



MBIA Inc. Second Quarter 2020 Financial Results

PURCHASE, N.Y.--(BUSINESS WIRE)--MBIA Inc. (NYSE:MBI) (the Company) today reported a consolidated GAAP net loss of \$106 million, or \$(1.69) per share, for the second quarter of 2020 compared to a consolidated GAAP net loss of \$207 million, or \$(2.45) per share, for the second quarter of 2019. The improved result versus last year's second quarter was primarily due to fair value gains on interest rate swaps in the second quarter of 2020 versus fair value losses in the second quarter of 2019 due to favorable changes to interest rate curves, favorable changes in revenues of consolidated VIEs as a result of the reversal of an allowance for credit losses and an increase in estimated recoveries within certain RMBS transactions in 2020 versus losses in 2019 resulting from deconsolidating VIEs. The net loss for the second quarter of 2020 was mainly due to loss and loss adjustment expense related to net losses on Puerto Rico bonds insured by National Public Finance Guarantee Corporation ("National") and reduced insurance loss recoveries on collateralized debt obligations insured by MBIA Corp.

Book value per share was \$5.55 as of June 30, 2020 compared with \$10.40 as of December 31, 2019. The decrease in book value per share since year-end 2019 was primarily due to the year-to-date net loss, partially offset by fewer shares outstanding resulting from MBIA Inc. shares purchased by National since year-end 2019.

The Company also reported an Adjusted Net Loss (a non-GAAP measure defined in the attached Explanation of Non-GAAP Financial Measures) of \$72 million or \$(1.15) per diluted share for the second quarter of 2020 compared with an Adjusted Net Loss of \$76 million or \$(0.90) per diluted share for the second quarter of 2019. The lower Adjusted Net Loss for the second quarter of 2020 was primarily due to lower loss and loss adjustment expense at National partially offset by lower net investment income.

Adjusted Net Income (Loss) provides investors with views of the Company's operating results that management uses in measuring financial performance. Reconciliations of Adjusted Net Income (Loss) to net income, calculated in accordance with GAAP, are also attached.

Statement from Company Representative

Bill Fallon, MBIA's Chief Executive Officer noted, "This quarter's loss and loss adjustment expense associated with National's Puerto Rico exposure was the largest driver of our Adjusted Net Loss for the quarter." Mr. Fallon added, "We have reflected the recent rulings from the Title III court concerning the Puerto Rico Highway and Transportation Authority bonds, although we disagree with that decision and intend to pursue our rights at the appellate level after the order becomes final."

Year-to-Date Results

The Company recorded a consolidated GAAP net loss of \$439 million, or \$(6.51) per diluted common share, for the six months ended June 30, 2020 compared with a consolidated net loss of \$228 million, or \$(2.68) per diluted common share, for the first six months of 2019. The greater loss this year was primarily due to larger loss and loss adjustment expense related to reduced insurance loss recoveries on collateralized debt obligations insured by MBIA Corp. and net losses on Puerto Rico bonds insured by National.

The Company's non-GAAP Adjusted Net Loss for the six months ended June 30, 2020 was \$119 million or \$(1.77) per diluted share compared with an Adjusted Net Loss of \$37 million or \$(0.44) per diluted share for the first six months of 2019. The greater adjusted net loss for the first six months of 2020 was primarily due to increased loss and loss adjustment expense at National and lower net investment income.

MBIA Inc.

As of June 30, 2020, MBIA Inc.'s liquidity position totaled \$325 million, up from \$314 million as of March 31, 2020, consisting primarily of cash and cash equivalents and other liquid invested assets. The increase in liquidity primarily relates to an AMT credit refund from the IRS and the return of liquidity support provided to the Company's GIC operations, partially offset by MBIA Inc. debt service payments.

During the second quarter of 2020, National purchased 9.8 million shares of MBIA Inc. common stock at an average price of \$7.32 per share. As of July 29, 2020, there was \$27 million of remaining capacity under the Company's share repurchase authorization and 57.8 million of the Company's common shares were outstanding.

National Public Guarantee Financial Corporation

National had statutory capital of \$2.0 billion and claims-paying resources totaling \$3.3 billion as of June 30, 2020. National's total fixed income investments plus cash and cash equivalents had a book/adjusted carrying value of \$2.3 billion as of June 30, 2020. National's insured portfolio declined by \$1 billion during the quarter, ending the quarter with \$46 billion of gross par outstanding. National ended the quarter with a leverage ratio of gross par to statutory capital of 23 to 1, up from 21 to 1 as of year-end 2019.

