RADIAN GROUP INC
Form 10-Q
May 04, 2010
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# UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2010

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission File Number 1-11356

# Radian Group Inc.

**(Exact name of registrant as specified in its charter)**

| | |
|---|---|
| **Delaware** | **23-2691170** |
| **(State or other jurisdiction of** | **(I.R.S. Employer** |
| **incorporation or organization)** | **Identification No.)** |
| **1601 Market Street, Philadelphia, PA** | **19103** |
| **(Address of principal executive offices)** | **(Zip Code)** |

**(215) 231-1000**

**(Registrant s telephone number, including area code)**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ¨ No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check One):

| | | | |
|---|---|---|---|
| Large accelerated filer ¨ | Accelerated filer x | Non-accelerated filer ¨<br>(Do not check if a smaller reporting company) | Smaller reporting company ¨ |

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

**APPLICABLE ONLY TO CORPORATE ISSUERS:**

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date: 82,985,829 shares of common stock, $0.001 par value per share, outstanding on April 30, 2010.

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**Forward Looking Statements Safe Harbor Provisions**

All statements in this report that address events, developments or results that we expect or anticipate may occur in the future are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, Section 21E of the Securities Exchange Act of 1934 and the United States ( U.S. ) Private Securities Litigation Reform Act of 1995. In most cases, forward-looking statements may be identified by words such as anticipate, may, will, could, should, would, expect, intend, plan, goal, contemplate, believe, estimate, predict, pr negative or other variations on these words and other similar expressions. These statements, which include, without limitation, projections regarding our future performance and financial condition are made on the basis of management s current views and assumptions with respect to future events. Any forward-looking statement is not a guarantee of future performance and actual results could differ materially from those contained in the forward-looking information. The forward-looking statements, as well as our prospects as a whole, are subject to risks and uncertainties, including the following:

changes in general financial and political conditions, such as the failure of the U.S. economy to recover from the most recent recession or the U.S. economy reentering a recessionary period following a brief period of stabilization or even growth, the lack of meaningful liquidity in the capital markets or in the credit markets, a prolonged period of high unemployment rates and limited home price appreciation or further depreciation (which has resulted in some borrowers voluntarily defaulting on their mortgages when their mortgage balances exceed the value of their homes), changes or volatility in interest rates or consumer confidence, changes in credit spreads, changes in the way investors perceive the strength of private mortgage insurers or financial guaranty providers, investor concern over the credit quality and specific risks faced by the particular businesses, municipalities or pools of assets covered by our insurance;

catastrophic events or further economic changes in geographic regions where our mortgage insurance or financial guaranty insurance is more concentrated;

our ability to successfully execute upon our capital plan for our mortgage insurance business (which depends, in part, on the performance of our financial guaranty portfolio), and if necessary, to obtain additional capital to support new business writings in our mortgage insurance business and the long-term liquidity needs of our holding company;

a further decrease in the volume of home mortgage originations due to reduced liquidity in the lending market, tighter underwriting standards and the decrease in housing demand throughout the U.S.;

our ability to maintain adequate risk-to-capital ratios and surplus requirements in our mortgage insurance business in light of ongoing losses in this business and continued deterioration in our financial guaranty portfolio which, in the absence of new capital, may depend on our ability to execute strategies for which regulatory and other approvals are required and may not be obtained;

our ability to continue to effectively mitigate our mortgage insurance and financial guaranty losses;

reduced opportunities for loss mitigation in markets where housing values do not appreciate or continue to decline;

the negative impact our increased levels of insurance rescissions and claim denials may have on our relationships with customers, including the heightened risk of potential disputes and litigation;

the concentration of our mortgage insurance business among a relatively small number of large customers;

disruption in the servicing of mortgages covered by our insurance policies;

the aging of our mortgage insurance portfolio and changes in severity or frequency of losses associated with certain of our products that are riskier than traditional mortgage insurance or financial guaranty insurance policies;

the performance of our insured portfolio of higher risk loans, such as Alternative-A ( Alt-A ) and subprime loans, and of adjustable rate products, such as adjustable rate mortgages and interest-only mortgages;

a decrease in persistency rates of our mortgage insurance policies;

an increase in the risk profile of our existing mortgage insurance portfolio due to mortgage refinancing in the current housing market;

further downgrades or threatened downgrades of, or other ratings actions with respect to, our credit ratings or the ratings assigned by the major rating agencies to any of our rated insurance subsidiaries at any time (in particular, the credit rating of Radian Group Inc. and the financial strength ratings assigned to Radian Guaranty Inc.);

heightened competition for our mortgage insurance business from others such as the Federal Housing Administration and the Veterans Administration or other private mortgage insurers (in particular those that have been assigned higher ratings from the major rating agencies or new entrants to the industry);

changes in the charters or business practices of Federal National Mortgage Association ( Fannie Mae ) and Freddie Mac (together, the GSEs ), the largest purchasers of mortgage loans that we insure, and our ability to remain an eligible provider to both Freddie Mac and Fannie Mae;

changes to the current system of housing finance, including the possibility of a new system in which private mortgage insurers are not required or their services are significantly limited in scope;

the application of existing federal or state consumer, lending, insurance, tax, securities and other applicable laws and regulations, or changes in these laws and regulations or the way they are interpreted; including, without limitation: (i) the outcome of existing, or the possibility of additional, lawsuits or investigations, and (ii) legislative and regulatory changes (a) affecting demand for private mortgage insurance, (b) limiting or restricting our use of (or requirements for) additional capital and the products we may offer, or (c) affecting the form in which we execute credit protection or affecting our existing financial guaranty portfolio;

the possibility that we may fail to estimate accurately the likelihood, magnitude and timing of losses in connection with establishing loss reserves for our mortgage insurance or financial guaranty businesses or premium deficiencies for our mortgage insurance business, or to estimate accurately the fair value amounts of derivative instruments in our mortgage insurance and financial guaranty businesses in determining gains and losses on these contracts;

the ability of our primary insurance customers in our financial guaranty reinsurance business to provide appropriate surveillance and to mitigate losses adequately with respect to our assumed insurance portfolio;

volatility in our earnings caused by changes in the fair value of our derivative instruments and our need to reevaluate the possibility of a premium deficiency in our mortgage insurance business on a quarterly basis;

changes in accounting guidance from the Securities and Exchange Commission or the Financial Accounting Standards Board; and legal and other limitations on amounts we may receive from our subsidiaries as dividends or through our tax- and expense-sharing arrangements with our subsidiaries.

For more information regarding these risks and uncertainties as well as certain additional risks that we face, you should refer to the Risk Factors detailed in Item 1A of Part II of this Quarterly Report on Form 10-Q. We caution you not to place undue reliance on these forward-looking statements, which are current only as of the date on which we filed this report. We do not intend to, and we disclaim any duty or obligation to, update or revise any forward-looking statements made in this report to reflect new information or future events or for any other reason.

