

MBIA INC  
Form 10-Q  
May 11, 2015  
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**United States**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**Form 10-Q**

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

For the quarterly period ended March 31, 2015

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)

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**Connecticut**  
(State of incorporation)

**06-1185706**  
(I.R.S. Employer

Identification No.)

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

**10577**  
(Zip Code)

**(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)

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

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

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

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

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

As of May 5, 2015, 181,668,923 shares of Common Stock, par value \$1 per share, were outstanding.

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**FORWARD-LOOKING AND CAUTIONARY STATEMENTS**

This quarterly report of MBIA Inc. ( 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 are used in the 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 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 we insure issued by state, local and territorial governments and finance authorities that are experiencing fiscal stress;

the possibility that MBIA Corp. will have inadequate liquidity to pay expected claims as a result of increased losses on certain structured finance transactions, in particular residential mortgage-backed securities transactions that include a substantial number of ineligible mortgage loans, or a delay or failure in collecting expected recoveries;

the possibility that loss reserve estimates are not adequate to cover potential claims;

a disruption in the cash flow from our subsidiaries or an inability to access capital and our exposure to significant fluctuations in liquidity and asset values within the global credit markets as a result of collateral posting requirements;

our ability to fully implement our strategic plan, including our ability to maintain high stable ratings for National Public Finance Guarantee Corporation and generate investor demand for our financial guarantees;

deterioration in the economic environment and financial markets in the United States or abroad, and adverse developments in European sovereign credit performance, real estate market performance, credit spreads, interest rates and foreign currency levels;

the effects of governmental regulation, including insurance laws, securities laws, tax laws, legal precedents and accounting rules; and

uncertainties that have not been identified at this time.

The above factors provide a summary of and are qualified in their entirety by the risk factors discussed under Risk Factors in Part I, Item 1A of MBIA Inc. s Annual Report on Form 10-K for the year ended December 31, 2014. In addition, refer to Note 1: Business Developments and Risks and Uncertainties in the Notes to Consolidated Financial Statements for a discussion of certain risks and uncertainties related to our financial statements.

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

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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.

**Table of Contents****PART 1 FINANCIAL INFORMATION****Item 1. Financial Statements****MBIA INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS (Unaudited)**

(In millions except share and per share amounts)

	March 31, 2015	December 31, 2014
<b>Assets</b>		
Investments:		
Fixed-maturity securities held as available-for-sale, at fair value (amortized cost \$5,155 and \$5,036)	\$ 5,279	\$ 5,129
Investments carried at fair value	217	207
Investments pledged as collateral, at fair value (amortized cost \$217 and \$441)	183	408
Short-term investments held as available-for-sale, at fair value (amortized cost \$1,114 and \$1,069)	1,117	1,069
Other investments (includes investments at fair value of \$13 and \$13)	17	17
Total investments	6,813	6,830
Cash and cash equivalents	596	729
Premiums receivable	848	875
Deferred acquisition costs	204	217
Insurance loss recoverable	527	533
Assets held for sale	22	802
Deferred income taxes, net	969	1,028
Other assets	232	229
Assets of consolidated variable interest entities:		
Cash	31	53
Investments held-to-maturity, at amortized cost (fair value \$2,635 and \$2,632)	2,742	2,757
Fixed-maturity securities at fair value	1,061	421
Loans receivable at fair value	1,480	1,431
Loan repurchase commitments	385	379
Derivative assets	5	-
<b>Total assets</b>	<b>\$ 15,915</b>	<b>\$ 16,284</b>
<b>Liabilities and Equity</b>		
Liabilities:		
Unearned premium revenue	\$ 1,874	\$ 1,986
Loss and loss adjustment expense reserves	499	506
Investment agreements	538	547
Medium-term notes (includes financial instruments carried at fair value of \$180 and \$197)	1,108	1,201
Long-term debt	1,828	1,810
Derivative liabilities	391	437
Liabilities held for sale	-	772
Other liabilities	266	271
Liabilities of consolidated variable interest entities:		
Variable interest entity notes (includes financial instruments carried at fair value of \$2,653 and \$2,047)	5,395	4,804
Derivative liabilities	76	-

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<b>Total liabilities</b>	<b>11,975</b>	<b>12,334</b>
Commitments and contingencies (See Note 13)		
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 281,670,699 and 281,352,782	282	281
Additional paid-in capital	3,124	3,128
Retained earnings	2,927	2,858
Accumulated other comprehensive income (loss), net of tax of \$4 and \$7	22	21
Treasury stock, at cost 98,097,072 and 89,409,887 shares	(2,436)	(2,359)
Total shareholders' equity of MBIA Inc.	3,919	3,929
Preferred stock of subsidiary and noncontrolling interest	21	21
<b>Total equity</b>	<b>3,940</b>	<b>3,950</b>
<b>Total liabilities and equity</b>	<b>\$ 15,915</b>	<b>\$ 16,284</b>

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

**Table of Contents****MBIA INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)**

(In millions except share and per share amounts)

	<b>Three Months Ended March 31,</b>	
	<b>2015</b>	<b>2014</b>
<b>Revenues:</b>		
Premiums earned:		
Scheduled premiums earned	\$ 55	\$ 69
Refunding premiums earned	46	19
Premiums earned (net of ceded premiums of \$4 and \$2)	101	88
Net investment income	37	50
Fees and reimbursements	1	4
Change in fair value of insured derivatives:		
Realized gains (losses) and other settlements on insured derivatives	(9)	(369)
Unrealized gains (losses) on insured derivatives	37	838
Net change in fair value of insured derivatives	28	469
Net gains (losses) on financial instruments at fair value and foreign exchange	30	(55)
Net gains (losses) on extinguishment of debt	-	1
Other net realized gains (losses)	20	1
Revenues of consolidated variable interest entities:		
Net investment income	12	12
Net gains (losses) on financial instruments at fair value and foreign exchange	(10)	3
Net gains (losses) on extinguishment of debt	-	4
Total revenues	219	577
<b>Expenses:</b>		
Losses and loss adjustment	(6)	50
Amortization of deferred acquisition costs	13	10
Operating	35	46
Interest	50	54
Expenses of consolidated variable interest entities:		
Operating	4	3
Interest	10	10
Total expenses	106	173
Income (loss) before income taxes	113	404
Provision (benefit) for income taxes	44	148
<b>Net income (loss)</b>	<b>\$ 69</b>	<b>\$ 256</b>
<b>Net income (loss) per common share:</b>		
Basic	\$ 0.37	\$ 1.33
Diluted	\$ 0.37	\$ 1.32
<b>Weighted average number of common shares outstanding:</b>		
Basic	181,735,876	189,033,982
Diluted	182,736,415	190,263,748



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

**Table of Contents****MBIA INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (Unaudited)**

(In millions)

	<b>Three Months Ended March 31,</b>	
	<b>2015</b>	<b>2014</b>
Net income (loss)	\$ 69	\$ 256
Other comprehensive income (loss):		
Unrealized gains (losses) on available-for-sale securities:		
Unrealized gains (losses) arising during the period	43	105
Provision (benefit) for income taxes	17	38
Total	26	67
Reclassification adjustments for (gains) losses included in net income (loss)	7	2
Provision (benefit) for income taxes	3	1
Total	4	1
Available-for-sale securities with other-than-temporary impairments:		
Other-than-temporary impairments and unrealized gains (losses) arising during the period	(14)	3
Provision (benefit) for income taxes	(5)	-
Total	(9)	3
Foreign currency translation:		
Foreign currency translation gains (losses)	(31)	(2)
Provision (benefit) for income taxes	(11)	-
Total	(20)	(2)
Reclassification adjustments for (gains) losses included in net income (loss)	-	4
Total other comprehensive income (loss)	1	73
<b>Comprehensive income (loss)</b>	<b>\$ 70</b>	<b>\$ 329</b>

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

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## MBIA INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY (Unaudited)

For The Three Months Ended March 31, 2015

(In millions except share amounts)

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)		Treasury Stock		Total Shareholders Equity of MBIA Inc.	Preferred Stock of Subsidiary and Noncontrolling Interest		Total Equity
	Shares	Amount			Shares	Amount	Shares	Amount		Shares	Amount	
<b>Balance, December 31, 2014</b>	<b>281,352,782</b>	<b>\$ 281</b>	<b>\$ 3,128</b>	<b>\$ 2,858</b>	<b>\$ 21</b>	<b>(89,409,887)</b>	<b>\$ (2,359)</b>	<b>\$ 3,929</b>	<b>1,315</b>	<b>\$ 21</b>	<b>\$ 3,950</b>	
Net income (loss)	-	-	-	69	-	-	-	69	-	-	69	
Other comprehensive income (loss)	-	-	-	-	1	-	-	1	-	-	1	
Share-based compensation, net of tax of \$9	317,917	1	(4)	-	-	(114,065)	(1)	(4)	-	-	(4)	
Treasury shares acquired under share repurchase program	-	-	-	-	-	(8,573,120)	(76)	(76)	-	-	(76)	
<b>Balance, March 31, 2015</b>	<b>281,670,699</b>	<b>\$ 282</b>	<b>\$ 3,124</b>	<b>\$ 2,927</b>	<b>\$ 22</b>	<b>(98,097,072)</b>	<b>\$ (2,436)</b>	<b>\$ 3,919</b>	<b>1,315</b>	<b>\$ 21</b>	<b>\$ 3,940</b>	

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

**Table of Contents****MBIA INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)**

(In millions)

	<b>Three Months Ended March 31,</b>	
	<b>2015</b>	<b>2014</b>
<b>Cash flows from operating activities:</b>		
Premiums, fees and reimbursements received	\$ 17	\$ 30
Investment income received	90	110
Insured derivative commutations and losses paid	(13)	(343)
Financial guarantee losses and loss adjustment expenses paid	(17)	(86)
Proceeds from recoveries and reinsurance	23	20
Operating and employee related expenses paid	(55)	(111)
Interest paid, net of interest converted to principal	(54)	(48)
Income taxes (paid) received	-	4
<b>Net cash provided (used) by operating activities</b>	<b>(9)</b>	<b>(424)</b>
<b>Cash flows from investing activities:</b>		
Purchases of available-for-sale investments	(478)	(325)
Sales of available-for-sale investments	192	16
Paydowns and maturities of available-for-sale investments	113	135
Purchases of investments at fair value	(166)	(386)
Sales, paydowns and maturities of investments at fair value	170	452
Sales, paydowns and maturities (purchases) of short-term investments, net	232	219
Sales, paydowns and maturities of held-to-maturity investments	15	8
Paydowns and maturities of loans receivable	52	55
Consolidation of variable interest entities including cash acquired	7	-
Deconsolidation of variable interest entities	-	(1)
(Payments) proceeds for derivative settlements	70	(8)
Collateral (to) from swap counterparty	(110)	46
Capital expenditures	(1)	(1)
Other investing	24	-
<b>Net cash provided (used) by investing activities</b>	<b>120</b>	<b>210</b>
<b>Cash flows from financing activities:</b>		
Proceeds from investment agreements	7	6
Principal paydowns of investment agreements	(17)	(20)
Principal paydowns of medium-term notes	(28)	(28)
Principal paydowns of variable interest entity notes	(132)	(270)
Principal paydowns of long-term debt	(11)	-
Purchases of treasury stock	(75)	-
<b>Net cash provided (used) by financing activities</b>	<b>(256)</b>	<b>(312)</b>
Effect of exchange rate changes on cash and cash equivalents	(10)	1
Net increase (decrease) in cash and cash equivalents	(155)	(525)
Cash and cash equivalents beginning of period	782	1,258
<b>Cash and cash equivalents end of period</b>	<b>\$ 627</b>	<b>\$ 733</b>

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Reconciliation of net income (loss) to net cash provided (used) by operating activities:		
Net income (loss)	\$ 69	\$ 256
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:		
Change in:		
Premiums receivable	4	41
Deferred acquisition costs	13	10
Unearned premium revenue	(83)	(107)
Loss and loss adjustment expense reserves	(6)	(39)
Insurance loss recoverable	5	23
Accrued interest payable	25	27
Accrued expenses	(11)	(63)
Realized (gains) losses and other settlements on insured derivatives	-	30
Unrealized (gains) losses on insured derivatives	(37)	(838)
Net (gains) losses on financial instruments at fair value and foreign exchange	(20)	52
Other net realized (gains) losses	(20)	(1)
Deferred income tax provision (benefit)	44	148
Interest on variable interest entities, net	14	18
Other operating	(6)	19
<b>Total adjustments to net income (loss)</b>	<b>(78)</b>	<b>(680)</b>
Net cash provided (used) by operating activities	\$ (9)	\$ (424)

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

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### **MBIA Inc. and Subsidiaries**

#### **Notes to Consolidated Financial Statements (Unaudited)**

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

###### ***Summary***

MBIA Inc., together with its consolidated subsidiaries, (collectively, MBIA or the Company) operates one of the largest financial guarantee insurance businesses in the industry and was a provider of asset management and advisory services. MBIA manages three operating segments: 1) United States ( U.S. ) public finance insurance; 2) international and structured finance insurance; and 3) corporate. The Company's U.S. public finance insurance business is primarily operated through National Public Finance Guarantee Corporation and its subsidiaries ( National ) and its international and structured finance insurance business is primarily operated through MBIA Insurance Corporation and its subsidiaries ( MBIA Corp. ). Unless otherwise indicated or the context otherwise requires, references to MBIA Corp. are to MBIA Insurance Corporation, together with its subsidiaries, MBIA UK Insurance Limited ( MBIA UK ) and MBIA Mexico S.A. de C.V.

Prior to 2015, MBIA managed two other operating segments, advisory services and conduit. The advisory services segment was primarily operated through Cutwater Holdings, LLC and its subsidiaries ( Cutwater ). Effective on January 1, 2015, the Company exited its advisory services business through the sale of Cutwater. During the second quarter of 2014, the Company dissolved its conduit segment through the liquidation of Meridian Funding Company, LLC. Refer to Note 10: Business Segments for further information about the Company's operating segments.

###### ***Business Developments***

###### ***National Ratings and New Business Opportunities***

National's ability to write new business and compete with other financial guarantors is largely dependent on the financial strength ratings assigned to National by major rating agencies. As of March 31, 2015, National was rated AA+ with a stable outlook by Kroll Bond Rating Agency, AA- with a stable outlook by Standard & Poor's Financial Services LLC ( S&P ), and A3 with a negative outlook by Moody's Investors Service, Inc. ( Moody's ).

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

###### ***MBIA Corp. Risk Reductions***

MBIA Corp.'s primary focus is the collection of excess spread and put-back recoveries and the mitigation of MBIA Corp.'s insurance exposures, primarily through commutations of insurance policies. MBIA Corp. may make negotiated settlement payments to counterparties and/or forego its right to all or some termination premiums when it commutes insurance exposures.

###### ***Held For Sale Classifications***

###### **Armonk, New York Facility**

In May of 2015, the Company sold its Armonk, New York facility. For the three months ended March 31, 2015, the Company recorded an impairment charge of \$4 million to adjust the carrying amount to the sales price less costs to sell. The impairment charge was reflected in the results of the Company's U.S. public finance insurance segment and included in Other net realized gains (losses) on the Company's consolidated statements of operations.

###### **Sale of Cutwater Business**

As a result of the agreement to sell Cutwater, the assets and liabilities of Cutwater were classified as held for sale as of December 31, 2014 and presented within Assets held for sale and Liabilities held for sale on the Company's consolidated balance sheet and measured at the lower of its carrying value or fair value less cost to sell. The Company completed this sale effective January 1, 2015, and recorded a gain of approximately

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\$24 million. This gain was reflected in the results of the Company's corporate segment and included in Other net realized gains (losses) on the Company's consolidated statements of operations.

**Table of Contents****MBIA Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****Note 1: Business Developments and Risks and Uncertainties (continued)****Assets and Liabilities Held for Sale by Major Category**

The following table summarizes the components of assets and liabilities held for sale as of March 31, 2015 and December 31, 2014:

In millions	March 31, 2015	December 31, 2014
<b>Assets</b>		
Investments carried at fair value	\$ -	\$ 6
Cash and cash equivalents	-	15
Facility	22	26
Other assets	-	4
Assets of consolidated variable interest entities:		
Cash	-	40
Loans receivable at fair value	-	711
<b>Total assets held for sale</b>	<b>\$ 22</b>	<b>\$ 802</b>
<b>Liabilities</b>		
Other liabilities	\$ -	\$ 18
Liabilities of consolidated variable interest entities:		
Variable interest entity notes	-	431
Payable for loans purchased	-	323
<b>Total liabilities held for sale</b>	<b>\$ -</b>	<b>\$ 772</b>

***Risks and Uncertainties***

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

***U.S. Public Finance Market Conditions***

National's insured portfolio continued to perform satisfactorily against a backdrop of strengthening domestic economic activity. While this trend will generally benefit tax revenues and fees charged for essential municipal services which secure National's insured bond portfolio, some state and local governments and territory obligors National insures remain under financial and budgetary stress. This could lead to an increase in defaults by such entities on the payment of their obligations and losses or impairments on a greater number of the Company's insured transactions. The Company monitors and analyzes these situations and other stressed credits closely, and the overall extent and duration of this stress is uncertain.





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**Table of Contents****MBIA Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****Note 1: Business Developments and Risks and Uncertainties (continued)***MBIA Corp. Recoveries and Insured Portfolio*

The amount and timing of projected collections from excess spread from second-lien residential mortgage-backed securities ( RMBS ) and the put-back recoverable from Credit Suisse Securities (USA) LLC, DLJ Mortgage Capital, Inc., and Select Portfolio Servicing Inc. (collectively, Credit Suisse ) and the potential of claims from MBIA Corp. s remaining insured exposures are uncertain. Further, the remaining insured portfolio, aside from these exposures, could deteriorate and result in additional significant loss reserves and claim payments. Management s expected liquidity and capital forecasts for MBIA Corp., which include expected put-back recoveries from Credit Suisse and excess spread recoveries, reflect adequate resources to pay claims when due. However, if MBIA Corp. experiences higher than expected claim payments or is unable to terminate the remaining exposures that represent substantial risk to the Company, MBIA Corp. may ultimately have insufficient resources to continue to pay claims, which could cause the New York State Department of Financial Services ( NYSDFS ) to put MBIA Insurance Corporation, exclusive of MBIA UK, into a rehabilitation or liquidation proceeding. Given the separation of MBIA Inc. and MBIA Corp. as distinct legal entities, the absence of any material intercompany lending agreements or cross defaults between the entities, and the lack of reliance by MBIA Inc. on MBIA Corp. for the receipt of dividends, the Company does not believe that a rehabilitation or liquidation proceeding of MBIA Insurance Corporation by NYSDFS would have any significant long-term liquidity impact on MBIA Inc. or result in a liquidation or similar proceeding of MBIA UK. Such a proceeding could have material adverse consequences for MBIA Corp., including the termination of insured credit default swaps ( CDS ) 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 information about MBIA Corp. s loss reserves and recoveries.

*Corporate Liquidity*

As of March 31, 2015 and December 31, 2014, the liquidity position, which comprises cash and liquid assets available for general liquidity purposes, of the Company s corporate segment was \$567 million and \$498 million, respectively. During the three months ended March 31, 2015, \$228 million was released to MBIA Inc. under the MBIA group s tax sharing agreement (the Tax Escrow Account ). While MBIA Inc. s liquidity position improved during the three months ended March 31, 2015 due to the Tax Escrow Account release, MBIA Inc. continues to have liquidity risk. If invested asset performance deteriorates or the flow of dividends from subsidiaries is interrupted and/or access to the capital markets is impaired, its liquidity position could be eroded over time. Based on MBIA Inc. s debt service requirements and expected operating expenses, the Company expects that MBIA Inc. will have sufficient cash to satisfy its debt obligations and its general corporate needs over time from distributions from its operating subsidiaries and payments under the Tax Escrow Account once the payments become unrestricted, however, there can be no assurance that such sources will generate sufficient cash. In addition, a failure by MBIA Inc. to settle liabilities that are also insured by MBIA Corp. could result in claims on MBIA Corp.

**Note 2: Significant Accounting Policies**

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, 2014. 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, 2014. The accompanying

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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.

**Table of Contents****MBIA Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****Note 2: Significant Accounting Policies (continued)**

The results of operations for the three months ended March 31, 2015 may not be indicative of the results that may be expected for the year ending December 31, 2015. The December 31, 2014 consolidated balance sheet was derived from audited financial statements, but does not include all disclosures required by GAAP for annual periods. Certain amounts have been reclassified in the prior year's financial statements to conform to the current presentation. Such reclassifications had no impact on total revenues, expenses, assets, liabilities, shareholders' equity, operating cash flows, investing cash flows, or financing cash flows for all periods presented.

**Note 3: Recent Accounting Pronouncements*****Recently Adopted Accounting Standards***

*Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360) Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity (ASU 2014-08)*

In April of 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-08, Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360)-Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. ASU 2014-08 changes the criteria for determining whether a disposal of a component or group of components of an entity qualifies for discontinued operations presentation and requires new disclosures. ASU 2014-08 amends the definition of discontinued operation to a disposal of components of an entity that represent strategic shifts that have, or will have, a major effect on an entity's operations and financial results. ASU 2014-08 was effective for interim and annual periods beginning January 1, 2015. The adoption of ASU 2014-08 did not affect the Company's consolidated financial statements.

*Transfers and Servicing (Topic 860) Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures (ASU 2014-11)*

In June of 2014, the FASB issued ASU 2014-11, Transfers and Servicing (Topic 860)-Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures. The repurchase agreements and similar transactions guidance is amended by ASU 2014-11 to change the accounting for i.) repurchase-to-maturity transactions to secured borrowing accounting and ii.) linked repurchase financing transactions to secured borrowing accounting. ASU 2014-11 amends disclosure requirements for transfers accounted for as sales, and for repurchase transactions accounted for as secured borrowings. ASU 2014-11 was effective for interim and annual periods beginning January 1, 2015. The adoption of ASU 2014-11 did not affect the Company's consolidated financial statements.

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

***Recent Accounting Developments***

*Revenue from Contracts with Customers (Topic 606) (ASU 2014-09)*

In May of 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). ASU 2014-09 amends the accounting guidance for recognizing revenue for the transfer of goods or services from contracts with customers unless those contracts are within the scope of other accounting standards. ASU 2014-09 is effective for interim and annual periods beginning January 1, 2017, and is applied on a retrospective or modified retrospective basis. The Company is evaluating the impact of adopting ASU 2014-09.

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

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In June of 2014, the FASB issued ASU 2014-12, Compensation-Stock Compensation (Topic 718)-Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period. ASU 2014-12 requires that a performance target that affects vesting of share-based payment awards and that could be achieved after an employee's requisite service period be accounted for as a performance condition. ASU 2014-12 is effective for interim and annual periods beginning January 1, 2016 with early adoption permitted, and is applied on a prospective basis or retrospective basis. The adoption of ASU 2014-12 is not expected to materially impact the Company's consolidated financial statements.

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**MBIA Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Unaudited)**

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

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

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

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

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

*Consolidation (Topic 810) Amendments to the Consolidation Analysis (ASU 2015-02)*

In February of 2015, the FASB issued ASU 2015-02, Consolidation (Topic 810) Amendments to the Consolidation Analysis. ASU 2015-02 amends the accounting guidance for consolidation of legal entities including VIEs. ASU 2015-02 eliminates the specialized consolidation model and guidance for limited partnerships, amends the conditions for evaluating whether a fee paid to a decision maker or a service provider represents a variable interest in a VIE, amends the related party guidance for the determination of the primary beneficiary of a VIE, and requires certain investment funds designed as VIEs, except money market funds, to apply the amended consolidation guidance. ASU 2015-02 is effective for interim and annual periods beginning January 1, 2016 with early adoption permitted, and is applied on a retrospective or modified retrospective basis. The Company is evaluating the impact of adopting ASU 2015-02.

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

In April of 2015, the FASB issued ASU 2015-03, Interest-Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. ASU 2015-03 requires debt issuance costs related to a debt liability measured at amortized cost to be reported in the balance sheet as a direct deduction from the face amount of the debt liability. ASU 2015-03 is effective for interim and annual periods beginning January 1, 2016 with early adoption permitted, and is applied on a retrospective basis. The adoption of ASU 2015-03 is not expected to materially impact the Company s consolidated financial statements.

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**MBIA Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Unaudited)**

**Note 4: Variable Interest Entities**

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

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

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

The Company's advisory services segment provided asset management and advisory services to VIEs. During 2014, the Company consolidated three VIEs as the primary beneficiary, pursuant to this segment's activities. As of December 31, 2014, the Company held approximately \$4 million of the subordinated notes issued by one of the VIEs. The Company had no obligation or commitment to provide additional financial support or liquidity to these VIEs. Effective January 1, 2015, the Company completed the sale of its Cutwater business and deconsolidated these VIEs. Refer to Note 1: Business Developments and Risks and Uncertainties for additional information about the sale of Cutwater.

**Table of Contents****MBIA Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****Note 4: Variable Interest Entities (continued)***Nonconsolidated VIEs**Insurance*

The following tables present the total assets of nonconsolidated VIEs in which the Company holds a variable interest as of March 31, 2015 and December 31, 2014, through its insurance operations. The following tables also present the Company's maximum exposure to loss for nonconsolidated VIEs and carrying values of the assets and liabilities for its interests in these VIEs as of March 31, 2015 and December 31, 2014. The Company has aggregated nonconsolidated VIEs based on the underlying credit exposure of the insured obligation. The nature of the Company's variable interests in nonconsolidated VIEs is related to financial guarantees, insured CDS contracts and any investments in obligations issued by nonconsolidated VIEs.

In millions	March 31, 2015					March 31, 2015		
	VIE Assets	Maximum Exposure to Loss	Investments	Premiums Receivable <sup>(1)</sup>	Insurance Loss Recoverable <sup>(3)</sup>	Unearned Premium Revenue <sup>(4)</sup>	Adjustment Expense Reserves <sup>(5)</sup>	Derivative Liabilities <sup>(6)</sup>
Insurance:								
Global structured finance:								
Collateralized debt obligations	\$ 7,491	\$ 4,788	\$ 95	\$ 21	\$ -	\$ 17	\$ 71	\$ 85
Mortgage-backed residential	13,575	7,173	12	39	513	37	315	-
Mortgage-backed commercial	554	265	-	1	-	1	-	-
Consumer asset-backed	5,856	1,916	-	15	-	14	10	-
Corporate asset-backed	6,403	4,319	-	37	6	43	-	-
Total global structured finance	33,879	18,461	107	113	519	112	396	85
Global public finance	45,700	15,595	-	166	-	200	-	-
Total insurance	\$ 79,579	\$ 34,056	\$ 107	\$ 279	\$ 519	\$ 312	\$ 396	\$ 85

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

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

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

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



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

(6) - Reported within Derivative liabilities on MBIA's consolidated balance sheets.

In millions	December 31, 2014 Carrying Value of Assets					Carrying Value of Liabilities Loss and Loss		
	VIE Assets	Maximum Exposure to Loss	Investments <sup>(1)</sup>	Premiums Receivable <sup>(2)</sup>	Insurance Loss Recoverable <sup>(3)</sup>	Unearned Premium Revenue <sup>(4)</sup>	Adjustment Expense Reserves <sup>(5)</sup>	Derivative Liabilities <sup>(6)</sup>
<b>Insurance:</b>								
<b>Global structured finance:</b>								
Collateralized debt obligations	\$ 8,613	\$ 5,623	\$ 110	\$ 24	\$ -	\$ 20	\$ 70	\$ 102
Mortgage-backed residential	14,136	7,459	9	41	518	39	307	-
Mortgage-backed commercial	571	279	-	1	-	1	-	-
Consumer asset-backed	6,008	1,989	-	16	-	14	12	-
Corporate asset-backed	6,612	4,608	-	41	6	47	-	-
Total global structured finance	35,940	19,958	119	123	524	121	389	102
Global public finance	49,686	16,698	-	179	-	211	-	-
Total insurance	\$ 85,626	\$ 36,656	\$ 119	\$ 302	\$ 524	\$ 332	\$ 389	\$ 102

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

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

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

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

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

(6) - Reported within Derivative liabilities on MBIA's consolidated balance sheets.

The maximum exposure to loss as a result of MBIA's variable interests in VIEs is represented by insurance in force. Insurance in force is the maximum future payments of principal and interest which may be required under commitments to make payments on insured obligations issued by nonconsolidated VIEs.

**Table of Contents****MBIA Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****Note 4: Variable Interest Entities (continued)*****Consolidated VIEs***

The carrying amounts of assets and liabilities of consolidated VIEs were \$5.7 billion and \$5.5 billion, respectively, as of March 31, 2015, and \$5.0 billion and \$4.8 billion, respectively, as of December 31, 2014. 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. The carrying amounts of assets and liabilities of consolidated VIEs in the Company's advisory services segment were \$751 million and \$754 million, respectively, as of December 31, 2014, and are presented separately in *Assets held for sale* and *Liabilities held for sale* on the Company's consolidated balance sheets. VIEs are consolidated or deconsolidated based on an ongoing reassessment of controlling financial interest, when events occur or circumstances arise, and whether the ability to exercise rights that constitute power to direct activities of any VIEs are present according to the design and characteristics of these entities. One additional VIE was consolidated during the three months ended March 31, 2015 and no additional VIEs were consolidated during the three months ended March 31, 2014. The international and structured finance insurance segment had no realized gains or losses recorded for the three months ended March 31, 2015 and an immaterial amount of net realized gains recorded for the three months ended March 31, 2014 related to the deconsolidation of VIEs.

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

**Note 5: Loss and Loss Adjustment Expense Reserves*****Loss and Loss Adjustment Expense Process*****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 utility districts, airports, health care institutions, higher educational facilities, student loan issuers, housing authorities and other similar agencies and obligations issued by private entities that finance projects that serve a substantial public purpose. The Company estimates future losses by using probability-weighted 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 of March 31, 2015 and December 31, 2014, the Company established loss and loss adjustment expense (LAE) reserves totaling \$35 million and \$45 million, respectively, and insurance loss recoverable of \$4 million related to U.S. public finance issues.

Certain local governments remain under financial and budgetary stress and a few have filed for protection under the United States Bankruptcy Code, or have entered into state statutory proceedings established to assist municipalities in managing through periods of severe fiscal stress. This could lead to an increase in defaults by such entities on the payment of their obligations and losses or impairments on a greater number of the Company's insured transactions. The Company monitors and analyzes these situations closely, however, the overall extent and duration of such events are uncertain and the filing for protection under the United States Bankruptcy Code or entering state statutory proceedings does not result in a default or indicate that an ultimate loss will occur. As of March 31, 2015 and December 31, 2014, the Company had \$92.5 billion and \$98.9 billion, respectively, of gross par outstanding on general obligations, of which \$83 million and \$152 million, respectively, were reflected on the Company's Classified List. Capital appreciation bonds are reported at the par amount at the time of issuance of the insurance policy. Refer to Note 6: Loss and Loss Adjustment Expense Reserves in the Notes to Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2014, for additional information on the Company's surveillance categories.

**International and Structured Finance Insurance**

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The international and structured finance insurance segment's case basis reserves and insurance loss recoveries recorded in accordance with GAAP do not include estimates for policies insuring credit derivatives or losses and recoveries on financial guarantee VIEs that are eliminated in consolidation. Policies insuring credit derivative contracts are accounted for as derivatives and carried at fair value under GAAP. The fair values of insured derivative contracts are influenced by a variety of market and transaction-specific factors that may be unrelated to potential future claim payments under the Company's insurance policies. In the absence of credit impairments on insured derivative contracts or the early termination of such contracts at a loss, the cumulative unrealized losses recorded from these contracts should reverse before or at the maturity of the contracts.

