments and contingencies provide an update of those discussed in “Note 19: Commitments and Contingencies” in the Notes to Consolidated Financial Statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2021, and should be read in conjunction with the complete descriptions provided in the aforementioned Form 10-K.

### *Litigation*

*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 creditors seeking the equitable subordination of those creditors’ claims with respect to the Zohar Funds. Plaintiffs claimed they were entitled to relief due to inequitable and unfair conduct by defendants. Plaintiffs filed an amended complaint on January 6, 2022. Defendants motion to dismiss the amended complaint was granted on March 25, 2022. Plaintiffs have appealed the decision.

*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 including Patriarch Partners, LLC 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. On July 6, 2021, following the completion of briefing on those motions to dismiss, the presiding judge, the Honorable William H. Pauley died, and the case was reassigned to the Honorable P. Kevin Castel. On September 29, 2021, Judge Castel issued a decision on the motions to dismiss; granting them almost in full, with certain claims being stayed rather than dismissed, pending further developments in the Adversary Proceedings pending in the Zohar Funds Bankruptcy Cases in Delaware Bankruptcy Court.

*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. On July 23, 2021, the court denied in part and granted in part Tilton’s and her affiliated defendants’ motion to dismiss the complaint. The court denied defendants’ motion with respect to MBIA’s claims for breach of contract, tortious interference, unjust enrichment, and malicious prosecution of claims commenced by Tilton in Delaware. On February 1, 2022, MBIA filed an Amended Complaint consistent with the court’s rulings on defendants’ motion to dismiss and related filings. Defendants filed their Answer to the Amended Complaint on April 13, 2022.

**Note 13: Commitments and Contingencies (continued)**

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

On July 18, 2017, National, together with other PREPA bondholders, asked the court overseeing PREPA's Title III proceeding to lift the automatic 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 First Circuit. On August 8, 2018, the First Circuit issued an order reversing the Court's decision on jurisdictional grounds and remanding the motion. On October 3, 2018, National, together with other monolines filed an updated motion for relief from the automatic stay to allow Movants to exercise their statutory right to have a receiver appointed at PREPA. The Oversight Board filed a motion to dismiss the receiver motion. These motions had been stayed but following the termination of the RSA on March 8, 2022 and pursuant to Judge Swain's April 8, 2022 order, this proceeding is no longer stayed subject to Judge Swain's pending a status report request to the Oversight Board on August 15, 2022.

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

On March 8, 2022, the RSA was terminated and, pursuant to the Court's April 8 order, this action is no longer stayed subject to Judge Swain's pending status report request to the Oversight Board on August 15, 2022.

*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 PREPA 9019 Settlement Motion, but following the termination of the RSA on March 8, 2022, will return to the active calendar.

*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. On June 2, 2021, the Superior Court denied Defendants' motion to dismiss. Defendants appealed but filed an answer to the complaint on July 15, 2021. On December 17, 2021, the Commonwealth of Puerto Rico Court of Appeals issued a judgment reversing the Superior Court's decision on the motion to dismiss. On January 4, 2022, National filed with the Court of Appeals a motion for reconsideration of its judgment concerning the motion to dismiss. On February 17, 2022, the Court of Appeals issued an order denying National's motion for reconsideration. On March 23, 2022, National filed a Petition for Certiorari to the Supreme Court of the Commonwealth of Puerto Rico, which was denied on May 13, 2022. On May 27, 2022 National filed a motion for reconsideration. On June 8, 2022 Defendants filed their response to National's motion for reconsideration.

**Note 13: Commitments and Contingencies (continued)**

*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, the Court heard argument on the limited cross motions for summary judgment, which remain pending. On January 20, 2021, the Court issued an order deferring the adjudication of the summary judgment motions so that defendant monolines can seek limited 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. On April 6, 2021, the Oversight Board filed a motion to lift the litigation stay for the limited purpose of filing further summary judgment motions that would dispose of substantially all of the remaining claims challenged in this complaint. The hearing on this motion was held April 28, 2021, and the motion was denied. As part of the GO PSA and HTA PSA, National has agreed to stay its participation in this litigation subject to the effective date of the HTA Plan.

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

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

***Lease Commitments***

The Company has a lease agreement for its headquarters in Purchase, New York. The initial lease term expires in 2030 with the option to terminate the lease in 2025 upon the payment of a termination amount. This lease agreement included an incentive amount to fund certain leasehold improvements, renewal options, escalation clauses and a free rent period. This lease agreement has been classified as an operating lease, and operating rent expense is recognized on a straight-line basis. The following table provides information about the Company's leases as of June 30, 2022:

| $ in millions | As of June 30, 2022 | Balance Sheet Location |
|---|---|---|
| Right-of-use asset | $ 18 | Other assets |
| Lease liability | $ 18 | Other liabilities |
| Weighted average remaining lease term (years) | 7.3 | |
| Discount rate used for operating leases | 7.5% | |
| Total future minimum lease payments | $ 24 | |

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

*The following discussion and analysis of financial condition and results of operations of MBIA Inc. should be read in conjunction with the other sections of our Annual Report on Form 10-K for the year ended December 31, 2021 and the consolidated financial statements and notes thereto included in this Form 10-Q. In addition, this discussion and analysis of financial condition and results of operations includes statements of the opinion of MBIA Inc.’s management which may be forward-looking statements made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These statements are subject to certain risks and uncertainties that could cause actual results to differ materially from historical earnings and those presently anticipated or projected. Refer to “Risk Factors” in Part II, Item 1A and “Forward-Looking and Cautionary Statements” and “Risk Factors” in Part I, Item 1A of MBIA Inc.’s Annual Report on Form 10-K for the year ended December 31, 2021 for a further discussion of risks and uncertainties.*

## OVERVIEW

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 Mexico S.A. de C.V., (“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 surplus note holders, and then its preferred stock holders. MBIA Corp. is executing this strategy by, among other things, taking steps to maximize 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.

### *COVID-19 and the Economic Environment*

While the novel coronavirus COVID-19 (“COVID-19”) pandemic has not had an adverse material impact on our business and financial condition, the current and longer-term impacts of COVID-19 remain uncertain. The existence or extent of any impact on our insured or investment portfolios, or general business operations, will depend on future developments which are highly uncertain, including but not limited to the future 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. Refer to “Risk Factors” in Part I, Item 1A of MBIA Inc.’s Annual Report on Form 10-K for the year ended December 31, 2021 for a discussion of risks and uncertainties concerning COVID-19.

During the second quarter of 2022, overall U.S. economic activity picked up with the employment rate remaining low with robust job gains. Inflation remains elevated with supply and demand issues related to COVID-19, higher energy prices, and broader price pressures. The Ukraine and Russia conflict is causing tremendous human and economic hardship, which is creating upward pressure on inflation and is weighing on global economic activity. With the Federal Open Market Committee (“FOMC”) seeking to achieve maximum employment and 2% inflation, the FOMC increased its target for the federal funds rate by 75 basis at each of its June and July 2022 meetings. Economic and financial market trends could impact the Company’s financial results. Economic improvement at the state and local level strengthens the credit quality of the issuers of our insured municipal bonds, improves the performance of our insured U.S. public finance portfolio and could reduce the amount of National’s potential incurred losses. In addition, higher projected interest rates could yield increased returns on our Company’s investment portfolio. Alternatively, higher energy prices could have an adverse impact on certain sales taxes to the extent consumer spending decreases as a result. Some states and municipalities may experience a decrease in revenues if their economies are reliant on the oil and gas industries.

We do not insure any sovereign or sub-sovereign debt of Russia or Ukraine. Additionally, we have an immaterial amount of direct or indirect Russian or Ukraine debt holdings in our investment portfolios and have recorded credit losses and unrealized losses on these investments in the first six months of 2022. Refer to the following “Results of Operations—U.S. Public Finance Insurance Segment” section for additional information on these credit losses.

**OVERVIEW (continued)**

***2022 Business Developments***

The following is a summary of 2022 business developments:

*Puerto Rico*

- On January 1, 2022, 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 $47 million. As of June 30, 2022, National had $2.1 billion of debt service outstanding related to Puerto Rico.
- On July 1, 2022, Puerto Rico defaulted on scheduled debt service for National insured bonds and National paid gross claims in the aggregate of $142 million, which decreased the $2.1 billion of debt service outstanding related to Puerto Rico.

PREPA

- On March 8, 2022, the Puerto Rico Fiscal Agency and Financial Advisory Authority ("AAFAF") and Puerto Rico Electric Power Authority ("PREPA") terminated the RSA. On April 8, 2022, the Court appointed a new panel of judges to commence mediation among the Oversight Board, the Ad Hoc creditor group as holders of PREPA Senior Bonds, Assured, National and Syncora (the "April 8 Order"). The mediation deadline is currently August 15, 2022. The April 8 Order further provides that nothing therein acts as a stay of any pending adversary proceedings or contested matters in the PREPA case, subject to the Court's pending request to the Oversight Board for a status report by August 15, 2022.
- As of June 30, 2022, National has sold approximately 35% of its PREPA bankruptcy claims related to insurance claims paid on matured National-insured PREPA bonds. These sales monetized a portion of National's salvage asset and reduced potential volatility and ongoing risk of remediation around the PREPA credit.

GO and HTA

- On February 22, 2021, National agreed to join a plan support agreement, dated as of February 22, 2021 (the "GO PSA"), among the Financial Oversight and Management Board for Puerto Rico (the "Oversight Board"), certain holders of Puerto Rico Commonwealth GO ("GO") Bonds and Puerto Rico Public Buildings Authority ("PBA") bonds, Assured Guaranty Corp. and Assured Guaranty Municipal Corp, and Syncora Guarantee Inc. in connection with the Puerto Rico Commonwealth GO ("GO") and PBA Title III cases. The GO PSA was effective and implemented on March 15, 2022 and among other things, National received cash, including certain fees, newly issued General Obligation bonds ("GO Bonds") and a contingent value instrument ("CVI") totaling approximately $1.0 billion. The CVI is intended to provide creditors with additional recoveries based on potential outperformance of Puerto Rico 5.5% Sales and Use Tax receipts based on the projections in the 2020 certified fiscal plan, subject to certain caps. Subsequent to the GO PSA implementation, National made $277 million of acceleration and commutation payments pursuant to the GO PSA. Accordingly, National's GO and PBA gross par outstanding and debt service outstanding have been reduced to zero from approximately $380 million and $495 million, respectively.
- On April 12, 2021, National, Assured Guaranty Corp., Assured Guaranty Municipal Corp. and the Oversight Board reached an agreement in principle settling certain clawback claims and providing for a distribution of cash, bonds and a contingent value instrument to Puerto Rico Highway and Transportation Authority ("HTA") bondholders subject to completing negotiations on a plan support agreement in respect of an HTA plan of adjustment (the "HTA PSA"). On May 5, 2021, National, Assured Guaranty Corp., Assured Guaranty Municipal Corp. and the Oversight Board entered into the HTA PSA. On May 2, 2022, the Oversight Board filed the Title III Plan of Adjustment for the Puerto Rico Highways and Transportation Authority (the "HTA Plan"), together with the Disclosure Statement and supporting documents. On June 22, 2022, the Disclosure Statement was approved by the Court. Confirmation is scheduled for August 17 and 18, 2022. During July of 2022 and pursuant to the HTA PSA, National received $33 million of cash and $358 million face amount of CVI relating to HTA. In addition, National expects to receive additional cash and newly issued HTA bonds, or cash equal to the face amount of the newly issued HTA bonds, following the effective date of the HTA Plan.

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

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

## RESULTS OF OPERATIONS

### *Summary of Consolidated Results*

The following table presents a summary of our consolidated financial results for the three and six months ended June 30, 2022 and 2021:

| In millions except for per share, percentage and share amounts | Three Months Ended June 30, 2022 | Three Months Ended June 30, 2021 | Six Months Ended June 30, 2022 | Six Months Ended June 30, 2021 |
|---|---|---|---|---|
| Total revenues | $ 40 | $ 18 | $ 80 | $ 90 |
| Total expenses | 76 | 79 | 189 | 257 |
| Income (loss) before income taxes | (36) | (61) | (109) | (167) |
| Provision (benefit) for income taxes | - | - | - | - |
| Net income (loss) | $ (36) | $ (61) | $ (109) | $ (167) |
| Net income (loss) per basic and diluted common share | $ (0.72) | $ (1.23) | $ (2.20) | $ (3.38) |
| Effective tax rate | 0.0% | 0.0% | 0.0% | 0.0% |
| Adjusted net income (loss)(1) | $ (47) | $ 37 | $ (143) | $ (79) |
| Adjusted net income (loss) per diluted share(1) | $ (0.93) | $ 0.76 | $ (2.87) | $ (1.60) |
| Weighted average basic and diluted common shares outstanding | 49,826,695 | 49,488,368 | 49,729,610 | 49,373,883 |

(1) - Adjusted net income (loss) and adjusted net income (loss) per diluted share are non-GAAP measures. Refer to the following Non-GAAP Adjusted Net Income (Loss) 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.

*Three Months Ended June 30, 2022 vs. Three Months Ended June 30, 2021*

Income (loss) Before Income Taxes

Consolidated total revenues increased for the three months ended June 30, 2022 compared with the same period of 2021 principally due to fair value gains on interest rate swaps, gains from changes in foreign exchange rates, gains from consolidated variable interest entities ("VIEs") and an increase in net investment income. These favorable changes in revenues were partially offset by losses from fair valuing investments, sales of investments and impairing investments to fair value for investments we intend to sell. Fair value gains of $29 million on our interest rate swaps for the three months ended June 30, 2022 were due to increases in interest rates compared with a loss of $14 million from a decrease in interest rates in the same period of 2021. Foreign exchange gains for the three months ended June 30, 2022 on Euro-denominated liabilities were $15 million compared with losses of $5 million for the same period of 2021. Consolidated VIE revenue for the three months ended June 30, 2022 included $24 million primarily due to the reclassification of credit risk gains from accumulated other comprehensive income ("AOCI") due to the early redemption of VIE liabilities carried at fair value. In addition, for the three months ended June 30, 2022, net investment income increased $10 million compared with the same period of 2021 primarily due to higher average asset balances. The three months ended June 30, 2022 includes $34 million of losses from fair valuing investments, $21 million of realized losses on investments sold and $19 million of impairments on investments as a result of our intent to sell these securities before they recover their cost basis.

Consolidated total expenses for the three months ended June 30, 2022 included $20 million of losses and loss adjustment expense ("LAE") compared with losses and LAE of $9 million for the same period of 2021. This increase in losses and LAE was primarily due to an increase in net losses and LAE on certain Puerto Rico credits, partially offset by favorable changes in losses and LAE from insured CDOs and first-lien RMBS in 2022 when compared with 2021. Refer to the following "Losses and Loss Adjustment Expenses" sections in the Results of Operations of our U.S. Public Finance Insurance and International and Structured Finance Insurance segments for additional information on our insurance losses and LAE. Operating expense decreased for the three months ended June 30, 2022 compared with the same period of 2021 primarily due to a decrease in compensation expense related to the Company's deferred compensation plan. Also, interest expense of consolidated VIEs decreased for the three months ended June 30, 2022 compared with the same period of 2021 due to the repayment of the outstanding insured senior notes of MBIA Corp.'s financing facility between MZ Funding and certain purchasers ("Refinanced Facility") during 2021.

**RESULTS OF OPERATIONS (continued)**

*Six Months Ended June 30, 2022 vs. Six Months Ended June 30, 2021*

Income (loss) Before Income Taxes

Consolidated total revenues decreased for the six months ended June 30, 2022 compared with the same period of 2021 principally due to losses from fair valuing investments, sales of investments and impairing investments to fair value for investments we intend to sell. These unfavorable changes in revenues were partially offset by fair value gains on interest rate swaps, gains from consolidated VIEs and an increase in net investment income. The six months ended June 30, 2022 includes $53 million of losses from fair valuing investments, $24 million of realized losses on investments sold and $19 million of impairments on investments as a result of our intent to sell these securities before they recover their cost basis. Fair value gains on our interest rate swaps for the six months ended June 30, 2022 were $62 million compared with gains of $25 million for the same period of 2021. The increase was due to a larger increase in interest rates in 2022. Consolidated VIE revenue for the six months ended June 30, 2022 was a gain of $20 million compared with a loss of $19 million for the same period of 2021. This favorable change is primarily due to the reclassification of credit risk gains from AOCI compared with the reclassification of credit risk losses in 2021 due to the early redemption of VIE liabilities carried at fair value. In addition, for the six months ended June 30, 2022, net investment income increased $14 million compared with the same period of 2021 primarily due to higher average asset balances.