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**PART I FINANCIAL INFORMATION**

**Item 1. Financial Statements. (Unaudited)**

**Radian Group Inc.**

**CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)**

| ($ in thousands) | March 31 2010 | December 31 2009 |
|---|---|---|
| ASSETS | | |
| Investments | | |
| Fixed maturities held to maturity at amortized cost (fair value $18,033 and $20,308) | $ 17,079 | $ 19,283 |
| Fixed maturities available for sale at fair value (amortized cost $1,643,395 and $1,667,108) | 1,548,622 | 1,555,827 |
| Trading securities at fair value (including variable interest entity ( VIE ) securities of $89,390 and $0) | 2,878,992 | 2,679,532 |
| Equity securities available for sale at fair value (cost $168,335 and $173,418) | 181,011 | 176,251 |
| Hybrid securities at fair value | 372,999 | 279,406 |
| Short-term investments (including VIE investments of $99,963 and $99,918) | 975,089 | 1,401,157 |
| Other invested assets at cost | 28,493 | 25,739 |
| Total investments | 6,002,285 | 6,137,195 |
| Cash (including restricted cash of $34,208 and $35,607) | 68,103 | 77,181 |
| Investment in affiliates | 127,535 | 121,480 |
| Deferred policy acquisition costs | 156,931 | 160,281 |
| Accrued investment income | 46,524 | 38,151 |
| Accounts and notes receivable (less allowance of $88,085 and $77,476) | 144,502 | 173,331 |
| Property and equipment, at cost (less accumulated depreciation of $90,447 and $89,062) | 15,049 | 16,197 |
| Derivative assets (including VIE derivative assets of $11,697 and $12,182) | 66,766 | 68,534 |
| Deferred income taxes, net | 621,590 | 440,948 |
| Reinsurance recoverables | 606,089 | 628,572 |
| Other assets (including VIE assets of $121,035 and $0) | 375,952 | 214,436 |
| Total assets | $ 8,231,326 | $ 8,076,306 |
| LIABILITIES AND STOCKHOLDERS EQUITY | | |
| Unearned premiums | $ 780,561 | $ 823,621 |
| Reserve for losses and loss adjustment expenses ( LAE ) | 3,735,824 | 3,578,982 |
| Reserve for premium deficiency | 24,126 | 25,357 |
| Long-term debt | 665,863 | 698,222 |
| VIE debt at fair value (including $17,303 and $18,493 of non-recourse debt) | 596,061 | 296,080 |
| Derivative liabilities (including VIE derivative liabilities of $17,369 and $0) | 234,504 | 238,697 |
| Accounts payable and accrued expenses (including VIE accounts payable of $567 and $0) | 482,026 | 410,353 |
| Total liabilities | 6,518,965 | 6,071,312 |
| Commitments and Contingencies (Note 15) | | |
| Stockholders equity | | |
| Common stock: par value $.001 per share; 325,000,000 shares authorized; 100,213,764 and 99,989,972 shares issued at March 31, 2010 and December 31, 2009, respectively; 82,915,064 and 82,768,856 shares outstanding at March 31, 2010 and December 31, 2009, respectively | 100 | 100 |
| Treasury stock, at cost: 17,298,700 and 17,221,116 shares at March 31, 2010 and December 31, 2009, respectively | (890,245) | (889,496) |

| | | |
|---|---|---|
| Additional paid-in capital | 1,367,599 | 1,363,255 |
| Retained earnings | 1,291,583 | 1,602,143 |
| Accumulated other comprehensive loss | (56,676) | (71,008) |
| Total stockholders equity | 1,712,361 | 2,004,994 |
| Total liabilities and stockholders equity | $ 8,231,326 | $ 8,076,306 |

See notes to unaudited condensed consolidated financial statements.

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**Radian Group Inc.**

**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)**

| (In thousands, except per-share amounts) | Three Months Ended March 31 2010 | Three Months Ended March 31 2009 |
|---|---|---|
| Revenues: | | |
| Premiums written insurance: | | |
| Direct | $ 184,278 | $ 198,369 |
| Assumed | (1,248) | (4,929) |
| Ceded | (27,529) | (36,684) |
| Net premiums written | 155,501 | 156,756 |
| Decrease in unearned premiums | 42,767 | 54,459 |
| Net premiums earned insurance | 198,268 | 211,215 |
| Net investment income | 45,358 | 56,283 |
| Change in fair value of derivative instruments | (77,954) | (284,416) |
| Net (losses) gains on other financial instruments | (43,616) | 25,070 |
| Total other-than-temporary impairment ( OTTI ) losses | (18) | (824) |
| Losses recognized in other comprehensive income (loss) | | |
| Net impairment losses recognized in earnings | (18) | (824) |
| Other income | 5,775 | 4,132 |
| Total revenues | 127,813 | 11,460 |
| Expenses: | | |
| Provision for losses | 543,880 | 326,754 |
| Provision for premium deficiency | (1,231) | (48,184) |
| Policy acquisition costs | 14,868 | 13,954 |
| Other operating expenses | 65,056 | 51,602 |
| Interest expense | 10,804 | 12,299 |
| Total expenses | 633,377 | 356,425 |
| Equity in net income of affiliates | 8,098 | 10,552 |
| Pretax loss | (497,466) | (334,413) |
| Income tax benefit | (187,111) | (116,976) |
| Net loss | $ (310,355) | $ (217,437) |
| Basic net loss per share | $ (3.77) | $ (2.69) |
| Diluted net loss per share | $ (3.77) | $ (2.69) |
| Weighted-average number of common shares outstanding basic | 82,341 | 80,902 |
| Weighted-average number of common and common equivalent shares outstanding diluted | 82,341 | 80,902 |
| Dividends per share | $ 0.0025 | $ 0.0025 |

See notes to unaudited condensed consolidated financial statements.