**Table of Contents****MBIA Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****Note 5: Loss and Loss Adjustment Expense Reserves (continued)***RMBS Case Basis Reserves and Recoveries (Financial Guarantees)*

The Company's RMBS reserves and recoveries relate to financial guarantee insurance policies. The Company calculated RMBS case basis reserves as of March 31, 2015 for both second and first-lien RMBS transactions using a process called the Roll Rate Methodology. The Roll Rate Methodology is a multi-step process using a database of loan level information, a proprietary internal cash flow model, and a commercially available model to estimate potential losses and recoveries on insured bonds. Roll Rate is defined as the probability that current loans become delinquent and that loans in the delinquent pipeline are charged-off or liquidated. Generally, Roll Rates are calculated for the previous three months and averaged. The loss reserve estimates are based on a probability-weighted average of three scenarios of loan losses (base case, stress case, and an additional stress case).

In calculating ultimate cumulative losses for RMBS, the Company estimates the amount of second-lien loans that are expected to be charged-off (deemed uncollectible by servicers of the transactions) or first-lien loans liquidated in the future. Refer to Note 6: Loss and Loss Adjustment Expense Reserves in the Notes to Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2014, for additional information on the Company's second and first-lien Roll Rate Methodology.

**Second-lien RMBS Reserves**

The Company's second-lien RMBS case basis reserves as of March 31, 2015 relate to RMBS backed by home equity lines of credit (HELOC) and closed-end second mortgages (CES). As of March 31, 2015 and December 31, 2014, the Company established loss and LAE reserves totaling \$71 million and \$70 million, respectively, related to second-lien RMBS issues after the elimination of \$29 million and \$21 million, respectively, as a result of consolidating VIEs.

The Company monitors portfolio performance on a monthly basis against projected performance, reviewing delinquencies, Roll Rates, and prepayment rates (including voluntary and involuntary). However, loan performance remains difficult to predict and losses may exceed expectations. In the event of a material deviation in actual performance from projected performance, the Company would increase or decrease the case basis reserves accordingly. If actual performance were to remain at the current levels for six additional months compared to the probability-weighted outcome currently used by the Company, the addition to the case basis reserves would be approximately \$40 million.

**Second-lien RMBS Recoveries**

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

*Excess Spread*

As of March 31, 2015 and December 31, 2014, the Company recorded estimated recoveries of \$502 million and \$523 million, respectively, for the reimbursement of past and future expected claims through excess spread in insured second-lien RMBS transactions after the elimination of \$124 million and \$137 million, respectively, as a result of consolidating VIEs. As of March 31, 2015, \$488 million and \$14 million were included in Insurance loss recoverable and Loss and loss adjustment expense reserves on the Company's consolidated balance sheets, respectively, after the elimination of \$122 million and \$2 million in Insurance loss recoverable and in Loss and loss adjustment expense reserves, respectively, as a result of consolidating VIEs. As of December 31, 2014, \$496 million and \$27 million were included in Insurance loss recoverable and Loss and loss adjustment expense reserves on the Company's consolidated balance sheets, respectively, after the elimination of \$132 million and \$5 million, respectively, as a result of consolidating VIEs.

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Excess spread is generated by performing loans within insured second-lien RMBS securitizations and is the difference between interest inflows on mortgage loan collateral and interest outflows on insured beneficial interests. The amount of excess spread depends on the future loss trends (which include future delinquency trends, average time to charge-off delinquent loans, and the availability of pool mortgage insurance), the future spread between Prime and London Interbank Offered Rate ( LIBOR ) interest rates; and borrower refinancing behavior which results in voluntary prepayments. Minor deviations in loss trends and voluntary prepayments may substantially impact the amounts collected from excess spread.

### *Ineligible Mortgage Loans*

To date, MBIA has settled the majority of the Company's put-back claims. Only its claims against Credit Suisse remain outstanding. Settlement amounts have been consistent with the put-back recoveries previously included in the Company's financial statements.

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**MBIA Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Unaudited)**

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

The contract claim remaining with Credit Suisse is related to the inclusion of ineligible mortgage loans in the 2007-2 Home Equity Mortgage Trust securitization. Credit Suisse has challenged the Company's assessment of the ineligibility of individual mortgage loans and the dispute is the subject of litigation for which there is no assurance that the Company will prevail.

As of March 31, 2015 and December 31, 2014, the Company recorded estimated recoveries of \$385 million and \$379 million, respectively, related to its Credit Suisse put-back claims, reflected in Loan repurchase commitments presented under the heading Assets of consolidated variable interest entities on the Company's consolidated balance sheets.

Based on the Company's assessment of the strength of its contractual put-back rights against Credit Suisse, which it is pursuing through litigation claims, as well as on its prior settlements with other sellers/servicers and success of other monolines in litigation against other sellers/servicers, the Company believes it will prevail in enforcing its contractual rights and that it is entitled to collect the full amount of its incurred losses, which totaled \$418 million through March 31, 2015. The Company is also entitled to collect interest on amounts paid; it believes that in context of its put-back litigation, the appropriate rate should be the New York State statutory rate. However, the Company currently calculates its put-back recoveries using the contractual interest rate, which is lower than the New York State statutory rate.

Notwithstanding the foregoing, uncertainty remains with respect to the ultimate outcome of the litigation with Credit Suisse, which is contemplated in the scenario based-modeling the Company uses. The Credit Suisse recovery scenarios are based on the amount of incurred losses measured against certain probabilities of ultimate resolution of the dispute with Credit Suisse. Most of the probability weight is assigned to partial recovery scenarios and are discounted using the current risk-free discount rates associated with the underlying transaction's cash flows.

The Company continues to consider all relevant facts and circumstances in developing its assumptions on expected cash inflows, probability of potential recoveries (including the outcome of litigation) and recovery period. The estimated amount and likelihood of potential recoveries are expected to be revised and supplemented to the extent there are developments in the pending litigation and/or changes to the financial condition of Credit Suisse. While the Company believes it will be successful in realizing its recoveries from its contract claims against Credit Suisse, the ultimate amounts recovered may be materially different from those recorded by the Company given the inherent uncertainty of the manner of resolving the claims (e.g., litigation) and the assumptions used in the required estimation process for accounting purposes which are based, in part, on judgments and other information that are not easily corroborated by historical data or other relevant benchmarks.

**First-lien RMBS Reserves**

The Company's first-lien RMBS case basis reserves as of March 31, 2015, which primarily relate to RMBS backed by alternative A-paper and subprime mortgage loans, were determined using the Roll Rate Methodology. As of March 31, 2015, the Company established loss and LAE reserves totaling \$267 million related to first-lien RMBS issues after the elimination of \$1 million as a result of consolidating VIEs. As of December 31, 2014, the Company established loss and LAE reserves totaling \$263 million related to first-lien RMBS issues.

**CDO Reserves**

The Company has established loss and LAE reserves on certain transactions within its collateralized debt obligation (CDO) portfolio, including its multi-sector CDO, commercial mortgage-backed securities (CMBS), and high-yield corporate CDO asset classes. MBIA's insured multi-sector CDOs are transactions that include a variety of collateral ranging from corporate bonds to structured finance assets (which includes but are not limited to RMBS related collateral, multi-sector and corporate CDOs). These transactions were insured as either financial guarantee insurance policies or credit derivatives with the majority currently insured in the form of financial guarantees.

MBIA's insured CMBS transactions comprise structured CMBS pools and commercial real estate (CRE) CDOs. The majority of this portfolio is accounted for as insured credit derivatives and carried at fair value in the Company's consolidated financial statements. Refer to Note 8: Derivative Instruments for a further discussion of the Company's use of derivatives and their impact on the Company's consolidated financial

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statements. Since the Company's insured credit derivatives have similar terms, conditions, risks, and economic profiles to its financial guarantee insurance policies, the Company evaluates them for impairment in the same way that it estimates loss and LAE for its financial guarantee policies.

MBIA's high yield corporate CDO portfolio comprises middle-market/special-opportunity corporate loan transactions. These transactions were insured as financial guarantee insurance policies.

**Table of Contents****MBIA Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****Note 5: Loss and Loss Adjustment Expense Reserves (continued)**

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

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

1. Each transaction is evaluated for its commutation potential, which is customized by counterparty and considers historical commutation prices, the level of dialogue with the counterparty and the credit quality and payment profile of the underlying exposure.

2. A range of loss scenarios is considered under different default and severity rates for each transaction's collateral.

The losses projected by these approaches vary widely. Actual losses will be a function of the proportion of collateral in the pools that default and the loss severities associated with those defaults.

As of March 31, 2015 and December 31, 2014, the Company's loss and LAE reserves were \$113 million and \$111 million, respectively, related to the total CDO financial guarantee insurance portfolio after the elimination of \$233 million and \$225 million, respectively, as a result of consolidating VIEs. For the three months ended March 31, 2015, the Company incurred \$2 million of losses and LAE recorded in earnings related to the total CDO financial guarantee insurance portfolio after the elimination of an \$8 million expense as a result of consolidating VIEs. In the event of further deteriorating performance of the collateral referenced or held in the total CDO portfolio, the amount of losses estimated by the Company could increase substantially.

***Loss and LAE Activity*****Financial Guarantee Insurance Losses (Excluding Derivative and Consolidated VIEs)**

The Company's financial guarantee insurance losses and LAE, net of reinsurance for the three months ended March 31, 2015 and 2014 are presented in the following table:

In millions	Three Months Ended March 31,	
	2015	2014
U.S. Public Finance Insurance Segment	\$ (6)	\$ (14)
International and Structured Finance Insurance Segment:		
Second-lien RMBS	(8)	25
First-lien RMBS	9	30
Other <sup>(1)</sup>	(1)	9
Losses and LAE expense (benefit)	\$ (6)	\$ 50



(1) - Includes ABS CDOs, CMBS, non-U.S. public finance and other issues.

The decrease in losses and LAE expense for the three months ended March 31, 2015 compared with the same period of 2014 primarily related to decreases in expected payments and increases in expected recoveries on insured first and second-lien RMBS securitizations.

Costs associated with remediating insured obligations assigned to the Company's surveillance categories are recorded as LAE and included in Losses and loss adjustment expenses on the Company's consolidated statements of operations. For the three months ended March 31, 2015 and 2014, gross LAE related to remediating insured obligations were a benefit of \$2 million and an expense of \$4 million, respectively. Decreases in LAE are due to lower litigation expenses as a result of settlements.

**Table of Contents****MBIA Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****Note 5: Loss and Loss Adjustment Expense Reserves (continued)**

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

\$ in millions	Surveillance Categories				Total
	Caution List Low	Caution List Medium	Caution List High	Classified List	
Number of policies	31	102	5	172	310
Number of issues <sup>(1)</sup>	16	6	4	119	145
Remaining weighted average contract period (in years)	6.8	12.1	9.4	6.9	7.6
Gross insured contractual payments outstanding: <sup>(2)</sup>					
Principal	\$ 1,573	\$ 1,375	\$ 156	\$ 7,780	\$ 10,884
Interest	593	822	80	2,876	4,371
<b>Total</b>	<b>\$ 2,166</b>	<b>\$ 2,197</b>	<b>\$ 236</b>	<b>\$ 10,656</b>	<b>\$ 15,255</b>
Gross Claim Liability	\$ -	\$ -	\$ -	\$ 791	\$ 791
Less:					
Gross Potential Recoveries	-	-	-	719	719
Discount, net <sup>(3)</sup>	-	-	-	96	96
Net claim liability (recoverable)	\$ -	\$ -	\$ -	\$ (24)	\$ (24)
Unearned premium revenue	\$ 60	\$ 17	\$ 5	\$ 76	\$ 158

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

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

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

The following table provides information about the financial guarantees and related claim liability included in each of MBIA's surveillance categories as of December 31, 2014:

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\$ in millions	Surveillance Categories				Total
	Caution List Low	Caution List Medium	Caution List High	Classified List	
Number of policies	38	98	4	175	315
Number of issues <sup>(1)</sup>	18	7	3	119	147
Remaining weighted average contract period (in years)	7.2	12.0	10.1	7.0	7.7
Gross insured contractual payments outstanding: <sup>(2)</sup>					
Principal	\$ 1,757	\$ 1,372	\$ 133	\$ 8,001	\$ 11,263
Interest	696	819	68	3,037	4,620
<b>Total</b>	<b>\$ 2,453</b>	<b>\$ 2,191</b>	<b>\$ 201</b>	<b>\$ 11,038</b>	<b>\$ 15,883</b>
Gross Claim Liability	\$ -	\$ -	\$ -	\$ 850	\$ 850
Less:					
Gross Potential Recoveries	-	-	-	860	860
Discount, net <sup>(3)</sup>	-	-	-	14	14
Net claim liability (recoverable)	\$ -	\$ -	\$ -	\$ (24)	\$ (24)
Unearned premium revenue	\$ 63	\$ 19	\$ 5	\$ 80	\$ 167

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

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

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

**Table of Contents****MBIA Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****Note 5: Loss and Loss Adjustment Expense Reserves (continued)**

The gross claim liability in the preceding tables represents the Company's estimate of undiscounted probability-weighted future claim payments. As of March 31, 2015 and December 31, 2014, the gross claim liability primarily related to insured first and second-lien RMBS issues, high yield corporate CDOs and an international road transaction.

The gross potential recoveries represent the Company's estimate of undiscounted probability-weighted recoveries of actual claim payments and recoveries of estimated future claim payments. As of March 31, 2015 and December 31, 2014, the gross potential recoveries principally related to insured second-lien RMBS and U.S. public finance issues. The Company's recoveries have been, and remain based on either salvage rights, the rights conferred to MBIA through the transactional documents (inclusive of the insurance agreement), or subrogation rights embedded within financial guarantee insurance policies. Expected salvage and subrogation recoveries, as well as recoveries from other remediation efforts, reduce the Company's claim liability. Once a claim payment has been made, the claim liability has been satisfied and MBIA's right to recovery is no longer considered an offset to future expected claim payments, it is recorded as a salvage asset. The amount of recoveries recorded by the Company is limited to paid claims plus the present value of projected future claim payments. As claim payments are made, the recorded amount of potential recoveries may exceed the remaining amount of the claim liability for a given policy. The gross claim liability and gross potential recoveries reflect the elimination of claim liabilities and potential recoveries related to VIEs consolidated by the Company.

The following table presents the components of the Company's loss and LAE reserves and insurance loss recoverable as reported on the Company's consolidated balance sheets as of March 31, 2015 and December 31, 2014 for insured obligations within MBIA's Classified List. The loss reserves (claim liability) and insurance claim loss recoverable included in the following table represent the present value of the probability-weighted future claim payments and recoveries reported in the preceding tables.

In millions	As of March 31, 2015	As of December 31, 2014
Loss reserves (claim liability)	\$ 464	\$ 464
LAE reserves	35	42
<b>Loss and LAE reserves</b>	<b>\$ 499</b>	<b>\$ 506</b>
Insurance claim loss recoverable	\$ (527)	\$ (533)
LAE insurance loss recoverable	-	-
Insurance loss recoverable	\$ (527)	\$ (533)
Reinsurance recoverable on unpaid losses	\$ 6	\$ 6
Reinsurance recoverable on unpaid LAE reserves	1	1
<b>Reinsurance recoverable on paid and unpaid losses</b>	<b>\$ 7</b>	<b>\$ 7</b>

As of March 31, 2015, loss and LAE reserves include \$609 million of reserves for expected future payments, partially offset by expected recoveries of such future payments of \$110 million. As of December 31, 2014, loss and LAE reserves include \$653 million of reserves for expected future payments, partially offset by expected recoveries of such future payments of \$147 million.

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As of March 31, 2015 and December 31, 2014, the insurance loss recoverable primarily related to expected future recoveries on second-lien RMBS transactions resulting from excess spread generated by performing loans in such transactions. The decrease in insurance loss recoverable was primarily due to decreases in projected collections from excess spread within insured second-lien RMBS securitizations.

The following table presents changes in the Company's loss and LAE reserves for the three months ended March 31, 2015. Changes in loss and LAE reserves attributable to the accretion of the claim liability discount, changes in discount rates, changes in amount and timing of estimated payments and recoveries, changes in assumptions and changes in LAE reserves are recorded in Losses and loss adjustment expenses in the Company's consolidated statements of operations. As of March 31, 2015, the weighted average risk-free rate used to discount the Company's loss reserves (claim liability) was 1.49%. LAE reserves are generally expected to be settled within a one-year period and are not discounted.

Changes in Loss and LAE Reserves for the Three Months Ended March 31, 2015								
In millions Gross Loss and LAE Reserves as of December 31, 2014	Loss Payments for Cases with Reserves	Accretion of Claim Liability Discount	Changes in Discount Rates	Changes in Assumptions	Changes in Unearned Premium Revenue	Changes in LAE Reserves	Other <sup>(1)</sup>	Gross Loss and LAE Reserves as of March 31, 2015
\$ 506	\$ (11)	\$ 2	\$ 3	\$ 8	\$ 5	\$ (7)	\$ (7)	\$ 499

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

**Table of Contents****MBIA Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****Note 5: Loss and Loss Adjustment Expense Reserves (continued)**

The decrease in the Company's gross loss and LAE reserves reflected in the preceding table was primarily related to loss payments and changes in amount and timing of payments on insured first and second-lien RMBS issues and decreases in reserves due to changes in discount rates on U.S. public finance issues. These were partially offset by changes in assumptions and increases in reserves due to changes in discount rates on insured first and second-lien RMBS issues.

Current period changes in the Company's estimate of potential recoveries may be recorded as an insurance loss recoverable asset, netted against the gross loss and LAE reserve liability, or both. The following table presents changes in the Company's insurance loss recoverable and changes in recoveries on unpaid losses reported within the Company's claim liability for the three months ended March 31, 2015. Changes in insurance loss recoverable attributable to the accretion of the discount on the recoverable, changes in discount rates, changes in amount and timing of estimated collections, changes in assumptions and changes in LAE recoveries are recorded in Losses and loss adjustment expenses in the Company's consolidated statements of operations.

**Changes in Insurance Loss Recoverable and Recoveries on Unpaid Losses  
for the Three Months Ended March 31, 2015**

In millions	As of December 31, 2014	Collections for Cases with Recoveries	Accretion of Recoveries	Changes in Discount Rates	Changes in Assumptions	Changes in LAE Recoveries	Other <sup>(1)</sup>	As of March 31, 2015
Insurance loss recoverable	\$ 533	\$ (21)	\$ 2	\$ 5	\$ 14	\$ -	\$ (6)	\$ 527
Recoveries on unpaid losses	147	-	1	3	(40)	(1)	-	110
<b>Total</b>	<b>\$ 680</b>	<b>\$ (21)</b>	<b>\$ 3</b>	<b>\$ 8</b>	<b>\$ (26)</b>	<b>\$ (1)</b>	<b>\$ (6)</b>	<b>\$ 637</b>

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

The decrease in the Company's insurance loss recoverable and recoveries on unpaid losses during 2015 was primarily due to collections associated with first and second-lien RMBS issues outstanding as of December 31, 2014 and changes in assumptions on an international road transaction.

**Note 6: Fair Value of Financial Instruments****Fair Value Measurement**

Fair value is a market-based measurement considered from the perspective of a market participant. Therefore, even when market assumptions are not readily available, the Company's own assumptions are set to reflect those which it believes market participants would use in pricing an asset or liability at the measurement date. The fair value measurement of financial instruments held or issued by the Company are determined through the use of observable market data when available. Market data is obtained from a variety of third-party sources, including dealer quotes. If dealer quotes are not available for an instrument that is infrequently traded, the Company uses alternate valuation methods, including either dealer quotes for similar instruments or modeling using market data inputs. The use of alternate valuation methods generally requires considerable judgment in the application of estimates and assumptions and changes to such estimates and assumptions may produce materially different fair values.

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The accounting guidance for fair value measurement establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available and reliable. Observable inputs are those the Company believes that market participants would use in pricing an asset or liability based on available market data. Unobservable inputs are those that reflect the Company's beliefs about the assumptions market participants would use in pricing an asset or liability based on available information. The fair value hierarchy is categorized into three levels based on the observability and reliability of inputs, as follows:

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

Level 2 Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly. Level 2 assets include debt securities with quoted prices that are traded less frequently than exchange-traded instruments, securities which are priced using observable inputs and derivative contracts whose values are determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data.

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**Table of Contents****MBIA Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****Note 6: Fair Value of Financial Instruments (continued)**

Level 3 Valuations based on inputs that are unobservable and supported by little or no market activity and that are significant to the overall fair value measurement. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques where significant inputs are unobservable, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

The availability of observable inputs can vary from financial instrument to financial instrument and period to period and is affected by a wide variety of factors, including, for example, the type of product, whether the product is new and not yet established in the marketplace, and other characteristics particular to the product. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the Company assigns the level in the fair value hierarchy for which the fair value measurement in its entirety falls, based on the least observable input that is significant to the fair value measurement.

*Financial Assets (excluding derivative assets)*

Financial assets, excluding derivative assets, held by the Company primarily consist of investments in debt securities. Substantially all of the Company's investments are priced by independent third parties, including pricing services and brokers. Typically, the Company receives one pricing service value or broker quote for each instrument, which represents a non-binding indication of value. The Company reviews the assumptions, inputs and methodologies used by pricing services and brokers to obtain reasonable assurance that the prices used in its valuations reflect fair value. When the Company believes a third-party quotation differs significantly from its internally developed expectation of fair value, whether higher or lower, the Company reviews its data or assumptions with the provider. This review includes comparing significant assumptions such as prepayment speeds, default ratios, forward yield curves, credit spreads and other significant quantitative inputs to internal assumptions, and working with the price provider to reconcile the differences. The price provider may subsequently provide an updated price. In the event that the price provider does not update its price, and the Company still does not agree with the price provided, the Company will obtain a price from another third-party provider or use an internally developed price which it believes represents the fair value of the investment. The fair values of investments for which internal prices were used were not significant to the aggregate fair value of the Company's investment portfolio as of March 31, 2015 or December 31, 2014. All challenges to third-party prices are reviewed by staff of the Company with relevant expertise to ensure reasonableness of assumptions.

*Financial Liabilities (excluding derivative liabilities)*

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

*Derivative Liabilities*

The Company's derivative liabilities are primarily insured credit derivatives that reference structured pools of cash securities and CDS. The Company generally insured the most senior liabilities of such transactions, and at the inception of transactions its exposure generally had more subordination than needed to achieve triple-A ratings from credit rating agencies. The types of collateral underlying its insured derivatives consist of cash securities and CDS referencing primarily corporate obligations, asset-backed securities ( ABS ), RMBS, CMBS, CRE loans, and CDOs.

The Company's insured credit derivative contracts are non-traded structured credit derivative transactions. Since insured derivatives are highly customized and there is generally no observable market for these derivatives, the Company estimates their fair values in a hypothetical market based on internal and third-party models simulating what a similar company would charge to assume the Company's position in the transaction at



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the measurement date. This pricing would be based on the expected loss of the exposure. The Company reviews its valuation model results on a quarterly basis to assess the appropriateness of the assumptions and results in light of current market activity and conditions. This review is performed by internal staff with relevant expertise. If live market spreads or securities prices are observable for similar transactions, those spreads are an integral part of the analysis. New insured transactions that resemble existing (previously insured) transactions, if any, would be considered, as well as negotiated settlements of existing transactions.

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**Table of Contents****MBIA Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****Note 6: Fair Value of Financial Instruments (continued)**

The Company may from time to time make changes in its valuation techniques if the change results in a measurement that it believes is equally or more representative of fair value under current circumstances.

*Internal Review Process*

All significant financial assets and liabilities are reviewed by a committee created by the Company to ensure compliance with the Company's policies and risk procedures in the development of fair values of financial assets and liabilities. This valuation committee review, among other things, key assumptions used for internally developed prices, significant changes in sources and uses of inputs, including changes in model approaches, and any adjustments from third-party inputs or prices to internally developed inputs or prices. The committee also reviews any significant impairment or improvements in fair values of the financial instruments from prior periods. Occasionally, the committee will consult with the Company's valuation experts to better understand key methods and assumptions used for the determination of fair value, including understanding significant changes in fair values. The committee is comprised of senior finance team members with the relevant experience in the financial instruments their committee is responsible for. For each quarter, the committee documents their agreement with the fair values developed by management of the Company as reported in the quarterly and annual financial statements.

*Valuation Techniques*

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

*Fixed-Maturity Securities (including short-term investments) Held as Available-For-Sale, Investments Carried at Fair Value, Investments Pledged as Collateral, Investments Held-to-Maturity, and Other Investments*

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

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

The fair value of the held-to-maturity ( HTM ) investments is determined using discounted cash flow models. Key inputs include unobservable cash flows projected over the expected term of the investment discounted using observable interest rate yield curves of similar securities.

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

*Cash and Cash Equivalents, Receivable for Investments Sold, Investments Payable, Payable for Investments Purchased, and Accrued Investment Income*

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The carrying amounts of cash and cash equivalents, receivable for investments sold, investments payable, payable for investments purchased, and accrued investment income approximate fair values due to the short-term nature and credit worthiness of these instruments. These items are categorized in Level 1 or Level 2 of the fair value hierarchy.

### *Loans Receivable at Fair Value*

Loans receivable at fair value are comprised of loans held by consolidated VIEs consisting of corporate and residential mortgage loans. Fair values of commercial loans are obtained from a pricing service and determined using actively quoted prices obtained from multiple market participants. Fair values of residential mortgage loans are determined using quoted prices for MBS issued by the respective VIE and adjusted for the fair values of the financial guarantees provided by MBIA Corp. on the related MBS. Loans receivable at fair value are categorized in Level 2 or Level 3 of the fair value hierarchy based on the input that is significant to the fair value measurement in its entirety.

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**MBIA Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Unaudited)**

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

*Loan Repurchase Commitments*

Loan repurchase commitments are obligations owed by the sellers/servicers of mortgage loans to either MBIA as reimbursement of paid claims or to the RMBS trusts as defined in the transaction documents. Loan repurchase commitments are assets of the consolidated VIEs. This asset represents the rights of MBIA against the sellers/servicers for breaches of representations and warranties that the securitized residential mortgage loans sold to the trust to comply with stated underwriting guidelines and for the sellers/servicers to cure, replace, or repurchase mortgage loans. Fair value measurements of loan repurchase commitments represent the amounts owed by the sellers/servicers to MBIA as reimbursement of paid claims. Loan repurchase commitments are not securities and no quoted prices or comparable market transaction information are observable or available. Loan repurchase commitments at fair value are categorized in Level 3 of the fair value hierarchy. Fair values of loan repurchase commitments are determined using discounted cash flow techniques based on inputs including:

breach rates representing the rate at which the sellers/servicers failed to comply with stated representations and warranties;

recovery rates representing the estimates of future cash flows for the asset, including estimates about possible variations in the amount of cash flows expected to be collected;

expectations about possible variations in the timing of collections of the cash flows; and

time value of money, represented by the rate on risk-free monetary assets.

*Investment Agreements*

The fair values of investment agreements are determined using discounted cash flow techniques based on contractual cash flows and observable interest rates currently being offered for similar agreements with comparable maturity dates. Investment agreements contain collateralization and termination agreements that substantially mitigate the nonperformance risk of the Company. As the terms of the notes are private, and the timing and amount of contractual cash flows are not observable, these investment agreements are categorized as Level 3 of the fair value hierarchy.

*Medium-Term Notes*

The fair values of certain MTNs are based on quoted market prices provided by third-party sources, where available. When quoted market prices are not available, the Company applies a matrix pricing grid based on the quoted market prices received and the MTNs' stated maturity and interest rate to determine fair value. Nonperformance risk is included in the quoted market prices and the matrix pricing grid. The Company has elected to record these MTNs at fair value as they contain embedded derivatives which cannot accurately be separated from the host debt instrument and fair valued separately, therefore, these MTNs are carried at fair value with changes in fair value reflected in earnings. The remaining MTNs, which are not carried at fair value, do not contain embedded derivatives. As these MTNs are illiquid and the prices reflect significant unobservable inputs, they are categorized as Level 3 of the fair value hierarchy.

*Long-term Debt*

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Long-term debt consists of notes, debentures, surplus notes and accrued interest on this debt. The fair value of long-term notes, debentures and surplus notes are estimated based on quoted prices for the identical or similar securities. The fair value of the accrued interest expense on the surplus notes due in 2033 is determined based on the scheduled interest payments discounted by the market's perception of the credit risk related to the repayment of the surplus notes. The credit risk related to the repayment of the surplus notes is based on recent trades of the surplus notes. The deferred interest payment will be due on the first business day on or after which the Company obtains approval to make such payment.

The carrying amounts of accrued interest expense on all other long-term debt approximate fair value due to the short-term nature of these instruments. Long-term debt is categorized as Level 2 of the fair value hierarchy.

### *Variable Interest Entity Notes*

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

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**Table of Contents****MBIA Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****Note 6: Fair Value of Financial Instruments (continued)***Variable Interest Entity Derivatives*

The VIEs have entered into derivative transactions consisting of cross currency swaps, interest rate derivatives and interest rate caps. Fair values of over-the-counter ( OTC ) derivatives are determined using valuation models based on observable and/or unobservable inputs. These observable and market-based inputs include interest rates and volatilities. These derivatives are categorized in Level 2 or Level 3 of the fair value hierarchy based on the 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 OTC derivatives are determined using valuation models based on observable inputs, nonperformance risk of the Company's own credit and nonperformance risk of the counterparties. Observable and market-based inputs include interest rate yields, credit spreads and volatilities. These derivatives are categorized in Level 2 or Level 3 of the fair value hierarchy based on the lowest level input that is significant to the fair value measurement in its entirety.

The Company has policies and procedures in place regarding counterparties, including review and approval of the counterparty and the Company's exposure limit, collateral posting requirements, collateral monitoring and margin calls on collateral. The Company manages counterparty credit risk on an individual counterparty basis through master netting agreements covering derivative transactions in the corporate segment as of March 31, 2015. 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 the Company or the counterparty is downgraded below a specified credit rating. The netting agreements minimize the potential for losses related to credit exposure and thus serve to mitigate the Company's nonperformance risk under these derivatives.

In certain cases, the Company also manages credit risk through collateral agreements that give the Company the right to hold or the obligation to provide collateral when the current market value of derivative contracts exceeds an exposure threshold. Under these agreements, the Company may provide U.S. Treasury and other highly rated securities or cash to secure the derivative. The delivery of high-quality collateral can minimize credit exposure and mitigate the potential for nonperformance risk impacting the fair values of the derivatives.

*Derivatives Insurance*

The derivative contracts insured by the Company cannot be legally traded and generally do not have observable market prices. The Company determines the fair values of insured credit derivatives using valuation models. The valuation models are consistently applied from period to period, with refinements to the fair value estimation approach being applied as and when the information becomes available. Negotiated settlements are also considered when determining fair value to validate the fair value estimates determined by the valuation models and to determine the best available estimate of fair value from the perspective of a market participant.

Approximately 93% of the balance sheet fair value of insured credit derivatives as of March 31, 2015 was valued based on the Binomial Expansion Technique ( BET ) Model. Approximately 7% of the balance sheet fair value of insured credit derivatives as of March 31, 2015 was valued based on the internally developed Direct Price Model and the Dual Default model. The valuation of insured derivatives includes the impact of its credit standing. All of these derivatives are categorized as Level 3 of the fair value hierarchy as their fair value is derived using significant unobservable inputs.

The Company has also entered into a derivative contract as a result of a commutation. The fair value of the derivative is determined using a discounted cash flow model. Key inputs include unobservable cash flows projected over the expected term of the derivative, discounted using observable discount rates and CDS spreads.

Description of the BET Model

*Valuation Model Overview*

The Company uses the BET Model to estimate what a bond insurer would charge to guarantee a transaction at the measurement date, based on the market-implied default risk of the underlying collateral and the remaining structural protection in a deductible or subordination.

