Dear Owners:

2010 marked the middle year in our five-year plan to transform the legal and operating structure of your Company to meet the challenges and opportunities that have emerged in the wake of the credit crisis and recession of the past few years. While it was a year of important progress in many areas, I would be remiss if I did not concede right up front my greatest disappointment of the year is that the Article 78 legal challenge to the Transformation of our U.S. insurance company remains unresolved.

Central to the case the Banks initiated in June 2009 is the allegation that MBIA Insurance Corp. was left insolvent following Transformation. Yet the inescapable fact is that the Company has paid all of its claims as they have come due, including those made by some of the Banks suing us, and accelerated payments made in connection with the commutation of multiple CDOs. Almost two years have passed, and MBIA Insurance Corp.'s solvency becomes even more obvious with the passage of time.

The delays in this case remind me of the wisdom in the words of a baseball great: "The score is nothing to nothing, and nobody's winning." Don't get me wrong. I am confident that we will ultimately prevail in this case. In fact, we had a number of favorable developments in 2010 and through the writing of this letter, such as when the Appellate Division dismissed the Banks' parallel action in NY State Court, two other challenges were suspended while the Banks pursue a final plea to the Court of Appeals, and over a third of the original Bank plaintiffs withdrew their claims.

In the end, I believe this meritless case is not only futile for the Banks, but a burden on tens of thousands of municipalities across the country. As long as the case drags on, many municipal issuers and taxpayers are unable to benefit from the access to capital and reduced borrowing costs – needed now more than ever – that our insurance has provided them for the past 37 years. One bright spot on the horizon: a timetable for resolution has been established by the Court, so I do expect that the New York State Insurance Department's approval of our Transformation more than two years ago will be affirmed in 2011.

Another area of disappointment: our financial results for the year, which were driven by additional loss developments in our structured insurance business. The acceptable profits in our National subsidiary were offset by losses in MBIA Insurance Corp. and our Wind-Down Operations. While a marked improvement over the past three years, our 2010 results are still unsatisfactory for shareholders.

Significant 2010 Events

Litigation, negotiated settlements of credit derivative transactions and a significant reduction in direct residential mortgage-backed securities (RMBS) claims payments were the main themes for MBIA Insurance Corporation in 2010.

In addition to the Banks' challenges to the restructuring of our U.S. insurance operations, we made substantial positive progress on the mortgage put-back lawsuits we have filed against five financial institutions. The contract and fraud claims survived the institutions' motions for dismissal this year, and we are moving ahead on all of these suits. Of the two largest, we anticipate that the trial in the Bank of America/Countrywide matter will begin later in 2011, followed in 2012 by the action against the Ally Bank subsidiary, RFC.

To date, we have paid out $4.4 billion in claims on securitizations sponsored by these five institutions, and we estimate that we will pay out another $1.0 billion in the years ahead. We are seeking full recovery of the amounts contractually due to us as well as significant damages in each of these actions. While the timing and the amount of final contract recoveries from these five institutions are still uncertain, we are carrying a receivable of $2.4 billion as of year-end. The amount we've booked for accounting purposes reflects the uncertainties around litigation and collection, but make no mistake – our actual contract claims associated with these institutions total $4.4 billion at year-end, and we expect that our ultimate recoveries will largely offset the losses we've taken in this book of business.

Our only setback on the recovery litigation front in 2010 was the dismissal of our CDO fraud case against Merrill Lynch by the Appellate Division of the New York State Supreme Court. Notably, the Court's opinion was not based on whether Merrill actually committed fraud, which has been well documented. Instead, the decision was based on an interpretation of the contract disclaimers that we believe is inconsistent with other cases in New York, and we are pursuing avenues to both appeal the case and file a new complaint based on additional facts that have emerged since the suit was first filed.

There was an important development outside of the courtroom as well – specifically, our ability to resolve differences with Bank counterparties on mutually acceptable terms. We have successfully negotiated settlements with seven different counterparties involving 46 policies. These settlements eliminated $23.3 billion in gross exposure during the course of 2010 and through the writing of this letter. While the payments we've made have been significant, in aggregate they have been consistent with carried reserve levels. We continue to have active discussions with the majority of the remaining large counterparties, and we expect to continue on this path throughout 2011.

The major claim payments we've made over the past three years have been related to the direct RMBS book, with total gross payments now exceeding $5.4 billion. Virtually all of the payments have resulted from mortgages that were fraudulently represented and not eligible for inclusion in the insured transactions to begin with. Nonetheless, we are honoring our obligation to make payments to innocent third-party note holders while we pursue put-back recoveries against the originators and sponsors of the securitizations. Although claims payments have continued, their run-rate has dropped from a peak of around $300 million per month to less than $100 million per month by year-end 2010. These positive trends have continued into the first couple of months of 2011. With less demand for near-term liquidity, we now have a greater opportunity to pursue additional negotiated settlements on potentially volatile CDO and CMBS pool-related contracts that do not have payments due in the next few years.