MBIA Insurance Corporation

The statutory capital of MBIA Insurance Corporation as of June 30, 2020 was \$360 million and claims-paying resources totaled \$1.1 billion. As of June 30, 2020, MBIA Insurance Corporation's liquidity position (excluding resources from its subsidiaries and branches) totaled \$123 million consisting primarily of cash and cash equivalents and other liquid invested assets.

Conference Call

The Company will host a webcast and conference call for investors tomorrow, Thursday, August 6, 2020 at 8:00 AM (ET) to discuss its second quarter 2020 financial results and other matters relating to the Company. The webcast and conference call will consist of brief remarks followed by a question and answer session.

The dial-in number for the call is (877) 694-4769 in the U.S. and (404) 665-9935 from outside the U.S. The conference call code is 7198466. A live webcast of the conference call will also be accessible on www.mbia.com.

A replay of the conference call will become available approximately two hours after the end of the call on August 6 and will remain available until 11:59 p.m. on August 20 by dialing (800) 585-8367 in the U.S. or (404) 537-3406 from outside the U.S. The code for the replay of the call is also 7198466. In addition, a recorded replay of the call will become available on the Company's website approximately two hours after the completion of the call.

Forward-Looking Statements

This release 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," "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, including, among other factors, the possibility that MBIA Inc. or National will experience increased credit losses or impairments on public finance obligations issued by state, local and territorial governments and finance authorities that are experiencing unprecedented fiscal stress; the possibility that loss reserve estimates are not adequate to cover potential claims; MBIA Inc.'s or National's ability to fully implement their strategic plan; changes in general economic and competitive conditions; and the impact on our insured portfolios or business operations caused by the global spread of the novel coronavirus COVID-19. These and other factors that could affect financial performance or could cause actual results to differ materially from estimates contained in or underlying MBIA Inc.'s or National's forward-looking statements are discussed under the "Risk Factors" section in MBIA Inc.'s most recent Annual Report on Form 10-K and Quarterly Report on Form 10-Q, which may be updated or amended in MBIA Inc.'s subsequent filings with the Securities and Exchange Commission. MBIA Inc. and National caution readers not to place undue reliance on any such forward-looking statements, which speak only to their respective dates. National and MBIA Inc. undertake no obligation to publicly correct or update any forward-looking statement if it later becomes aware that such result is not likely to be achieved.

MBIA Inc., headquartered in Purchase, New York is a holding company whose subsidiaries provide financial guarantee insurance for the public and structured finance markets. Please visit MBIA's website at www.mbia.com.

Explanation of Non-GAAP Financial Measures

The following are explanations of why the Company believes that the non-GAAP financial measures used in this press release, which serve to supplement GAAP information, are meaningful to investors.

Adjusted Net Income (Loss): Adjusted Net Income (Loss) is a useful measurement of performance because it measures income from the Company excluding its international and structured finance insurance segment, comprising the results of MBIA Corp. which given its capital structure and business prospects, we do not expect its financial performance to have a material impact on MBIA Inc. Also excluded from Adjusted Net Income (Loss) are investment portfolio realized gains and losses, gains and losses on financial instruments at fair value and foreign exchange, and realized gains and losses on extinguishment of debt. Adjusted Net Income (Loss) eliminates the tax provision (benefit) as a result of a full valuation allowance against the Company's net deferred tax asset. Trends in the underlying profitability of the Company's businesses can be more clearly identified without the fluctuating effects of the excluded items previously noted. Adjusted Net Income (Loss) as defined by the Company does not include all revenues and expenses required by GAAP. Adjusted Net Income (Loss) is not a substitute for and should not be viewed in isolation from GAAP net income.

Adjusted Net Income (Loss) per share represents that amount of Adjusted Net Income (Loss) allocated to each fully diluted weighted-average common share outstanding for the measurement period.

MBIA management further adjusts Adjusted Net Income (Loss) and Adjusted Net Income (Loss) per share by removing the impact of our U.S. public finance insurance segment VIE consolidations. GAAP requires the Company to consolidate certain VIEs that have issued debt obligations insured by the Company. However, since the Company does not own such VIEs, management uses certain measures that remove the impact of VIE consolidations for our U.S. public finance insurance segment in order to reflect financial exposure limited to its financial guaranty contracts.

Book value adjustments: 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 when measuring financial 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 impairment of AFS securities are recorded in book value through earnings.
- *Net unearned 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.

Claims-paying Resources (CPR): CPR is a key measure of the resources available to National and MBIA Corp. to pay claims under their respective 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. The Company has provided CPR to allow investors and analysts to evaluate National and MBIA Corp. using the same measure that MBIA's management uses to evaluate their resources to pay claims under their respective insurance policies. There is no directly comparable GAAP measure.