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**Radian Group Inc.**

**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN COMMON STOCKHOLDERS EQUITY (UNAUDITED)**

| | | | | | Accumulated Other Comprehensive Income (Loss) | | | |
|---|---|---|---|---|---|---|---|---|
| (In thousands) | Common Stock | Treasury Stock | Additional Paid-in Capital | Retained Earnings | Foreign Currency Translation Adjustment | Unrealized Holding Gains (Losses) | Other | Total |
| BALANCE prior to implementation effects JANUARY 1, 2009 | $ 98 | $ (888,057) | $ 1,350,704 | $ 1,766,946 | $ 13,966 | $ (196,480) | $ (16,467) | $ 2,030,710 |
| Cumulative effect of adoption of Accounting for Financial Guaranty Contracts (see Note 1), net of tax | | | | (37,587) | | | | (37,587) |
| BALANCE, JANUARY 1, 2009, as adjusted | 98 | (888,057) | 1,350,704 | 1,729,359 | 13,966 | (196,480) | (16,467) | 1,993,123 |
| Comprehensive loss: | | | | | | | | |
| Net loss | | | | (217,437) | | | | (217,437) |
| Unrealized foreign currency translation adjustment, net of tax benefit of $2,117 | | | | | (3,931) | | | (3,931) |
| Unrealized holding gains arising during the period, net of tax of $18,639 | | | | | | 34,616 | | |
| Less: Reclassification adjustment for net gains included in net loss, net of tax of $3,942 | | | | | | (7,321) | | |
| Net unrealized gain on investments, net of tax of $14,697 | | | | | | 27,295 | | 27,295 |
| Comprehensive loss | | | | | | | | (194,073) |
| Repurchases of common stock under incentive plans | | (450) | 450 | | | | | |
| Issuance of stock under benefit plans | 1 | (1) | 1,045 | | | | | 1,045 |
| Amortization of restricted stock | | | 422 | | | | | 422 |
| Stock-based compensation expense | | | 592 | | | | | 592 |
| Dividends declared | | | | (203) | | | | (203) |
| BALANCE, MARCH 31, 2009 | $ 99 | $ (888,508) | $ 1,353,213 | $ 1,511,719 | $ 10,035 | $ (169,185) | $ (16,467) | $ 1,800,906 |
| BALANCE, JANUARY 1, 2010 | $ 100 | $ (889,496) | $ 1,363,255 | $ 1,602,143 | $ 18,285 | $ (72,802) | $ (16,491) | $ 2,004,994 |
| Comprehensive loss: | | | | | | | | |
| Net loss | | | | (310,355) | | | | (310,355) |
| Unrealized foreign currency translation adjustment, net of tax of $1,512 | | | | | (2,006) | | | |
| Less: Reclassification adjustment for net gains included in net loss, net of tax of $240 | | | | | (447) | | | |
| Net foreign currency translation adjustment, net of tax of $1,272 | | | | | (2,453) | | | (2,453) |
| Unrealized holding gains arising during the period, net of tax of $9,077 | | | | | | 16,857 | | |
| Less: Reclassification adjustment for net gains included in net loss, net of tax of $39 | | | | | | (72) | | |
| Net unrealized gain on investments, net of tax of $9,038 | | | | | | 16,785 | | 16,785 |
| Comprehensive loss | | | | | | | | (296,023) |
| | | (749) | 108 | | | | | (641) |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Repurchases of common stock under incentive plans | | | | | | | | |
| Issuance of common stock under benefit plans | | | 1,155 | | | | | 1,155 |
| Amortization of restricted stock | | | 1,624 | | | | | 1,624 |
| Stock-based compensation expense | | | 1,457 | | | | | 1,457 |
| Dividends declared | | | | (205) | | | | (205) |
| BALANCE, MARCH 31, 2010 | $ 100 | $ (890,245) | $ 1,367,599 | $ 1,291,583 | $ 15,832 | $ (56,017) | $ (16,491) | $ 1,712,361 |

See notes to unaudited condensed consolidated financial statements.

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**Radian Group Inc.**

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)**

| (In thousands) | Three Months Ended March 31 2010 | 2009 |
|---|---|---|
| Cash flows (used in) provided by operating activities | $ (287,011) | $ 27,104 |
| Cash flows from investing activities: | | |
| Proceeds from sales of fixed-maturity investments available for sale | 6,555 | 267,834 |
| Proceeds from sales of equity securities available for sale | 5,353 | 221 |
| Proceeds from sales of hybrid securities | 12,592 | 39,620 |
| Proceeds from sales of trading securities | 216,757 | |
| Proceeds from redemptions of hybrid securities | | 9,304 |
| Proceeds from redemptions of fixed-maturity investments available for sale | 12,799 | 77,915 |
| Proceeds from redemptions of fixed-maturity investments held to maturity | 2,320 | 5,005 |
| Purchases of fixed-maturity investments available for sale | | (32,199) |
| Purchases of trading securities | (271,879) | |
| Purchases of equity securities available for sale | | (2,710) |
| Purchases of hybrid securities | (99,271) | (58,790) |
| Sales (purchases) of short-term investments, net | 425,848 | (334,592) |
| Purchases of other invested assets, net | (2,684) | (816) |
| Purchases of property and equipment, net | (296) | (814) |
| Net cash provided by (used in) investing activities | 308,094 | (30,022) |
| Cash flows from financing activities: | | |
| Dividends paid | (205) | (203) |
| Redemption of long-term debt | (29,348) | |
| Net cash used in financing activities | (29,553) | (203) |
| Effect of exchange rate changes on cash | (608) | 1,517 |
| Decrease in cash | (9,078) | (1,604) |
| Cash, beginning of period | 77,181 | 79,048 |
| Cash, end of period | $ 68,103 | $ 77,444 |
| Supplemental disclosures of cash flow information: | | |
| Income taxes paid (received) | $ 1,453 | $ (226,128) |
| Interest paid | $ 7,414 | $ 8,382 |
| Supplemental disclosures of non-cash items: | | |
| Stock-based compensation, net of tax | $ 11,867 | $ 1,055 |
| Consolidated VIE debt | $ 299,981 | $ 46,471 |

See notes to unaudited condensed consolidated financial statements.

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**Radian Group Inc.**

**Notes to Unaudited Condensed Consolidated Financial Statements**

**1. Condensed Consolidated Financial Statements Basis of Presentation**

Our condensed consolidated financial statements include the accounts of Radian Group Inc. and its subsidiaries. We refer to Radian Group Inc. together with its consolidated subsidiaries as Radian, we, us or our, unless the context requires otherwise. We generally refer to Radian Group Inc. alone, without its consolidated subsidiaries, as Radian Group.

Our condensed consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ( GAAP ) and include the accounts of all wholly-owned subsidiaries. We have condensed or omitted certain information and footnote disclosures normally included in consolidated financial statements prepared in accordance with GAAP pursuant to the instructions of Article 10 of Regulation S-X of the Securities and Exchange Commission s ( SEC ) rules and regulations.

The financial information presented for interim periods is unaudited; however, such information reflects all adjustments that are, in the opinion of management, necessary for a fair statement of the financial position, results of operations, and cash flows for the interim periods. These interim financial statements should be read in conjunction with the audited financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2009. The results of operations for interim periods are not necessarily indicative of results to be expected for the full year or for any other period. The year-end condensed balance sheet data was derived from audited financial statements, but does not include all disclosures required by GAAP.

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. While the amounts included in our condensed consolidated financial statements include our best estimates and assumptions, actual results may vary.

Our future performance and financial condition is subject to significant risks and uncertainties, including but not limited to, the following:

- Potential adverse effects on us of continued deterioration in the housing and related credit markets and economic instability, which could increase our incurred losses beyond existing reserves (See Notes 8, 9 and 10).

- Potential adverse effects if the capital and liquidity levels of Radian Group or our regulated subsidiaries statutory capital levels are deemed inadequate to support current business operations and strategies. Radian Guaranty s statutory policyholders surplus and contingency reserves declined from $1.5 billion at December 31, 2009 to $1.3 billion at March 31, 2010. As a result of losses generated in the first quarter of 2010, and in order to maintain the minimum surplus requirements for two subsidiaries that reinsure risk from Radian Guaranty, Radian Group and Radian Guaranty contributed $56 million and $30 million, respectively, of capital to these subsidiaries.

