1999

Annual Report

Radian Group Inc.

RADIAN

RADIAN

RADIAN IS THE NATION'S NEWEST AND SECOND-LARGEST MORTGAGE INSURER. THE COMPANY'S GUIDING PRINCIPLE IS TO PROVIDE THE MOST CREATIVE HOMEOWNERSHIP SOLUTIONS IN THE INDUSTRY: PRODUCTS THAT SAVE BORROWERS MONEY AND INCREASE LENDER PROFITABILITY. OUR SAVVY RISK-MANAGEMENT TECHNIQUES, TECHNOLOGY AND UNIQUE STRUCTURED PRODUCTS HELPED ESTABLISH RADIAN AS AN INDUSTRY LEADER IN 1999. HEADQUARTERED IN PHILADELPHIA, RADIAN GROUP INC. IS THE PARENT COMPANY OF RADIAN GUARANTY INC. RADIAN GUARANTY IS RATED AA BY STANDARD & POOR'S CORPORATION, AA BY DUFF & PHELPS CREDIT RATING AGENCY, AND Aa3 BY MOODY'S.

Financial Highlights

As of December 31, 1999

Assets	$ 1.8 billion
Capital	$ 1.1 billion
Market Capitalization	$ 1.8 billion

	1999	1998	INCREASE
Underwriting Income	$ 122.5	$ 89.2	37.3%
Operating Net Income	$ 180.8	$ 143.0	26.5%
Operating Cash Flow	$ 248.0	$ 190.1	30.5%
Premiums Earned	$ 472.6	$ 405.3	16.6%

dollars in millions

FRANK P. FILIPPS
CHAIRMAN AND
CHIEF EXECUTIVE OFFICER

To Our Stockholders

ON JUNE 9, 1999, WE CREATED RADIAN TO BE A UNIQUE CREDIT–ENHANCEMENT COMPANY FOCUSED ON DEVELOPING AND DELIVERING BUSINESS SOLUTIONS FOR MORTGAGE LENDERS: COST-EFFECTIVE SOLUTIONS THAT BROADEN THE RANGE OF MORTGAGE PRODUCTS FOR CONSUMERS AND MAKE LENDING MORE PROFITABLE. ! I'M PLEASED TO REPORT THAT OUR FIRST YEAR HAS BEEN AN OUTSTANDING SUCCESS. WE COMPLETED THE INTEGRATION OF CMAC AND AMERIN, CONTINUED OUR GROWTH, AND POSTED RECORD EARNINGS. IN 1999, RADIAN DELIVERED ON ITS PROMISE – TO BUILD AN INDUSTRY LEADER THAT WILL SHAPE THE FUTURE OF MORTGAGE INSURANCE.

At Radian, we're looking ahead. But to determine what the future holds, it's worthwhile to reflect on the past. The companies that combined to form Radian distinguished themselves as forward-thinkers and product-innovators that dared to challenge the status quo. While Radian is a much larger company, we've been careful to preserve the drive and energy we had as two smaller businesses. ! The reaction to Radian from our clients has been enthusiastic. More and more lenders are seeking strategic partnerships with mortgage insurers to help create new products, cut costs to borrowers, and increase efficiency. To this end, we've focused our product development efforts on expanding our Alt A, A-minus, captive reinsurance, lender-paid, and risk-based offerings. We've also managed our contract underwriting services to increase efficiency for us and our lending clients. ! All of these efforts combined to produce excellent financial results in 1999. We wrote $33.3 billion in new insurance, increasing our primary insurance in force by 16% to $94.7 billion. Our performance benefited from a healthy economic environment, stable delinquency levels, low losses, and improving persistency. Radian's primary delinquency rate at year-end was 2.20%, only slightly above the level at the end of 1998, while direct claims paid totaled $88.2 million, a decrease of 16% from the previous year. Total loss reserves increased by 37% to $336 million in 1999, while loss reserves per default increased by 15%. With interest rates rising throughout 1999, our persistency increased steadily from 66.6% in 1998 to 75.0% at year-end. ! The combination of these factors produced record net income of $148.1 million, compared to $142.2 million in 1998. Excluding the costs of the merger, operating income increased 26% to $180.8 million, and operating earnings per share by 27% to $4.69. This extended our record growth in earnings to a rate of 33% over the past five years. ! The key to Radian's success, now and in the future, is

THE REACTION TO RADIAN FROM OUR CLIENTS HAS BEEN ENTHUSIASTIC. MORE AND MORE LENDERS ARE SEEKING STRATEGIC PARTNERSHIPS WITH MORTGAGE INSURERS TO HELP CREATE NEW PRODUCTS, CUT COSTS TO BORROWERS, AND INCREASE EFFICIENCY.

CMAC & AMERIN

WE COMPLETED THE INTEGRATION OF CMAC AND AMERIN, CONTINUED OUR GROWTH, AND POSTED RECORD EARNINGS. IN 1999, RADIAN DELIVERED ON ITS PROMISE – TO BUILD AN INDUSTRY LEADER THAT WILL SHAPE THE FUTURE OF MORTGAGE INSURANCE.

our clients and their clients – the homeowners of America who borrowed more than $1.3 trillion in mortgage loans in 1999. Our strategies center on client-driven solutions that leverage technology and promote profit-generating, cost-saving products. Nearly 40% of our new business volume in 1999 was generated via EDI, significantly reducing transaction costs for Radian and our lenders. Equally important is our focus on the consumer, the end-user of mortgage insurance. Today's borrower is well informed, technologically savvy, and in search of the best home financing deal in the marketplace. Through our own development efforts, and partnerships with Fannie Mae and Freddie Mac, Radian is committed to delivering products and services that make getting a mortgage easier and more affordable. We've been a leader in marketing risk-based pricing that rewards lower-risk borrowers with lower-cost mortgage insurance, as well as affordable housing initiatives and alternative products for those whose risk profiles are outside the industry norm, but well within ours. Expect more of the same from Radian. We're creating new and better products that will help lenders and borrowers, provide us with real competitive advantages and, ultimately, drive demand for mortgage insurance. The promise to our clients is perhaps best summarized by our advertising message: "What you'll need next, and everything you need now." In 1997, we set aggressive five-year goals by which to measure our success: 15% compound annual earnings growth and 15% return on equity. We believe Radian has the energy and resources to achieve these and deliver on our commitment to investors, clients, and employees. On behalf of everyone at Radian, thank you for your confidence and support.

WE'VE SET AGGRESSIVE GOALS BY WHICH TO MEASURE OUR SUCCESS: 15% ANNUAL EARNINGS GROWTH AND 15% RETURN ON EQUITY OVER THE NEXT FIVE YEARS. WE BELIEVE RADIAN HAS THE ENERGY AND RESOURCES TO ACHIEVE THESE AND DELIVER ON OUR COMMITMENT TO INVESTORS, CLIENTS, AND EMPLOYEES. THANK YOU FOR YOUR CONFIDENCE AND SUPPORT.

You ask...

ROY J. KASMAR
PRESIDENT AND
CHIEF OPERATING OFFICER

we listen.

“OUR INDUSTRY IS CONSTANTLY CHANGING. MARKET CONDITIONS, CONSUMER NEED, TECHNOLOGY, AND EFFICIENCY ARE DRIVING THIS EVOLUTION; OUR STRATEGY AT RADIAN IS TO LEAD, NOT FOLLOW, THE CHANGE.

MARKET STRATEGY

WHAT WILL DRIVE RADIAN'S MARKET STRATEGY IN 2000?