Leverage Ratio: Gross Par Outstanding divided by Statutory Capital (Policyholders' Surplus plus Contingency Reserve).

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

	June 30, 2020	December 31, 2019
Assets		
Investments:		
Fixed-maturity securities held as available-for-sale, at fair value (amortized cost \$2,278 and \$2,705)	\$ 2,473	\$ 2,820
Investments carried at fair value	203	209
Investments pledged as collateral, at fair value (amortized cost \$6 and \$15)	1	10
Short-term investments, at fair value (amortized cost \$252 and \$423)	252	423
Total investments	2,929	3,462
Cash and cash equivalents	446	75
Premiums receivable (net of allowance for credit losses \$4 and \$-)	232	249
Deferred acquisition costs	55	60
Insurance loss recoverable	1,543	1,694
Other assets	104	115
Assets of consolidated variable interest entities:		
Cash	8	8
Investments held-to-maturity, at amortized cost (net of allowance for credit losses \$23 and \$-, fair value \$574 and \$892)	552	890
Investments carried at fair value	76	83
Loans receivable at fair value	116	136
Loan repurchase commitments	524	486
Other assets	28	26
Total assets	\$ 6,613	\$ 7,284
Liabilities and Equity		
Liabilities:		
Unearned premium revenue	\$ 444	\$ 482
Loss and loss adjustment expense reserves	1,018	901
Long-term debt	2,289	2,228
Medium-term notes (includes financial instruments carried at fair value of \$96 and \$108)	668	680
Investment agreements	289	304
Derivative liabilities	233	175
Other liabilities	134	136
Liabilities of consolidated variable interest entities:		
Variable interest entity notes (includes financial instruments carried at fair value of \$342 and \$403)	1,178	1,539
Total liabilities	6,253	6,445
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--283,433,401 and 283,433,401	283	283
Additional paid-in capital	2,958	2,999
Retained earnings	126	607
Accumulated other comprehensive income (loss), net of tax of \$8 and \$8	129	(2)
Treasury stock, at cost--220,924,081 and 204,000,108 shares	(3,149)	(3,061)
Total shareholders' equity of MBIA Inc.	347	826
Preferred stock of subsidiary	13	13
Total equity	360	839
Total liabilities and equity	\$ 6,613	\$ 7,284

MBIA INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

(In millions except share and per share amounts)

	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Revenues:				
Premiums earned:				
Scheduled premiums earned	\$ 15	\$ 17	\$ 31	\$ 35
Refunding premiums earned	4	5	8	10
Premiums earned (net of ceded premiums of \$1, \$1, \$2 and \$2)	19	22	39	45
Net investment income	20	30	43	62
Fees and reimbursements	-	1	-	1
Change in fair value of insured derivatives:				
Realized gains (losses) and other settlements on insured derivatives	-	(1)	-	(1)
Unrealized gains (losses) on insured derivatives	-	-	-	14
Net change in fair value of insured derivatives	-	(1)	-	13
Net gains (losses) on financial instruments at fair value and foreign exchange	24	(26)	(39)	(4)
Net investment losses related to other-than-temporary impairments:				
Other-than-temporary impairments recognized in accumulated other comprehensive income (loss)	-	(9)	-	(37)
Net investment losses related to other-than-temporary impairments	-	(9)	-	(37)
Other net realized gains (losses)	-	1	-	2
Revenues of consolidated variable interest entities:				
Net investment income	5	10	13	20
Net gains (losses) on financial instruments at fair value and foreign exchange	23	18	38	36
Other net realized gains (losses)	23	(16)	14	(58)
Total revenues	114	30	108	80
Expenses:				
Losses and loss adjustment	136	140	379	102
Amortization of deferred acquisition costs	3	2	5	6
Operating	22	19	40	45
Interest	45	52	92	104
Expenses of consolidated variable interest entities:				
Operating	1	1	3	4
Interest	13	23	28	45
Total expenses	220	237	547	306
Income (loss) before income taxes	(106)	(207)	(439)	(226)
Provision (benefit) for income taxes	-	-	-	2
Net income (loss)	\$ (106)	\$ (207)	\$ (439)	\$ (228)
Net income (loss) per common share:				
Basic	\$ (1.69)	\$ (2.45)	\$ (6.51)	\$ (2.68)
Diluted	\$ (1.69)	\$ (2.45)	\$ (6.51)	\$ (2.68)
Weighted average number of common shares outstanding:				
Basic	62,605,656	84,275,261	67,347,335	84,911,215
Diluted	62,605,656	84,275,261	67,347,335	84,911,215

