RADIAN

annual report 2000

• FINANCIAL HIGHLIGHTS

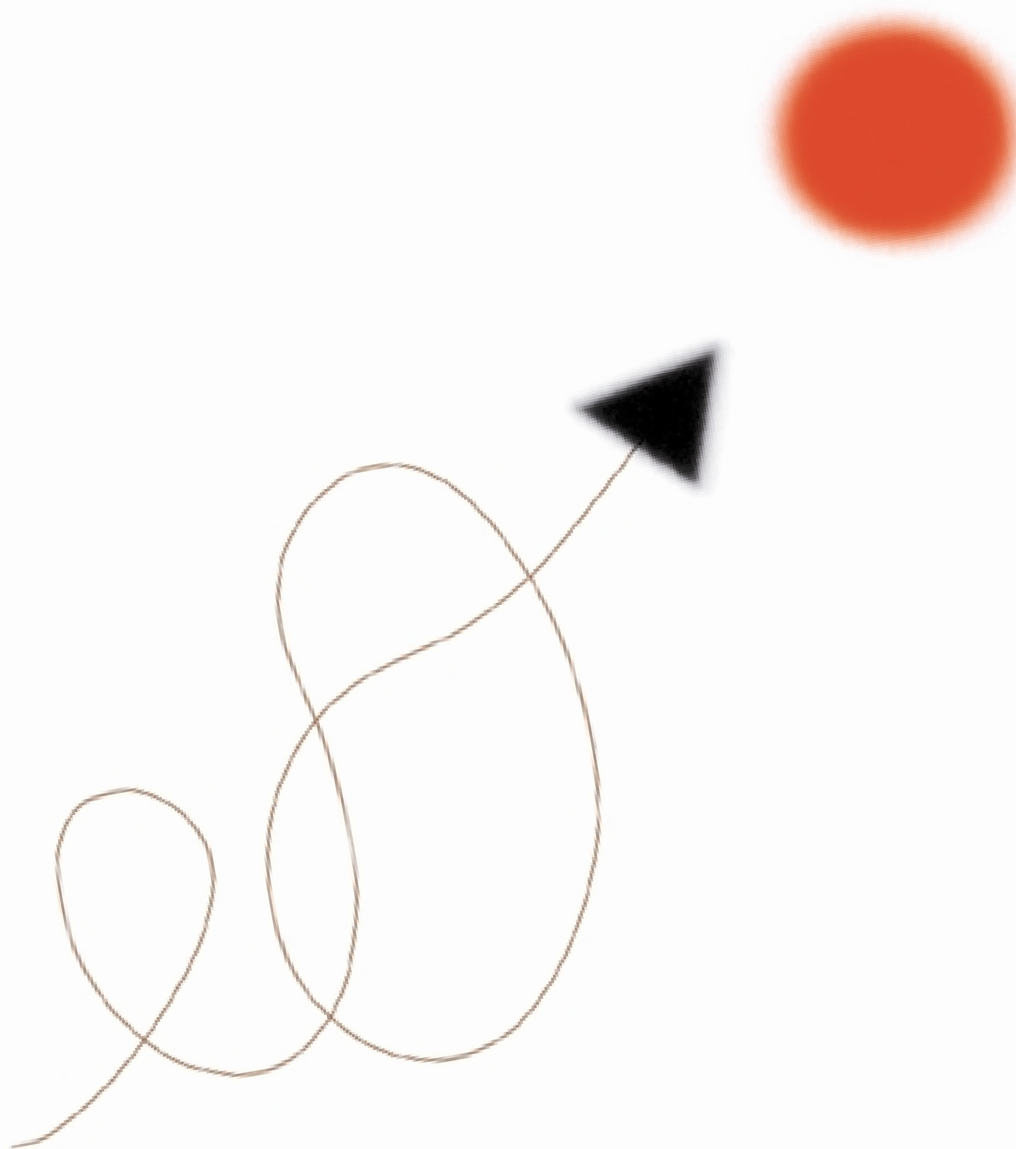
as of December 31, 2000

ASSETS	$ **2.3** billion
CAPITAL	$ **1.4** billion
MARKET CAPITALIZATION	$ **2.8** billion

dollars in millions	2000	1999	increase
PREMIUMS EARNED	**$ 520.9**	**$ 472.6**	**10.2%**
UNDERWRITING INCOME	**$ 172.5**	**$ 122.5**	**40.8%**
INVESTMENT INCOME	**$ 76.5**	**$ 60.1**	**27.2%**
NET INCOME	**$ 248.9**	**$ 182.6**	**36.3%**

Radian Group Inc. is the parent company of Radian Guaranty Inc., Enhance Reinsurance Company, Asset Guaranty Insurance Company and ExpressClose.com. The company's products and services enable home-buyers to purchase homes more quickly and with smaller downpayments; protect lenders against loan default; lower the costs of mortgage origination and servicing; and provide insurance and reinsurance to investors in corporate, municipal and asset-backed securities.

• • • shaping our future



• TO OUR STOCKHOLDERS

Frank P. Filipps
Chairman and
Chief Executive Officer

The year 2000 — our first full year as Radian — was a year in which we not only achieved record financial success, but a year which was also quite dynamic in setting the stage for the future growth of our company. From a financial perspective, we achieved record profitability with earnings of $248.9 million, or $6.44 per share. Our mortgage insurance in force, which will continue to be one of the principal drivers of future profitability, grew to $102.5 billion. And, we achieved these results in what was a “down” market for the entire mortgage industry.

Some of the keys to our earnings growth were the efficiencies created by our 1999 merger, as seen in our lower operating and contract underwriting expenses.

WE MADE SIGNIFICANT STRIDES TOWARD BECOMING **a global provider of credit enhancement**

Higher persistency rates and very low losses also helped fuel this growth. For the year, our total claims paid were $93.3 million, and at year-end, the primary delinquency rate was 2.39%.

But, perhaps even more important than these outstanding financial results, were the major strides we made toward achieving our strategic goal of becoming a diversified provider of credit enhancement and related services to the global capital markets.

By the time you read this report, Radian Group will no longer be solely a primary mortgage insurance company. Although we will continue to be a leader and an innovator in the primary mortgage insurance market, as a result of new strategic initiatives and acquisitions, Radian will also be:

- a growing force in structured transactions and non-traditional mortgage insurance;
- an efficient online provider of real estate information and closing services to the first- and second-mortgage markets; and
- a global provider of financial guaranty insurance and reinsurance to the capital markets.

Mortgage Insurance

For the foreseeable future, mortgage insurance will remain our largest and most profitable business, and the platform from which our future growth will be built. We see this market as one that will continue to evolve and expand, and in which we will continue to create new product lines as we have in the past, leading the industry into such areas as the Alt A and A-, lender-paid and captive reinsurance markets.

Looking ahead, 2001 is shaping up to be a very good year for mortgage insurance volume. Mortgage origination estimates range from $1.2 trillion to $1.6 trillion, which could surpass the record set in 1998. Our challenge this year will be to increase our market share while containing expense growth to maintain our profit margins. As we did in 2000, we will continue to resist the temptation to buy market share through bulk deals or other transactions that do not achieve our desired returns on equity. We expect that the continued development and implementation of our eCommerce and product development strategies, including our strength in structured transactions, will reduce our operating expenses and deepen our client relationships.

The shape of things to come

In 2000, we took three major steps to diversify our company into new markets:

First, we created Radian Insurance, a new unit focused on the non-traditional mortgage insurance sector. This company has already extended our lead in the growing Alt A and A- markets, and has become the leader in credit enhancement of manufactured housing and second loans. This leadership position has sent a powerful message to the capital markets about our commitment to the credit enhancement of an array of structured transactions. In its first year, Radian Insurance wrote more than $1.5 billion in new insurance. Radian Insurance will be the vehicle through which we move into new related markets and clearly differentiate ourselves in the marketplace.

In the fall, we acquired ExpressClose.com, a leading online provider of real estate information and closing services to the first- and second-mortgage businesses. Today, through its website, ExpressClose.com delivers the information lenders need to make credit decisions — credit scores, valuation data, title or flood determination — and then close the loan. By removing the bottlenecks that can impede the process, ExpressClose.com is able to dramatically reduce both turnaround time and cost. Now, as part of Radian, ExpressClose.com is developing alternative solutions that will continue to reduce costs and streamline the mortgage process. A glimpse of these future solutions can be seen in the new Radian Warranted AVM, the industry's first nationally available warranty on automated valuation models that provides a value-added alternative to traditional appraisals; one that is faster and safer for lenders, and more cost-effective for borrowers.

A CLEAR SENSE OF **direction** AND A **surge of energy**

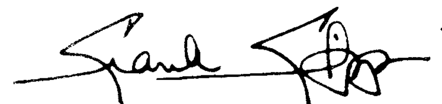
Finally, in November, we announced a $540 million all-stock acquisition of Enhance Financial Services Group Inc. The principal operating entities within Enhance Financial include Enhance Reinsurance Company and Asset Guaranty Insurance Company. Enhance Re is a leading provider of financial guaranty reinsurance. Asset Guaranty is a direct writer of financial guaranty insurance on asset-backed securities, trade credit and municipal credit, as well as other credit insurance lines. Also, as part of the Enhance Financial transaction, we acquired a 46% interest in C-BASS, a company that purchases and securitizes credit-sensitive mortgages. Strategically, this business is a good fit for Radian, as it allows us to leverage our risk management expertise in a market where our traditional business partners do not compete. The acquisition significantly expands Radian's opportunities across the credit enhancement spectrum, and broadens the scope of products and services that we can deliver to the mortgage and capital markets, both in the U.S. and abroad. We expect this deal, which closed in February, to be immediately accretive to our earnings.

In 2000, Enhance Financial had $110 million in premiums earned, and ended the year with $1.6 billion in assets and $700 million in equity.

These new initiatives are rapidly changing the mix and scope of Radian Group's businesses, and they are bringing us closer to our strategic goal of being a broad-based credit enhancement provider to the capital markets, as well as our financial goal of generating 50% of earnings from non-mortgage insurance sources.

Radian gained momentum in 2000. We have entered what could be an exceptional year with a clear sense of direction and a surge of energy. We are a significantly changed company from a year ago, and we are well on our way toward being a more diversified provider of credit products and services, and a more valuable investment for our shareholders.

Thank you all for your confidence and support.



diversifying OUR REVENUE STREAM AND leveraging OUR RISK-MANAGEMENT EXPERTISE

• FOCUSED

Know where you want to go. Find the best people to take you there, and be ready to act when opportunities arise.

That was the Radian story last year. With two acquisitions and the creation of a new business unit, we made significant progress toward achieving our long-term objective of diversifying our revenue stream and leveraging our risk-management expertise across the credit enhancement spectrum.

This year, we will address another aspect of the plan: global expansion. Our acquisition of Enhance Financial gives us new platforms from which to develop international products in Europe and South America. We have also entered into an exclusive partnership with AGS Financial, an international investment banking and mortgage advisory firm, to help us identify promising foreign markets and create the relationships to successfully penetrate them.

Focused decisions also made a difference for our mortgage insurance business last year. We invested in intellectual capital by adding new talent and expertise to our structured finance and eCommerce areas. The result: a tiered-primary product that helped us compete more effectively for the large lender business, and a new version of our MI Online℠ website, which quadrupled mortgage insurance orders by year-end.

• RESPONSIVE

Every business manufactures the same product: clients.

In today's highly competitive financial services market, responsiveness makes or breaks client relationships.

With 3,500 clients ranging from large lenders to small originators and brokers, Radian continues to refocus and realign our organization and resources to better serve our business partners. At the same time, we strive to balance our efforts to grow market share with our need to generate returns for investors.

This client-focused approach is clearly illustrated in our success: New mortgage insurance business in the second half outpaced the first by more than 50%. Market share climbed from a low of 13.1% in June to 15.5% in September, and closed the year at 16.7% in December.

As we expand into new markets, our clients' needs continue to drive our corporate strategy and define our key initiatives. In 2000, we created new delivery channels for our mortgage insurance business, including an online MI Resource Center that provides immediate access to rates and guidelines. ExpressClose.com, a new Radian company, offers the electronic services mortgage professionals need to close a loan — quickly and cost-effectively. And, we created Radian Insurance to provide credit enhancement to structured transactions in non-traditional markets. Finally, we're responding to investment banks, financial guaranty companies and commercial banks with the insurance and reinsurance products of our newest subsidiaries: Enhance Re and Asset Guaranty.

We plan to maximize the strengths of these complementary businesses in 2001, responding to our clients with the smart, flexible products they need to capture more business and explore new markets.

RESPONSIVENESS MAKES OR BREAKS CLIENT **relationships**

EMPOWERED CLIENTS,
24/7 AVAILABILITY,
EASY **access**

• CONNECTED

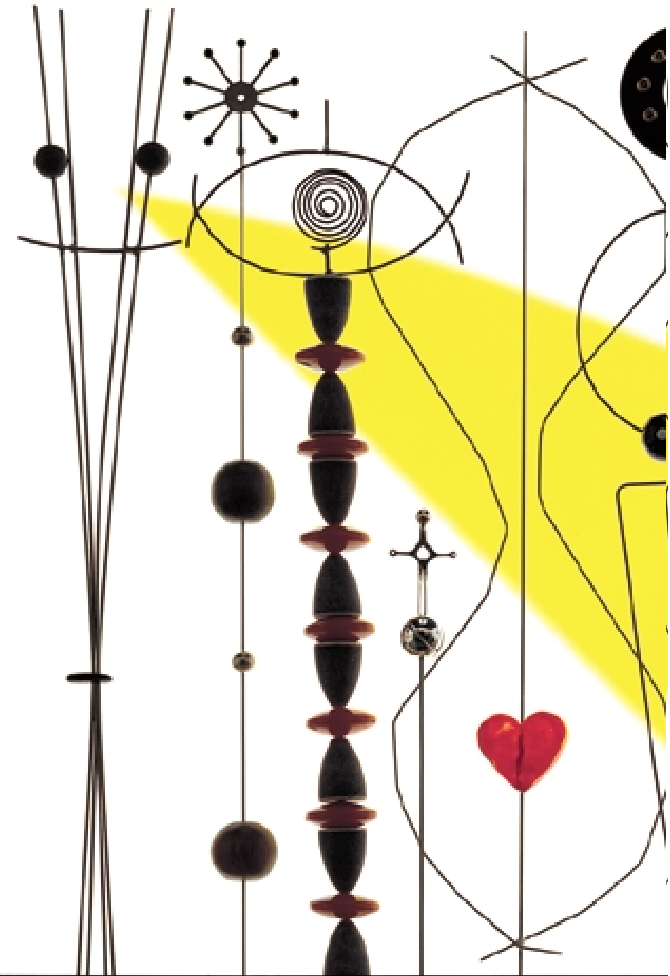
Make it easy for your clients to do business with you — any way they want.

It's the promise of the Internet: empowered clients, 24/7 availability, easy access and better information. Today, lenders can connect to Radian for a full range of Internet solutions throughout the mortgage process: from electronic mortgage insurance orders and servicing, to online credit reports and loan closing services.

