Dear Owners:

It goes without saying that the volatility I expected we would see in 2008, in our own financial results and those of the global financial markets, was exceeded by an extremely wide margin. The damage to our balance sheet and the company's value in the stock market was very severe. I will detail later in this letter how I view the major events (both positive and negative) that affected MBIA's value but no amount of explanation escapes the fact that your company was worth less at the end of 2008 than it was at the beginning. The fact that a significant amount of the damage comes from underwriting decisions made in the previous few years does not provide me any excuses as my job is to add value on a per share basis, an objective we did not achieve in 2008!

We've attached this letter to our annual 10-K document, just as we did last year. When you couple the complexity of our existing business with a wide range of new and revised accounting standards introduced during the last several years, the result is a dauntingly long document of 329 pages. Despite its length, I would strongly encourage our more GAAP* literate owners to set aside some time to read the full document as it provides all of the background that goes into our balance sheets, income statements and cash flow statements. The non-GAAP explanation that I provide below in the 2008 Results section is my summarized view of how the events of the year altered the embedded value of your company.

Of all the thousands of numbers included in this and prior years' financial statements, the one number that is probably most important to our future is **$2.8 billion**. This is the total amount of interest and principal payments our third-party policyholders have received over the past 35 years as a result of buying insurance from MBIA. While the issuers of securities insured by us have received many multiples of this amount in interest rate savings, ultimately the real value of any insurance organization is determined over the long-term by its ability to deliver on its contracts when claims are made. To the many thousands of individual third-party holders of bonds insured by MBIA, these payments represent true value, far outweighing the modest cost reflected in a lower interest rate on their bonds. The ultimate intrinsic value of MBIA

* GAAP = Generally Accepted Accounting Principles

will grow again over time as we continue to deliver on our promise to meet missed interest and principal payments.

Equally important, over the past year most holders of credit-enhanced bonds have suffered a loss of market value as the benefit of credit enhancement is no longer fully reflected in the trading price of their bonds. Our clear long-term objective is to restore the trading value premium on our wrapped bonds to properly reflect the value of our insurance over the identical unwrapped bonds. Even as we manage your company through these difficult times we are very focused on restoring the franchise value that is evident when our guaranteed bonds trade at a premium.

The table below shows the breakdown in interest and principal payments among the different classes of business that we have insured.

$ millions	2007	2008	Inception to date
Second Lien Residential Mortgage-Backed Securities	$ 44	$ 1,378	$ 1,422
Other Direct RMBS	$ 18	$ 22	$ 110
CDOs	$ 55	$ 59	$ 278
Other Structured Finance Securities	$ 7	$ 16	$ 275
Public Finance Debt	$ 52	$ 2	$ 669
Total	$ 176	$ 1,477	$ 2,754

As noted above, the dramatic rise in claims payments in the last year was driven primarily by second lien mortgage securitizations. Although we have strong evidence that the majority of these loans were not eligible for our insured securitizations, we continue to meet our obligations to the third-party owners of these bonds while we pursue legal action against the originators to force them to take back ineligible loans as required by contract. We have not yet established any salvage reserves to reflect what we believe to be potentially substantial recoveries from these efforts in the future. I have also not included any potential recoveries against reserves that we have established to settle claims under CDS contracts with financial institutions as many of these involve some culpability on the part of the same institution.

Having worked with tens of thousands of municipal issuers in both good times and bad times over the past 35 years, we do not accept the premise that our insurance might lead to lax financial management practices or could encourage an issuer to allow its bonds to default. Virtually without exception we have found that municipal issuers work very hard to be financially responsible, meet their obligations to bondholders and maintain their access to the capital markets. Nonetheless, the modest Public Finance payments we made in 2008 obscure the significant amount of ongoing remediation efforts taking place, and we expect that there will be substantial but manageable payment increases in this class of business over the next few years. The value of our insurance will be demonstrated in the years ahead to the millions of individual investors with bonds that are now insured by our new operating subsidiary, National Public Finance Guarantee Corporation.

2008 Results

In less volatile times, a review of our GAAP and Statutory financials would explain much of what took place during the prior year. However, the significant number and complex interactions of events over the past year may easily make your normal review of our balance sheets, income statements, and cash flows more difficult than usual. The enormous number of footnotes and disclosure schedules alone make it more challenging than ever to discern exactly how the value of your company was impacted by these events during the course of the year. The implementation of FAS 163 is likely to add to this challenge and may well increase earnings volatility.

While the stock market provides a value for our shares on any given day, its tendency to reflect overall market gyrations following any sliver of news has increasingly disconnected our share price from what I believe is the underlying fundamental value of your company. Therefore, as a supplement to the extensive financials in our 10-K, I will give you an outline of how the embedded value per share (a non-GAAP after-tax measure that we calculate as Adjusted Book Value per share or ABV) changed during the year. ABV represents the net present value of future cash inflows and outflows and eliminates GAAP timing differences. The two key assumptions are our choice of interest rate (we use 5.03%, which is the current average yield of our investment portfolio) and our current estimate for future loss payments. As we have seen over the past 18 months, the extreme volatility in loss estimates makes this measure softer than normal but it does provide a representative value based on our current best loss estimates.