ADJUSTED NET INCOME (LOSS) RECONCILIATION⁽¹⁾

(In millions except per share amounts)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Net income (loss)	\$ (106)	\$ (207)	\$ (439)	\$ (228)
Less: adjusted net income (loss) adjustments:				
Income (loss) before income taxes of the international and structured finance insurance segment and eliminations	(59)	(108)	(279)	(163)
Adjustments to income before income taxes of the U.S. public finance insurance and corporate segments:				
Mark-to-market gains (losses) on financial instruments ⁽²⁾	17	(22)	(60)	(38)
Foreign exchange gains (losses) ⁽²⁾	(8)	(5)	-	2
Net gains (losses) on sales of investments ⁽²⁾	16	14	19	47
Net investment losses related to impairments of securities	-	(9)	-	(37)
Other net realized gains (losses)	-	-	-	(1)
Adjusted net income adjustment to the (provision) benefit for income tax ⁽³⁾	-	(1)	-	(1)
Adjusted net income (loss)	<u>\$ (72)</u>	<u>\$ (76)</u>	<u>\$ (119)</u>	<u>\$ (37)</u>
Adjusted net income (loss) per diluted common share	\$ (1.15)	\$ (0.90)	\$ (1.77)	\$ (0.44)
Gain (loss) related to our U.S. public finance insurance segment VIE consolidations included in adjusted net income (loss)	-	(7)	-	(20)
Gain (loss) related to our U.S. public finance insurance segment VIE consolidations per diluted common share included in adjusted net income (loss) per diluted common share	-	(0.08)	-	(0.23)

(1) A non-GAAP measure; please see Explanation of non-GAAP Financial Measures.

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

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

COMPONENTS OF BOOK VALUE PER SHARE

	As of	As of
	June 30, 2020	December 31, 2019
Reported Book Value per Share	\$ 5.55	\$ 10.40
Management's book value per share adjustments:		
Remove negative book value of MBIA Corp.	(25.81)	(16.81)
Remove net unrealized gains (losses) on available-for-sale securities included in other comprehensive income (loss)	2.82	1.29
Include net unearned premium revenue in excess of expected losses	4.12	3.46
Shares outstanding in millions	62.5	79.4

INSURANCE OPERATIONS

Selected Financial Data Computed on a Statutory Basis

(Dollars in millions)

National Public Finance Guarantee Corporation

	<u>June 30, 2020</u>	<u>December 31, 2019</u>
Policyholders' surplus	\$ 1,564	\$ 1,891
Contingency reserves	470	485
Statutory capital	2,034	2,376
Unearned premiums	385	411
Present value of installment premiums ⁽¹⁾	138	139
Premium resources ⁽²⁾	523	550
Net loss and loss adjustment expense reserves ⁽¹⁾	29	(169)
Salvage reserves ⁽¹⁾	735	789
Gross loss and loss adjustment expense reserves	764	620
Total claims-paying resources	<u>\$ 3,321</u>	<u>\$ 3,546</u>
Net debt service outstanding	\$ 85,302	\$ 90,792
Capital ratio ⁽³⁾	42:1	38:1
Claims-paying ratio ⁽⁴⁾	26:1	26:1

MBIA Insurance Corporation

	<u>June 30, 2020</u>	<u>December 31, 2019</u>
Policyholders' surplus	\$ 179	\$ 282
Contingency reserves	181	194
Statutory capital	360	476
Unearned premiums	84	93
Present value of installment premiums ^{(5) (7)}	79	92
Premium resources ⁽²⁾	163	185
Net loss and loss adjustment expense reserves ⁽⁵⁾	(563)	(669)
Salvage reserves ^{(5) (6)}	1,095	1,247
Gross loss and loss adjustment expense reserves	532	578
Total claims-paying resources	<u>\$ 1,055</u>	<u>\$ 1,239</u>
Net debt service outstanding	\$ 11,596	\$ 13,250
Capital ratio ⁽³⁾	32:1	28:1
Claims-paying ratio ⁽⁴⁾	11:1	11:1

(1) Calculated using discount rates of 3.64% as of June 30, 2020 and December 31, 2019.

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

(3) Net debt service outstanding divided by statutory capital.

(4) Net debt service outstanding divided by the sum of statutory capital, unearned premium reserve (after-tax), present value of installment premiums (after-tax), net loss and loss adjustment expense reserves and salvage reserves.

(5) Calculated using discount rates of 5.21% as of June 30, 2020 and December 31, 2019.

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

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