Using a business model built entirely on the Internet, ExpressClose.com connects Radian clients to a complete range of online mortgage services including credit scores and valuation information, title and flood determinations, and closing and escrow services. In addition, Radian clients can now order MI through ExpressClose.com as well as the industry's two leading origination software packages — Genesis and Calyx.

A new version of MI Online, our eCommerce site that enables lenders to order mortgage insurance over the Internet, was one of three online initiatives launched in 2000. We also introduced yourMI.com℠, a client website that can be customized by mortgage professionals and features links to mortgage services, news and information. In November, we launched our updated corporate website, *www.radianmi.com*, offering the latest product and stockholder information.

• CREATIVE

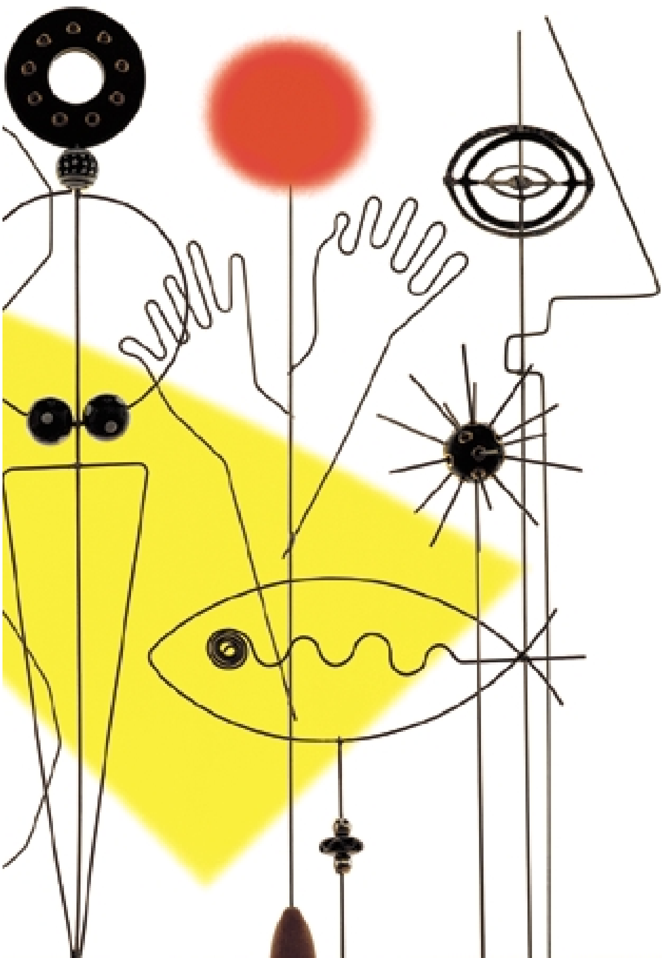


new WAYS TO MATCH CLIENT NEEDS

It's about finding new ways to match business needs with innovative solutions — through partnerships that help our clients generate better returns.

Creative problem-solving is a part of Radian's spirit. We continue to challenge the mortgage industry by creating better solutions, introducing faster delivery channels, and even uncovering new markets for products. Lender-paid mortgage insurance, captive mortgage reinsurance, risk-based pricing and Alt A and A- insurance were Radian innovations that helped clients expand their market reach. Today, through ExpressClose.com, we're creating new alternative solutions that will accelerate the mortgage process and reduce origination costs. The prototype for this effort is a new automated valuation model (AVM) backed by a warranty. The Radian Warranted AVM offers a better alternative to time-consuming and expensive appraisals.

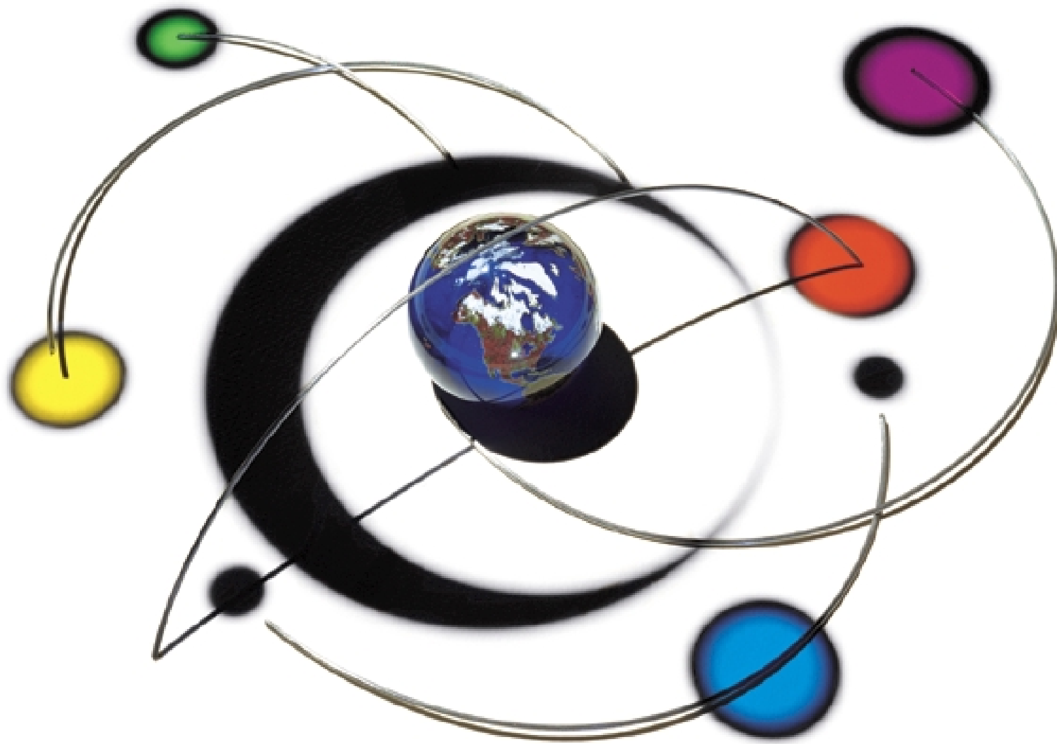
In 2000, we created Radian Insurance to focus our company's credit and structured finance expertise on



WITH INNOVATIVE **solutions**

large Wall Street transactions and to create new products that lower guaranty costs on non-traditional MI products – like second mortgages and manufactured housing. This new company, which generated $1.6 billion in new business in 2000, is reinforcing Radian's leadership position in the growing Alt A and A- markets.

In 2001, we acquired Enhance Financial Services Group. Its subsidiaries and affiliates, which include Asset Guaranty, Exporters Insurance and FCIA, provide access for Radian into new international markets. Asset Guaranty, through its London office, provides reinsurance to primary trade credit insurance companies in Europe. Exporters Insurance, a Bermuda-based insurer of domestic and foreign trade receivables for multinational companies and FCIA, which guarantees export financing for transactions between exporters and foreign purchasers, will help Radian apply its creativity to developing new tailored products for emerging credit markets in Europe and Latin America.



WE ARE WELL ON OUR WAY TOWARD BEING A MORE

diversified

PROVIDER OF CREDIT PRODUCTS AND SERVICES

financial CONTENTS

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SELECTED financial AND statistical DATA[1]

• Radian Group Inc.

(in millions, except per-share amounts and ratios)	2000	1999	1998	1997	1996
Consolidated Statement of Income					
Premiums earned	$ 520.9	$ 472.6	$ 405.3	$ 330.0	$ 250.3
Net investment income	82.9	67.3	59.9	52.4	46.9
Total revenues	615.4	552.8	483.6	390.0	302.0
Provision for losses	154.3	174.1	166.4	147.4	112.6
Policy acquisition costs and other operating expenses	108.6	121.4	118.2	83.4	67.2
Merger expenses	–	37.8	1.1	–	–
Pretax income	352.5	219.5	197.9	159.2	122.2
Net income	248.9	148.1	142.2	115.7	90.5
Net income per share [2] [3]	$ 6.44	$ 3.83	$ 3.67	$ 2.99	$ 2.35
Average shares outstanding [2] [3]	38.1	37.9	37.8	37.5	37.2
Consolidated Balance Sheet					
Assets	$2,272.8	$1,776.7	$1,513.4	$1,222.7	$1,015.0
Investments	1,750.5	1,388.7	1,175.5	974.7	842.0
Unearned premiums	77.2	54.9	75.5	72.7	73.9
Reserve for losses	390.0	335.6	245.1	179.9	126.9
Redeemable preferred stock	40.0	40.0	40.0	40.0	40.0
Common stockholders' equity	1,362.2	1,057.3	932.2	780.1	657.0
Book value per share [3]	$ 35.93	$ 28.34	$ 25.30	$ 21.38	$ 18.10
Statutory Ratios					
Loss ratio	30.5%	37.6%	42.0%	46.1%	46.7%
Expense ratio	17.9	24.2[4]	24.6	22.5	24.5
Combined ratio	48.4%	61.8%	66.6%	68.6%	71.2%
Other Statutory Data					
New primary insurance written	$ 24,934	$ 33,256	$ 37,067	$ 21,481	$ 20,018
Direct primary insurance in force	100,859	97,089	83,178	67,294	54,215
Direct primary risk in force	24,622	22,901	19,840	15,158	12,023
Direct pool risk in force	1,388	1,361	993	601	342
Other risk in force	211	–	–	–	–

(1) Effective June 9, 1999, Radian Group Inc. was formed by the merger of CMAC Investment Corporation and Amerin Corporation pursuant to an Agreement and Plan of Merger dated November 22, 1998. The transaction was accounted for on a pooling of interests basis and, therefore, all financial statements presented reflect the combined entity. See note 1 of Notes to Consolidated Financial Statements set forth on page 21 herein.

(2) Diluted net income per share and average share information per Statement of Financial Accounting Standards No. 128, "Earnings Per Share." See note 1 of Notes to Consolidated Financial Statements set forth on page 23 herein.

(3) All share and per-share data for prior periods have been restated to reflect a 2-for-1 stock split in 1996.

(4) Expense ratio calculated net of merger expenses of $21.8 million recognized by statutory companies.

CONSOLIDATED balance sheets

• Radian Group Inc.

(in thousands, except share and per-share amounts)	December 31 2000	1999
Assets		
Investments		
Fixed maturities held to maturity—at amortized cost (fair value $490,792 and $475,257)	$ 469,591	$ 468,549
Fixed maturities available for sale—at fair value (amortized cost $1,087,191 and $839,845)	1,120,840	804,776
Equity securities—at fair value (cost $58,877 and $47,719)	64,202	58,378
Short-term investments	95,824	56,974
Cash	2,424	7,507
Deferred policy acquisition costs	70,049	61,680
Prepaid federal income taxes	270,250	204,701
Provisional losses recoverable	43,740	40,065
Other assets	135,891	74,082
	$2,272,811	$1,776,712
Liabilities and Stockholders' Equity		
Unearned premiums	$ 77,241	$ 54,925
Reserve for losses	390,021	335,584
Deferred federal income taxes	291,294	206,168
Accounts payable and accrued expenses	112,058	82,779
	870,614	679,456
Redeemable preferred stock, par value $.001 per share; 800,000 shares issued and outstanding—at redemption value	40,000	40,000
Commitments and contingencies		
Common stockholders' equity		
Common stock, par value $.001 per share; 80,000,000 shares authorized; 37,907,777 and 37,307,504 shares, respectively, issued and outstanding	38	37
Treasury stock; 38,006 shares redeemed	(2,159)	–
Additional paid-in capital	549,154	524,408
Retained earnings	789,831	548,684
Accumulated other comprehensive income (loss)	25,333	(15,873)
	1,362,197	1,057,256
	$2,272,811	$1,776,712

See notes to consolidated financial statements.

CONSOLIDATED statements of income

• Radian Group Inc.

(in thousands, except per-share amounts)	Year Ended December 31 2000	1999	1998
Revenues			
Net premiums written	$ 544,272	$451,817	$406,467
(Increase) decrease in unearned premiums	(23,401)	20,818	(1,215)
Premiums earned	520,871	472,635	405,252
Net investment income	82,946	67,259	59,862
Gain on sales of investments, net	4,179	1,568	3,156
Other income	7,438	11,349	15,317
	615,434	552,811	483,587
Expenses			
Provision for losses	154,326	174,143	166,377
Policy acquisition costs	51,471	58,777	58,479
Other operating expenses	57,167	62,659	59,720
Merger expenses	–	37,766	1,098
	262,964	333,345	285,674
Pretax income	352,470	219,466	197,913
Provision for income taxes	(103,532)	(71,328)	(55,676)
Net income	248,938	148,138	142,237
Dividends to preferred stockholder	3,300	3,300	3,300
Net income available to common stockholders	$ 245,638	$144,838	$138,937
Basic net income per share	$ 6.53	$ 3.92	$ 3.78
Diluted net income per share	$ 6.44	$ 3.83	$ 3.67

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN common stockholders' equity

• Radian Group Inc.

(in thousands)	Common Stock	Treasury Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, January 1, 1998	$ 36	$ –	$ 496,736	$ 271,188	$ 12,138	$ 780,098
Comprehensive income:						
Net income	–	–	–	142,237	–	142,237
Unrealized holding gains arising during period, net of tax of $3,914	–	–	–	–	7,270	
Less: Reclassification adjustment for net gains included in net income, net of tax of $1,041	–	–	–	–	(1,934)	
Net unrealized gain on investments, net of tax of $2,873	–	–	–	–	5,336	5,336
Comprehensive income						147,573
Issuance of common stock	1	–	10,546	–	–	10,547
Dividends	–	–	–	(6,019)	–	(6,019)
Balance, December 31, 1998	37	–	507,282	407,406	17,474	932,199
Comprehensive income:						
Net income	–	–	–	148,138	–	148,138
Unrealized holding losses arising during period, net of tax benefit of $17,398	–	–	–	–	(32,311)	
Less: Reclassification adjustment for net gains included in net income, net of tax of $558	–	–	–	–	(1,036)	
Net unrealized loss on investments, net of tax benefit of $17,956	–	–	–	–	(33,347)	(33,347)
Comprehensive income						114,791
Issuance of common stock	–	–	17,126	–	–	17,126
Dividends	–	–	–	(6,860)	–	(6,860)
Balance, December 31, 1999	37	–	524,408	548,684	(15,873)	1,057,256
Comprehensive income:						
Net income	–	–	–	248,938	–	248,938
Unrealized holding gains arising during period, net of tax of $23,658	–	–	–	–	43,937	
Less: Reclassification adjustment for net gains included in net income, net of tax of $1,470	–	–	–	–	(2,731)	
Net unrealized gain on investments, net of tax of $22,188		–	–	–	41,206	41,206
Comprehensive income						290,144
Issuance of common stock	1	–	24,746	–	–	24,747
Treasury stock redeemed	–	(2,159)	–	–	–	(2,159)
Dividends	–	–	–	(7,791)	–	(7,791)
Balance, December 31, 2000	$ 38	$ (2,159)	$ 549,154	$ 789,831	$ 25,333	$ 1,362,197

See notes to consolidated financial statements.