WE'RE DOING THIS BY FOCUSING OUR SALES AND SERVICE EFFORTS ON TWO DISTINCT MARKET SEGMENTS. ONE TEAM TARGETS THOSE LENDING PARTNERS SEEKING TO CENTRALLY CONTROL THE MORTGAGE INSURANCE DECISION. THESE CLIENTS DEMAND AGGRESSIVE STRUCTURED PRODUCTS AND PROFIT-GENERATING SOLUTIONS. THE TEAM'S GOAL IS TO BUILD AND MAINTAIN THESE LONG-TERM PARTNERSHIPS AND MAXIMIZE THEIR ULTIMATE PROFITABILITY. ” THE OTHER BUSINESS TEAM IS DEDICATED TO SERVING OUR SMALLER, REGIONAL ACCOUNTS. DAY-TO-DAY CONTACT AND FIELD SALES SUPPORT ARE ESSENTIAL; THEIR GOAL IS TO ENHANCE THESE RELATIONSHIPS WITH QUALITY CUSTOMER SERVICE AND NEW IDEAS FOR PROFITABILITY. ” OUR MARKET STRATEGY IN 2000 IS DEFINED BY THE CHANGING MORTGAGE ENVIRONMENT. AT RADIAN, WE'RE LEADING THE CHANGE BY MATCHING FIELD SUPPORT WITH CLIENT NEED, ANTICIPATING CONSUMER TRENDS, AND EMBRACING NEW TECHNOLOGIES TO BEST SERVE OUR LENDING PARTNERS – NOW AND IN THE FUTURE.”

Our industry is constantly changing. At Radian, we're leading the change by matching field support with client need, anticipating consumer trends, and embracing new technologies to best serve our lending partners – now and in the future.

THE MORTGAGE INDUSTRY IS UNDERGOING A FUNDAMENTAL TRANSFORMATION, WHICH RADIAN WAS THE FIRST TO ADDRESS. WE BRING TOGETHER THE STRUCTURED FINANCE EXPERTISE OUR CLIENTS REQUIRE AND THE FULL ARRAY OF TECHNOLOGY, SERVICES, AND INFRASTRUCTURE NEEDED TO SERVE ALL LENDERS.

Asking Questions

SOPHISTICATED RISK MANAGEMENT, CUTTING-EDGE PRODUCTS, AND PRUDENT EXPENSE CONTROL REQUIRE STRATEGIC VISION. THE CHALLENGE OF RADIAN'S MANAGEMENT TEAM IS TO CONTINUALLY DEMONSTRATE THAT WE CAN MAKE A DIFFERENCE IN OUR CLIENTS' BUSINESS PERFORMANCE: BY ASKING QUESTIONS AND GETTING ANSWERS.

C. ROBERT QUINT
EXECUTIVE VICE PRESIDENT
AND CHIEF FINANCIAL OFFICER

Getting Answers

HOW WILL RADIAN CONTINUE TO GROW MARKET SHARE WHILE CONTROLLING COSTS?

"AS IT DID IN 1999, COST CONTROL WILL HELP GUIDE OUR BUSINESS DECISIONS IN 2000. OUR CONTINUED ABILITY TO CONTAIN COSTS WHILE EXPANDING OUR BUSINESS SPEAKS TO OUR COMPANY'S STRONG HERITAGE. ONE EXAMPLE: THE EXPENSE SAVINGS REALIZED AS A RESULT OF OUR MERGER. WE PROMISED $15 MILLION, BUT DELIVERED SAVINGS WELL BEYOND THAT GOAL. ? OUR PRUDENT MANAGEMENT OF EXPENSES HELPS US TO MAINTAIN OUR COMPETITIVE EDGE AS A LOW-COST PROVIDER. FOR EXAMPLE, IN 1999, THE RATIO OF RADIAN'S TOTAL OPERATING EXPENSES TO PRIMARY NEW INSURANCE WRITTEN WAS LOWER THAN ANY OF OUR COMPETITORS. ? RADIAN IS COMMITTED TO GROWING OUR BUSINESS WHILE MAINTAINING OUR CAREFUL EXPENSE-MANAGEMENT PRACTICES. OUR GROWTH IN 2000 WILL BE BUILT UPON THE STRONG POSITION WE ESTABLISHED IN 1999."

OUR PRUDENT MANAGEMENT OF EXPENSES HELPS US TO MAINTAIN OUR COMPETITIVE EDGE AS A LOW-COST PROVIDER. FOR EXAMPLE, IN 1999, THE RATIO OF RADIAN'S TOTAL OPERATING EXPENSES TO PRIMARY NEW INSURANCE WRITTEN WAS LOWER THAN ANY OF OUR COMPETITORS.

LOW-COST PROVIDER

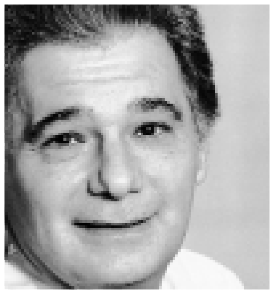
1999 Operating Expenses/NIW (basis points)

TECHNOLOGY

HOW DOES RADIAN USE TECHNOLOGY AND THE INTERNET?

"AS HEAD OF INFORMATION SERVICES AT RADIAN, I WOULD ANSWER BY LEADING WITH ANOTHER QUESTION: 'WHAT PROCESS OR PROGRAM DOESN'T UTILIZE TECHNOLOGY?'

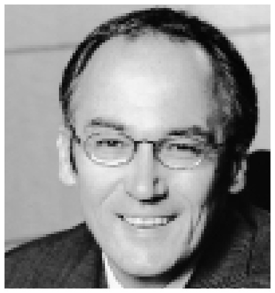
OUR SALES AND SERVICE TEAMS, WHICH SERVE CLIENTS IN EVERY STATE, USE TECHNOLOGY TO COMMUNICATE, GENERATE REPORTS, AND PRESENT NEW IDEAS TO CLIENTS. MANY OF OUR LENDING PARTNERS USE TECHNOLOGY TO SEND APPLICATIONS FOR MORTGAGE INSURANCE AND TO SERVICE EXISTING LOANS – PROCESSES THAT ONCE REQUIRED A FAX, PHONE CALL, OR LETTER CAN NOW BE SENT VIA MODEM OR INTERNET IN ONE SIMPLE TRANSACTION. IN FACT, MORE THAN 250 OF OUR CLIENTS USED EDI TO DELIVER NEARLY 40% OF OUR BUSINESS IN 1999."



ANDREW R. LUCZAKOWSKY
SENIOR VICE PRESIDENT,
INFORMATION SERVICES

"TECHNOLOGY AND, MORE SPECIFICALLY, THE INTERNET HAVE REVOLUTIONIZED OUR BUSINESS, HELPING RADIAN TO PROVIDE EFFICIENCY, SPEED, AND IMMEDIATE SERVICE.

FOR EXAMPLE, IN 1997, RADIAN WAS THE FIRST COMPANY TO PROVIDE A VEHICLE FOR SUBMITTING MORTGAGE INSURANCE APPLICATIONS OVER THE INTERNET. TODAY, THAT SYSTEM SERVES MORE THAN 6,000 USERS. RATHER THAN FAXING PAPER APPLICATIONS TO OUR SERVICE TEAMS OR PLACING PHONE CALLS TO DETERMINE THE APPLICATION STATUS, OUR CLIENTS CAN ACCESS THE SYSTEM AT ANY TIME OF THE DAY OR NIGHT – ONLINE AND IN REAL TIME."



ALBERT V. WILL
EXECUTIVE VICE PRESIDENT,
SALES AND OPERATIONS

WHAT'S UNIQUE ABOUT RADIAN'S APPROACH TO NEW PRODUCTS?

Product

INNOVATION

PAUL F. FISCHER
SENIOR VICE PRESIDENT,
RISK MANAGEMENT

"Our product focus will rely largely on our sophisticated risk-management techniques. Our ability to analyze and price products according to risk, using our own Prophet Score[SM] technology, continues to offer a unique competitive advantage. Since introducing the concept to the market, Radian has led the industry in risk evaluation and risk-specific pricing. We will build on this trend in 2000 with our new product offerings."