Consolidated total expenses for the six months ended June 30, 2022 included $69 million of losses and LAE compared with losses and LAE of $107 million for the same period of 2021. This decrease in losses and LAE was primarily due to favorable changes from insured CDOs and first-lien RMBS in 2022 when compared with 2021. This decrease was partially offset by an increase in net losses and LAE on certain Puerto Rico credits. Refer to the following "Losses and Loss Adjustment Expenses" sections in the Results of Operations of our U.S. Public Finance Insurance and International and Structured Finance Insurance segments for additional information on our insurance losses and LAE. Operating expense decreased for the six months ended June 30, 2022 compared with the same period of 2021 primarily due to a decrease in compensation expense related to the Company's deferred compensation plan. Also, interest expense of consolidated VIEs decreased for the six months ended June 30, 2022 compared with the same period of 2021 due to the repayment of the Refinanced Facility during 2021.

*Three and Six Months Ended June 30, 2022 vs. Three and Six Months Ended June 30, 2021*

Provision for Income Taxes

For the three and six months ended June 30, 2022 and 2021, our effective tax rate applied to our loss before income taxes was 0% compared with the U.S. statutory tax rate of 21% due to the full valuation allowance on the changes in our net deferred tax asset, which includes our net operating loss ("NOL").

As of June 30, 2022 and December 31, 2021, the Company's valuation allowance against its net deferred tax asset was $1.1 billion. 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. 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 9: 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.

**RESULTS OF OPERATIONS (continued)**

***Non-GAAP Adjusted Net Income (Loss)***

In addition to our results prepared in accordance with accounting principles generally accepted in the United States of America ("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 such as interest rate swaps, investment securities 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 realized investment gains (losses), impaired securities and extinguishment of debt* – We remove realized 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* –We apply a zero effective tax rate for federal income tax purposes to our pre-tax adjustments, if applicable, consistent with our consolidated effective tax rate.

**RESULTS OF OPERATIONS (continued)**

The following table presents our adjusted net income (loss) and adjusted net income (loss) per diluted common share and provides a reconciliation of GAAP net income (loss) to adjusted net income (loss) for the three and six months ended June 30, 2022 and 2021:

| In millions except share and per share amounts | Three Months Ended June 30, 2022 | Three Months Ended June 30, 2021 | Six Months Ended June 30, 2022 | Six Months Ended June 30, 2021 |
|---|---|---|---|---|
| Net income (loss) | $ (36) | $ (61) | $ (109) | $ (167) |
| Less: adjusted net income (loss) adjustments: | | | | |
| Income (loss) before income taxes of our international and structured finance insurance segment and eliminations | 23 | (99) | 18 | (143) |
| Adjustments to income before income taxes of our U.S. public finance insurance and corporate segments: | | | | |
| Mark-to-market gains (losses) on financial instruments(1) | 13 | (9) | 37 | 29 |
| Foreign exchange gains (losses)(1) | 13 | (4) | 19 | 13 |
| Net realized investment gains (losses) | (21) | - | (23) | (1) |
| Net gains (losses) on extinguishment of debt | 5 | 14 | 5 | 14 |
| Net investment losses related to impairments of securities(2) | (22) | - | (22) | - |
| Adjusted net income adjustment to the (provision) benefit for income tax | - | - | - | - |
| Adjusted net income (loss) | $ (47) | $ 37 | $ (143) | $ (79) |
| Adjusted net income (loss) per diluted common share(3) | $ (0.93) | $ 0.76 | $ (2.87) | $ (1.60) |

(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 "Other net realized gains (losses)" 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 the GAAP weighted average number of diluted common shares outstanding.

***Book Value Adjustments Per Share***

In addition to GAAP book value per share, for internal purposes management also analyzes adjusted book value ("ABV") per share, 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.

- *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 and a zero consolidated effective tax rate, the book value per share adjustments reflect 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 June 30, 2022 | As of December 31, 2021 |
|---|---|---|
| Total shareholders' equity of MBIA Inc. | $ (748) | $ (313) |
| Common shares outstanding | 54,899,716 | 54,556,112 |
| GAAP book value per share | $ (13.63) | $ (5.73) |
| Management's adjustments described above: | | |
| Remove negative book value per share of MBIA Corp. | (36.48) | (35.94) |
| Remove net unrealized gains (losses) on available-for-sale securities included in other comprehensive income (loss) | (2.72) | 2.02 |
| Include net unearned premium revenue in excess of expected losses | 3.28 | 3.58 |

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

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 June 30, 2022, National had total insured gross par outstanding of $34.6 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 could lead to an increase in defaults by such entities on the payment of their obligations and, while such has not yet occurred materially, 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 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 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

**RESULTS OF OPERATIONS (continued)**

The following table presents our U.S. public finance insurance segment results for the three and six months ended June 30, 2022 and 2021:

| In millions | Three Months Ended June 30, 2022 | Three Months Ended June 30, 2021 | Percent Change | Six Months Ended June 30, 2022 | Six Months Ended June 30, 2021 | Percent Change |
|---|---|---|---|---|---|---|
| Net premiums earned | $ 9 | $ 11 | -18% | $ 22 | $ 28 | -21% |
| Net investment income | 21 | 14 | 50% | 38 | 28 | 36% |
| Net realized investment gains (losses) | (20) | 1 | n/m | (21) | - | n/m |
| Net gains (losses) on financial instruments at fair value and foreign exchange | (21) | 2 | n/m | (37) | - | n/m |
| Fees and reimbursements | - | 2 | -100% | 1 | 2 | -50% |
| Other net realized gains (losses) | (17) | - | n/m | (19) | - | n/m |
| Total revenues | (28) | 30 | n/m | (16) | 58 | -128% |
| Losses and loss adjustment | 49 | (42) | n/m | 136 | 67 | 103% |
| Amortization of deferred acquisition costs | 2 | 3 | -33% | 5 | 7 | -29% |
| Operating | 9 | 12 | -25% | 22 | 26 | -15% |
| Total expenses | 60 | (27) | n/m | 163 | 100 | 63% |
| Income (loss) before income taxes | $ (88) | $ 57 | n/m | $ (179) | $ (42) | 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. 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. Refunding activity can vary significantly from period to period based on issuer refinancing behavior. For the three months ended June 30, 2022 and 2021, scheduled premiums earned were $8 million and $9 million, respectively, and refunded premiums earned were $1 million and $2 million, respectively. For the six months ended June 30, 2022 and 2021, scheduled premiums earned were $16 million and $19 million, respectively, and refunded premiums earned were $6 million and $9 million, respectively.

NET INVESTMENT INCOME The increase in net investment income for the three and six months ended June 30, 2022 compared with the same periods of 2021 were primarily due to a higher average invested asset base resulting from sales of the PREPA bankruptcy claims and receipt of the cash and bonds from the GO PSA.

NET REALIZED INVESTMENT GAINS (LOSSES) The decrease in net realized investment gains (losses) for the three and six months ended June 30, 2022 compared with the same periods of 2021 were primarily due to losses from the sales of securities from the ongoing management of our U.S. public finance investment portfolio, including to generate liquidity to pay claims.

NET GAINS (LOSSES) ON FINANCIAL INSTRUMENTS AT FAIR VALUE AND FOREIGN EXCHANGE For the three and six months ended June 30, 2022, net losses on financial instruments at fair value and foreign exchange were driven by fair value losses on investments for which the fair value option was elected and investments designated as trading. The losses on the fair value option investments were driven by increases in interest rates and widening of credit spreads during 2022. The losses on the trading investments were driven by mark-to-market changes on the Puerto Rico GO CVI.

OTHER NET REALIZED GAINS (LOSSES) For the three and six months ended June 30, 2022, other net realized losses were primarily related to impairments of certain investments that had unrealized losses as we intend to sell these investments before they recover their amortized cost basis.

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

For the three months ended June 30, 2022, loss and LAE incurred primarily related to changes in our actual and estimated recoveries on National's HTA exposure. HTA loss reserves and recoveries include certain assumptions about the timing and amount of claims payments and recoveries, including assumptions about the values of recoveries on the date we expect to receive reimbursement. During the three months ended June 30, 2022, we updated assumptions used to estimate the current fair value of new HTA CVI that National received in July of 2022. These assumption changes resulted in a decrease in our estimated present value of HTA recoveries.

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

### RESULTS OF OPERATIONS (continued)

For the six months ended June 30, 2022, loss and LAE incurred primarily related to changes in our estimate of expected recoveries on National's PREPA exposure, partially offset by benefits related to Puerto Rico HTA and GO recoveries. During the six months ended June 30, 2022, we updated our PREPA assumptions used to estimate the value of recoveries, the timing and amount of claim payments, as well as the timing of an implemented plan. These assumption changes resulted in a decrease in our estimated present value of expected PREPA recoveries. This was partially offset by loss benefits related to HTA and GO recoveries. During the six months June 30, 2022, our HTA recoveries increased, based on updates to the fair value of the HTA CVI that National received in July of 2022 and updated information relating to the values of the expected receipt of HTA bonds, including the consideration of the fair values of similar issued GO bonds. In addition, we recorded a loss benefit on our GO recoveries to reflect the fair values of the consideration received as of the acquisition date, which was higher than our previous estimate.

For the three months ended June 30, 2021, the loss and LAE incurred benefit primarily related to a decline in the risk-free rates used to discount the value of long-dated future recoveries on certain Puerto Rico exposures. For the six months ended June 30, 2021, the loss and LAE incurred primarily related to an increase in the risk-free rates used to discount the value of long-date future expected recoveries on certain Puerto Rico exposures.

The following table presents information about our U.S. public finance insurance loss recoverable asset and loss and LAE reserves liabilities as of June 30, 2022 and December 31, 2021:

| In millions | June 30, 2022 | December 31, 2021 | Percent Change |
|---|---|---|---|
| **Assets:** | | | |
| Insurance loss recoverable | $ 205 | $ 1,054 | -81% |
| Reinsurance recoverable on paid and unpaid losses (1) | 13 | 3 | n/m |
| **Liabilities:** | | | |
| Loss and LAE reserves | 576 | 425 | 36% |
| Insurance loss recoverable-ceded (2) | 6 | 55 | -89% |
| Net reserve (salvage) | $ 364 | $ (577) | n/m |

(1) - Reported within "Other assets" on our consolidated balance sheets.
(2) - Reported within "Other liabilities" on our consolidated balance sheets.
n/m-Percent change not meaningful.

The insurance loss recoverable as of June 30, 2022 decreased compared with December 31, 2021 primarily due to the receipt of recoveries pursuant to the implemented GO PSA whereby National received cash, GO Bonds, and CVI. In addition, the insurance loss recoverable declined due to the sale of PREPA bankruptcy claims partially offset by changes in assumptions related to the value of the remaining expected PREPA recoveries on paid claims. Loss and LAE reserves as of June 30, 2022 increased compared with December 31, 2021 primarily due to a decrease in expected PREPA recoveries on claims not yet paid, which are netted in loss and LAE reserves, as well as higher expected losses due to extending the timing of a PREPA settlement. The increase in PREPA net loss reserves was partially offset by an increase in the estimated expected recoveries on claims not yet paid related to HTA, which is also netted in loss and LAE reserves, claims payments related to the acceleration and commutation of GO exposure, and scheduled claim payments on Puerto Rico exposures during the six months ended June 30, 2022.

POLICY ACQUISITION COSTS AND OPERATING EXPENSES U.S. public finance insurance segment expenses for the three and six months ended June 30, 2022 and 2021 are presented in the following table:

| In millions | Three Months Ended June 30, 2022 | Three Months Ended June 30, 2021 | Percent Change | Six Months Ended June 30, 2022 | Six Months Ended June 30, 2021 | Percent Change |
|---|---|---|---|---|---|---|
| Gross expenses | $ 10 | $ 12 | -17% | $ 23 | $ 26 | -12% |
| Amortization of deferred acquisition costs | $ 2 | $ 3 | -33% | $ 5 | $ 7 | -29% |
| Operating | 9 | 12 | -25% | 22 | 26 | -15% |
| Total insurance operating expenses | $ 11 | $ 15 | -27% | $ 27 | $ 33 | -18% |

Gross expenses represent total insurance expenses before the deferral of any policy acquisition costs. Operating expenses decreased for the three and six months ended June 30, 2022 compared with the same periods of 2021 primarily due to a decrease in legal costs.

When an insured obligation refunds, we accelerate to expense 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 2022 or 2021 as we did not write any new insurance business in those years.

**RESULTS OF OPERATIONS (continued)**

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

The following table presents the credit quality distribution of National's U.S. public finance outstanding gross par insured as of June 30, 2022 and December 31, 2021. 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 | Gross Par Outstanding | | | |
|---|---|---|---|---|
| | June 30, 2022 | | December 31, 2021 | |
| Rating | Amount | % | Amount | % |
| AAA | $ 1,579 | 4.6% | $ 1,682 | 4.6% |
| AA | 14,342 | 41.5% | 14,874 | 40.8% |
| A | 10,790 | 31.2% | 10,439 | 28.6% |
| BBB | 5,024 | 14.5% | 6,187 | 17.0% |
| Below investment grade | 2,853 | 8.2% | 3,269 | 9.0% |
| Total | $34,588 | 100.0% | $36,451 | 100.0% |

***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 June 30, 2022:

| In millions | Gross Par Outstanding | Debt Service Outstanding | National Internal Rating |
|---|---|---|---|
| Puerto Rico Electric Power Authority (PREPA) | $ 809 | $ 1,063 | d |
| Puerto Rico Highway and Transportation Authority Transportation Revenue (PRHTA) | 523 | 842 | d |
| Puerto Rico Highway and Transportation Authority—Subordinated Transportation Revenue (PRHTA) | 27 | 33 | d |
| Puerto Rico Highway and Transportation Authority Highway Revenue (PRHTA) | 39(1) | 57 | d |
| University of Puerto Rico System Revenue | 70 | 89 | d |
| Inter American University of Puerto Rico Inc. | 17 | 21 | a3 |
| Total | $ 1,485 | $ 2,105 | |

(1) - Includes CABs that reflect the gross par amount at the time of issuance of the insurance policy. As of June 30, 2022, gross par outstanding plus CABs accreted interest was $41 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 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.

**RESULTS OF OPERATIONS (continued)**

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 GO. 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. On February 4, 2019, the District of Puerto Rico entered the order confirming the Third Amended Title III Plan of Adjustment for COFINA. The Title III cases for the Commonwealth of Puerto Rico and PBA were confirmed on January 18, 2022, and became effective on March 15, 2022. There can be no assurance that the Title III proceedings for PREPA and PRHTA 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 $2.2 billion relating to GO bonds, PBA bonds, PREPA bonds and PRHTA bonds through June 30, 2022, inclusive of the commutation payment and the additional payment in the amount of $66 million on December 17, 2019 related to COFINA and the GO PSA acceleration and commutation payments of $277 million in March of 2022.

*PREPA*

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

On May 3, 2019, PREPA, the Oversight Board, the AAFAF, the Ad Hoc Group of PREPA bondholders (the "Ad Hoc Group"), and Assured Guaranty Corp. and Assured Guaranty Municipal Corp. ("Assured") entered into the a restructuring support agreement ("RSA") which was amended on September 9, 2019 to include National and Syncora Guarantee, Inc. ("Syncora") as supporting parties. On March 8, 2022, AAFAF and PREPA terminated the RSA. On April 8, 2022, the Court issued the April 8 Order. The mediation deadline is currently August 15, 2022. The April 8 Order further provides that nothing therein acts as a stay of any pending adversary proceedings or contested matters in the PREPA case, subject to the Court's pending request to the Oversight Board for a status report by August 15, 2022.

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 was stayed but the April 8 Order dissolved the stay as to any pending adversary proceedings or contested matters, subject to the Court's pending status report request to the Oversight Board on August 15, 2022.

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. LUMA assumed responsibility for operations on June 1, 2021.

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. LUMA is now involved in the planning of the related projects as well as proceedings related thereto in front the PR Energy Bureau as well as PR-COR3.

In October of 2021 and January of 2022, National sold $199 million and $231 million, respectively, of PREPA bankruptcy claims related to insurance claims paid on matured National-insured PREPA bonds. These transactions represented approximately 35% of National's par claims to PREPA, monetized a portion of National's salvage asset at a discount to National's previous carrying value, and reduced potential volatility and ongoing risk of remediation around the PREPA credit. Subsequent to the sale of these PREPA bankruptcy claims, National does not have a material amount of additional par claims to PREPA that have matured and can be sold.

*PRHTA*

On April 12, 2021, National, Assured Guaranty Corp., Assured Guaranty Municipal Corp. and the Oversight Board reached an agreement in principle settling certain HTA clawback claims in the Commonwealth Title III case and providing for a distribution to HTA holders of cash, bonds and a CVI subject to completing negotiations on a plan support agreement in respect of the HTA PSA. On May 5, 2021, National, Assured Guaranty Corp., Assured Guaranty Municipal Corp. and the Oversight Board entered into the HTA PSA. On May 2, 2022, the Oversight Board filed the HTA Plan, together with the Disclosure Statement and supporting documents. On June 22, 2022, the Disclosure Statement was approved by the Court. Confirmation is scheduled for August 17 and 18, 2022. In July of 2022 and pursuant to the HTA PSA, National received $33 million of cash and $358 million face amount of CVI relating to HTA. In addition, National expects to receive additional cash and newly issued HTA bonds, or cash equal to the face amount of the newly issued HTA bonds, following the effective date of the HTA Plan.

