Dear Owners:

We began the second year of our five-year Transformation plan amidst the worst global credit crisis since the 1930s. Looking back to the beginning of 2009, the uncertainty and volatility levels and sheer fear that permeated the collective financial consciousness cannot be adequately described in words alone. Growing up, I listened to my Depression-era parents recall the hardships of that time. I understood the words but had no emotional understanding of either the scars or the resulting resilience that defined their generation. The ensuing strength of character they showed led to the decades-long growth in the global economy. As we move through the next few years rebuilding our foundation, we must remember the painful lessons of the past several years and not permit these memories to fade away and lead to repetition of the events that destroyed years of accumulated shareholder wealth. At the same time, we will not be gun-shy about seeking appropriate opportunities to deploy our capital and build value for our owners.

Significant 2009 Events

Last year I highlighted that the most important number to our future franchise value was the $2.8 billion in insurance claims that we had paid from 1974 through 2008. That number is now $5.8 billion, with $3.0 billion in additional payments made to insureds in 2009. The majority of these payments resulted from the massive defaults on ineligible mortgage loans in the second lien portfolio that we insured in 2005-2007. Our forensic review of over 30,000 loans has led to lawsuits against multiple issuers seeking both contractual mortgage put-back recoveries and fraud claims. Our year-end balance sheet now reflects $1.5 billion in contractual recoveries but we estimate the actual amount of defaulted ineligible loans on which we are entitled to enforce the representations and warranties made to us exceeds $4 billion.

We were the first in our industry and one of the first in the market to talk about the magnitude of ineligible mortgage loans and contractual mortgage put-back provisions. Awareness and recognition of this topic is clearly growing, as more and more investors are asserting such claims. As a result, and as fourth quarter 2009 financial results are beginning to show, there's a growing list of mortgage lenders that have been increasing their reserves for loan put-backs. Unfortunately these lenders seem to be focusing on complying with the terms of their obligations to GSEs like Fannie and Freddie, on whom they rely for ongoing funding, while they ignore similar obligations to private parties.

It's that intransigence that ultimately forced us to pursue legal action. The documents in all of our insured mortgage transactions include clear procedures that the parties must follow with regard to ineligible loans. In every case we have been diligent in doing what is required of us, complying with both the spirit and the letter of the agreements only to find the majority of our counterparties ignoring their responsibilities, refusing to communicate with us and deliberately frustrating the process at every turn. We have repeatedly been denied access to files that we are clearly entitled to examine and, in one case, submitted a legitimate repurchase claim involving over 1,500 ineligible loans only to have the originator reject every single one of them. Given no other choice, we reluctantly turned to the courts.

I am often asked by our owners why we are making these payments when the vast majority of the defaulted loans were not eligible for the mortgage pools that we insured. We have all experienced the painful process of claims denials or downward adjustments when we file an auto or medical claim, so why is our form of insurance different? The answer is that when an individual or a corporation purchases a bond that has a financial guarantee from us, they are provided insurance so that if the underlying bond fails to make timely payments of interest or principal, we will make up the shortfall. That is the fundamental premise of our business model and the primary benefit of our insurance to investors who have purchased our insured bonds. In the case where our insured bondholder has no involvement in the origination or management of the underlying securities, the fact that there was underlying fraud or malfeasance is our problem, not theirs. The recovery lawsuits that we have initiated against originators and managers of mortgage pools all fall into this category.

On a parallel course, we have also filed breach of contract, misrepresentation and fraud lawsuits against a few financial firms that manufactured and managed CDOs, and then purchased protection on them in the form of MBIA-insured credit default swaps (CDS). In these cases we believe that the firms constructed transactions that either didn't meet the defined eligibility criteria or had known (to them) losses at inception. As a result, we are seeking direct rescission of the CDSs they hold and recovery for payments that we have made or will make to third-party institutions that purchased portions of these transactions. Unlike the contractual mortgage put-back recoveries, these claims for rescissory damages do not result in direct offsets to our loss reserves but the amount at stake represents a significant portion of the $2.5 billion of impairments we estimate as losses on our CDO portfolio.

The defendants in the litigation and the press have pointed to our advertised underwriting standards and asserted that we should have "known better" and detected the fraud and misrepresentations ourselves. But a keystone of our underwriting — and of commerce itself — is the trust that all parties will act in good faith and in compliance with their contractual commitments. For that reason, we deliberately chose to do business with very large, very reputable financial firms with whom we have had long business relationships, some going back 30 years. We believed they were ethically committed to standing behind their business, would deal with us honestly and would share material information with us about the transactions they asked us to insure.