At the beginning of 2008, ABV was $77.89 per share. The following table shows the computations of our ABV per share on December 31, 2007 and December 31, 2008.

	12/31/07	12/31/08
Reported Book Value	**$ 29.16**	**$ 4.78**
+ Cumulative Unrealized Loss on Credit Derivatives	$ 18.83	$ 16.93
- Cumulative Impairments on Credit Derivatives	$ (1.04)	$ (3.78)
+ Unrealized Losses in Other Comprehensive Income	$ 4.35	$ 9.02
Analytic Book Value	**$ 51.30**	**$ 26.95**
+ Deferred Premium Revenue	$ 12.13	$ 8.34
+ Present Value of Installment Premiums	$ 13.68	$ 7.46
+ Asset/Liability Product Adjustment	$ 4.17	$ (0.58)
- Loss Provision	$ (3.39)	$ (2.11)
Adjusted Book Value per share	**$ 77.89**	**$ 40.06**
Shares Outstanding	125 million	208 million
Aggregate Adjusted Book Value	$9.765 billion	$8.330 billion

A review of the significant events of the year gives some insight into what happened to ABV as we responded to the extremely difficult environment. Our early decision to raise capital resulted in significant ABV dilution, a necessary but painful step for then existing shareholders as we responded to the need for more capital to preserve our ratings. The 16.1 million shares we sold to Warburg Pincus at $31.00 reduced ABV by **$6.69**. The subsequent share offering to the public of 94.7 million shares at $12.15 further diluted ABV by **$22.35**. During the latter half of the year we repurchased 30.5 million shares at an average price of $7.25 restoring **$5.06** to ABV. We also purchased surplus notes, corporate debt, medium-term notes and terminated Guaranteed Investment Contracts (GICs) at an aggregate discount of $0.4 billion generating an additional increase in ABV of **$1.28**. The shares that were issued to me following the shareholder vote and restricted shares we issued to other employees from our plan totaled 2.2 million shares which reduced ABV by **71 cents.**

The most significant negative events of 2008 were the impairments on our insured CDO portfolio and the addition to loss reserves for insured second lien mortgage securitizations. We also realized capital losses and impairments on our investment portfolio, and further capital losses when we had to liquefy our asset liability management (ALM) portfolio to meet terminations resulting from our insurance ratings downgrades which led to the elimination of positive spread in the ALM portfolio until all remaining GICs are terminated.

Continued deterioration in real estate values and other collateral resulted in an upward revision of $1.5 billion to our estimate for ultimate losses on our ABS CDO derivative credits from $0.2 billion to $1.7 billion. We were able to terminate or modify six transactions at a cost of $0.5 billion during the course of the year eliminating $4.2 billion in gross contingent liabilities and leaving us with $1.2 billion in reserves for future payments. The cost of these actions reduced ABV by **$4.82** during the year.

We added $1.2 billion to our estimate of ultimate second lien RMBS losses during the course of 2008 bringing our total loss incurred estimate to $2.1 billion. As we reported during the year, we believe the vast majority of the second lien loans that have defaulted were not eligible for these securitizations. Although we have filed the appropriate legal actions to recover our losses from the issuers, we have taken the conservative route by not establishing salvage reserves for these actions. The impact of the increase in loss estimates for second lien RMBS reduced ABV by **$3.83**.

The extreme investment environment of 2008 had a significant impact on our investment portfolios. Although our insurance portfolio was relatively unscathed, we did have $0.5 billion in realized capital losses and permanent impairments in our ALM portfolio. This caused a **$2.23** reduction in ABV. In addition, our need to sell $9.2 billion in investments during the year to collateralize or meet termination payments on GICs following the ratings downgrades resulted in an additional $0.74 billion in capital losses and a further reduction to ABV of **$3.55**. In order to maintain sufficient liquidity to meet all remaining medium-term note and GIC maturities, the positive spread between assets and liabilities was eliminated and a negative spread created as we shortened asset maturities. This resulted in a reduction in ABV of **$3.10**. The forced liquidation and resulting negative spread are the immediate short-term costs of Moody's downgrades.

Although the uncertainty leading up to our rating agency downgrades created a real impediment to new business, we were able to generate $971 million in insurance premiums, primarily from the reinsurance of the FGIC U.S. public finance portfolio in the latter part of the year. This added **$2.42** to ABV. The formula reserve provision on this business reduced ABV by **36 cents**.