**RESULTS OF OPERATIONS (continued)**

Status of Puerto Rico's Fiscal Plans

The Oversight Board certified fiscal plans for PREPA, University of Puerto Rico (the "University") and PRHTA on June 28, 2022, May 27, 2022 and February 22, 2022, respectively. The Oversight Board also certified the fiscal year 2023 budgets for Commonwealth, PREPA, the University and PRHTA on June 30, 2022.

*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 November 30, 2022. National is not a party to the standstill agreement.

The following table presents our scheduled gross debt service due on our Puerto Rico insured exposures for the nine months ending December 31, 2022, for each of the subsequent four years ending December 31 and thereafter:

| In millions | Six Months Ending December 31, 2022 | 2023 | 2024 | 2025 | 2026 | Thereafter | Total |
|---|---|---|---|---|---|---|---|
| Puerto Rico Electric Power Authority (PREPA) | $ 119 | $ 137 | $ 137 | $ 105 | $ 57 | $ 508 | $ 1,063 |
| Puerto Rico Highway and Transportation Authority Transportation Revenue (PRHTA) | 13 | 36 | 33 | 36 | 35 | 689 | 842 |
| Puerto Rico Highway and Transportation Authority—Subordinated Transportation Revenue (PRHTA) | 8 | 1 | 1 | 1 | 1 | 21 | 33 |
| Puerto Rico Highway and Transportation Authority Highway Revenue (PRHTA) | 2 | 4 | 2 | 2 | 2 | 45 | 57 |
| University of Puerto Rico System Revenue | 5 | 12 | 11 | 16 | 6 | 39 | 89 |
| Inter American University of Puerto Rico Inc. | 2 | 3 | 3 | 3 | 3 | 7 | 21 |
| Total | $ 149 | $ 193 | $ 187 | $ 163 | $ 104 | $ 1,309 | $ 2,105 |

***Corporate Segment***

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 subsidiary, MBIA Global Funding, LLC ("GFL"). 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. 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, were called or repurchased. All of the debt within the corporate segment is managed collectively and is serviced by available liquidity.

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

**RESULTS OF OPERATIONS (continued)**

The following table summarizes the consolidated results of our corporate segment for the three and six months ended June 30, 2022 and 2021:

| In millions | Three Months Ended June 30, 2022 | Three Months Ended June 30, 2021 | Percent Change | Six Months Ended June 30, 2022 | Six Months Ended June 30, 2021 | Percent Change |
|---|---|---|---|---|---|---|
| Net investment income | $ 5 | $ 7 | -29% | $ 11 | $ 14 | -21% |
| Net realized investment gains (losses) | (1) | (1) | -% | (2) | (1) | 100% |
| Net gains (losses) on financial instruments at fair value and foreign exchange | 37 | (17) | n/m | 76 | 38 | 100% |
| Net gains (losses) on extinguishment of debt | 5 | 14 | -64% | 5 | 14 | -64% |
| Fees | 13 | 13 | -% | 27 | 29 | -7% |
| Total revenues | 59 | 16 | n/m | 117 | 94 | 24% |
| Operating | 9 | 17 | -47% | 25 | 39 | -36% |
| Interest | 19 | 18 | 6% | 38 | 37 | 3% |
| Total expenses | 28 | 35 | -20% | 63 | 76 | -17% |
| Income (loss) before income taxes | $ 31 | $ (19) | n/m | $ 54 | $ 18 | n/m |

n/m—Percent change not meaningful.

NET GAINS (LOSSES) ON FINANCIAL INSTRUMENTS AT FAIR VALUE AND FOREIGN EXCHANGE The changes in net gains (losses) on financial instruments at fair value and foreign exchange for the three and six months ended June 30, 2022 compared with same periods of 2021 were primarily due to the impact of favorable changes on the value of interest rate swaps for which we receive floating rates and foreign currency exchange rates on Euro-denominated liabilities as a result of the strengthening of the U.S. dollar. These favorable changes were partially offset by fair value losses on investments.

The three months ended June 30, 2022 includes fair value net gains of $29 million on interest rate swaps compared with fair value net losses of $14 million on these swaps for the same period of 2021 due to an increase in interest rates in 2022 compared with a decrease in interest rates in 2021. The three months ended June 30, 2022 includes foreign currency gains of $15 million on Euro-denominated liabilities compared with foreign currency losses of $5 million on these liabilities for the same period of 2021 as a result of the strengthening of the U.S. dollar against the Euro in 2022. Fair value losses on investments was $8 million for the three months ended June 30, 2022 compared with gains of $3 million for the same period of 2021.

The six months ended June 30, 2022 includes fair value net gains of $62 million on interest rate swaps compared with fair value net gains of $25 million on these swaps for the same period of 2021. This increase in net gains is due to larger increases in interest rates in 2022. The six months ended June 30, 2022 includes foreign currency gains of $20 million on Euro-denominated liabilities compared with foreign currency gains of $12 million on these liabilities for the same period of 2021 due to a larger increase in the strength of the U.S. dollar in 2022 against the Euro. Fair value losses on investments was $11 million for the six months ended June 30, 2022 compared with gains of $5 million for the same period of 2021.

NET GAINS (LOSSES) ON EXTINGUISHMENT OF DEBT Net gains (losses) on extinguishment of debt for all periods include gains from purchases, at discounts, of MTNs issued by the Company.

OPERATING EXPENSE The change in operating expense for the three and six months ended June 30, 2022 compared with the same periods of 2021 were primarily due to a decrease in compensation expense related to the Company's deferred compensation plan.

***International and Structured Finance Insurance Segment***

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.

**RESULTS OF OPERATIONS (continued)**

MBIA Corp. insures 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, structured settlements, consumer loans, and corporate loans and bonds. 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 insures debt obligations of GFL and obligations under certain types of derivative contracts. MBIA Insurance Corporation provides 100% reinsurance to its subsidiary, MBIA Mexico S.A. de C.V. ("MBIA Mexico"). As of June 30, 2022, MBIA Corp.'s total insured gross par outstanding was $4.2 billion.

MBIA Corp. has contributed to the Company's 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.

The following table presents our international and structured finance insurance segment results for the three and six months ended June 30, 2022 and 2021:

| In millions | Three Months Ended June 30, 2022 | Three Months Ended June 30, 2021 | Percent Change | Six Months Ended June 30, 2022 | Six Months Ended June 30, 2021 | Percent Change |
|---|---|---|---|---|---|---|
| Net premiums earned | $ 3 | $ 5 | -40% | $ 7 | $ 11 | -36% |
| Net investment income | 5 | 2 | 150% | 7 | 3 | 133% |
| Net realized investment gains (losses) | - | - | -% | (1) | - | n/m |
| Net gains (losses) on financial instruments at fair value and foreign exchange | (7) | (5) | 40% | (13) | (6) | 117% |
| Fees and reimbursements | 6 | 3 | 100% | 9 | 7 | 29% |
| Revenues of consolidated VIEs: | | | | | | |
| Net gains (losses) on financial instruments at fair value and foreign exchange | 24 | - | n/m | 20 | (14) | n/m |
| Other net realized gains (losses) | - | (5) | -100% | - | (5) | -100% |
| Total revenues | 31 | - | n/m | 29 | (4) | n/m |
| Losses and loss adjustment | (29) | 51 | n/m | (67) | 40 | n/m |
| Amortization of deferred acquisition costs | 2 | 4 | -50% | 6 | 8 | -25% |
| Operating | 5 | 6 | -17% | 11 | 13 | -15% |
| Interest | 29 | 29 | -% | 57 | 56 | 2% |
| Expenses of consolidated VIEs: | | | | | | |
| Operating | 1 | 1 | -% | 3 | 3 | -% |
| Interest | 1 | 6 | -83% | 2 | 17 | -88% |
| Total expenses | 9 | 97 | -91% | 12 | 137 | -91% |
| Income (loss) before income taxes | $ 22 | $ (97) | -123% | $ 17 | $ (141) | -112% |

n/m- Percent change not meaningful.

NET PREMIUMS EARNED Our international and structured finance insurance segment generates net premiums from insurance policies accounted for as financial guarantee contracts. Net premiums earned represent gross premiums earned net of premiums ceded to reinsurers, and include scheduled premium earnings and premium earnings from refunded issues. Certain premiums may be eliminated in our consolidated financial statements as a result of the Company consolidating VIEs. The following table provides net premiums earned from our financial guarantee contracts for the three and six months ended June 30, 2022 and 2021:

| In millions | Three Months Ended June 30, 2022 | Three Months Ended June 30, 2021 | Percent Change | Six Months Ended June 30, 2022 | Six Months Ended June 30, 2021 | Percent Change |
|---|---|---|---|---|---|---|
| Net premiums earned: | | | | | | |
| U.S. | $ - | $ 1 | -100% | $ 1 | $ 2 | -50% |
| Non-U.S. | 3 | 4 | -25% | 6 | 9 | -33% |
| Total net premiums earned | $ 3 | $ 5 | -40% | $ 7 | $ 11 | -36% |
| VIEs (eliminated in consolidation) | $ - | $ 1 | -100% | $ - | $ 1 | -100% |

**RESULTS OF OPERATIONS (continued)**

NET INVESTMENT INCOME The increase in net investment income for the three and six months ended June 30, 2022 compared with the same periods of 2021 were primarily due to a higher yields on investment assets in 2022.

NET GAINS (LOSSES) ON FINANCIAL INSTRUMENTS AT FAIR VALUE AND FOREIGN EXCHANGE The unfavorable change for the six months ended June 30, 2022 compared with the same period of 2021 was primarily due to fair value losses on investments in 2022.

FEES AND REIMBURSEMENTS The increases in fees and reimbursements for the three and six months ended June 30, 2022 compared with the same periods of 2021 were primarily due to an increase in waiver and consent fees in 2022. Due to the transaction-specific nature inherent in fees and reimbursements, these revenues can vary significantly from period to period.

REVENUES OF CONSOLIDATED VIEs: The favorable changes for the three and six months ended June 30, 2022 compared with the same periods of 2021 were principally due to the reclassification of credit risk gains from AOCI in 2022 compared with the reclassification of credit risk losses from AOCI in 2021 from the early redemption of VIE liabilities carried at fair value.

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

For the three months ended June 30, 2022, the losses and LAE benefit primarily related to increases in the risk-free rates used to discount expected claim payments, which decreased the present value of net loss reserves, primarily on insured RMBS transactions, as well as an increase in expected salvage collections from insured CDO transactions. These benefits were partially offset by an increase in LIBOR rates, which increased estimated claims payments on floating rate insured debt in both RMBS and CDO transactions.

For the six months ended June 30, 2022, the losses and LAE benefit primarily related to insured RMBS transactions, as a result of an increase in year-to-date risk-free rates during 2022, which caused case reserves, net of recoveries, to decline, as well as an increase in expected salvage collections from insured CDOs. This was partially offset by an increase in LIBOR rates, which increased estimated claims payments on floating rate insured debt in both RMBS and CDO transactions.

For the three months ended June 30, 2021, loss and LAE incurred primarily related to a decline in expected salvage collections from insured CDOs, and losses on first-lien RMBS transactions due to a decline in the risk free rates used to discount the present value of net loss reserves, which caused case reserves, net of recoveries, to increase.

For the six months ended June 30, 2021, losses and LAE incurred primarily related to a decline in expected salvage collections from insured CDOs, partially offset by a benefit related to insured RMBS transactions as a result of an increase in risk-free rates, which caused case reserves, net of recoveries, to decline.

As a result of the consolidation of VIEs, loss and LAE excludes a losses and LAE benefit of $62 thousand and $9 million for the three and six months ended June 30, 2022, respectively, and excludes a losses and LAE expense of $1 million and a losses and LAE benefit of $15 million for the three and six months ended June 30, 2021, respectively, as VIE losses and LAE are eliminated in consolidation.

Refer to "Note 5: Loss and Loss Adjustment Expense Reserves" in the Notes to Consolidated Financial Statements for further information about our insurance loss recoverable and loss and LAE reserves. The following table presents information about our insurance loss recoverable and loss and LAE reserves as of June 30, 2022 and December 31, 2021.

| In millions | June 30, 2022 | December 31, 2021 | Percent Change |
|---|---|---|---|
| **Assets:** | | | |
| Insurance loss recoverable | $ 238 | $ 242 | -2% |
| Reinsurance recoverable on paid and unpaid losses (1) | 4 | 5 | -20% |
| Liabilities: | | | |
| Loss and LAE reserves | 389 | 469 | -17% |
| Net reserve (salvage) | $ 147 | $ 222 | -34% |

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

**RESULTS OF OPERATIONS (continued)**

The insurance loss recoverable primarily relates to reimbursement rights arising from the payment of claims on MBIA Corp.'s policies insuring certain CDOs and RMBS. Such payments also entitle MBIA Corp. to exercise certain rights and remedies to seek recovery of its reimbursement entitlements. The insurance loss recoverable decreased slightly from 2021 due to the increase in risk-free rates during 2022 used to discount future recoveries of paid claims, which lowered the present value of those recoveries, as well as the collection of RMBS recoveries, partially offset by an increase in expected salvage collections on CDOs. The decline in loss and LAE reserves from 2021 is primarily due to the increase in risk-free rates, which caused the present value of case reserves, net of future recoveries, to decline.

Refer to "Note 1: Business Developments and Risks and Uncertainties" in the Notes to Consolidated Financial Statements for information regarding risks and uncertainties related to future collections of estimated recoveries. Refer to "Note 5: 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 three and six months ended June 30, 2022 and 2021 are presented in the following table:

| In millions | Three Months Ended June 30, 2022 | Three Months Ended June 30, 2021 | Percent Change | Six Months Ended June 30, 2022 | Six Months Ended June 30, 2021 | Percent Change |
|---|---|---|---|---|---|---|
| Gross expenses | $ 5 | $ 6 | -17% | $ 11 | $ 13 | -15% |
| Amortization of deferred acquisition costs | $ 2 | $ 4 | -50% | $ 6 | $ 8 | -25% |
| Operating | 5 | 6 | -17% | 11 | 13 | -15% |
| Total insurance operating expenses | $ 7 | $ 10 | -30% | $ 17 | $ 21 | -19% |

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 2022 or 2021 as no new business was written. Policy acquisition costs in these periods were primarily related to ceding commissions and premium taxes on installment policies written in prior periods.

INTEREST EXPENSE OF CONSOLIDATED VIEs Interest expense of consolidated VIEs decreased for the three and six months ended June 30, 2022 compared with the same periods of 2021 due to the repayment of the Refinanced Facility in 2021 and 2022. As of June 30, 2022, the Refinanced Facility was paid in full.

### *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 June 30, 2022 and December 31, 2021, 30% and 26%, 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. Below investment grade insurance policies primarily include our first-lien RMBS and CDO exposures.

*Selected Portfolio Exposures*

MBIA Corp. insures RMBS backed by residential mortgage loans, including first-lien alternative A-paper and subprime mortgage loans directly through RMBS securitizations. As of June 30, 2022 and December 31, 2021, MBIA Corp. had $927 million and $979 million, respectively, of first-lien RMBS gross par outstanding. These amounts include the gross par outstanding related to transactions that the Company consolidates under accounting guidance for VIEs and includes international exposure of $244 million and $238 million, as of June 30, 2022 and December 31, 2021, respectively.

**RESULTS OF OPERATIONS (continued)**

In addition, as of June 30, 2022 and December 31, 2021, MBIA Corp. insured $216 million and $231 million, respectively, 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.

Effective in the first quarter of 2022, MBIA Corp. was granted a permitted practice by the New York State Department of Financial Services ("NYSDFS") related to the purchase of certain MBIA Corp.-insured securities with gross case base loss reserves ("Remediation Securities"). The Remediation Securities are being acquired with the intent to terminate or commute the related insurance policies. MBIA Corp. may elect to sell the Remediation Securities to facilitate a termination or commutation.

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

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

As of June 30, 2022, the aggregate amount of insured par outstanding ceded by MBIA to reinsurers under reinsurance agreements was $970 million compared with $1.0 billion as of December 31, 2021. Under National's reinsurance agreement with MBIA Corp., if a reinsurer of MBIA Corp. is unable to pay claims ceded by MBIA Corp. on U.S. public finance exposure, National will assume liability for such ceded claim payments. For a further discussion of the Company's reinsurance, refer to "Note 13: Insurance in Force" in the Notes to Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2021.

### *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.

*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 six months ended June 30, 2022 and 2021:

| In millions | Six Months Ended June 30, 2022 | Six Months Ended June 30, 2021 | Percent Change |
|---|---|---|---|
| Statement of cash flow data: | | | |
| Net cash provided (used) by: | | | |
| Operating activities | $ 232 | $ 545 | -57% |
| Investing activities | (12) | (110) | -89% |
| Financing activities | (172) | (255) | -33% |
| Effect of exchange rate changes on cash and cash equivalents | (1) | - | n/m |
| Cash and cash equivalents - beginning of period | 160 | 167 | -4% |
| Cash and cash equivalents - end of period | $ 207 | $ 347 | -40% |

n/m - Percent change not meaningful.