CONSOLIDATED statements of cash flows

• Radian Group Inc.

(in thousands)	2000	1999	1998
	Year Ended December 31		
Cash flows from operating activities			
Net income	$ 248,938	$ 148,138	$ 142,237
Adjustments to reconcile net income to net cash provided by operating activities			
Gain on sales of fixed maturity investments, net	(3,586)	(1,478)	(3,182)
(Gain) loss on sales of equity securities available for sale, net	(439)	(90)	26
Gain on sales of short-term investments, net	(154)	–	–
Increase (decrease) in unearned premiums	22,316	(20,613)	2,854
Amortization of deferred policy acquisition costs	51,471	58,777	58,479
Increase in deferred policy acquisition costs	(59,840)	(71,474)	(74,661)
Increase in reserve for losses	54,437	90,459	65,217
Increase in deferred federal income taxes	62,942	57,849	44,249
Increase in prepaid federal income taxes	(65,549)	(51,837)	(45,993)
Increase in provisional losses recoverable	(3,675)	(7,347)	(1,393)
Depreciation and other amortization	3,158	2,289	4,228
Net change in other assets, accounts payable and accrued expenses	(30,042)	57,000	(255)
Net cash provided by operating activities	279,977	261,673	191,806
Cash flows from investing activities			
Proceeds from sales of fixed maturity investments available for sale	552,439	131,170	234,259
Proceeds from sales of fixed maturity investments held to maturity	1,922	10	1,031
Proceeds from sales of equity securities available for sale	18,988	3,076	823
Proceeds from redemptions of fixed maturity investments available for sale	16,467	24,769	23,973
Proceeds from redemptions of fixed maturity investments held to maturity	2,897	19,981	13,843
Purchases of fixed maturity investments available for sale	(813,627)	(380,683)	(421,754)
Purchases of equity securities available for sale	(29,713)	(25,595)	(25,958)
Purchases of short-term investments, net	(38,859)	(32,560)	(10,685)
Purchases of property and equipment, net	(9,419)	(12,509)	(8,216)
Other	(952)	(1,468)	(1,093)
Net cash used in investing activities	(299,857)	(273,809)	(193,777)
Cash flows from financing activities			
Dividends paid	(7,791)	(6,860)	(6,019)
Redemption of treasury stock	(2,159)	–	–
Proceeds from issuance of common stock	24,747	17,126	10,547
Net cash provided by financing activities	14,797	10,266	4,528
(Decrease) increase in cash	(5,083)	(1,870)	2,557
Cash, beginning of year	7,507	9,377	6,820
Cash, end of year	$ 2,424	$ 7,507	$ 9,377
Supplemental disclosures of cash flow information			
Income taxes paid	$ 74,768	$ 61,450	$ 50,700
Interest paid	$ 817	$ 181	$ 66

See notes to consolidated financial statements.

1. Summary of Significant Accounting Policies

Basis of Presentation and Nature of Operations

Radian Group Inc. (the "Company"), through its wholly owned principal operating subsidiaries, Radian Guaranty Inc. ("Radian Guaranty") and Amerin Guaranty Corporation ("Amerin Guaranty") (together referred to as "Radian"), provides private mortgage insurance and risk management services to mortgage lending institutions located throughout the United States. Private mortgage insurance protects lenders from default-related losses on residential first mortgage loans made to homebuyers who make downpayments of less than 20% of the purchase price and facilitates the sale of these mortgages in the secondary market. Consistent with the rest of the private mortgage insurance industry, Radian's highest state concentration of risk is in California. As of December 31, 2000, California accounted for 17.1% of Radian's total direct primary insurance in force and 11.2% of Radian's total direct pool insurance in force. In addition, California accounted for 18.1% of Radian's direct primary new insurance written for the year ended December 31, 2000. The largest single customer of Radian (including branches and affiliates of such customer), measured by new insurance written, accounted for 11.2% of new insurance written during 2000, compared to 12.2% in 1999 and 18.3% in 1998.

On November 9, 2000, the Company completed the acquisition of ExpressClose.com, Inc. ("ExpressClose"), an Internet-based settlement company that provides real estate information products and services to the first and second mortgage industry, for approximately $8.0 million of cash, Radian common stock and stock options, and other consideration. The acquisition was treated as a purchase for accounting purposes, and accordingly, the assets and liabilities were recorded based on their fair values at the date of acquisition. The excess of purchase price over fair value of net assets acquired of $7.4 million was allocated to goodwill and will be amortized over 20 years. The results of ExpressClose's operations have been included in the Company's financial statements for the period from November 10, 2000 through December 31, 2000. The cash component of the acquisition was financed using the Company's cash flows from operations.

The purchase price of ExpressClose reflects the issuance of 30,000 shares of the Company's common stock at $65.813 per share which was the closing price of the Company's common stock on the date of the acquisition. Under the terms of the merger agreement, the Company has also issued 20,001 options to purchase shares of the Company's common stock. The value of the option grant was based on a Black-Scholes valuation model assuming an average life of 7.0 years, a risk-free interest rate of 6.75%, volatility of 39.3% and a dividend yield of 0.18%.

On November 22, 1998, the board of directors of CMAC Investment Corporation ("CMAC") and the board of directors of Amerin Corporation ("Amerin") each approved an Agreement and Plan of Merger pursuant to which CMAC and Amerin merged. The merger closed on June 9, 1999 after approval by the stockholders of both companies, at which time the name of the merged company was changed to Radian Group Inc. At the same time, the name of the Company's main operating subsidiary, Commonwealth Mortgage Assurance Company, was changed to Radian Guaranty, while the main operating subsidiary of Amerin, Amerin Guaranty, retained its name. As a result of the merger, Amerin stockholders received 0.5333 shares (14,168,635 shares were issued) of CMAC common stock in a tax-free exchange for each share of Amerin common stock that they owned. CMAC's stockholders continued to own their existing shares after the merger. The merger transaction was accounted for on a pooling of interests basis and, therefore, all financial statements presented reflect the combined entity. There were no intercompany transactions requiring elimination for any periods presented prior to the merger.

The operating results of the separate companies through the merger in 1999 and prior to the merger are as follows (in thousands):

	Net Revenues	Net Income
For the year ended December 31, 1999:		
Radian Group Inc.	$419,611	$110,785
CMAC Investment Corporation (through March 31, 1999)	89,787	22,878
Amerin Corporation (through March 31, 1999)	43,413	14,475
Combined	$552,811	$148,138
For the year ended December 31, 1998:		
CMAC Investment Corporation	$332,966	$ 91,054
Amerin Corporation	150,621	51,183
Combined	$483,587	$142,237

The consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") and include the accounts of all subsidiaries. All material intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities as of 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.

Insurance Premiums

Statement of Financial Accounting Standards ("SFAS") No. 60, "Accounting and Reporting by Insurance Enterprises," specifically excludes mortgage guaranty insurance from its guidance relating to the earning of insurance premiums. Consistent with GAAP and industry accounting practices, premiums written on an annual and multiyear basis are initially deferred as unearned premiums and earned over the policy term, and premiums written on a monthly basis are primarily earned as they are received. Annual premiums are amortized on a monthly, straight-line basis. Multiyear premiums are amortized over the terms of the contracts in accordance with the anticipated claim payment pattern based on historical industry experience. Ceded premiums written are initially set up as prepaid reinsurance and are amortized in accordance with direct premiums earned.

Reserve for Losses

The reserve for losses consists of the estimated cost of settling claims on defaults reported and defaults that have occurred but have not been reported. SFAS 60 specifically excludes mortgage guaranty insurance from its guidance relating to the reserve for losses. Consistent with GAAP and industry accounting practices, the Company does not establish loss reserves for future claims on insured loans that are not currently in default. In determining the liability for unpaid losses related to reported outstanding defaults, the Company establishes loss reserves on a case-by-case basis. The amount reserved for any particular loan is dependent upon the characteristics of the loan, the status of the loan as reported by the servicer of the insured loan as well as the economic condition and estimated foreclosure period in the area in which the default exists. As the default progresses closer to foreclosure, the amount of loss reserve for that particular loan is increased, in stages, to approximately 100% of the Company's exposure and that adjustment is included in current operations. The Company also reserves for defaults that have occurred but have not been reported using historical information on defaults not reported on a timely basis by lending institutions. The estimates are continually reviewed and, as adjustments to these liabilities become necessary, such adjustments are reflected in current operations.

Deferred Policy Acquisition Costs

Costs associated with the acquisition of mortgage insurance business, consisting of compensation and other policy issuance and underwriting expenses, are initially deferred. Because SFAS 60 specifically excludes mortgage guaranty insurance from its guidance relating to the amortization of deferred policy acquisition costs, amortization of these costs for each underwriting year book of business is charged against revenue in proportion to estimated gross profits over the life of the policies using the guidance provided by SFAS No. 97, "Accounting and Reporting by Insurance Enterprises For Certain Long Duration Contracts and for Realized Gains and Losses From the Sale of Investments." This includes accruing interest on the unamortized balance of capitalized acquisition costs. The estimate for each underwriting year is updated annually to reflect actual experience and any changes to key assumptions such as persistency or loss development.

Income Taxes

Deferred income taxes are provided for the temporary difference between the financial reporting basis and the tax basis of the Company's assets and liabilities using enacted tax rates applicable to future years.

Investments

The Company is required to group its investment portfolio in three categories: held to maturity, available for sale, and trading securities. Debt securities for which the Company has the positive intent and ability to hold to maturity are classified as held to maturity and reported at amortized cost. Debt and equity securities purchased and held principally for the purpose of selling them in the near term are classified as trading securities and are reported at fair value, with unrealized gains and losses included in earnings. The Company had no trading securities in its portfolio at December 31, 2000 or 1999. All other investments are classified as available for sale and are reported at fair value, with unrealized gains and losses (net of tax) reported in a separate component of stockholders' equity as accumulated other comprehensive income or losses. Realized gains and losses are determined on a specific identification method and are included in income.

Fair Values of Financial Instruments

The following methodology was used by the Company in estimating the fair value disclosures for its financial instruments: fair values for fixed maturity securities (including redeemable preferred stock) and equity securities are based on quoted market prices, dealer quotes, and prices obtained from independent pricing services. The carrying amounts reported on the balance sheet for cash and short-term investments approximate their fair values.

Company-owned Life Insurance

Radian Guaranty is the beneficiary of insurance policies on the lives of certain officers and employees of Radian Guaranty. The Company has recognized the amount that could be realized under the insurance policies as an asset in the balance sheet. At December 31, 2000, the amount totaled $50,374,000 and is included as a component of other assets.

Accounting for Stock-Based Compensation

The Company accounts for stock-based compensation in accordance with SFAS No. 123, "Accounting for Stock-Based Compensation." SFAS 123 requires expanded disclosures of stock-based compensation arrangements with employees and encourages, but does not require, the recognition of compensation expense for the fair value of stock options and other equity instruments granted as compensation to employees. The Company has chosen to continue to account for stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," ("APB 25"), and related interpretations. Accordingly, compensation cost for stock options is measured as the excess, if any, of the quoted market price of the Company's stock at the date of the grant over the amount an employee must pay to acquire the stock.

In March 2000, the Financial Accounting Standards Board ("FASB") Interpretation No. 44, "Accounting for Certain Transactions Involving Stock Compensation" ("FIN 44"), was issued. FIN 44 clarifies the application of APB 25 for certain issues. The Company adopted the provisions of FIN 44 in 2000. The adoption of the interpretation did not have a material effect on the Company's consolidated financial statements.

Net Income Per Share

The Company is required to disclose both "basic" earnings per share and "diluted" earnings per share. Basic net income per share is based on the weighted average number of common shares outstanding, while diluted net income per share is based on the weighted average number of common shares outstanding and common share equivalents that would arise from the exercise of stock options.

The calculation of the basic and diluted net income per share was as follows (in thousands, except per-share amounts):

	2000	1999	1998
Net income	$248,938	$148,138	$142,237
Preferred stock dividend adjustment	(3,300)	(3,300)	(3,300)
Adjusted net income	$245,638	$144,838	$138,937
Average diluted stock options outstanding	1,926.3	2,088.1	2,212.8
Average exercise price per share	$ 31.18	$ 26.85	$ 22.93
Average market price per share–diluted basis	$ 55.32	$ 46.35	$ 54.67
Average common shares outstanding	37,634	36,975	36,722
Increase in shares due to exercise of options–diluted basis	515	881	1,092
Adjusted shares outstanding–diluted	38,149	37,856	37,814
Net income per share–basic	$ 6.53	$ 3.92	$ 3.78
Net income per share–diluted	$ 6.44	$ 3.83	$ 3.67

Comprehensive Income

The Company is required to present, as a component of comprehensive income, the amounts from transactions and other events that are currently excluded from the statement of income and are recorded directly to stockholders' equity.

Recent Accounting Principles

In October 1998, the Accounting Standards Executive Committee of the American Institute of Certified Public Accountants issued Statement of Position 98-7, "Deposit Accounting: Accounting for Insurance and Reinsurance Contracts That Do Not Transfer Insurance Risk" ("SOP 98-7"). This statement provides guidance on how to apply the deposit method of accounting when it is required for insurance and reinsurance contracts that do not transfer insurance risk. The Company adopted SOP 98-7 in 2000. The adoption of SOP 98-7 did not have a material impact on the financial position or results of operations of the Company.

Derivative Instruments and Hedging Activities

In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." The statement, originally effective for fiscal years beginning after June 15, 1999, was deferred for one year when the FASB issued SFAS No. 137, "Accounting for Derivative Instruments and Hedging Activities–Deferral of the Effective Date of FASB Statement No. 133." The statement establishes accounting and reporting standards for derivative instruments and hedging activity and requires that all derivatives be measured at fair value and recognized as either assets or liabilities in the financial statements. Changes in the fair value of derivative instruments will be recorded each period in current earnings. This represents a change from the Company's current accounting practices whereby these changes are recorded as a component of stockholders' equity. In June 2000, the FASB issued SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities–An Amendment of FASB Statement No. 133," which addressed certain issues causing implementation difficulties for entities that apply SFAS 133. The Company adopted SFAS 133, as amended, on January 1, 2001. Transactions that the Company has entered into that will be accounted for under SFAS 133, as amended, include convertible debt securities.

Upon adoption of SFAS 133, as amended, the balance of the Company's convertible debt securities was approximately $104.6 million. SFAS 133 requires that the Company split its convertible debt securities into the derivative and debt host components. Over the term of the securities, increases in the debt instrument will be recorded in the Company's consolidated statement of changes in common stockholders' equity, through accumulated other comprehensive income. Concurrently, a deferred tax liability will be recognized as the recorded value of the debt host increases. Changes in the fair value of the derivative will be recorded to investment income or expense in the Company's consolidated statement of income.