S. TREZEVANT MOORE JR.
SENIOR VICE PRESIDENT,
PRODUCT DEVELOPMENT AND
STRUCTURED TRANSACTIONS

"While product development will continue to focus on client need, our new ideas and creative applications for mortgage insurance will become increasingly consumer-driven. The reason is obvious: Our clients are concerned with the needs of their clients – the homebuyers. In order to create the products and services that best fit the needs of our lending partners, we need to address the growing role of the consumer in the mortgage-lending process. In 2000, our clients will enjoy a new line of consumer-friendly products, and a new way to look at mortgage insurance."

Performance

Financial Contents

SELECTED FINANCIAL AND STATISTICAL DATA (1)

(in millions, except per-share amounts and ratios)	1999	1998	1997	1996	1995
CONSOLIDATED STATEMENT OF INCOME					
Premiums earned	$ 472.6	$ 405.3	$ 330.0	$ 250.3	$ 164.7
Net investment income	67.3	59.9	52.4	46.9	33.6
Total revenues	552.8	483.6	390.0	302.0	201.3
Provision for losses	174.1	166.4	147.4	112.6	65.6
Policy acquisition costs and other operating expenses	121.4	118.2	83.4	67.2	53.2
Compensation charge from initial public offering	–	–	–	–	35.7
Merger expenses	37.8	1.1	–	–	–
Pretax income	219.5	197.9	159.2	122.2	46.8
Net income	148.1	142.2	115.7	90.5	28.0
Net income per share (2) (3)	$ 3.83	$ 3.67	$ 2.99	$ 2.35	$ 0.67
Average shares outstanding (2) (3)	37.9	37.8	37.5	37.2	29.2
CONSOLIDATED BALANCE SHEET					
Assets	$1,776.7	$1,513.4	$1,222.7	$1,015.0	$ 856.7
Investments	1,388.7	1,175.5	974.7	842.0	734.5
Unearned premiums	54.9	75.5	72.7	73.9	68.8
Reserve for losses	335.6	245.1	179.9	126.9	74.4
Redeemable preferred stock	40.0	40.0	40.0	40.0	40.0
Common stockholders' equity	1,057.3	932.2	780.1	657.0	572.8
Book value per share (3)	$ 28.34	$ 25.30	$ 21.38	$ 18.10	$ 15.86
STATUTORY RATIOS					
Loss ratio	37.6%	42.0%	46.1%	46.7%	41.8%
Expense ratio (4)	24.2	24.6	22.5	24.5	31.5
Combined ratio	61.8%	66.6%	68.6%	71.2%	73.3%
OTHER STATUTORY DATA					
New primary insurance written	$ 33,256	$ 37,067	$ 21,481	$ 20,018	$16,531
Direct primary insurance in force	94,671	81,910	67,294	54,215	40,624
Direct primary risk in force	21,645	18,627	15,158	12,023	8,661
Direct pool risk in force	1,398	993	601	342	223

(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 23 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 24 herein.
(3) All share and per-share data for prior periods have been restated to reflect the stock split in 1996.
(4) 1999 expense ratio calculated net of merger expenses of $21.8 million recognized by statutory companies.

CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per-share amounts)	December 31 1999	1998
ASSETS		
Investments		
Fixed maturities held to maturity—at amortized cost (fair value $475,257 and $512,368)	$ 468,549	$ 477,518
Fixed maturities available for sale—at fair value (amortized cost $839,845 and $621,581)	804,776	646,148
Equity securities—at fair value (cost $47,719 and $25,109)	58,378	27,425
Short-term investments	56,974	24,361
Cash	7,507	9,377
Deferred policy acquisition costs	61,680	48,983
Prepaid federal income taxes	204,701	152,864
Provisional losses recoverable	40,065	32,718
Other assets	74,082	94,011
	$1,776,712	$1,513,405
LIABILITIES AND STOCKHOLDERS' EQUITY		
Unearned premiums	$ 54,925	$ 75,538
Reserve for losses	335,584	245,125
Deferred federal income taxes	206,168	166,276
Accounts payable and accrued expenses	82,779	54,267
	679,456	541,206
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; 37,307,504 and 36,842,550 shares, respectively, issued and outstanding	37	37
Additional paid-in capital	524,408	507,282
Retained earnings	548,684	407,406
Accumulated other comprehensive (loss) income	(15,873)	17,474
	1,057,256	932,199
	$1,776,712	$1,513,405

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except per-share amounts)	Year Ended December 31 1999	1998	1997
REVENUES			
Net premiums written	$451,817	$406,467	$327,766
Decrease (increase) in unearned premiums	20,818	(1,215)	2,273
Premiums earned	472,635	405,252	330,039
Net investment income	67,259	59,862	52,394
Gain on sales of investments, net	1,568	3,156	1,973
Other income	11,349	15,317	5,575
	552,811	483,587	389,981
EXPENSES			
Provision for losses	174,143	166,377	147,421
Policy acquisition costs	58,777	58,479	41,807
Other operating expenses	62,659	59,720	41,592
Merger expenses	37,766	1,098	–
	333,345	285,674	230,820
Pretax income	219,466	197,913	159,161
Provision for income taxes	(71,328)	(55,676)	(43,435)
Net income	148,138	142,237	115,726
Dividends to preferred stockholder	3,300	3,300	3,300
Net income available to common stockholders	$144,838	$138,937	$112,426
Basic net income per share	$ 3.92	$ 3.78	$ 3.09
Diluted net income per share	$ 3.83	$ 3.67	$ 2.99

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN COMMON STOCKHOLDERS' EQUITY

(in thousands)	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
BALANCE, JANUARY 1, 1997	$36	$492,541	$161,458	$ 2,918	$ 656,953
Comprehensive income:					
Net income	–		115,726		115,726
Unrealized holding gains arising during period, net of tax of $5,658	–			10,508	
Less: Reclassification adjustment for net gains included in net income, net of tax of $693	–			(1,288)	
Net unrealized gain on investments, net of tax of $4,965	–	–		9,220	9,220
Comprehensive income					124,946
Issuance of common stock	–	4,195		–	4,195
Dividends	–	–	(5,996)	–	(5,996)
BALANCE, DECEMBER 31, 1997	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

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)	1999	1998	1997
	Year Ended December 31		
Cash flows from operating activities			
Net income	$ 148,138	$ 142,237	$ 115,726
Adjustments to reconcile net income to net cash provided by operating activities			
Gain on sales of fixed maturity investments, net	(1,478)	(3,182)	(1,973)
(Gain) loss on sales of equity securities available for sale, net	(90)	26	–
(Decrease) increase in unearned premiums	(20,613)	2,854	(1,225)
Amortization of deferred policy acquisition costs	58,777	58,479	41,807
Increase in deferred policy acquisition costs	(71,474)	(74,661)	(45,139)
Increase in reserve for losses	90,459	65,217	52,972
Increase in deferred federal income taxes	57,849	49,814	37,023
Increase in prepaid federal income taxes	(51,837)	(45,993)	(35,307)
Increase in provisional losses recoverable	(7,347)	(1,393)	(13,126)
Net change in other assets, accounts payable and accrued expenses	45,589	(3,340)	(2,646)
Net cash provided by operating activities	247,973	190,058	148,112
Cash flows from investing activities			
Proceeds from sales of fixed maturity investments available for sale	131,170	234,259	71,426
Proceeds from sales of fixed maturity investments held to maturity	10	1,031	–
Proceeds from sales of equity securities available for sale	339	698	–
Proceeds from redemptions of fixed maturity investments available for sale	24,769	23,973	13,076
Proceeds from redemptions of fixed maturity investments held to maturity	19,981	13,843	4,945
Proceeds from redemptions of equity securities available for sale	2,737	125	–
Purchases of fixed maturity investments available for sale	(380,683)	(421,754)	(128,344)
Purchases of fixed maturity investments held to maturity	–	–	(98,875)
Purchases of equity securities available for sale	(25,595)	(25,958)	–
(Purchases) sales of short-term investments, net	(32,560)	(10,685)	11,487
Sales (purchases) of property and equipment, net	1,191	(6,468)	(15,204)
Other	(1,468)	(1,093)	(2,337)
Net cash used in investing activities	(260,109)	(192,029)	(143,826)
Cash flows from financing activities			
Dividends paid	(6,860)	(6,019)	(5,996)
Proceeds from issuance of common stock	17,126	10,547	4,165
Net cash provided by (used in) financing activities	10,266	4,528	(1,831)
(Decrease) increase in cash	(1,870)	2,557	2,455
Cash, beginning of year	9,377	6,820	4,365
Cash, end of year	$ 7,507	$ 9,377	$ 6,820
Supplemental disclosures of cash flow information			
Income taxes paid	$ 61,450	$ 50,700	$ 40,100
Interest paid	$ 181	$ 66	$ –