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**Table of Contents****MBIA Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****Note 6: Fair Value of Financial Instruments (continued)**

Inputs to the process of determining fair value for structured transactions using the BET Model include estimates of collateral loss, allocation of loss to separate tranches of the capital structure, and calculation of the change in value.

*BET Model Inputs*

## a. Credit spreads

The average spread of collateral is a key input as the Company assumes credit spreads reflect the market's assessment of default probability. Collateral assets are generally considered on an average basis rather than being modeled on an individual basis. Spreads are obtained from market data sources published by third parties (e.g., dealer spread tables for assets most closely resembling collateral within the Company's transactions) as well as collateral-specific spreads on the underlying reference obligations provided by trustees or market sources. The Company also calculates spreads based on quoted prices and on internal assumptions about expected life, when pricing information is available and spread information is not.

Over time, the data inputs change as new sources become available, existing sources are discontinued or are no longer considered to be reliable or the most appropriate. It is the Company's preference to use more observable spread inputs defined above. However, the Company may on occasion move to less observable spread inputs due to the discontinuation of data sources or due to the Company considering certain spread inputs no longer representative of market spreads.

## b. Diversity Scores

Diversity scores are a means of estimating the diversification in a portfolio. The diversity score estimates the number of uncorrelated assets that are assumed to have the same loss distribution as the actual portfolio of correlated assets. While diversity score is a required input into the BET model, due to current high levels of default within the collateral of the structures, diversity score does not have a significant impact on valuation.

## c. Recovery Rate

The recovery rate represents the percentage of par expected to be recovered after an asset defaults, indicating the severity of a potential loss. MBIA generally uses rating agency recovery assumptions which may be adjusted to account for differences between the collateral used by the rating agencies and the actual collateral in MBIA-insured transactions. The Company may also adjust rating agency assumptions based on the performance of the collateral manager and on empirical market data.

## d. Nonperformance Risk

The Company's valuation methodology for insured credit derivative liabilities incorporates MBIA Corp.'s own nonperformance risk. The Company calculates the fair value by discounting the market value loss estimated through the BET Model at discount rates which include MBIA Corp.'s CDS spreads as of March 31, 2015. The CDS spreads assigned to each deal are based on the weighted average life of the deal. The Company limits the nonperformance impact so that the derivative liability could not be lower than MBIA Corp.'s recovery derivative price multiplied by the unadjusted derivative liability.

## Overall Model Results

As of March 31, 2015 and December 31, 2014, the Company's net insured CDS derivative liability was \$207 million and \$244 million, respectively, based on the results of the aforementioned models. A significant driver of changes in fair value is MBIA Corp.'s nonperformance risk. In aggregate, the nonperformance calculation resulted in a pre-tax net insured derivative liability that was \$89 million and \$92 million



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lower than the net liability that would have been estimated if MBIA Corp. excluded nonperformance risk in its valuation as of March 31, 2015 and December 31, 2014, respectively. Nonperformance risk is a fair value concept and does not contradict MBIA Corp. 's internal view, based on fundamental credit analysis of MBIA Corp. 's economic condition, that MBIA Corp. will be able to pay all claims when due.

### *Warrants*

Stock warrants issued by the Company are valued using the Black-Scholes model and are recorded at fair value. Inputs into the warrant valuation include the Company 's stock price, a volatility parameter, interest rates, and dividend data. As all significant inputs are market-based and observable, warrants are categorized as Level 2 of the fair value hierarchy.

**Table of Contents****MBIA Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****Note 6: Fair Value of Financial Instruments (continued)***Facility*

In the fourth quarter of 2013, the Company approved and initiated a plan to sell its Armonk, New York facility and classified it as held for sale as of March 31, 2015 and December 31, 2014. In May of 2015, the Company completed the sale of this facility. As of March 31, 2015, the fair value was the sales price less costs to sell. As of December 31, 2014, fair market value was estimated based on an independent third-party appraisal. This item is categorized as Level 2 of the fair value hierarchy.

*Financial Guarantees*

**Gross Financial Guarantees** The fair value of gross financial guarantees is determined using discounted cash flow techniques based on inputs that include (i) assumptions of expected losses on financial guarantee policies where loss reserves have not been recognized, (ii) amount of losses expected on financial guarantee policies where loss reserves have been established, net of expected recoveries, (iii) the cost of capital reserves required to support the financial guarantee liability, (iv) operating expenses, and (v) discount rates. The MBIA Corp. CDS spread and recovery rate are used as the discount rate for MBIA Corp., while the CDS spread and recovery rate of a similar municipal bond insurance company are used as the discount rate for National, as National does not have a published CDS spread and recovery rate.

The carrying value of the Company's gross financial guarantees consists of unearned premium revenue and loss and LAE reserves, net of the insurance loss recoverable as reported on MBIA's consolidated balance sheets.

**Ceded Financial Guarantees** The fair value of ceded financial guarantees is determined by applying the percentage ceded to reinsurers to the related fair value of the gross financial guarantees. The carrying value of ceded financial guarantees consists of prepaid reinsurance premiums and reinsurance recoverable on paid and unpaid losses as reported within Other assets on the Company's consolidated balance sheets.

*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 March 31, 2015 and December 31, 2014. These tables exclude inputs used to measure fair value that are not developed by the Company, such as broker prices and other third-party pricing service valuations.

In millions	Fair Value as of March 31, 2015	Valuation Techniques	Unobservable Input	Range (Weighted Average)
<b>Assets of consolidated VIEs:</b>				
Loans receivable at fair value	\$ 1,480	Market prices adjusted for financial guarantees provided to VIE obligations	Impact of financial guarantee	0% - 6% (2%)
Loan repurchase commitments	385	Discounted cash flow	Recovery rates <sup>(1)</sup> Breach rates <sup>(1)</sup>	
<b>Liabilities of consolidated VIEs:</b>				
Variable interest entity notes	1,387	Market prices of VIE assets adjusted for	Impact of financial guarantee	0% - 39% (9%)

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		financial guarantees provided		
<b>Credit derivative liabilities, net:</b>				
CMBS	191	BET Model	Recovery rates	25% - 90% (61%)
			Nonperformance risk	19% - 32% (28%)
			Weighted average life (in years)	1.0 - 2.0 (1.6)
Multi-sector CDO	6	Direct Price Model	CMBS spreads	0% - 57% (22%)
Other	10	BET Model and Dual Default	Nonperformance risk	50% - 50% (50%)
			Recovery rates	42% - 45% (45%)
			Nonperformance risk	50% - 50% (50%)
			Weighted average life (in years)	0.5 - 7.8 (1.0)
Other derivative liabilities	21	Discounted cash flow	Cash flows	\$0 - \$83 (\$42) <sup>(2)</sup>

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

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

**Table of Contents****MBIA Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****Note 6: Fair Value of Financial Instruments (continued)**

In millions	Fair Value as of December 31, 2014	Valuation Techniques	Unobservable Input	Range (Weighted Average)
<b>Assets of consolidated VIEs:</b>				
Loans receivable at fair value	\$ 1,431	Market prices adjusted for financial guarantees provided to VIE obligations	Impact of financial guarantee	0% - 10% (2%)
Loan repurchase commitments	379	Discounted cash flow	Recovery rates <sup>(1)</sup> Breach rates <sup>(1)</sup>	
<b>Liabilities of consolidated VIEs:</b>				
Variable interest entity notes	735	Market prices of VIE assets adjusted for financial guarantees provided	Impact of financial guarantee	0% - 35% (16%)
<b>Credit derivative liabilities, net:</b>				
CMBS	224	BET Model	Recovery rates Nonperformance risk Weighted average life (in years) CMBS spreads	25% - 90% (59%) 12% - 29% (25%) 1.3 - 3.2 (2.3) 0% - 41% (19%)
Multi-sector CDO	9	Direct Price Model	Nonperformance risk	53% - 53% (53%)
Other	11	BET Model and Dual Default	Recovery rates Nonperformance risk Weighted average life (in years)	42% - 45% (45%) 41% - 51% (50%) 0.2 - 7.9 (1.1)
Other derivative liabilities	24	Discounted cash flow	Cash flows	\$0 - \$83 (\$42) <sup>(2)</sup>

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

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

**Sensitivity of Significant Unobservable Inputs**

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

The significant unobservable inputs used in the fair value measurement of the Company's loan repurchase commitments of consolidated VIEs are the recovery rates and breach rates. Recovery rates reflect the estimates of future cash flows reduced for litigation delays and risks and/or potential financial distress of the sellers/servicers. The estimated recoveries of the loan repurchase commitments may differ from the actual recoveries that may be received in the future. Breach rates represent the rate at which mortgages fail to comply with stated representations and warranties of the sellers/servicers. Significant increases or decreases in the recovery rates and the breach rates would result in significantly higher or lower fair values of the loan repurchase commitments, respectively. Additionally, changes in the legal environment and the ability of the counterparties to pay would impact the recovery rate assumptions, which could significantly impact the fair value measurement. Any significant challenges by the counterparties to the Company's determination of breaches of representations and warranties could significantly adversely impact the fair value measurement. Recovery rates and breach rates are determined independently. Changes in one input will not

necessarily have any impact on the other input.

The significant unobservable input used in the fair value measurement of the Company's VIE notes of consolidated VIEs is the impact of the financial guarantee. The fair value of VIE notes is calculated by adding the value of the financial guarantee to the market value of VIE assets. The value of a financial guarantee is estimated by the Company as the present value of expected cash payments under the policy. As the value of the guarantee provided by the Company to the obligations issued by the VIE increases, the credit support adds value to the liabilities of the VIE. This results in an increase in the fair value of the liabilities of the VIE.

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**MBIA Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Unaudited)**

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

The significant unobservable inputs used in the fair value measurement of MBIA Corp.'s CMBS credit derivatives, which are valued using the BET Model, are CMBS spreads, recovery rates, nonperformance risk and weighted average life. The CMBS spread is an indicator of credit risk of the collateral securities. The recovery rate represents the percentage of notional expected to be recovered after an asset defaults, indicating the severity of a potential loss. The nonperformance risk is an assumption of MBIA Corp.'s own ability to pay and whether MBIA Corp. will have the necessary resources to pay the obligations as they come due. Weighted average life is based on the Company's estimate of when the principal of the underlying collateral of the CMBS structure will be repaid. A significant increase or decrease in CMBS spreads would result in an increase or decrease in the fair value of the derivative liability, respectively. A significant increase in weighted average life can result in an increase or decrease in the fair value of the derivative liability, depending on the discount rate and the timing of significant losses. Any significant increase or decrease in recovery rates, or MBIA Corp.'s nonperformance risk would result in a decrease or increase in the fair value of the derivative liabilities, respectively. CMBS spreads, recovery rates, nonperformance risk and weighted average lives are determined independently. Changes in one input will not necessarily have any impact on the other inputs.

The significant unobservable input used in the fair value measurement of MBIA Corp.'s multi-sector CDO credit derivatives, which are valued using the Direct Price Model, is nonperformance risk. The nonperformance risk is an assumption of MBIA Corp.'s own ability to pay and whether MBIA Corp. will have the necessary resources to pay the obligations as they come due. Any significant increase or decrease in MBIA Corp.'s nonperformance risk would result in a decrease or increase in the fair value of the derivative liabilities, respectively.

The significant unobservable inputs used in the fair value measurement of MBIA Corp.'s other credit derivatives, which are valued using the BET Model and Dual Default, are recovery rates, nonperformance risk and weighted average life. The recovery rate represents the percentage of notional expected to be recovered after an asset defaults, indicating the severity of a potential loss. The nonperformance risk is an assumption of MBIA Corp.'s own ability to pay and whether MBIA Corp. will have the necessary resources to pay the obligations as they come due. Weighted average life is based on MBIA Corp.'s estimate of when the principal of the underlying collateral will be repaid. A significant increase in weighted average life can result in an increase or decrease in the fair value of the derivative liability, depending on the discount rate and the timing of significant losses. Any significant increase or decrease in recovery rates or MBIA Corp.'s nonperformance risk would result in a decrease or increase in the fair value of the derivative liabilities, respectively. Recovery rates, nonperformance risk and weighted average lives are determined independently. Changes in one input will not necessarily have any impact on the other inputs.

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

**Table of Contents****MBIA Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****Note 6: Fair Value of Financial Instruments (continued)*****Fair Value Measurements***

The following tables present the fair value of the Company's assets (including short-term investments) and liabilities measured and reported at fair value on a recurring basis as of March 31, 2015 and December 31, 2014:

In millions	Fair Value Measurements at Reporting Date Using				Balance as of March 31, 2015
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Counterparty and Cash Collateral Netting	
<b>Assets:</b>					
<b>Fixed-maturity investments:</b>					
U.S. Treasury and government agency	\$ 624	\$ 120	\$ -	\$ -	\$ 744
State and municipal bonds	-	1,750	6 <sup>(1)</sup>	-	1,756
Foreign governments	210	80	6 <sup>(1)</sup>	-	296
Corporate obligations	-	2,088	10 <sup>(1)</sup>	-	2,098
<b>Mortgage-backed securities:</b>					
Residential mortgage-backed agency	-	1,129	-	-	1,129
Residential mortgage-backed non-agency	-	52	-	-	52
Commercial mortgage-backed	-	22	1 <sup>(1)</sup>	-	23
<b>Asset-backed securities:</b>					
Collateralized debt obligations	-	1	74 <sup>(1)</sup>	-	75
Other asset-backed	-	271	74 <sup>(1)</sup>	-	345
Total fixed-maturity investments	834	5,513	171	-	6,518
Money market securities	240	-	-	-	240
Perpetual debt and equity securities	24	27	-	-	51
Cash and cash equivalents	596	-	-	-	596
<b>Derivative assets:</b>					
<b>Non-insured derivative assets:</b>					
Interest rate derivatives	-	2	-	(1)	1

**Table of Contents****MBIA Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****Note 6: Fair Value of Financial Instruments (continued)**

In millions	Fair Value Measurements at Reporting Date Using				Balance as of March 31, 2015
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Counterparty and Cash Collateral Netting	
Assets of consolidated VIEs:					
Corporate obligations	-	10	53 <sup>(1)</sup>	-	63
Mortgage-backed securities:					
Residential mortgage-backed non-agency	-	189	3 <sup>(1)</sup>	-	192
Commercial mortgage-backed	-	737	-	-	737
Asset-backed securities:					
Collateralized debt obligations	-	2	4 <sup>(1)</sup>	-	6
Other asset-backed	-	42	21 <sup>(1)</sup>	-	63
Cash	31	-	-	-	31
Loans receivable at fair value:					
Residential loans receivable	-	-	1,372	-	1,372
Other loans receivable	-	-	108	-	108
Loan repurchase commitments	-	-	385	-	385
Derivative assets:					
Currency derivatives	-	-	5 <sup>(1)</sup>	-	5
Total assets	\$ 1,725	\$ 6,522	\$ 2,122	\$ (1)	\$ 10,368
Liabilities:					
Medium-term notes	\$ -	\$ -	\$ 180 <sup>(1)</sup>	\$ -	\$ 180
Derivative liabilities:					
Insured derivatives:					
Credit derivatives	-	3	207	-	210
Non-insured derivatives:					
Interest rate derivatives	-	269	-	(109)	160
Other	-	-	21	-	21
Other liabilities:					
Warrants	-	33	-	-	33
Investments payable	36	-	-	-	36
Liabilities of consolidated VIEs:					
Variable interest entity notes	-	1,266	1,387	-	2,653
Derivative liabilities:					
Interest rate derivatives	-	76	-	-	76
Total liabilities	\$ 36	\$ 1,647	\$ 1,795	\$ (109)	\$ 3,369

(1) - Unobservable inputs are either not developed by the Company or do not significantly impact the overall fair values of the aggregate financial assets and liabilities.





**Table of Contents****MBIA Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****Note 6: Fair Value of Financial Instruments (continued)**

In millions	Fair Value Measurements at Reporting Date Using				Balance as of December 31, 2014
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Counterparty and Cash Collateral Netting	
Assets:					
Fixed-maturity investments:					
U.S. Treasury and government agency	\$ 573	\$ 118	\$ -	\$ -	\$ 691
State and municipal bonds	-	1,724	8 <sup>(1)</sup>	-	1,732
Foreign governments	221	63	6 <sup>(1)</sup>	-	290
Corporate obligations	-	2,048	10 <sup>(1)</sup>	-	2,058
Mortgage-backed securities:					
Residential mortgage-backed agency	-	1,162	-	-	1,162
Residential mortgage-backed non-agency	-	56	-	-	56
Commercial mortgage-backed	-	20	2 <sup>(1)</sup>	-	22
Asset-backed securities:					
Collateralized debt obligations	-	6	87 <sup>(1)</sup>	-	93
Other asset-backed	-	156	85 <sup>(1)</sup>	-	241
Total fixed-maturity investments	794	5,353	198	-	6,345
Money market securities	428	-	-	-	428
Perpetual debt and equity securities	22	31	-	-	53
Cash and cash equivalents	729	-	-	-	729
Derivative assets:					
Non-insured derivative assets:					
Interest rate derivatives	-	83	-	(81)	2
Assets held for sale:					
Equity securities	6	-	-	-	6
Loans receivable at fair value	-	711	-	-	711
Cash and cash equivalents	55	-	-	-	55

**Table of Contents****MBIA Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****Note 6: Fair Value of Financial Instruments (continued)**

In millions	Fair Value Measurements at Reporting Date Using				Balance as of December 31, 2014
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Counterparty and Cash Collateral Netting	
Assets of consolidated VIEs:					
Corporate obligations	-	10	55 <sup>(1)</sup>	-	65
Mortgage-backed securities:					
Residential mortgage-backed non-agency	-	194	3 <sup>(1)</sup>	-	197
Commercial mortgage-backed	-	86	-	-	86
Asset-backed securities:					
Collateralized debt obligations	-	7	5 <sup>(1)</sup>	-	12
Other asset-backed	-	35	26 <sup>(1)</sup>	-	61
Cash	53	-	-	-	53
Loans receivable at fair value:					
Residential loans receivable	-	-	1,431	-	1,431
Loan repurchase commitments	-	-	379	-	379
<b>Total assets</b>	<b>\$ 2,087</b>	<b>\$ 6,510</b>	<b>\$ 2,097</b>	<b>\$ (81)</b>	<b>\$ 10,613</b>
Liabilities:					
Medium-term notes	\$ -	\$ -	\$ 197 <sup>(1)</sup>	\$ -	\$ 197
Derivative liabilities:					
Insured derivatives:					
Credit derivatives	-	2	244	-	246
Non-insured derivatives:					
Interest rate derivatives	-	248	-	(81)	167
Other	-	-	24	-	24
Liabilities held for sale:					
Variable interest entity notes	-	431	-	-	431
Payable for loans purchased	-	323	-	-	323
Other liabilities:					
Warrants	-	28	-	-	28
Liabilities of consolidated VIEs:					
Variable interest entity notes	-	1,312	735	-	2,047
<b>Total liabilities</b>	<b>\$ -</b>	<b>\$ 2,344</b>	<b>\$ 1,200</b>	<b>\$ (81)</b>	<b>\$ 3,463</b>

(1) - Unobservable inputs are either not developed by the Company or do not significantly impact the overall fair values of the aggregate financial assets and liabilities.

Level 3 assets at fair value as of March 31, 2015 and December 31, 2014 represented approximately 20% of total assets measured at fair value. Level 3 liabilities at fair value as of March 31, 2015 and December 31, 2014 represented approximately 53% and 35%, respectively, of total liabilities measured at fair value.



**Table of Contents****MBIA Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****Note 6: Fair Value of Financial Instruments (continued)**

The following tables present the fair values and carrying values of the Company's assets and liabilities that are disclosed at fair value but not reported at fair value on the Company's consolidated balance sheets as of March 31, 2015 and December 31, 2014:

In millions	Fair Value Measurements at Reporting Date Using			Fair Value Balance as of March 31, 2015	Carry Value Balance as of March 31, 2015
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)		
<b>Assets:</b>					
Other investments	\$ -	\$ -	\$ 4	\$ 4	\$ 4
Accrued investment income <sup>(1)</sup>	-	43	-	43	43
Receivable for investments sold <sup>(1)</sup>	-	67	-	67	67
<b>Assets held for sale:</b>					
Facility	-	22	-	22	22
<b>Assets of consolidated VIEs:</b>					
Investments held-to-maturity	-	-	2,635	2,635	2,742
<b>Total assets</b>	<b>\$ -</b>	<b>\$ 132</b>	<b>\$ 2,639</b>	<b>\$ 2,771</b>	<b>\$ 2,878</b>
<b>Liabilities:</b>					
Investment agreements	\$ -	\$ -	\$ 711	\$ 711	\$ 538
Medium-term notes	-	-	753	753	928
Long-term debt	-	1,113	-	1,113	1,828
Payable for investments purchased <sup>(2)</sup>	-	71	-	71	71
<b>Liabilities of consolidated VIEs:</b>					
Variable interest entity notes	-	-	2,776	2,776	2,742
<b>Total liabilities</b>	<b>\$ -</b>	<b>\$ 1,184</b>	<b>\$ 4,240</b>	<b>\$ 5,424</b>	<b>\$ 6,107</b>
<b>Financial Guarantees:</b>					
Gross	\$ -	\$ -	\$ 3,874	\$ 3,874	\$ 1,846
Ceded	-	-	103	103	61

(1) - Reported within Other assets on MBIA's consolidated balance sheets.

(2) - Reported within Other liabilities on MBIA's consolidated balance sheets.



**Table of Contents****MBIA Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****Note 6: Fair Value of Financial Instruments (continued)**

In millions	Fair Value Measurements at Reporting Date Using			Fair Value Balance as of December 31, 2014	Carry Value Balance as of December 31, 2014
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)		
<b>Assets:</b>					
Other investments	\$ -	\$ -	\$ 4	\$ 4	\$ 4
Accrued investment income <sup>(1)</sup>	-	43	-	43	43
Receivable for investments sold <sup>(1)</sup>	-	69	-	69	69
Assets held for sale Facility	-	26	-	26	26
<b>Assets of consolidated VIEs:</b>					
Investments held-to-maturity	-	-	2,632	2,632	2,757
<b>Total assets</b>	<b>\$ -</b>	<b>\$ 138</b>	<b>\$ 2,636</b>	<b>\$ 2,774</b>	<b>\$ 2,899</b>
<b>Liabilities:</b>					
Investment agreements	\$ -	\$ -	\$ 705	\$ 705	\$ 547
Medium-term notes	-	-	801	801	1,004
Long-term debt	-	1,172	-	1,172	1,810
Payable for investments purchased <sup>(2)</sup>	-	42	-	42	42
<b>Liabilities of consolidated VIEs:</b>					
Variable interest entity notes	-	-	2,779	2,779	2,757
<b>Total liabilities</b>	<b>\$ -</b>	<b>\$ 1,214</b>	<b>\$ 4,285</b>	<b>\$ 5,499</b>	<b>\$ 6,160</b>
<b>Financial Guarantees:</b>					
Gross	\$ -	\$ -	\$ 4,051	\$ 4,051	\$ 1,959
Ceded	-	-	109	109	65

(1) - Reported within Other assets on MBIA's consolidated balance sheets.

(2) - Reported within Other liabilities on MBIA's consolidated balance sheets.

**Table of Contents****MBIA Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****Note 6: Fair Value of Financial Instruments (continued)**

The following tables present information about changes in Level 3 assets (including short-term investments) and liabilities measured at fair value on a recurring basis for the three months ended March 31, 2015 and 2014:

**Changes in Level 3 Assets and Liabilities Measured at Fair Value on a Recurring Basis for the Three Months Ended March 31, 2015**

In millions	Balance, Beginning of Period	Realized Gains / (Losses)	Unrealized Gains / (Losses) Included in Earnings	Unrealized Gains / (Losses) Included in OCI	Foreign Exchange Recognized in OCI or Earnings	Purchases	Issuances	Settlements	Sales	Transfers into Level 3 <sup>(1)</sup>	Transfers out of Level 3 <sup>(1)</sup>	Ending Balance	Change in Unrealized Gains (Losses) for the Period Included in Earnings for Assets still held as of March 31, 2015
<b>Assets:</b>													
<b>Foreign governments</b>													
	\$ 6	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 6	\$ -
<b>Corporate obligations</b>													
	10	-	-	-	-	-	-	-	-	-	-	10	-
<b>Commercial mortgage-backed</b>													
	2	-	-	-	-	-	-	-	-	-	(1)	1	-
<b>Collateralized debt obligations</b>													
	87	-	-	-	-	-	-	(5)	(8)	-	-	74	-
<b>Other asset-backed</b>													
	85	(2)	-	(1)	-	4	-	(2)	(8)	-	(2)	74	-
<b>State and municipal bonds</b>													
	8	-	-	-	-	-	-	-	-	-	(2)	6	-
<b>Assets of consolidated VIEs:</b>													
<b>Corporate obligations</b>													
	55	-	-	-	-	-	-	(2)	-	-	-	53	-
<b>Residential mortgage-backed non-agency</b>													
	3	-	1	-	-	-	-	(1)	-	-	-	3	1
<b>Collateralized debt obligations</b>													
	5	-	(1)	-	-	-	-	-	-	-	-	4	-
<b>Other asset-backed</b>													
	26	-	3	-	-	-	-	(2)	-	-	(6)	21	3
<b>Loans receivable-residential</b>													
	1,431	-	(3)	-	-	-	-	(56)	-	-	-	1,372	(3)
	-	-	-	-	-	108	-	-	-	-	-	108	-



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Loans receivable- Other														
Loan repurchase commitments	379	-	6	-	-	-	-	-	-	-	-	-	385	6
Currency derivatives, net	-	-	4	-	1	-	-	-	-	-	-	-	5	5
<b>Total assets</b>	<b>\$ 2,097</b>	<b>\$ (2)</b>	<b>\$ 10</b>	<b>\$ (1)</b>	<b>\$ 1</b>	<b>\$ 112</b>	<b>\$ -</b>	<b>\$ (68)</b>	<b>\$ (16)</b>	<b>\$ -</b>	<b>\$ (11)</b>	<b>\$ 2,122</b>	<b>\$ 12</b>	

In millions	Balance, Beginning of Period	Realized (Gains) / Losses	Unrealized (Gains) / Losses Included in Earnings	Unrealized (Gains) / Losses Included in OCI	Foreign Exchange Recognized in OCI or Earnings	Purchases	Issuances	Settlements	Sales	Transfers into Level 3 <sup>(1)</sup>	Transfers out of Level 3 <sup>(1)</sup>	Ending Balance	Change in Unrealized (Gains) Losses for the Period Included in Earnings for Liabilities still held as of March 31, 2015
													Ending Balance
<b>Liabilities:</b>													
Medium-term notes	\$ 197	\$ -	\$ 5	\$ -	\$ (22)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 180	\$ (17)
Credit derivatives, net	244	9	(37)	-	-	-	-	(9)	-	-	-	207	(37)
Other derivatives	24	-	(3)	-	-	-	-	-	-	-	-	21	(3)
<b>Liabilities of consolidated VIEs:</b>													
VIE notes	735	-	8	-	-	695	-	(51)	-	-	-	1,387	8
<b>Total liabilities</b>	<b>\$ 1,200</b>	<b>\$ 9</b>	<b>\$ (27)</b>	<b>\$ -</b>	<b>\$ (22)</b>	<b>\$ 695</b>	<b>\$ -</b>	<b>\$ (60)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,795</b>	<b>\$ (49)</b>

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

**Table of Contents****MBIA Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****Note 6: Fair Value of Financial Instruments (continued)****Changes in Level 3 Assets and Liabilities Measured at Fair Value on a Recurring Basis for the Three Months Ended March 31, 2014**

In millions	Balance, Beginning of Period	Realized Gains / (Losses)	Unrealized Gains / (Losses) Included in Earnings	Unrealized Gains / (Losses) Included in OCI	Foreign Exchange Recognized in OCI or Earnings	Purchases	Issuances	Settlements	Sales	Transfers into Level 3 <sup>(1)</sup>	Transfers out of Level 3 <sup>(1)</sup>	Ending Balance	Change in Unrealized Gains (Losses) for the Period Included in Earnings for Assets still held as of March 31, 2014
<b>Assets:</b>													
Foreign governments	\$ 12	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (5)	\$ -	\$ -	\$ -	\$ 7	\$ -
Corporate obligations	48	(1)	1	(1)	-	-	-	(1)	(19)	3	-	30	-
Residential mortgage- backed agency	-	-	-	-	-	-	-	-	-	29	-	29	-
Residential mortgage- backed non-agency	6	-	-	(1)	-	-	-	-	-	-	(5)	-	-
Commercial mortgage-backed	14	-	-	-	-	-	-	(1)	-	1	-	14	-
Collateralized debt obligations	82	-	-	3	-	5	-	(2)	-	33	(6)	115	-
Other asset-backed	58	-	-	5	-	-	-	(2)	-	24	-	85	-
State and municipal bonds	19	-	-	-	-	-	-	(1)	-	44	-	62	-
Perpetual debt and equity securities	11	-	-	-	-	-	-	-	-	4	-	15	-
<b>Assets of consolidated VIEs:</b>													
Corporate obligations	48	-	-	-	-	-	-	(1)	-	17	-	64	1
Residential mortgage- backed non-agency	4	-	-	-	-	-	-	-	-	1	-	5	-
Commercial mortgage-backed	3	-	-	-	-	-	-	-	-	-	-	3	-

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Collateralized debt obligations	22	-	(3)	-	-	-	-	(2)	-	-	(3)	14	(1)
Other asset-backed	54	-	(12)	-	-	-	-	(4)	-	4	-	42	-
Loans receivable	1,612	-	(1)	-	-	-	-	(54)	-	-	-	1,557	(1)
Loan repurchase commitments	359	-	5	-	-	-	-	-	-	-	-	364	5
<b>Total assets</b>	<b>\$ 2,352</b>	<b>\$ (1)</b>	<b>\$ (10)</b>	<b>\$ 6</b>	<b>\$ -</b>	<b>\$ 5</b>	<b>\$ -</b>	<b>\$ (73)</b>	<b>\$ (19)</b>	<b>\$ 160</b>	<b>\$ (14)</b>	<b>\$ 2,406</b>	<b>\$ 4</b>

In millions	Balance, Beginning of Period	Realized (Gains) / Losses	Unrealized (Gains) / Losses Included in Earnings	Unrealized (Gains) / Losses Included in OCI	Foreign Exchange Recognized in OCI or Earnings	Purchases	Issuances	Settlements	Sales	Transfers into Level 3 <sup>(1)</sup>	Transfers out of Level 3 <sup>(1)</sup>	Ending Balance	Change in Unrealized (Gains) Losses for the Period Included in Earnings for Liabilities still held as of March 31, 2014
<b>Liabilities:</b>													
<b>Medium-term notes</b>													
	\$ 203	\$ -	\$ 12	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 215	\$ 12
<b>Credit derivatives, net</b>													
	1,147	339	(838)	-	-	-	-	(339)	-	-	-	309	(30)
<b>Other derivatives, net</b>													
	-	30	1	-	-	-	-	-	-	-	-	31	1
<b>Liabilities of consolidated VIEs:</b>													
<b>VIE notes</b>													
	940	-	18	-	-	-	-	(105)	(41)	-	-	812	16
<b>Currency derivatives, net</b>													
	11	-	(6)	-	-	-	-	-	-	-	-	5	(6)
<b>Total liabilities</b>	<b>\$ 2,301</b>	<b>\$ 369</b>	<b>\$ (813)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (444)</b>	<b>\$ (41)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,372</b>	<b>\$ (7)</b>

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

**Table of Contents****MBIA Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****Note 6: Fair Value of Financial Instruments (continued)**

Transfers out of Level 3 and into Level 2 were \$11 million for the three months ended March 31, 2015. There were no transfers into Level 3 or out of Level 2. Other ABS and state and municipal bonds, comprised the majority of the transferred instruments out of Level 3 where inputs, which are significant to their valuation, became observable during the quarter. These inputs included spreads, prepayment speeds, default speeds, default severities, yield curves observable at commonly quoted intervals, and market corroborated inputs. There were no transfers into or out of Level 1.