In connection with the adoption of SFAS 133, as amended, the Company expects to reclassify $13.8 million from fixed maturities available for sale to trading securities on its consolidated balance sheet as of January 1, 2001. The impact of the adoption of SFAS 133, as amended, on the Company's consolidated statement of income and the consolidated statement of changes in common stockholders' equity is immaterial as of January 1, 2001.

Adoption of SFAS 133, as amended, could result in volatility from period to period in investment income or expense as reported on the Company's consolidated statement of income. The Company is unable to predict the effect this volatility may have on its financial position or results of operations.

Subsequent Events

In the first quarter of 2001, the Company completed the previously announced agreement to acquire Enhance Financial Services Group Inc. ("Enhance") through the merger of a subsidiary of the Company with and into Enhance. As a result of the merger, Enhance stockholders received 0.22 shares (8,464,968 shares were issued) of the Company's common stock for each share of Enhance common stock that they owned in a tax-free exchange. The Company's stockholders continued to own their existing shares after the merger. The acquisition will be accounted for under the purchase method of accounting.

In conjunction with the merger, the Company guaranteed payment of up to $12.5 million of a $25.0 million revolving credit facility issued to Sherman Financial Group LLC, a 45.5% owned affiliate of Enhance. There were no drawdowns on this line of credit as of December 31, 2000.

Reclassifications

Certain items in the 1998 consolidated financial statements have been reclassified to conform with the presentation in the 1999 and 2000 consolidated financial statements.

2. Investments

Fixed maturity and equity investments at December 31, 2000 and 1999 consisted of (in thousands):

	December 31, 2000			
	Amortized Cost	Fair Value	Gross Unrealized Gains	Gross Unrealized Losses
Fixed maturities held to maturity at amortized cost:				
Bonds and notes:				
United States government	$ 8,765	$ 9,393	$ 628	$ –
State and municipal obligations	460,826	481,399	21,070	497
	$ 469,591	$ 490,792	$21,698	$ 497
Fixed maturities available for sale:				
Bonds and notes:				
United States government	$ 33,126	$ 33,527	$ 756	$ 355
State and municipal obligations	822,501	848,048	28,541	2,994
Corporate	152,052	157,115	8,807	3,744
Mortgage-backed securities	59,200	60,031	1,146	315
Redeemable preferred stock	20,312	22,119	2,437	630
	$1,087,191	$1,120,840	$41,687	$8,038
Equity securities available for sale:				
Equity securities	$ 58,877	$ 64,202	$12,684	$7,359

	December 31, 1999			
	Amortized Cost	Fair Value	Gross Unrealized Gains	Gross Unrealized Losses
Fixed maturities held to maturity at amortized cost:				
Bonds and notes:				
United States government	$ 10,287	$ 10,266	$ 12	$ 33
State and municipal obligations	458,262	464,991	11,050	4,321
	$468,549	$475,257	$11,062	$ 4,354
Fixed maturities available for sale:				
Bonds and notes:				
United States government	$ 24,167	$ 22,201	$ 44	$ 2,010
State and municipal obligations	623,700	590,318	1,689	35,071
Corporate	82,167	83,741	5,580	4,006
Mortgage-backed securities	69,553	66,964	120	2,709
Redeemable preferred stock	40,258	41,552	2,006	712
	$839,845	$804,776	$ 9,439	$44,508
Equity securities available for sale:				
Equity securities	$ 47,719	$ 58,378	$14,776	$ 4,117

The contractual maturities of fixed maturity investments are as follows (in thousands):

	December 31, 2000	
	Amortized Cost	Fair Value
Fixed maturities held to maturity:		
2001	$ 7,131	$ 7,145
2002-2005	107,144	111,554
2006-2010	213,108	225,160
2011 and thereafter	142,208	146,933
	$ 469,591	$ 490,792
Fixed maturities available for sale:		
2001	$ 18,977	$ 19,007
2002-2005	139,927	141,629
2006-2010	168,473	173,519
2011 and thereafter	680,302	704,535
Mortgage-backed securities	59,200	60,031
Redeemable preferred stock	20,312	22,119
	$1,087,191	$1,120,840

Net investment income consisted of (in thousands):

	Year Ended December 31		
	2000	1999	1998
Investment income:			
Fixed maturities	$79,891	$66,090	$58,145
Equity securities	1,461	636	291
Short-term investments	3,941	1,789	1,592
Other	1,272	667	449
	86,565	69,182	60,477
Investment expenses	(3,619)	(1,923)	(615)
	$82,946	$67,259	$59,862

Net gain on sales of investments consisted of (in thousands):

	Year Ended December 31		
	2000	1999	1998
Gains on sales and redemptions of fixed maturity investments available for sale	$12,732	$ 3,213	$ 4,490
Losses on sales and redemptions of fixed maturity investments available for sale	(9,115)	(1,752)	(1,328)
Gains on sales and redemptions of fixed maturity investments held to maturity	4	27	43
Losses on sales and redemptions of fixed maturity investments held to maturity	(35)	(10)	(23)
Gains on sales of equity securities available for sale	2,206	273	37
Losses on sales of equity securities available for sale	(1,767)	(183)	(63)
Gains on sales of short-term investments	184	–	–
Losses on sales of short-term investments	(30)	–	–
	$ 4,179	$ 1,568	$ 3,156

For the year ended December 31, 2000, the Company sold fixed maturity investments held to maturity with an amortized cost of $1,949,000 resulting in gross realized losses of $27,000. For the year ended December 31, 1999, the Company sold a fixed maturity investment held to maturity with an amortized cost of $10,000 that resulted in no gain or loss and for the year ended December 31, 1998, the Company sold a fixed maturity investment held to maturity with an amortized cost of $1,061,000 that resulted in a gross realized gain of $30,000. All investments were sold in response to a significant deterioration in the issuer's creditworthiness.

Net unrealized appreciation (depreciation) on investments consisted of (in thousands):

	Year Ended December 31		
	2000	1999	1998
Fixed maturities held to maturity	$ 14,493	$(28,142)	$ 4,860
Fixed maturities available for sale	$ 68,718	$(59,636)	$ 5,894
Deferred tax (provision) benefit	(24,051)	20,873	(2,063)
	$ 44,667	$(38,763)	$ 3,831
Equity securities available for sale	$ (5,334)	$ 8,343	$ 2,316
Deferred tax benefit (provision)	1,867	(2,920)	(811)
	$ (3,467)	$ 5,423	$ 1,505

Securities on deposit with various state insurance commissioners amounted to $13,086,000 at December 31, 2000 and $13,119,000 at December 31, 1999.

3. Reinsurance

Radian utilizes reinsurance to reduce net risk in force to meet regulatory risk to capital requirements and to comply with the regulatory maximum per loan coverage percentage limitation of 25%. Although the use of reinsurance does not discharge an insurer from its primary liability to the insured, the reinsuring company assumes the related liability. Included in other assets are amounts recoverable from reinsurers pertaining to unpaid claims, claims incurred but not reported, and unearned premiums (prepaid reinsurance). Prepaid reinsurance premiums were $9,415,000 and $10,500,000 at December 31, 2000 and 1999, respectively.

The effect of reinsurance on premiums written and earned is as follows for the years ended December 31 (in thousands):

	Year Ended December 31		
	2000	1999	1998
Premiums written:			
Direct	$592,734	$496,646	$451,572
Assumed	80	93	97
Ceded	(48,542)	(44,922)	(45,202)
Net premiums written	$544,272	$451,817	$406,467
Premiums earned:			
Direct	$570,425	$517,364	$448,668
Assumed	80	87	129
Ceded	(49,634)	(44,816)	(43,545)
Net premiums earned	$520,871	$472,635	$405,252

The 2000, 1999, and 1998 figures included $9,561,000, $14,423,000, and $26,676,000 for premiums written and $9,772,000, $14,781,000, and $27,126,000 for premiums earned, respectively, for reinsurance ceded under variable quota share treaties entered into in 1997, 1996, 1995, and 1994 covering the books of business originated by Radian Guaranty in those years. The 2000, 1999 and 1998 figures included $(1,048,000), $3,183,000 and $3,614,000 for premiums written and the 1999 and 1998 figures included $1,992,000 and $2,042,000 for premiums earned, respectively, of reinsurance ceded under an excess of loss reinsurance program that was entered into in 1992 covering Radian Guaranty's books of business.

Provisional losses recoverable of $43,740,000 and $40,065,000 for 2000 and 1999, respectively, represent amounts due under variable quota

share treaties entered into in 1997, 1996, 1995 and 1994, covering the books of business originated by Radian Guaranty in those years. The term of each treaty is ten years and is non-cancelable by either party except under certain conditions. The treaties also include underwriting year excess coverage in years four, seven, and ten of the treaty.

Under the terms of the contract, Radian Guaranty cedes premium to the reinsurer based on 15% of the premiums received by Radian Guaranty on the covered business. Radian Guaranty is entitled to receive a ceding commission ranging from 30% to 32% of the premium paid under the treaty provided that certain loss ratios are not exceeded. In return for the payment of premium, Radian Guaranty receives variable quota share loss relief at levels ranging from 7.5% to 15.0% based upon the loss ratio on the covered business.

In addition, Radian Guaranty is entitled to receive, under the underwriting year excess coverage, 8% of the ceded premium written under each treaty to the extent that this amount is greater than the total amount received under the variable quota share coverage on paid losses.

Premiums are payable to the reinsurer on a quarterly basis net of ceding commissions due and any losses calculated under the variable quota share coverage. At the end of the fourth, seventh, and tenth years of each treaty, depending on the extent of losses recovered to date under the variable quota share provisions of the treaty, Radian Guaranty may recover amounts due under the underwriting year excess coverage provisions of the treaty.

The Company accounts for this reinsurance coverage under guidance provided in EITF 93-6, "Accounting for Multiple-Year Retrospectively Rated Contracts by Ceding and Assuming Enterprises." Under EITF 93-6, the Company recognizes an asset for amounts due from the reinsurer based on experience to date under the contract.

For the years ended December 31, 2000, 1999, and 1998, Radian Guaranty paid $9,561,000, $14,423,000, and $26,676,000, respectively, less ceding commissions of $4,833,000, $6,098,000, and $9,076,000 and recovered variable quota share losses under the treaties of $2,262,000, $6,066,000, and $4,600,000, respectively.

Radian has also entered into captive reinsurance arrangements with certain customers. The arrangements are structured on an excess layer basis with insured loans grouped by loan origination year. Radian retains the first layer of risk on a particular book of business, the captive reinsurer assumes the next layer, and Radian assumes all losses above that point. The captive reinsurers are generally required to maintain minimum capitalization equal to 10% of the risk assumed. At December 31, 2000, approximately $422,700,000 of risk was ceded under captive reinsurance arrangements. For the years ended December 31, 2000, 1999, and 1998, Radian had ceded premiums written of $39,686,000, $26,931,000, and $14,376,000, respectively and ceded premiums earned of $39,501,000, $27,502,000, and $13,819,000, respectively, under these various captive reinsurance arrangements.

In addition, Radian Guaranty reinsures all of its direct insurance in force under an excess of loss reinsurance program. Under this program, the reinsurer is responsible for 100% of Radian Guaranty's covered losses (subject to an annual and aggregate limit) in excess of an annual retention limit. Premiums are paid to the reinsurer on a quarterly basis, net of any losses due to Radian Guaranty. For the years ended December 31, 1999 and 1998, Radian Guaranty had ceded premiums written of $3,183,000 and $3,614,000, respectively, and ceded premiums earned of $1,992,000 and $2,042,000, respectively, under this excess of loss reinsurance program. Beginning in 2000, this treaty was accounted for under SOP 98-7 and therefore, $5,370,000 was included in incurred losses during 2000 relating to the excess of loss reinsurance program.

Amerin Guaranty also reinsured all of its direct insurance in force under a $100 million excess loss protection treaty that covered Amerin Guaranty in the event the combined ratio exceeded 100% and the risk to capital ratio exceeded 24.9 to 1. This excess loss protection program was cancelled as of December 31, 2000. The amount ceded under the treaty was based on the calculated leverage ratio at the end of each calendar quarter. The total expense recognized under the treaty included in other operating expenses was $2,650,000 and $2,150,000 in 1999 and 1998, respectively. Beginning in 2000, this treaty was accounted for under SOP 98-7 and therefore, $1,600,000 was included in incurred losses during 2000 relating to the excess loss protection treaty.

4. Unpaid Losses and Loss Adjustment Expenses

As described in note 1, the Company establishes reserves to provide for the estimated costs of settling claims in respect of loans reported to be in default and loans that are in default that have not yet been reported to the Company.

The default and claim cycle on loans that Radian covers begins with a receipt from the lender of notification of a default on an insured loan. The master policy with each lender requires that lender to inform Radian of an uncured default on a mortgage loan within 75 days of the default. The incidence of default is influenced by a number of factors, including change in borrower income, unemployment, divorce and illness, the level of interest rates, and general borrower creditworthiness. Defaults that are not cured result in claims to Radian. Borrowers may cure defaults by making all delinquent loan payments or by selling the property and satisfying all amounts due under the mortgage.

Different regions of the country experience different default rates due to varying economic conditions and each state has different rules regarding the foreclosure process. These rules can impact the amount of time that it takes for a default to reach foreclosure, so the Company has developed a reserving methodology that takes these different time periods into account in calculating the reserve.

When a specific loan initially defaults, it is uncertain that the default will result in a claim. It is Radian's experience that a significant

percentage of loans in default end up being cured. Increasing the reserve in stages as the foreclosure progresses approximates the estimated total loss for that particular claim. At any time during the foreclosure process, until the lender takes title to the property, the borrower may cure the default. Therefore, it is appropriate to increase the reserve in stages as new insight and information are obtained. At the time of title transfer, the Company has approximately 100% of the estimated total loss reserved.

The following table presents information relating to the liability for unpaid claims and related expenses (in thousands):

	2000	1999	1998
Balance at January 1	$335,584	$245,125	$179,908
Add losses and LAE incurred in respect of default notices received in:			
Current year	247,759	218,139	179,674
Prior years	(93,433)	(43,996)	(13,297)
Total incurred	154,326	174,143	166,377
Deduct losses and LAE paid in respect of default notices received in:			
Current year	8,891	7,353	18,196
Prior years	90,998	76,331	82,964
Total paid	99,889	83,684	101,160
Balance at December 31	$390,021	$335,584	$245,125

As a result of changes in estimates of insured events in prior years, the provision for losses and loss adjustment expenses (net of reinsurance recoveries of $1,042,000, $28,231,000, and $11,180,000 in 2000, 1999, and 1998, respectively) decreased by $93,433,000, $43,996,000 and $13,297,000 in 2000, 1999 and 1998, respectively, due primarily to lower than anticipated claim payments as compared to the amounts reserved as a result of strong housing prices.

5. Redeemable Preferred Stock

The Company's preferred stock is entitled to cumulative annual dividends of $4.125 per share, payable quarterly in arrears. The preferred stock is redeemable at the option of the Company at $54.125 per share on or after August 15, 2002, and declining to $50.00 per share on or after August 15, 2005 (plus in each case accumulated and unpaid dividends), or is subject to mandatory redemption at a redemption price of $50.00 per share plus accumulated and unpaid dividends based upon specified annual sinking fund requirements from 2002 to 2011.