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

On November 22, 1998, the board of directors of CMAC Investment Corporation ("CMACINV") and the board of directors of Amerin Corporation each approved an Agreement and Plan of Merger pursuant to which CMACINV and Amerin have 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. (the "Company"). At the same time, the name of the Company's main operating subsidiary, Commonwealth Mortgage Assurance Company, was changed to Radian Guaranty Inc. ("Radian Guaranty"), while the main operating subsidiary of Amerin Corporation, Amerin Guaranty Corporation ("Amerin Guaranty"), retained its name. As a result of the merger, Amerin Corporation stockholders received 0.5333 shares (14,168,635 shares were issued) of CMACINV common stock in a tax-free exchange for each share of Amerin Corporation common stock that they owned. CMACINV's stockholders continued to own their existing shares after the merger. The merger transaction has been 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
For the year ended December 31, 1997:		
CMAC Investment Corporation	$277,310	$ 74,967
Amerin Corporation	112,671	40,759
Combined	$389,981	$115,726

The Company, through its wholly owned subsidiaries, Radian Guaranty and Amerin Guaranty (together referred to as "Radian"), provides private mortgage insurance and risk management services to mortgage lending institutions located throughout the United States. Consistent with the rest of the private mortgage insurance industry, Radian's highest state concentration of risk is in California. As of December 31, 1999, California accounted for 17.6% of Radian's total direct primary insurance in force and 11.7% of Radian's total direct pool insurance in force. In addition, California accounted for 16.6% of Radian's direct primary new insurance written for the year ended December 31, 1999. The largest single customer of Radian (including branches and affiliates of such customer), measured by new insurance written, accounted for 12.2% of new insurance written during 1999, compared to 18.3% in 1998 and 15.8% in 1997. Private mortgage insurance protects lenders from default-related losses on residential first mortgage loans made to home buyers who make down payments of less than 20% of the purchase price and facilitates the sale of these mortgages in the secondary market.

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

The preparation of financial statements in conformity with generally accepted accounting principles 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 generally accepted accounting principles 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 generally accepted accounting principles 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 are 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, 1999 or 1998. 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. 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.

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.

Net Income Per Share

In March 1997, the Financial Accounting Standards Board ("FASB") issued SFAS No. 128, "Earnings Per Share." SFAS 128 requires the Company 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):

	1999	1998	1997
Net income	$148,138	$142,237	$115,726
Preferred stock dividend adjustment	(3,300)	(3,300)	(3,300)
Adjusted net income	$144,838	$138,937	$112,426
Average diluted stock options outstanding	2,088.1	2,212.8	2,377.7
Average exercise price per share	$ 26.85	$ 22.93	$ 20.58
Average market price per share—diluted basis	$ 46.35	$ 54.67	$ 44.66
Average common shares outstanding	36,975	36,722	36,400
Increase in shares due to exercise of options—diluted basis	881	1,092	1,139
Adjusted shares outstanding—diluted	37,856	37,814	37,539
Net income per share—basic	$ 3.92	$ 3.78	$ 3.09
Net income per share—diluted	$ 3.83	$ 3.67	$ 2.99

Comprehensive Income

In June 1997, the FASB issued SFAS No. 130, "Reporting Comprehensive Income," which requires an entity 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. The Company adopted SFAS No. 130 in 1998.

Accounting Principles Issued and Not Yet Adopted

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. The impact of the statement will depend on the extent of derivatives and embedded derivatives at the date the statement is adopted. The Company is currently evaluating the effect this statement might have on the consolidated financial position or results of operations.

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. This statement is effective for financial statements for fiscal years beginning after June 15, 1999. The Company is currently evaluating the effect this statement might have on the consolidated financial position or results of operations.

Reclassifications

Certain items in the 1998 and 1997 consolidated financial statements have been reclassified to conform with the presentation in the 1999 consolidated financial statements.

2. INVESTMENTS

Fixed maturity and equity investments at December 31, 1999 and 1998 consisted of (in thousands):

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

December 31, 1998	Amortized Cost	Fair Value	Gross Unrealized Gains	Gross Unrealized Losses
Fixed maturities held to maturity at amortized cost:				
Bonds and notes:				
United States government	$ 12,551	$ 13,156	$ 605	$ –
State and municipal obligations	464,967	499,212	34,307	62
	$477,518	$512,368	$34,912	$ 62
Fixed maturities available for sale:				
Bonds and notes:				
United States government	$ 23,871	$ 25,002	$ 1,149	$ 18
State and municipal obligations	436,210	451,813	15,965	362
Corporate	59,770	60,840	1,586	516
Mortgage-backed securities	59,661	60,604	958	15
Redeemable preferred stock	42,069	47,889	5,836	16
	$621,581	$646,148	$25,494	$ 927
Equity securities available for sale:				
Equity securities	$ 25,109	$ 27,425	$ 3,823	$1,507

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

December 31, 1999	Amortized Cost	Fair Value
Fixed maturities held to maturity:		
2000	$ 1,103	$ 1,110
2001-2004	86,039	88,350
2005-2009	196,078	202,122
2010 and thereafter	185,329	183,675
	$468,549	$475,257
Fixed maturities available for sale:		
2000	$ 4,745	$ 4,982
2001-2004	71,901	72,029
2005-2009	168,330	167,474
2010 and thereafter	485,058	451,775
Mortgage-backed securities	69,553	66,964
Redeemable preferred stock	40,258	41,552
	$839,845	$804,776

Net investment income consisted of (in thousands):

Year Ended December 31	1999	1998	1997
Investment income:			
Fixed maturities	$66,090	$58,145	$51,472
Equity securities	636	291	–
Short-term investments	1,789	1,592	862
Other	667	449	642
	69,182	60,477	52,976
Investment expenses	(1,923)	(615)	(582)
	$67,259	$59,862	$52,394

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

Year Ended December 31	1999	1998	1997
Gains on sales and redemptions of fixed maturity investments available for sale	$ 3,213	$ 4,490	$2,052
Losses on sales and redemptions of fixed maturity investments available for sale	(1,752)	(1,328)	(72)
Gains on sales and redemptions of fixed maturity investments held to maturity	27	43	–
Losses on redemptions of fixed maturity investments held to maturity	(10)	(23)	(7)
Gains on sales of equity securities available for sale	273	37	–
Losses on sales of equity securities available for sale	(183)	(63)	–
	$ 1,568	$ 3,156	$1,973

For the year ended December 31, 1999, the Company sold a fixed maturity investment held to maturity and 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. Both 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	1999	1998	1997
Fixed maturities held to maturity	$(28,142)	$ 4,860	$13,611
Fixed maturities available for sale	$(59,636)	$ 5,894	$14,184
Deferred tax benefit (provision)	20,873	(2,063)	(4,964)
	$(38,763)	$ 3,831	$ 9,220
Equity securities available for sale	$ 8,343	$ 2,316	$ –
Deferred tax provision	(2,920)	(811)	–
	$ 5,423	$ 1,505	$ –

Securities on deposit with various state insurance commissioners amounted to $13,119,000 at December 31, 1999 and $11,229,000 at December 31, 1998.