Transfers into and out of Level 3 were \$160 million and \$14 million, respectively, for the three months ended March 31, 2014. Transfers into and out of Level 2 were \$14 million and \$160 million, respectively, for the three months ended March 31, 2014. Transfers into Level 3 were principally related to state and municipal bonds, CDOs, RMBS agency, other ABS and corporate obligations where inputs, which are significant to their valuation, became unobservable during the quarter. CDOs and RMBS non-agency comprised the majority of the transferred instruments out of Level 3 where inputs, which are significant to their valuation, became observable during the quarter. These inputs included spreads, prepayment speeds, default speeds, default severities, yield curves observable at commonly quoted intervals, and market corroborated inputs. There were no transfers into or out of Level 1.

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

Gains and losses (realized and unrealized) included in earnings related to Level 3 assets and liabilities for the three months ended March 31, 2015 and 2014 are reported on the Company's consolidated statements of operations as follows:

	Three Months Ended March 31, 2015		Three Months Ended March 31, 2014	
	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 March 31, 2015	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 March 31, 2014
<b>In millions</b>				
Revenues:				
Unrealized gains (losses) on insured derivatives	\$ 37	\$ 37	\$ 838	\$ 30
Realized gains (losses) and other settlements on insured derivatives	(9)	-	(369)	-
Net gains (losses) on financial instruments at fair value and foreign exchange	18	20	(13)	(13)
Revenues of consolidated VIEs:				
Net gains (losses) on financial instruments at fair value and foreign exchange	3	4	(23)	(6)
<b>Total</b>	<b>\$ 49</b>	<b>\$ 61</b>	<b>\$ 433</b>	<b>\$ 11</b>



**Table of Contents****MBIA Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****Note 6: Fair Value of Financial Instruments (continued)****Fair Value Option**

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

The following table presents the changes in fair value included in the Company's consolidated statements of operations for the three months ended March 31, 2015 and 2014 for financial instruments for which the fair value option was elected:

In millions	Three Months Ended March 31,	
	2015	2014
Investments carried at fair value	\$ -	\$ 1 <sup>(1)</sup>
Fixed-maturity securities held at fair value- VIE	(17) <sup>(2)</sup>	(38) <sup>(2)</sup>
Loans receivable at fair value:		
Residential mortgage loans	(58) <sup>(2)</sup>	(56) <sup>(2)</sup>
Loan repurchase commitments	6 <sup>(2)</sup>	5 <sup>(2)</sup>
Medium-term notes	17 <sup>(1)</sup>	(12) <sup>(1)</sup>
Variable interest entity notes	89 <sup>(2)</sup>	121 <sup>(2)</sup>

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

(2) - Reported within Net gains (losses) of financial instruments at fair value and foreign exchange-VIE on MBIA's consolidated statements of operations. The following table reflects the difference between the aggregate fair value and the aggregate remaining contractual principal balance outstanding as of March 31, 2015 and December 31, 2014 for loans and notes for which the fair value option was elected:

In millions	As of March 31, 2015			As of December 31, 2014		
	Contractual Outstanding Principal	Fair Value	Difference	Contractual Outstanding Principal	Fair Value	Difference
Loans receivable at fair value:						
Residential mortgage loans	\$ 1,478	\$ 1,320	\$ 158	\$ 1,554	\$ 1,377	\$ 177
Residential mortgage loans (90 days or more past due)	220	52	168	227	54	173
Other loans	108	108	-	721	711	10
Other loans (90 days or more past due)	70	-	70	-	-	-
Total loans receivable at fair value	\$ 1,876	\$ 1,480	\$ 396	\$ 2,502	\$ 2,142	\$ 360
Variable interest entity notes	\$ 4,000	\$ 2,653	\$ 1,347	\$ 3,584	\$ 2,479	\$ 1,105
Medium-term notes	\$ 215	\$ 180	\$ 35	\$ 242	\$ 197	\$ 45

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Substantially all gains and losses included in earnings during the periods ended March 31, 2015 and 2014 on loans receivable and VIE notes reported in the preceding table are attributable to credit risk. This is primarily due to the high rate of defaults on loans and the collateral supporting the VIE notes, resulting in depressed pricing of the financial instruments.

**Table of Contents****MBIA Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****Note 7: Investments**

Investments, excluding those elected under the fair value option, include debt and equity securities classified as either available-for-sale ( AFS ) or HTM. Other AFS investments primarily comprised money market funds.

The following tables present the amortized cost, fair value, corresponding gross unrealized gains and losses and other-than-temporary impairments ( OTTI ) for AFS and HTM investments in the Company's consolidated investment portfolio as of March 31, 2015 and December 31, 2014:

In millions	Amortized Cost	Gross Unrealized Gains	March 31, 2015 Gross Unrealized Losses	Fair Value	Other-Than- Temporary Impairments <sup>(1)</sup>
<b>AFS Investments</b>					
Fixed-maturity investments:					
U.S. Treasury and government agency	\$ 680	\$ 43	\$ (1)	\$ 722	\$ -
State and municipal bonds	1,644	112	(4)	1,752	-
Foreign governments	289	8	(1)	296	-
Corporate obligations	2,018	55	(103)	1,970	(100)
Mortgage-backed securities:					
Residential mortgage-backed agency	1,076	20	(4)	1,092	-
Residential mortgage-backed non-agency	50	4	(4)	50	(4)
Commercial mortgage-backed	20	1	-	21	-
Asset-backed securities:					
Collateralized debt obligations	96	-	(22)	74	-
Other asset-backed	332	2	(12)	322	-
Total fixed-maturity investments	6,205	245	(151)	6,299	(104)
Money market securities	227	-	-	227	-
Perpetual debt and equity securities	12	1	-	13	-
<b>Total AFS investments</b>	<b>\$ 6,444</b>	<b>\$ 246</b>	<b>\$ (151)</b>	<b>\$ 6,539</b>	<b>\$ (104)</b>
<b>HTM Investments</b>					
Assets of consolidated VIEs:					
Corporate obligations	\$ 2,742	\$ 75	\$ (182)	\$ 2,635	\$ -
<b>Total HTM investments</b>	<b>\$ 2,742</b>	<b>\$ 75</b>	<b>\$ (182)</b>	<b>\$ 2,635</b>	<b>\$ -</b>

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



**Table of Contents****MBIA Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****Note 7: Investments (continued)**

In millions	December 31, 2014				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Other-Than-Temporary Impairments <sup>(1)</sup>
<b>AFS Investments</b>					
Fixed-maturity investments:					
U.S. Treasury and government agency	\$ 631	\$ 39	\$ (3)	\$ 667	\$ -
State and municipal bonds	1,644	94	(8)	1,730	-
Foreign governments	283	7	-	290	-
Corporate obligations	1,984	44	(92)	1,936	(86)
Mortgage-backed securities:					
Residential mortgage-backed agency	1,116	17	(7)	1,126	-
Residential mortgage-backed non-agency	54	3	(4)	53	(4)
Commercial mortgage-backed	19	1	-	20	-
Asset-backed securities:					
Collateralized debt obligations	113	-	(21)	92	-
Other asset-backed	231	3	(12)	222	-
Total fixed-maturity investments	6,075	208	(147)	6,136	(90)
Money market securities	422	-	-	422	-
Perpetual debt and equity securities	12	1	-	13	-
Total AFS investments	\$ 6,509	\$ 209	\$ (147)	\$ 6,571	\$ (90)
<b>HTM Investments</b>					
Assets of consolidated VIEs:					
Corporate obligations	\$ 2,757	\$ 77	\$ (202)	\$ 2,632	\$ -
Total HTM investments	\$ 2,757	\$ 77	\$ (202)	\$ 2,632	\$ -

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

The following table presents the distribution by contractual maturity of AFS and HTM fixed-maturity securities at amortized cost and fair value as of March 31, 2015. Contractual maturity may differ from expected maturity as borrowers may have the right to call or prepay obligations.

In millions	AFS Securities		HTM Securities Consolidated VIEs	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	\$ 839	\$ 841	\$ -	\$ -

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Due after one year through five years	1,420	1,449	-	-
Due after five years through ten years	905	943	-	-
Due after ten years	1,467	1,507	2,742	2,635
Mortgage-backed and asset-backed	1,574	1,559	-	-
Total fixed-maturity investments	\$ 6,205	\$ 6,299	\$ 2,742	\$ 2,635

***Deposited and Pledged Securities***

The fair value of securities on deposit with various regulatory authorities as of March 31, 2015 and December 31, 2014 was \$10 million for both periods. These deposits are required to comply with state insurance laws.

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 March 31, 2015 and December 31, 2014, the fair value of securities pledged as collateral for these investment agreements approximated \$530 million and \$532 million, respectively. The Company's collateral as of March 31, 2015 consisted principally of U.S. Treasury and government agency bonds and RMBS, and was primarily held with major U.S. banks. Additionally, the Company pledged cash and money market securities as collateral under investment agreements in the amount of \$27 million and \$26 million as of March 31, 2015 and December 31, 2014, respectively.

**Table of Contents****MBIA Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****Note 7: Investments (continued)****Impaired Investments**

The following tables present the gross unrealized losses related to AFS and HTM investments as of March 31, 2015 and December 31, 2014:

In millions	Less than 12 Months		March 31, 2015 12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<b>AFS Investments</b>						
Fixed-maturity investments:						
U.S. Treasury and government agency	\$ 77	\$ -	\$ 50	\$ (1)	\$ 127	\$ (1)
State and municipal bonds	133	(1)	73	(3)	206	(4)
Foreign governments	22	(1)	-	-	22	(1)
Corporate obligations	363	(1)	94	(102)	457	(103)
Mortgage-backed securities:						
Residential mortgage-backed agency	154	(1)	205	(3)	359	(4)
Residential mortgage-backed non-agency	8	-	18	(4)	26	(4)
Commercial mortgage-backed	2	-	1	-	3	-
Asset-backed securities:						
Collateralized debt obligations	-	-	69	(22)	69	(22)
Other asset-backed	55	-	32	(12)	87	(12)
Total fixed-maturity investments	814	(4)	542	(147)	1,356	(151)
Perpetual debt and equity securities	4	-	-	-	4	-
Total AFS investments	\$ 818	\$ (4)	\$ 542	\$ (147)	\$ 1,360	\$ (151)
<b>HTM Investments</b>						
Assets of consolidated VIEs:						
Corporate obligations	\$ -	\$ -	\$ 393	\$ (182)	\$ 393	\$ (182)
Total HTM investments	\$ -	\$ -	\$ 393	\$ (182)	\$ 393	\$ (182)

In millions	Less than 12 Months		December 31, 2014 12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<b>AFS Investments</b>						
Fixed-maturity investments:						
U.S. Treasury and government agency	\$ 197	\$ -	\$ 175	\$ (3)	\$ 372	\$ (3)
State and municipal bonds	60	(1)	257	(7)	317	(8)
Foreign governments	20	-	-	-	20	-

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Corporate obligations	468	(1)	251	(91)	719	(92)
<b>Mortgage-backed securities:</b>						
Residential mortgage-backed agency	16	-	387	(7)	403	(7)
Residential mortgage-backed non-agency	10	-	19	(4)	29	(4)
Commercial mortgage-backed	4	-	6	-	10	-
<b>Asset-backed securities:</b>						
Collateralized debt obligations	1	-	81	(21)	82	(21)
Other asset-backed	69	-	44	(12)	113	(12)
Total fixed-maturity investments	845	(2)	1,220	(145)	2,065	(147)
Perpetual debt and equity securities	6	-	-	-	6	-
Total AFS investments	\$ 851	\$ (2)	\$ 1,220	\$ (145)	\$ 2,071	\$ (147)
 <b>HTM Investments</b>						
Assets of consolidated VIEs:						
Corporate obligations	\$ -	\$ -	\$ 373	\$ (202)	\$ 373	\$ (202)
Total HTM investments	\$ -	\$ -	\$ 373	\$ (202)	\$ 373	\$ (202)

**Table of Contents****MBIA Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****Note 7: Investments (continued)**

Gross unrealized losses on AFS securities increased as of March 31, 2015 compared with December 31, 2014 primarily due to decline in price related to a corporate obligation security that incurred liquidity concerns, downgrades in credit and other adverse financial conditions, partially offset by market price appreciation driven by lower interest rates. Gross unrealized losses on HTM securities decreased as of March 31, 2015 compared with December 31, 2014 primarily due to market price appreciation caused by the narrowing of 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 March 31, 2015 and December 31, 2014 was 16 and 13 years, respectively. As of March 31, 2015 and December 31, 2014, there were 71 and 143 securities, respectively, that were in an unrealized loss position for a continuous twelve-month period or longer, of which the fair values of 15 and 23 securities, respectively, were below book value by more than 5%.

The following table presents the distribution of securities in an unrealized loss position for a continuous twelve-month period or longer where fair value was below book value by more than 5% as of March 31, 2015:

Percentage of Fair Value Below Book Value	Number of Securities	AFS Securities		Number of Securities	HTM Securities	
		Book Value (in millions)	Fair Value (in millions)		Book Value (in millions)	Fair Value (in millions)
> 5% to 15%	6	\$ 49	\$ 44	-	\$ -	\$ -
> 15% to 25%	3	19	15	-	-	-
> 25% to 50%	2	41	29	1	575	393
> 50%	3	130	12	-	-	-
<b>Total</b>	<b>14</b>	<b>\$ 239</b>	<b>\$ 100</b>	<b>1</b>	<b>\$ 575</b>	<b>\$ 393</b>

The following table presents the fair value and gross unrealized loss by credit rating category of ABS, MBS and corporate obligations included in the Company's consolidated AFS investment portfolio as of March 31, 2015 for which fair value was less than amortized cost. The credit ratings are based on ratings from Moody's as of March 31, 2015 or an alternate ratings source, such as S&P, when a security is not rated by Moody's. For investments that are insured by various third-party guarantee insurers, the credit rating reflects the higher of the insurer's rating or the underlying bond's rating.

In millions	Below													
	Aaa		Aa		A		Baa		Investment Grade		Not Rated		Total	
Asset Type	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
ABS	\$ 42	\$ -	\$ 50	\$ (1)	\$ 3	\$ -	\$ 3	\$ -	\$ 58	\$ (33)	\$ -	\$ -	\$ 156	\$ (34)
MBS	358	(4)	2	-	-	-	-	-	14	-	14	(4)	388	(8)
Corporate obligations	174	-	121	(1)	129	(1)	20	(1)	3	-	10	(100)	457	(103)

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Total \$ 574 \$ (4) \$ 173 \$ (2) \$ 132 \$ (1) \$ 23 \$ (1) \$ 75 \$ (33) \$ 24 \$ (104) \$ 1,001 \$ (145)

The total ABS, MBS and corporate obligations reported in the preceding table include those which are guaranteed by financial guarantors. In addition, the following table presents information on ABS and MBS guaranteed by the Company and third-party financial guarantors.

Asset Type	Average Credit Rating with the Effect of Guarantee	Average Credit Rating without the Effect of Guarantee	Insured Securities Rated Below Investment Grade without the Effect of Guarantee	
			(in millions) Fair Value	Percentage
ABS	Baa	Below Investment Grade	\$ 56	57 %
MBS	Below Investment Grade	Below Investment Grade	7	100 %

Refer to the table in the Determination of Credit Loss Guaranteed by the Company and Other Third-Party Guarantors section within the OTTI section of this note for information on the insured securities included in the table above.

The Company concluded that it does not have the intent to sell securities in an unrealized loss position and it is more likely than not, that it would not have to sell these securities before recovery of their cost basis. In making this conclusion, the Company examined the cash flow projections for its investment portfolios, the potential sources and uses of cash in its businesses, and the cash resources available to its business other than sales of securities. It also considered the existence of any risk management or other plans as of March 31, 2015 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.

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**Table of Contents****MBIA Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****Note 7: Investments (continued)*****Other-Than-Temporary Impairments****Evaluating AFS Securities for OTTI*

The Company has an ongoing review process for all securities in its investment portfolio, including a quarterly assessment of OTTI. This evaluation includes both qualitative and quantitative considerations. In assessing whether a decline in value is related to a credit loss, the Company considers several factors, including but not limited to (i) the magnitude and duration of declines in fair value; (ii) the reasons for the declines in fair value, such as general credit spread movements in each asset-backed sector, transaction-specific changes in credit spreads, credit rating downgrades, modeled defaults, and principal and interest payment priorities within each investment structure; and (iii) any guarantees associated with a security such as those provided by financial guarantee insurance companies, including MBIA Corp. and National.

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

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

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

ABS investments are evaluated for OTTI using historical collateral performance, deal waterfall and structural protections, credit ratings, and forward looking projections of collateral performance based on business and economic conditions specific to each collateral type and risk. The underlying collateral is evaluated to identify any specific performance concerns, and stress scenarios are considered in forecasting ultimate returns of principal. Based on this evaluation, if a principal default is projected for a security, estimated future cash flows are discounted at the security's interest rate used to recognize interest income on the security. For CDO investments, the Company utilizes the same tools as its RMBS investments discussed below, aggregating the bond level cash flows to the CDO investment level. If the present value of cash flows is less than the Company's amortized cost for the security, the difference is recorded as an OTTI loss.

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

Corporate obligation investments are evaluated for OTTI using credit analysis techniques. The Company's analysis includes a detailed review of a number of quantitative and qualitative factors impacting the value of an individual security. These factors include the interest rate of the security (fixed or floating), the security's current market spread, any collateral supporting the security, the security's position in the issuer's capital structure, and credit rating upgrades or downgrades. Additionally, these factors include an assessment of various issuer-related credit metrics including market capitalization, earnings, cash flow, capitalization, interest coverage, leverage, liquidity, management and a third-party quantitative default probability model. The Company's analysis is augmented by comparing market prices for similar securities of other issuers in the same sector, as well as any recent corporate or government actions that may impact the ultimate return of principal. If the Company

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determines that a principal default is projected, a recovery analysis is performed using the above data. If the Company's estimated recovery value for the security is less than its amortized cost, the difference is recorded as an OTTI loss.



**Table of Contents****MBIA Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****Note 7: Investments (continued)***Determination of Credit Loss Guaranteed by the Company and Other Third-Party Guarantors*

The Company does not record OTTI related to credit concerns about issuers of securities insured by MBIA Corp. and National since investors in these securities, including MBIA, are guaranteed payment of principal and interest when due by MBIA. Securities insured by the Company, whether or not owned by the Company, are evaluated for impairment as part of its insurance surveillance process and, therefore, losses on securities insured by the Company are recorded in accordance with its loss reserving policy. Refer to Note 2: Significant Accounting Policies in the Notes to Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2014 for information about the Company's loss reserving policy and Note 5: Loss and Loss Adjustment Expense Reserves for information about loss reserves.

In considering cash expected to be provided from other third-party financial guarantors, the Company assesses the financial guarantor's ability to make claim payments under a variety of scenarios that test the guarantor's ultimate claims paying ability. The weighted average outcome of these scenarios, combined with the cash flows provided by the insured security, are used to determine the recoverability of the Company's amortized cost.

The following table provides information about securities held by the Company as of March 31, 2015 that were in an unrealized loss position and insured by a financial guarantor, along with the amount of insurance loss reserves corresponding to the par amount owned by the Company:

In millions	Fair Value	Unrealized Loss	Insurance Loss Reserve <sup>(2)</sup>
<b>Asset-backed:</b>			
MBIA <sup>(1)</sup>	\$ 97	\$ (33)	\$ 38
<b>Mortgage-backed:</b>			
MBIA <sup>(1)</sup>	7	-	11
<b>Other:</b>			
MBIA <sup>(1)</sup>	23	(3)	-
Other	1	-	-
<b>Total other</b>	<b>24</b>	<b>(3)</b>	<b>-</b>
<b>Total</b>	<b>\$ 128</b>	<b>\$ (36)</b>	<b>\$ 49</b>

(1) - Includes investments insured by MBIA Corp. and National.

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

*Credit Loss Rollforward*

The portion of certain OTTI losses on fixed-maturity securities that does not represent credit losses is recognized in accumulated other comprehensive income (loss) (AOCI). For these impairments, the net amount recognized in earnings represents the difference between the

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amortized cost of the security and the net present value of its projected future discounted cash flows prior to impairment. Any remaining difference between the fair value and amortized cost is recognized in AOCI. The following table presents the amount of credit loss impairments recognized in earnings on fixed-maturity securities held by MBIA as of the dates indicated, for which a portion of the OTTI losses was recognized in AOCI, and the corresponding changes in such amounts.

<u>In millions</u>	<b>Three Months Ended March 31,</b>	
<b>Credit Losses Recognized in Earnings Related to Other-Than-Temporary Impairments</b>	<b>2015</b>	<b>2014</b>
Beginning balance	\$ 16	\$ 175
Reductions for credit loss impairments previously recognized on securities sold during the period	-	(1)
Reductions for increases in cash flows expected to be collected over the remaining life of the security	-	(1)
Ending balance	\$ 16	\$ 173

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

Gross realized gains and losses are recorded within Net gains (losses) on financial instruments at fair value and foreign exchange on the Company's consolidated statements of operations. The proceeds and the gross realized gains and losses from sales of fixed-maturity securities held as AFS for the three months ended March 31, 2015 and 2014 are as follows:

<u>In millions</u>	<b>Three Months Ended March 31,</b>	
	<b>2015</b>	<b>2014</b>
Proceeds from sales	\$ 192	\$ 16
Gross realized gains	\$ 5	\$ 2
Gross realized losses	\$ (7)	\$ -

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### **MBIA Inc. and Subsidiaries**

#### **Notes to Consolidated Financial Statements (Unaudited)**

#### **Note 8: Derivative Instruments**

##### *Overview*

MBIA has entered into derivative instruments through its financial guarantee of CDS and for purposes of managing risks associated with existing assets and liabilities. In certain instances, the Company purchased or issued securities that contain embedded derivatives that were separated from the host contract and accounted for as derivative instruments. In 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 security. Derivative instruments are recorded at fair value on the Company's consolidated balance sheets with the changes in fair value recorded on the Company's consolidated statements of operations within Unrealized gains (losses) on insured derivatives, for the insured derivatives, or Net gains (losses) on financial instruments at fair value and foreign exchange for the embedded derivatives. Refer to Note 6: Fair Value of Financial Instruments for the method of determining the fair value of derivative instruments.

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

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

##### *International and Structured Finance Insurance*

The Company entered into derivative instruments that it viewed as an extension of its core financial guarantee business that do not qualify for the financial guarantee scope exception and, therefore, are accounted for as derivative instruments. These insured CDS contracts, primarily referencing corporate, asset-backed, residential mortgage-backed, commercial mortgage-backed, CRE loans and CDO securities, are intended to be held for the entire term of the contract absent a negotiated settlement with the counterparty.

Changes in the fair value of derivatives, excluding insured derivatives, are recorded each period in current earnings within Net gains (losses) on financial instruments at fair value and foreign exchange. Changes in the fair value of insured derivatives are recorded each period in current earnings within Net change in fair value of insured derivatives. The net change in the fair value of the Company's insured derivatives has two primary components: (i) realized gains (losses) and other settlements on insured derivatives and (ii) unrealized gains (losses) on insured derivatives. Realized gains (losses) and other settlements on insured derivatives include (i) premiums received and receivable on sold CDS contracts, (ii) premiums paid and payable to reinsurers in respect to CDS contracts, (iii) net amounts received or paid on reinsurance commutations, (iv) losses paid and payable to CDS contract counterparties due to the occurrence of a credit event or settlement agreement, (v) losses recovered and recoverable on purchased CDS contracts due to the occurrence of a credit event or settlement agreement and (vi) fees relating to CDS contracts. Unrealized gains (losses) on insured derivatives includes all other changes in fair value of the insured derivative contracts.

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

##### *Variable Interest Entities*

VIEs consolidated by the Company have entered into derivative instruments consisting of interest rate swaps, interest rate caps and cross currency swaps. Interest rate swaps and interest rate caps are entered into to mitigate the risks associated with fluctuations in interest rates or fair values of certain contracts. Cross currency swaps are entered into to manage the variability in cash flows resulting from fluctuations in foreign currency rates.

##### *Corporate*

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The Company has entered into derivative instruments primarily consisting of interest rate swaps. Interest rate swaps are entered into to manage the risks associated with fluctuations in interest rates or fair values of certain contracts.

Changes in the fair value of these derivatives are recorded on the Company's consolidated statements of operations within Net gains (losses) on financial instruments at fair value and foreign exchange.

**Table of Contents****MBIA Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****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 March 31, 2015 and December 31, 2014. Credit ratings represent the lower of underlying ratings assigned to the collateral by Moody's, S&P or MBIA.

	Weighted Average Remaining Expected Maturity	As of March 31, 2015 Notional Value					Below Investment Grade	Total Notional	Fair Value Asset (Liability)
		AAA	AA	A	BBB				
<b>Credit Derivatives Sold</b>									
Insured credit default swaps	1.4 Years	\$ 5,846	\$ -	\$ 968	\$ 146	\$ 1,126	\$ 8,086	\$ (207)	
Insured swaps	19.5 Years	-	115	2,778	961	23	3,877	(3)	
<b>Total notional</b>		<b>\$ 5,846</b>	<b>\$ 115</b>	<b>\$ 3,746</b>	<b>\$ 1,107</b>	<b>\$ 1,149</b>	<b>\$ 11,963</b>		
<b>Total fair value</b>		<b>\$ (2)</b>	<b>\$ -</b>	<b>\$ (2)</b>	<b>\$ (2)</b>	<b>\$ (204)</b>		<b>\$ (210)</b>	

	Weighted Average Remaining Expected Maturity	As of December 31, 2014 Notional Value					Below Investment Grade	Total Notional	Fair Value Asset (Liability)
		AAA	AA	A	BBB				
<b>Credit Derivatives Sold</b>									
Insured credit default swaps	1.6 Years	\$ 6,914	\$ 246	\$ 968	\$ 193	\$ 1,160	\$ 9,481	\$ (244)	
Insured swaps	16.7 Years	-	117	2,935	970	22	4,044	(2)	
<b>Total notional</b>		<b>\$ 6,914</b>	<b>\$ 363</b>	<b>\$ 3,903</b>	<b>\$ 1,163</b>	<b>\$ 1,182</b>	<b>\$ 13,525</b>		
<b>Total fair value</b>		<b>\$ (2)</b>	<b>\$ -</b>	<b>\$ (2)</b>	<b>\$ (2)</b>	<b>\$ (240)</b>		<b>\$ (246)</b>	

Internal credit ratings assigned by MBIA on the underlying collateral are derived by the Company's surveillance group. In assigning an internal rating, current status reports from issuers and trustees, as well as publicly available transaction-specific information, are reviewed. Also, where appropriate, cash flow analyses and collateral valuations are considered. The maximum potential amount of future payments (undiscounted) on CDS contracts are estimated as the notional value plus any additional debt service costs, such as interest or other amounts owing on CDS contracts. The maximum amount of future payments that MBIA may be required to make under these guarantees as of March 31, 2015 is \$8.3 billion. The maximum potential amount of future payments (undiscounted) on insured swaps are estimated as the notional value of such

contracts.

MBIA may hold recourse provisions with third parties in derivative instruments through both reinsurance and subrogation rights. MBIA's reinsurance arrangements provide that in the event MBIA pays a claim under a guarantee of a derivative contract, MBIA has the right to collect amounts from any reinsurers that have reinsured the guarantee on either a proportional or non-proportional basis, depending upon the underlying reinsurance agreement. MBIA may also have recourse through subrogation rights whereby if MBIA makes a claim payment, it may be entitled to any rights of the insured counterparty, including the right to any assets held as collateral.

***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.

**Table of Contents****MBIA Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****Note 8: Derivative Instruments (continued)**

Under these agreements, the Company may receive or provide U.S. Treasury and other highly rated securities or cash 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 March 31, 2015, the Company did not hold cash collateral to derivative counterparties but posted cash collateral to derivative counterparties of \$127 million. Of this amount, \$108 million is netted within *Derivative liabilities* and \$19 million is included within *Other liabilities* as cash collateral netted against accrued interest on derivative liabilities. As of December 31, 2014, the Company did not hold cash collateral to derivative counterparties but posted cash collateral to derivative counterparties of \$12 million. All of the \$12 million is included within *Other liabilities* as cash collateral netted against accrued interest on derivative liabilities. As of March 31, 2015, the Company had securities with a fair value of \$215 million posted to derivative counterparties and this amount is included within *Fixed-maturity securities held as available-for-sale, at fair value* on the Company's consolidated balance sheet. As of December 31, 2014, the Company had securities with a fair value of \$198 million posted to derivative counterparties and this amount is included within *Fixed-maturity securities held as available-for-sale, at fair value* on the Company's consolidated balance sheet.

As of March 31, 2015 and December 31, 2014, the fair value on one Credit Support Annex (CSA) was \$1 million and \$2 million, respectively. 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 March 31, 2015 and December 31, 2014, the counterparty was rated A2 by Moody's and A by S&P.

**Financial Statement Presentation**

The fair value of amounts recognized for eligible derivative contracts executed with the same counterparty under a master netting agreement, including any cash collateral that may have been received or posted by the Company, is presented on a net basis in accordance with accounting guidance for the offsetting of fair value amounts related to derivative instruments. Insured CDS and insured swaps are not subject to master netting agreements. VIE derivative assets and liabilities are not presented net of any master netting agreements. Counterparty netting of derivative assets and liabilities offsets balances in *Interest rate swaps* as of March 31, 2015 and December 31, 2014.

As of March 31, 2015, the total fair value of the Company's derivative assets, after counterparty netting of \$1 million, was \$13 million, of which \$6 million was reported within *Other assets* on the Company's consolidated balance sheets. Embedded derivatives of \$7 million were reported within *Medium-term notes* on the Company's consolidated balance sheets.

As of March 31, 2015, the total fair value of the Company's derivative liabilities, after counterparty netting of \$1 million and cash collateral posted by the company of \$108 million, was \$481 million, of which \$467 million was reported within *Derivative liabilities* and *Derivative liabilities* presented under *Liabilities of consolidated variable interest entities* on the Company's consolidated balance sheets. Embedded derivatives of \$14 million were reported within *Medium-term notes* on the Company's consolidated balance sheets.

The following table presents the total fair value of the Company's derivative assets and liabilities by instrument and balance sheet location, before counterparty netting and posting of cash collateral, as of March 31, 2015:

In millions	Notional Amount Outstanding	Derivative Assets <sup>(1)</sup>		Derivative Liabilities <sup>(1)</sup>	
		Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
<b>Derivative Instruments</b>					
Not designated as hedging instruments:					
Insured credit default swaps	\$ 8,086	Other assets	\$ -	Derivative liabilities	\$ (207)

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Insured swaps	3,877	Other assets	-	Derivative liabilities	(3)
Interest rate swaps	1,179	Other assets	2	Derivative liabilities	(269)
Interest rate swaps-VIE	903	Derivative assets-VIE	-	Derivative liabilities-VIE	(76)
Interest rate swaps-embedded	392	Medium-term notes	7	Medium-term notes	(14)
Currency swaps-VIE	89	Derivative assets-VIE	5	Derivative liabilities-VIE	-
All other	83	Other assets	-	Derivative liabilities	(21)
All other-VIE	241	Derivative assets-VIE	-	Derivative liabilities-VIE	-
All other-embedded	12	Other investments	-	Other investments	-
<b>Total non-designated derivatives</b>	<b>\$ 14,862</b>		<b>\$ 14</b>		<b>\$ (590)</b>

(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.