- Potential adverse effects if Radian Guaranty s regulatory risk-to-capital ratio was to increase above 25 to 1, including the possibility that regulators may limit or cause Radian Guaranty to cease underwriting new mortgage insurance risk, which in the event we are unable to then continue writing new first-lien mortgage insurance business through Amerin Guaranty, will significantly impair our franchise value and reduce our cash flow associated with new business while we continue to honor and settle all valid claims and related expenses. At March 31, 2010 this ratio was 16.9 to 1.

- Potential adverse effects if Radian Guaranty were to lose its GSE eligibility status, which could occur at any time at the discretion of the GSEs. Loss of GSE eligibility would likely result in a significant

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**Radian Group Inc.**

**Notes to Unaudited Condensed Consolidated Financial Statements (Continued)**

curtailment of our ability to write new mortgage insurance business, which would significantly impair our franchise value and limit our cash flow arising from new business while we continue to honor and settle all valid claims and related expenses.

Potential adverse effects on Radian Group liquidity if regulators limit, disallow or terminate our expense allocation agreements among Radian Group and its subsidiaries. In the first quarter of 2010, Radian Group received $37.0 million in reimbursements from its subsidiaries under these agreements.

It is possible that the actual outcome of one or more of our plans or forecasts could be materially different, or that one or more of our estimates about the potential effects of the risks and uncertainties above or described elsewhere in these financial statements, in particular our estimate of losses, could prove to be materially incorrect. If one or more possible adverse outcomes were realized, there could be material adverse effects on our financial position, results of operations and cash flows.

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 be issuable upon the exercise of stock options and other stock-based compensation. As a result of our net loss for the three months ended March 31, 2010 and 2009, 4,278,010 and 4,600,512 shares, respectively, of our common stock equivalents issued under our stock-based compensations plans were not included in the calculation of diluted net loss per share because they were anti-dilutive.

Effective January 1, 2010, we adopted the update to the accounting standard regarding accounting for transfers of financial assets. This update is intended to improve the relevance and comparability of the information that a reporting entity provides in its financial reports about a transfer of financial assets; the effects of a transfer on its financial position, financial performance, and cash flows; and a transferor s continuing involvement in transferred financial assets. Specifically, this update removes the concept of a qualified special purpose entity ( QSPE ) from the accounting standard related to the accounting for transfers and servicing of financial assets and extinguishments of liabilities and removes the exception from applying the accounting standard related to the consolidation of VIEs. Enhanced disclosures are required to provide financial statement users with greater transparency about transfers of financial assets and a transferor s continuing involvement with transferred financial assets. See Note 5 for further information regarding this standard and its financial statement impact.

Effective January 1, 2010, we adopted the accounting standard update regarding improvements to financial reporting by enterprises involving VIEs. See Note 5 for further information regarding this standard and its financial statement impact.

Effective January 1, 2010, we adopted the update to the accounting standard regarding fair value measurements and disclosures. This update requires new disclosures regarding significant transfers in and out of Level I and Level II fair value measurements. Additional disclosures regarding the reconciliation of Level III fair value measurements are not required until 2011.

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**Radian Group Inc.**

**Notes to Unaudited Condensed Consolidated Financial Statements (Continued)**

## 2. Segment Reporting

We have three reportable segments: mortgage insurance, financial guaranty and financial services. Our reportable segments are strategic business units that are managed separately because each business has different characteristics and strategies. We allocate corporate income and expenses to our mortgage insurance and financial guaranty segments based on either an allocated percentage of time spent or internally allocated capital. We evaluate operating segment performance based principally on net income. Summarized financial information concerning our operating segments, as of and for the periods indicated, are as follows:

| | March 31, 2010 | | | |
|---|---|---|---|---|
| (In thousands) | Mortgage Insurance | Financial Guaranty | Financial Services | Consolidated |
| Net premiums written insurance | $ 157,032 | $ (1,531) | $ | $ 155,501 |
| Net premiums earned insurance | $ 177,339 | $ 20,929 | $ | $ 198,268 |
| Net investment income | 26,359 | 18,999 | | 45,358 |
| Change in fair value of derivative instruments | 277 | (78,231) | | (77,954) |
| Net losses on other financial instruments | (1,419) | (42,197) | | (43,616) |
| Net impairment losses recognized in earnings | (18) | | | (18) |
| Other income | 1,799 | 3,913 | 63 | 5,775 |
| Total revenues | 204,337 | (76,587) | 63 | 127,813 |
| Provision for losses | 529,091 | 14,789 | | 543,880 |
| Provision for premium deficiency | (1,231) | | | (1,231) |
| Policy acquisition costs | 10,504 | 4,364 | | 14,868 |
| Other operating expenses | 46,233 | 18,673 | 150 | 65,056 |
| Interest expense | 2,120 | 8,684 | | 10,804 |
| Total expenses | 586,717 | 46,510 | 150 | 633,377 |
| Equity in net income of affiliates | | 78 | 8,020 | 8,098 |
| Pretax (loss) income | (382,380) | (123,019) | 7,933 | (497,466) |
| Income tax (benefit) provision | (145,847) | (44,041) | 2,777 | (187,111) |
| Net (loss) income | $ (236,533) | $ (78,978) | $ 5,156 | $ (310,355) |
| Cash and investments | $ 3,546,637 | $ 2,523,751 | $ | $ 6,070,388 |
| Deferred policy acquisition costs | 36,762 | 120,169 | | 156,931 |
| Total assets | 4,942,261 | 3,161,663 | 127,402 | 8,231,326 |
| Unearned premiums | 219,753 | 560,808 | | 780,561 |
| Reserve for losses and LAE | 3,597,035 | 138,789 | | 3,735,824 |
| Derivative liabilities | | 234,504 | | 234,504 |