In our business operations, National Public Finance Guarantee had a relatively unremarkable year servicing its existing $483 billion portfolio of financial guarantee insurance policies. Thanks to its embedded portfolio, National had another year of solid results, recording $530 million in pre-tax earnings. Although existing investors continue to benefit from National's strong balance sheet, the Bank-initiated litigation is preventing National from writing new bond insurance. Hardly a day goes by where I don't read about investors expressing concern over municipal credit, so it frustrates me that we are not in a position to help communities with good credit characteristics that don't have effective access to a liquid market. These issuers are getting caught up in what I would call a wholesale overreaction to the credit environment. I'll admit that it's stressful, but I believe that it is both manageable and a good environment for insurers. If there's a silver lining to not writing new business, it's that it has allowed the size of our insured portfolio to decline by close to 10%, while statutory capital increased by $386 million to $2.4 billion at year-end. The combination of the two places National in a stronger position to serve both existing and new customers once the litigation issues are resolved.

Turning to our investment management business, Cutwater completed its first full year as a standalone fee-for-service asset manager. Although portfolio performance remained strong and third-party assets under management continued to grow, investments in staffing and a stronger systems and control infrastructure resulted in a disappointing break-even year. This is well short of our long-term targets for Cutwater, but we remain confident that the combination of their established investment track record and a strong appreciation for client service will result in continued growth in third-party assets under management and industry-comparable margins in the years ahead.

Beginning in 2010, we separated out our Wind-Down Operations to help investors distinguish ongoing investment management activities from the run-off asset/liability products management (ALM) and conduit businesses. At the end of 2007, we had over $30 billion in outstanding guaranteed investment contracts, medium-term notes and other debt issued by these businesses. At year-end 2010 we had reduced the third-party liabilities to $4.2 billion in the ALM business and $1.5 billion in the conduit business. Regrettably, we have not made as much progress as we had hoped in reducing the long-term economic gap between assets and liabilities in the ALM business, and so we made the decision to convert the $600 million note between the holding Company and the ALM business into a capital contribution. This decision had no effect on the consolidated balance sheet, but it did increase the ABV of the Wind-Down Operations by $600 million with a corresponding reduction in the standalone holding Company ABV.

2010 Results

As I did in my letters of the last few years, I will provide an additional, complementary review of the performance of your Company to that presented in our GAAP and statutory financial statements. This view is based on the change in embedded value per share (a non-GAAP after-tax measure that we call Adjusted Book Value per share or ABV). We believe ABV is a useful measure of our fundamental value, because it removes the impact of certain particularly volatile items, like mark-to-market, that we believe will reverse over time.

After losing over $34 per share in ABV in 2008 and almost $4 per share in 2009, we calculate that we lost $2.13 of ABV per share in 2010, reflecting the trend toward reduced volatility in our results. The following table compares the components of ABV as of year-end 2009 and year-end 2010.

	12/31/09	12/31/10
Reported Book Value per share	**$12.66**	**$14.18**
-Impact of Consolidating Certain VIEs	n/a	$ 0.50
+Cumulative Unrealized Loss on Credit Derivatives	$12.09	$14.58
-Cumulative Impairments on Credit Derivatives	$ (5.89)	$(8.69)
+Unrealized Losses in Other Comprehensive Income	$ 5.06	$ 2.27
+Deferred Premium Revenue	$15.02	$13.97
Adjusted Book Value per share	**$38.94**	**$36.81**
Shares Outstanding	205 million	200 million
Aggregate Adjusted Book Value	$7.970 billion	$7.354 billion

As noted in our 10-K for the period ended December 31, 2010, some small changes have been made to the calculation of ABV, and we have adjusted last year's numbers to show both years on a consistent basis.

As was the case in 2009, the 2010 change in ABV due to capital events was modest as we continued to focus on maintaining high levels of liquidity for RMBS payments and negotiated settlements. We repurchased 4.7 million shares at an average price of $6.44, adding 77 cents to ABV. We also recorded $61 million of gains from the repurchase of our various debt instruments at discounts, which contributed another 20 cents. The 805 thousand new shares we issued under our compensation program were offset by the 913 thousand that were cancelled, resulting in a small addition to ABV of 5 cents. The aggregate effect of these capital transactions was to increase ABV by $1.02 per share.