6. Income Taxes

Deferred income taxes at the end of each period are determined by applying enacted statutory tax rates applicable to the years in which the taxes are expected to be paid or recovered. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts for income tax purposes. The effect on deferred taxes of a change in the tax rate is recognized in earnings in the period that includes the enactment date.

Provision for income taxes includes a net deferred tax provision in 2000, 1999, and 1998 of $62,938,000, $58,083,000, and $35,875,000, respectively. Of the 2000, 1999, and 1998 provisions, $63,685,000, $54,425,000, and $45,247,000, respectively, were due to a deduction related to the purchase of U.S. government non-interest-bearing tax and loss bonds as allowed by federal tax regulations, with the 1999 and 1998 purchase deductions offset by $7,053,000 and $4,979,000, respectively, of alternative minimum tax adjustments. These purchases are treated as prepaid federal income taxes. The payment for the tax and loss bonds is essentially a prepayment of federal income taxes that will become due at a later date. All other amounts arose principally from differences in accounting for deferred policy acquisition costs and insurance reserve tax adjustments required as a result of the Tax Reform Act of 1986.

The significant components of the Company's net deferred tax assets and liabilities are summarized as follows (in thousands):

	December 31	
	2000	1999
Deferred tax assets:		
Unearned premiums	$ 4,746	$ 2,975
Loss reserves	8,896	7,946
Employee benefits	1,225	648
Net unrealized loss on investments	–	8,547
Other	1,538	–
	16,405	20,116
Deferred tax liabilities:		
Deferred policy acquisition costs	(24,520)	(21,591)
Net unrealized gain on investments	(13,641)	–
Depreciation	(1,254)	(1,278)
Deduction related to purchase of tax and loss bonds	(268,284)	(203,343)
Other	–	(72)
	(307,699)	(226,284)
Net deferred tax liability	$(291,294)	$(206,168)

The reconciliation of taxes computed at the statutory tax rate of 35% for 2000, 1999 and 1998 to the provision for income taxes is as follows (in thousands):

	2000	1999	1998
Provision for income taxes computed at the statutory tax rate	$123,365	$ 76,813	$ 69,269
Change in tax provision resulting from:			
Tax-exempt municipal bond interest and dividends received deduction (net of proration)	(20,482)	(15,535)	(13,897)
Capitalized merger costs	123	8,124	–
Other, net	526	1,926	304
Provision for income taxes	$103,532	$ 71,328	$ 55,676

7. Stockholders' Equity and Dividend Restrictions

The Company is a holding company whose principal source of income is dividends from Radian. The ability of Radian Guaranty to pay dividends on its common stock is restricted by certain provisions of the insurance laws of the Commonwealth of Pennsylvania, its state of domicile. The insurance laws of Pennsylvania establish a test limiting the maximum amount of dividends that may be paid by an insurer without prior approval by the Pennsylvania Insurance Commissioner. Under such test, Radian Guaranty may pay dividends during any 12-month period in an amount equal to the greater of (i) 10% of the preceding year-end statutory policyholders' surplus or (ii) the preceding year's statutory net income. In accordance with such restrictions, $197,979,000 would be available for dividends in 2001. However, an amendment to the Pennsylvania statute requires that dividends and other distributions be paid out of an insurer's unassigned surplus. Because of the unique nature of the method of accounting for contingency reserves, Radian Guaranty has negative unassigned surplus. Thus, prior approval by the Pennsylvania Insurance Commissioner is required for Radian Guaranty to pay dividends or make other distributions so long as Radian Guaranty has negative unassigned surplus. The Pennsylvania Insurance Commissioner has approved all distributions by Radian Guaranty since the passage of this amendment, and management has every expectation that the Commissioner of Insurance will continue to approve such distributions in the future, provided that the financial condition of Radian Guaranty does not materially change.

The ability of Amerin Guaranty to pay dividends on its common stock is restricted by certain provisions of the insurance laws of the State of Illinois, its state of domicile. The insurance laws of Illinois establish a test limiting the maximum amount of dividends that may be paid from positive unassigned surplus by an insurer without prior approval by the Illinois Insurance Commissioner. Under such test, Amerin Guaranty may pay dividends during any 12-month period in an amount equal to the greater of (i) 10% of the preceding year-end statutory policyholders' surplus or (ii) the preceding year's statutory net income. In accordance with such restrictions, $58,036,000 would be available for dividends in 2001 without prior regulatory approval, which represents the positive unassigned surplus of Amerin Guaranty at December 31, 2000.

The Company and Radian Guaranty have entered into an agreement, pursuant to which the Company has agreed to establish and, for as long as any shares of $4.125 Preferred Stock remain outstanding, maintain a reserve account in an amount equal to three years of dividend payments on the outstanding shares of $4.125 Preferred Stock (currently $9,900,000), and not to pay dividends on the common stock at any time when the amount in the reserve account is less than three years of dividend payments on the shares of $4.125 Preferred Stock then outstanding. This agreement between the Company and Radian Guaranty provides that the holders of the $4.125 Preferred Stock are entitled to enforce the agreement's provisions as if such holders were signatories to the agreement.

Radian Guaranty's current excess of loss reinsurance arrangement prohibits the payment of any dividend that would have the effect of reducing the total of its statutory policyholders' surplus plus its contingency reserve below $85,000,000. As of December 31, 2000, Radian Guaranty had statutory policyholders' surplus of $171,644,000 and a contingency reserve of $798,954,000, for a total of $970,598,000.

The Company may not pay any dividends on its shares of common stock unless the Company has paid all accrued dividends on, and has complied with all sinking fund and redemption obligations relating to, its outstanding shares of $4.125 Preferred Stock.

The Company prepares its statutory financial statements in accordance with the accounting practices prescribed or permitted by the Insurance Department of the respective state of domicile. Prescribed statutory accounting practices include a variety of publications of the National Association of Insurance Commissioners ("NAIC") as well as state laws, regulations, and general administrative rules. Permitted statutory accounting practices encompass all accounting practices not so prescribed.

Radian Guaranty's statutory policyholders' surplus at December 31, 2000 and 1999 was $171,644,000 and $157,693,000, respectively. Radian Guaranty's statutory net income for 2000, 1999, and 1998 was $197,979,000, $137,094,000, and $105,264,000, respectively.

Under Illinois insurance regulations, Amerin Guaranty is required to maintain statutory basis capital and surplus of $1,500,000. The statutory policyholders' surplus at December 31, 2000 and 1999 was $284,813,000 and $242,636,000, respectively. Amerin Guaranty's statutory net income for 2000, 1999, and 1998 was $101,448,000, $70,901,000, and $71,715,000, respectively.

The differences between the statutory net income and surplus and the consolidated net income and equity presented on a GAAP basis represent differences between GAAP and statutory accounting practices for the following reasons:

Under statutory accounting practices, mortgage guaranty insurance companies are required to establish each year a contingency reserve equal to 50% of premiums earned in such year. Such amount must be maintained in the contingency reserve for 10 years after which time it is released to unassigned surplus. Prior to 10 years, the contingency reserve may be reduced with regulatory approval to the extent that losses in any calendar year exceed 35% of earned premiums for such year. Under GAAP, the contingency reserve is not required.

Under statutory accounting practices, insurance policy acquisition costs are charged against operations in the year incurred. Under GAAP, these costs are deferred and amortized.

Statutory financial statements only include a provision for current income taxes due, and purchases of tax and loss bonds are accounted for as investments. GAAP financial statements provide for deferred income taxes, and purchases of tax and loss bonds are recorded as prepayments of income taxes.

Under statutory accounting practices, fixed maturity investments are valued at amortized cost. Under GAAP, those investments that Radian does not have the ability or intent to hold to maturity are considered to be available for sale and are recorded at market value, with the unrealized gain or loss recognized, net of tax, as an increase or decrease to stockholders' equity.

Under statutory accounting practices, certain assets, designated as non-admitted assets, are charged directly against statutory surplus. Such assets are reflected on the GAAP financial statements.

In March 1998, the National Association of Insurance Commissioners adopted the Codification of Statutory Accounting Principles ("Codification"). The Codification, which is intended to standardize regulatory accounting and reporting for the insurance industry, is effective January 1, 2001. However, statutory accounting principles will continue to be established by individual state laws and permitted practices. The Commonwealth of Pennsylvania will require adoption of the Codification for the preparation of statutory financial statements effective January 1, 2001. The Company estimates that the adoption of the Codification by Radian Guaranty will increase statutory capital and surplus as of January 1, 2001 by approximately $10,333,000 in Radian Guaranty. The State of Illinois will require adoption of the Codification for the preparation of statutory financial statements effective January 1, 2001. The Company estimates that the adoption of the Codification by Amerin Guaranty will increase statutory capital and surplus as of January 1, 2001 by approximately $2,370,000 in Amerin Guaranty.

In April 1998, the Company's board of directors approved a stockholder rights plan designed to help ensure that all stockholders receive fair value for their shares of common stock in the event of any proposed takeover of the Company and to guard against the use of partial tender offers or other coercive tactics to gain control of the Company without offering fair value to the stockholders.

8. Stock-Based Compensation

In November 1992, the Company's board of directors adopted the CMAC Investment Corporation 1992 Stock Option Plan, which provides for the granting of nonqualified stock options, either alone or together with stock appreciation rights. Effective with the merger, the name of the plan was changed to the Radian Group Inc. 1992 Stock Option Plan (the "Stock Option Plan"). Originally up to 500,000 shares were subject to stock options. This amount was amended by a vote of the stockholders to 900,000 in May 1993. These options may be granted to directors, officers, and key employees of the Company at prices that are not less than 90% of fair market value on the date the options are granted, although all options have been granted with an exercise price equal to the fair value of the Company's stock at the date of grant. Accordingly, no compensation expense has been recognized for the Company's stock-based compensation plans. Each stock option is exercisable for a period of ten years from the date of the grant and is subject to a vesting schedule as approved by the Company's Stock Option and Compensation Committee. In May 1995, the CMAC Investment Corporation Equity Compensation Plan was instituted by a vote of the stockholders. Effective with the merger, the name of the plan was changed to the Radian Group Inc. Equity Compensation Plan (the "Equity Compensation Plan"). This plan provides for the granting of nonqualified stock options, under terms similar to those in the Stock Option Plan, or other forms of equity-based compensation. The aggregate number of shares that may be issued under this new plan was 1,100,000, which brought the total number of shares subject to stock options or other forms of equity-based compensation to 2,000,000. Effective with the two-for-one stock split in December 1996, all share totals within the plans were doubled, bringing the total number

of shares subject to stock options or other forms of equity-based compensation to 4,000,000.

In June 1999, the number of shares subject to stock options was amended by a vote of the stockholders to 5,000,000. At the same time, as a result of the merger, the number of options outstanding from the prior Amerin plan was added to the total number of shares subject to stock options or other forms of equity compensation, bringing the total number of shares to 5,800,177.

Information regarding the Stock Option Plan and Equity Compensation Plan is as follows:

	Number of Shares	Weighted Average Exercise Price per Share
Outstanding, January 1, 1998	2,611,595	$23.84
Granted	126,232	42.28
Exercised	(351,477)	11.04
Cancelled	(79,490)	27.47
Outstanding, December 31, 1998	2,306,860	26.65
Granted	229,921	40.63
Exercised	(445,558)	26.40
Cancelled	(134,779)	38.52
Outstanding, December 31, 1999	1,956,444	27.54
Granted	460,107	45.34
Exercised	(588,678)	24.86
Cancelled	(71,990)	44.00
Outstanding, December 31, 2000	1,755,883	32.43
Exercisable, December 31, 2000	987,167	23.95
Available for grant, December 31, 2000	2,325,337	

The Company applies APB 25 in accounting for its stock-based compensation plans. Had compensation cost for the Company's stock option plans been determined based upon the fair value at the grant date for awards under these plans consistent with the methodology prescribed under SFAS 123, the Company's net income and earnings per share would have been reduced by approximately $4,189,000 ($.11 per share), $2,932,000 ($.08 per share), and $3,952,000 ($.10 per share in 2000, 1999, and 1998, respectively. The pro forma effect on net income for 2000, 1999, and 1998 is not representative of the pro forma effect on net income in future years because it does not take into consideration pro forma compensation expense related to grants made prior to 1995.

The weighted average fair values of the stock options granted during 2000, 1999, and 1998 were $23.96, $20.65, and $20.64, respectively. The fair value of each stock option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions used for grants:

	2000	1999	1998
Expected life (years)	7.07	7.89	6.83
Risk-free interest rate	6.69%	4.91%	5.21%
Volatility	39.29%	38.73%	39.05%
Dividend yield	0.16%	0.30%	0.33%

The following tables summarize information concerning currently outstanding and exercisable options at December 31, 2000:

Options Outstanding

Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price
$ 9.00 – $ 9.94	202,344	1.89	$ 9.00
$12.56 – $14.69	316,675	3.44	14.54
$22.13 – $32.50	304,010	5.35	26.27
$33.28 – $49.69	697,991	8.26	41.81
$50.39 – $67.49	234,863	7.79	56.83
	1,755,883		

Options Exercisable

Range of Exercise Prices	Number Exercisable	Weighted Average Exercise Price
$ 9.00 – $ 9.94	202,344	$ 9.00
$12.56 – $14.69	316,675	14.54
$22.13 – $32.50	241,110	24.64
$33.28 – $49.69	112,936	43.12
$50.39 – $67.49	114,102	56.13
	987,167	

In 1999, the Stock Option Plan was amended to include the grant of "reload" options. The award of a "reload" option allows the optionee to receive the grant of an additional stock option, at the then current market price, in the event that such optionee exercises all or part of an option (an "original option") by surrendering already owned shares of common stock in full or partial payment of the option price under such original option. The exercise of an additional option issued in accordance with the "reload" feature will reduce the total number of shares eligible for award under the Stock Option Plan. At December 31, 2000, there were 234,781 options outstanding with a "reload" feature. During 2000, there were 37,707 additional options issued in accordance with the "reload" feature.

In July 1997, the Company's board of directors adopted the 1997 CMAC Investment Corporation Employee Stock Purchase Plan and shareholder approval was granted during the Company's 1998 Annual Meeting. As a result of the merger, the name of the plan was changed to the 1997 Radian Group Inc. Employee Stock Purchase Plan (the "ESPP"). A total of 200,000 shares of the Company's authorized but unissued common stock has been made available under the ESPP. The ESPP allows eligible employees to purchase shares of the Company's stock at a discount of 15% of the beginning-of-period or end-of-period (each period being the first and second six calendar months) fair market value of the stock, whichever is lower. Eligibility under the ESPP is determined based on standard weekly work hours and tenure with the Company, and eligible employees are limited to a maximum contribution of $400 per payroll period toward the purchase of the Company's stock. Under the ESPP, the Company sold 5,200, 5,800 and 1,900 shares to employees in 2000, 1999 and 1998, respectively. The Company applies APB 25 in accounting for the ESPP. The pro forma effect on the Company's net income and earnings per share had compensation cost been determined under SFAS 123 was deemed immaterial in 2000, 1999 and 1998.