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**Radian Group Inc.**

**Notes to Unaudited Condensed Consolidated Financial Statements (Continued)**

| | March 31, 2009 | | | |
|---|---|---|---|---|
| (In thousands) | Mortgage Insurance | Financial Guaranty | Financial Services | Consolidated |
| Net premiums written insurance | $ 161,959 | $ (5,203) | $ | $ 156,756 |
| Net premiums earned insurance | $ 177,883 | $ 33,332 | $ | $ 211,215 |
| Net investment income | 31,345 | 24,938 | | 56,283 |
| Change in fair value of derivative instruments | (28,576) | (255,840) | | (284,416) |
| Net gains on other financial instruments | 13,077 | 11,993 | | 25,070 |
| Net impairment losses recognized in earnings | (801) | (23) | | (824) |
| Other income | 3,818 | 153 | 161 | 4,132 |
| Total revenues | 196,746 | (185,447) | 161 | 11,460 |
| Provision for losses | 321,684 | 5,070 | | 326,754 |
| Provision for premium deficiency | (48,184) | | | (48,184) |
| Policy acquisition costs | 5,739 | 8,215 | | 13,954 |
| Other operating expenses | 35,694 | 15,833 | 75 | 51,602 |
| Interest expense | 5,694 | 6,605 | | 12,299 |
| Total expenses | 320,627 | 35,723 | 75 | 356,425 |
| Equity in net income of affiliates | | | 10,552 | 10,552 |
| Pretax (loss) income | (123,881) | (221,170) | 10,638 | (334,413) |
| Income tax (benefit) provision | (35,084) | (85,770) | 3,878 | (116,976) |
| Net (loss) income | $ (88,797) | $ (135,400) | $ 6,760 | $ (217,437) |
| Cash and investments | $ 4,141,601 | $ 2,356,614 | $ | $ 6,498,215 |
| Deferred policy acquisition costs | 26,391 | 195,878 | | 222,269 |
| Total assets | 5,241,881 | 3,344,269 | 117,460 | 8,703,610 |
| Unearned premiums | 319,785 | 832,767 | | 1,152,552 |
| Reserve for losses and LAE | 3,116,553 | 216,089 | | 3,332,642 |
| Derivative liabilities | 127,472 | 614,166 | | 741,638 |

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**Radian Group Inc.**

**Notes to Unaudited Condensed Consolidated Financial Statements (Continued)**

### 3. Derivative Instruments

A summary of our derivative assets and liabilities, as of and for the periods indicated, is as follows. Certain contracts are in an asset position because the net present value of the contractual premium exceeds the net present value of our estimate of the expected future premiums that a financial guarantor of similar credit quality to us would charge to provide the same credit protection assuming a transfer of our obligation to such financial guarantor as of the measurement date.

| Balance Sheets (In millions) | March 31 2010 | December 31 2009 |
|---|---|---|
| Derivative assets: | | |
| Financial Guaranty credit derivative assets | $ 24.3 | $ 23.8 |
| Net interest margin securities ( NIMS ) assets | 11.7 | 12.2 |
| Put options on Money Market committed preferred custodial trust securities ( CPS ) | 30.8 | 32.5 |
| Total derivative assets | 66.8 | 68.5 |
| Derivative liabilities: | | |
| Financial Guaranty credit derivative liabilities | 217.1 | 238.7 |
| Financial Guaranty VIE derivative liabilities | 17.4 | |
| Total derivative liabilities | 234.5 | 238.7 |
| Total derivative liabilities, net | $ (167.7) | $ (170.2) |

Amounts set forth in the table above represent gross unrealized gains and gross unrealized losses on derivative assets and liabilities. The notional value of our derivative contracts at March 31, 2010 and December 31, 2009 was $44.6 billion and $46.1 billion, respectively.

The components of the (loss) gain included in change in fair value of derivative instruments are as follows:

| Statements of Operations (In millions) | Three Months Ended March 31 2010 | 2009 |
|---|---|---|
| Net premiums earned derivatives | $ 12.1 | $ 14.7 |
| Financial Guaranty credit derivatives | (84.1) | (267.8) |
| Financial Guaranty VIE derivative liabilities | (3.2) | |
| NIMS | (0.2) | (4.3) |
| Mortgage Insurance domestic and international credit default swaps ( CDS ) | | (21.4) |
| Put options on CPS | (2.1) | (0.9) |
| Other | (0.5) | (4.7) |
| Change in fair value of derivative instruments | $ (78.0) | $ (284.4) |

The valuation of derivative instruments may result in significant volatility from period to period in gains and losses as reported on our condensed consolidated statements of operations. Generally, these gains and losses result from changes in corporate credit or asset-backed spreads and changes in the creditworthiness of underlying corporate entities or the credit performance of the assets underlying asset-backed securities ( ABS ).

Any incurred gains or losses on our financial guaranty contracts that are accounted for as derivatives are recognized as a change in fair value of derivative instruments. We also incorporate our own non-performance risk into our fair valuation methodology. Changes in our fair value estimates may also result in significant volatility in our financial position or results of operations for future periods.

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**Radian Group Inc.**

**Notes to Unaudited Condensed Consolidated Financial Statements (Continued)**

The following table shows selected information about our derivative contracts:

| Product | Number of Contracts | March 31, 2010 Par/ Notional Exposure ($ in millions) | Total Net Asset/ (Liability) |
|---|---|---|---|
| Put options on CPS | 1 | $ 50.0 | $ 30.8 |
| NIMS related (1) | | | 11.7 |
| Corporate collateralized debt obligations ( CDOs ) | 92 | 35,956.6 | (17.7) |
| Non-Corporate CDOs and other derivative transactions: | | | |
| Trust Preferred Securities ( TruPs ) | 20 | 2,184.3 | (113.5) |
| CDO of commercial mortgage-backed securities ( CMBS ) | 4 | 1,831.0 | (35.9) |
| Other: | | | |
| Structured finance | 11 | 1,140.3 | (6.5) |
| Public finance | 28 | 1,747.0 | (7.0) |
| Total Non-Corporate CDOs and other derivative transactions | 63 | 6,902.6 | (162.9) |
| Assumed financial guaranty credit derivatives: | | | |
| Structured finance | 289 | 1,248.4 | (8.2) |
| Public finance | 16 | 370.6 | (4.0) |
| Total Assumed | 305 | 1,619.0 | (12.2) |
| Financial Guaranty VIE derivative liabilities (2) | | | (17.4) |
| Mortgage Insurance international CDS | 1 | 120.2 | |
| Grand Total | 462 | $ 44,648.4 | $ (167.7) |

(1) NIMS related derivative assets represent assets associated with the consolidation of NIMS VIEs and does not represent additional exposure.

(2) Financial Guaranty VIE interest rate swap associated with the consolidation of the CDO of ABS transaction, which was consolidated effective January 1, 2010. The notional amount of the interest rate swap does not represent additional par exposure and therefore is not presented in this table. See Note 5 for information on our maximum exposure to loss from the consolidated CDO of ABS transaction.

The following table quantifies the impact of our non-performance risk on our derivative assets, derivative liabilities and VIE liabilities (in aggregate by type) presented in our condensed consolidated balance sheets. The five-year CDS spread is presented as an illustration of the market s view of our non-performance risk; the CDS spread actually used in the valuation of specific derivatives is typically based on the remaining term of the instrument.

| | March 31 2010 | December 31 2009 | March 31 2009 | January 1 2009 |
|---|---|---|---|---|
| Radian Group five-year CDS spread (in basis points) | 983 | 1,530 | 2,052 | 2,466 |

| Product ($ in millions) | Cumulative Unrealized Gain at March 31, 2010 | Cumulative Unrealized Gain at December 31, 2009 |
|---|---|---|
| Corporate CDOs | $ 531.4 | $ 629.0 |
| Non-Corporate CDO-related (1) | 1,495.1 | 1,730.9 |
| NIMS-related and other (2) | 60.7 | 108.7 |
| Total | $ 2,087.2 | $ 2,468.6 |

(1) Includes derivative liabilities and VIE debt. Effective January 1, 2010, one transaction previously reported as a derivative liability was consolidated and is now reported as VIE debt.