Our estimates of ultimate losses for RMBS, ABS CDOs and CMBS transactions have been highly volatile over the past few years. 2010 was no exception, but the mix was very different from prior periods. On RMBS transactions, we saw only modest change - a $63 million benefit, which caused a 20-cent gain in ABV. This reflected an increase in expected payments of almost $1 billion dollars that was matched by a similar increase in our estimate of put-back recoveries. We had very little change in our loss expectations for previously reserved ABS CDO transactions. But the overall change in incurred loss was $163 million, driven by new reserves on 10 transactions insured in the 2001-2004 period. The resulting reduction in ABV from ABS CDO losses was 53 cents per share.

Our insured commercial real estate exposures had the largest change, as we recorded credit impairments of $1.1 billion on 20 different transactions. Although commercial real estate trends have improved over the past year, we modified our assumptions under a variety of scenarios as described in our 10-K, resulting in these significant reserves, which impacted ABV by $3.66.

Unlike 2009, we saw only a modest negative effect from capital losses in the Wind-Down portfolios. The combination of asset impairments and net realized capital losses totaled $64 million, resulting in a reduction in ABV per share of 28 cents. The combined effect of insurance and investment losses reduced ABV per share by $4.27.

We saw an addition to ABV of 92 cents from U.S. Public Finance Insurance and, excluding the effects of the extraordinary loss events noted above, a residual addition of 59 cents from Structured Finance and International Insurance. Wind-Down Operations had an addition of 9 cents from operations and Cutwater broke even for the year. Adding in the 35-cent loss for the holding Company and the 13-cent loss on currency and other miscellaneous items, our total change in ABV per share amounts to a reduction of $2.13.

The table below recaps these changes.

December 31, 2009 Adjusted Book Value per share	$38.94
Capital Events	
Share Buybacks	$ 0.77
Debt Buybacks	$ 0.20
Employee Shares	$ 0.05
	$39.96
Extraordinary Losses	
RMBS Losses	$ 0.20
ABS CDO Losses	$ (0.53)
CMBS Losses	$ (3.66)
Capital Losses on Investments in Wind-Down Operations	$ (0.28)
	$35.69
Operations excluding the above effects	
U.S. Public Finance Insurance	$ 0.92
Structured Finance and International Insurance	$ 0.59
Wind-Down Operations	$ 0.09
Cutwater	$ 0.00
Corporate	$ (0.35)
Currency rate changes and other miscellaneous items	$ (0.13)
December 31, 2010 Adjusted Book Value per share	**$36.81**

Board Changes

Although we had no changes in our Board structure or composition in 2010, we will have some changes in 2011. First, a departure. After serving the Company since 2004, Dr. Larry Meyer recently notified the Board that he would not be available to stand for reelection at the 2011 Annual Meeting due to increased demands at his firm, Macroeconomic Advisors. Larry's advice and counsel to the management team during the tumultuous economic events of the past several years has been invaluable. We will miss his many contributions as we move forward in the years ahead.

Fortunately, the Compensation and Governance Committee has identified and nominated for election at the 2011 Annual Meeting a very able replacement in Steven J. Gilbert. Steve's financial services background spans 40 years, with experience in private equity investing, investment banking and law. Steve has served on over 25 corporate boards, including several insurance companies. He is extremely well positioned to work with the other members of our Board and

management in maximizing shareholder value as we continue to work through our Transformation. We hope you share our enthusiasm in having Steve join our Board and cast your vote in favor of him and the other incumbents at our annual election.

Looking Forward

The year ahead and beyond will surely be full of challenges and continued transformation of your Company. I remain optimistic about the slow but sure signs of economic recovery, with growth in the overall economy and in total employment. This environment should help promote positive returns to our bond insurance and asset management businesses. Although risk and volatility remain in both our structured and public finance insured portfolios, the trends continue to suggest better days are ahead.

Also, I look forward with confidence to a favorable resolution of the Article 78 litigation in 2011. While I may have been a bit too optimistic about the length of time it has taken to bring this case to trial, I make no apologies for my confidence in its outcome. We believe that MBIA's continued solvency and declining volatility just serve as further evidence of the validity of the NYSID's 2009 Transformation decision. We've been patient long enough.

A cloud on the horizon is S&P's proposal to change its criteria for rating bond insurers. As currently advertised, the proposal would substantially reduce the returns available to our industry. While it's too soon to assess the impact of S&P's proposed new approach on the marketplace, it is an issue we're keeping close tabs on.

Our response to all of this is no different from other years – we will honor all obligations to policyholders and focus on delivering solid returns to our shareholders.

There's a good reason that, despite this tremendously distracting litigation, we are able to maintain our consistent focus on building shareholder value. Quite simply, it's our people. Ours is an organization that was built from the ground up with a mission to honor the public trust. Our employees' commitment to hard work and excellent results, dedication to the Company, and integrity in everything they do, makes my job easy. I want to thank all of them, and in particular, my senior management team, which has done a brilliant job of managing through challenging times and helping to shape a solid future for your Company.

As always, thank you for your support.

CEO