9. Benefit Plans

The Company maintains a noncontributory defined benefit pension plan covering substantially all full-time employees. Retirement benefits are a function of the years of service and the level of compensation. Assets of the plan are allocated in a balanced fashion with approximately 40% in fixed income securities and 60% in equity securities.

The Company also provides a nonqualified deferred compensation plan covering certain key executives designated by the board of directors. Under this plan, participants are eligible to receive benefits in addition to those paid under the defined benefit pension plan if their base compensation is in excess of the current IRS compensation limitation for the defined benefit pension plan. Retirement benefits under the nonqualified plan are a function of the years of service and the level of compensation and are reduced by any benefits paid under the defined benefit plan.

In addition to providing pension benefits, the Company will provide certain health care and life insurance benefits to retired employees. The Company accounts for such benefits under SFAS No. 106, "Employers Accounting for Postretirement Benefits Other Than Pensions," and accrues the estimated costs of retiree medical and life benefits over the period during which employees render the service that qualifies them for benefits.

The funded status of the defined benefit plans and the postretirement benefit plan were as follows (in thousands):

	Pension Benefits		Other Benefits	
	2000	1999	2000	1999
Change in Benefit Obligation				
Benefit obligation at beginning of year	$ 5,844	$ 5,258	$ 314	$ 365
Service cost	1,014	797	16	19
Interest cost	548	383	24	21
Increase due to plan amendments	406	–	–	–
Plan participants' contributions	–	–	6	5
Actuarial (gain) loss	1,530	(555)	16	(84)
Benefits paid	(40)	(39)	(13)	(12)
Benefit obligation at end of year	$ 9,302	$ 5,844	$ 363	$ 314
Change in Plan Assets				
Fair value of plan assets at beginning of year	$ 4,757	$ 3,714	$ –	$ –
Actual return on plan assets	(69)	782	–	–
Employer contributions	455	300	7	7
Plan participants' contributions	–	–	6	5
Benefits paid	(40)	(39)	(13)	(12)
Fair value of plan assets at end of year	$ 5,103	$ 4,757	$ –	$ –
Underfunded status of the plan	$(4,199)	$(1,087)	$(363)	$(314)
Unrecognized prior service cost	764	456	(168)	(139)
Unrecognized net actuarial loss (gain)	755	(1,248)	(128)	(194)
Accrued benefit cost	$(2,680)	$(1,879)	$(659)	$(647)

The components of net pension and net periodic postretirement benefit costs are as follows (in thousands):

	Defined Benefit Plans		
	2000	1999	1998
Service cost	$1,014	$ 797	$ 748
Interest cost	548	383	362
Expected return on plan assets	(422)	(320)	(219)
Amortization of prior service cost	98	69	69
Recognized net actuarial loss	17	10	40
Net periodic benefit cost	$1,255	$ 939	$1,000

	Postretirement Benefit Plans		
	2000	1999	1998
Service cost	$ 16	$ 19	$ 19
Interest cost	24	21	22
Expected return on plan assets	–	–	–
Amortization of prior service cost	(11)	(11)	(11)
Recognized net actuarial gain	(10)	(8)	(8)
Net periodic benefit cost	$ 19	$ 21	$ 22

Assumptions used to determine net pension and net periodic postretirement benefit costs are as follows:

	Defined Benefit Plans		
	2000	1999	1998
Weighted average assumptions as of December 31:			
Discount rate	7.50%	7.50%	6.75%
Expected return on plan assets	8.50%	8.50%	8.50%
Rate of compensation increase	6.00%	4.00%	4.00%

	Postretirement Benefit Plans		
	2000	1999	1998
Weighted average assumptions as of December 31:			
Discount rate	7.25%	7.50%	6.75%
Expected return on plan assets	–	–	–
Rate of compensation increase	–	–	–

Due to the nature of the postretirement benefit plan, no increase is assumed in the Company's obligation due to any increases in the per capita cost of covered health care benefits.

In addition to the defined benefit plan, the nonqualified deferred compensation plan, and the postretirement benefit plan, the Company also maintains a Savings Incentive Plan, which covers substantially all full-time employees and all part-time employees employed for a minimum of 90 consecutive days. Participants can contribute up to 15% of their base earnings as pretax contributions. The Company will match at least 25% of the first 5% of base earnings contributed in any given year. These matching funds are subject to certain vesting requirements. The expense to the Company for matching funds for the years ended December 31, 2000, 1999, and 1998 was $1,094,000, $1,220,000, and $918,000, respectively.

10. Commitments and Contingencies

In December 2000, a complaint seeking class action status on behalf of a nationwide class of home mortgage borrowers was filed against Radian in the United States District Court for the Middle District of North Carolina (Greensboro Division). The complaint alleges that Radian violated Section 8 of the Real Estate Settlement Procedures Act ("RESPA") which generally prohibits the giving of any fee, kickback or thing of value pursuant to any agreement or understanding that real estate settlement services will be referred. The complaint asserts that the pricing of pool insurance, captive reinsurance, contract underwriting, performance notes and other, unidentified "structured transactions," should be interpreted as imputed kickbacks made in exchange for the referral of primary mortgage insurance business, which, according to the complaint, is a settlement service under RESPA. The complaint seeks injunctive relief and damages of three times the amount of any mortgage insurance premiums paid by persons who were referred to Radian pursuant to the alleged agreement or understanding. The plaintiffs in the lawsuit are represented by the same group of plaintiffs' lawyers who last year filed similar lawsuits against other providers of primary mortgage insurance in federal court in Georgia. The Georgia court dismissed those lawsuits for failure to state a claim. Three of those lawsuits were settled prior to appeal; two are currently on appeal. Radian has responded to the complaint by filing a motion to dismiss. Because this case is at a very early stage, it is not possible to evaluate the likelihood of an unfavorable outcome or to estimate the amount or range of potential loss.

In addition to the above, the Company is involved in certain litigation arising in the normal course of its business. The Company is contesting the allegations in each such other action and believes, based on current knowledge and consultation with counsel, that the outcome of such litigation will not have a material adverse effect on the Company's consolidated financial position or results of operations.

Radian utilizes its underwriting skills to provide an outsource contract underwriting service to its customers. Radian often gives recourse to its customers on loans it underwrites for compliance. If the loan does not meet agreed-upon guidelines and is not salable in the secondary market for that reason, Radian agrees to remedy the situation either by placing mortgage insurance coverage on the loan, by purchasing the loan, or indemnifying the loan against future loss. During 2000, less than 1% of all loans were subject to these remedies and the costs associated with these remedies were immaterial.

The Company leases office space for use in its underwriting, sales, loan workout, and administrative support operations. Net rental expense in connection with these leases totaled $2,970,000, $3,145,000, and $3,000,000 in 2000, 1999, and 1998, respectively. The commitment for noncancelable operating leases in future years is as follows (in thousands):

2001	$2,875
2002	2,265
2003	1,408
2004	309
2005	236
	$7,093

The commitment for noncancelable operating leases in future years has not been reduced by future minimum sublease rental payments aggregating approximately $1,844,000.

11. Quarterly Financial Date (unaudited)

(in thousands, except per-share information)

	2000 Quarter				
	First	Second	Third	Fourth	Year
Net premiums written	$135,606	$128,936	$136,147	$143,583	$544,272
Net premiums earned	127,297	129,539	130,236	133,799	520,871
Net investment income	18,827	20,304	21,179	22,636	82,946
Provision for losses	38,782	38,005	38,251	39,288	154,326
Policy acquisition and other expenses	26,713	25,492	26,931	29,502	108,638
Net income	58,600	61,858	64,069	64,411	248,938
Net income per share (1) (2)	$ 1.53	$ 1.60	$ 1.66	$ 1.66	$ 6.44
Average shares outstanding (1)	37,864	38,138	38,192	38,380	38,149

	1999 Quarter				
	First	Second	Third	Fourth	Year
Net premiums written	$111,355	$115,907	$ 95,537	$129,018	$451,817
Net premiums earned	112,493	116,319	120,031	123,792	472,635
Net investment income	15,913	16,814	16,439	18,093	67,259
Provision for losses	44,242	43,312	42,519	44,070	174,143
Policy acquisition and other expenses	33,130	32,255	31,122	24,929	121,436
Merger expenses	2,833	22,697	11,353	883	37,766
Net income	37,353	25,094	37,488	48,203	148,138
Net income per share(1) (2)	$ 0.97	$ 0.64	$ 0.97	$ 1.25	$ 3.83
Average shares outstanding (1)	37,723	37,891	37,765	38,046	37,856

(1) Diluted net income per share and average shares outstanding per SFAS No. 128, "Earnings Per Share." See note 1.

(2) Net income per share is computed independently for each period presented. Consequently, the sum of the quarters may not equal the total net income per share for the year.

INDEPENDENT auditors' report

Board of Directors and Stockholders
Radian Group Inc.
Philadelphia, Pennsylvania

We have audited the consolidated balance sheets of Radian Group Inc. and subsidiaries (the "Company") as of December 31, 2000 and 1999, and the related consolidated statements of income, changes in common stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. The consolidated financial statements give retroactive effect to the merger of CMAC Investment Corporation and Amerin Guaranty Corporation ("Amerin"), which has been accounted for as a pooling of interests as described in Note 1 to the consolidated financial statements. We did not audit the related statements of income, changes in common stockholders' equity, and cash flows of Amerin for the year ended December 31, 1998, which statements reflect total revenues of $145,927,000 for the year ended December 31, 1998. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Amerin for 1998, is based solely on the report of such other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the report of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Radian Group Inc. and subsidiaries at December 31, 2000 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2000 in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP
Philadelphia, Pennsylvania
March 2, 2001

The following is a "Safe Harbor" Statement under the Private Securities Litigation Reform Act of 1995:

The statements contained herein that are not historical facts are forward-looking statements. Actual results may differ materially from those projected in the forward-looking statements. These forward-looking statements involve risks and uncertainties including, but not limited to, the following risks: that interest rates may increase rather than remain stable or decrease; that housing demand may decrease for any number of reasons, including changes in interest rates, adverse economic conditions, or other reasons; that Radian's market share may decrease as a result of changes in underwriting criteria by Radian or its competitors, or other reasons; and changes in the performance of the financial markets, in the demand for and market acceptance of Radian products, increased competition from government programs and the use of substitutes for mortgage insurance, and in general financial conditions. Investors are also directed to other risks discussed in documents filed by the Company with the Securities and Exchange Commission.

2000 Compared to 1999

Net income for 2000 was $248.9 million, a 68.0% increase compared to $148.1 million for 1999. However, net income for 1999 included merger expenses (net of tax) of $34.4 million and without these merger expenses, net income for 1999 was $182.6 million. This represents an increase of 36.4% or $66.3 million from 1999 to 2000. This improvement in net income, excluding merger expenses, was a result of growth in premiums earned and net investment income combined with a lower provision for losses and a reduction in policy acquisition costs and other operating expenses.

New primary insurance written during 2000 was $24.9 billion, a 25.0% decrease compared to $33.3 billion for 1999. This decrease in Radian's primary new insurance written volume in 2000 was partially due to a 14.0% decrease in new insurance written volume in the private mortgage insurance industry compared to 1999. In addition, Radian's market share of the industry decreased to 15.2% for the year ended December 31, 2000 as compared to 17.5% for the same period of 1999. Radian believes the market share decline was due in part to the reduction in business provided by a few of the largest national accounts, which rebalanced their mortgage insurance allocation after the merger. In addition, the Company believes that it had a relatively low market share of certain large bulk transactions which are included in industry new insurance written figures. For the year ended December 31, 2000, Radian wrote $1.2 billion of such bulk transactions. In 2000, Radian reduced the volume of pool insurance it wrote to $187.9 million of risk written as compared to $421.2 million in 1999. Most of this pool insurance volume relates to a group of structured transactions composed primarily of Fannie Mae- and Freddie Mac-eligible conforming mortgage loans ("GSE Pool") that are geographically well dispersed throughout the United States and have lower average loan-to-value ratios than Radian's primary business. This business contains loans with loan-to-value ratios above 80% which have primary insurance that places the pool insurance in a secondary loss position and loans with loan-to-value ratios of 80% and below for which the pool coverage is in a first loss position. The performance of this business written in prior years has been better than anticipated although the business is relatively young and the historical performance might not be an indication of future performance. Under a pool insurance transaction, the exposure to Radian on each individual loan is uncapped; however, the aggregate stop-loss percentage (typically 1.0% to 1.5% of the aggregate original loan balance in the Fannie Mae/Freddie Mac transactions) is the maximum that can be paid out in losses before the insurer's exposure terminates. The Company expects its pool insurance activity to continue at the current reduced levels during 2001. Premium rates on such pool insurance are significantly lower than on primary insurance loans due to the low stop-loss levels, which limit the overall risk exposure to Radian, and the focus of such product on high-quality primary insurance customers. Standard & Poor's Insurance Rating Service ("S&P"), Moody's Investors Service ("Moody's") and Fitch Investors Service, Inc. ("Fitch") have determined that the capital requirements to support such pool insurance will be significantly more stringent than on primary insurance due to the low premium rates and low stop-loss levels which increase expected losses as a percentage of risk outstanding.

Mortgage insurance industry volume in 2000 was negatively impacted by relatively higher interest rates which affected the entire mortgage industry for most of the year. The trend toward higher interest rates, which began in the third quarter of 1999, caused refinancing activity during 2000 to decline to normal levels and contributed to the decrease in the mortgage insurance industry new insurance written volume for 2000. Radian's refinancing activity as a percentage of primary new insurance written was 14.0% for 2000 as compared to 27.0% for 1999. However, a decrease in interest rates during the fourth quarter of 2000 resulted in an increase in refinancing activity for Radian during the quarter to 17.0% of primary new insurance written as compared to 12.0% for the third quarter of 2000. The persistency rate, which is defined as the percentage of insurance in force that is renewed in any given year, was

78.2% for 2000 as compared to 75.0% for 1999. This increase was consistent with the declining level of refinancing activity during most of 2000, which caused the cancellation rate to decrease. The expectation for 2001 is a higher industry volume and lower persistency rates, influenced by lower interest rates.

Radian insures non-traditional loans, specifically Alternative A and A minus loans (collectively, referred to as "non-prime" business). Alternative A borrowers have an equal or better credit profile than Radian's typical insured borrowers, but these loans are underwritten with reduced documentation and verification of information. Radian typically charges a higher premium rate for this business due to the reduced documentation, but does not consider this business to be significantly more risky than its normal primary business. The A minus loan programs typically have non-traditional credit standards that are less stringent than standard credit guidelines. To compensate for this additional risk, Radian receives a higher premium for insuring this product that Radian believes is commensurate with the additional default risk. During 2000, non-prime business accounted for $5.4 billion or 21.5% of Radian's new primary insurance written as compared to $3.5 billion or 9.7% for the same period in 1999.