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 policy 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 $10,500,000 and $9,236,000 at December 31, 1999 and 1998, 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		
	1999	1998	1997
Premiums written:			
Direct	$496,646	$451,572	$354,454
Assumed	93	97	143
Ceded	(44,922)	(45,202)	(26,831)
Net premiums written	$451,817	$406,467	$327,766
Premiums earned:			
Direct	$517,364	$448,668	$355,641
Assumed	87	129	181
Ceded	(44,816)	(43,545)	(25,783)
Net premiums earned	$472,635	$405,252	$330,039

The 1999, 1998, and 1997 figures included $14,423,000, $26,676,000, and $18,847,000 for premiums written and $14,781,000, $27,126,000, and $18,759,000 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 1999, 1998 and 1997 figures included $3,183,000, $3,614,000, and $1,801,000 for premiums written and $1,992,000, $2,042,000, and $1,211,000 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 $40,065,000 and $32,718,000 for 1999 and 1998, 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 noncancelable 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, 1999, 1998, and 1997, Radian Guaranty paid $14,423,000, $26,676,000, and $18,847,000, respectively, less ceding commissions of $6,098,000, $9,076,000, and $9,317,000 and recovered variable quota share losses under the treaties of $6,066,000, $4,600,000, and $4,877,000, 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 required to maintain minimum capitalization equal to 10% of the risk assumed. At December 31, 1999, approximately $283.1 million of risk was ceded under captive reinsurance arrangements. For the years ended December 31, 1999, 1998, and 1997, Radian Guaranty had ceded premiums written of $26,931,000, $14,376,000, and $5,629,000, respectively and ceded premiums earned of $27,502,000, $13,819,000, and $5,211,000, 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, 1998, and 1997, Radian Guaranty had ceded premiums written of $3,183,000, $3,614,000, and $1,801,000, respectively, and ceded premiums earned of $1,992,000, $2,042,000, and $1,211,000, respectively, under this excess of loss reinsurance program.

Amerin Guaranty also reinsures all of its direct insurance in force under a $100 million excess loss protection treaty that covers Amerin Guaranty in the event the combined ratio exceeds 100% and the risk to capital ratio exceeds 24.9 to 1. The amount ceded under the treaty is 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, $2,150,000, and $1,800,000 in 1999, 1998, and 1997, respectively.

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 is 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):

	1999	1998	1997
Balance at January 1	$245,125	$179,908	$126,936
Less reinsurance recoverables	–	–	1,033
Net balance at January 1	245,125	179,908	125,903
Add losses and LAE incurred in respect of default notices received in:			
Current year	218,139	179,674	141,384
Prior years	(43,996)	(13,297)	6,037
Total incurred	174,143	166,377	147,421
Deduct losses and LAE paid in respect of default notices received in:			
Current year	7,353	18,196	18,908
Prior years	76,331	82,964	74,508
Total paid	83,684	101,160	93,416
Balance at December 31	$335,584	$245,125	$179,908

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 $28,231,000, $11,180,000, and $6,504,000 in 1999, 1998, and 1997, respectively) decreased by $43,996,000 and $13,297,000 in 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 and increased by $6,037,000 in 1997 due primarily to higher-than-anticipated losses on certain "affordable housing" program loans insured in 1994 and 1995 and higher-than-anticipated losses in California.

5. REDEEMABLE PREFERRED STOCK

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 1999, 1998, and 1997 of $58,083,000, $35,875,000, and $26,637,000, respectively. Of the 1999, 1998, and 1997 provisions, $54,425,000, $45,247,000, and $36,316,000, 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, 1998, and 1997 purchase deductions offset by $7,053,000, $4,979,000, and $4,060,000, 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	
	1999	1998
Deferred tax assets:		
Unearned premiums	$ 2,975	$ 4,317
Loss reserves	7,946	5,384
Employee benefits	648	473
Net unrealized loss on investments	8,547	–
Other	–	1,281
	20,116	11,455
Deferred tax liabilities:		
Deferred policy acquisition costs	(21,591)	(17,147)
Net unrealized gain on investments	–	(9,409)
Depreciation	(1,278)	(1,256)
Deduction related to purchase of tax and loss bonds	(203,343)	(148,700)
Other	(72)	(1,219)
	(226,284)	(177,731)
Net deferred tax liability	$(206,168)	$(166,276)

The reconciliation of taxes computed at the statutory tax rate of 35% for 1999, 1998 and 1997 to the provision for income taxes is as follows (in thousands):

	1999	1998	1997
Provision for income taxes computed at the statutory tax rate	$ 76,944	$ 69,269	$ 55,707
Change in tax provision resulting from:			
Tax-exempt municipal bond interest and dividends received deduction (net of proration)	(15,535)	(13,897)	(12,488)
Capitalized merger costs	8,124	–	–
Other, net	1,795	304	216
Provision for income taxes	$ 71,328	$ 55,676	$ 43,435

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, $137,094,000 would be available for dividends in 2000. 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 State of California has a statute requiring mortgage insurers to pay dividends or make other distributions out of unassigned surplus. Radian Guaranty and the California Department of Insurance have reached an understanding under which Radian Guaranty will be able to pay dividends or make other distributions to the Company, 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, $16,177,000 would be available for dividends in 2000 without prior regulatory approval, which represents the positive unassigned surplus of Amerin Guaranty at December 31, 1999.

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, 1999, Radian Guaranty had statutory policyholders' surplus of $157,693,000 and a contingency reserve of $613,537,000, for a total of $771,230,000.

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, 1999 and 1998 was $157,693,000 and $149,281,000, respectively. Radian Guaranty's statutory net income for 1999, 1998, and 1997 was $137,094,000, $105,264,000, and $93,390,000, 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, 1999 and 1998 was $242,656,000 and $229,393,000, respectively. Amerin Guaranty's statutory net income for 1999, 1998, and 1997 was $70,901,000, $71,715,000, and $51,467,000, 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 proposed to be effective January 1, 2001. However, statutory accounting principles will continue to be established by individual state laws and permitted practices. The Company has not finalized the quantification of the effects of Codification on the statutory financial statements when it adopts the Codification effective January 1, 2001.

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. RELATED PARTY TRANSACTIONS

Prior to November 1992, Radian Guaranty was included in the consolidated federal tax return filed by Reliance Group Inc. ("Reliance"), its ultimate parent, and Radian Guaranty was a party to a tax-sharing agreement with Commonwealth Land Title Insurance Company ("Commonwealth"), its parent. The tax-sharing agreement was terminated upon completion of the initial public offering (the "Offering") of CMACINV in the fourth quarter of 1992; however, Radian Guaranty has reimbursed Reliance for federal income taxes attributable to Radian Guaranty's 1992 operations through the completion of the Offering as though the tax-sharing agreement were still in effect. Radian Guaranty has agreed to reimburse Reliance for federal income taxes, if any (together with any related interest or penalties), attributable to Radian Guaranty for periods during which Radian Guaranty was a member of Reliance's consolidated group. Reliance has agreed to limit the amount of such reimbursement, if any, by Radian Guaranty to $1,853,000, the amount included in the federal tax liability account on Radian Guaranty's June 30, 1992 balance sheet (plus the amount of the tax benefit, if any, obtained by the Company from making such reimbursement). In addition, the Company has agreed to reimburse Reliance for any future federal income taxes (plus post-closing date interest) resulting from Radian Guaranty's operations while a member of Reliance's consolidated group if the Company could be benefited by a related adjustment to the Company's federal income taxes in an amount calculated as if the Company were entitled to such benefit. Reliance will reimburse the Company for any future federal income taxes resulting from Radian Guaranty's operations while a member of Reliance's consolidated group, which actually decrease Reliance's consolidated federal income taxes.