## LIQUIDITY AND CAPITAL RESOURCES

Operating activities

Net cash provided by operating activities decreased for the six months ended June 30, 2022 compared with the same period of 2021 primarily due to proceeds received in the first half of 2021 from loan repurchase commitments of $600 million as a result of the settlement of the Credit Suisse litigation and an increase of $279 million of losses and LAE paid in the first half of 2022 when compared to the same period of 2021 primarily due to the acceleration and commutation payments pursuant the GO PSA. This was partially offset by an increase of $555 million of proceeds from insurance recoveries, net of salvage paid to reinsurers in the first half of 2022 when compared to the same period of 2021, primarily from the collection related to the GO PSA and the sale of certain PREPA bankruptcy claims.

Investing activities

Net cash used by investing activities decreased for the six months ended June 30, 2022 compared with the same period of 2021 primarily due to less cash used for purchases of short-term investments, net and less cash used for derivative settlements.

Financing activities

Net cash used by financing activities decreased for the six months ended June 30, 2022 compared with the same period of 2021 primarily due to a decrease in principal paydowns of VIE notes of $135 million driven by the partial repayment of the MZ Funding senior notes in the first half of 2021.

*Consolidated 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. Fixed-maturity securities purchased by the Company are generally designated as AFS. Our AFS investments comprise high-quality fixed-income securities and short-term investments.

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 June 30, 2022, the weighted average credit quality rating of the Company's AFS fixed-maturity investment portfolio, excluding short-term investments, was A and 83% of the investments were investment grade. The investments in investment grade decreased from 92% in 2021 to 83% in 2022 as a result of the GO PSA and the receipt of the GO bonds.

The fair values of securities in the Company's AFS fixed-maturity investment portfolio are sensitive to changes in interest rates. Decreases in interest rates generally result in increases in the fair values of fixed-maturity securities and increases in interest rates generally result in decreases in the fair values of fixed-maturity securities.

As of June 30, 2022 and December 31, 2021, the Company had $162 million of unrealized losses and $138 million of unrealized gains, respectively, net of deferred taxes related to its investment portfolio recorded in accumulated other comprehensive income within equity. The unrealized losses during 2022 resulted from higher interest rates and wider credit spreads.

Refer to "Note 2: Significant Accounting Policies," and "Note 7: Investments" in the Notes to Consolidated Financial Statements for further information about our accounting policies and investments.

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.

**LIQUIDITY AND CAPITAL RESOURCES (continued)**

As of June 30, 2022, Insured Investments at fair value represented $279 million or 9% of consolidated investments, of which $255 million or 9% of consolidated investments were Company-Insured Investments. As of June 30, 2022, based on the actual or estimated underlying ratings of our consolidated investment portfolio, without giving effect to financial guarantees, the weighted average rating of only the Insured Investments in the investment portfolio would be in the below investment grade range. Without giving effect to the National and MBIA Corp. guarantees of the Company-Insured Investments in the consolidated investment portfolio, as of June 30, 2022, based on actual or estimated underlying ratings, the weighted average rating of the consolidated investment portfolio was in the A 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 8% of the total consolidated investment portfolio.

*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 June 30, 2022 and December 31, 2021, National held cash and investments of $2.5 billion and $2.0 billion, respectively, of which $520 million and $199 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.

As of June 30, 2022 and December 31, 2021, the liquidity positions of MBIA Inc. were $188 million and $239 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.

**LIQUIDITY AND CAPITAL RESOURCES (continued)**

Based on our projections of National's and MBIA Corp.'s future earnings and losses, we expect that for the foreseeable future National will be the primary source of payments to MBIA Inc. There can be no assurance as to the amount and timing of any future dividends from National. 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 following "Liquidity and Capital Resources- Capital Resources" section for additional information on payments of dividends. We do not expect MBIA Inc. to receive dividends 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 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; and
- payments of operating expenses.

As of June 30, 2022 and December 31, 2021, MBIA Corp. held cash and investments of $368 million and $544 million, respectively, of which $78 million and $310 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.

During the second quarter of 2022, MBIA Corp. repaid in full the outstanding amount of the subordinated notes between MZ Funding and MBIA Inc. of the Refinanced Facility. These subordinated notes and the related interest are eliminated in our consolidated financial statements.

*Contractual Obligations*

For a discussion of the Company's contractual obligations, refer to "Liquidity and Capital Resources-Liquidity-Contractual Obligations" in Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in the Company's Annual Report on Form 10-K for the year ended December 31, 2021. As a result of the GO PSA implemented in March of 2022 and changes to the timing and assumptions related to the HTA and PREPA credits, U.S. public finance insurance segment's gross claim obligations due within one-year and total gross claim obligations was $730 million and $1.5 billion, respectively. Gross insurance claim obligations represent the future value of probability-weighted payments the Company's insurance companies expects to make (before reinsurance and the consolidation of VIEs) under insurance policies for which the Company has recorded loss reserves. Certain probability-weighted payments incorporate commutation and/or acceleration of specific exposures and, therefore, expected payments may differ from those the Company is contractually obligated to make. Also, these amounts exclude any recoveries the Company expects to receive related to these estimated payments or to claims paid in prior periods. For certain of our estimated future payments, the amount of recoveries expected to be received in the future will offset some or all of the payments. There were no other material changes in contractual obligations since December 31, 2021.

**LIQUIDITY AND CAPITAL RESOURCES (continued)**

***Capital Resources***

The Company manages its capital resources to minimize its cost of capital while maintaining appropriate claims-paying resources ("CPR") for National and MBIA Corp. The Company's capital resources consist of total shareholders' equity, total debt issued by MBIA Inc. for general corporate purposes and surplus notes issued by MBIA Corp. Total capital resources were $0.5 billion and $0.9 billion as of June 30, 2022 and December 31, 2021, 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. 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 National; 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 our Form 10-K for the year ended December 31, 2021 and the "Liquidity and Capital Resources—Liquidity—Corporate Liquidity" section included herein for additional information about MBIA Inc.'s liquidity.

*Debt securities*

During the six months ended June 30, 2022, the Company repurchased $30 million par value outstanding of GFL MTNs with maturities in 2024 and 2025 issued by our corporate segment at a weighted average cost of approximately 84% of par value.

During the six months ended June 30, 2022, MBIA Corp. purchased $24 million principal amount of MBIA Inc. 6.625% Debentures due 2028, $4 million principal amount of MBIA Inc. 7.150% Debentures due 2027 and $0.6 million principal amount of MBIA Inc. 7.000% Debentures due 2025, at a weighted average cost of approximately 102% par value.

During the six months ended June 30, 2022, MBIA Corp. repaid in full the outstanding amount of the subordinated notes between MZ Funding and MBIA Inc. of the Refinanced Facility. These subordinated notes and the related interest are eliminated in our consolidated financial statements.

*Insurance Statutory Capital*

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

<u>National – Statutory Capital and Surplus</u>

National had statutory capital of $2.0 billion as of June 30, 2022 and December 31, 2021. As of June 30, 2022, National's unassigned surplus was $1.0 billion. For the six months ended June 30, 2022, National had statutory net income of $60 million. Refer to the "National-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 June 30, 2022, 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. Since National does not comply with certain of its single risk limits, the NYSDFS could prevent National from transacting any new financial guarantee insurance business.

**LIQUIDITY AND CAPITAL RESOURCES (continued)**

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

National had positive earned surplus as of June 30, 2022 from which it may pay dividends, subject to the limitations described above. 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.

National - Claims-Paying Resources (Statutory Basis)

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

National's CPR and components thereto, as of June 30, 2022 and December 31, 2021 are presented in the following table:

| In millions | As of June 30, 2022 | As of December 31, 2021 |
|---|---|---|
| Policyholders' surplus | $1,597 | $ 1,569 |
| Contingency reserves | 399 | 402 |
| Statutory capital | 1,996 | 1,971 |
| Unearned premiums | 289 | 311 |
| Present value of installment premiums (1) | 120 | 121 |
| Premium resources (2) | 409 | 432 |
| Net loss and LAE reserves (1) | 55 | (386) |
| Salvage reserves on paid claims (1) | 496 | 944 |
| Gross loss and LAE reserves | 551 | 558 |
| Total claims-paying resources | $2,956 | $ 2,961 |

(1) - Calculated using a discount rate of 3.65% as of June 30, 2022 and December 31, 2021.
(2) - Includes financial guarantee and insured derivative related premiums.

MBIA Insurance Corporation – Statutory Capital and Surplus

MBIA Insurance Corporation had statutory capital of $118 million as of June 30, 2022 compared with $134 million as of December 31, 2021. As of June 30, 2022, MBIA Insurance Corporation's negative unassigned surplus was $1.9 billion. For the six months ended June 30, 2022, MBIA Insurance Corporation had a statutory net loss of $20 million. Refer to the "MBIA Insurance Corporation—Claims-Paying Resources (Statutory Basis)" section below for additional information on MBIA Insurance Corporation's statutory capital.

**LIQUIDITY AND CAPITAL RESOURCES (continued)**

In order to maintain its New York State financial guarantee insurance license, MBIA Insurance Corporation is required to maintain a minimum of $65 million of policyholders' surplus. In addition, 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 June 30, 2022, 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 June 30, 2022, 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. Since MBIA Insurance Corporation does not comply with its single risk limits, the NYSDFS could prevent MBIA Insurance Corporation from transacting any new financial guarantee insurance business.

MBIA Insurance Corporation is also required to maintain contingency reserves to provide protection to policyholders in the event of extreme losses in adverse economic events. Pursuant to a non-disapproval by the NYSDFS, and in accordance with NYIL, MBIA Insurance Corporation released to surplus $32 million of excessive contingency reserves during the six months ended June 30, 2022. In accordance with this contingency reserve release, MBIA Corp. will maintain a fixed $5 million of contingency reserves.

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

The NYSDFS has not approved MBIA Insurance Corporation's requests to make interest payments on MBIA Insurance Corporation's 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 July 15, 2022, the most recent scheduled interest payment date, there was $1.2 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 June 30, 2022, MBIA Insurance Corporation had "free and divisible surplus" of $95 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.

MBIA Insurance Corporation - 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.

## LIQUIDITY AND CAPITAL RESOURCES (continued)

MBIA Corp.'s CPR and components thereto, as of June 30, 2022 and December 31, 2021 are presented in the following table:

| In millions | As of June 30, 2022 | As of December 31, 2021 |
|---|---|---|
| Policyholders' surplus | $ 113 | $ 97 |
| Contingency reserves | 5 | 37 |
| Statutory capital | 118 | 134 |
| Unearned premiums | 40 | 46 |
| Present value of installment premiums (1) | 43 | 48 |
| Premium resources (2) | 83 | 94 |
| Net loss and LAE reserves (1) | 133 | 266 |
| Salvage reserves on paid claims (1) (3) | 377 | 231 |
| Gross loss and LAE reserves | 510 | 497 |
| Total claims-paying resources | $ 711 | $ 725 |

(1) - Calculated using a discount rate of 4.99% as of June 30, 2022 and December 31, 2021.
(2) - Includes financial guarantee and insured derivative related premiums.
(3) - This amount primarily consists of expected recoveries related to the payment of claims on insured CDOs and RMBS. In addition, the June 30, 2022 balance includes salvage related to a permitted practice granted by NYSDFS.

## CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

For a discussion of the Company's critical accounting estimates, refer to "Critical Accounting Estimates" in Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in the Company's Annual Report on Form 10-K for the year ended December 31, 2021. In addition, refer to "Note 5: Loss and Loss Adjustment Expense Reserves" and "Note 6: Fair Value of Financial Instruments" in the Notes to Consolidated Financial Statements for a current description of estimates used in our insurance loss reserving process and information about our financial assets and liabilities that are accounted for at fair value, including valuation techniques and significant inputs.

## RECENT ACCOUNTING PRONOUNCEMENTS

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

## Item 3. Quantitative and Qualitative Disclosures About Market Risk

The Company's market risk exposures relate to changes in interest rates, foreign exchange rates and credit spreads that affect the fair value of its financial instruments, primarily investment securities, MTNs and investment agreement liabilities. The Company's investments are primarily U.S. dollar-denominated fixed-income securities including municipal bonds, U.S. government bonds, corporate bonds, MBS and asset-backed securities. In periods of rising and/or volatile interest rates, foreign exchange rates and credit spreads, profitability could be adversely affected should the Company have to liquidate these securities. The Company minimizes its exposure to interest rate risk, foreign exchange risk and credit spread movement through active portfolio management to ensure a proper mix of the types of securities held and to stagger the maturities of its fixed-income securities. The following table presents updates in our market risk relating to foreign exchange rates. There were no material changes in market risk since December 31, 2021 related to interest rates and credit spreads. For a discussion of our quantitative and qualitative disclosures about market risk related to these risks, refer to Part II, Item 7A, "Quantitative and Qualitative Disclosures About Market Risk" included in the Company's Annual Report on Form 10-K for the year ended December 31, 2021.

### 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 June 30, 2022 from instantaneous shifts in foreign exchange rates:

| | Change in Foreign Exchange Rates | | | |
|---|---|---|---|---|
| | Dollar Weakens | | Dollar Strengthens | |
| In millions | 20% | 10% | 10% | 20% |
| Estimated change in fair value | $ (5) | $ (2) | $ 2 | $ 5 |

## Item 4. Controls and Procedures

As of the end of the period covered by this report, an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15(d)-15(e) under the Securities Exchange Act of 1934) was performed under the supervision and with the participation of the Company's senior management, including the Chief Executive Officer and the Chief Financial Officer. Based on that evaluation, the Company's management, including the Chief Executive Officer and the Chief Financial Officer, concluded that the Company's disclosure controls and procedures were effective as of the end of the period covered by this report. In addition, there have not been any changes in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934) during the fiscal quarter to which this report relates that have materially affected, or are likely to materially affect, the Company's internal control over financial reporting.

## PART II – OTHER INFORMATION

### Item 1. Legal Proceedings

For a discussion of the Company's litigation and related matters, see "Note 13: Commitments and Contingencies" in the Notes to Consolidated Financial Statements of MBIA Inc. and Subsidiaries in Part I, Item 1. In the normal course of operating its businesses, MBIA Inc. may be involved in various legal proceedings. As a courtesy, the Company posts on its website under the section "Legal Proceedings," selected information and documents in reference to selected legal proceedings in which the Company is the plaintiff or the defendant. The Company will not necessarily post all documents for each proceeding and undertakes no obligation to revise or update them to reflect changes in events or expectations. The complete official court docket can be publicly accessed by contacting the clerk's office of the respective court where each litigation is pending.

### Item 1A. Risk Factors

The following should be read in conjunction with and supplements the risk factors described under Part I, Item 1A, "Risk Factors" of the Company's Annual Report on Form 10-K for the year ended December 31, 2021. Except as set forth below, there have been no material changes to the risk factors previously disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2021.

### 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, while the Commonwealth of Puerto has completed its court-ordered restructuring pursuant to the Puerto Rico Oversight, Management and Economic Stability Act ("PROMESA"), two of its public corporations and instrumentalities, the Puerto Rico Highway and Transportation Authority ("HTA") and the Puerto Rico Electric Power Authority ("PREPA"), are currently in bankruptcy-like proceedings under PROMESA in the United States District Court for the District of Puerto Rico.

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 June 30, 2022, National had $2.1 billion of debt service outstanding related to Puerto Rico. Since 2016, Puerto Rico has been unable or unwilling to pay its obligations as and when due, and National has been required to pay claims of unpaid principal and interest when due under its insurance policies as a consequence. Puerto Rico may continue to fail to make payments when due, which could cause National to make additional claims payments which could be material. On January 1, 2022 and July 1, 2022, Puerto Rico defaulted on scheduled debt service for certain National insured bonds and National paid gross claims in the aggregate of $189 million. While National will seek to recover any claim payments it makes under its guarantees, there is no assurance that it will be able to recover such payments. To the extent that its claims payments are ultimately substantially greater than its claims recoveries, National would experience losses on those obligations, which could materially and adversely affect our business, financial condition and results of operations.

## Item 1A. Risk Factors

The Title III cases for the Commonwealth of Puerto Rico and PBA were confirmed on January 18, 2022, and became effective on March 15, 2022. On April 12, 2021, National, Assured Guaranty Corp., Assured Guaranty Municipal Corp. and the Oversight Board reached an agreement in principle settling certain clawback claims and providing for a distribution of cash, bonds and a contingent value instrument to bondholders in the Puerto Rico Highway and Transportation Authority (“HTA”) Title III case subject to completing negotiations on a plan support agreement in respect of an HTA plan of adjustment (the “HTA PSA”). On May 5, 2021, National, Assured Guaranty Corp., Assured Guaranty Municipal Corp. and the Oversight Board entered into the HTA PSA. On May 2, 2022, the Oversight Board filed the Title III Plan of Adjustment for the Puerto Rico Highways and Transportation Authority (the “HTA Plan”), together with the Disclosure Statement and supporting documents. On June 22, 2022, the Disclosure Statement was approved by the Court. Confirmation is scheduled for August 17 and 18, 2022. During July of 2022 and pursuant to the HTA PSA, National received $33 million of cash and $358 million face amount of CVI relating to HTA. In addition, National expects to receive additional cash and newly issued HTA bonds, or cash equal to the face amount of the newly issued HTA bonds, following the effective date of the HTA Plan.