The impact of our normal results from operations on ABV excluding the above effects is a subset of what you would normally find in our income statements. For our insurance operations, I have excluded the losses on second liens and credit derivative loss impairments noted above. Since, as noted above, the value of new premium revenue is already embedded in ABV, the revenue items are premium from prior business, investments and fees. The expenses include other losses, acquisition and operating expenses and interest cost on debt instruments. The net effect of this subset of the normal insurance income statement is an increase of **$2.76**. For the asset management business, after excluding the two categories of capital losses noted above and the benefits of debt buybacks, we're left with a residual loss of **$1.55** for 2008. This is not surprising given that we carried a significant negative spread in our ALM business for the second half of 2008, which offset our investment advisory business profits. Corporate results are straight off the income statement excluding the benefits of debt reduction noted earlier. This resulted in an additional loss of **24 cents** in ABV.

As you might guess, there is an "all other" adjustment to reconcile all the above items to the year-end 2008 ABV calculation. The items that I have not broken out separately include currency rate changes and other miscellaneous items.

The following table brings together all of the significant items I have described above to demonstrate the impact on ABV during the course of 2008.

December 31, 2007 Adjusted Book Value per share	**$ 77.89**
Capital Events	
Warburg Pincus Shares	$ (6.69)
Public Offering Shares	$ (22.35)
Share Buybacks	$ 5.06
Debt Buybacks	$ 1.28
Employee Shares Issued	$ (0.71)
	$ 54.48
Losses	
Credit Derivatives Impairments & Realized Losses	$ (4.82)
Second Lien RMBS Losses Incurred	$ (3.83)
Capital Losses on ALM Investments	$ (2.23)
Capital Losses from ALM Liquidity Needs	$ (3.55)
Reduction in Future Revenues in ALM	$ (3.10)
	$ 36.95
New Insurance Business	
Increase in Deferred Premium Revenue	$ 2.42
Increase in Loss Provision	$ (0.36)
	$ 39.00
Operations excluding the above effects	
Insurance Income	$ 2.76
Investment Management Services Income	$ (1.55)
Corporate Income	$ (0.24)
	$ 39.97
Currency rate changes and other miscellaneous items	$ 0.09
December 31, 2008 Adjusted Book Value per share	**$ 40.06**

As a final observation on ABV, we have calculated the pro-forma breakdown of book value and ABV at year-end 2008 between our three operating subsidiaries and the standalone holding company. Beginning at the end of the first quarter in 2009, we will be reporting on these segments and will provide this breakdown each quarter.

	Book Value per share	Adjusted Book Value per share
National	$ 10.97	$ 17.99
MBIA Insurance Corporation	$ 5.16	$ 26.13
Investment Management Services	$ (10.53)	$ (3.26)
Holding Company	$ (0.82)	$ (0.80)

A few observations about these values highlight where our challenges remain in maximizing shareholder value. First, all of our credit derivative mark-to-market above our expected impairments resides in the policies remaining in MBIA Insurance Corporation. The calculation assumes that the full $4.2 billion in marks above our current estimated impairments of $1.2 billion will reverse over time. Second, the Asset Management investment portfolio contains $1.6 billion of unrealized capital losses, virtually all of our company-wide total of $1.9 billion. This calculation assumes that we will either ultimately be able to hold all these performing assets to maturity and that they will be paid in full or that we will offset a portion of the losses by repurchasing ALM debt at depressed values. Third, the modest negative value for the holding company excludes the positive value of each of the two insurance subsidiaries and the negative value of Asset Management's ABV. The reason this number is still negative is that our outstanding corporate debt is in excess of the cash and other assets we currently hold in the holding company. I should also point out that the liabilities of the Asset Management business are guaranteed by MBIA Insurance Corporation.

Principles of Transformation

A year ago, we outlined our strategic plan to transform your company using a 10-point set of guidelines that we would follow over a five-year period. We have made substantial progress on this plan in 2008 but it has not been an easy course. Although we announced that we would split the existing company structure to match our customer bases at the beginning of last year, a lot of hard work and careful analysis took place before we could announce the establishment of National Public Finance Guarantee Corporation last month.

Significant change of this magnitude is not without controversy, particularly from the large financial institutions that purchased first-party derivative coverage and financial guarantee policies from MBIA Insurance Corporation and its subsidiaries. The vast majority of the new shareholder capital raised in 2008 has gone to support MBIA Insurance Corporation (including the $600 million in funds used in support of the ALM business which issued contracts guaranteed by MBIA Insurance Corporation). However, we chose a course that involved taking a portion of the total insurance capital and placing it into National along with all of the U.S. public finance contingent liabilities and their associated future revenues. This action is consistent with our objective to balance all stakeholders' interests. We are currently determining the best way to raise additional capital for National to meet the future needs of its customers. You can also expect that we will engage in active discussions with various debt holders to restructure their obligations as part of our ongoing transformation activities.