(2) Includes NIMS VIE debt, NIMS derivative assets and mortgage insurance CDS.

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**Radian Group Inc.**

**Notes to Unaudited Condensed Consolidated Financial Statements (Continued)**

The unrealized gain attributable to the market s perception of our non-performance risk decreased by $381.4 million during the first quarter of 2010, as presented in the table above. This decrease was primarily the result of the tightening of our CDS spreads.

**4. Fair Value of Financial Instruments**

We record fair value under the accounting standard regarding fair value measurements, which requires that a fair value measurement reflect the assumptions market participants would use in pricing an asset or liability based on the best information available. Assumptions include the risks inherent in a particular valuation technique (such as a pricing model) and/or the risks inherent in the inputs to the model. We define fair value as the current amount that would be exchanged to sell an asset or transfer a liability, other than in a forced liquidation. In the event that our investments or derivative contracts were sold or transferred in a forced liquidation, the amounts received or paid may be materially different than those determined in accordance with this standard. Effective January 1, 2010, we adopted the update to the accounting standard regarding fair value measurements and disclosures. This update requires new disclosures regarding significant transfers in and out of Level I and Level II fair value measurements. Additional disclosures regarding the reconciliation of Level III fair value measurements are not required until 2011.

When determining the fair value of our liabilities, we are required to incorporate into the fair value an adjustment that reflects our own non-performance risk. As our CDS spread tightens or widens, the fair value of our liabilities increases or decreases, respectively.

We established a fair value hierarchy by prioritizing the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level I measurements) and the lowest priority to unobservable inputs (Level III measurements). The three levels of the fair value hierarchy under this standard are described below:

Level I Unadjusted quoted prices or valuations in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level II Quoted prices or valuations in markets that are not active or financial instruments for which all significant inputs are observable, either directly or indirectly; and

Level III Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

The level of market activity in determining the fair value hierarchy is based on the availability of observable inputs market participants would use to price an asset or a liability, including market value price observations. For markets in which inputs are not observable or limited, we use significant judgment and assumptions that a typical market participant would use to evaluate the market price of an asset or liability. These assets and liabilities are classified in Level III of our fair value hierarchy.

A financial instrument s level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. At March 31, 2010, our total Level III assets were approximately 5.0% of total assets measured at fair value and total Level III liabilities accounted for 100% of total liabilities measured at fair value.

Trading securities, hybrid securities, VIE debt, derivative instruments, and certain other assets are recorded at fair value. All derivative instruments and contracts are recognized on our condensed consolidated balance sheets as either derivative assets or derivative liabilities. All changes in fair value of trading securities, hybrid securities, VIE debt, derivative instruments and certain other assets are included in the statements of operations.

**Radian Group Inc.**

**Notes to Unaudited Condensed Consolidated Financial Statements (Continued)**

The following are descriptions of our valuation methodologies for financial assets and liabilities measured at fair value.

*Investments*

*United States ( U.S. ) government and agency securities* The fair value of U.S. government and agency securities is estimated using observed market transactions, including broker-dealer quotes and actual trade activity as a basis for valuation. U.S. government and agency securities are categorized in Level II of the fair value hierarchy.

*State and municipal obligations* The fair value of state and municipal obligations is estimated using recent transaction activity, including market and market-like observations for normalized market conditions. Evaluation models are used which incorporate bond structure, yield curve, credit spreads, and other factors. These securities are generally categorized in Level II of the fair value hierarchy or in Level III when market-based transaction activity is unavailable.

*Money market instruments* The fair value of money market instruments is based on daily prices which are published and available to all potential investors and market participants. As such, these securities are categorized in Level I of the fair value hierarchy.

*Corporate bonds and notes* The fair value of corporate bonds and notes is estimated using recent transaction activity, including market and market-like observations for normalized market conditions. Spread models are used to incorporate issue and structure characteristics where applicable. These securities are generally categorized in Level II of the fair value hierarchy or in Level III when market-based transaction activity is unavailable.

*Residential mortgage-backed securities ( RMBS )* The fair value of RMBS is estimated based on prices of comparable securities and spreads, and observable prepayment speeds. These securities are generally categorized in Level II of the fair value hierarchy or in Level III when market-based transaction activity is unavailable. The fair value of the Level III securities is generally estimated by discounting estimated future cash flows.

*CMBS* The fair value of CMBS is estimated based on prices of comparable securities and spreads, and observable prepayment speeds. These securities are generally categorized in Level II of the fair value hierarchy or in Level III when market-based transaction activity is unavailable. The fair value of the Level III securities is generally estimated by discounting estimated future cash flows.

*CDO* These securities are categorized in Level III of the fair value hierarchy. The fair value of the Level III securities is generally estimated by discounting estimated future cash flows.

*Other ABS* The fair value of other ABS is estimated based on prices of comparable securities and spreads, and observable prepayment speeds. These securities are generally categorized in Level II of the fair value hierarchy or in Level III when market-based transaction activity is unavailable. The fair value of the Level III securities is generally estimated by discounting estimated future cash flows.

*Foreign government securities* The fair value of foreign government securities is estimated using observed market yields used to create a maturity curve and observed credit spreads from market makers and broker dealers. These securities are categorized in Level II of the fair value hierarchy.

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**Notes to Unaudited Condensed Consolidated Financial Statements (Continued)**

*Hybrid securities* These instruments are convertible securities measured at fair value based on observed trading activity and daily quotes. In addition, on a daily basis, dealer quotes are marked against the current price of the corresponding underlying stock. These securities are categorized in Level II of the fair value hierarchy. For certain securities, the underlying security price may be adjusted to account for observable changes in the conversion and investment value from the time the quote was obtained. Such securities are categorized in Level III of the fair value hierarchy.

*Equity securities* The fair value of these securities is generally estimated using observable market data in active markets or bid prices from market makers and broker-dealers. Generally, these securities are categorized in Level I or II of the fair value hierarchy as observable market data are readily available. A small number of our equity securities, however, are categorized in Level III of the fair value hierarchy due to a lack of market-based transaction data or the use of model-based evaluations.

*Other investments* These securities are categorized in Level II or Level III of the fair value hierarchy. The fair value of the Level III securities is generally estimated by discounting estimated future cash flows.

*Derivative Instruments and Related VIE Assets/Liabilities*

Fair value is defined as the price that would be received in connection with the sale of an asset or that would be paid to transfer a liability. In determining an exit market, we consider the fact that most of our derivative contracts are unconditional and irrevocable, and contractually prohibit us from transferring them to other capital market participants. Accordingly, there is no principal market for such highly structured insured credit derivatives. In the absence of a principal market, we value these insured credit derivatives in a hypothetical market where market participants include other monoline mortgage and financial guaranty insurers with similar credit quality to us, as if the risk of loss on these contracts could be transferred to these other mortgage and financial guaranty insurance and reinsurance companies. We believe that in the absence of a principal market, this hypothetical market provides the most relevant information with respect to fair value estimates.