On March 8, 2022, the Puerto Rico Fiscal Agency and Financial Advisory Authority (“AAFAF”) and PREPA terminated a Definitive Restructuring Support Agreement (as amended, the “RSA”). On April 8, 2022, the Court appointed a new panel of judges to commence mediation among the Oversight Board, the Ad Hoc creditor group as holders of PREPA Senior Bonds, Assured, National and Syncora (the “April 8 Order”). The mediation deadline is currently August 15, 2022. The April 8 Order further provides that nothing therein acts as a stay of any pending adversary proceedings or contested matters in the PREPA case, subject to the Court’s pending request to the Oversight Board for a status report by August 15, 2022.

Refer to the “U.S. Public Finance Insurance Puerto Rico Exposures” section in Part I, Item 2 of this Form 10-Q for additional information on our Puerto Rico exposures.

### MBIA Corp. Risk Factors

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

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 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 collateralized debt obligation (“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. During 2021, MBIA Corp. repaid in full the outstanding amount of the insured senior notes and in April of 2022, the remaining subordinated notes of MZ Funding matured and MBIA Corp. repaid in full. The Refinanced Facility is described in more detail in “Note 10: Debt” in the Notes to Consolidated Financial Statements of the Company’s Annual Report on Form 10-K for the year ended December 31, 2021 and in the “Liquidity and Capital Resources” section in Part I, Item 2 of this Form 10-Q.

### Item 1A. Risk Factors

While MBIA Insurance Corporation believes that it will receive substantial recoveries on 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"), recoveries thus far on the Zohar CDOs' interests in the portfolio companies have been below expectations, and there remains significant uncertainty with respect to the realizable value of the remaining Zohar Collateral. Since March of 2018, MBIA Corp. has been pursuing those recoveries in a Delaware bankruptcy proceeding filed by the Zohar CDOs. Pursuant to a plan of liquidation confirmed in such bankruptcy proceeding regarding the Zohar CDOs and the remaining Zohar Collateral not previously monetized, which plan of liquidation became effective on August 2, 2022, MBIA Corp.'s rights to recoveries from any remaining Zohar Collateral were distributed to MBIA Corp. in the form of beneficial interests in certain asset recovery entities, which will be managed by a special manager subject to oversight by MBIA Corp. and another former Zohar creditor. There still remains significant uncertainty with respect to the realizable value of the remaining loans and equity interests that formerly constituted the Zohar Collateral and that comprise the assets of the asset recovery entities. Further, as the monetization of these assets unfolds in coordination with the special manager of the asset recovery entities and the directors and managers in place at the portfolio companies, and new information concerning the financial condition of the portfolio companies is disclosed, the Company will continue to revise its expectations for recoveries.

If the amount of recoveries on the Zohar Collateral falls below our expectations, MBIA Insurance Corporation would likely incur additional and potentially substantial 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 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.

### Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The table below presents purchases or repurchases made by the Company or National in each month during the second quarter of 2022:

| Month | Total Number of Shares Purchased (1) | Average Price Paid Per Share | Total Number of Shares Purchased as Part of Publicly Announced Plan | Maximum Amount That May Be Purchased Under the Plan (in millions) |
|---|---|---|---|---|
| April | 48 | $ 13.05 | - | $ - |
| May | 71 | 12.74 | - | - |
| June | 7,970 | 13.78 | - | - |
| | 8,089 | $ 13.76 | - | $ - |

(1) 48 shares in April, 71 shares in May and 66 shares in June were repurchased in open market transactions as investments in the Company's non-qualified deferred compensation plan. 7,904 shares in June were repurchased by the Company in open market transactions for settling awards under the Company's long term incentive plan.

**Item 6. Exhibits**

| | |
|---|---|
| *3.1. | By-Laws as Amended as of March 27, 2020. |
| *31.1. | Chief Executive Officer - Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| *31.2. | Chief Financial Officer - Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| **32.1. | Chief Executive Officer - Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| **32.2. | Chief Financial Officer - Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| *101.INS. | Inline 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. | Inline XBRL Taxonomy Extension Schema Document. |
| *101.CAL. | Inline XBRL Taxonomy Extension Calculation Linkbase Document. |
| *101.DEF. | Inline XBRL Taxonomy Extension Definition Linkbase Document. |
| *101.LAB. | Inline XBRL Taxonomy Extension Label Linkbase Document. |
| *101.PRE. | Inline XBRL Taxonomy Extension Presentation Linkbase Document. |
| *104. | Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101) |

* Filed herewith.
** Furnished herewith.

## SIGNATURES

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

| | |
|---|---|
| | MBIA Inc.<br>Registrant |
| Date: August 3, 2022 | /s/ Anthony McKiernan<br>Anthony McKiernan<br>Chief Financial Officer |
| Date: August 3, 2022 | /s/ Joseph R. Schachinger<br>Joseph R. Schachinger<br>Controller (Chief Accounting Officer) |

**Exhibit 3.1**

# MBIA INC.

# BY-LAWS

As Amended as of

March 27, 2020

MBIA Inc.

BY-LAWS

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BY-LAWS

ARTICLE I

SHAREHOLDERS

Section 1.01. Annual Meetings. The Annual Meeting of the shareholders of the Corporation for the election of Directors and for the transaction of such other business as properly may come before such meeting shall be held at such time each year and at such place, either within or without the State of Connecticut, or solely by means of remote communication, as may be determined by the Board of Directors, and as set forth in the notice or waiver of notice of the meeting. Any previously scheduled Annual Meeting may be postponed by resolution of the Board of Directors upon notice given on or prior to the date previously scheduled for such Annual Meeting of the shareholders. [Section 33-695(a)(b)(c).][1]

Section 1.02. Special Meetings. Special Meetings of the shareholders may be called at any time by the Chairman, the Secretary or any two Directors. A Special Meeting shall be called by the Chairman or the Vice Chairman, if any, immediately upon receipt of a written request therefor delivered to the Secretary of the Corporation by shareholders holding not less than 10% of the voting power of all shares entitled to voteat the meeting, which request shall state the purpose or purposes of such meeting. If the Chairman or the Vice Chairman, if any, shall fail to call such meeting within 15 days after receipt of such request, any shareholder executing such request may call such meeting. Such Special Meetings of the shareholders shall be held at such places, within or without the State of Connecticut, as shall be specified in the respective notices or waivers of notice thereof. At any Special Meeting of shareholders, only such business may be transacted as is related to the purposes set forth in the notice thereof. [Section 33-696.]

Section 1.03. Notice of Meetings; Waiver; Remote Participation. A notice in writing of each meeting of shareholders shall be given by or at the direction of the Chairman, the Vice Chairman, if any, the Chief Executive Officer or Secretary or the officer or person calling the meeting to each shareholder of record entitled to vote at such meeting, by leaving such notice with the shareholder or at the shareholder’s residence or usual place of business, or by mailing a copy thereof addressed to such shareholder at the last-known post-office address as last shown on the stock records of the Corporation,

1 Citations are to the Connecticut Business Corporation Act, and are inserted for reference only, and do not constitute a part of the By-Laws.

postage prepaid, not less than ten days nor more than 60 days before the date of the meeting. Subject to applicable law, such notices may also be delivered to shareholders by electronic transmission, if authorized by the Board of Directors, if consented to by the recipient shareholder and if the electronic transmission contains or is accompanied by information from which the recipient shareholder can determine the date of the transmission and that the transmission was authorized by the Corporation or its agent or attorney-in-fact. Each notice of a meeting of shareholders shall state the place, date and hour of the meeting. The general purpose or purposes for which a Special Meeting is called shall be stated in the notice thereof, and no other business shall be transacted at the meeting.

For purposes of these By-Laws, “electronic transmission” means any form or process of communication not directly involving the physical transfer of paper or another tangible medium, which (i) is suitable for the retention, retrieval and reproduction of the information by the recipient, and (ii) is retrievable in paper form by the recipient through an automated process used in conventional commercial practice, provided that, if such communication cannot be directly reproduced in paper form through an automated process used in conventional commercial practice, the communication is otherwise retrievable in perceivable form and the sender and recipient have consented in writing to the use of such form.

No notice of any meeting of shareholders need be given to any shareholder who submits a signed waiver of notice, in person or by proxy, whether before or after the meeting. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the shareholders need be specified in a written waiver of notice. The Secretary of the Corporation shall cause any such waiver to be filed with the records of the meeting. The attendance of any shareholder, in person or by proxy, at a meeting of shareholders without protesting, prior to or at the commencement of the meeting, the lack of proper notice shall be deemed to be a waiver by such shareholder of notice of such meeting.

Except as set forth in Section 1.06 of these By-Laws, notice of any adjourned meeting of the shareholders of the Corporation need not be given.

Shareholders of any class or series may participate in the Annual Meeting or any Special Meetings of the shareholders by means of remote communication to the extent the Board of Directors authorizes such participation for such class or series. Participation by means of remote communication shall be subject to such guidelines and procedures as the Board of Directors adopts and shall be in conformity with the requirements of applicable law. If the Board of Directors authorizes participation by means of remote communication for any class or series of shareholders, the notice to such class or series of shareholders shall describe the means of remote communication to be used. [Sections 33-603, 33-699, 33- 700, 33-703.] Section

Section 1.04. Quorum. Except as otherwise required by law or by the Certificate of Incorporation, the presence in person or by proxy of the holders of a majority of the shares of stock entitled to vote at any meeting of shareholders shall constitute a quorum for the transaction of business at such meeting. The shareholders present at a duly held meeting at which a quorum is present may continue to do business for the remainder of the meeting and any adjournment of it unless a new record date is or must be set for the adjourned meeting, notwithstanding the withdrawal of enough shareholders to leave less than a quorum. [Section 33-709.]

Section 1.05. Voting. Every holder of record of shares entitled to vote at a meeting of shareholders shall be entitled to one vote for each share standing in his or her name on the books of the Corporation on the record date fixed pursuant to Section 5.04 of these By-Laws, except as may be provided otherwise in the Certificate of Incorporation. Shares standing in the name of another domestic or foreign corporation of any type or kind may be voted by such officer, agent or proxy as the By-Laws of such corporation may provide, or in the absence of such provision, as the Board of Directors of such Corporation may determine. If a meeting of shareholders is duly held and if a quorum exists, action on a matter, other than the election of Directors, is approved by the shareholders if the votes cast by the shareholders favoring the action exceed the votes cast opposing the action, unless the Certificate of Incorporation or applicable law requires a greater number of affirmative votes. [Sections 33-705, 33-709.]

Section 1.06. Adjournment. If a quorum is not present at any meeting of the shareholders, the shareholders present in person or by proxy shall have the power to adjourn any such meeting until a quorum is present, without notice other than announcement at any such meeting of the place, date and hour to which such meeting is adjourned. However, if after the adjournment the Board of Directors fixes a new record date for the adjourned meeting pursuant to Section 5.04 of these By-Laws, a notice of the adjourned meeting, conforming to the requirements of Section 1.03 hereof, shall be given to each shareholder of record entitled to vote at such meeting. The holders of a majority of the voting power of the shares entitled to vote represented at a meeting may adjourn such meeting from time to time. At any adjourned meeting at which a quorum is present, any business may be transacted that might have been transacted on the original date of the meeting. [Section 33-699(e).]

Section 1.07. Proxies. Every person entitled to vote or execute consents, waivers or releases in respect of shares may do so either by electronic transmission, in person or by one or more agents authorized by a written proxy executed by such person. No such proxy shall be voted or acted upon after the expiration of 11 months from the date of such proxy, unless it expressly specifies a longer length of time for which it is to continue in force or limits its use to a particular meeting not yet held. Every proxy shall be revocable at the will of the shareholder executing it, unless it states that it is irrevocable and the appointment of proxy is coupled with an interest. An appointment of a proxy is effective when received by the Secretary of the Corporation or other officer or agent authorized to tabulate votes. [Section 33-706.]

Section 1.08. Organization; Procedure. At every meeting of shareholders the presiding person shall be the Chairman or, in the event of the Chairman's absence, disability, or in the event that the annual meeting of shareholders is held solely by means of remote communication pursuant to Section 1.01 hereof, the Chief Executive Officer, or in the event of the Chief Executive Officer's absence or disability, an individual chosen by a majority of the Directors present in person or by proxy.

The order of business and all other matters of procedure at every meeting of shareholders may be determined by such presiding person. The Secretary, or, in the Secretary's absence, an appointee of the presiding person, shall act as Secretary of the meeting.

Section 1.09. <u>Order of Business.</u>

(a) At any Annual Meeting or Special Meeting of the shareholders, only such business shall be conducted as shall have been brought before the Annual Meeting or the Special Meeting (i) by or at the direction of the Board of Directors or (ii) by any shareholder who complies with the procedures set forth in this Section 1.09.

(b) For business properly to be brought before an Annual Meeting or Special Meeting by a shareholder, the shareholder must have given timely notice thereof in proper written form to the Secretary of the Corporation. To be timely, a shareholder's notice must be delivered to or mailed and received at the principal executive offices of the Corporation not less than 60 days nor more than 90 days prior to the Annual Meeting or Special Meeting; provided, however, that in the event that less than 70 days' notice or prior public disclosure of the date of the Annual Meeting or Special Meeting is given or made to shareholders, notice by the shareholder to be timely must be received not later than the close of business on the tenth day following the day on which such notice of the date of the Annual Meeting or Special Meeting was mailed or such public disclosure was made. To be in proper written form, a shareholder's notice to the Secretary shall set forth in writing as to each matter the shareholder proposes to bring before the Annual Meeting or Special Meeting: (i) a brief description of the business desired to be brought before the Annual Meeting or Special Meeting and the reasons for conducting such business at the Annual Meeting or Special Meeting; (ii) the name and address, as they appear on the Corporation's books, of the shareholder proposing such business; (iii) the class and number of shares of the Corporation which are beneficially owned by the shareholder; and (iv) any material interest of the shareholder in such business. Notwithstanding anything in the By-Laws to the contrary, no business shall be conducted at an Annual Meeting or Special Meeting except in accordance with the procedures set forth in this Section 1.09. The chairman of an Annual Meeting or Special Meeting shall, if the facts warrant, determine and declare to the Meeting, that business was not properly brought before such Meeting in accordance with the provisions of this Section 1.09 and, if he or she should so determine, he or she shall so declare to such meeting and any such business not properly brought before such meeting shall not be transacted.

(c) For a shareholder to nominate persons for election to the Board of Directors of the Corporation, the shareholder may nominate persons for election as Directors only if such intention to make such nomination is given by timely notice thereof in proper written form to the Secretary of the Corporation. To be timely, a shareholder's notice of nomination must be delivered to or mailed and received at the principal offices of the Corporation not less than 60 days nor more than 90 days prior to the Annual Meeting or Special Meeting at which Directors will be elected; provided however, that in the event that less than 70 days' notice or prior public disclosure of the date of such meeting is given or made to shareholders, notice by the shareholder to be timely must be received not later than the close of business on the tenth day following the day on which such notice of the date of such meeting was mailed or such public disclosure was made. To be in proper written form, a shareholder's notice to the Secretary shall set forth in writing (a) as to each person whom the shareholder proposes to nominate for election or re-election as a Director, (i) the name, age, business address and residence address of such person, (ii) the principal occupation or employment of such person, (iii) the class and number of shares of stock of the Corporation which are beneficially owned by such person and (iv) any other information relating to such person that is required to be disclosed in solicitations of proxies for election of Directors, or is otherwise required under the rules and regulations of the Securities and Exchange Commission (including without limitation such person's written consent to being named in the proxy statement as a nominee and to serving as a Director if elected) and (b) as to the shareholder giving the notice, (i) the name and address, as they appear on the Corporation's books, of such shareholder and, (ii) the class and number of shares of stock of the Corporation which are beneficially owned by such shareholder. The chairman of the meeting shall, if the facts warrant, determine and declare to the meeting that a nomination was not made in accordance with the procedures of this Section 1.09 and, if the chairman of the meeting should so determine, he or she shall so declare to the meeting and the defective nomination shall be disregarded.

## ARTICLE II

## BOARD OF DIRECTORS

Section 2.01. General Powers. All the powers of the Corporation shall be exercised by or under the authority of the Board of Directors, and except as may otherwise be provided by law or by the Certificate of Incorporation, the business and affairs of the Corporation shall be managed by or under the direction of its Board of Directors. [Section 33-735(b).]

Section 2.02. Number. The number of Directors constituting the entire Board of Directors shall be not less than five and not more than thirteen and the number of directorships at any time within such minimum and maximum shall be the number fixed by resolution of the shareholders or by resolution adopted by a 66-2/3% vote of the Board of Directors or, in the absence thereof, shall be the number of Directors elected at the preceding Annual Meeting of shareholders [Section 33-737].