**Table of Contents****MBIA Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****Note 8: Derivative Instruments (continued)**

As of December 31, 2014, the total fair value of the Company's derivative assets, after counterparty netting of \$81 million, was \$10 million, of which \$2 million was reported within Other assets on the Company's consolidated balance sheets. Embedded derivatives of \$8 million were reported within Medium-term notes on the Company's consolidated balance sheets.

As of December 31, 2014, the total fair value of the Company's derivative liabilities, after counterparty netting of \$81 million was \$456 million, of which \$437 million was reported within Derivative liabilities and Derivative liabilities presented under Liabilities of consolidated variable interest entities on the Company's consolidated balance sheets. Embedded derivatives of \$19 million were reported within Medium-term notes and Other investments on the Company's consolidated balance sheets.

The following table presents the total fair value of the Company's derivative assets and liabilities by instrument and balance sheet location, before counterparty netting and posting of cash collateral, as of December 31, 2014:

In millions	Notional Amount	Derivative Assets <sup>(1)</sup>		Derivative Liabilities <sup>(1)</sup>	
		Outstanding	Balance Sheet Location	Fair Value	Balance Sheet Location
<b>Derivative Instruments</b>					
Not designated as hedging instruments:					
Insured credit default swaps	\$ 9,481	Other assets	\$ -	Derivative liabilities	\$ (244)
Insured swaps	4,044	Other assets	-	Derivative liabilities	(2)
Interest rate swaps	1,450	Other assets	83	Derivative liabilities	(248)
Interest rate swaps-embedded	437	Medium-term notes	8	Medium-term notes	(19)
Currency swaps-VIE	91	Derivative assets-VIE	-	Derivative liabilities-VIE	-
All other	83	Other assets	-	Derivative liabilities	(24)
All other-VIE	241	Derivative assets-VIE	-	Derivative liabilities-VIE	-
All other-embedded	12	Other investments	-	Other investments	-
<b>Total non-designated derivatives</b>	<b>\$ 15,839</b>		<b>\$ 91</b>		<b>\$ (537)</b>

(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 March 31, 2015:

In millions	Location of Gain (Loss) Recognized in Income on Derivative	Net Gain (Loss) Recognized in Income
<b>Derivatives Not Designated as Hedging Instruments</b>		
Insured credit default swaps	Unrealized gains (losses) on insured derivatives	\$ 37

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Insured credit default swaps	Realized gains (losses) and other settlements on insured derivatives	(9)
Interest rate swaps	Net gains (losses) on financial instruments at fair value and foreign exchange	(107)
Currency swaps-VIE	Net gains (losses) on financial instruments at fair value and foreign exchange-VIE	4
All other	Net gains (losses) on financial instruments at fair value and foreign exchange	3
Total		\$ (72)

**Table of Contents****MBIA Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****Note 8: Derivative Instruments (continued)**

The following table presents the effect of derivative instruments on the consolidated statements of operations for the three months ended March 31, 2014:

In millions

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized in Income on Derivative	Net Gain (Loss) Recognized in Income
Insured credit default swaps	Unrealized gains (losses) on insured derivatives	\$ 823
Insured credit default swaps	Realized gains (losses) and other settlements on insured derivatives	(339)
Interest rate swaps	Net gains (losses) on financial instruments at fair value and foreign exchange	(23)
Currency swaps-VIE	Net gains (losses) on financial instruments at fair value and foreign exchange-VIE	6
All other	Unrealized gains (losses) on insured derivatives	15
All other	Net gains (losses) on financial instruments at fair value and foreign exchange	(1)
All other	Realized gains (losses) and other settlements on insured derivatives	(30)
Total		\$ 451

**Note 9: Income Taxes**

The Company's income taxes and the related effective tax rates for the three months ended March 31, 2015 and 2014 are as follows:

In millions	Three Months Ended March 31,	
	2015	2014
Income (loss) before income taxes	\$ 113	\$ 404
Provision (benefit) for income taxes	\$ 44	\$ 148
Effective tax rate	38.9%	36.6%

For the three months ended March 31, 2015, the Company's effective tax rate applied to its income before income taxes was higher than the U.S. statutory tax rate primarily as a result of the non-deductibility of the change in fair value of the warrants.

For the three months ended March 31, 2014, the Company's effective tax rate applied to its income before income taxes was higher than the U.S. statutory tax rate primarily as a result of certain non-tax deductible expenses and the increase in the valuation allowance against its deferred tax asset.

The Company's provision for income taxes for interim financial periods is not based on an estimated annual effective rate due to the variability in fair value of its derivative liabilities, which prevents the Company from projecting a reliable estimated annual effective tax rate and income

before income taxes for the full year of 2015. A discrete calculation of the provision is calculated for each interim period.

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

The Company establishes a valuation allowance against its deferred tax asset when it is more likely than not that all or a portion of the deferred tax asset will not be realized. All evidence, both positive and negative, needs to be identified and considered in making the determination. Future realization of the existing deferred tax asset ultimately depends, in part, on the generation of sufficient taxable income of appropriate character (for example, ordinary income versus capital gains) within the carryforward period available under the tax law.

As of March 31, 2015 and December 31, 2014, the Company's net deferred tax asset was \$1.0 billion, with no valuation allowance as a result of a tax planning strategy to use unrealized gains that are included in Accumulated other comprehensive income (loss) on the Company's consolidated balance sheets against the deferred tax asset related to any remaining asset impairments.

In accordance with accounting guidance for income taxes, the netting of deferred taxes between different taxpaying jurisdictions is not permitted. As of March 31, 2015, there was also a non U.S. deferred tax liability of \$15 million included in Other liabilities on the Company's consolidated balance sheet.

**Table of Contents****MBIA Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****Note 9: Income Taxes (continued)*****Tax Sharing Agreement***

The Company has a tax sharing agreement among its members effective January 1, 1987. The agreement was amended and restated effective September 8, 2011 to change the method of calculating each domestic insurer's tax liability to the method permitted by paragraph 3(a) of Department Circular Letter #33 (1979). The agreement was submitted to the NYSDFS for review and non-disapproval pursuant to Section 1505 of the New York Insurance Law (NYIL). The Company's tax sharing agreement is filed as an exhibit to the Company's Annual Report on Form 10-K for the year ended December 31, 2014, for informational purposes only. Refer to 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, 2014, for further discussion on the Company's tax sharing agreement.

***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 March 31, 2015 and December 31, 2014, the Company had no UTB outstanding.

MBIA and its U.S. subsidiaries file a U.S. consolidated federal income tax return. Federal income tax returns for 2011 through 2013 are subject to examination.

The tax authorities in the United Kingdom have been auditing MBIA UK for tax years 2005 through 2012. In April of 2015, MBIA UK received correspondence from the HM Revenue & Customs closing the audit for the years under examination with no change in taxable income.

As of March 31, 2015, the Company's net operating loss (NOL) is approximately \$3.1 billion. The NOL will expire between tax years 2029 through 2034. As of March 31, 2015, the Company has an alternative minimum tax credit carryforward of \$22 million, which does not expire.

**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) international and structured finance insurance; and 3) corporate. The Company's U.S. public finance insurance business is operated through National and its international and structured finance insurance business is operated through MBIA Corp. Prior to 2015, the Company managed two other operating segments, advisory services and conduit. During 2014, the Company dissolved its conduit segment by extinguishing the remaining liabilities of the segment and liquidating the Company's remaining conduit, Meridian, and effective January 1, 2015, the Company exited its advisory services business with the completed sale of Cutwater to a subsidiary of The Bank of New York Mellon Corporation.

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

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

The Company's U.S. public finance insurance segment is principally conducted through National. The financial guarantees issued by National provide unconditional and irrevocable guarantees of the payment of the principal of, and interest or other amounts owing on, U.S. public finance

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

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**Table of Contents****MBIA Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****Note 10: Business Segments (continued)***International and Structured Finance Insurance*

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

MBIA Inc.;

MBIA Global Funding, LLC ( GFL );

MBIA Investment Management Corp. ( IMC ); and

LaCrosse Financial Products, LLC, a wholly-owned affiliate, in which MBIA Corp. has written insurance policies guaranteeing the obligations under CDS, including termination payments that may become due upon certain events including the insolvency or payment default of the financial guarantor or the CDS issuer.

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

*Corporate*

The Company's corporate segment consists of general corporate activities, including providing general support services to MBIA's other operating businesses and asset and debt management. General support services are provided by the Company's service company, MBIA Services Corporation ( MBIA Services ). MBIA Services provides various support services including, among others, management, legal, accounting, treasury, information technology, and insurance portfolio surveillance, on a fee-for-service basis. Debt management includes activities related to servicing obligations issued by MBIA Inc. and its subsidiaries, IMC and GFL. MBIA Inc. issued debt to finance the operations of the MBIA group. IMC, along with MBIA Inc., provided customized investment agreements, guaranteed by MBIA Corp., for bond proceeds and other public funds for such purposes as construction, loan origination, escrow and debt service or other reserve fund requirements. It also provided customized products for funds that are invested as part of asset-backed or structured product transactions. 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. The company ceased issuing these investment agreements and MTNs and the outstanding liability balances and corresponding asset balances have declined over time as liabilities mature, terminate or are retired. All of the debt within the corporate segment is managed collectively and is serviced by the financial resources available to MBIA Inc. Asset management activities provide for opportunities in investments and provide

general liquidity support to MBIA Inc.

*Advisory Services*

The advisory services segment primarily consisted of the operations of Cutwater Investor Services Corp. and Cutwater Asset Management Corp. and was a fee-for-service investment management business focused on fixed-income markets. Effective with the January 1, 2015 sale of Cutwater, MBIA has no business activities within its advisory services segment.

*Conduit*

The Company's conduit segment was operated through Meridian and administered through MBIA Asset Finance, LLC. Assets financed by Meridian were funded by MTNs. In 2014, the Company extinguished the remaining liabilities of this segment and liquidated Meridian.



**Table of Contents****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 March 31, 2015 and 2014:

In millions	Three Months Ended March 31, 2015				
	U.S. Public Finance Insurance	International and Structured Finance Insurance	Corporate	Eliminations	Consolidated
Revenues <sup>(1)</sup>	\$ 105	\$ 29	\$ 5	\$ -	\$ 139
Net change in fair value of insured derivatives	-	28	-	-	28
Net gains (losses) on financial instruments at fair value and foreign exchange	3	(5)	32	-	30
Other net realized gains (losses)	(4)	-	24	-	20
Revenues of consolidated VIEs	-	2	-	-	2
Inter-segment revenues <sup>(2)</sup>	10	18	16	(44)	-
<b>Total revenues</b>	<b>114</b>	<b>72</b>	<b>77</b>	<b>(44)</b>	<b>219</b>
Losses and loss adjustment	(6)	-	-	-	(6)
Operating	10	19	19	-	48
Interest	-	25	25	-	50
Expenses of consolidated VIEs	-	14	-	-	14
Inter-segment expenses <sup>(2)</sup>	24	18	1	(43)	-
<b>Total expenses</b>	<b>28</b>	<b>76</b>	<b>45</b>	<b>(43)</b>	<b>106</b>
Income (loss) before income taxes	86	(4)	32	(1)	113
Provision (benefit) for income taxes	29	(2)	17	-	44
Net income (loss)	\$ 57	\$ (2)	\$ 15	\$ (1)	\$ 69
Identifiable assets	\$ 5,859	\$ 10,578	\$ 2,737	\$ (3,259) <sup>(3)</sup>	\$ 15,915

(1) - Represents the sum of third-party financial guarantee net premiums earned, net investment income, insurance-related fees and reimbursements and other fees.

(2) - Represents intercompany premium income and expense and intercompany interest income and expense pertaining to intercompany receivables and payables.

(3) - Consists of intercompany reinsurance balances, repurchase agreements and deferred income taxes.

## Three Months Ended March 31, 2014

In millions	U.S. Public Finance Insurance	International and Structured Finance Insurance	Corporate	Advisory Services	Conduit	Eliminations	Consolidated
Revenues <sup>(1)</sup>	\$ 89	\$ 32	\$ 18	\$ 3	\$ -	\$ -	\$ 142
Net change in fair value of insured derivatives	1	468	-	-	-	-	469
Net gains (losses) on financial instruments at fair value and foreign exchange	4	(3)	(52)	(4)	-	-	(55)
Net gains (losses) on extinguishment of debt	-	-	1	-	-	-	1
Other net realized gains (losses)	-	-	1	-	-	-	1
Revenues of consolidated VIEs	-	20	(5)	-	4	-	19
Inter-segment revenues <sup>(2)</sup>	11	12	7	6	(1)	(35)	-
Total revenues	105	529	(30)	5	3	(35)	577
Losses and loss adjustment	(14)	64	-	-	-	-	50
Operating	9	17	19	11	-	-	56
Interest	-	28	26	-	-	-	54
Expenses of consolidated VIEs	-	13	-	-	-	-	13
Inter-segment expenses <sup>(2)</sup>	18	17	4	1	-	(40)	-
Total expenses	13	139	49	12	-	(40)	173
Income (loss) before income taxes	92	390	(79)	(7)	3	5	404
Provision (benefit) for income taxes	31	136	(21)	(1)	1	2	148
Net income (loss)	\$ 61	\$ 254	\$ (58)	\$ (6)	\$ 2	\$ 3	\$ 256
Identifiable assets	\$ 6,124	\$ 10,867	\$ 2,640	\$ 34	\$ 76	\$ (3,654) <sup>(3)</sup>	\$ 16,087

(1) - Represents the sum of third-party financial guarantee net premiums earned, net investment income, insurance-related fees and reimbursements, investment management fees and other fees.

(2) - Represents intercompany premium income and expense, intercompany asset management fees and expenses, and intercompany interest income and expense pertaining to intercompany receivables and payables.

(3) - Consists of intercompany reinsurance balances, repurchase agreements and deferred income taxes.

**Table of Contents****MBIA Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****Note 10: Business Segments (continued)**

Premiums on financial guarantees and insured derivatives reported within the Company's insurance segments are generated within and outside the U.S. The following table summarizes premiums earned on financial guarantees and insured derivatives by geographic location of risk for the three months ended March 31, 2015 and 2014:

<b>In millions</b>	<b>Three Months Ended March 31,</b>	
	<b>2015</b>	<b>2014</b>
<b>Total premiums earned:</b>		
United States	\$ 87	\$ 67
United Kingdom	7	9
Europe (excluding United Kingdom)	2	3
Internationally diversified	1	2
Central and South America	6	9
Asia	1	1
Other	1	2
<b>Total</b>	<b>\$ 105</b>	<b>\$ 93</b>

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

Basic earnings per share excludes dilution and is computed by dividing net income available to common shareholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share reflects the dilutive effect of all stock options, warrants and unvested restricted stock outstanding during the period that could potentially result in the issuance of common stock. The dilution from stock options, warrants and unvested restricted stock are calculated by applying the two-class method and using the treasury stock method. The treasury stock method assumes the proceeds from the exercise of stock options and warrants or the unrecognized compensation expense from unvested restricted stock will be used to purchase shares of the Company's common stock at the average market price during the period. For the three months ended March 31, 2015 and 2014, there were 17,957,392 and 42,358,006, respectively, of stock options, warrants and unvested restricted stock outstanding that were antidilutive.

**Table of Contents****MBIA Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****Note 11: Earnings Per Share (continued)**

The following table presents the computation of basic and diluted earnings per share for the three months ended March 31, 2015 and 2014:

\$ in millions except share and per share amounts	Three Months Ended March 31,	
	2015	2014
<b>Basic earnings per share:</b>		
Net income (loss)	\$ 69	\$ 256
Less: undistributed earnings allocated to participating securities	2	5
Net income (loss) available to common shareholders	67	251
Basic weighted average shares <sup>(1)</sup>	181,735,876	189,033,982
Net income (loss) per basic common share	\$ 0.37	\$ 1.33
<b>Diluted earnings per share:</b>		
Net income (loss)	69	256
Less: undistributed earnings allocated to participating securities	2	5
Net income (loss) available to common shareholders	67	251
Basic weighted average shares <sup>(1)</sup>	181,735,876	189,033,982
Effect of common stock equivalents:		
Stock options	1,000,539	1,229,766
Diluted weighted average shares	182,736,415	190,263,748
Net income (loss) per diluted common share	\$ 0.37	\$ 1.32

(1) - Includes 678,568 and 405,961 of participating securities that met the service condition and were eligible to receive nonforfeitable dividends or dividend equivalents for the three months ended March 31, 2015 and 2014, respectively.

**Note 12: Accumulated Other Comprehensive Income**

The following table presents the changes in the components of AOCI for the three months ended March 31, 2015:

Unrealized Gains (Losses) on AFS	Foreign Currency
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<b>In millions</b>	<b>Securities, Net</b>	<b>Translation, Net</b>	<b>Total</b>
Balance, December 31, 2014	\$ 34	\$ (13)	\$ 21
Other comprehensive income (loss) before reclassifications	17	(20)	(3)
Amounts reclassified from AOCI	4	-	4
Total other comprehensive income (loss)	21	(20)	1
Balance, March 31, 2015	\$ 55	\$ (33)	\$ 22

**Table of Contents****MBIA Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****Note 12: Accumulated Other Comprehensive Income (continued)**

The following table presents the details of the reclassifications from AOCI for the three months ended March 31, 2015 and 2014:

In millions	Amounts Reclassified from AOCI Three Months Ended March 31,		Affected Line Item on the Consolidated Statements of Operations
	2015	2014	
<b>Details about AOCI Components</b>			
Unrealized gains (losses) on AFS securities:			
Realized gain (loss) on sale of securities	\$ (4)	\$ (1)	Net gains (losses) on financial instruments at fair value and foreign exchange
Amortization on securities	(3)	(1)	Net investment income
	(7)	(2)	Income (loss) before income taxes
	(3)	(1)	Provision (benefit) for income taxes
	(4)	(1)	Net income (loss)
Foreign currency translation:			
Realized gain (loss) on liquidation of foreign entity	-	(4)	Net gains (losses) on financial instruments at fair value and foreign exchange
Total reclassifications for the period	\$ (4)	\$ (5)	Net income (loss)

**Note 13: Commitments and Contingencies**

The following commitments and contingencies provide an update of those discussed in Note 21: 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, 2014, and should be read in conjunction with the complete descriptions provided in the aforementioned Form 10-K.

**Litigation**

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

On March 2, 2015, the court issued an order scheduling expert discovery to conclude by February of 2016.

*MBIA Insurance Corp. v. J.P. Morgan Securities LLC (f/k/a Bear, Stearns & Co. Inc.)*; Index No. 64676/2012 (N.Y. Sup. Ct., County of Westchester)

On September 9, 2014, the court granted in part MBIA Corp.'s motion to file an amended complaint. MBIA filed its amended complaint on September 29, 2014. J.P. Morgan filed its answer to the amended complaint on October 10, 2014. Both parties are cross-appealing the September 9, 2014 decision granting in part MBIA's motion to file an amended complaint. The briefing is scheduled to be completed on June 8, 2015.

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*Ambac Bond Insurance Coverage Cases, Coordinated Proceeding Case No. JCCP 4555 (Super. Ct. of Cal., County of San Francisco)*

An appeal of the dismissal of the plaintiff's anti-trust claim under California's Cartwright Act is pending. An appeal is also pending of the March 26, 2014 decision granting in part the Bond Insurer defendants' motions for reimbursement of legal fees incurred in connection with the motion to strike pursuant to California's Anti-SLAPP statute.

The Company is defending against the aforementioned actions in which it is a defendant and expects ultimately to prevail on the merits. There is no assurance, however, that the Company will prevail in these actions. Adverse rulings in these actions could have a material adverse effect on the Company's ability to implement its strategy 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.

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. The lease agreement has been classified as an operating lease, and operating rent expense has been recognized on a straight-line basis since the second quarter of 2014.

### **Note 14: Subsequent Events**

Refer to Note 13: Commitments and Contingencies for information about legal proceedings that occurred after March 31, 2015.

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## **Table of Contents**

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

#### **INTRODUCTION**

MBIA Inc. ( MBIA , the Company , we , us , or our ) operates one of the largest financial guarantee insurance businesses in the industry. MBIA manages three operating segments: 1) United States ( U.S. ) public finance insurance; 2) corporate; and 3) international and structured finance insurance. Our U.S. public finance insurance business is primarily operated through National Public Finance Guarantee Corporation and its subsidiaries ( National ); and our corporate segment is operated through MBIA Inc. and several of its subsidiaries, including our service company, MBIA Services Corporation ( MBIA Services ) and is generally referred to as ( MBIA Inc. ); and our international and structured finance insurance business is primarily operated through MBIA Insurance Corporation and its subsidiaries ( MBIA Corp. ).

Unless otherwise indicated or the context otherwise requires, references to MBIA Corp. are to MBIA Insurance Corporation, together with its subsidiaries, MBIA UK Insurance Limited ( MBIA UK ) and MBIA Mexico S.A. de C.V. Prior to 2015, MBIA managed two other operating segments, advisory services and conduit. Our advisory services segment was operated primarily through Cutwater Holdings, LLC and its subsidiaries ( Cutwater ). Effective on January 1, 2015, we exited our advisory business through the sale of Cutwater. In the second quarter of 2014, we exited our conduit business through the liquidation of Meridian Funding Company, LLC ( Meridian ).

The primary strategies of our U.S. public finance insurance segment are to generate new insurance business in National, consistent with our portfolio management and return requirements, and to maximize the economics of our existing insured portfolio through effective surveillance and remediation. The primary strategies of our international and structured finance insurance segment are to maintain adequate liquidity, reduce risk, mitigate loss and preserve value. We do not expect to write new business in our international and structured finance insurance segment in the foreseeable future. Our corporate segment consists of general corporate activities, including providing general support services to MBIA's other operating businesses and asset and debt management.

#### **EXECUTIVE OVERVIEW**

##### ***National***

National is the largest U.S. public finance-only bond insurer in the financial guarantee industry as measured by total insured gross par outstanding of \$210.0 billion as of March 31, 2015. Our primary strategy is to insure new issue and secondary market municipal bonds while providing ongoing surveillance of National's existing insured portfolio. National's ability to write new business and to compete with other financial guarantors is largely dependent on the financial strength ratings assigned to National by major rating agencies. As of March 31, 2015, National was rated AA+ with a stable outlook by Kroll Bond Rating Agency ( KBRA ), AA- with a stable outlook by Standard & Poor's Financial Services LLC ( S&P ), and A3 with a negative outlook by Moody's Investors Service, Inc. ( Moody's ).

National prices new business opportunities in both the competitive and negotiated markets. National maintains underwriting criteria for most municipal risk types and expects opportunities for new business across the spectrum of municipal sectors. Based on our underwriting and pricing criteria, we expect that the majority of new business will be in the general obligation, tax-backed and revenue bond sectors. In addition to the new issue market, we anticipate opportunities in the secondary market with respect to bonds issued in recent years, which were not insured upon issuance and which meet our underwriting criteria.

National seeks to generate shareholder value through appropriate risk adjusted pricing; however, current market conditions and the competitive landscape limit National's new business opportunities and its ability to price and underwrite risk with attractive returns. Financial guarantee insurance competes in nearly all instances with the issuer's alternative of foregoing insurance. If the interest savings from insurance are not greater than the cost of the insurance, the issuer will generally choose to issue bonds without insurance.

Prevailing interest rate levels and credit spreads have affected demand for financial guarantee insurance. Currently the market features both lower interest rates and narrower spreads between insured and uninsured obligations. The purchase of insurance during such periods will generally provide lower cost savings to the issuer compared to periods of higher rates and wider spreads. As a result, some issuers choose to issue on an uninsured basis. At the same time, investors may choose to forego insurance to increase the yield on their investments.

Higher interest rates would present more favorable new business opportunities in the U.S. public finance market. Given that National's insurance policies protect policyholders from potential defaults and guarantee payments of scheduled principal and interest, we believe the stress experienced during the financial crisis will increase the demand for National's insurance product.





**Table of Contents****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)****EXECUTIVE OVERVIEW (continued)**

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

*Exposure to Puerto Rico*

As of March 31, 2015, National had \$4.5 billion of gross insured par exposure related to the Commonwealth of Puerto Rico and certain of its instrumentalities ( Puerto Rico ). Puerto Rico is experiencing fiscal stress due to, among other things, Puerto Rico's structural budget imbalance, a stagnating local economy, net migration of people and a high debt burden. However, it has attempted to address its significant economic challenges by passing a balanced general fund budget for the fiscal year ending June 30, 2015, passing a comprehensive reform of its employee retirement system and enacting the Fiscal Sustainability Act, which allows the government to exercise emergency powers to deal with its fiscal crisis. Refer to the U.S. Public Finance Insurance Puerto Rico Exposures section for additional information on our Puerto Rico exposures.

*MBIA Inc.*

MBIA Inc. has issued debt to finance the operations of its subsidiaries. This debt, which includes MBIA Inc. senior notes, investment agreements issued by MBIA Investment Management Corp. ( IMC ) and MBIA Inc., and medium-term notes ( MTNs ), issued by MBIA Global Funding, LLC ( GFL ) are collectively managed and serviced with the financial resources available to MBIA Inc. Our strategy is to bring our leverage down using cash generated from operations to repurchase or retire debt. Based on MBIA Inc.'s debt service requirements and expected operating expenses, we expect that MBIA Inc. will have sufficient cash to satisfy its debt obligations and its general corporate needs over time from expected subsidiary dividends, additional anticipated releases from the Tax Escrow Account, investment income and securities issuance; however, there can be no assurance that such sources will have sufficient cash or that we will have market access when needed. For further information, see Strategic Plan Related and Other Risk Factors in Part I, Item 1A, Risk Factors included in the Company's Annual Report on Form 10-K for the year ended December 31, 2014. MBIA Inc. also manages assets, which provide opportunities in investments and provide general liquidity support to MBIA Inc. Refer to the Liquidity MBIA Inc. Liquidity section for information on MBIA Inc.'s liquidity.

*MBIA Corp.*

MBIA Corp.'s primary objectives are reducing risk and loss mitigation on potential losses on MBIA Corp.'s insurance exposures, maximizing the collection of excess spread and put-back recoveries and value preservation. MBIA Corp. has significant negative statutory earned surplus and has no current capacity to pay dividends. In addition, since July 15, 2012 no payments on MBIA Corp.'s outstanding surplus notes have been approved by the New York State Department of Financial Services ( NYSDFS ). MBIA Corp. has contributed to the Company's net operating loss carryforward ( NOL ), which is used in the calculation of our consolidated income taxes. Under MBIA group's tax sharing agreement, MBIA Corp. maintains a substantial NOL, therefore if MBIA Corp. turns profitable it is not expected to make any tax payments to the Tax Escrow Account. Based on MBIA Corp.'s current projected earnings and our expectation that it will not write new business for the foreseeable future, we believe it is unlikely that MBIA Corp. will generate sufficient income to fully use its NOL. Refer to the Capital Resources MBIA Corp. section for additional information on MBIA Corp.'s surplus notes and statutory capital.

MBIA Corp. may make negotiated settlement payments to counterparties and/or forego its right to all or some termination premiums when it commutes insurance exposures. We continue to evaluate opportunities to commute additional high risk insurance exposures, although our ability to commute is limited by available liquidity and the willingness of counterparties to enter into commutations.

MBIA Corp. continues to successfully manage its liquidity risks and satisfy all payment obligations when due. For the three months ended March 31, 2015, recoveries from excess spread on second-lien residential mortgage-backed securities ( RMBS ) continued to exceed paid claims and loss adjustment expense ( LAE ). There can be no assurance this trend will continue. Our liquidity forecasts reflect adequate resources to pay

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expected claims, but if MBIA Corp. experiences materially-elevated claims payments or does not substantially collect our projected amounts of excess spread or the put-back recoverable from Credit Suisse for ineligible mortgages, it could experience liquidity shortfalls.

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**Table of Contents****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)****EXECUTIVE OVERVIEW (continued)**

If MBIA Corp. were to experience liquidity shortfalls in the future, it may have insufficient resources to continue to pay claims, which may cause the NYSDFS to put MBIA Insurance Corporation into a rehabilitation or liquidation proceeding. Given the separation of MBIA Inc. and MBIA Corp. as distinct legal entities, the absence of any material intercompany lending agreements or 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 NYSDFS would have any significant long-term liquidity impact on MBIA Inc. or result in a liquidation or similar proceeding of MBIA UK. Refer to the Liquidity MBIA Corp. Liquidity section for additional information on MBIA Corp.'s liquidity position.

***Other***

In May of 2015, we sold our Armonk, New York facility. Refer to Note 1: Business Developments and Risks and Uncertainties in the Notes to Consolidated Financial Statements for a further discussion of this transaction.

***Economic and Financial Market Trends***

The U.S. economy showed signs of slower growth during the first quarter of 2015, partly due to harsh weather conditions that hindered housing and consumer spending. Also contributing to the slowing economy was the continued strength of the U.S. dollar, which resulted in expensive exports. The unemployment rate remained steady although there was a decline in the number of jobs added. Based on economic trends, including anticipated slower growth in gross domestic product, we expect that any increase in the federal funds rate by the Federal Reserve will likely be delayed until later this year. Throughout much of Europe, economic growth and employment have improved and the European Central Bank's implementation of Quantitative Easing is intended to facilitate economic growth. However, substantial risk remains, including deflationary pressures and renewed uncertainties about Greece. Information concerning our interest and foreign exchange rate sensitivity appears in Part I, Item 3, Quantitative and Qualitative Disclosures about Market Risk.

Economic and financial market trends could impact MBIA's business outlook and its financial results. Many states and municipalities have experienced growing tax collections and appreciation in local level assessed valuations which drive property taxes. The consistent gradual improvement of economic indicators at the state and local levels that strengthen the credit quality of the issuers of our insured municipal bonds is expected to improve the performance of our insured U.S. public finance portfolio and could reduce the amount of National's incurred losses. A decrease in oil prices which benefits consumers could have a positive impact on certain sales taxes to the extent consumer spending increases as a result. However, some states and municipalities will experience a decrease in revenues where their economies are reliant on the oil and gas industries.

An ongoing low interest rate environment will adversely impact the demand for municipal bond insurance since there is a lower economic benefit for issuers from the use of bond insurance as well as National's ability to price risk at levels that meet its underwriting objectives and returns since the spread between an uninsured bond and an insured bond is narrower, resulting in less spread for the payment of premium for bond insurance.

***Financial Highlights***

Our financial results, prepared in accordance with accounting principles generally accepted in the United States of America (GAAP), have been volatile as a result of unrealized gains and losses from our insured credit derivatives, as well as a result of insured losses and recoveries on second-lien RMBS. Our economic performance has also been volatile due to changes in our loss estimates based on changes in macroeconomic conditions in the U.S. and abroad and deviations in collateral performance from our expectations.

For the three months ended March 31, 2015, we recorded consolidated net income of \$69 million or \$0.37 per diluted share compared with consolidated net income of \$256 million, or \$1.32 per diluted share for the same period of 2014.

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For the three months ended March 31, 2015, combined operating income (a non-GAAP measure) was \$34 million compared with \$40 million for the same period of 2014. Refer to the following Results of Operations section for a description of operating income and a reconciliation of operating income to GAAP net income.

Our consolidated shareholders' equity was \$3.9 billion as of March 31, 2015 and December 31, 2014. Our consolidated book value per share as of March 31, 2015 was \$21.35 compared with \$20.47 as of December 31, 2014.