It's a little like why you might choose to buy a Mercedes. You want to deal with a company that has the highest reputation and standards for quality and service… a company that stands behind its product… a company that, in the extremely rare case of a model being recalled, would share this information with you and right the situation immediately. In our case, we thought we were buying a Mercedes, not a used car where it's "buyer beware."

When I rejoined MBIA in February 2008, I publicly outlined our Transformation strategy which we planned to accomplish over a five-year timeframe. We spent the next year working closely with the New York State Insurance Department to shape and implement our Transformation. During 2009, we made progress on two components of this strategy. We separated our Structured Finance and International businesses from our US public finance book in February through the formation of National Public Finance Guarantee Corporation. At year-end, we separated our third-party asset management business, Cutwater Asset Management, from the wind-down of our asset liability and conduit activities.

For our insurance Transformation, we chose a course that involved taking a portion of the total insurance capital and placing it into National along with all of the US public finance existing and contingent liabilities and their associated future losses and revenues. This action is consistent with our objective to establish a municipal-only operating platform to provide much needed capacity to the municipal markets while balancing all stakeholders' interests. The Transformation of our insurance business was approved by the New York State Insurance Department after a thorough examination.

Our action was greeted with multiple and duplicative lawsuits filed in three different legal jurisdictions, which is inhibiting and delaying our ability to fully serve the US public finance market — the major objective of our Transformation. Our consistent position has been that the only proper avenue for challenging the regulator-approved Transformation transactions is the Article 78 proceeding that was filed in June in New York State Supreme Court. This case is proceeding through briefings, discovery and depositions and should be decided in 2010.

We continue to believe the other cases are inappropriate and impermissible. However both the Federal and New York judges have denied our motions to dismiss the cases as premature at this point in the litigation. We have appealed the New York case to the appellate court because we believe the lower court's decision is incorrect, and we remain convinced that this will ultimately boil down to the one Article 78 case. Whether we need to defend our insurance Transformation via multiple litigations or just one, we remain comfortable that the process we followed will ultimately be upheld.

The majority of the defendants in the breach of contract, misrepresentation and fraud cases we have filed are also among the plaintiffs in the litigations challenging our insurance Transformation. It has also not been lost on many observers that most of the $6 billion in losses we have incurred in our structured book are with many of these same bank plaintiffs in the Transformation litigation. When these originators and arrangers are required to live up to the terms of their contracts or the fraudulently induced CDO contracts are rescinded, the claims of MBIA Insurance Corporation's capital and surplus inadequacy — which is at the heart of the Transformation litigation — will have zero credibility. In fact, had they honored their obligations to begin with, the remaining plaintiffs probably wouldn't have participated in the litigation. As noted above, we expect that significant decisions on the Transformation litigation will be achieved in 2010, but we do not expect that the plaintiff cases we have filed will be tried until 2011 or 2012.

The restructuring of our asset management business into Cutwater Asset Management will allow both clients and our owners to measure the success of Cutwater in growing the profitable management of third-party assets (AUM was up 25% in 2009) apart from the wind-down of our asset liability and conduit businesses. Cutwater's existing third-party advisory client roster, with $25 billion under management, is very diverse and our successful track record across a wide range of fixed income products should allow us to grow this business at a good clip in the coming years.

In stark contrast, both the asset liability and conduit businesses relied on a Triple-A rating from MBIA Insurance Corporation and have been in rapid wind-down since MBIA's ratings downgrade in June of 2008. The amount of third-party guaranteed investment contract, medium-term note and commercial paper liabilities stood at $30 billion at year-end 2007. As of year-end 2009, the amount of remaining third-party liabilities had been reduced to $6.4 billion. We will continue to report on the economics of these businesses each quarter. Our strategy here remains the same. We maintain sufficient liquidity to meet all liabilities as they come due and use excess liquidity to repurchase outstanding liabilities at a discount to eliminate the gap between assets and liabilities.

Although most of the external focus on our insurance Transformation has been on the litigation challenging the regulatory approvals, National has been established and capitalized as the largest US public finance-only insurance company operating in the financial guarantee space. With approximately $500 billion in outstanding financial guarantees in force, $5.5 billion in claims paying resources, $550 million in pre-tax earnings and a full staff of well respected and experienced credit analysts, National is a robust participant in the space, supporting millions of individual policyholders. While acknowledging the AA/Aaa capital levels of National, both S&P and Moody's have taken a wait and see approach on National's financial strength ratings pending resolution of the litigation and acceptance by the new business market. It is unfortunate that the bank-initiated litigation is preventing us from improving access to capital for tens of thousands of American communities at a time they need it most. The absence of an appropriate rating consistent with its financial position prevents National from guaranteeing new debt for its clients but does not interfere with its growth in net worth and capital strength. Having grown this business from scratch 36 years ago, we have every confidence that the delay will only be a temporary setback when we look back years from now.