Section 2.03. Qualifications of Directors. Directors need not be residents of the State of Connecticut or shareholders of the Corporation. [Section 33-736.]

Section 2.04. Election and Term of Directors. Except as otherwise provided in Section 2.13 of these By-Laws, the Directors shall be elected at each Annual Meeting of the shareholders to hold office until the next Annual Meeting of shareholders. Each Director shall hold office for the term for which he or she is elected and until such director’s successor has been duly elected and qualified, or until an earlier death, resignation, removal or a court order stating that by reason of incompetency or any other lawful cause, he or she is no longer a Director in office. If the Annual Meeting for the election of Directors is not held on the date designated therefor, the Directors shall cause the meeting to be held as soon thereafter as convenient. At each such Annual Meeting of the shareholders, each vote entitled to be cast may be voted “for” or “against” up to that number of candidates that is equal to the number of Directors to be elected, or a shareholder may indicate an abstention, but without cumulating the votes. Except as otherwise required by applicable law or the Certificate of Incorporation, each Director shall be elected by a plurality of the votes cast “for” his or her election at a meeting of shareholders at which a quorum is present. Notwithstanding the foregoing, in any election in which the number of nominees for Director does not exceed the number of Directors to be elected (each, a “Non- Contested Director Election”), a nominee who is elected but receives more votes “against” than “for” election shall serve as a Director for a term that shall terminate on the date that is the earlier of (A) ninety (90) days from the date on which the voting results are determined, or (B) the date on which an individual is selected by the Board of Directors to fill the office held by such Director, which selection shall be deemed to constitute the filling of a vacancy by the Board of Directors. An individual shall not be considered a nominee for purposes of this section if the Board of Directors determines before the notice of meeting is given that such individual’s candidacy does not create a bona fide election contest. Subject to the following sentence, a nominee who is elected but receives more votes “against” than “for” election in a Non-Contested Director Election shall not serve as a Director beyond the ninety (90) day period specified in subsection (A) above. The Board of Directors may select any qualified individual to fill the office held by a Director who received more votes “against” than “for” election in a Non-Contested Director Election. [Sections 33-712, 33-737, 33-739, 33-809.]

Section 2.05. Regular Meetings. The Board of Directors shall meet for the purpose of electing officers and appointing committees, if any, and for the transaction of such other business as may properly come before such meeting, immediately following adjournment of the Annual Meeting of the shareholders at the place of such Annual Meeting of the shareholders. Notice of such meeting of the Board of Directors need not be given. Additional regular meetings of the Directors may be held at such places, dates and times as shall be determined from time to time by resolution of the Directors. Notice of regular meetings need not be given, except that if the Board of Directors shall fix or change the time or place of any such regular meeting, notice of such action shall be mailed promptly, or sent by electronic transmission or facsimile, to each Director who shall not have been present at the meeting at which such action was taken, addressed to such Director at his or her usual place of business, or shall be delivered personally. Notice of such action need not be given to any Director who attends the first regular meeting after such action is taken without protesting the lack of notice, prior to or at the commencement of such meeting, or to any Director who submits a signed waiver of notice, whether before or after such meeting. [Sections 33-748, 33-750.]

Section 2.06. Special Meetings; Notice. Special Meetings of the Board of Directors shall be held whenever called by the Chairman, the Secretary or any two Directors, at such place (within or without the State of Connecticut), as may be specified in the respective notices or waivers of notice of such meetings. At least two days’ written or oral notice of Special Meetings of the Board of Directors shall be given to each Director. A written waiver of notice signed by a Director entitled to such notice, whether before or after the time stated therein, shall be equivalent to the giving of such notice. The Secretary of the Corporation shall cause any such waiver to be filed with the records of the meeting. The attendance of a Director at a meeting without protesting, prior to or promptly upon arrival at the meeting, the lack of proper notice shall be deemed to be a waiver by such Director of notice of such meeting. No notice need be given of any adjourned meeting, unless the time and place of the adjourned meeting are not announced at the time of adjournment, in which case notice conforming to the requirements of this section shall be given to each Director. [Sections 33-750, 33-751.]

Section 2.07. Quorum; Voting. Except as provided in the Certificate of Incorporation of this Corporation, a majority of the number of directorships at the time shall constitute a quorum for the transaction of business. Except as otherwise provided herein, required by law or the Certificate of Incorporation of this Corporation, the vote of a majority of the Directors present at any meeting at which a quorum is present shall be the act of the Board of Directors. [Section 33-752.]

Section 2.08. Adjournment. A majority of the Directors present, whether or not quorum is present, may adjourn any meeting of the Board of Directors to another time or place. Notice of the adjourned meeting shall be given to the extent required by Section 2.05 of these By-Laws.

Section 2.09. Action Without a Meeting. If all the Directors severally or collectively consent in writing to any action taken or to be taken by the Corporation, and the number of such Directors constitutes a quorum for such action, such action shall be as valid corporate action as though it had been authorized at a meeting of the Board of Directors. The Secretary shall file such consents with the minutes of the meetings of the Board of Directors. [Section 33-749.]

Section 2.10. Regulations; Manner of Acting. To the extent consistent with applicable law, the Certificate of Incorporation and these By-Laws, the Board of Directors may adopt such rules and regulations for the conduct of meetings of the Board of Directors and for the management of the affairs and business of the Corporation as the Board of Directors may deem appropriate. The Directors shall act only as a Board, and the individual Directors shall have no power as such. At every meeting of the Board of Directors, the presiding person shall be the Chairman or, in the event of his or her absence or disability, the Vice Chairman, if any, or, in the event of the Vice Chairman's absence or disability, if the Chief Executive Officer is a Director, the Chief Executive Officer, or if the Chief Executive Officer is not a Director or in the event of the Chief Executive Officer's absence or disability, an individual chosen by a majority of the Directors present.

Section 2.11. Resignations. Any Director may resign at any time by delivering a written notice of resignation, signed by such Director, to the Board of Directors. Such resignation shall be effective immediately upon receipt by the Corporation if no time is specified, or at such later time as the resigning Director may specify. [Section 33-741.]

Section 2.12. Removal of Directors. Any Director or Directors may be removed either with or without cause at any time by the affirmative vote of the holders of a majority of all the shares of stock outstanding and entitled to vote, at a Special Meeting of the shareholders called for such purpose, which purpose must be set forth in the notice of the meeting. [Section 33-742.]

Section 2.13. Vacancies and Newly Created Directorships. Subject to the provisions of Section 2.02 hereof, any newly created directorships resulting from any increase in the number of Directors and any vacancies occurring on the Board of Directors for any other reason shall be filled for the unexpired term by a vote of 66-2/3% of the Board of Directors (measuring the percentage of the directorships on the Board of Directors, in the case of any vacancy occurring by reason of an increase in the number of directorships, by the percentage prior to the vote on the increase). [Section 33-744.]

Section 2.14. Compensation. The amount, if any, which each Director shall be entitled to receive as compensation for his or her services as such shall be approved from time to time by the Board of Directors. [Section 33-745.]

Section 2.15. Action by Telephonic Communications. Members of the Board of Directors, or any Committee designated by the Board, may participate in a meeting of the Board of Directors or such Committee by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other at the same time. Participation in a meeting pursuant to this provision shall constitute presence in person at such meeting. [Section 33-748(b).]

## ARTICLE III

## EXECUTIVE COMMITTEE, AUDIT COMMITTEE AND OTHER COMMITTEES

Section 3.01. How Constituted. The Board of Directors, by resolution or resolutions adopted by a vote of 66-2/3% of the Board of Directors, may designate one or more Directors to constitute an Executive Committee, an Audit Committee or other Committees, unless a greater number of directors is otherwise required by law. The Board may so designate one or more Directors as alternate member(s) of any Committee who may replace any absent or disqualified member(s) at any meeting of the Committee. Any such Committee may be abolished or redesignated from time to time by resolution or resolutions similarly adopted by the Board of Directors. Each such Committee shall serve at the pleasure of the Board of Directors. Each member of any such Committee shall hold office until a successor shall have been designated or until such member shall cease to be a Director, or until his or her earlier death, resignation or removal. [Section 33-753.]

Section 3.02. Powers. During the intervals between the meetings of the Board of Directors, unless otherwise provided from time to time by resolutions adopted by a vote of 66-2/3% of the Board of Directors, the Executive Committee, if such a Committee shall have been established, shall have and may exercise all the powers of the Board of Directors in the management of the business and affairs of the Corporation, subject to the limitations set forth below. No Committee, including the Executive Committee, shall have any power or authority in reference to the following matters:

(a) the declaration of any distribution or dividend in respect of shares of stock of the Corporation;

(b) approving or proposing to shareholders any action as to which shareholder approval is required by law;

(c) the filling of vacancies on the Board of Directors or on any Committee thereof;

(d) the amendment of the Certificate of Incorporation pursuant to Section 33-796 of the Connecticut Business Corporation Act;

(e) the amendment or repeal of the By-Laws, or the adoption of new By-Laws;

(f) the approval of a plan of merger not requiring shareholder approval;

(g) the authorization or approval of the reacquisition of shares, except according to a formula or method prescribed by the Board of Directors; or

(h) the authorizing or approving of the issuance or sale or contract for sale of shares, or the determination of the designation and relative rights, preferences and limitations of a class or series of shares, except that the Board of Directors may authorize a Committee or a senior executive officer of the Corporation to do so within limits specifically prescribed by the Board of Directors.

Subject to the foregoing limitations, each other such Committee shall have and may exercise such powers of the Board as may be provided by resolution or resolutions similarly adopted. [Section 33-753(e)(f).]

Section 3.03. Proceedings. Any such Committee may fix its own rules of procedure and may meet at such place (within or without the State of Connecticut), at such date and time and upon such notice, if any, as it shall determine from time to time. Such Committee shall keep a record of its proceedings and shall report any such proceedings to the Board of Directors at the first meeting of the Board of Directors following any such proceedings.

Section 3.04. Quorum and Manner of Acting. Except as may be otherwise provided in the resolution designating any such Committee, at all meetings of any such Committee the presence of members constituting a majority of the total authorized membership of such Committee, shall constitute a quorum for the transaction of business; and the act of the majority of the members present at any meeting at which a quorum is present, shall be the act of such Committee. Any action required or permitted to be taken at any meeting of any such Committee may be taken without a meeting, if all members of such Committee shall consent to such action in writing and such writing or writings are filed with the proceedings of the Committee. The members of any such Committee shall act only as a Committee, and the individual members of such Committee shall have no power as such. [Sections 33-749, 33-752, 33-753(d).]

Section 3.05. Resignations. Any member of any Committee may resign at any time by delivering a written notice of resignation, signed by such member, to the Board of Directors. Unless otherwise specified therein, such resignation shall take effect upon delivery.

Section 3.06. Removal. Any member of any such Committee may be removed at any time, with or without cause, by resolution adopted by a vote of 66-2/3% of the Board of Directors.

Section 3.07. Vacancies. If any vacancy shall occur in any such Committee, by reason of disqualification, death, resignation, removal or otherwise, the remaining members shall continue to act, if they are at least two in number, and any such vacancy may be filled by resolution adopted by a vote of 66-2/3% of the Board of Directors.

## ARTICLE IV

## OFFICERS

Section 4.01. The Chairman. There shall be a Chairman of the Board. The Chairman shall be chosen from among the Directors and may, but need not, be an employee of the Corporation. The Chairman shall have the following powers and duties:

(a) Preside at all shareholders' meetings.

(b) Preside at all meetings of the Board of Directors.

(c) Perform such other duties, consistent with the role of Chairman, as may be assigned by the Board of Directors.

There may also be a Vice Chairman of the Board. The Vice Chairman shall be chosen from among the Directors and may, but need not, be an employee of the Corporation.

Section 4.02. Number. The officers of the Corporation shall be elected by the Board of Directors and shall include a Chief Executive Officer, a Chief Financial Officer, a Secretary and such other officers as the Board may appoint from time to time. Any two or more offices may be held by the same person, including by the Chairman or Vice Chairman, if any. No officer need be a Director of the Corporation. [Section 33- 763.]

Section 4.03. Election. Unless otherwise determined by the Board of Directors, the Chairman, the Vice Chairman, if any, and the officers of the Corporation shall be elected by the Board of Directors at the first meeting of the Board of Directors following each annual meeting of the shareholders, and shall be elected to hold their respective positions until the first meeting of the Board following the next succeeding annual meeting of the shareholders. The Chairman, the Vice Chairman, if any, and each officer shall hold their respective positions until a successor has been elected and qualified, or until their earlier death, resignation or removal.

Section 4.04. Removal and Resignation; Vacancies. The Chairman, the Vice Chairman, if any, and any officer may be removed with or without cause at any time by the Board of Directors, but without prejudice to their respective contract rights, if any. The Chairman, the Vice Chairman, if any, and any officer may resign at any time by delivering a written and signed notice of resignation to the Board of Directors. Unless otherwise specified therein, such resignation shall take effect upon delivery. Any vacancy occurring in the positions of Chairman or Vice Chairman or in any office of the Corporation by death, resignation, removal or otherwise, shall be filled by the Board of Directors. [Section 33-766.]

Section 4.05. Chief Executive Officer. The Chief Executive Officer shall have the following powers and duties:

(a) Formulate policy and strategic direction for the Corporation and execute the Corporation's business plan and strategy under plans approved by the Board of Directors.

(b) Provide management of the Corporation's day-to-day operations.

(c) Hire, direct and retain senior management.

(d) Serve as spokesperson for the Corporation.

(e) Perform such other duties, consistent with the role of Chief Executive Officer, as may be assigned from time to time by the Board of Directors or as may be required by applicable state or federal law.

Section 4.06. Chief Financial Officer. The Chief Financial Officer shall have the following powers and duties:

(a) Subject to the direction of the Board of Directors, exercise general and active supervision of the financial affairs and reporting of the Company.

(b) Perform such other duties, consistent with the role of Chief Financial Officer, as may be assigned from time to time by the Board of Directors or as may be required by applicable state or federal law.

Section 4.07. The Secretary. The Secretary shall have the following powers and duties:

(a) Keep or cause to be kept a record of all the proceedings of the meetings of the shareholders and of the Board of Directors in books provided for that purpose.

(b) Cause all notices to be duly given in accordance with the provisions of these By-Laws and as required by law.

(c) Whenever any Committee shall be appointed pursuant to a resolution of the Board of Directors, furnish a copy of such resolution to the members of such Committee.

(d) Serve as the custodian of the records and of the seal of the Corporation and cause such seal (or a facsimile thereof) to be affixed to all certificates representing shares of the Corporation prior to the issuance thereof and to all instruments the execution of which on behalf of the Corporation under its seal shall have been duly authorized in accordance with these By-Laws, and when so affixed attest the same.

(e) Properly maintain and file all books, reports, statements, certificates and all other documents and records required by law, the Certificate of Incorporation or these By-Laws.

(f) Have charge of the stock books and ledgers of the corporation and cause the stock and transfer books to be kept in such manner as to show at any time the number of shares of stock of the Corporation of each class issued and outstanding, the names (alphabetically arranged) and the addresses of the holders of record of such shares, the number of shares held by each holder and the date as of which each became such holder of record.

(g) Sign certificates representing shares of the stock of the Corporation the issuance of which shall have been authorized by the Board of Directors.

(h) Perform, in general, all duties incident to the office of Secretary and such other duties as may be given to the Secretary by these By-Laws or as may be assigned to the Secretary, consistent with the role of Secretary, from time to time by the Board of Directors, the Chairman or the Vice Chairman, if any.

Section 4.08. Additional Officers. The Board of Directors may elect such other officers and agents as it may deem appropriate, and such other officers and agents shall hold their offices for such terms and shall exercise such powers and perform such duties as may be determined from time to time by the Board of Directors.

Section 4.09. Security. The Board of Directors may require any officer or agent of the Corporation to provide security for the faithful performance of his or her duties, in such amount and of such character as may be determined from time to time by the Board of Directors.

## ARTICLE V

## CAPITAL STOCK

Section 5.01. Certificated and Uncertificated Shares. Shares of the Corporation’s stock may be certificated or uncertificated as provided under the Connecticut Business Corporation Act. Share certificates may be under seal, or facsimile seal, of the Corporation and shall be signed by any two officers of the Corporation so authorized to sign by a resolution of the Board of Directors, except that such signatures may be facsimile if such certificate is signed by a transfer agent, or employee acting on behalf of such corporation or registrar. Each certificate representing shares shall set forth upon the face thereof as at the time of the issue: (1) the name of the Corporation; (2) a statement that the Corporation is organized under the laws of Connecticut; (3) the name of the person to whom issued; and (4) the number, class and designation of series, if any, of shares which such certificate represents. Within a reasonable time after the issuance of uncertificated shares, the Corporation shall send to the registered owner thereof a written statement containing (1) the name of the Corporation; (2) the name of the person to whom issued; and (3) the number, class and designation of series, if any, of shares which such certificate represents. [Sections 33-676 and 33-677.]