As of March 31, 2015, adjusted book value ( ABV ) per share (a non-GAAP measure) was \$25.78, up from \$24.87 as of December 31, 2014. Refer to the following Results of Operations section for a discussion of ABV and a reconciliation of GAAP book value per share to ABV per share.

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

**EXECUTIVE OVERVIEW (continued)**

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

**CRITICAL ACCOUNTING ESTIMATES**

We prepare our 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, valuation of financial instruments, and deferred income taxes, 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, see 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, 2014. 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.

**Table of Contents****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)****RESULTS OF OPERATIONS****Summary of Consolidated Results**

The following table presents a summary of our consolidated financial results for the three months ended March 31, 2015 and 2014:

In millions except share and per share amounts	Three Months Ended March 31,	
	2015	2014
Total revenues (losses)	\$ 219	\$ 577
Total expenses	106	173
Income (loss) before income taxes	113	404
Provision (benefit) for income taxes	44	148
Net income (loss)	\$ 69	\$ 256
Net income (loss) per common share:		
Basic	\$ 0.37	\$ 1.33
Diluted	\$ 0.37	\$ 1.32
Weighted average number of common shares outstanding:		
Basic	181,735,876	189,033,982
Diluted	182,736,415	190,263,748

Consolidated total revenues for the three months ended March 31, 2015 included \$28 million of net gains on insured derivatives compared with \$469 million of net gains for the same period of 2014. The net gains on insured derivatives in 2015 were principally the result of the effects of unfavorable changes in the market's perception of MBIA Corp.'s nonperformance risk on its derivative liabilities, partially offset by claim payments. The net gains on insured derivatives in 2014 were principally associated with the reversal of unrealized losses from commutations partially offset by settlements and claim payments. Consolidated total expenses for the three months ended March 31, 2015 included a \$6 million benefit of net insurance loss and LAE compared with a \$50 million loss for the same period of 2014. The loss and LAE benefit in 2015 primarily related to U.S. public finance issues and the loss and LAE expense in 2014 principally related to our insured RMBS exposures, partially offset by a benefit in U.S. public finance issues.

**Operating Income (Loss)**

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

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

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

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Elimination of the after-tax impact of mark-to-market gains (losses) on financial instruments that primarily include interest rate swaps and hybrid financial instruments. Also eliminated are the mark-to market gains (losses) on warrants issued by the Company. All of these amounts fluctuate based on market interest rates, credit spreads, MBIA Inc. s common stock price and other market factors.

Elimination of the after-tax impact of foreign exchange gains (losses) on the remeasurement of certain assets and liabilities and transactions in non-functional currencies. Given the possibility of volatility in foreign exchange markets, we exclude the impact of foreign exchange gains (losses) to provide a measurement of comparability of operating income (loss).

Elimination of the after-tax impact of gains (losses) on the sale of investments, net investment losses related to other-than-temporary impairments ( OTTI ) and net gains (losses) on extinguishment of debt since the timing of these transactions are subject to management s assessment of market opportunities and capital liquidity positions.



**Table of Contents****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)****RESULTS OF OPERATIONS (continued)**

Elimination of the after-tax impact of the gain on the sale of Cutwater.

Elimination of deferred income tax valuation allowance on these adjustments.

The following table presents our combined operating income (loss) and operating income (loss) per diluted common share (both non-GAAP measures) and provides reconciliations of GAAP net income (loss) to operating income (loss) and GAAP net income (loss) per diluted common share to operating income (loss) per diluted common share for the three months ended March 31, 2015 and 2014:

In millions, except per share amounts	Three Months Ended March 31,	
	2015	2014
Net income (loss)	\$ 69	\$ 256
Less: net income of Non-Core Segments, including eliminations	(3)	253
Less: after-tax adjustments:		
Mark-to-market gains (losses) on financial instruments <sup>(1)</sup>	(17)	(35)
Foreign exchange gains (losses) <sup>(1)</sup>	42	(2)
Net gains (losses) on sales of investments <sup>(1)</sup>	-	1
Other net realized gains (losses) <sup>(2)</sup>	13	-
Tax valuation allowance on adjustments <sup>(3)</sup>	-	(1)
<b>Operating income (loss)</b>	<b>\$ 34</b>	<b>\$ 40</b>
<b>Operating income (loss) per diluted common share<sup>(4)</sup></b>	<b>\$ 0.18</b>	<b>\$ 0.21</b>
<b>Weighted average diluted shares used in calculation</b>	<b>183</b>	<b>190</b>

(1) - Gross amounts are reported within Net gains (losses) on financial instruments at fair value and foreign exchange and the corresponding tax effects are reported within Provision (benefit) for income taxes on the Company's consolidated statements of operations.

(2) - Relates to the after-tax gain on the sale of Cutwater.

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

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

**Adjusted Book Value**

In addition to book value per share, we also analyze ABV per share, a non-GAAP measure. We consider ABV a measure of fundamental value of the Company and the change in ABV an important measure of financial performance. ABV adjusts GAAP book value to remove the after-tax results of activities in our Non-Core Segments. In addition, ABV adjusts for certain items which the Company believes will reverse from GAAP book value through GAAP earnings and other comprehensive income, as well adds in the impact of certain items which the Company believes

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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 which the likelihood and amount can be reasonably estimated. We have presented ABV to allow investors and analysts to evaluate the Company using the same measure that MBIA's management regularly uses to measure financial performance and value. ABV is not a substitute for and should not be viewed in isolation of GAAP book value, and our definition of ABV may differ from that used by other companies.

As of March 31, 2015, ABV per share was \$25.78, an increase from \$24.87 as of December 31, 2014. The increase in ABV per share was primarily driven by a decrease in common shares outstanding from the share repurchases made by the Company during the first quarter of 2015.

**Table of Contents****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)****RESULTS OF OPERATIONS (continued)**

The following table provides a reconciliation of consolidated book value per share to consolidated ABV per share:

<b>In millions except share and per share amounts</b>	<b>As of March 31, 2015</b>	<b>As of December 31, 2014</b>
Total shareholders' equity of MBIA Inc.	\$ 3,919	\$ 3,929
Common shares outstanding	183,573,627	191,942,895
Book value per share	\$ 21.35	\$ 20.47
Reverse book value of Non-Core Segments (after-tax) <sup>(1)</sup>	1.41	1.16
Reverse net unrealized (gains) losses included in other comprehensive income (after-tax)	(0.29)	(0.15)
Add net unearned premium revenue (after-tax) <sup>(2)</sup>	3.31	3.39
<b>Total adjustments per share</b>	<b>4.43</b>	<b>4.40</b>
Adjusted book value per share	\$ 25.78	\$ 24.87

(1) - The book value for Non-Core Segments, primarily the international and structured finance insurance segment, does not provide significant economic or shareholder value to MBIA Inc. Amounts are net of any deferred taxes available to MBIA Inc.

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

**U.S. Public Finance Insurance**

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

The following table presents our U.S. public finance insurance segment results for the three months ended March 31, 2015 and 2014:

<b>In millions</b>	<b>Three Months Ended March 31,</b>		<b>Percent</b>
	<b>2015</b>	<b>2014</b>	<b>Change</b>
Net premiums earned	\$ 85	\$ 65	31%
Net investment income	29	33	-12%
Fees and reimbursements	1	2	-50%

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Net change in fair value of insured derivatives	-	1	-100%
Net gains (losses) on financial instruments at fair value and foreign exchange	3	4	-25%
Other net realized gains (losses)	(4)	-	n/m
<b>Total revenues</b>	<b>114</b>	<b>105</b>	<b>9%</b>
Losses and loss adjustment	(6)	(14)	-57%
Amortization of deferred acquisition costs	18	14	29%
Operating	16	13	23%
<b>Total expenses</b>	<b>28</b>	<b>13</b>	<b>115%</b>
Income (loss) before income taxes	86	92	-7%
Provision (benefit) for income taxes	29	31	-6%
Net income (loss)	\$ 57	\$ 61	-7%

n/m - Percent change not meaningful.

**Table of Contents****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)****RESULTS OF OPERATIONS (continued)**

During the three months ended March 31, 2015, National insured \$38 million of gross par exposure. Low interest rates, narrow spreads and competitive pricing levels continue to severely limit new business opportunities. As of March 31, 2015, National was rated AA+ with a stable outlook by KBRA, AA- with a stable outlook by S&P and A3 with a negative outlook by Moody's. With these current ratings, National seeks to support the credit enhancement needs of municipal debt issuers across the U.S. National maintains underwriting criteria for most municipal risk types and expects to pursue opportunities for new business across the spectrum of municipal sectors. National's underwriting criteria does not limit it to particular sectors. We expect that the majority of its new business will be in the general obligation, tax-backed and revenue bond sectors.

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

For the three months ended March 31, 2015, operating income for the U.S. public finance insurance segment was \$56 million compared with \$57 million of GAAP net income. Operating income excludes \$1 million of after-tax net gains on sales of investments. There was no difference between operating income and GAAP net income for the three months ended March 31, 2014.

**NET PREMIUMS EARNED** Net premiums earned on financial guarantees represent gross premiums earned net of premiums ceded to reinsurers, and include scheduled premium earnings and premium earnings from refunded issues. The increase in net premiums earned for the three months ended March 31, 2015 compared with the same period of 2014 resulted from an increase in refunded premiums earned of \$28 million, partially offset by a decrease in scheduled premiums earned of \$8 million. Scheduled premium earnings declined due to the refunding and maturity of insured issues within our U.S. public finance portfolio with no material new insurance writings. Refunding activity over the past several years has accelerated premium earnings in prior periods and reduced the amount of scheduled premiums that would have been earned in the current period.

**NET INVESTMENT INCOME** The decrease in net investment income for the three months ended March 31, 2015 compared with the same period of 2014 was primarily due to lower average investment balances and lower yields.

**OTHER NET REALIZED GAINS (LOSSES)** For the three months ended March 31, 2015, other net realized gains (losses) included an impairment charge on our Armonk, New York facility of \$4 million to adjust the carrying amount to its sales price less costs to sell.

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

Refer to Note 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.

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

In millions	Three Months Ended March 31,		Percent Change
	2015	2014	
Loss and LAE related to expected payments	\$ (5)	\$ (25)	-80%

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Recoveries of expected payments	(1)	11	-109%
Gross losses incurred	(6)	(14)	-57%
Reinsurance	-	-	-%
Losses and loss adjustment expenses (benefit)	\$ (6)	\$ (14)	-57%

The benefit in losses and LAE for the three months ended March 31, 2015 primarily related to decreases in reserves for certain municipal utilities and general obligation bonds. The benefit in losses and LAE for the three months ended March 31, 2014 primarily related to decreases in reserves from certain general obligation bonds.

**Table of Contents****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)****RESULTS OF OPERATIONS (continued)**

The following table presents information about our U.S. public finance insurance loss and LAE reserves and recoverables as of March 31, 2015 and December 31, 2014:

In millions	March 31, 2015	December 31, 2014	Percent Change
Gross loss and LAE reserves	\$ 60	\$ 70	-14%
Expected recoveries on unpaid losses	(25)	(25)	-%
<b>Loss and LAE reserves</b>	<b>\$ 35</b>	<b>\$ 45</b>	<b>-22%</b>
Insurance loss recoverable	\$ 4	\$ 4	-%
Reinsurance recoverable on paid and unpaid losses <sup>(1)</sup>	\$ -	\$ 1	-100%

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

Loss and LAE reserves as of March 31, 2015 decreased compared with December 31, 2014 primarily as a result of decreases in expected payments on certain municipal utilities and general obligation bonds.

Included in our U.S. public finance loss and LAE reserves are both reserves for insured obligations for which a payment default has occurred and National has already paid a claim and also for which a payment default has not yet occurred, but a claim is expected in the future. The following table includes LAE reserves, but excludes par outstanding, as of March 31, 2015 and December 31, 2014 for one issue that had no expected future claim payments, but for which National was obligated to pay LAE incurred in prior periods. As of March 31, 2015 and December 31, 2014, loss and LAE reserves comprised the following:

\$ in millions	Number of Issues <sup>(1)</sup>		Loss and LAE Reserve		Par Outstanding	
	March 31, 2015	December 31, 2014	March 31, 2015	December 31, 2014	March 31, 2015	December 31, 2014
Gross of reinsurance:						
Issues with defaults	3	4	\$ 14	\$ 19	\$ 54	\$ 123
Issues without defaults	7	7	21	26	1,500	1,501
<b>Total gross of reinsurance</b>	<b>10</b>	<b>11</b>	<b>\$ 35</b>	<b>\$ 45</b>	<b>\$ 1,554</b>	<b>\$ 1,624</b>

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

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

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In millions	Three Months Ended March 31,		Percent Change
	2015	2014	
Gross expenses	\$ 16	\$ 13	23%
Amortization of deferred acquisition costs	\$ 18	\$ 14	29%
Operating	16	13	23%
Total insurance operating expenses	\$ 34	\$ 27	26%

Gross expenses represent total insurance expenses before the deferral of any policy acquisition costs. Gross expenses increased for the three months ended March 31, 2015 compared with the same period of 2014 due to increases in compensation expense and rental expense on our new headquarters in Purchase, New York.

Amortization of deferred acquisition costs increased for the three months ended March 31, 2015 compared with the same period of 2014 due to higher refunding activity in 2015. We did not defer a material amount of policy acquisition costs during the first quarters of 2015 or 2014.

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



**Table of Contents****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)****RESULTS OF OPERATIONS (continued)**

The following table presents the credit quality distribution of MBIA's U.S. public finance outstanding gross par insured as of March 31, 2015 and December 31, 2014. 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 ratings. If transactions are not rated by S&P, a Moody's equivalent rating is used. If transactions are not rated by either S&P or Moody's, an internal equivalent rating is used.

In millions Rating	Gross Par Outstanding			
	March 31, 2015		December 31, 2014	
	Amount	%	Amount	%
AAA	\$ 9,747	4.6%	\$ 11,364	5.1%
AA	102,993	49.1%	107,399	48.3%
A	75,330	35.9%	80,744	36.3%
BBB	15,482	7.4%	17,131	7.7%
Below investment grade	6,403	3.0%	5,655	2.6%
Total	\$ 209,955	100.0%	\$ 222,293	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 March 31, 2015.

In millions	Gross Par Outstanding	Gross Par Outstanding Plus CAB Accredited Interest	Debt Service Outstanding	National Internal Rating
Puerto Rico Electric Power Authority (PREPA) <sup>(1)</sup>	\$ 1,422	\$ 1,440	\$ 2,099	d
Puerto Rico Commonwealth GO <sup>(1)</sup>	1,114	1,166	1,573	bbb3
Puerto Rico Highway and Transportation Authority Transportation Revenue (PRHTA) <sup>(1)</sup>	792	793	1,499	bb3
Puerto Rico Sales Tax Financing Corporation (COFINA) <sup>(1)</sup>	684	1,000	4,170	a3
Puerto Rico Government Development Bank GO	267	267	277	bbb3
Puerto Rico Highway and Transportation Authority Highway Revenue (PRHTA) <sup>(1)</sup>	127	128	170	bb2
University of Puerto Rico System Revenue	92	92	139	bbb3
Inter American University of Puerto Rico Inc.	28	28	39	a3
Puerto Rico Industrial Development Company	15	15	16	bbb2
Total	\$ 4,541	\$ 4,929	\$ 9,982	

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

In June of 2014, the Governor of Puerto Rico signed into law the Public Corporations Debt Enforcement and Recovery Act (the Recovery Act) that established a bankruptcy framework for public corporations including PRHTA (highway authority), PREPA (power authority) and Puerto Rico Aqueduct and Sewer Authority ( PRASA ) (water and sewer authority). The legislature's statement of motives for the Recovery Act excludes certain other entities from seeking relief under the Recovery Act, including, among others, Puerto Rico, COFINA, the Government Development Bank of Puerto Rico ( GDB ), the University of Puerto Rico, and the Puerto Rico Industrial Development Company. According to the government, the intent of the Recovery Act was to stabilize the island's fiscal condition, protect and reinforce Puerto Rico's credit and to position PREPA, PRHTA and PRASA toward financial self-sufficiency. The law was immediately challenged on constitutional grounds in U.S. District Court by a number of bondholders. In July of 2014, largely as a result of the Recovery Act being interpreted as a potential unwillingness to pay, the ratings of the Commonwealth and certain other Puerto Rico issuers were downgraded to non-investment grade status. These rating downgrades have limited traditional market access for the Commonwealth and its instrumentalities and caused liquidity constraints. In February of 2015, the Recovery Act was ruled unconstitutional. Following this, an appeal was filed to the U.S. Court of Appeals by Puerto Rico. The appeal is pending.

While Puerto Rico is experiencing fiscal stress that could lead to defaults on its debt obligations, it has taken steps to address its significant financial challenges by the passage of a balanced general fund budget for the fiscal year ending June 30, 2015, the passing of comprehensive reform of its employee retirement system, and the enactment of the Fiscal Sustainability Act, which allows the government to exercise emergency powers, including steps to lower spending on government operations and labor, to deal with its fiscal crisis. In April of 2015, the Puerto Rico House of Representatives voted to reject the Governor of Puerto Rico's proposed tax reform bill that was intended to raise additional general fund revenues. It is unknown how the Governor of Puerto Rico will proceed with tax reform and efforts to generate additional revenues.

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**Table of Contents****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)****RESULTS OF OPERATIONS (continued)**

In August of 2014, National, along with other insurers and certain bondholders provided PREPA a forbearance through March 31, 2015. As part of the conditions to the forbearance, PREPA retained a Chief Restructuring Officer and agreed to certain disclosure covenants, including weekly cash flow forecasts, a report on its accounts receivables, and a draft business plan. The forbearance has been subsequently extended three times and is currently set to expire on June 4, 2015.

Meanwhile, the Governor of Puerto Rico has been pushing for legislative steps to restore the financial health of PRHTA and eliminate the recurring need for deficit financing from the GDB. In January of 2015, legislation was passed that provides for an increase in the aggregate petroleum products tax from \$9.25 per barrel to \$15.50 per barrel, the reallocation of a portion of the petroleum products tax to another entity, and allows for transfer of certain PRHTA debts to another entity for repayment.

Since January 1, 2015, S&P, Fitch Ratings and Moody's further downgraded the ratings of certain Puerto Rico issuers, including COFINA, to below investment grade ratings with a negative outlook due to narrowing liquidity, sluggish economic growth and failure to provide a budget. Although we have downgraded our internal rating of certain Puerto Rico issuers, including PREPA and PRHTA, to below investment grade, all of the insured obligations included in the preceding table are presently current on debt service payments (with PREPA utilizing debt service reserve funds to pay its July 1, 2014 and January 1, 2015 debt service payments). Currently, the remaining debt service reserve funds are insufficient to pay PREPA's full debt service payment due July 1, 2015.

***Corporate***

Our corporate segment consists of general corporate activities, including providing general support services to MBIA Inc.'s subsidiaries, asset and debt management and other business development activities. General support services are provided by our service company, MBIA Services, which provide various support services including, among others, management, legal, accounting, treasury, information technology, and insurance portfolio surveillance, on a fee-for-service basis. Asset and debt management includes activities related to servicing obligations issued by MBIA Inc. and its subsidiaries, IMC and GFL. MBIA Inc. issued debt to finance the operations of the MBIA group. IMC, along with MBIA Inc., provided customized investment agreements, guaranteed by MBIA Corp., for bond proceeds and other public funds for such purposes as construction, loan origination, escrow and debt service or other reserve fund requirements. It also provided customized products for funds that were invested as part of asset-backed or structured product transactions. 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. The Company ceased issuing these investment agreements and MTNs and the outstanding liability balances and corresponding asset balances have declined over time as liabilities mature, terminate or are retired. All of the debt within the corporate segment is managed collectively and is serviced by the financial resources available to MBIA Inc. Asset management activities provide for opportunities in investments and provide general liquidity support to MBIA Inc.

**Table of Contents****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)****RESULTS OF OPERATIONS (continued)**

The following table summarizes the consolidated results of our corporate segment for the three months ended March 31, 2015 and 2014:

In millions	Three Months Ended March 31,		Percent Change
	2015	2014	
Net investment income	\$ 8	\$ 11	-27%
Fees	13	14	-7%
Net gains (losses) on financial instruments at fair value and foreign exchange	32	(52)	n/m
Net gains (losses) on extinguishment of debt	-	1	-100%
Other net realized gains (losses)	24	1	n/m
Revenues of consolidated VIEs:			
Other net realized gains (losses)	-	(5)	-100%
Total revenues	77	(30)	n/m
Operating	20	21	-5%
Interest	25	28	-11%
Total expenses	45	49	-8%
Income (loss) before income taxes	32	(79)	-141%
Provision (benefit) for income taxes	17	(21)	n/m
Net income (loss)	\$ 15	\$ (58)	-126%

n/m - Percent change not meaningful.

**NET INVESTMENT INCOME** The decrease in net investment income for the three months ended March 31, 2015 compared with the same period of 2014 was primarily due to lower average asset balances as investments were sold to repay or repurchase debt and outstanding common shares.

**NET GAINS (LOSSES) ON FINANCIAL INSTRUMENTS AT FAIR VALUE AND FOREIGN EXCHANGE** The favorable change in net gains (losses) on financial instruments at fair value and foreign exchange for the three months ended March 31, 2015 compared with the same period of 2014 was primarily due to foreign currency exchange gains on Euro denominated liabilities from changes in the U.S. dollar to Euro foreign exchange rate and changes in the fair value of outstanding warrants issued on MBIA Inc. common stock. The changes in the fair value of outstanding warrants were primarily attributable to volatility, which is used in the valuation of the warrants. This favorable change was partially offset by realized losses from asset sales.

**OTHER NET REALIZED GAINS (LOSSES)** The increase in other net realized gains for the three months ended March 31, 2015 compared with the same period of 2014 was primarily due to the gain from the sale of Cutwater in the first quarter of 2015.

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**REVENUES OF CONSOLIDATED VIEs** For the three months ended March 31, 2014, total revenues of consolidated variable interest entities ( VIEs ) related to net losses as a result of the deconsolidation of VIEs.

**INTEREST EXPENSE** Interest expense decreased for the three months ended March 31, 2015 compared with the same period of 2014 primarily due to the continued maturity and repurchases of liabilities by the Company.

**PROVISION (BENEFIT) FOR INCOME TAXES** The provision for income taxes for the three months ended March 31, 2015 was higher than the statutory rate of 35% principally due change in value of non-deductible warrants issued by the Company and write-offs of deferred tax assets primarily due to the sale of Cutwater. The benefit for income taxes for the three months ended March 31, 2014 was lower than the statutory rate of 35% principally changes in the value of non-deductible warrants issued by the Company, partially offset by an increase in our valuation allowance against our deferred tax asset.

**Table of Contents****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)****RESULTS OF OPERATIONS (continued)**

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

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

In millions	Three Months Ended March 31,	
	2015	2014
Net income (loss)	\$ 15	\$ (58)
Less: after-tax adjustments:		
Mark-to-market gains (losses) on financial instruments <sup>(1)</sup>	(17)	(35)
Foreign exchange gains (losses) <sup>(1)</sup>	42	(2)
Net gains (losses) on sales of investments <sup>(1)</sup>	(1)	1
Other net realized gains (losses) <sup>(2)</sup>	13	-
Tax valuation allowance on adjustments <sup>(3)</sup>	-	(1)
Operating income (loss)	\$ (22)	\$ (21)

(1) - Gross amounts are reported within Net gains (losses) on financial instruments at fair value and foreign exchange and the corresponding tax effects are reported within Provision (benefit) for income taxes on the Company's consolidated statements of operations.

(2) - Relates to the after-tax gain on the sale of Cutwater.

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

**International and Structured Finance Insurance**

Our international and structured finance insurance portfolio is principally operated 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, upon MBIA Corp.'s acceleration. Certain guaranteed investment contracts written by MBIA Inc. are insured by MBIA Corp., and if MBIA Inc. or such subsidiaries were to have insufficient assets to pay amounts due upon maturity or termination, MBIA Corp. would make such payments under its insurance policies. MBIA Corp. also insured debt obligations of other affiliates, including GFL and IMC. MBIA Corp. has also written insurance policies guaranteeing the obligations under credit default swaps (CDS) contracts of an affiliate, LaCrosse Financial Products, LLC (LaCrosse), including termination payments that may become due in certain events, including the insolvency or payment defaults of MBIA Corp. or LaCrosse. MBIA Insurance Corporation also provides reinsurance to its insurance subsidiaries.

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MBIA Corp. insures non-U.S. public finance and global structured finance, including asset-backed obligations. MBIA Corp. has insured sovereign-related and sub-sovereign bonds, 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 cash flows generated by a specified pool of assets, such as residential and commercial mortgages, insurance policies, consumer loans, corporate loans and bonds, trade and export receivables, and leases for equipment, aircraft and real estate property. We no longer insure new credit derivative contracts except for transactions related to the reduction of existing derivative exposure.

**Table of Contents****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)****RESULTS OF OPERATIONS (continued)**

The following table presents our international and structured finance insurance segment results for the three months ended March 31, 2015 and 2014:

In millions	Three Months Ended March 31,		Percent Change
	2015	2014	
Net premiums earned	\$ 25	\$ 33	-24%
Net investment income	3	3	-%
Fees and reimbursements	18	14	29%
Change in fair value of insured derivatives:			
Realized gains (losses) and other settlements on insured derivatives	(9)	(370)	-98%
Unrealized gains (losses) on insured derivatives	37	838	-96%
Net change in fair value of insured derivatives	28	468	-94%
Net gains (losses) on financial instruments at fair value and foreign exchange	(4)	(3)	33%
Revenues of consolidated VIEs:			
Net investment income	12	12	-%
Net gains (losses) on financial instruments at fair value and foreign exchange	(10)	2	n/m
Total revenues	72	529	-86%
Losses and loss adjustment	-	64	-100%
Amortization of deferred acquisition costs	21	19	11%
Operating	13	15	-13%
Interest	28	28	-%
Expenses of consolidated VIEs:			
Operating	4	3	33%
Interest	10	10	-%
Total expenses	76	139	-45%
Income (loss) before income taxes	(4)	390	-101%
Provision (benefit) for income taxes	(2)	136	-101%
Net income (loss)	\$ (2)	\$ 254	-101%

n/m - Percent change not meaningful.

For the three months ended March 31, 2015 and 2014, we did not have any new international and structured finance insurance writings. We do not expect to write new business in our international and structured finance insurance segment in the foreseeable future due to its current ratings, accumulated losses and non-policy claims. Our primary objectives are risk reduction, loss mitigation and value preservation. As of March 31, 2015, MBIA Corp.'s total insured gross par outstanding was \$51.7 billion. Since December 31, 2007, our total insured gross par outstanding has decreased approximately 84% from \$331.2 billion. Furthermore, MBIA UK is no longer permitted to write new business and any new financial



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guarantee insurance would require regulatory approval.

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

<b>In millions</b>	<b>Three Months Ended March 31,</b>		<b>Percent Change</b>
	<b>2015</b>	<b>2014</b>	
<b>Net premiums earned:</b>			
Non-U.S.	\$ 18	\$ 23	-22%
U.S.	7	10	-30%
 Total net premiums earned	 \$ 25	 \$ 33	 -24%
VIEs (eliminated in consolidation)	\$ 3	\$ 3	-%

**Table of Contents****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)****RESULTS OF OPERATIONS (continued)**

Net premiums earned represent gross premiums earned net of premiums ceded to reinsurers, and include scheduled premium earnings and premium earnings from refunded issues. Net premiums earned decreased for the three months ended March 31, 2015 compared with the same period of 2014 primarily due to decreases in scheduled premiums earned from the maturity and early settlement of insured transactions with no writings of new insurance policies.

**NET CHANGE IN FAIR VALUE OF INSURED DERIVATIVES** The following table presents the net premiums and fees earned related to derivatives and the components of the net change in fair value of insured derivatives for the three months ended March 31, 2015 and 2014:

In millions	Three Months Ended March 31,		Percent Change
	2015	2014	
Net premiums and fees earned on insured derivatives	\$ 4	\$ 4	-%
Realized gains (losses) on insured derivatives	(13)	(374)	-97%
Realized gains (losses) and other settlements on insured derivatives	(9)	(370)	-98%
Unrealized gains (losses) on insured derivatives	37	838	-96%
Net change in fair value of insured derivatives	\$ 28	\$ 468	-94%

The Company no longer insures new credit derivative contracts except in transactions related to the restructuring or reduction of existing derivative exposure. Premiums earned related to insured credit derivatives will decrease over time as a result of settlements prior to maturity and scheduled amortizations. For the three months ended March 31, 2015, realized losses on insured derivatives resulted from claim payments on commercial mortgage-backed securities ( CMBS ) transactions.

The decrease in unrealized gains on insured derivatives for the three months ended March 31, 2015 compared with the same period of 2014 was primarily due to the reversals of unrealized losses from commutations in 2014, with no activity in the first quarter of 2015.

As of March 31, 2015, the cost of five year CDS referencing MBIA Corp. was 28.51% upfront plus 5% per annum compared with 12.00% upfront plus 5% per annum as of March 31, 2014. As of March 31, 2015 and December 31, 2014, the fair value of MBIA Corp.'s insured CDS liability was \$207 million and \$244 million, respectively. Our mark-to-market on insured credit derivatives uses the most appropriate of the one to ten year CDS cost for each transaction, and those costs ranged from 13.70% upfront plus 5% per annum to 29.26% upfront plus 5% per annum as of March 31, 2015. As of March 31, 2014, those costs ranged from 0.75% upfront plus 5% per annum to 17.06% upfront plus 5% per annum.

As of March 31, 2015, MBIA Corp. had \$8.1 billion of gross par outstanding on insured credit derivatives compared with \$9.5 billion as of December 31, 2014. During the three months ended March 31, 2015, three insured issues matured that totaled \$1.3 billion in gross par outstanding. As of March 31, 2015, 16 insured issues remained, of which 9 insured issues with total gross par outstanding of \$7.2 billion are scheduled to mature by the end of 2016.

**NET GAINS (LOSSES) ON FINANCIAL INSTRUMENTS AT FAIR VALUE AND FOREIGN EXCHANGE** The net losses on financial instruments at fair value and foreign exchange for the three months ended March 31, 2015 and 2014 were primarily due to realized losses from foreign currency revaluation of Chilean Unidad de Fomento denominated unearned premium revenue.

**REVENUES OF CONSOLIDATED VIEs** For the three months ended March 31, 2015, total revenues of consolidated VIEs were \$2 million compared with total revenues of \$14 million for the same period of 2014. This decrease was primarily due to lower asset prices on net assets of

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consolidated VIEs. We elected to record at fair value certain instruments that are consolidated under accounting guidance for consolidation of VIEs, and as such, changes in fair value are reflected in earnings.

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

**Table of Contents****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)****RESULTS OF OPERATIONS (continued)****Summary of Financial Guarantee Insurance Losses and LAE**

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

In millions	Three Months Ended March 31,		Percent Change
	2015	2014	
Losses and LAE related to expected payments	\$ (20)	\$ 48	-142%
Recoveries of expected payments	20	17	18%
Gross losses incurred	-	65	-100%
Reinsurance	-	(1)	-100%
Losses and loss adjustment expenses	\$ -	\$ 64	-100%

For the three months ended March 31, 2015, the decrease in losses and LAE related to expected payments and decrease in recoveries of expected payments primarily related to an international road transaction.

For the three months ended March 31, 2014, the increase in losses and LAE related to expected payments of \$48 million primarily related to insured first and second-lien RMBS transactions. The recoveries of expected payments of \$17 million primarily related to decreases in excess spread within the insured second-lien RMBS securitizations.