9. 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 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, 1997	1,955,119	$16.19
Granted	892,539	38.61
Exercised	(160,986)	10.75
Cancelled	(75,077)	28.72
Outstanding, December 31, 1997	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
Exercisable, December 31, 1999	1,391,146	22.18
Available for grant, December 31, 1999	2,713,454	

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 $2,932,000 ($.08 per share), $3,952,000 ($.10 per share), and $4,501,000 ($.12 per share) in 1999, 1998, and 1997, respectively. The pro forma effect on net income for 1999, 1998, and 1997 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 1999, 1998, and 1997 were $20.65, $20.64, and $18.76, 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:

	1999	1998	1997
Expected life (years)	7.89	6.83	6.77
Risk-free interest rate	4.91%	5.21%	6.59%
Volatility	38.73%	39.05%	35.90%
Dividend yield	0.30%	0.33%	0.32%

The following table summarizes information concerning currently outstanding and exercisable options at December 31, 1999:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$ 9.00 – $9.94	324,495	2.96	$ 9.03	324,001	$ 9.03
$12.56 – $14.69	457,900	4.45	14.57	457,900	14.57
$22.13 – $32.50	406,485	6.50	26.30	257,646	24.75
$33.28 – $49.69	555,124	7.94	40.05	280,008	39.41
$50.39 – $55.32	212,440	8.05	53.47	71,591	53.75
	1,956,444			1,391,146	

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 5,800 and 1,900 shares to employees in 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 1999 and 1998.

10. BENEFIT PLANS

In 1997, the FASB issued SFAS No. 132, "Employer's Disclosures about Pensions and Other Postretirement Benefits." This statement, which became effective for periods beginning after December 15, 1997, modified previous disclosure requirements. This statement did not impact the Company's balance sheets, statements of income or statements of cash flows. The Company adopted SFAS No. 132 in 1998.

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	
	1999	1998	1999	1998
Change in Benefit Obligation				
Benefit obligation at beginning of year	$ 5,258	$ 4,991	$ 365	$ 306
Service cost	797	748	19	19
Interest cost	383	362	21	22
Plan participants' contributions	–	–	5	–
Actuarial (gain) loss	(555)	(823)	(84)	23
Benefits paid	(39)	(20)	(12)	(5)
Benefit obligation at end of year	$ 5,844	$ 5,258	$ 314	$ 365
Change in Plan Assets				
Fair value of plan assets at beginning of year	$ 3,714	$ 2,501	$ –	$ –
Actual return on plan assets	782	595	–	–
Employer contributions	300	638	7	5
Plan participants' contributions	–	–	5	–
Benefits paid	(39)	(20)	(12)	(5)
Fair value of plan assets at end of year	$ 4,757	$ 3,714	$ –	$ –
Underfunded status of the plan	$(1,087)	$(1,544)	$(314)	$ (365)
Unrecognized prior service cost	456	525	(139)	(150)
Unrecognized net actuarial gain	(1,248)	(221)	(194)	(119)
Accrued benefit cost	$(1,879)	$(1,240)	$(647)	$ (634)

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

	Defined Benefit Plans			Postretirement Benefit Plans		
	1999	1998	1997	1999	1998	1997
Service cost	$ 797	$ 748	$ 588	$ 19	$ 19	$ 18
Interest cost	383	362	281	21	22	19
Expected return on plan assets	(320)	(219)	(166)	–	–	–
Amortization of prior service cost	69	69	69	(11)	(11)	(11)
Recognized net actuarial loss (gain)	10	40	28	(8)	(8)	(9)
Net periodic benefit cost	$ 939	$1,000	$ 800	$ 21	$ 22	$ 17

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

	Defined Benefit Plans			Postretirement Benefit Plans		
	1999	1998	1997	1999	1998	1997
Weighted average assumptions as of December 31:						
Discount rate	7.50%	6.75%	7.25%	7.50%	6.75%	7.25%
Expected return on plan assets	8.50%	8.50%	8.50%	–	–	–
Rate of compensation increase	4.00%	4.00%	6.00%	–	–	–

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, 1999, 1998, and 1997 was $1,220,000, $918,000, and $776,000, respectively.

11. COMMITMENTS AND CONTINGENCIES

The Company is involved in certain litigation arising in the normal course of its business. The Company is contesting the allegations in each pending 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 1999, 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 $3,145,000, $3,000,000, and $2,636,000 in 1999, 1998, and 1997, respectively. The commitment for noncancelable operating leases in future years is as follows (in thousands):

2000	$2,873
2001	2,382
2002	1,960
2003	1,355
2004 and thereafter	545
	$9,115

The commitment for noncancelable operating leases in future years has not been reduced by future minimum sublease rental payments aggregating approximately $2,021,000.

12. QUARTERLY FINANCIAL DATA (Unaudited)

(in thousands, except per-share information)

	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

	1998 Quarter				
	First	Second	Third	Fourth	Year
Net premiums written	$ 89,407	$100,885	$100,928	$115,247	$406,467
Net premiums earned	94,789	99,046	102,945	108,472	405,252
Net investment income	14,392	14,796	14,984	15,690	59,862
Provision for losses	42,371	40,059	42,037	41,910	166,377
Policy acquisition and other expenses	24,835	28,911	29,615	34,838	118,199
Merger expenses	–	–	–	1,098	1,098
Net income	33,002	34,752	37,407	37,076	142,237
Net income per share (1) (2)	$ 0.85	$ 0.90	$ 0.97	$ 0.96	$ 3.67
Average shares outstanding (1)	37,854	37,903	37,816	37,679	37,814

(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.

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, 1999 and 1998, 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, 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the 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 balance sheet of Amerin as of December 31, 1998, or the related statements of income, changes in common stockholders' equity, and cash flows of Amerin for the years ended December 31, 1998 and 1997, which statements reflect total assets of $545,232,000 as of December 31, 1998, and total revenues of $145,927,000 and $112,103,000 for the years ended December 31, 1998 and 1997, respectively. 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 and 1997, is based solely on the report of such other auditors.

We conducted our audits in accordance with generally accepted auditing standards. 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, 1999 and 1998, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1999 in conformity with generally accepted accounting principles.

Deloitte + Touche LLP

Deloitte & Touche LLP
Philadelphia, Pennsylvania
March 10, 2000

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 risk that housing demand may decrease as a result of higher-than-expected interest rates, adverse economic conditions, or other reasons; that seasonality may be different from the historical pattern; that the market share of the segment of the mortgage market served by the mortgage insurance industry may decline as a result of competition from government programs or other substitute products; and that the Company's share of originations having private mortgage insurance may decline as a result of competition or other factors. Investors are also directed to other risks discussed in documents filed by the Company with the Securities and Exchange Commission.

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 $32.7 million as compared to merger expenses net of tax of $714,000 in 1998. Without these merger expenses, net income for 1999 was $180.8 million as compared to $143.0 million for 1998, an increase of 26.5% or $37.9 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 relates to a group of structured transactions composed primarily of Fannie Mae- and Freddie Mac-eligible conforming mortgage loans 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 decline during 2000 as certain outstanding commitments expire and are not renewed. 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, Moody's Investors Service and Duff & Phelps Credit Rating Agency 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 small stop-loss levels.

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% for 1999 as compared to 34% in 1998; however, for the fourth quarter of 1999, that rate had declined to 13% from 20% in the third quarter of 1999 and 39% in the fourth quarter of 1998. The persistency rate, which is defined as the percentage of insurance in force that is renewed in any given year, 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. The expectation for 2000 is a smaller industry volume and higher persistency rates, influenced by higher interest rates.

Radian also has become more involved in insuring non-conforming loans, specifically Alternative A and A minus loans. 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 1999, Alternative A and A minus business accounted for $3.0 billion or 9.0% 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 15.6%, from $81.9 billion at December 31, 1998 to $94.7 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. 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 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. Radian expects to enter into several new agreements in 2000.