2009 Results

Consistent with last year, I believe a review of the change in embedded value per share (a non-GAAP after-tax measure that we calculate as Adjusted Book Value per share or ABV) provides more focus on the significant economic results in 2009 versus a summary and reconciliation of our GAAP or Statutory financials. In 2008 we lost almost $38 per share in ABV, while we lost $3.71 in 2009. The following table shows the comparison between the components of ABV at the end of 2008 and 2009.

	12/31/08	12/31/09
Reported Book Value	**$ 4.78**	**$ 12.66**
+ Cumulative Unrealized Loss on Credit Derivatives	$ 16.93	$ 12.09
- Cumulative Impairments on Credit Derivatives	$ (3.78)	$ (5.89)
+ Unrealized Losses in Other Comprehensive Income	$ 9.02	$ 5.06
Analytic Book Value	**$26.95**	**$ 23.92**
+ Deferred Premium Revenue	$ 15.80	$ 15.02
+ Asset/Liability Product Adjustment	$ (0.58)	$ (0.61)
+ Loss Provision	$ (2.11)	$ (1.98)
Adjusted Book Value per share	**$40.06**	**$ 36.35**
Shares Outstanding	208 million	205 million
Aggregate Adjusted Book Value	$8.330 billion	$7.439 billion

Unlike 2008 which was dominated by capital events, in 2009 the change in ABV attributable to capital changes was relatively modest as we maintained very high liquidity levels. We repurchased 5 million shares at an average price of $3.16 adding 90 cents to ABV. In addition, we also repurchased $771 million in various debt instruments at discounts which contributed another 86 cents. The issuance of 1.7 million shares under our compensation programs (which are valued at market) resulted in a 33 cent reduction in ABV. The aggregate effect of these capital transactions was to increase ABV by $1.43 per share.

Although ABV incorporates our future loss expectations for our insurance business, we altered our views based on how 2009 unfolded and increased our future loss expectations. During the year, we paid out $326 million on multi-sector CDOs inclusive of commutations. The majority of payments were made on transactions that are the subject of our litigation against originators and managers of these transactions. In addition to these payments, we raised our estimate of ultimate losses on the entire credit default swap/CDO portfolio by $545 million to $2.5 billion. The net effect from losses on our CDO portfolio on ABV was a reduction of $2.97 per share.

The area that we knew would be subject to the most volatility in 2009 was our second lien RMBS portfolio. We were correct that new delinquencies would peak at the beginning of the year and that home price declines would stabilize towards the end of the year. Despite these accurate forecasts, the combination of the extraordinary percentage of loans that we have now identified as ineligible in these portfolios and the effects of the deeper recession resulted in a much slower reduction in defaults than we had forecast when the year began. As a result, we have increased the amount we expect to pay out before recoveries to $4.4 billion from $2.9 billion. Because we reduced our voluntary pre-payment assumption, the amount we expect to recover from excess spread in the transactions was increased by $620 million. The biggest change during the year was our decision after the review of 30,000 individual mortgage loan files to establish an explicit reserve for mortgage put-back recoveries from issuers. As noted above, we are asking the courts to enforce our contractual rights to put back loans or to award us rescissory damages that we estimate are in excess of $4 billion but are only recording $1.5 billion at this stage. The combined effect of these three changes resulted in an aggregate change in incurred losses of $575 million which reduced ABV by $1.82 per share.

We did see an additional $283 million of realized losses from sales and permanent impairments in our ALM investment portfolio. This resulted in an additional reduction of $1.38 in ABV per share. The combined effect of losses on our CDOs, second lien RMBS and ALM investments reduced ABV per share by $6.19.

Excluding the effects of these extraordinary loss events, we saw a residual change in ABV in Insurance of $1.08 and Investment Management of 10 cents. Adding in the 23 cent loss for the holding company and 10 cents in currency and other miscellaneous items brings the total change in ABV per share to a reduction of $3.71. The table below recaps these changes.

December 31, 2008 Adjusted Book Value per share	**$40.06**
Capital Events	
Share Buybacks	$ 0.90
Debt Buybacks	$ 0.86
Employee Shares Issued	$ (0.33)
	$ 41.49
Losses	
Credit Derivatives Impairments & Realized Losses	$ (2.97)
Second Lien RMBS Losses Incurred	$ (1.82)
Capital Losses on ALM Investments	$ (1.38)
Reduction in Future Revenues in ALM	$ (0.02)
	$ 35.30
New Insurance Business	$ 0.00
	$ 35.30
Operations excluding the above effects	
Insurance Income	$ 1.08
Investment Management Income	$ 0.10
Corporate Loss	$ (0.23)
	$ 36.25
Currency rate changes and other miscellaneous items	$ 0.10
December 31, 2009 Adjusted Book Value per share	**$ 36.35**

Board Changes

We had two changes to our board of directors during 2009. John Rolls stepped down in mid-year after 14 years of dedicated service. John served on every committee of the board during his service including the important roles as Chairman of Audit and Finance during different terms. We were well served by John's advice and oversight during this period. Additionally, we were fortunate that following his retirement from Wellington Management, Ted Shasta joined our board. Ted's long career in asset management and insurance company analysis brings another important resource with a deep understanding of shareholders to our board, joining the two representatives of our largest owner, Warburg Pincus.