Excess spread is generated by performing loans within insured second-lien RMBS securitizations and is the difference between interest inflows on mortgage loan collateral and interest outflows on insured beneficial interests. The amount of excess spread depends on the future loss trends (which include future delinquency trends, average time to charge-off delinquent loans and the availability of pool mortgage insurance), the future spread between prime and the London Interbank Offered Rate ( LIBOR ) interest rates, and borrower refinancing behavior which results in voluntary prepayments. Minor deviations in loss trends and voluntary prepayments may substantially impact the amounts we collect from excess spread.

For the three months ended March 31, 2015, losses and LAE incurred included the elimination of a \$33 million expense as a result of the consolidation of VIEs. The \$33 million expense included gross losses related to expected payments of \$36 million, partially offset by gross recoveries of expected payments of \$3 million. For the three months ended March 31, 2014, losses and LAE incurred included the elimination of a \$20 million expense as a result of the consolidation of VIEs. The \$20 million expense included gross losses related to expected payments of \$19 million and gross recoveries of expected payments of \$1 million.

The Company's insurance loss recoverable represents expected potential recoveries of paid claims based on probability-weighted net cash inflows discounted at applicable risk-free rates as of the measurement date. The loss and LAE reserves represent the present value of the difference between cash payments we expect to make on the insured transactions and the excess spread we expect from the performing mortgage loans in the securitizations. As payments are made, a portion of those expected future receipts is recorded within Insurance loss recoverable on our consolidated balance sheets. The payments that we make virtually all go to reduce the principal balances of the securitizations. The following table presents information about our insurance loss recoverable and reserves as of March 31, 2015 and December 31, 2014.

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In millions	March 31, 2015	December 31, 2014	Percent Change
<b>Assets:</b>			
Insurance loss recoverable	\$ 523	\$ 529	-1%
Reinsurance recoverable on paid and unpaid losses <sup>(1)</sup>	7	6	17%
<b>Liabilities:</b>			
Gross loss and LAE reserves	\$ 549	\$ 583	-6%
Expected recoveries on unpaid losses	(85)	(122)	-30%
<b>Loss and LAE reserves</b>	<b>\$ 464</b>	<b>\$ 461</b>	<b>1%</b>
Insurance loss recoverable cede <sup>(2)</sup>	\$ 1	\$ 1	-%

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

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

**Table of Contents****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)****RESULTS OF OPERATIONS (continued)**

As of March 31, 2015, loss and LAE reserves included \$338 million, after eliminating \$30 million related to our consolidated VIEs, of our remaining insured first and second-lien RMBS exposure.

Included in MBIA Corp.'s loss and LAE reserves are both reserves for insured obligations for which a payment default has occurred and MBIA Corp. has already paid a claim and also for which a payment default has not yet occurred but a claim is expected in the future. The following table includes LAE reserves, but excludes par outstanding, as of March 31, 2015 and December 31, 2014 for two issues that had no expected future claim payments or par outstanding, but for which MBIA Corp. was obligated to pay LAE incurred in prior periods. As of March 31, 2015 and December 31, 2014, loss and LAE reserves comprised the following:

\$ in millions	Number of Issues <sup>(1)</sup>		Loss and LAE Reserve		Par Outstanding	
	March 31, 2015	December 31, 2014	March 31, 2015	December 31, 2014	March 31, 2015	December 31, 2014
Gross of reinsurance:						
Issues with defaults	105	104	\$ 350	\$ 344	\$ 4,776	\$ 4,885
Issues without defaults	7	7	114	117	1,450	1,492
Total gross of reinsurance	112	111	\$ 464	\$ 461	\$ 6,226	\$ 6,377

(1) - An issue represents the aggregate of financial guarantee policies that share the same revenue source for purposes of making debt service payments. POLICY ACQUISITION COSTS AND OPERATING EXPENSES International and structured finance insurance segment expenses for the three months ended March 31, 2015 and 2014 are presented in the following table:

In millions	Three Months Ended March 31,		Percent Change
	2015	2014	
Gross expenses	\$ 13	\$ 15	-13%
Amortization of deferred acquisition costs	\$ 21	\$ 19	11%
Operating	13	15	-13%
Total insurance operating expenses	\$ 34	\$ 34	-%

Gross expenses represent total insurance expenses before the deferral of any policy acquisition costs. Gross expenses decreased for the three months ended March 31, 2015 compared with the same period of 2014 primarily due to a decrease in compensation expense. The increase in the amortization of deferred acquisition costs for the three months ended March 31, 2015 compared with the same period of 2014 is due to higher refunding activity in 2015. Operating expenses decreased for the three months ended March 31, 2015 compared with the same period of 2014 due to decreases in gross expenses. We did not defer a material amount of policy acquisition costs during the first quarters of 2015 or 2014. Policy acquisition costs in these periods were primarily related to commissions and premium taxes on installment policies written in prior periods.

**INSURED PORTFOLIO EXPOSURE** The credit quality of our international and structured finance insured portfolio is assessed in the same manner as our U.S. public finance insured portfolio. As of March 31, 2015 and December 31, 2014, 21% 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 more current than the underlying ratings provided by S&P and Moody's for this subset of our insured portfolio.

***European Sovereign Debt Exposure***

Uncertainties regarding European sovereign debt have affected the global economy. Outside the U.S. financial guarantee insurance has been used by issuers of sovereign-related and sub-sovereign bonds, structured finance securities, utility debt and financing for public purpose projects, among others. MBIA does not insure any direct European sovereign debt. However, we do insure both structured finance and public finance obligations in select international markets. MBIA's indirect European sovereign insured debt exposure totaled \$6.8 billion as of March 31, 2015 and included obligations of sovereign-related and sub-sovereign issuers, such as regions, departments, and sovereign-owned entities that are supported by a sovereign state, region or department. Of the \$6.8 billion of insured gross par outstanding, \$506 million, \$322 million, and \$200 million were related to Spain, Portugal, and Ireland, respectively. The remaining \$5.8 billion was related to the United Kingdom. We closely monitor our existing insured European portfolios on an ongoing basis. We consider country risk, including economic and political factors, the type and quality of local regulatory oversight, the strength of the legal framework in each country and the stability of the local institutional framework. We also monitor local accounting, regulatory and legal requirements, local financial market developments, the impact of exchange rates and local demand dynamics. A default by one or more sovereign issuers could have an adverse effect on our insured debt exposures. The Company has an immaterial amount of direct and indirect European sovereign debt holdings included in its investment portfolios.

**Table of Contents****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)****RESULTS OF OPERATIONS (continued)***International and Structured Finance Insurance Selected Portfolio Exposures*

The following is a summary of selected significant exposures within the insured portfolio of our international and structured finance insurance segment. Many of these sectors are and have been considered volatile over the past several years. We may experience considerable incurred losses and future expected payments in certain of these sectors. There can be no assurance that the loss reserves described below will be sufficient or that we will not experience losses on transactions on which we currently have no loss reserves, in particular if the economy deteriorates.

*Residential Mortgage Exposure*

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

The following table presents the gross par outstanding of MBIA Corp.'s total direct RMBS insured exposure as of March 31, 2015 and December 31, 2014. Amounts include the gross par outstanding related to transactions that the Company consolidates under accounting guidance for VIEs.

In millions	Gross Par Outstanding as of			Percent Change
	March 31, 2015	December 31, 2014		
<b>Collateral Type</b>				
HELOC Second-lien	\$ 2,199	\$ 2,296		-4%
CES Second-lien	2,087	2,180		-4%
Alt-A First-lien <sup>(1)</sup>	1,753	1,807		-3%
Subprime First-lien <sup>(2)</sup>	814	838		-3%
Prime First-lien	138	144		-4%
Total	\$ 6,991	\$ 7,265		-4%

(1) - Includes international exposure of \$488 million and \$511 million as of March 31, 2015 and December 31, 2014, respectively.

(2) - Includes international exposure of \$3 million and \$4 million as of March 31, 2015 and December 31, 2014, respectively.

*Collateralized Debt Obligations and Related Instruments*

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



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As of March 31, 2015, MBIA Corp.'s \$12.2 billion CDO portfolio represented 24% of its total insured gross par outstanding of \$51.7 billion. As of December 31, 2014, MBIA Corp.'s \$13.8 billion CDO portfolio represented 25% of its total insured gross par outstanding of \$55.2 billion. In addition to the below table, MBIA Corp. insures approximately \$496 million in commercial real estate ( CRE ) loan pools, comprising both European and domestic assets. The distribution of our insured CDO and related instruments portfolio by collateral type is presented in the following table:

In millions	Gross Par Outstanding as of		
Collateral Type	March 31, 2015	December 31, 2014	Percent Change
Multi-sector CDOs	\$ 799	\$ 960	-17%
Investment grade corporate CDOs	5,764	6,824	-16%
High yield corporate CDOs	3,562	3,740	-5%
Structured CMBS pools	1,286	1,498	-14%
CRE CDOs	808	825	-2%
<b>Total</b>	<b>\$ 12,219</b>	<b>\$ 13,847</b>	<b>-12%</b>

**Table of Contents****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)****RESULTS OF OPERATIONS (continued)*****Loss Remediation Transactions***

We may seek to purchase, directly or indirectly, obligations guaranteed by MBIA or seek to commute policies. The amount of insurance exposure reduced, if any, and the nature of any such actions will depend on market conditions, pricing levels from time to time, and other considerations. In some cases, these activities may result in a reduction of loss reserves, but in all cases they are intended to limit our ultimate losses and reduce the future volatility in loss development on the related policies. Our ability to purchase guaranteed obligations and to commute policies will depend on management's assessment of available liquidity.

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

Reinsurance enables the Company to cede exposure for purposes of syndicating risk and increasing its capacity to write new business while complying with its single risk and credit guidelines. When a reinsurer is downgraded by one or more of the rating agencies, less capital credit is given to MBIA under rating agency models and the overall value of the reinsurance to MBIA is reduced. The Company generally retains the right to reassume the business ceded to reinsurers under certain circumstances, including a reinsurer's rating downgrade below specified thresholds. The following table presents information about our reinsurance agreements as of March 31, 2015 for our U.S. public finance and international and structured finance insurance operations:

In millions	Standard & Poor's Rating (Status)	Moody's Rating (Status)	Ceded Par Outstanding	Letters of Credit/Trust Accounts	Reinsurance Recoverable <sup>(1)</sup>
Assured Guaranty Re Ltd.	AA (Stable Outlook)	Baa1 (Negative Outlook)	\$ 3,442	\$ 31	\$ 1
Assured Guaranty Corp.	AA (Stable Outlook)	A3 (Negative Outlook)	1,853	-	6
Overseas Private Investment Corporation	AA+ (Stable Outlook)	Aaa (Stable Outlook)	280	-	-
Others	A- or above	A2 or above	139	2	-
<b>Total</b>			<b>\$ 5,714</b>	<b>\$ 33</b>	<b>\$ 7</b>

(1) - Total reinsurance recoverable is primarily recoverables on unpaid losses.

MBIA requires certain unauthorized reinsurers to maintain bank letters of credit or establish trust accounts to cover liabilities ceded to such reinsurers under reinsurance contracts. The Company remains liable on a primary basis for all reinsured risk. Based on MBIA's assessment of the credit risk of its reinsurers and expected claims under the reinsurance agreements, MBIA believes that its reinsurers remain capable of meeting their obligations, although there can be no assurance of such in the future.

As of March 31, 2015, the aggregate amount of insured par outstanding ceded by MBIA to reinsurers under reinsurance agreements was \$5.7 billion compared with \$6.1 billion as of December 31, 2014. As of March 31, 2015, \$4.7 billion of the ceded par outstanding was ceded from

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our U.S. public finance insurance segment and \$1.0 billion was ceded from our international and structured finance insurance segment. Under National's reinsurance agreement with MBIA Corp., if a reinsurer of MBIA Corp. is unable to pay claims ceded by MBIA Corp. on U.S. public finance exposure, National will assume liability for such ceded claim payments.

### *Advisory Services*

Until January of 2015, we conducted our asset management and advisory business primarily through Cutwater. Cutwater had provided advisory services, including cash management, discretionary asset management and structured products on a fee-for-service basis. Effective January 1, 2015, we completed the sale of Cutwater to a subsidiary of the Bank of New York Mellon Corporation and exited our advisory services business.

**Table of Contents****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)****RESULTS OF OPERATIONS (continued)**

The following table summarizes the results and assets under management of our advisory services segment for the three months ended March 31, 2014. These results include revenues and expenses from transactions with the Company's other segments.

<b>In millions</b>	<b>Three Months Ended March 31, 2014</b>	
Fees	\$	9
Net gains (losses) of financial instruments at fair value and foreign exchange		(4)
<b>Total revenues</b>		<b>5</b>
Operating expenses		12
<b>Income (loss) before income taxes</b>		<b>(7)</b>
Provision (benefit) for income taxes		(1)
<b>Net income (loss)</b>	<b>\$</b>	<b>(6)</b>
Ending assets under management:		
Third-party	\$	12,589
Insurance		5,992
Corporate and conduit		4,660
<b>Total ending assets under management</b>	<b>\$</b>	<b>23,241</b>
<b>Average third-party assets under management</b>	<b>\$</b>	<b>12,654</b>

**Conduit**

In 2014, the Company's conduit segment was operated through Meridian and administered through MBIA Asset Finance, LLC. Assets financed by Meridian were funded by MTNs. In the second quarter of 2014, we retired the remaining \$129 million of outstanding MTNs issued by Meridian and dissolved the conduit segment. Certain of MBIA's consolidated subsidiaries had received fees for services provided to Meridian.

The following table presents the results of our conduit segment for the three months ended March 31, 2014. These results include revenues and expenses from transactions with the Company's other segments.

<b>In millions</b>	<b>Three Months Ended March 31, 2014</b>	
<b>Revenues of consolidated VIEs:</b>		
Net gains (losses) on extinguishment of debt	\$	4
Provision (benefit) for income taxes		1
<b>Net income (loss)</b>	<b>\$</b>	<b>3</b>

**Taxes***Provision for Income Taxes*

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

<b>In millions</b>	<b>Three Months Ended March 31,</b>	
	<b>2015</b>	<b>2014</b>
Income (loss) before income taxes	\$ 113	\$ 404
Provision (benefit) for income taxes	\$ 44	\$ 148
Effective tax rate	38.9%	36.6%

For the three months ended March 31, 2015, our effective tax rate applied to our income (loss) before income taxes was higher than the U.S. statutory tax rate of 35% primarily due to the fluctuation of the value of non-deductible warrants issued by the Company.

For the three months ended March 31, 2014, our effective tax rate applied to our income (loss) before income taxes was higher than the U.S. statutory tax rate of 35% primarily due to the non-deductibility of certain expenses and an increase in our valuation allowance against our deferred tax asset.

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**Table of Contents****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)****RESULTS OF OPERATIONS (continued)**

The Company is party to a tax allocation agreement with members of its holding company system effective January 1, 1987. The agreement was amended and restated effective September 8, 2011 to change the method of calculating each domestic insurer's tax liability to the method permitted by paragraph 3(a) of Department Circular Letter #33 (1979). The agreement was submitted to the NYSDFS for review and non-disapproval pursuant to Section 1505 of the New York Insurance Law ( NYIL ).

Refer to Note 9: Income Taxes in the Notes to Consolidated Financial Statements for a further discussion of income taxes, including the Company's valuation allowance against deferred tax assets and its accounting for tax uncertainties.

**CAPITAL RESOURCES**

The Company manages its capital resources to minimize its cost of capital while maintaining appropriate claims-paying resources ( CPR ) for National and MBIA Corp. The Company's capital resources consist of total shareholders' equity, total debt issued by MBIA Inc. for general corporate purposes, and surplus notes issued by MBIA Corp. Total capital resources were \$5.4 billion as of March 31, 2015 and December 31, 2014. MBIA Inc. uses its capital resources to support the business activities of its subsidiaries. As of March 31, 2015, MBIA Inc.'s investments in subsidiaries totaled \$4.2 billion.

In addition, MBIA Inc. also supports the MTN and investment agreement obligations originally issued by the Company. We seek to maintain sufficient liquidity and capital resources to meet the Company's general corporate needs. As of March 31, 2015 and December 31, 2014, net debt of MBIA Inc., which primarily comprised long-term debt, MTNs, investment agreements and derivative liabilities net of cash and investments at amortized cost and a tax receivable from subsidiaries, totaled \$643 million and \$740 million, respectively. Based on MBIA Inc.'s debt service requirements and expected operating expenses, we expect that MBIA Inc. will have sufficient cash to satisfy its net debt and its general corporate needs over time from distributions from its operating subsidiaries however, there can be no assurance that MBIA Inc. will have sufficient cash in the event of unanticipated operating expenses. In addition, the Company may also consider raising third-party capital. For further information, see Strategic Plan Related and Other Risk Factors in Part I, Item 1A, Risk Factors included in the Company's Annual Report on Form 10-K for the year ended December 31, 2014 and Liquidity MBIA Inc. Liquidity section for additional information about MBIA Inc.'s liquidity.

***Securities Repurchases***

Repurchases of debt and common stock may be made from time to time in the open market or in private transactions as permitted by securities laws and other legal requirements. We may also choose to redeem debt obligations where permitted by the relevant agreements.

**Equity securities**

During the three months ended March 31, 2015, we repurchased 8,573,120 common shares of MBIA Inc. under our share repurchase program at an average share price of \$8.83. Subsequent to March 31, 2015, we repurchased an additional 1,911,115 common shares of MBIA Inc. at an average price of \$9.15 per share. As of May 5, 2015, \$95 million was available for future repurchases under the program.

**Debt securities**

In addition to equity repurchases, MBIA Inc. or its subsidiaries may repurchase or redeem their outstanding debt at prices that we deem to be economically advantageous. During the three months ended March 31, 2015, we repurchased approximately \$26 million par value outstanding of GFL MTNs issued by our corporate segment at a weighted average cost of approximately 99% of par value. Also, we repurchased approximately \$10 million par value outstanding of the 7.00% Debentures due 2025 issued by our corporate segment at a weighted average cost of approximately 105% of par value.

***Insurance Statutory Capital***

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

**Table of Contents****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)****CAPITAL RESOURCES (continued)***National***Capital and Surplus**

National reported total statutory capital of \$3.3 billion as of March 31, 2015 and December 31, 2014. As of March 31, 2015, statutory capital comprised \$1.1 billion of contingency reserves and \$2.2 billion of policyholders' surplus. National had statutory net income of \$64 million for the three months ended March 31, 2015. As of March 31, 2015, National's unassigned surplus was \$1.7 billion.

In order to maintain its New York State financial guarantee insurance license, National is required to maintain a minimum of \$65 million of policyholders' surplus. National is also required to maintain contingency reserves to provide protection to policyholders in the event of extreme losses in adverse economic events. Refer to the following MBIA Corp. Capital and Surplus section for additional information about contingency reserves under the NYIL. As of March 31, 2015 and December 31, 2014, National was not in compliance with certain of its single risk limits but was in compliance with its aggregate risk limits.

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

National had positive earned surplus as of March 31, 2015, which provides National with dividend capacity. As a condition to the NYSDFS approval of the simultaneous repurchase and reverse repurchase agreements (Asset Swap) between MBIA Inc. and National, the NYSDFS requested that, until the notional amount of the Asset Swap has been reduced to 5% or less of National's admitted assets, each of MBIA Inc., MBIA Corp. and National provide the NYSDFS with three months prior notice, or such shorter period as the NYSDFS may permit, of its intent to initiate cash dividends on shares of its common stock. Declared and paid dividend amounts from National in the foreseeable future will be limited based on net investment income and will be substantially lower than previous dividends.

**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 March 31, 2015 and December 31, 2014 are presented in the following table:

<b>In millions</b>	<b>As of March 31, 2015</b>	<b>As of December 31, 2014</b>
Policyholders' surplus	\$ 2,278	\$ 2,190
Contingency reserves	1,051	1,076



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Statutory capital	3,329	3,266
Unearned premium reserve	1,289	1,375
Present value of installment premiums <sup>(1)</sup>	216	216
Premium resources <sup>(2)</sup>	1,505	1,591
Net loss and LAE reserves <sup>(1)</sup>	(17)	(13)
Salvage reserves	102	106
Gross loss and LAE reserve	85	93
Total claims-paying resources	\$ 4,919	\$ 4,950

(1) - Calculated using a discount rate of 2.90% as of March 31, 2015 and December 31, 2014.

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

**Table of Contents****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)****CAPITAL RESOURCES (continued)***MBIA Corp.***Capital and Surplus**

MBIA Corp. reported total statutory capital of \$857 million as of March 31, 2015 compared with \$859 million as of December 31, 2014. As of March 31, 2015, statutory capital comprised \$308 million of contingency reserves and \$549 million of policyholders' surplus. For the three months ended March 31, 2015, MBIA Corp. had statutory net income of \$3 million. MBIA Corp.'s policyholders' surplus as of March 31, 2015 included a negative unassigned surplus of \$1.5 billion. As of March 31, 2015, MBIA Corp.'s policyholders' surplus was negatively impacted by \$94 million because under NYIL it was not permitted to treat as an admitted asset the portion of its investment in subsidiaries in excess of 60% of net admitted assets less the par value of common and preferred stock and liabilities. This overage was caused by a decrease in MBIA Corp.'s policyholders' surplus due to insured losses in the past. MBIA Corp.'s policyholders' surplus may be further negatively impacted if future additional insured losses are incurred and the percentage of its assets invested in subsidiaries continues to increase.

As of March 31, 2015, MBIA Corp. recognized estimated recoveries of \$371 million, net of reinsurance on a statutory basis related to put-backs of ineligible mortgage loans in its insured transactions and \$542 million related to excess spread recoveries on second-lien RMBS, net of reinsurance. These excess spread recoveries represented 63% of MBIA Corp.'s statutory capital as of March 31, 2015. There can be no assurance that we will be successful or that we will not be delayed in realizing these recoveries. Refer to Note 5: Loss and Loss Adjustment Expense Reserves in the Notes to Consolidated Financial Statements for additional information about these recoveries.

Under NYIL, MBIA Corp. is also required to establish a contingency reserve to provide protection to policyholders in the event of extreme losses in adverse economic events. The amount of the reserve is based on the percentage of principal insured or premiums earned, depending on the type of obligation (net of collateral, reinsurance, refunding, refinancings and certain insured securities). Reductions in the contingency reserve may be recognized based on excessive reserves and under certain stipulated conditions, subject to the approval of the Superintendent of the NYSDFS. As a result of regulatory approved reductions, MBIA Corp.'s contingency reserves of \$308 million as of March 31, 2015 represented reserves on 53 of the 376 outstanding credits insured by MBIA Corp.

In order to maintain its New York State financial guarantee insurance license, MBIA Corp. is required to maintain a minimum of \$65 million of policyholders' surplus. Under NYIL, MBIA Corp. 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 March 31, 2015, MBIA Corp. maintained its minimum requirement of policyholders' surplus and had enough qualifying assets to support its contingency reserves.

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

As of March 31, 2015, MBIA Corp. was in compliance with its aggregate risk limits under the NYIL. If MBIA Corp. is not in compliance with its aggregate risk limits, the NYSDFS may prevent MBIA Corp. from transacting any new financial guarantee insurance business until it no longer exceeds the limitations. In 2015, MBIA Corp. will be reporting overages to the NYSDFS with respect to its single risk limits. In 2014, MBIA Corp. reported additional overages to the NYSDFS with respect to its single risk limits due to changes in its statutory capital.

**Table of Contents****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)****CAPITAL RESOURCES (continued)**

As of March 31, 2015, the par amount outstanding of MBIA Corp.'s 14% Fixed-to-Floating Rate Surplus Notes due January 15, 2033 (the Surplus Notes) was \$953 million. Section 1307 of the Insurance Law and the Fiscal Agency Agreement governing the surplus notes (the Fiscal Agency Agreement), which was approved as it relates to Section 1307 by the NYSDFS in connection with the issuance of the Surplus Notes, each impose restrictions on the payments of principal and interest (or the redemption price or any make-whole premium) on the Surplus Notes (Surplus Note Payments). Section 1307 of the Insurance Law provides that any payments on surplus notes issued by an insurer shall be repaid only out of free and divisible surplus of such insurer with the approval of the superintendent whenever, in his judgment, the financial condition of such insurer warrants. The Superintendent has broad discretion in determining whether to allow us to make Surplus Note Payments. We are not aware of any guidelines or interpretations that govern the exercise of the Superintendent's discretion under Section 1307 in determining whether the financial condition of an insurer warrants the making of such payments. The Fiscal Agency Agreement provides that (a) Surplus Note Payments may be made only with the prior approval of the Superintendent, whenever, in his judgment, the financial condition of MBIA Corp. warrants, and (b) any such Surplus Note Payments may only be made to the extent MBIA Corp. has sufficient Eligible Surplus to make such payment. The Fiscal Agency Agreement defines Eligible Surplus as MBIA Corp. surplus as regards policyholders, less the sum of its common capital stock and preferred capital stock, as shown on its annual and quarterly statements filed with state insurance regulatory authorities. While the insurance law does not explicitly set forth the calculation of free and divisible surplus, MBIA believes that the calculation of Eligible Surplus, as set forth in the Fiscal Agency Agreement and as accepted by the NYSDFS, is the appropriate calculation of free and divisible surplus. MBIA Corp.'s free and divisible surplus, determined as set forth above, was \$258 million as of March 31, 2015 representing an increase of \$7 million from December 31, 2014. The increase in MBIA Corp.'s free and divisible surplus during the first quarter of 2015 primarily resulted from the release of \$9 million of contingency reserves associated with policies that matured or were contractually terminated during the three months ended March 31, 2015. MBIA Corp. is required to seek the Superintendent's approval to make payments of interest and principal when scheduled on the Surplus Notes. There is no assurance the Superintendent will approve Surplus Note Payments. Notwithstanding the sufficiency of MBIA Corp.'s Eligible Surplus available for the payment of Surplus Note Payments, the NYSDFS may deny approval of any Surplus Note Payments if the Superintendent concludes that MBIA Corp.'s financial condition does not warrant such approval.

The NYSDFS has not approved MBIA Corp.'s requests to make interest payments on the Surplus Notes since, and including, the January 15, 2013 interest payment. The NYSDFS has cited both MBIA Corp.'s liquidity and financial condition as well as the availability of free and divisible surplus as the basis for such non-approvals. As of April 15, 2015, the scheduled interest payment date, there was \$314 million of unpaid interest on the Surplus Notes. The unpaid interest on the Surplus Notes will become due on the first business day on or after which MBIA Corp. obtains approval to pay some or all of such unpaid interest. No interest has been accrued or will accrue on the deferred interest.

**Claims-Paying Resources (Statutory Basis)**

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

MBIA Corp.'s CPR and components thereto, as of March 31, 2015 and December 31, 2014 are presented in the following table:

In millions	As of March 31, 2015	As of December 31, 2014
Policyholders surplus	\$ 549	\$ 542
Contingency reserves	308	317

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Statutory capital	857	859
Unearned premium reserve	412	434
Present value of installment premiums <sup>(1)</sup>	619	662
Premium resources <sup>(2)</sup>	1,031	1,096
Net loss and LAE reserves <sup>(1)</sup>	(239)	(237)
Salvage reserves <sup>(3)</sup>	924	938
Gross loss and LAE reserve	685	701
Total claims-paying resources	\$ 2,573	\$ 2,656

(1) - Calculated using a discount rate of 5.17% as of March 31, 2015 and December 31, 2014.

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

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

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**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)**

**LIQUIDITY**

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

***Corporate Liquidity***

Corporate's liquidity resources support our MBIA Inc. entity. The primary sources of cash within MBIA Inc. available to meet its liquidity needs include:

available cash and liquid assets not subject to collateral posting requirements;

payments under tax sharing agreements from subsidiaries;

dividends from subsidiaries;

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

access to capital markets.

The primary uses of cash within MBIA Inc. include:

servicing outstanding corporate debt instruments, investment agreements and the intercompany loans that support MTNs issued by GFL;

managing collateral requirements under hedging arrangements, investment agreements and the Asset Swap;

making payments related to interest rate swaps;

managing investments including investments in subsidiaries; and

payments of operating expenses.

Based on our projections of National and MBIA Corp.'s future earnings and losses, we expect that for the foreseeable future National will be the primary source for MBIA Inc. of dividends and tax sharing agreement payments. There can be no assurance as to the amount and timing of any such dividends or payments under the tax sharing agreements. Declared and paid dividend amounts from National for the next several years will be limited based on net investment income and will be substantially lower than previous dividends. Refer to the Capital Resources Insurance

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Statutory Capital section for additional information on payments of dividends. As stated above, we do not expect MBIA Inc. to receive distributions from MBIA Corp. for the foreseeable future.

During the three months ended March 31, 2015, \$228 million was released to MBIA Inc. under the MBIA group tax sharing agreement and related escrow agreement. This amount represented National's liability under the tax sharing agreement for the 2012 tax year, which was released from escrow pursuant to the terms under the tax sharing agreement following the expiration of National's two-year net operating loss carry-back period under U.S. tax rules. As of March 31, 2015, \$193 million remained in escrow for the 2013 through the 2015 tax years. Based on our projections of National's taxable income and the market performance of the Tax Escrow Account, we expect to release up to \$111 million from the Tax Escrow Account related to the 2013 tax year in January of 2016. There can be no assurance that payments under the Tax Escrow Account from subsidiaries will be released to MBIA Inc.

Currently, the majority of the cash and securities of MBIA Inc. is pledged against investment agreement liabilities, derivatives and the Asset Swap, which limit its ability to raise liquidity through asset sales. If the market value or rating eligibility of the assets which are pledged against MBIA Inc.'s obligations were to decline, we would be required to pledge additional eligible assets in order to meet minimum required collateral amounts against these liabilities. 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) accessing the capital markets; (2) sales of invested assets exposed to credit spread stress risk, which may occur at losses and increase MBIA Inc.'s net debt; and (3) termination and settlement of interest rate swap agreements. These actions, if taken, are expected to result in either additional liquidity or reduced exposure to adverse credit spread movements. There can be no assurance that these actions will be sufficient to fully mitigate this risk. Information concerning our credit spread sensitivity appears in Part I, Item 3, Quantitative and Qualitative Disclosures about Market Risk.

As of March 31, 2015 and December 31, 2014, the liquidity position of MBIA Inc. comprising cash and liquid assets for general corporate purposes, excluding the amounts held in escrow under its tax sharing agreement, were \$567 million and \$498 million, respectively.

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**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)**

**LIQUIDITY (continued)**

***MBIA Corp. Liquidity***

The primary sources of cash within our international and structured finance insurance segment include:

the collection of installment premiums;

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

our ability to collect on recoveries associated with loss payments.

The primary uses of cash within our international and structured finance insurance segment include:

loss payments on insured transactions;

payments made to commute insured exposures;

payments of principal and interest related to its surplus notes, to the extent approved by the NYSDFS. Refer to *Capital Resources Insurance Statutory Capital* for a discussion on the denied requests from the NYSDFS to pay interest on its surplus notes; and

payments of operating expenses.

We may also experience liquidity constraints as a result of NYIL requirements that we maintain specified, high quality assets to back our reserves and surplus.

Insured transactions that require payment in full of the principal insured at maturity could present liquidity risks for MBIA Corp. since payment of the principal is due at maturity but any salvage could be recovered over time after payment of the principal amount. MBIA Corp. has insured transactions with substantial principal amounts due at maturity that are scheduled to mature in the near term. MBIA Corp. is generally required to satisfy claims within one to three business days, and as a result seeks to identify potential claims in advance through our monitoring process. While our financial guarantee policies generally cannot be accelerated, thereby helping to mitigate liquidity risk, the insurance of CDS contracts may, in certain circumstances, including the occurrence of certain insolvency or payment defaults under the CDS contracts, be subject to termination by the counterparty, triggering a claim for the fair value of the contract. In order to monitor liquidity risk and maintain appropriate liquidity resources, we use the same methodology as we use to monitor credit quality and losses within our insured portfolio, including stress scenarios. Refer to *Note 5: Loss and Loss Adjustment Expense Reserves* in the Notes to Consolidated Financial Statements for a discussion of our loss process.