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 $248.0 million during 1999. 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 $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. 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 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 is significantly higher than normal levels. Radian's overall default rate at December 31, 1999 was 1.49% as compared to 1.57% at December 31, 1998, while the default rate on the primary business was 2.20% at December 31, 1999 as compared to 2.12% at December 31, 1998. The decrease in Radian's overall default rate is a result of the continued strong economy and the relatively lower interest rates that have been experienced over the past few years. A strong economy generally results in better loss experience and a decrease in the overall level of losses. A 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 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 has 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 1.80% (including pool) at December 31, 1999 as compared to 2.37% 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 3.08% (including pool) at December 31, 1999 as compared to 3.28% 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 as compared to 7.4% at December 31, 1998. The "affordable housing" early default experience is a result of insuring certain loans in which the borrowers' principal and interest reserves and other credit factors were not as strong as on prior years' books of business. Certain underwriting changes were implemented near the end of 1996 to compensate for the factors that contributed to the early default experience on these "affordable housing" loans; however, it is too early to determine the ultimate impact of such changes. In addition, Radian has reported an increased number of defaults on the Alternative A and A minus business insured beginning in 1997 through 1999. Although the default rate for this business is higher than on Radian's normal books, 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. 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%. 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 $121.4 million for 1999, an increase of 2.7% compared to $118.2 million for 1998. 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 $58.8 million in 1999, an increase of 0.5% compared to $58.5 million in 1998. This slight increase reflects 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 has 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 has 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 2000, these percentages are expected to continue increasing if there is a continued decrease 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. 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. However, as further efficiencies are realized in the contract underwriting process due to the integration with Freddie Mac's Loan Prospector and Fannie Mae's Desktop Underwriter origination systems, the cost per contract underwriting loan underwritten could decrease. In addition, as the level of refinancing has decreased, the demand for available resources has 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 expects to incur no additional merger-related expenses in 2000.

The effective tax rate for 1999, excluding merger costs net of tax of $32.7 million, was 30.5% 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 73.3% 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.

1998 Compared to 1997

Net income for 1998 was $142.2 million, a 22.9% increase compared to $115.7 million for 1997. This improvement was a result of significant growth in premiums earned, net investment income, and other income, partially offset by a higher provision for losses and an increase in policy acquisition costs and other operating expenses.

Primary insurance written during 1998 was $37.1 billion, a 72.6% increase compared to $21.5 billion for 1997. The increase in Radian's primary new insurance written was primarily due to a 55.3% increase in primary new insurance written volume in the private mortgage insurance industry for 1998 as compared to 1997. In addition, Radian completed a bulk transaction in the second quarter of 1998, insuring approximately $700 million of seasoned California loans with a risk profile similar to Radian's regular business. Radian's market share of the industry volume increased to 19.3% in 1998 compared to 17.6% for 1997. Additionally, in 1998, Radian wrote an increased amount of pool insurance that represented risk written of $475.0 million as compared to $284.5 million in 1997. 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 that are geographically well dispersed throughout the United States and have lower average loan-to-value ratios than Radian's primary business.

Radian's volume in 1998 was positively impacted by low interest rates that affected the entire mortgage industry. The trend toward lower interest rates, which began in the third quarter of 1997, caused refinancing activity during 1998 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 was not as high as that of the entire mortgage market. Radian's refinancing activity as a percentage of primary new insurance written was 34% for 1998 as compared to 16% in 1997. However, for the fourth quarter of 1998, refinanced loans represented

39% of new primary insurance written as compared to only 26% for the third quarter of 1998 as a result of the slight decline in interest rates during the fourth quarter. The persistency rate was 66.6% for 1998 as compared to 84.4% for 1997. This large decline was consistent with the increase in the level of refinancing activity during 1998.

Net premiums earned in 1998 were $405.3 million, a 22.8% increase compared to $330.0 million for 1997. This increase reflected the insurance in force growth resulting from strong new insurance volume and the increase in pool insurance written during 1998, and was partially offset by the decline in persistency levels. The strong volume led to an increase in direct primary insurance in force during 1998 of 21.7%, from $67.3 billion at December 31, 1997 to $81.9 billion at December 31, 1998. Direct pool risk in force also grew to $993.0 million at December 31, 1998 from $600.5 million at the end of 1997, an increase of 65.4% for the year. For 1998, premiums ceded under captive reinsurance arrangements were $13.8 million, or 3.4% of total premiums earned during 1998, as compared to $5.2 million, or 1.6% of total premiums earned for the same period of 1997. New primary insurance written under captive reinsurance arrangements was $9.7 billion, or 26.1% of total new primary insurance written in 1998 as compared to $4.1 billion, or 19.0% of total new primary insurance written in 1997.

Net investment income for 1998 was $59.9 million, a 14.3% increase compared to $52.4 million in 1997. This increase was a result of continued growth in invested assets primarily due to positive operating cash flows of $190.1 million during 1998. During 1998, the Company purchased a total of $26.0 million of common equities which led to a slight decrease in the growth in investment income during 1998. Although there will be a short-term decline in investment income from this change in investment policy, the Company expects no material long-term impact on total investment returns as a result of this investment diversification.

The provision for losses was $166.4 million in 1998, an increase of 12.9% compared to $147.4 million in 1997. This increase reflected the growth of Radian's book of business over the past several years, which has caused an increase in the number of defaults reported to Radian, the continued adverse experience of California loans (despite signs of an improving trend in California), and the continued poor experience of certain "affordable housing" program loans insured in 1994 and 1995, especially in Florida. Although the ultimate performance of the books of business that originated since 1994 cannot yet be determined, it appears that the ultimate loss levels will be slightly higher than average, partially due to the presence of these "affordable housing" loans. Approximately 69% of Radian's primary risk in force and almost all of Radian's pool risk in force at December 31, 1998 had not yet reached its anticipated highest claim frequency years. Radian's overall default rate at December 31, 1998 was 1.57% as compared to 1.75% at December 31, 1997, while the default rate on the primary business was 2.12% at December 31, 1998 as compared to 2.08% at December 31, 1997. The number of defaults rose from 14,711 at December 31, 1997 to 18,775 at December 31, 1998 and the average loss reserve per default rose from $12,229 at the end of 1997 to $13,056 at December 31, 1998. This 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 has 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 2.37% (including pool) at December 31, 1998 as compared to 3.98% at December 31, 1997 and claims paid in California during 1998 were $48.0 million, representing approximately 45.1 % of total claims as compared to 59.3% in 1997. California represented 18.6% of primary risk in force at December 31, 1998 as compared to 20.2% at December 31, 1997. The default rate in Florida was 3.28% (including pool) at December 31, 1998 as compared to 3.47% at December 31, 1997 and claims paid in Florida during 1998 were $12.0 million, representing approximately 11.2% of total claims as compared to only 6.4% in 1997. Florida represented 7.4% of primary risk in force at December 31, 1998 as compared to 7.3% at December 31, 1997. The "affordable housing" early default experience is a result of insuring certain loans in which the borrowers' principal and interest reserves and other credit factors were not as strong as on prior years' books of business. Certain underwriting changes were implemented near the end of 1996 to compensate for the factors that contributed to the early default experience on these "affordable housing" loans; however, it is too early to determine the impact of such changes. In addition, Radian has reported an increased number of defaults on the Alternative A and A minus business insured beginning in 1997. Although the default rate for this business is higher than on Radian's normal books, it was not higher than was expected for this type of business, and the higher premium rates charged are expected to compensate for the increased level of risk. Direct losses paid in 1998 were $105.5 million as compared to direct losses paid during 1997 of $99.8 million, an increase of 5.8%.