We will continue our efforts to close the loophole in the tax law that allows U.S. insurance companies to reinsure domestic transactions with foreign affiliates without paying their fair share of U.S. taxes. With bills in the House and Senate and favorable commentary coming out of the Obama administration, I am hopeful that we will begin to see some real progress on this front.

Looking Forward

The year ahead has many challenges for all of the employees of your company. The team at National is focused on working with issuers of variable rate and auction rate securities to refinance these obligations to escape the high interest rates that ensued when liquidity vanished from the market. They are also working on a number of remediations to mitigate future claims payments in our U.S. public finance book of business. The new business teams are busy reestablishing thousands of relationships with both issuers and investors as they begin to underwrite new business. The senior management team is also reviewing the best form and amount of a new capital raise to facilitate the highest possible ratings for National so it is better positioned to meet the important demand for credit enhancement in the U.S. public finance market. Although progress will be slow, demand is very high and we are extremely confident that the market will increasingly value credit enhancement from National in the months and years ahead.

The MBIA Insurance Corporation teams are focused on managing down our large portfolio of existing real estate-related financial guarantee contracts and all credit derivative contracts while paying down the surplus notes and preferred stock issued by MBIA Insurance Corporation. We are committed to meeting our obligations, but we are equally committed to continuing our forensic efforts, negotiating settlements and pursuing legal remedies in response to the significant amount of fraud, misrepresentation and self-dealing that seem to be present in many of these transactions. We will also continue to be an active participant in all efforts to resuscitate the structured finance and international public finance sectors.

The asset management team will be working hard on two fronts. First, they will continue the accelerated wind-down of our ALM book of business. This involves managing the existing assets and negotiating the redemption of liabilities from debt holders who are interested in early payouts at a discount. All inquiries are responded to in a timely fashion with market-based offers that reflect today's uncertainties. On the investment advisory front, we continue to deliver superior results for our existing clients and are expanding the client roster among both the municipal and corporate markets. The team will also continue to work with each of our insurance subsidiaries to match their investment portfolios to their respective business plans.

The mission for the corporate staff remains the same: increase the long-term value of our company for our shareholders. Over the short term, our major effort to manage liquidity in all entities will continue throughout 2009 as we alter the investment portfolios of each legal entity to match its needs. At the same time we have also built up a large liquidity cushion to support potential claims payments, respond to an increasing number of inquiries about CDS commutations and negotiate buybacks among our wide variety of debt holders. Our transformation work necessarily addresses both short- and long-term responsibilities. We must ensure that we have all the appropriate governance and risk controls in place for today's structure but we must also put in place a long-term legal and operating structure that will serve both our domestic and international markets. We will continue to work with our local and international regulators to meet the needs of each jurisdiction as we continue to de-leverage MBIA Insurance Corporation. Given the limited capital benefit we currently receive from our existing reinsurers, we will continue to negotiate with each of them with the objective of commuting all of these contracts by the end of the year.

As we reported during the course of the year, we sadly had to reduce the size of our workforce to reflect the economic realities of a different set of challenges. Your board took on the difficult task of modifying our compensation approach for all employees to get us through the turmoil that existed at the beginning of the year and to make sure that we had a properly aligned compensation strategy for 2009 and beyond. The Compensation Discussion & Analysis in our recently released proxy statement tells the story in great detail about how we made decisions throughout 2008 and the process the board followed in multiple meetings during the first three months of this year.

MBIA was among the first public companies to voluntarily adopt a "Say on Pay" policy which includes binding shareholder votes for extraordinary awards and separate votes on compensation decisions made the previous year for the senior executive team and me. These are very tough decisions in difficult times but I believe the board acted prudently and realistically to compensate our employees for their past work while motivating them for the challenges ahead. We hope you appreciate the opportunity to vote on these matters.

The independent director composition of your board changed significantly over the past year. Leaving us for other challenges were Debra Perry, David Moffett and Jeff Yabuki. We thank them for their valuable advice and the incredible amount of time they each gave during the dozens of meetings and phone calls that took place during their tenure. Joining us from our largest shareholder were David Coulter and Kewsong Lee, ensuring that the views of the shareholders are present in all of our discussions. Finally, joining us late in the year was Charles Rinehart, a 40-year veteran of the financial services industry who has crossed paths with me a couple of times in the past.

The legendary investor from Omaha has been quoted often in the past year, saying that you don't know who is swimming naked until the tide goes out. While our benign entry into the credit derivative market over a decade ago was clearly the most significant strategic mistake in our company's history and led to many of our present challenges, I am reminded of another graphic water story about the Ninth Wave. Every so often, a giant wave comes along that either sweeps you under and annihilates you, or through skill and vision you successfully ride the wave farther than you've ever gone before. I believe that time will prove that we have what it takes to endure for the long ride ahead.

Jay Brown

Chairman and CEO