Section 5.02. Lost, Stolen or Destroyed Certificates. The Board of Directors may direct that a new certificate be issued in place of any certificate previously issued by the Corporation alleged to have been lost, stolen or destroyed, upon delivery to the Board of Directors of an affidavit of the owner or owners of such certificate, setting forth such allegation. The Board of Directors may require the owner of such lost, stolen or destroyed certificate, or his legal representative, to give the Corporation a bond sufficient to indemnify it against any claim that may be made against it on account of the alleged loss, theft or destruction of any such certificate or the issuance of any such new certificate.

Section 5.03. Transfers of Stock; Registered Shareholders.

(a) Shares of stock of the Corporation shall be transferable upon the books of the Corporation only by the record holder of such stock, or by attorney lawfully constituted in writing, or, in the case of shares represented by a certificate, upon surrender to the Corporation or its transfer agent or agents of such certificate, duly endorsed or accompanied by appropriate evidence of succession, assignment or authority to transfer. Within a reasonable time after the transfer of uncertificated shares, the Corporation shall send to the registered owner thereof a written statement containing (1) the name of the Corporation; (2) the name of the person to whom issued; and (3) the number, class and designation of series, if any, of shares which such certificate represents.

(b) The Board of Directors, subject to these By-Laws, may make such rules, regulations and conditions as it may deem expedient concerning the subscription for, issue, transfer and registration of, shares of stock. Except as otherwise provided by law, the Corporation, prior to due presentment for registration of transfer, may treat the registered owner of shares as the person exclusively entitled to vote, to receive notifications, and otherwise to exercise all the rights and powers of an owner. [Section 33-678.]

Section 5.04. Record Date. For the purpose of determining shareholders entitled to notice of or to vote at any meeting of shareholders or any adjournment thereof, to demand a special meeting or entitled to receive payment of any distribution, or for any other proper purpose, the Board of Directors may provide that the stock transfer books shall be closed for a stated period but such period shall not exceed, in any case, 70 days. If the stock transfer books are closed for the purpose of determining shareholders entitled to notice of or to vote at a meeting of shareholders, such books shall be closed for at least 10 full days immediately preceding the date of such meeting. In lieu of closing the stock transfer books, the Board of Directors by resolution may fix a date as the record date for any such determination of shareholders, such date in any case to be not earlier than the date such action is taken by the Board of Directors and not more than 70 days, and, in case of a meeting of shareholders, not less than 10 full days, immediately preceding the date on which the particular event, requiring such determination of shareholders, is to occur. When a determination of shareholders of record entitled to notice of or to vote at any meeting of shareholders has been made as provided in this Section 5.04, such determination shall apply to any adjournment thereof, unless the Board of Directors fixes a new record date for the adjourned meeting, which it shall do if the meeting is adjourned to a date more than 120 days after the date fixed for the original meeting. [Section 33-701.]

Section 5.05. Transfer Agent and Registrar. The Board of Directors may appoint one or more transfer agents and one or more registrars, and may require all certificates representing shares to bear the signature of any such transfer agents or registrars. The same person may act as transfer agent and registrar for the Corporation.

Section 5.06. Restrictions on Transfers.

(a) Definitions. For purposes of this Section 5.06, the following terms shall have the following meanings:

"Acquiring Person" shall mean any Person who or which is or becomes a Five-Percent Stockholder (other than by reason of Treasury Regulation Section 1.382-2T(j)(3)(i) or solely as a result of a transaction in which no "5-percent shareholder" (as defined in Section 382 of the Code and Treasury Regulations thereunder) experiences an increase in its percentage stock ownership interest of the Corporation, as determined in accordance with Treasury Regulation Sections 1.382-2(a), 1.382- 2T(g), (h), (j) and (k)), whether or not such Person continues to be a Five-Percent Shareholder, but shall not include (i) any Grandfathered Person and (ii) any Person who or which the Board of Directors of the Corporation determines, in its sole discretion, has inadvertently become a Five-Percent Shareholder (or has inadvertently failed to continue to qualify as a Grandfathered Person), so long as such Person promptly enters into, and delivers to the Corporation, an irrevocable commitment promptly to divest and thereafter promptly divests (without exercising or retaining any power, including voting, with respect to such securities), sufficient Corporation Securities so that such Person's Percentage Stock Ownership is less than 5% (or, in the case of any Person who or which has inadvertently failed to continue to qualify as a Grandfathered Person, the Corporation Securities that caused such Person to so fail to qualify as a Grandfathered Person).

"Agent" shall mean an agent designated by the Board of Directors of the Corporation

"Code" shall mean the Internal Revenue Code of 1986, as amended.

"Corporation Securities" shall mean (i) shares of Common Stock, (ii) shares of Preferred Stock (other than preferred stockde scribed in Section 1504(a)(4) of the Code), (iii) options (within the meaning of Treasury Regulations Section l.382-4(d)(9)) to purchase Corporation Securities, and (iv) any other interests that would be treated as **"stock"** of the Corporation pursuant to Treasury Regulations Section 1.382-2T(f)( 18), or any successor provision.

"Effective Date" shall mean the date of approval of this Amendment to MBIA Inc. By-Laws by the Shareholders.

"Excess Securities" shall mean the Corporation Securities which are the subject of the Prohibited Transfer.

"Five-Percent Shareholder" shall mean (i) a Person or group of Persons that is identified as a "5-percent shareholder" of the Corporation pursuant to Treasury Regulation Section l.382-2T(g) or (ii) a Person that is a "first tier entity" or "higher tier entity" (as such terms are defined in Treasury Regulations Section 1.382-2T(f)) of the Corporation if (A) that Person has a "public group" or individual, or (B) a "higher tier entity" of that Person has a "public group" or individual, that, in each case, is treated as a "5-percent shareholder" of the Corporation pursuant to Treasury Regulations Section l .382-2T(g).

“Grandfathered Person” shall mean (i) any Person who would otherwise qualify as an Acquiring Person as of immediately prior to the Effective Date, unless and until such Person’s Percentage Stock Ownership shall be increased by more than one percentage pointover such Person’s Percentage Stock Ownership immediately prior to the Effective Date or, if lower, such Person’s Percentage Stock Ownership thereafter, other than any increase pursuant to or as a result of (A) the exercise of any option, warrant or convertible instrument to purchase Corporation Securities that such Person held as of immediately prior to the Effective Date, (B) a stock dividend, stock split, reverse stock split or similar transaction effected by the Corporation or (C) any redemption or repurchase of Corporation Securities by the Corporation; and (ii) any Person who would otherwise qualify as an Acquiring Person as a result of a redemption or repurchase of Corporation Securities by the Corporation, unless and until such Person’s Percentage Stock Ownership shall be increased by more than one percentage point over such Person’s lowest Percentage Stock Ownership on or after the date of such redemption or repurchase, other than any increase pursuant to or as a result of (A) a stock dividend, stock split, reverse stock split or similar transaction effected by the Corporation or (B) any redemption or repurchase of Corporation Securities by the Corporation subsequent to the original redemption or repurchase.

“Percentage Stock Ownership” shall mean the percentage stock ownership interest as determined in accordance with Treasury Regulations Sections 1.382-2(a)(3), 1.382-2T(g), (h), (j) and (k), l.382-3(a), and l.382-4(d); provided, however, that for the sole purpose of determining the percentage stock ownership of any entity (and not for the purpose of determining the percentage stock ownership of any other Person), Corporation Securities held by such entity shall not be treated as no longer owned by such entity pursuant to Treasury Regulations Section 1.382-2T(h)(2)(i)(A).

“Person” shall mean any individual, firm, corporation, partnership, limited liability company, limited liability partnership, trust, syndicate, estate, association, joint venture or similar organization, other entity, or group of persons making a “coordinated acquisition” of Corporation Securities or otherwise treated as an “entity” within the meaning of Treasury Regulations Section l.382-3(a)(l) or otherwise, and includes, without limitation, an unincorporated group of persons who, by formal or informal agreement or arrangement (whether or not in writing), have embarked on a common purpose or act, and also includes any successor (by merger or otherwise) of any such individual or entity.

"Prohibited Distributions" shall mean any dividends or other distributions that were paid by the Corporation and received by a Purported Transferee with respect to the Excess Securities.

"Prohibited Transfer" shall mean any purported Transfer of Corporation Securities to the extent that such Transfer is prohibited and/or void under this Section 5.06.

"Purported Transferee" shall mean the purported transferee of a Prohibited Transfer.

"Restriction Release Date" shall mean the earlier of (i) the repeal of Section 382 of the Code (and any comparable successor provision) and (ii) the earliest date on which the Board of Directors determines that (1) an ownership change (within the meaning of Section 382 of the Code) would not result in a substantial limitation on the ability of the Corporation (or a direct or indirect subsidiary of the Corporation) to use otherwise available Tax Benefits, or (2) no significant value attributable to the Tax Benefits would be preserved by continuing the Transfer restrictions herein.

"Tax Benefits" shall mean the net operating loss carryovers, capital loss carryovers, general business credit carryovers, alternative minimum tax credit carryovers and foreign tax credit carryovers, as well as any "net unrealized built-in loss" within the meaning of Section 382 of the Code, of the Corporation or any direct or indirect subsidiary thereof.

"Transfer" shall mean, subject to the last sentence of this definition, any direct or indirect sale, transfer, assignment, conveyance, pledge, or other disposition and shall also include the creation or grant of an option (within the meaning of Treasury Regulations Section l .382- 4(d)(9)). A Transfer shall not include an issuance or grant of Corporation Securities by the Corporation, the modification, amendment or adjustment of an existing option by the Corporation and the exercise by an employee of the Corporation of any option to purchase Corporation Securities granted to such employee pursuant to contract or any stock option plan or other equity compensation plan of the Corporation.

“Treasury Regulation” shall mean the income tax regulations (whether temporary or final) promulgated under the Code and any successor regulations. References to any subsection of such regulations include references to any successor subsection thereof.

(b) Restrictions on Transfer. In order to preserve the Tax Benefits, subject to sub-section (c) of this Section 5.06, any attempted Transfer of Corporation Securities prior to the Restriction Release Date, or any attempted Transfer of Corporation Securities pursuant to an agreement entered into prior to the Restriction Release Date, shall be prohibited and void *ab initio* to the extent that, as a result of such Transfer (or any series of Transfers of which such Transfer is a part), any Person or group of Persons shall become an Acquiring Person. Notwithstanding the foregoing, nothing in this Section 5.06 shall prevent a Person that is a member of a public group of the Corporation (as defined in Treasury Regulation Section1.382- 2T(f)(13)) from transferring Corporation Securities to a new or existing public group of the Corporation.

(c) Certain Exceptions.

i. The restrictions set forth in sub-section (b) of this Section 5.06 shall not apply to a proposed Transfer of Corporation Securities if the transferor or the transferee obtains the written approval of the Board of Directors of the Corporation, which approval may be granted or denied in accordance with the procedures set forth in this sub-section (c) of Section 5.06. In connection therewith, and to provide for effective policing of such restrictions, prior to the date of any proposed Transfer of Corporation Securities that, in the absence of the approval of the Board of Directors pursuant to this sub-section (c) of Section 5.06, would be a Prohibited Transfer, either (a) the proposed transferee of such Corporation Securities (a “Restricted Transferee”) or (b) the proposed transferor of such Corporation Securities (a “Restricted Transferor”) shall request in writing (a “Request”) that the Board of Directors review the proposed Transfer of Corporation Securities and authorize or not authorize such proposed Transfer in accordance with this sub-section (c) of Section 5.06.

ii. A request shall be mailed or delivered to the Secretary of the Corporation at the Corporation’s principal place of business, or telecopied to the Corporation’s telecopier number at its principal place of business. Such Request shall be deemed to have been received by the Corporation when actually received by the Corporation.

iii. A request shall include: (A) the name, address and telephone number of the Restricted Transferee; (B) a description of the Restricted Transferee's existing direct or indirect ownership of Corporation Securities; (C) a description of the Corporation Securities that are proposed to be Transferred to the Restricted Transferee; (D) the date on which such proposed Transfer is expected to take place (or, if such Transfer is proposed to be made in a transaction on a national securities exchange or any national securities quotation system, a statement to that effect); (E) the name, address and telephone number of the Restricted Transferor (or, if such Transfer is proposed to be made in a transaction on a national securities exchange or any national securities quotation system, a statement to that effect); and (F) a request that the Board of Directors authorize, if appropriate, such Transfer pursuant to this sub-section (c) of Section 5.06.

iv. The Board of Directors shall use reasonable best efforts to make a determination to authorize or deny any Request on or before the tenth business day (or, if necessary to permit the Restricted Transferee and/or Restricted Transferor to provide the information requested pursuant to this sub- section (c) of Section 5.06, such later date as reasonably determined by the Board of Directors in consultation with the Restricted Transferor or Restricted Transferee that made such Request) following receipt of the Request by the Corporation.

v. The Board of Directors may authorize a Transfer of Corporation Securities to a Restricted Transferee, if it determines, in its sole discretion that, after taking into account the preservation of the Tax Benefits, such Transfer of Corporation Securities would be in the best interests of the Corporation and its shareholders. For purposes of this determination, the Board of Directors may consider, among other items, the following: (i) the total owner shift under Section 382 of the Code, (ii) all other pending proposed Transfer requests, (iii) whether the proposed Transfer is structured to minimize the resulting owner shift, and (iv) any reasonably foreseeable events of which the Board of Directors has knowledge that would constitute additional owner shifts. Any determination by the Board of Directors not to authorize a proposed Transfer of Corporation Securities to a Restricted Transferee shall cause such proposed Transfer to be deemed a Prohibited Transfer. The Board of Directors may impose any conditions that it deems reasonable and appropriate in connection with such approval, including, without limitation, restrictions on the ability of any Restricted Transferee to Transfer Corporation Securities acquired through a Transfer. Approvals of the Board of Directors hereunder may be given prospectively or retroactively.

vi. In addition, the Board of Directors may, in its sole discretion, require (A) such representations from the Restricted Transferee and/or Restricted Transferor as to such matters as the Board of Directors may determine or (B) at the expense of the Restricted Transferor and/or Restricted Transferee, an opinion of counsel selected by the Board of Directors that the Transfer will not result in the application of any Section 382 limitation on the use of the Tax Benefits under Section 382 of the Code; provided that the Board of Directors may grant such approval notwithstanding the effect of such approval on the Tax Benefits if it determines that the approval is in the best interests of the Corporation and its shareholders. Any Restricted Transferee and/or Restricted Transferor who makes a Request to the Board of Directors shall reimburse the Corporation, on demand, for all costs and expenses (including, without limitation, expenses of counsel and/or tax advisors) incurred by the Corporation with respect to any proposed Transfer of Corporation Securities, including, without limitation, such costs and expenses incurred in determining whether to authorize the proposed Transfer.

vii. The Corporation shall promptly notify the Restricted Transferee and the Restricted Transferor of the Board of Directors' determination to authorize or deny the Transfer described in the Request.

viii. If the Board of Directors authorizes the Transfer of Corporation Securities, the Restricted Transferee and Restricted Transferor shall be permitted to consummate such Transfer described in the Request.