Underwriting and other operating expenses were $118.2 million for 1998, an increase of 41.7% compared to $83.4 million for 1997. 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 $58.5 million in 1998, an increase of 39.9% compared to $41.8 million in 1997. This increase reflects the growth in variable sales- and underwriting-related expenses relating to Radian's continued growth in new insurance written. The Company has 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 occurring in the mortgage lending industry. Other operating expenses for 1998 were$59.7 million, an increase of 43.6% compared to $41.6 million for 1997. Most of the increase continued to result from an increase in expenses associated with the Company's ancillary services, specifically contract underwriting. Contract underwriting expenses for 1998 included in other operating expenses were $34.4 million as compared to $11.2 million for 1997, an increase of 207.1%. Some of these additional contract underwriting expenses were correspondingly offset by increases to other income, which rose 174.7% from $5.6 million in 1997 to $15.3 million in 1998. During 1998, loans underwritten via contract underwriting accounted for 21.2% of applications, 17.9% of insurance commitments, and 15.6% of certificates issued by Radian as compared to 20.7% of applications, 17.0% of commitments, and 15.2% of certificates in 1997. Changing market conditions caused the cost of contract underwriting to increase during 1997 and 1998 due to the high demand for available resources. However, as further efficiencies are realized in the contract underwriting process due to the integration with Freddie Mac's Loan Prospector and Fannie Mae's Desktop Underwriter origination systems, the cost per contract underwriting loan underwritten could decrease.

The effective tax rate for 1998, excluding merger costs net of tax of $714,000, was 28.3% as compared to 27.3% for 1997. Eliminating the merger expenses of $1.1 million for 1998, operating income accounted for 68.3% of net income in 1998 as compared to 65.8% for the same period in 1997, thus resulting in the increase in effective tax rates for 1998.

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 1999, 1998, and 1997 of $248.0 million, $190.1 million, and $148.1 million, respectively. The significant increases in operating cash flows reflect the growth in premiums written and insurance in force that has more than offset any increases in claims paid and other expenses. Also contributing to the increase in operating cash flows in 1999 was a reduction in claims paid. 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 $1.4 billion at December 31, 1999, including $57.0 million of short-term investments with maturities of 90 days or less and $99.5 million of U.S. Treasury equivalents and government agency securities. At December 31, 1999, approximately 95.5% 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, 1999, the Company's investment portfolio included $58.4 million of equity securities, which includes convertible debt and convertible preferred stock.

Loss reserves increased from $245.1 million at December 31, 1998 to $335.6 million at December 31, 1999. This increase in loss reserves due to newly reported defaults, new loans in default that were not reported, and increases to loss reserves on existing defaults was a result of continued adverse Florida experience as well as the continued growth of the in force insurance book. In addition, an increase in the average loan balance and the coverage percentage on loans originated beginning in 1995 has 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 Alternative A and A minus programs insured starting in late 1997, which is a typical pattern for such business. Unearned premiums decreased from $75.5 million at December 31, 1998 to $54.9 million at December 31, 1999 due to cancellation of annual and single premium product as a result of the increased refinancing environment and the corresponding replacement of that business with primarily monthly premium product that has no unearned premium.

Stockholders' equity plus redeemable preferred stock increased to $1.1 billion at December 31, 1999, an increase of 12.9% from $972.2 million at December 31, 1998. This increase resulted primarily from net income for 1999 of $148.1 million and proceeds from the issuance of common stock of $17.1 million and was offset by a $33.3 million decrease (net of tax) in the market value of securities available for sale and $6.9 million of dividends.

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 are two other catastrophic excess loss treaties that cover Radian's business in periods of catastrophic loss. One treaty covers the books of business originated by Radian Guaranty while the other covers the books of business originated by Amerin Guaranty.

As part of its Year 2000 remediation effort, the Company upgraded all desktop and laptop personal computers and vendor software programs that were not Year 2000 compliant during 1999. The cost of this upgrade was approximately $350,000. In 2000, the Company plans to implement system and network monitoring software at a cost of approximately $400,000 that will enhance the efficiency of the Company's operating systems.

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 $7.8 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.

Year 2000 Issue

Many previously existing computer programs used only two digits to identify a year in the date field. Those programs were designed and developed without considering the impact of the change in the century. If not corrected, these computer applications would have failed or created erroneous results by or at the year 2000. The Company conducted an analysis of its systems and completed its Year 2000 project with the result that all of its systems are Year 2000 compliant. "Year 2000 compliant" means fault-free performance in the processing of data and date-related data (including, but not limited to, calculating, comparing, and sequencing) by all hardware and software products, individually and in combination. Fault-free performance must include the manipulation of data when dates are in the 20th or 21st century and must be transparent to the user.

The Company completed the necessary program modifications to make them Year 2000 compliant and all date-sensitive files were appropriately modified and updated. In addition, the Company reviewed all of its hardware systems to assess Year 2000 compliance and upgraded any systems where necessary. The Company's servers are currently Year 2000 compliant as are all desktop and laptop systems.

Although the Company is Year 2000 compliant, in the event that third parties with whom the Company transacts business are not Year 2000 compliant, potential for an adverse effect on the Company's operation may remain. To date, all of the Company's mission-critical business partners have demonstrated that their systems that interface with the Company's systems are Year 2000 compliant.

With respect to the Company's non-information technology systems, the Company has experienced no Year 2000 compliance problems from any providers of electronic and electro-mechanical devices deemed critical to the Company's business operations.

The Company did not incur any significant incremental expense related to Year 2000 issues during 1999.

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, 1999, the average duration of the fixed income portfolio was 6.2 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 investment) of approximately 7.3% and 10.7%, 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 7.3% and 10.6%, respectively.

The Company had no foreign investments or non-investment-grade fixed income securities in its investment portfolio at December 31, 1999.

At December 31, 1999, the market value and cost of the Company's equity securities were $58.4 million and $47.7 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

RADIAN GROUP INC.

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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

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Independent Consultant

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Harvard University

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Former Chairman of the Board
Source One Mortgage
Services Corporation

Anthony W. Schweiger
President
The Tomorrow Group LLC

Larry E. Swedroe
Principal
Buckingham Asset
Management, Inc.

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Chief Executive Officer

Roy J. Kasmar
President and
Chief Operating Officer

C. Robert Quint
Executive Vice President
and Chief Financial Officer

Howard S. Yaruss
Senior Vice President,
Secretary and General Counsel

Albert V. Will
Executive Vice President
Sales and Operations

Andrew R. Luczakowsky
Senior Vice President
Information Services

RADIAN GUARANTY INC.

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Chief Executive Officer

Roy J. Kasmar
President and
Chief Operating Officer

EXECUTIVE VICE PRESIDENTS

C. Robert Quint
Chief Financial Officer

Albert V. Will
Sales and Operations

SENIOR VICE PRESIDENTS

Michael M. Brown
Regional Business Manager

Paul F. Fischer
Risk Management

Herb T. Janssen Jr.
National Accounts

Francis J. (Skip) Johnson
Regional Business Manager

Sam D. King
GSE Relations

Andrew R. Luczakowsky
Information Services

Jonathan T. McGrain
Marketing Services

Theodore H. Miller Jr.
National Accounts

S. Trezevant Moore Jr.
Product Development
and Structured Transactions

Douglas S. Rossbach
Electronic Commerce

Earl R. Smith III
National Accounts

Scott C. Stevens
Human Resources
and Administration

R. Bruce Van Fleet
National Accounts Manager

Howard S. Yaruss
Secretary and General Counsel

James A. Zarnowski
Regional Business Manager

STOCKHOLDERS' INFORMATION

ANNUAL MEETING

The annual meeting of stockholders of Radian Group Inc. will be held on Tuesday, May 9, 2000, at 10:00 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, 2000, to stockholders upon written request to:

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

TRANSFER AGENT AND REGISTRAR

Bank of New York
P.O. Box 11002
Church Street Station
New York, NY 10286
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, 1999, there were 37,307,504 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:

	1998		1999	
	High	Low	High	Low
1st Quarter	69 1/4	55 15/16	51	35
2nd Quarter	67 1/4	57 1/16	51 5/16	33 5/16
3rd Quarter	68 11/16	36 5/8	55 9/16	42
4th Quarter	48 13/16	28	55 3/16	41 1/4

Cash dividends for each share of the Company's common stock were $0.03 for each quarter of 1998 and 1999.

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Radian Group Inc. 1601 Market Street Philadelphia, Pennsylvania 19103 www.radianmi.com