In the third quarter of 2000, the Company began to insure mortgage-related assets in a Pennsylvania domiciled insurer, Radian Insurance Inc. ("Radian Insurance"). Radian Insurance is rated AA by S&P and Aa3 by Moody's and was formed to write credit insurance and financial guaranty insurance on assets that are not permitted to be insured by monoline mortgage guaranty insurers. Such assets include manufactured housing loans, second mortgages, home equity loans and mortgages with loan-to-value ratios above 100%. During 2000, Radian Insurance wrote $1.6 billion of insurance which represented $211.0 million of risk. Such business is similar to mortgage guaranty insurance, however, the structures can vary and thus premium rates and commensurate risk levels will be variable.

Net premiums earned in 2000 were $520.9 million, a 10.2% increase compared to $472.6 million for 1999. This increase, which was greater than the increase in insurance in force, reflected the change in the mix of new insurance written volume originated by Radian during the second half of 1999 and throughout 2000. This change in mix included a higher percentage of loans with loan-to-value ratios of 95% or higher and non-prime business. These types of business have higher premium rates, which are commensurate with the increased level of risk associated with the insurance. Radian's higher loan-to-value activity was 45.0% for 2000 as compared to 41.0% for 1999 and the non-prime business accounted for 21.5% of Radian's new primary insurance written in 2000 as compared to 9.7% for 1999. The reduced level of refinancing activity and the resulting increase in persistency led to an increase in direct primary insurance in force during 2000 of 3.9%, from $97.1 billion at December 31, 1999 to $100.9 billion at December 31, 2000. GSE Pool risk in force also grew to $1.1 billion at December 31, 2000, an increase of 4.2% for the year. Radian and the industry have entered into risk-sharing arrangements with various customers that are designed to allow the customer to participate in the risks and rewards of the mortgage insurance business. One such product is captive reinsurance, in which a mortgage lender sets up a mortgage reinsurance company that assumes part of the risk associated with that lender's insured book of business. In most cases, the risk assumed by the reinsurance company is an excess layer of aggregate losses that would be penetrated only in a situation of adverse loss development. For 2000, premiums ceded under captive reinsurance arrangements were $39.5 million, or 7.6% of total premiums earned during 2000, as compared to $27.5 million, or 5.8% of total premiums earned for the same period of 1999. New primary insurance written under captive reinsurance arrangements was $8.1 billion, or 32.6% of total new primary insurance written in 2000 as compared to $13.7 billion, or 41.3% of total new primary insurance written in 1999.

Net investment income for 2000 was $82.9 million, a 23.3% increase compared to $67.3 million in 1999. This increase was a result of continued growth in invested assets primarily due to positive operating cash flows of $280.0 million during 2000. The Company has continued to invest some of its new operating cash flows in tax-advantaged securities, primarily municipal bonds, although the Company did modify its investment policy to allow the purchase of various other asset classes, including common stock and convertible securities, beginning in the second quarter of 1998 and some of the Company's cash flows have been used to purchase these classes of securities. The Company's intent is to target the common equity exposure at a maximum of 5% of the investment portfolio's market value while the convertible securities and mortgage-backed securities exposures are targeted not to exceed 10% each. The Company expects no material long-term impact on total investment returns as a result of this investment asset diversification.

The provision for losses was $154.3 million in 2000, a decrease of 11.4% compared to $174.1 million in 1999. This decrease was due to a reduction from 1999 to 2000 in the percentage of delinquencies on higher loan-to-value loans which have higher loss reserves per default and a decrease in loss severity due to strong property value appreciation. Claim activity is not evenly spread throughout the coverage period of a book of business. Relatively few claims are received during the first two years following issuance of the policy. Historically, claim activity has reached its

highest level in the third through fifth years after the year of loan origination. Approximately 76.0% of Radian's primary risk in force and almost all of Radian's pool risk in force at December 31, 2000 had not yet reached its anticipated highest claim frequency years. Due to the high cancellation rates and strong new insurance volume in 1998 and the first half of 1999, this percentage of newer risk in force is significantly higher than normal levels. Radian's overall default rate at December 31, 2000 was 1.6% as compared to 1.5% at December 31, 1999, while the default rate on the primary business was 2.3% at December 31, 2000 as compared to 2.2% at December 31, 1999. The increase in Radian's overall default rate could be a result of the slowing economy. A strong economy generally results in better loss experience and a decrease in the overall level of losses. A continued weakening of the economy could negatively impact Radian's overall default rates, which would result in an increase in the provision for losses. The number of defaults rose from 22,151 at December 31, 1999 to 26,520 at December 31, 2000 and the average loss reserve per default declined from $15,071 at the end of 1999 to $14,707 at December 31, 2000. The decrease in average loss reserve per default was primarily the result of a decline in the Company's percentage of higher loan-to-value loans in default which results in a lower overall reserve per default as lower loan-to-value loans are perceived as having a lower risk of claim incidence. The percentage of loans in default with loan-to-value ratios of 90.01% or higher decreased to 45.2% as of December 31, 2000 as compared to 47.9% as of December 31, 1999. The default rate in California was 1.5% (including pool) at December 31, 2000 as compared to 1.8% at December 31, 1999 and claims paid in California during 2000 were $15.8 million, representing approximately 16.1% of total claims as compared to 26.8% in 1999. California represented approximately 16.8% of primary risk in force at December 31, 2000 as compared to 17.2% at December 31, 1999. The default rate in Florida was 2.7% (including pool) at December 31, 2000 as compared to 3.1% at December 31, 1999 and claims paid in Florida during 2000 were $13.3 million, representing approximately 13.6% of total claims as compared to 13.4% in 1999. Florida represented 7.4% of primary risk in force at December 31, 2000 and 1999. Radian has reported an increased number of defaults on the non-prime business insured beginning in 1997. Although the default rate for this business is higher than on Radian's normal books of business, it is within the expected range for this type of business, and the higher premium rates charged are expected to compensate for the increased level of risk. The number of non-prime loans in default at December 31, 2000 was 2,690, which represented 13.1% of the total number of primary loans in default and the default rate on this business was 4.1% as of December 31, 2000 as compared to the primary default rate on Radian's prime business of 2.3% at the end of 2000. Direct losses paid in 2000 were $93.3 million as compared to direct losses paid during 1999 of $88.2 million, an increase of 5.8%. The severity of loss payments has declined due to property value appreciation, but any negative impact on future property values would most likely increase the loss severity.

Underwriting and other operating expenses were $108.6 million for 2000, a decrease of 10.5% compared to $121.4 million for 1999. These expenses consisted of policy acquisition expenses, which relate directly to the acquisition of new business, and other operating expenses, which primarily represent contract underwriting expenses, overhead, and administrative costs.

Policy acquisition costs were $51.5 million in 2000, a decrease of 12.4% compared to $58.8 million in 1999. This decrease reflects the synergies achieved as a result of the merger and the decrease in the level of new insurance written for 2000 as compared to 1999. Other operating expenses for 2000 were $57.2 million, a decrease of 8.8% compared to $62.7 million for 1999. This reflects a decrease in expenses associated with contract underwriting services offset by an increase in expenses associated with the Company's administrative and support functions. Contract underwriting expenses for 2000 included in other operating expenses were $20.3 million as compared to $32.4 million for 1999, a decrease of 37.5%. However, contract underwriting expenses were $6.8 million for the fourth quarter of 2000 as compared to $6.9 million for the same period in 1999. This $12.1 million decrease in contract underwriting expenses during 2000 reflected the decreased demand for contract underwriting services throughout the first nine months of 2000 as mortgage origination volume declined; however, the increase in expenses for the fourth quarter of 2000 reflected the increasing demand for contract underwriting services as more lenders took advantage of the integration of the contract underwriting process with Freddie Mac's Loan Prospector and Fannie Mae's Desktop Underwriter origination systems to eliminate back offices origination functions, combined with the decrease in interest rates toward the end of 2000 which resulted in an increase in the level of refinanced mortgage origination volume. Consistent with the decline in contract underwriting expenses, other income decreased 34.5% to $7.4 million in 2000 as compared to $11.3 million in 1999. During 2000, loans underwritten via contract underwriting accounted for 30.1% of applications, 26.2% of insurance commitments, and 19.4% of certificates issued by Radian as compared to 22.2% of applications, 18.8% of commitments, and 15.6% of certificates in 1999. In 2001, these

percentages are expected to decrease if there is a continued increase in the level of refinancing as refinanced loans tend to have lower loan-to-value ratios and therefore contain a relatively low percentage of loans that require mortgage insurance.

During 1999, the Company incurred merger-related expenses of $37.8 million. The Company incurred no additional merger-related expenses in 2000 related to the CMAC/Amerin merger and does not expect to incur any additional expenses related to this merger in 2001 or beyond.

The effective tax rate for 2000 was 29.4% and, excluding merger costs (net of tax) of $34.4 million, the effective tax rate for the same period in 1999 was 29.0%. Eliminating the merger expenses of $37.8 million in 1999, operating income accounted for 73.2% of net income in 1999 as compared to 75.3% for the same period in 2000, thus resulting in an increase in effective tax rates for 2000.

1999 Compared to 1998

Net income for 1999 was $148.1 million, a 4.1% increase compared to $142.2 million for 1998. However, net income for 1999 included merger expenses (net of tax) of $34.4 million as compared to merger expenses (net of tax) of $714,000 in 1998. Without these merger expenses, net income for 1999 was $182.6 million as compared to $143.0 million for 1998, an increase of 27.7% or $39.6 million. This improvement in net income, excluding merger expenses, was a result of significant growth in premiums earned and net investment income, partially offset by a higher provision for losses, an increase in policy acquisition costs and other operating expenses, and a reduction in other income.

New primary insurance written during 1999 was $33.3 billion, a 10.3% decrease compared to $37.1 billion for 1998. This decrease in Radian's primary new insurance written volume in 1999 was primarily due to a decline in Radian's market share of the industry volume, which fell to 17.5% for the year ended December 31, 1999 as compared to 19.3% for the same period of 1998. This decrease in market share was slightly offset by an increase in primary new insurance written volume in the private mortgage insurance industry for 1999 as compared to 1998 of $775.0 million or 0.4%. Radian believes the market share decline was primarily due to the reduction in business provided by a few of the largest national accounts, which rebalanced their mortgage insurance allocation after the merger. In 1999, Radian wrote a smaller amount of pool insurance, which represented an addition to risk written of $421.2 million as compared to $475.0 million in 1998. Most of this pool insurance volume related to GSE Pool business.

Radian's volume in 1999 was positively impacted by relatively lower interest rates that affected the entire mortgage industry for most of the year. The trend toward lower interest rates, which began in the third quarter of 1997, caused refinancing activity during the first half of 1999 to continue at a higher rate than normal, and strong housing prices caused a large percentage of the refinanced loans to be closed without private mortgage insurance at a loan-to-value ratio of 80% or below. Therefore, the rate of growth in the private mortgage insurance industry, although substantial, was not as high as that of the entire mortgage market. An increase in interest rates during the third quarter of 1999 resulted in a decline in refinancing activity for Radian and contributed to the 15.2% decrease in the mortgage insurance industry new insurance written volume for the second half of 1999 compared to the same period in 1998. Radian's refinancing activity as a percentage of primary new insurance written was 27.0% for 1999 as compared to 34.0% in 1998; however, for the fourth quarter of 1999, that rate had declined to 13.0% from 20.0% in the third quarter of 1999 and 39.0% in the fourth quarter of 1998. The persistency rate was 75.0% for 1999 as compared to 66.6% for 1998. This increase was consistent with the declining level of refinancing activity during the second half of 1999, which caused the cancellation rate to decrease.

Radian also became more involved in insuring non-conforming loans, specifically Alternative A and A minus loans, during 1999. In 1999, non-prime business accounted for $3.5 billion or 9.7% of Radian's new primary insurance written as compared to $1.7 billion or 4.7% for the same period in 1998.

Net premiums earned in 1999 were $472.6 million, a 16.6% increase compared to $405.3 million for 1998. This increase reflected the insurance in force growth resulting from strong new insurance volume and pool insurance written during 1999, and was aided by the increase in persistency levels. The strong volume led to an increase in direct primary insurance in force during 1999 of 16.7%, from $83.2 billion at December 31, 1998 to $97.1 billion at December 31, 1999. Direct pool risk in force also grew to $1.4 billion at December 31, 1999 from $993.0 million at the end of 1998, an increase of 40.8% for the year. For 1999, premiums ceded under captive reinsurance arrangements were $27.5 million, or 5.8% of total premiums earned during 1999, as compared to $13.8 million, or 3.4% of total premiums earned for the same period of 1998. New primary insurance written under captive reinsurance arrangements was $13.7 billion, or 41.3% of total new primary insurance written in 1999 as compared to $9.7 billion, or 26.1% of total new primary insurance written in 1998.

Net investment income for 1999 was $67.3 million, a 12.4% increase compared to $59.9 million in 1998. This increase was a result of continued growth in invested assets primarily due to positive operating

cash flows of $261.7 million during 1999. The Company continued to invest some of its new operating cash flows in tax-advantaged securities, primarily municipal bonds, although the Company did modify its investment policy to allow the purchase of various other asset classes, including common stock and convertible securities, beginning in the second quarter of 1998 and some of the Company's cash flows have been used to purchase these classes of securities.

The provision for losses was $174.1 million in 1999, an increase of 4.7% compared to $166.4 million in 1998. This increase reflected an increase in the number of delinquent loans as a result of the significant growth and maturation of Radian's book of business over the past several years and the continued poor experience of certain "affordable housing" program loans insured in 1994 and 1995, especially in Florida. Approximately 65% of Radian's primary risk in force and almost all of Radian's pool risk in force at December 31, 1999 had not yet reached its anticipated highest claim frequency years. Due to the high cancellation rates and strong new insurance volume in 1998 and the first half of 1999, this percentage of risk in force was significantly higher than normal levels. Radian's overall default rate at December 31, 1999 was 1.5% as compared to 1.6% at December 31, 1998, while the default rate on the primary business was 2.2% at December 31, 1999 as compared to 2.1% at December 31, 1998. The decrease in Radian's overall default rate was a result of the continued strong economy and the relatively lower interest rates that have been experienced over the past few years. The number of defaults rose from 18,775 at December 31, 1998 to 22,151 at December 31, 1999 and the average loss reserve per default rose from $13,056 at the end of 1998 to $15,071 at December 31, 1999. The increase in average loss reserve per default reflected the Company's continued implementation of a more conservative reserve calculation for certain loans in default perceived as having a higher risk of claim incidence. In addition, an increase in the average loan balance and the coverage percentage on loans originated beginning in 1995 have necessitated a higher reserve balance on loans in a default status due to the increased ultimate exposure on these loans. The default rate in California was 1.8% (including pool) at December 31, 1999 as compared to 2.4% at December 31, 1998 and claims paid in California during 1999 were $24.4 million, representing approximately 26.8% of total claims as compared to 45.1% in 1998. California represented approximately 17.2% of primary risk in force at December 31, 1999 as compared to 18.6% at December 31, 1998. The default rate in Florida was 3.1% (including pool) at December 31, 1999 as compared to 3.3% at December 31, 1998 and claims paid in Florida during 1999 were $12.2 million, representing approximately 13.4% of total claims as compared to only 11.2% in 1998. Florida represented 7.4% of primary risk in force at December 31, 1999 and 1998. In addition, Radian reported an increased number of defaults on the non-prime business insured beginning in 1997 through 1999. Direct losses paid in 1999 were $88.2 million as compared to direct losses paid during 1998 of $105.5 million, a decrease of 16.5%.