We determine the fair value of our derivative instruments using internally-generated models. We utilize market observable inputs, such as credit spreads on similar products, whenever they are available. When one of our transactions develops characteristics that are inconsistent with the characteristics of transactions that underlie the relevant market-based index that we use in our credit spread valuation approach, and we can develop cash flow projections that we believe would represent the view of a typical market participant, we believe it is necessary to change to a discounted cash flow model from a credit spread valuation model. This change in approach is generally prompted when the credit component, and not market factors, becomes the dominant driver of the estimated fair value for a particular transaction. When the particular circumstances of a specific transaction, rather than systemic market risk or other market factors, becomes the dominant driver of fair value, the credit spread valuation approach will generally result in a fair value that is different than the discounted cash flow valuation and, we believe, less representative of a typical market participant s view. Therefore, in these instances, we believe the discounted cash flow valuation approach, and not the credit spread valuation approach, provides a fair value that better represents a typical market participant s view, as it results in a reasonable estimation of the credit component of fair value at a point in time where the index is no longer representative of the fair value of the particular transaction. There is a high degree of uncertainty about our fair value estimates since our contracts are not traded or exchanged, which makes external validation and corroboration of our estimates difficult, particularly given the current market environment, where very few, if any, contracts are being traded or originated. In very limited recent instances, we have negotiated terminations of financial guaranty contracts with our counterparties and believe that such terminations provide the most relevant data with respect to validating our fair value estimates and such data has been generally consistent with our fair value estimates.

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**Notes to Unaudited Condensed Consolidated Financial Statements (Continued)**

We make an adjustment to our derivative liabilities valuation methodology to account for our own non-performance risk by incorporating our observable CDS spread into the determination of the fair value of our derivative liabilities. Considerable judgment is required to interpret market data to develop the estimates of fair value. Accordingly, the estimates may not be indicative of amounts we could realize in a current market exchange. The use of different market assumptions or estimation methodologies may have a significant effect on the estimated fair value amounts.

*Put Options on CPS and Consolidated CPS VIE debt*

The fair value of our put options on CPS and the CPS VIE debt, in the absence of observable market data, is estimated based on the present value of the spread differential between the current market rate of issuing a perpetual preferred security and the maximum contractual rate of our perpetual preferred security as specified in our put option agreements. In determining the current market rate, consideration is given to any relevant market observations that are available. Subsequent to our tender and purchase of the majority of the securities of two of the three trusts to which our put options relate, we consolidated the assets and liabilities of those two trusts. At March 31, 2010, after consolidation, we have a remaining fair value of $30.8 million related to the put options on CPS included in derivative assets for the one trust that is not consolidated and $6.6 million of VIE debt related to the consolidated trusts. The put options on CPS and the consolidated CPS VIE debt are categorized in Level III of the fair value hierarchy. See Note 5 for further information regarding our put options on CPS.

*NIMS Credit Derivatives, NIMS Derivative Assets and NIMS VIE debt*

NIMS credit derivatives are financial guarantees that we have issued on NIMS. NIMS derivative assets primarily represent derivative assets in the NIMS trusts that we are required to consolidate. NIMS VIE debt represents the debt of consolidated NIMS trusts, which we account for at fair value. The estimated fair value amounts of these financial instruments are derived from internally-generated discounted cash flow models. We estimate losses in each securitization underlying either the NIMS credit derivatives, NIMS derivative assets, or NIMS VIE debt by applying expected default rates separately to loans that are delinquent and those that are paying currently. These default rates are based on historical experience of similar transactions. We then estimate the rate of prepayments on the underlying collateral in each securitization, incorporating historical prepayment experience. The estimated loss and rate of prepayments are used to estimate the cash flows for each underlying securitization and NIMS bond, and ultimately, to produce the projected credit losses for each NIMS bond. In addition to expected credit losses, we consider the future expected premiums to be received from the NIMS trust for each credit derivative. The projected net losses are then discounted using a rate of return that incorporates our own non-performance risk, and based on our current CDS spread, results in a significant reduction of the derivative liability. Because NIMS guarantees are not market-traded instruments, considerable judgment is required in estimating fair value. The use of different assumptions and/or methodologies could have a significant effect on estimated fair values. The NIMS credit derivatives, NIMS derivative assets and NIMS VIE debt are all categorized in Level III of the fair value hierarchy. As a result of our having to consolidate our NIMS VIEs, the fair value of derivative assets held by the NIMS VIEs and the NIMS VIE debt are determined by using the same internally-generated valuation model.

Changes in expected principal credit losses on NIMS could have a significant impact on our fair value estimate. The gross expected principal credit losses were $292.1 million as of March 31, 2010, which is our best estimate of settlement value at that date and represents 100% of our total risk in force. The recorded fair value of our total net liabilities related to NIMS as of March 31, 2010 was $256.7 million, of which $11.7 million relates to derivative assets and $268.4 million relates to debt of the NIMS VIE trusts, all of which are consolidated. Our fair value estimate incorporates a discount rate that is based on our CDS spread, which has resulted in a fair value

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amount that is $35.4 million less than the expected principal credit losses. Changes in the credit loss estimates will impact the fair value directly, reduced only by the present value factor, which is dependent on the timing of the expected losses and our credit spread.

*Corporate CDOs*

The fair value of each of our corporate CDO transactions is estimated based on the difference between (1) the present value of the expected future contractual premiums we charge and (2) the fair premium amount that we estimate that another financial guarantor would require to assume the rights and obligations under our contracts. The fair value estimates reflect the fair value of the asset or liability, which is consistent with the in-exchange approach, in which fair value is determined based on the price that would be received or paid in a current transaction as defined by the accounting standard regarding fair value measurements. These credit derivatives are categorized in Level III of the fair value hierarchy.

*Present Value of Expected Future Contractual Premiums* Our contractual premiums are subject to change primarily for two reasons: (1) all of our contracts provide our counterparties with the right to terminate upon our default and (2) 86.6% of the aggregate net par outstanding of our corporate CDO transactions (as of March 31, 2010) provide our counterparties with the right to terminate these transactions based on certain rating agency downgrades that occurred during 2008. In determining the expected future premiums of these transactions, we adjust the contractual premiums for such transactions to reflect the estimated fair value of those premiums based on our estimate of the probability of our counterparties exercising this downgrade termination right and the impact it would have on the remaining expected lifetime premium. In these circumstances, we also cap the total estimated fair value of the contracts at zero, such that none of the contracts subject to immediate termination are in a derivative asset position. The discount rate we use to determine the present value of expected future premiums is our CDS spread plus a risk-free rate. This discount rate reflects the risk that we may not collect future premiums due to our inability to satisfy our contractual obligations, which provides our counterparties the right to terminate the contracts.