In addition, David Coulter from Warburg Pincus has become Chairman of the Compensation and Governance Committee of the board and Charles Rinehart has become Chairman of our Finance and Risk Committee. Richard Vaughan remains Chairman of our Audit Committee. We also moved Dan Kearney from the role of Lead Director to Chairman, further reinforcing our commitment to being a leader in board governance.

Looking Forward

As noted above and in last year's letter, over the past few years our owners have seen a dramatic reduction in the ABV of our enterprise on a per share basis and an even greater effect on the value assigned by the market as reflected in our mid single digits share price. As we look ahead over the next couple of years, both economic and market value will be driven by a few key variables… litigation, the economy, liquidity and interest rates.

A review of the legal matters in our 10-K clearly demonstrates that litigation will have a profound effect on your company as matters get resolved. The four cases involving our insurance Transformation will not have a major impact on existing ABV, but they clearly impact National's ability to start contributing to growth in ABV by deploying capital into the US public finance market and providing insurance to existing and new clients. In contrast, the breach of contract, misrepresentation and fraud cases will have a very significant effect on existing ABV. Successful resolution of these cases will create two important outcomes. It will result in a cash collection of the $1.5 billion in contract claims we have established on the balance sheet. It will also contribute to a significant increase in ABV if we were to capture both the full $4 billion of contract put-back recoveries and the rescission of the CDS contracts and related damages. In total, we are seeking over $5 billion in remedies and damages.

In our current estimates of future loss payments, we have embedded an economic forecast of modest growth of 2-3% in US GDP and a slow but positive recovery in the job market over the next few years. The most direct effect will occur in the accuracy of our direct residential mortgage and multi-sector CDO loss payment forecasts, as well as the modest levels of losses we currently expect for our municipal credits and other sectors of the structured finance portfolio. If the economy were to "double dip" into a second prolonged recession, we will see increased losses in sectors that are already under stress and a greater potential for losses in other economically sensitive sectors, such as commercial real estate.

Maintaining a high level of liquidity to meet expected and unexpected obligations over the next few years remains a major goal of your company. The companywide focus on liquidity has allowed us to meet both current and future obligations and also to selectively add value through debt and equity buy-backs, commutations and selected high return investments. Given the array of economic opportunities to use excess cash, we are working to maximize excess liquidity to drive towards our intermediate objective of a $45 ABV per share.

Interest rates and interest spreads have a significant effect on the value of our investments and our ability to reinvest available cash across our various investment portfolios. We are anticipating a return to a higher but more normal interest rate (slope and spread) environment in 2011. If we were to return to the volatile credit markets we experienced from mid-2007 through the end of last year, we would see a material negative effect on our ABV.

While no dollar value is assigned in our calculation of ABV for the skill, resilience and dedication of every MBIA employee, our ability to retain and motivate the entire team is a key to our ability to both manage through the next few years and to reestablish a predictable growth in value for our owners looking further into the future. From the beginning of the credit crisis in mid-2007 through today, this team has done a superb job in designing and executing on short-term objectives and laying the foundation for the future. I continue to appreciate the enormous contributions and sacrifices they have made through these challenging times.

I knew when I returned at the beginning of 2008 that we were facing a period of extreme volatility and uncertainty due to our position as a financial guarantee company in a rapidly deteriorating and correlated global credit crisis. As owners, you have seen the significant decrease in the value of your company as we raised dilutive capital and paid and established reserves for losses from the devastating credit crisis — losses that would have been substantial anyway, but I believe are far in excess of what they would have been if all issuers had originated transactions per their representations and warranties.

We are extremely fortunate to have sustained our capacity throughout the year, enabling us to make billions in loss payments to our insured policyholders. And we are confident that we can meet the obligations we have in the years ahead. Having made those payments on time and in full, we think that investors will have a renewed appreciation for the value of our product and the protection it provides. With state and local government budgets always under pressure and infrastructure needs as critical as ever, bond insurance will continue to play an important role in the municipal market. While the journey is far from complete, my level of optimism is much higher as the global economy continues to recover and the volatility in our loss estimates is significantly reduced.

Jay Brown

CEO