Underwriting and other operating expenses were $121.4 million for 1999, an increase of 2.7% compared to $118.2 million for 1998. These expenses consisted of policy acquisition and other operating expenses.

Policy acquisition costs were $58.8 million in 1999, an increase of 0.5% compared to $58.5 million in 1998. This slight increase reflected the growth in variable sales- and underwriting-related expenses relating to Radian's continued strong levels of new insurance written, offset by the synergies realized in the second half of the year as a result of the merger. The Company continued development of its marketing infrastructure needed to support a focus on larger, national mortgage lenders in order to take advantage of the widespread consolidation and centralized decision making occurring in the mortgage lending industry. Other operating expenses for 1999 were $62.7 million, an increase of 4.9% compared to $59.7 million for 1998. Most of the increase was a result of an increase in expenses associated with the Company's administrative and support functions. Contract underwriting expenses for 1999 included in other operating expenses were $32.4 million as compared to $34.4 million for 1998, a decrease of 5.9%. This $2.0 million decrease in contract underwriting expenses during 1999 reflected the decreasing demand for contract underwriting services as mortgage origination volume declined. The additional costs related to running duplicate systems and other administrative operations during the integration process resulted in an increase in other operating expenses unrelated to contract underwriting of $8.0 million. During 1999, loans underwritten via contract underwriting accounted for 22.2% of applications, 18.8% of insurance commitments, and 15.6% of certificates issued by Radian as compared to 21.2% of applications, 17.9% of commitments, and 15.6% of certificates in 1998. In addition to the increase in contract underwriting volume, changing market conditions caused the cost of contract underwriting to increase during 1997 and 1998 due to the high demand for available resources. In addition, as the level of refinancing decreased, the demand for available resources also decreased, resulting in a decline in contract underwriting costs.

During 1999, the Company incurred merger-related expenses of $37.8 million as compared to $1.1 million for 1998. Total merger-related

expenses were $38.9 million and consisted of the following types of expenses:

- Professional services of $11.8 million;
- Compensation arrangements of $8.5 million;
- Write-offs of fixed and intangible assets of $15.8 million; and
- Miscellaneous merger-related costs of $2.8 million.

The Company incurred no additional merger-related expenses in 2000.

The effective tax rate for 1999, excluding merger costs, net of tax, of $34.4 million, was 29.0% as compared to 28.3% for 1998. Eliminating the merger expenses of $37.8 million and $1.1 million for 1999 and 1998, respectively, operating income accounted for 73.2% of net income in 1999 as compared to 68.3% for the same period in 1998, thus resulting in the increase in effective tax rates for 1999.

Liquidity and Capital Resources

The Company's sources of funds consist primarily of premiums and investment income. Funds are applied primarily to the payment of Radian's claims and operating expenses. The Company generated positive cash flows from operating activities in 2000, 1999, and 1998 of $280.0 million, $261.7 million, and $191.8 million, respectively. The significant increases in operating cash flows reflect the growth in premiums written and insurance in force combined with a reduction in claims paid and other expenses. Positive cash flows are invested pending future payments of claims and other expenses; cash flow shortfalls, if any, are funded primarily through sales of short-term investments and other investment portfolio securities.

Total investments were $1.8 billion at December 31, 2000, including $95.8 million of short-term investments with maturities of 90 days or less and $102.3 million of U.S. Treasury equivalents and government agency securities. At December 31, 2000, approximately 94.8% of the Company's investments consisted of money market and investment-grade, readily marketable, fixed-income securities, concentrated in maturities of greater than five years. In addition, at December 31, 2000, the Company's investment portfolio included $64.2 million of equity securities, which includes convertible debt and convertible preferred stock.

Loss reserves increased from $335.6 million at December 31, 1999 to $390.0 million at December 31, 2000. This increase in loss reserves due to newly reported defaults and increases to loss reserves on existing defaults was a result of the continued growth of the in force insurance book and the increase in defaults on the non-prime book of business. In addition, an increase in the average loan balance and the coverage percentage on loans originated beginning in 1995 have necessitated a higher reserve balance on loans in a default status due to the increased ultimate exposure on these loans. Radian has experienced abnormally high early defaults on the 1994 and 1995 origination year books of business, which reflected the increase in "affordable housing" program loans insured in the period. Radian also experienced an increase in defaults under the non-prime programs insured starting in late 1997, which is a typical pattern for such business. Unearned premiums increased from $54.9 million at December 31, 1999 to $77.2 million at December 31, 2000 due to an increase in the popularity of annual and single premium products relating to pool insurance which generate significant unearned premium as compared to monthly premium product which is earned as it is received.

Stockholders' equity plus redeemable preferred stock increased to $1.4 billion at December 31, 2000, an increase of 27.8% from $1.1 billion at December 31, 1999. This increase resulted primarily from net income for 2000 of $248.9 million, an increase in the market value of securities available for sale of $41.5 million, net of tax, and proceeds from the issuance of common stock of $24.7 million, partially offset by dividends of $7.8 million and the purchase of treasury stock of $2.2 million.

As protection against a period of adverse loss development, Radian Guaranty has entered into a variable quota share reinsurance treaty for the primary books of business originated by Radian Guaranty in 1994, 1995, 1996, and 1997 as well as some portion of the pool book of business originated in 1997 by Radian Guaranty. As per the terms of the reinsurance treaties, Radian Guaranty receives variable quota share loss relief at levels ranging from 7.5% to 15.0% based upon the loss ratio on the covered book of business. A ceding commission is paid by the reinsurer to Radian Guaranty except for certain circumstances where the loss ratio on the covered book exceeds a stated level. These treaties remain in force for a period of ten years and are noncancelable by either party until after ten years have elapsed except under certain circumstances. Premiums are payable to the reinsurer on a quarterly basis net of ceding commissions due to Radian Guaranty and any losses calculated under the variable quota share coverage are recovered on a quarterly basis. At the end of the fourth, seventh, and tenth years of each treaty, depending on the extent of losses recovered to date on the calendar year quota share portion of the treaty, a calculation is made to determine an amount of Underwriting Year Excess Coverage, if any, due to Radian Guaranty. In addition, there is one other catastrophic excess loss treaty that covers Radian Guaranty's entire book of business in periods of catastrophic loss.

As of December 31, 2000, the Company and its subsidiaries had plans to implement a new general ledger system at a cost of approximately $2.0 million.

The Company believes that Radian will have sufficient funds to satisfy its claim payments and operating expenses and to pay dividends to the Company for at least the next 12 months. The Company also believes that it will be able to satisfy its long-term (more than 12 months) needs with cash flow from Radian. As a holding company, the Company conducts its principal operations through Radian. The Company's ability to pay dividends on the $4.125 Preferred Stock is dependent upon Radian's ability to pay dividends or make other distributions to the Company. Based on the Company's current intention to pay quarterly common stock dividends of approximately $0.03 per share, the Company will require distributions from Radian of $7.9 million annually to pay the dividends on the outstanding shares of $4.125 Preferred Stock and common stock. There are regulatory and contractual limitations on the payment of dividends or other distributions (See note 7 to the Consolidated Financial Statements.) The Company does not believe that these restrictions will prevent the payment by Radian or the Company of these anticipated dividends or distributions in the foreseeable future.

Quantitative and Qualitative Disclosures about Market Risk

The Company manages its investment portfolio to achieve safety and liquidity, while seeking to maximize total return. The Company believes it can achieve these objectives by active portfolio management and intensive monitoring of investments. Market risk represents the potential for loss due to adverse changes in the fair value of financial instruments. The market risk related to financial instruments of the Company primarily relates to the investment portfolio, which exposes the Company to risks related to interest rates, default prepayments, and declines in equity prices. Interest rate risk is the price sensitivity of a fixed income security to changes in interest rates. The Company views these potential changes in price within the overall context of asset and liability management. The Company's analysts estimate the payout pattern of the mortgage insurance loss reserves to determine their duration, which is the weighted average payments expressed in years. The Company sets duration targets for fixed income investment portfolios that the Company believes mitigates the overall effect of interest rate risk. As of December 31, 2000, the average duration of the fixed income portfolio was 6.3 years. Based upon assumptions the Company uses in its duration calculations, increases in interest rates of 100 and 150 basis points would cause decreases in the market value of the fixed maturity portfolio (excluding short-term investments) of approximately 5.1% and 7.5%, respectively. Similarly, a decrease in interest rates of 100 and 150 basis points would cause increases in the market value of the fixed maturity portfolio of approximately 5.2% and 7.8%, respectively.

The Company had no foreign investments or non-investment grade fixed income securities in its investment portfolio at December 31, 2000.

At December 31, 2000, the market value and cost of the Company's equity securities were $64.2 million and $58.9 million. The Company is exposed to equity price risk as a result of its investment in equity securities. However, this risk is minimal due to the relatively minor component of the overall portfolio consisting of equity securities.

directors AND officers

DIRECTORS

Frank P. Filipps
Chairman and Chief Executive Officer

Roy J. Kasmar
President and Chief Operating Officer

Herbert Wender
Former Vice Chairman
LandAmerica Financial Group, Inc.

David C. Carney
Chairman
ImageMax, Inc.

Howard B. Culang
President
Laurel Corporation

Claire M. Fagin, Ph.D., R.N.
Independent Consultant

Rosemarie B. Greco
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GRECOventures

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Hopkins and Company LLC

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Morgan, Lewis & Bockius LLP

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Secretary and General Counsel

Andrew R. Luczakowsky
Senior Vice President
Chief Technology Officer

stockholders' INFORMATION

ANNUAL MEETING

The annual meeting of stockholders of Radian Group Inc. will be held on Tuesday, May 1, 2001, at 9:00 a.m. at 1601 Market Street, 11th floor, Philadelphia, Pennsylvania.

10-K REPORT

Copies of the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission will be available without charge after March 31, 2001, to stockholders upon written request to:

Secretary
Radian Group Inc.
1601 Market Street
Philadelphia, PA 19103

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212 815.2286

CORPORATE HEADQUARTERS

1601 Market Street
Philadelphia, PA 19103
215 564.6600

COMMON STOCK

Radian Group Inc. common stock is listed on The New York Stock Exchange under the symbol RDN. At December 31, 2000, there were 37,907,777 shares outstanding and approximately 8,000 holders of record. The following table sets forth the high and low sales prices of the Company's common stock on The New York Stock Exchange Composite Tape:

	1999		2000	
	High	Low	High	Low
1st Quarter	51	35	48 1/2	34 9/16
2nd Quarter	51 5/16	33 5/16	59 1/8	45 5/16
3rd Quarter	55 9/16	42	71 9/16	51 3/4
4th Quarter	55 3/16	41 1/4	76 5/8	60 7/16

Cash dividends for each share of the Company's common stock were $0.03 for each quarter of 1999 and 2000.

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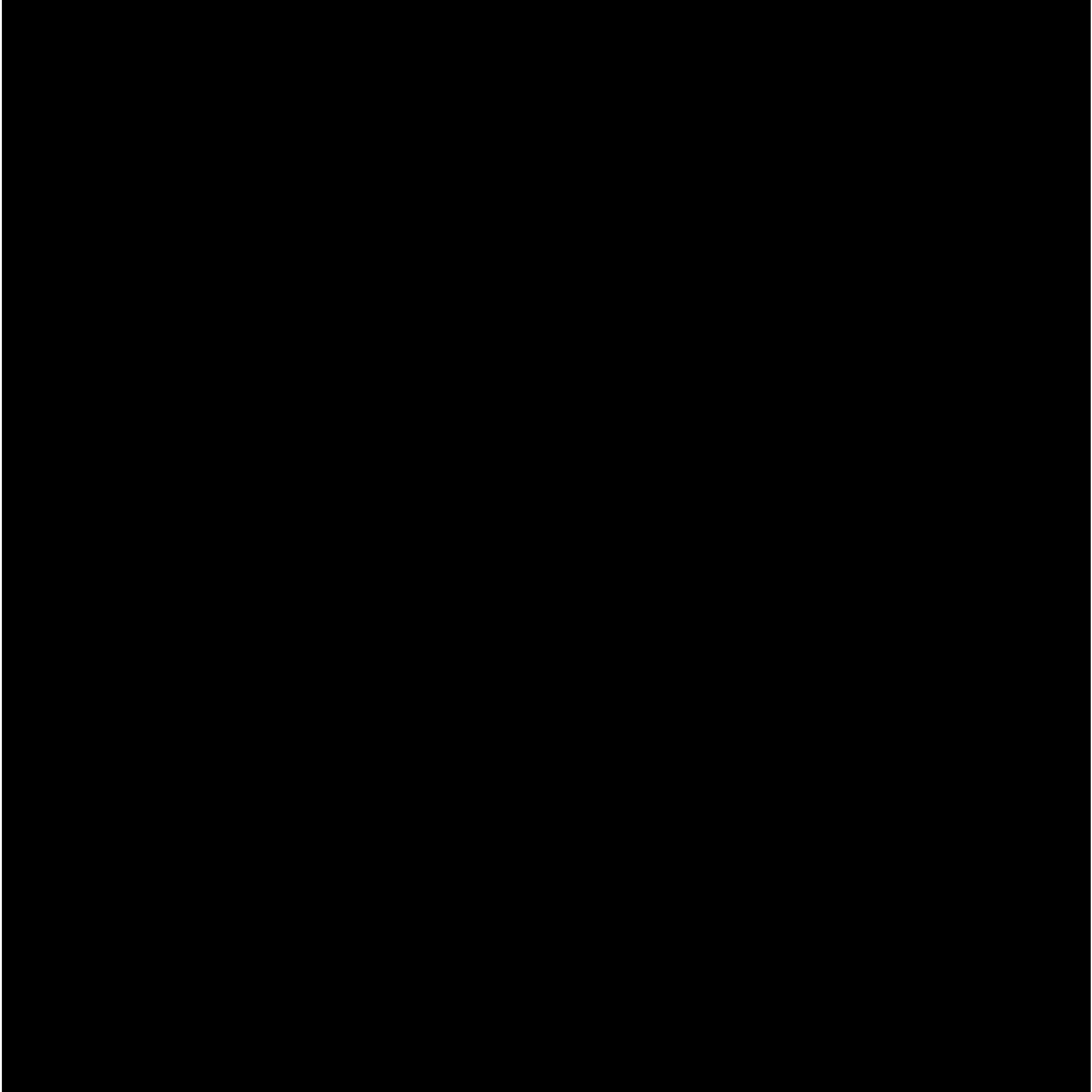

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