(d) Treatment of Excess Securities.

i. No officer, director, employee or agent of the Corporation shall record any Prohibited Transfer, and a Purported Transferee shall not be recognized as a shareholder of the Corporation for any purpose whatsoever in respect of Excess Securities. Until the Excess Securities are acquired by another Person in a Transfer that is not a Prohibited Transfer, the Purported Transferee shall not be entitled with respect to such Excess Securities to any rights of shareholders of the Corporation, including, without limitation, the right to vote such Excess Securities or to receive dividends or distributions, whether liquidating or otherwise, in respect thereof, if any, and the Excess Securities shall be deemed to remain with the transferor unless and until the Excess Securities are transferred to the Agent pursuant to sub-section (d)(iii) of this Section 5.06 or until approval is obtained under sub-section (c) of this Section 5.06. Once the Excess Securities have been acquired in a Transfer that is not a Prohibited Transfer, the Securities shall cease to be Excess Securities. For this purpose, any Transfer of Excess Securities not in accordance with the provision of this sub-section (d)(i) or Section (d)(iii) shall also be a Prohibited Transfer.

ii. The Corporation may require as a condition to the registration of the Transfer of any Corporation Securities or the payment of any distribution on any Corporation Securities that the proposed transferee or payee furnish the Corporation all information reasonably requested by the Corporation with respect to all the direct and indirect ownership interests in such Corporation Securities. The Corporation may make such arrangements or issue such instructions to its stock transfer agent as may be determined by the Board of Directors to be necessary or advisable to implement Section 5.06, including, without limitation, authorizing such transfer agent to require an affidavit from a Purported Transferee regarding such Person's actual and constructive ownership of Corporation Securities and other evidence that a Transfer will not be prohibited by sub-section (b) of this Section 5.06 as a condition to registering any Transfer.

iii. If the Board of Directors determines that a Transfer of Corporation Securities constitutes a Prohibited Transfer then, upon written demand by the Corporation, the Purported Transferee shall transfer or cause to be transferred any certificate or other evidence of ownership of the Excess Securities within the Purported Transferee's possession or control, together with Prohibited Distributions, to the Agent. The Agent shall thereupon sell to a buyer or buyers, which may include the Corporation, the Excess Securities transferred to it in one or more arm's-length transactions (on the public securities market on which the Corporation Securities may be traded, if possible, or otherwise privately); provided, however, that any such sale must not constitute a Prohibited Transfer and provided, further, that the Agent shall effect such sale or sales in an orderly fashion and shall not be required to effect any such sale within any specific time frame if, in the Agent's discretion, such sale or sales would disrupt the market for the Corporation Securities or otherwise would adversely affect the value of the Corporation Securities. If the Purported Transferee has resold the Excess Securities before receiving the Corporation's demand to surrender the Excess Securities to the Agent, the Purported Transferee shall be deemed to have sold the Excess Securities for the Agent, and shall be required to transfer to the Agent any Prohibited Distributions and proceeds of such sale, except to the extent that the Corporation grants written permission to the Purported Transferee to retain a portion of such sales proceeds not exceeding the amount that the Purported Transferee would have received from the Agent pursuant tosub-section (d)(iv) of this Section 5.06 if the Agent rather than the Purported Transferee had resold the Excess Securities.

iv. The Agent shall apply any proceeds of a sale by it of Excess Securities, and if the Purported Transferee had previously resold the Excess Securities, any amounts received by the Agent from a Purported Transferee, as follows: (A) first, such amounts shall be paid to the Agent to the extent necessary to cover its costs and expenses incurred in connection with its duties hereunder; (B) second, any remaining amounts shall be paid to the Purported Transferee, up to the amount paid by the Purported Transferee for the Excess Securities (or their fair market value at the time of the Transfer, in the event the purported Transfer of the Excess Securities was, in whole or in part, a gift, inheritance, or similar Transfer) which amount shall be determined at the discretion of the Board of Directors; and

(C) third, any remaining amounts, subject to the limitations imposed by the following proviso, shall be paid to one or more organizations qualifying under Section 50l(c)(3) of the Code (or any comparable or successor provision) selected by the Board of Directors; provided, however, that if the Excess Securities (including, without limitation, any Excess Securities arising from a previous Prohibited Transfer not sold by the Agent in a prior sale or sales) represent a 5-percent or greater Percentage Stock Ownership interest in the Corporation, then such remaining amounts shall be paid to two or more organizations qualifying under Section 50l(c)(3) selected by the Board of Directors such that no organization qualifying under Section 501(c)(3) of the Code shall possess Percentage Stock Ownership in the Corporation in excess of 5-percent. The Purported Transferee's sole right with respect to such Corporation Securities shall be limited to the amount payable to the Purported Transferee pursuant to this sub-section (d)(iv) of Section 5.06. In no event shall the proceeds of any sale of Excess Securities pursuant to this Section 5.06 inure to the benefit of the Corporation.

(e) Board Determinations.

i. The Board of Directors of the Corporation shall have the power to determine all matters necessary for determining compliance with this Section 5.06, including, without limitation: (A) the identification of Five-Percent Shareholders; (B) whether a Transfer is a Prohibited Transfer; (C) the Percentage Stock Ownership in the Corporation of any Five Percent Shareholder; (D) whether an instrument constitutes a Corporation Security; (E) the amount (or fair market value) due to a Purported Transferee pursuant to clause (ii) of sub-section (d)(iv) of this Section 5.06; (F) whether compliance with any restriction or limitation on stock ownership and transfers set forth in this Section 5.06 is no longer required; and (G) any other matters which the Board of Directors determines to be relevant; and the determination of the Board of Directors on such matters shall be conclusive and binding for all the purposes of this Section 5.06.

ii. Nothing contained in this Section 5.06 shall limit the authority of the Board of Directors to take such other action to the extent permitted by law as it deems necessary or advisable to protect the Corporation and its shareholders in preserving the Tax Benefits, including without limitation implementing and enforcing the provisions of this Section 5.06**.** Without limiting the generality of the foregoing, in the event of a change in law making one or more of the following actions necessary or desirable, the Board of Directors may, subject to Section 33- 806 of the Connecticut Business Corporation Act, by adopting a written resolution, (A) modify the ownership interest percentage in the Corporation or the Persons or groups covered by this Section 5.06, provided that, such ownership interest percentages may only be modified to the extent necessary to reflect changes to Section 382 and the applicable Treasury Regulations, (B) modify the definitions of any terms set forth in this Section 5.06, or (C) modify the terms of this Section 5.06 as appropriate, in each case, in order to prevent an ownership change for purposes of Section 382 of the Code as a result of any changes in applicable Treasury Regulations or otherwise. Shareholders of the Corporation shall be notified of such determination through a filing with the Securities and Exchange Commission or such other method of notice as the Secretary of the Corporation shall deem appropriate; provided, further notwithstanding the first sentence of this sub-section (e)(ii) of Section 5.06, the Corporation shall not be entitled modify the terms of this Section 5.06 in order to accelerate or extend the Restriction Release Date.

iii. In the case of an ambiguity in the application of any of the provisions of this Section 5.06**,** including, without limitation, any definition used herein, the Board of Directors shall have the power to determine the application of such provisions with respect to any situation based on its reasonable belief, understanding or knowledge of the circumstances. In the event this Section 5.06 requires an action by the Board of Directors but fails to provide specific guidance with respect to such action, the Board of Directors shall have the power to determine the action to be taken so long as such action is not contrary to the provisions of this Section 5.06**.** All such actions, calculations, interpretations and determinations which are done or made by the Board of Directors in good faith shall be conclusive and binding on the Corporation, the Agent, and all other parties for all purposes of this Section 5.06. The Board of Directors may delegate all or any portion of its duties and powers under this Section 5.06 to a committee of the Board of Directors as it deems necessary or advisable and, to the fullest extent permitted by law, may delegate the authority granted by this Section 5.06 through duly authorized officers or agents of the Corporation. Nothing in this Section 5.06 shall be construed to limit or restrict the Board of Directors in the exercise of its fiduciary duties under applicable law.

(f) Securities Exchange Transactions. Nothing in this Section 5.06 (including, without limitation, any determinations made, or actions taken, by the Board of Directors pursuant to sub-section(c) of Section 5.06) shall preclude the settlement of any transaction entered into through the facilities of a national securities exchange or any national securities quotation system. The fact that the settlement of any transaction occurs shall not negate the effect of any other provision of this Section 5.06 and any Purported Transferee in such a transaction shall be subject to all of the provisions and limitations set forth in this Section 5.06.

(g) Legal Proceedings. Prompt Enforcement. If the Purported Transferee fails to surrender the Excess Securities or the proceeds of a sale thereof to the Agent within thirty days from the date on which the Corporation makes a written demand, then the Corporation may promptly take all cost effective actions which it believes are appropriate to enforce the provisions hereof, including, without limitation, the institution of legal proceedings to compel the surrender. Nothing in this section shall (a) be deemed inconsistent with any Transfer of the Excess Securities provided in this Section 5.06 being void ab initio or (b) preclude the Corporation in its discretion from immediately bringing legal proceedings without a prior demand. The Board of Directors may authorize such additional actions as it deems advisable to give effect to the provisions of this Section 5.06.

(h) Liability. To the fullest extent permitted by law, any shareholder subject to the provisions of this Section 5.06 who knowingly violates the provisions of this Section 5.06 and any Persons controlling, controlled by or under common control with such shareholder shall be jointly and severally liable to the Corporation for, and shall indemnify and hold the Corporation harmless against, any and all damages suffered as a result of such violation, including but not limited to damages resulting from a reduction in, or elimination of, the Corporation’s ability to utilize its Tax Benefits, and attorneys’ and auditors’ fees incurred in connection with such violation.

(i) in this Section 5.06 shall immediately give written notice to the Corporation of such event and shall provide to the Corporation such other information as the Corporation may request in order to determine the effect, if any, of such Prohibited Transfer on the preservation and usage of the Tax Benefits. As a condition to the registration of the Transfer of any Corporation Securities, any Person who is a beneficial, legal, or record holder of Corporation Securities, and any proposed transferee and any Person controlling, controlled by, or under common control with the proposed transferee, shall provide such information as the Corporation may request from time to time in order to determine compliance with this Section 5.06 or the status of the Tax Benefits of the Corporation.

(j) Reserved.

(k) Certificates. All certificates representing Corporation Securities on or after the Effective Date shall, until the Restriction Release Date, bear a conspicuous legend in substantially the following form:

THE TRANSFER OF SECURITIES REPRESENTED HEREBY IS SUBJECT TO RESTRICTION PURSUANT TO SECTION 5.06 OF THE BY-LAWS OF MBIA INC., AS AMENDED AND IN EFFECT FROM TIME TO TIME, A COPY OF WHICH MAY BE OBTAINED FROM THE CORPORATION UPON REQUEST.

(l) Reliance. To the fullest extent permitted by law, the Corporation and the members of the Board of Directors shall be fully protected in relying in good faith upon the information, opinions, reports or statements of the chief executive officer, the chief financial officer, the chief accounting officer or the corporate controller of the Corporation or of the Corporation's legal counsel, independent auditors, transfer agent, investment bankers or other employees and agents in making the determinations and findings contemplated by this Section 5.06, and the members of the Board of Directors shall not be responsible for any good faith errors made in connection therewith. For purposes of determining the existence and identity of: and the amount of any Corporation Securities owned by any stockholder, the Corporation is entitled to rely on the existence and absence of filings of Schedule 130 or 13G under the Securities and Exchange Act of 1934, as amended (or similar filings), as of any date, subject to its actual knowledge of the ownership of Corporation Securities.

(m) Benefits of Section 5.06. Nothing in this Section 5.06 shall be construed to give to any Person other than the Corporation or the Agent any legal or equitable right, remedy or claim under this Section 5.06. This Section 5.06 shall be for the sole and exclusive benefit of the Corporation and the Agent.

(n) Severability. The purpose of this Section 5.06 is to facilitate the Corporation's ability to maintain or preserve its Tax Benefits. If any provision of this Section 5.06 or the application of any such provision to any Person or under any circumstance shall be held invalid, illegal or unenforceable in any respect by a court of Competent jurisdiction, such invalidity, illegality or unenforceability shall not affect any other provision of this Section5.06.

(o) Waiver. With regard to any power, remedy or right provided hereinor otherwise available to the Corporation or the Agent under this Section 5.06, (i) no waiver will be effective unless expressly contained in a writing signed by the waiving party; and (ii) no alteration, modification or impairment will be implied by reason of any previous waiver, extension of time, delay or omission in exercise, or other indulgence.

## ARTICLE VI

## RESERVED

## ARTICLE VII

## GENERAL PROVISIONS

Section 7.01. Dividends. Subject to any applicable provisions of law and the Certificate of Incorporation, dividends or other distributions upon the outstanding shares of the Corporation may be declared by the Board of Directors at any regular or Special Meeting of the Board of Directors and any such dividend or distribution may be paid in case, property or the Corporation's own shares. [Section 33-674, 33-687.]

Section 7.02. Reserves. There may be set apart from time to time out of any funds of the Corporation available for dividends such reserve or reserves as the Board of Directors may deem appropriate and the Board of Directors may similarly modify or abolish any such reserve.

Section 7.03. Execution of Instruments. Subject to the approval of the Board of Directors, the Chief Executive Officer, the Secretary or any other officer may enter into any contract or execute and deliver any instrument in the name and on behalf of the Corporation. The Board of Directors may authorize any officer or agent to enter into any contract or execute and deliver any instrument in the name and on behalf of the Corporation. Any such authorization may be general or limited to specific contracts or instruments.

Section 7.04. Deposits. Any funds of the Corporation may be deposited from time to time in such banks, trust companies or other depositories as may be determined by the Board of Directors or by such officers or agents as may be authorized by the Board of Directors to make such determination.

Section 7.05. Checks, Drafts, etc. All notes, drafts, bills of exchange, acceptances, checks, endorsements and other evidences of indebtedness of the corporation, and its orders for the payment of money shall be signed by such officer or officers or such agent or agents of the Corporation, and in such manner, as the Board of Directors or the Chief Executive Officer from time to time may determine.

Section 7.06. Sale, Transfer, etc. of Securities. The Chief Executive Officer together with the Secretary and such other officers as may be authorized by the Board of Directors may sell, transfer, endorse, and assign any shares of stock, bonds or other securities owned by or held in the name of the Corporation, and may make, execute and deliver in the name of the Corporation, under its corporate seal, any instruments that may be appropriate to effect any such sale, transfer, endorsement or assignment.

Section 7.07. Voting as Shareholder. Unless otherwise determined by resolution of the Board of Directors, the Chairman, the Vice Chairman, if any, the Chief Executive Officer, the Chief Financial Officer and the Secretary shall have full power and authority on behalf of the Corporation to attend any meeting of shareholders of any corporation in which the Corporation may hold stock, and to act, vote (or execute proxies to vote) and exercise in person or by proxy all other rights, powers and privileges incident to the ownership of such stock; the Chairman, the Vice Chairman, if any, and the Chief Executive Officer acting on behalf of the Corporation shall have full power and authority to execute any instrument expressing consent to or dissent from any action of any such corporation without a meeting; and the Board of Directors may by resolution from time to time confer such power and authority upon any other person or persons. All acts, votes and exercises of other rights, powers and privileges incident to the ownership of stock in subsidiaries of the Corporation shall be carried out only pursuant to resolutions of the Board of Directors adopted in accordance with these By-Laws.

Section 7.08. Fiscal Year. Unless otherwise determined by the Board of Directors, the fiscal year of the Corporation shall, in each calendar year, commence on the first day of January of each year and shall terminate on the last day of December.

Section 7.09. Seal. The seal of the Corporation shall be circular in form and shall contain the name of the Corporation, the year of its incorporation and the words “INCORPORATED CONNECTICUT.” The seal may be used by causing it or a facsimile thereof to be impressed, affixed or reproduced, or may be used in any other lawful manner.

Section 7.10. Books and Records; Inspection. Except to the extent otherwise required by law, the books and records of the Corporation shall be kept at such place or places within or without the State of Connecticut as may be determined from time to time by the Board of Directors.

## ARTICLE VIII

## AMENDMENT OF BY-LAWS

Section 8.01. Amendment. All By-Laws of the Corporation, whether adopted by the Board of Directors or the shareholders, shall be subject to amendment, alteration or repeal:

(a) by the affirmative vote of the holders of not less than 80% of the voting power of shares entitled to vote at any Annual or Special Meeting of shareholders, the notice of which shall have specified or summarized the proposed amendment, alternation, repeal or new By-Laws, or

(b) by the affirmative vote of Directors holding a majority of the Directorships at any Regular or Special Meeting of Directors the notice or waiver of notice of which, unless none is required hereunder, shall have specified or summarized the proposed amendment, alteration, repeal or new By-Laws,

provided, however, that Section 1.02 (regarding special meetings of shareholders), Section 2.02 (regarding the number of Directors), Section 2.07 (regarding quorum and voting requirements for Directors), Section 2.12 (regarding removal of Directors), Section 2.13 (regarding vacancies and newly created Directorships), Sections 3.01, 3.02, 3.06 and 3.07 (regarding Committees and their members), and this Section 8.01 (regarding amendments) may be amended, altered, or repealed only by the affirmative vote of either (i) the holders of not less than 80% of the voting power of shares entitled to vote at any Annual or Special Meeting of shareholders, the notice of which shall have specified or summarized the proposed amendment, alteration or repeal, or (ii) by a vote of 66-2/3% of the Board of Directors at any Regular or Special Meeting of Directors the notice of which shall have specified the proposed amendment, alteration or repeal. The shareholders may at any time provide in the By-Laws that any other specified provision or provisions of the By-Laws may be amended, altered or repealed only in the manner specified in the foregoing clause (a) or in the foregoing proviso, in which event such provision or provisions shall be subject to amendment, alteration or repeal only in such manner. [Section 33-806.]

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**Exhibit 31.1**

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

I, William C. Fallon, certify that:

1. I have reviewed the Quarterly Report of MBIA Inc. (the “Company”) on Form 10-Q for the period ending June 30, 2022 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 second quarter of 2022 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
August 3, 2022

**Exhibit 31.2**

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

I, Anthony McKiernan, certify that:

1. I have reviewed the Quarterly Report of MBIA Inc. (the “Company”) on Form 10-Q for the period ending June 30, 2022 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 second quarter of 2022 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
August 3, 2022

**Exhibit 32.1**

**CERTIFICATION PURSUANT TO**
**18 U.S.C. SECTION 1350,**
**AS ADOPTED PURSUANT TO**
**SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of MBIA Inc. (the “Company”) on Form 10-Q for the period ending June 30, 2022 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
August 3, 2022

**Exhibit 32.2**

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of MBIA Inc. (the “Company”) on Form 10-Q for the period ending June 30, 2022 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
August 3, 2022