MBIA Corp. has recorded expected excess spread recoveries of \$627 million as of March 31, 2015 associated with insured second-lien RMBS issues, including recoveries related to consolidated VIEs. MBIA Corp. has also recorded expected recoveries related to its claims against Credit Suisse related to ineligible loans included in an MBIA Corp. insured RMBS transaction. There can be no assurance that we will be successful or that we will not be delayed in realizing these recoveries. During the three months ended March 31, 2015, MBIA Corp. collected \$27 million of

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excess spread recoveries related to insured second-lien RMBS issues. During the three months ended March 31, 2015, recoveries on second-lien RMBS issues exceeded paid claims and LAE by \$10 million.

The liquidity position of MBIA Corp. has been stressed due to ongoing payments on second-lien RMBS exposures, payments on its remaining CMBS exposures and payments to counterparties in consideration for the commutation of insured transactions, which have resulted in a substantial reduction of exposure and potential loss volatility. Depending on the amount of actual future claims, including claims on insured exposures that in some cases may require large bullet payments, and the amount of future cash inflows, in particular in excess spread and put-back recoverables, MBIA Corp. may not have sufficient liquid assets to pay its claims. While future commutation opportunities will be limited due to the portfolio reduction that has taken place, management's assessment of available liquidity will be factored in any commutation decision. Also, future commutation payments on insured transactions to counterparties will depend on management's assessment of available liquidity or ability to secure other sources of financing. In the event that we experience other unexpected liquidity requirements, we may have insufficient resources to meet our obligations or insufficient qualifying assets to support our surplus and reserves, and may seek to increase liquidity through financing transactions. There can be no assurance that we will be successful in generating sufficient cash to meet our obligations.

As of March 31, 2015, MBIA Corp. held cash and investments of \$1.2 billion, of which \$415 million comprised cash and highly liquid assets that were immediately available to MBIA Corp. Included in the \$1.2 billion was \$667 million of cash and investments held by MBIA Insurance Corporation's subsidiaries. As of December 31, 2014, MBIA Corp. held cash and investments of \$1.2 billion, of which \$443 million comprised cash and highly liquid assets that were immediately available to MBIA Corp. Included in the \$1.2 billion was \$701 million of cash and investments held by MBIA Insurance Corporation's subsidiaries. Currently, MBIA UK can only pay dividends to MBIA Insurance Corporation with the approval of the PRA; however, there is no certainty as to when such consent would be provided. Based on MBIA Corp.'s liquidity position and our assessment of payment risks on insured exposures, we believe that MBIA Corp.'s liquidity resources, including expected cash inflows, will adequately provide for anticipated cash outflows, including expected future claim payments.



**Table of Contents****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)****LIQUIDITY (continued)***National Liquidity*

The primary sources of cash within our U.S. public finance insurance segment include:

the collection of installment premiums; and

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

The primary uses of cash within our U.S. public finance insurance segment include:

loss payments on insured transactions; and

payments of operating expenses and taxes.

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

National maintains the Asset Swap with MBIA Inc. which provides MBIA Inc. with eligible assets to pledge under investment agreements and derivative contracts. As of March 31, 2015, the notional amount used under each of these agreements was \$385 million and the fair value of collateral pledged by National and MBIA Inc. under these agreements was \$399 million and \$414 million, respectively. The net average interest rate on these transactions was 0.24% and 0.28% for the three months ended March 31, 2015 and 2014, respectively.

As of March 31, 2015, National held cash and short-term investments of \$487 million, of which \$468 million was highly liquid and comprised highly rated commercial paper, money market funds and municipal, U.S. agency and corporate bonds. As of December 31, 2014, National held cash and short-term investments of \$595 million, of which \$528 million was highly liquid and comprised commercial paper, money market funds, and highly rated municipal, U.S. agency and corporate bonds.

*Consolidated Cash Flows*

Information about our consolidated cash flows by category is presented on our consolidated statements of cash flows. The following table presents a summary of our consolidated cash flows for the three months ended March 31, 2015 and 2014:

In millions	Three Months Ended March 31,		Percent
	2015	2014	Change

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Statement of cash flow data:			
Net cash provided (used) by:			
Operating activities	\$ (9)	\$ (424)	-98%
Investing activities	120	210	-43%
Financing activities	(256)	(312)	-18%
Effect of exchange rate changes on cash and cash equivalents	(10)	1	n/m
Cash and cash equivalents beginning of period	782	1,258	-38%
Cash and cash equivalents end of period	\$ 627	\$ 733	-14%

n/m - Percent change not meaningful.

**Table of Contents****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)****LIQUIDITY (continued)***Operating activities*

Net cash used by operating activities decreased for the three months ended March 31, 2015 compared with the same period of 2014 primarily due to decreases in insured derivative commutations and financial guarantee losses and LAE paid of \$399 million and operating and employee related expenses paid of \$56 million, partially offset by decreases in premiums, fees, reimbursements and investment income received of \$33 million.

*Investing activities*

Net cash provided by investing activities decreased for the three months ended March 31, 2015 compared with the same period of 2014 primarily due to an increase in collateral posting of \$156 million and declines in proceeds from net sales, paydowns and maturities of investments of \$41 million, partially offset by an increase in proceeds for derivative settlements of \$78 million.

*Financing activities*

Net cash used by financing activities decreased for the three months ended March 31, 2015 compared with the same period of 2014 primarily due to a decrease in the principal paydowns of VIE notes of \$138 million, partially offset by purchases of treasury stock of \$75 million and paydowns of long-term debt of \$11 million.

**Investments**

The following discussion of investments, including references to consolidated investments, excludes investments reported under Assets of consolidated variable interest entities on our consolidated balance sheets. Investments of VIEs support the repayment of VIE obligations and are not available to settle obligations of MBIA. Our available-for-sale (AFS) investments comprise high-quality fixed-income securities and short-term investments. The following table presents our investment portfolio as of March 31, 2015 and December 31, 2014:

In millions	As of March 31, 2015	As of December 31, 2014	Percent Change
<b>Available-for-sale investments:</b>			
U.S. public finance insurance			
Amortized cost	\$ 4,391	\$ 4,390	-%
Unrealized net gain (loss)	16	(7)	n/m
Fair value	4,407	4,383	1%
International and structured finance insurance			
Amortized cost	842	654	29%
Unrealized net gain (loss)	22	20	10%
Fair value	864	674	28%
Corporate			
Amortized cost	1,211	1,465	-17%

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Unrealized net gain (loss)	57	49	16%
Fair value	1,268	1,514	-16%
Total available-for-sale investments:			
Amortized cost	6,444	6,509	-1%
Unrealized net gain (loss)	95	62	53%
Total available-for-sale investments at fair value	6,539	6,571	-%

**Table of Contents****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)****LIQUIDITY (continued)**

In millions	As of March 31, 2015	As of December 31, 2014	Percent Change
<b>Investments carried at fair value:</b>			
U.S. public finance insurance			
Amortized cost	143	144	-1%
Unrealized net gain (loss)	-	(1)	-100%
<b>Fair value</b>	<b>143</b>	<b>143</b>	<b>-%</b>
International and structured finance insurance			
Amortized cost	1	-	n/m
Unrealized net gain (loss)	-	-	-%
<b>Fair value</b>	<b>1</b>	<b>-</b>	<b>n/m</b>
Corporate			
Amortized cost	126	112	13%
Unrealized net gain (loss)	-	-	-%
<b>Fair value</b>	<b>126</b>	<b>112</b>	<b>13%</b>
<b>Total investments carried at fair value:</b>			
Amortized cost	270	256	5%
Unrealized net gain (loss)	-	(1)	-100%
<b>Total investments carried at fair value</b>	<b>270</b>	<b>255</b>	<b>6%</b>
Other investments at amortized cost:			
U.S. public finance insurance	3	4	-25%
Corporate	1	-	n/m
<b>Total other investments at amortized cost</b>	<b>4</b>	<b>4</b>	<b>-%</b>
<b>Consolidated investments at carrying value</b>	<b>\$ 6,813</b>	<b>\$ 6,830</b>	<b>-%</b>

n/m - Percent change not meaningful.

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

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amortized cost and the sale price of an investment as a realized gain or loss within its consolidated statements of operations.

### *Credit Quality*

The credit quality distribution of the Company's AFS fixed-maturity investment portfolios, excluding short-term investments, based on ratings from Moody's as of March 31, 2015 is presented in the following table. Alternate ratings sources, such as S&P or the best estimate of the ratings assigned by the Company, have been used for a small percentage of securities that are not rated by Moody's.

In millions	U.S. Public Finance Insurance		International and Structured Finance Insurance		Corporate		Total	
	Fair Value	% of Fixed- Income Investments	Fair Value	% of Fixed- Income Investments	Fair Value	% of Fixed- Income Investments	Fair Value	% of Fixed- Income Investments
Available-for-sale:								
Aaa	\$ 1,796	45%	\$ 147	31%	\$ 301	34%	\$ 2,244	42%
Aa	1,358	34%	233	50%	106	12%	1,697	31%
A	689	17%	62	13%	329	37%	1,080	20%
Baa	133	3%	7	1%	77	9%	217	4%
Below investment grade	26	1%	9	2%	48	5%	83	2%
Not rated	12	-%	12	3%	28	3%	52	1%
<b>Total</b>	<b>\$ 4,014</b>	<b>100%</b>	<b>\$ 470</b>	<b>100%</b>	<b>\$ 889</b>	<b>100%</b>	<b>\$ 5,373</b>	<b>100%</b>
Short-term investments	384		393		376		1,153	
Investments carried at fair value	143		1		126		270	
Other investments	12		1		4		17	
Consolidated investments at carrying value	\$ 4,553		\$ 865		\$ 1,395		\$ 6,813	

**Table of Contents****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)****LIQUIDITY (continued)**

As of March 31, 2015, the weighted average credit quality of the Company's AFS investment portfolios, excluding short-term and other investments, as presented in the preceding table are as follows:

	<b>U.S. Public Finance Insurance</b>	<b>International and Structured Finance Insurance</b>	<b>Corporate</b>
Weighted average credit quality ratings	Aa	Aa	Aa
<i>Insured Investments</i>			

MBIA's consolidated investment portfolio includes investments that are insured by various financial guarantee insurers ( Insured Investments ), including investments insured by National and MBIA Corp. ( Company-Insured Investments ). As of March 31, 2015, Insured Investments at fair value represented \$485 million or 7% of consolidated investments, of which \$309 million or 5% of consolidated investments were Company-Insured Investments. As of March 31, 2015, 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 A range.

In purchasing Insured Investments, the Company 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 Company assigns underlying ratings to its Insured Investments without giving effect to financial guarantees based on underlying ratings assigned by Moody's, or another external agency when a rating is not published by Moody's. When an external underlying rating is not available, the underlying rating is based on the Company's best estimate of the rating of such investment. A downgrade of a financial guarantee insurer has historically had an adverse effect on the fair value of investments insured by the downgraded financial guarantee insurer. If MBIA determines that declines in the fair values of Insured Investments are other-than-temporary, the Company will record a realized loss through earnings.

The underlying ratings of the Company-Insured Investments as of March 31, 2015 are reflected in the following table. Amounts represent the fair value of such investments including the benefit of the MBIA guarantee. The ratings in the following table are based on ratings from Moody's. Alternate ratings sources, such as S&P, have been used for a small percentage of securities that are not rated by Moody's.

**In millions**

	<b>U.S. Public Finance Insurance</b>	<b>International and Structured Finance Insurance</b>	<b>Corporate</b>	<b>Total</b>
<b>Underlying Ratings Scale</b>				
National:				
Aa	\$ -	\$ -	\$ 30	\$ 30
A	21	-	166	187
Total National	\$ 21	\$ -	\$ 196	\$ 217

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MBIA Corp.:								
Aa	\$	-	\$	-	\$	41	\$	41
Below investment grade		-		3		48		51
Total MBIA Corp.	\$	-	\$	3	\$	89	\$	92
Total Company-Insured Investments	\$	21	\$	3	\$	285	\$	309

Without giving effect to the National and MBIA Corp. guarantees of the Company-Insured Investments in the consolidated investment portfolio, as of March 31, 2015, based on actual or estimated underlying ratings, the weighted average rating of the consolidated investment portfolio was in the Aa range. The weighted average rating of only the Company-Insured Investments was in the A range, and investments rated below investment grade in the Company-Insured Investments were 1% of the total consolidated investment portfolio.

*Impaired Investments*

As of March 31, 2015 and December 31, 2014, we held impaired AFS investments (investments for which fair value was less than amortized cost) with a fair value of \$1.4 billion and \$2.1 billion, respectively.



**Table of Contents****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)****LIQUIDITY (continued)**

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

Refer to Note 7: Investments in the Notes to Consolidated Financial Statements for a detailed discussion about impaired investments.

**Debt Obligations**

Principal payments due under our debt obligations for the nine months ending December 31, 2015 and each of the subsequent four years ending December 31 and thereafter are presented in the following table. The repayment of principal on our surplus notes is reflected in 2018, which is the next call date. Principal payments under investment agreements are based on scheduled withdrawal dates. All other principal payments are based on contractual maturity dates. Foreign currency denominated liabilities are presented in U.S. dollars using applicable exchange rates as of March 31, 2015, and liabilities issued at a discount reflect principal amounts due at maturity.

In millions	As of March 31, 2015						
	Nine Months Ending December 31, 2015	2016	2017	2018	2019	Thereafter	Total
<b>International and structured finance insurance segment:</b>							
Variable interest entity notes	\$ 470	\$ 471	\$ 497	\$ 468	\$ 339	\$ 3,083	\$ 5,328
Surplus notes	-	-	-	940	-	-	940
<b>Corporate segment:</b>							
Long-term debt	-	-	-	-	-	573	573
Investment agreements	30	41	56	17	8	453	605
Medium-term notes	73	113	53	59	55	1,093	1,446
<b>Total</b>	<b>\$ 573</b>	<b>\$ 625</b>	<b>\$ 606</b>	<b>\$ 1,484</b>	<b>\$ 402</b>	<b>\$ 5,202</b>	<b>\$ 8,892</b>

**Table of Contents****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, namely investment securities, investment agreement liabilities, MTNs, debentures and certain derivative transactions. The Company's investment portfolio holdings are primarily U.S. dollar-denominated fixed-income securities including municipal bonds, U.S. government bonds, MBS, collateralized mortgage obligations, corporate bonds and ABS. In periods of rising and/or volatile interest rates, foreign exchange rates and credit spreads, profitability could be adversely affected should the Company have to liquidate these securities.

MBIA minimizes its exposure to interest rate risk, foreign exchange risk and credit spread movement through active portfolio management to ensure a proper mix of the types of securities held and to stagger the maturities of its fixed-income securities. In addition, the Company enters into various derivative agreements that hedge the risk of loss due to market volatility.

**Interest Rate Sensitivity**

Interest rate sensitivity can be estimated by projecting a hypothetical instantaneous increase or decrease in interest rates. The following table presents the estimated pre-tax change in fair value of the Company's financial instruments as of March 31, 2015 from instantaneous shifts in interest rates:

In millions	Change in Interest Rates					
	300 Basis Point Decrease	200 Basis Point Decrease	100 Basis Point Decrease	100 Basis Point Increase	200 Basis Point Increase	300 Basis Point Increase
Estimated change in fair value	\$ 30	\$ 52	\$ 50	\$ (71)	\$ (150)	\$ (230)

**Foreign Exchange Rate Sensitivity**

The Company is exposed to foreign exchange rate risk in respect of assets and liabilities denominated in currencies other than U.S. dollars. In addition to our international insurance business, some of the remaining liabilities included in our corporate segment are denominated in currencies other than U.S. dollars. Also, the Company regularly makes investments denominated in foreign currencies. The majority of the Company's foreign exchange rate risks is with the pound sterling and the euro. Foreign exchange rate sensitivity can be estimated by projecting a hypothetical instantaneous increase or decrease in foreign exchange rates. The following table presents the estimated pre-tax change in fair value of the Company's financial instruments as of March 31, 2015 from instantaneous shifts in foreign exchange rates:

In millions	Change in Foreign Exchange Rates			
	Dollar Weakens		Dollar Strengthens	
	20%	10%	10%	20%
Estimated change in fair value	\$ (3)	\$ (2)	\$ 2	\$ 3

**Credit Spread Sensitivity**

Credit spread sensitivity can be estimated by projecting a hypothetical instantaneous increase or decrease in credit spreads. The following table presents the estimated pre-tax change in fair value of the Company's financial instruments as of March 31, 2015 from instantaneous shifts in credit spread curves. It was assumed that all credit spreads move by the same amount. It is more likely that the actual changes in credit spreads will vary by security. National's investment portfolio would generally be expected to experience lower credit spread volatility than other investment portfolios since National has higher credit quality and portfolio composition in sectors that have been less volatile historically. The changes in fair value reflect partially offsetting effects as the value of the investment portfolios generally changes in an opposite direction from the liability portfolio.

Change in Credit Spreads

<b>In millions</b>	<b>50 Basis Point Decrease</b>	<b>50 Basis Point Increase</b>	<b>200 Basis Point Increase</b>
Estimated change in fair value	\$ 68	\$ (71)	\$ (295)

***Credit Derivatives Sensitivity***

MBIA Corp. issued insurance policies insuring payments due on structured credit derivative contracts which are marked-to-market through earnings under the accounting principles for derivatives and hedging activities. The majority of these structured CDS related to structured finance transactions with underlying reference obligations of cash securities and CDS referencing liabilities of corporations or of other structured finance securitizations. The asset classes of the underlying reference obligations included corporate, ABS, RMBS and CMBS. These transactions were usually underwritten at or above a triple-A credit rating level. As of March 31, 2015, approximately 72% of the tranches insured by the Company were rated triple-A.

**Table of Contents****Item 3. Quantitative and Qualitative Disclosures About Market Risk (continued)**

In the first quarter of 2015, MBIA Corp. has observed a widening of its own credit spreads. As changes in fair value can be caused by factors unrelated to the performance of MBIA Corp.'s business and credit portfolio, including general market conditions and perceptions of credit risk, as well as market use of credit derivatives for hedging purposes unrelated to the specific referenced credits in addition to events that affect particular credit derivative exposures, the application of fair value accounting will cause the Company's earnings to be more volatile than would be suggested by the underlying performance of MBIA's business operations and credit portfolio.

The following tables reflect sensitivities to changes in credit spreads, credit rating, recovery rates and MBIA Corp.'s upfront credit spreads. Each table stands on its own and should be read independently of each other. Refer to Note 6: Fair Value of Financial Instruments in the Notes to Consolidated Financial Statements for further information about the Company's financial assets and liabilities that are accounted for at fair value, including valuation techniques and disclosures required by GAAP.

Sensitivity to changes in credit spreads can be estimated by projecting a hypothetical instantaneous shift in credit spread curves. The following table presents the estimated pre-tax change in fair value and the cumulative estimated net fair value of MBIA Corp.'s credit derivatives portfolio of instantaneous shifts in credit spreads as of March 31, 2015. In scenarios where credit spreads decreased, a floor of zero was used.

In millions	Change in Credit Spreads (International and Structured Finance Insurance)						
	600 Basis Point Decrease	200 Basis Point Decrease	50 Basis Point Decrease	0 Basis Point Change	50 Basis Point Increase	200 Basis Point Increase	600 Basis Point Increase
	Estimated pre-tax net gains (losses)	\$ 26	\$ 10	\$ 2	\$ -	\$ (3)	\$ (11)
Estimated net fair value	\$ (181)	\$ (197)	\$ (205)	\$ (207)	\$ (210)	\$ (218)	\$ (244)

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

The following table presents the estimated pre-tax change in fair value and the cumulative estimated net fair value of MBIA Corp.'s insured credit derivatives portfolio by projecting a hypothetical change in the credit ratings as of March 31, 2015. A notch represents a one-step movement up or down in the credit rating.

In millions	Change in Credit Ratings (International and Structured Finance Insurance)				
	Three Notch Increase	One Notch Increase	No Change	One Notch Decrease	Three Notch Decrease
	Estimated pre-tax net gains (losses)	\$ 56	\$ 7	\$ -	\$ (33)
Estimated net fair value	\$ (151)	\$ (200)	\$ (207)	\$ (240)	\$ (267)

Recovery rates on defaulted collateral are an input into MBIA Corp.'s valuation model. Sensitivity to changes in the recovery rate assumptions used by MBIA Corp. can be estimated by projecting a hypothetical change in these assumptions. The following table presents the estimated pre-tax change in fair value and the cumulative estimated net fair value of MBIA Corp.'s insured credit derivatives portfolio based on a change in the recovery rate assumptions as of March 31, 2015.

In millions	Change in Recovery Rates (International and Structured Finance Insurance)				
	20% Increase	10% Increase	No Change	10% Decrease	20% Decrease
Estimated pre-tax net gains (losses)	\$ 14	\$ 7	\$ -	\$ (7)	\$ (13)
Estimated net fair value	\$ (193)	\$ (200)	\$ (207)	\$ (214)	\$ (220)

**Table of Contents****Item 3. Quantitative and Qualitative Disclosures About Market Risk (continued)**

Accounting principles for fair value measurements require MBIA Corp. to incorporate its own nonperformance risk in its valuation methodology. Sensitivity to changes in MBIA Corp. 's credit spreads can be estimated by projecting a hypothetical change in this assumption. The following table presents the estimated pre-tax change in fair value and the cumulative estimated net fair value of MBIA Corp. 's insured credit derivative portfolio. The actual upfront spread used in the valuation as of March 31, 2015 ranged from 13.70% to 29.26% based on the tenor of each transaction. The below amounts include an additional annual running credit spread of 5%.

In millions	MBIA Corp. 's Upfront Credit Spread (International and Structured Finance Insurance)			
	Increase by 15 Percentage Points	Increase by 7 Percentage Points	No Change	Decrease to 0 Percentage Points
Estimated pre-tax net gains (losses)	\$ 39	\$ 18	\$ -	\$ (56)
Estimated net fair value	\$ (168)	\$ (189)	\$ (207)	\$ (263)

MBIA Corp. 's insurance of structured credit derivatives typically remain in place until the maturity of the derivative. With respect to MBIA Corp. 's insured structured credit derivatives, in the absence of credit impairments or the termination of derivatives at losses, the cumulative unrealized losses should reverse before or at maturity of the contracts. Additionally, in the event of the termination and settlement of a contract prior to maturity, any resulting gain or loss upon settlement will be recorded in our consolidated financial statements.

**Warrants Sensitivity**

Warrants issued by the Company to purchase shares of MBIA Inc. common stock are recorded at fair value in the Company 's balance sheet and changes in fair value are recorded through earnings. The Company values these warrants using the Black-Scholes model. Refer to Note 6: Fair Value of Financial Instruments in the Notes to Consolidated Financial Statements for further information about the valuation of warrants issued by the Company.

While several factors influence the value of the Company 's warrants, including stock price, stock volatility, interest rates and dividends, changes in the value of the Company 's warrants during the first quarter of 2015 were primarily driven by changes in the Company 's stock price and volatility. The following tables present the estimated pre-tax change in fair value and the estimated aggregate fair value of the Company 's warrants assuming hypothetical stock price and volatility changes as of March 31, 2015. Each table stands on its own and should be read independently of each other.

In millions	Change in Stock Price				
	25% Increase	10% Increase	No Change	10% Decrease	25% Decrease
Estimated pre-tax net gains (losses)	\$ (20)	\$ (8)	\$ -	\$ 7	\$ 16
Estimated net fair value	\$ (53)	\$ (41)	\$ (33)	\$ (26)	\$ (17)

In millions	Change in Stock Volatility				
	10% Increase	5% Increase	No Change	5% Decrease	10% Decrease
Estimated pre-tax net gains (losses)	\$ (7)	\$ (4)	\$ -	\$ 4	\$ 7
Estimated net fair value	\$ (40)	\$ (37)	\$ (33)	\$ (29)	\$ (26)

**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,

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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.

**Table of Contents****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 2. Unregistered Sales of Equity Securities and Use of Proceeds**

The table below presents repurchases made by the Company in each month during the first quarter of 2015:

Month	Total Number of Shares Purchased <sup>(1)</sup>	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan	Maximum Amount That May Be Purchased Under the Plan (in millions) <sup>(2)</sup>
January	3,144,613	\$ 8.80	3,140,371	\$ 161
February	3,321,430	8.63	3,321,430	132
March	2,227,631	9.19	2,111,319	113
	8,693,674	\$ 8.83	8,573,120	\$ 113

(1) - Includes 9,076 shares purchased in open market transactions as investments in the Company's non-qualified deferred compensation plan.

(2) - In the fourth quarter of 2014, the Company's Board of Directors authorized the repurchase of common stock up to \$200 million under a new share repurchase program.

**Item 5. Other Information****Submission of Matters to a Vote of Security Holders**

The Annual Meeting of Shareholders of the Company was held on May 6, 2015 (the Annual Meeting). The matters that were voted upon at the Annual Meeting, and the number of votes cast for or against each matter (and percent of shares voted), as well as the number of abstentions (and percent of shares voted) and broker non-votes as to each such matter, where applicable, are set forth below.

*Proposal 1: Election of Directors.* The shareholders elected the Company's nominees to the Board of Directors. The voting results were as follows:

Nominees	For (% of shares voted)	Against (% of shares voted)	Abstain (% of shares voted)	Broker Non-Votes
Joseph W. Brown	143,849,504 (99.33%)	832,549 (0.57%)	133,060 (0.09%)	20,444,667



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Maryann Bruce	142,573,442	(98.45%)	2,112,505	(1.45%)	129,166	(0.08%)	20,444,667
Sean D. Carney	143,806,685	(99.30%)	885,069	(0.61%)	123,359	(0.08%)	20,444,667
David A. Coulter	141,972,312	(98.03%)	2,712,609	(1.87%)	130,192	(0.08%)	20,444,667
Steven J. Gilbert	142,822,129	(98.62%)	1,864,750	(1.28%)	128,234	(0.08%)	20,444,667
Charles R. Rinehart	143,954,188	(99.40%)	739,594	(0.51%)	121,331	(0.08%)	20,444,667
Theodore Shasta	143,948,901	(99.40%)	735,878	(0.50%)	130,334	(0.09%)	20,444,667
Richard C. Vaughan	142,570,192	(98.44%)	2,112,889	(1.45%)	132,032	(0.09%)	20,444,667

*Proposal 2: Approval of the Company's Annual Incentive Plan for Purposes of Section 162(m) of the Internal Revenue Code.* The shareholders voted to approve the MBIA Inc. Annual Incentive Plan (the Annual Incentive Plan) for purposes of Section 162(m) of the Internal Revenue Code. The Annual Incentive Plan is set forth in its entirety as Exhibit A to the proxy statement for the Annual meeting. The voting results were as follows:

For (% of shares voted)		Against (% of shares voted)		Abstain (% of shares voted)		Broker Non-Votes
141,189,522	(97.49%)	2,171,169	(1.49%)	1,454,422	(1.00%)	20,444,667

*Proposal 3: Approval of Compensation Paid to Named Executive Officers.* The shareholders voted to approve the compensation of the Company's named executive officers listed in the proxy statement for the Annual Meeting. The shareholder vote is advisory and non-binding. The voting results were as follows:

For (% of shares voted)		Against (% of shares voted)		Abstain (% of shares voted)		Broker Non-Votes
110,160,167	(76.06%)	33,188,998	(22.91%)	1,465,948	(1.01%)	20,444,667

*Proposal 4: Ratification of Appointment of Independent Registered Public Accounting Firm.* The shareholders ratified the appointment of PricewaterhouseCoopers LLP as the Company's independent registered public accounting firm for 2015. The voting results were as follows:

For (% of shares voted)		Against (% of shares voted)		Abstain (% of shares voted)		Broker Non-Votes
164,962,970	(99.82%)	180,121	(0.10%)	117,189	(0.07%)	0

### Disclosure pursuant to Section 13(r) of the Securities Exchange Act of 1934

Pursuant to Section 13(r) of the Securities Exchange Act of 1934, we may be required to disclose in our annual and quarterly reports to the Securities and Exchange Commission (the SEC), whether we or any of our affiliates knowingly engaged in certain activities, transactions or dealings relating to Iran or with certain individuals or entities targeted by US economic sanctions. Disclosure is generally required even where the activities, transactions or dealings were conducted in compliance with applicable law. Because the SEC defines the term affiliate broadly, it includes any entity under common control with us (and the term control is also construed broadly by the SEC).

The description of the activities below has been provided to the Company by Warburg Pincus LLC (WP), affiliates of which: (i) beneficially own more than 10% of our outstanding common stock and are members of our board of directors and (ii) beneficially own more than 10% of the equity interests of, and have the right to designate members of the board of directors of Santander Asset Management Investment Holdings Limited (SAMIH). SAMIH may therefore be deemed to be under common control with MBIA Inc.; however, this statement is not meant to be an admission that common control exists.

The disclosure below relates solely to activities conducted by SAMIH and its non-U.S. affiliates that may be deemed to be under common control with MBIA Inc. The disclosure does not relate to any activities conducted by the Company or by WP and does not involve our or WP's management. Neither the Company nor WP has had any involvement in or control over the disclosed activities of SAMIH, and neither the Company nor WP has independently verified or participated in the preparation of the disclosure. Neither the Company nor WP is representing as to the accuracy or completeness of the disclosure nor do we or WP undertake any obligation to correct or update it.

The Company understands that SAMIH's affiliates intend to disclose in their next annual or quarterly SEC report that:

Santander UK holds frozen savings and current accounts for two customers resident in the U.K. who are currently designated by the U.S. for terrorism. The accounts held by each customer were blocked after the customer's designation and remained blocked and dormant throughout the first quarter of 2015. No revenue has been generated by Santander UK on these accounts.



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**Item 5. Other Information (continued)**

An Iranian national, resident in the U.K., who is currently designated by the U.S. under the Iranian Financial Sanctions Regulations and the Weapons of Mass Destruction Proliferators Sanctions Regulations ( NPWMD sanctions program ), holds a mortgage with Santander UK that was issued prior to any such designation. No further drawdown has been made (or would be permitted) under this mortgage although Santander UK continues to receive repayment installments. In the first quarter of 2015, total revenue in connection with the mortgage was approximately £800 and net profits were negligible relative to the overall profits of Santander UK. Santander UK does not intend to enter into any new relationships with this customer, and any disbursements will only be made in accordance with applicable sanctions. The same Iranian national also holds two investment accounts with Santander Asset Management UK Limited. The accounts have remained frozen during quarter one of 2015. The investment returns are being automatically reinvested, and no disbursements have been made to the customer. Total revenue for the Santander Group in connection with the investment accounts was approximately £70 and net profits in the first quarter of 2015 were negligible relative to the overall profits of Banco Santander, S.A.

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**Item 6. Exhibits**

- +31.1. Chief Executive Officer - Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- +31.2. Chief Financial Officer - Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- \*32.1. Chief Executive Officer - Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- \*32.2. Chief Financial Officer - Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- +101. Additional Exhibits - MBIA Inc. and Subsidiaries Consolidated Financial Statements and Notes to Consolidated Financial Statements from the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2015, formatted in XBRL.

+ Filed Herewith

\* Furnished Herewith

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**SIGNATURES**

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

MBIA Inc.

Registrant

Date: May 11, 2015

/s/ C. Edward Chaplin  
C. Edward Chaplin  
Chief Financial Officer

Date: May 11, 2015

/s/ Douglas C. Hamilton  
Douglas C. Hamilton  
Controller (Principal Accounting Officer)