For each Corporate CDO transaction, we perform three principal steps in determining the fair premium amount:

- first, we define a tranche on the CDX index (defined below) that equates to the risk profile of our specific transaction (we refer to this tranche as an equivalent-risk tranche);

- second, we determine the fair premium amount on the equivalent-risk tranche for those market participants engaged in trading on the CDX index (we refer to each of these participants as a typical market participant); and

- third, we adjust the fair premium amount for a typical market participant to account for the difference between the non-performance or default risk of a typical market participant and the non-performance or default risk of a financial guarantor of similar credit quality to us (in each case, we refer to the risk of non-performance as non-performance risk).

*Defining the Equivalent-Risk Tranche* Direct observations of fair premium amounts for our transactions are not available since these transactions cannot be traded or transferred pursuant to their terms and there is currently no active market for these transactions. However, CDS on tranches of a standardized index (the CDX index) are widely traded and observable, and provide relevant market data for determining the fair premium amount of our transactions, as described more fully below.

The CDX index is a synthetic corporate CDO that comprises a list of corporate obligors and is segmented into multiple tranches of synthetic senior unsecured debt of these obligors ranging from the equity tranche (i.e.,

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**Notes to Unaudited Condensed Consolidated Financial Statements (Continued)**

the most credit risk or first-loss position) to the most senior tranche (i.e., the least credit risk). We refer to each of these tranches as a standard CDX tranche. A tranche is defined by an attachment point and detachment point, representing the range of portfolio losses for which the protection seller would be required to make a payment.

Our corporate CDO transactions possess similar structural features to the standard CDX tranches, but often differ with respect to the referenced corporate entities, the term, the attachment point and the detachment points. Therefore, in order to determine the equivalent-risk tranche for each of our corporate CDO transactions, we determine the attachment and detachment points on the CDX index that have comparable estimated probabilities of loss as the attachment and detachment points in our transactions. We begin by performing a simulation analysis of referenced entity defaults in our transactions to determine the probability of portfolio losses exceeding our attachment and detachment points. The referenced entity defaults are primarily determined based on the following inputs: the market observed CDS credit spreads of the referenced corporate entities, the correlations between each of the referenced corporate entities, and the term of the transaction.

For each referenced corporate entity in our corporate CDO transactions, the CDS spreads associated with the term of our transactions ( credit curve ) define the estimated expected loss for each entity (as applied in a market standard approach known as risk neutral modeling). The credit curves on individual referenced entities are generally observable. The expected cumulative loss for the portfolio of referenced entities associated with each of our transactions is the sum of the expected losses of these individual referenced entities. With respect to the correlation of losses across the underlying reference entities, two obligors belonging to the same industry or located in the same geographical region are assumed to have a higher probability of defaulting together (i.e., they are more correlated). An increase in the correlations between the referenced entities generally causes a higher expected loss for the portfolio associated with our transactions. The estimated correlation factors that we use are derived internally based on observable third-party inputs that are based on historical data. The impact of our correlation assumptions currently does not have a material effect on our fair premium estimates in light of the significant impact of our non-performance risk adjustment as described below.

Once we have established the probability of portfolio losses exceeding the attachment and detachment points in our transactions, we then use the same simulation method to locate the attachment and detachment points on the CDX index with comparable probabilities. These equivalent attachment and detachment points define the equivalent-risk tranche on the CDX index that we use to determine fair premium amounts.

*Determining the Typical Fair Premium Amount* The equivalent-risk tranches for our corporate CDO transactions often are not identical to any standard CDX tranches. As a result, fair premium amounts generally are not directly observable from the CDX index for the equivalent-risk tranche and must be separately determined. We make this determination through an interpolation in which we use the observed premium rates on the standard CDX tranches that most closely match our equivalent-risk tranche to derive the typical fair premium amount for the equivalent-risk tranche.

*Non-Performance Risk Adjustment on Corporate CDOs* The typical fair premium amount estimated for the equivalent-risk tranche represents the fair premium amount for a typical market participant not Radian. Accordingly, the final step in our fair value estimation is to convert this typical fair premium amount into a fair premium amount for a financial guarantor of similar credit quality to us. A typical market participant is contractually bound by a requirement that collateral be posted regularly to minimize the impact of that participant s default or non-performance. This collateral posting feature makes these transactions less risky to the protection buyer, and therefore, priced differently. None of our contracts require us to post collateral with our counterparties, which exposes our counterparties fully to our non-performance risk. We make an adjustment to the typical fair premium amount to account for both this contractual difference, as well as for the market s perception of our default probability which is observable through our CDS spread.

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**Notes to Unaudited Condensed Consolidated Financial Statements (Continued)**

The amount of the non-performance risk adjustment is computed based, in part, on the expected claim payment by Radian. To estimate this expected payment, we first determine the expected claim payment of a typical market participant by using a risk-neutral modeling approach. A significant underlying assumption of the risk neutral model approach that we use is that the typical fair premium amount is equal to the present value of expected claim payments from a typical market participant. Expected claim payments on a transaction are based on the expected loss on that transaction (also determined using the risk neutral modeling approach). Radian s expected claim payment is calculated based on the correlation between the default probability of the transaction and our default probability. The default probability of Radian is determined from the observed Radian Group CDS spread, and the default probability of the transaction is determined as described above under *Defining the Equivalent-Risk Tranche*. The present value of Radian s expected claim payments is discounted using a risk-free interest rate, as the expected claim payments have already been risk-adjusted.

The reduction in our fair premium amount related to our non-performance risk is limited to a minimum fair premium amount, which is determined based on our estimate of the minimum fair premium that a market participant would require to assume the risks of our obligations. Our non-performance risk adjustment currently results in a material reduction of our typical fair premium amounts, which in turn has a positive impact on the fair value of these derivatives.

*Non-Corporate CDOs and Other Derivative Transactions*

Our non-corporate CDO transactions include our guaranty of TruPs CDOs, CDOs of ABS, CDOs of CMBS, and CDOs backed by other asset classes such as (i) municipal securities, (ii) synthetic financial guarantees of ABS (such as credit card securities), and (iii) project finance transactions. The fair value of our non-corporate CDO and other derivative transactions is calculated as the difference between the present value of the expected future contractual premiums and our estimate of the fair premium amount for these transactions. The present value of expected future contractual premiums is determined based on the methodology described above for corporate CDOs. For our credit card transactions, the fair premium amount is estimated using observed spreads on recent trades of securities that are similar to the securities that we guaranty. In all other instances, we utilize internal models to estimate the fair premium amount as described below. These credit derivatives are categorized in Level III of the fair value hierarchy.

*TruPs CDOs* Our TruPs transactions are CDS on CDOs where the collateral consists primarily of deeply subordinated securities issued by banks and insurance companies, as well as real estate investment trusts and other financial institutions, whose individual spreads are not observable. In each case, we provide credit protection on a specific tranche of each CDO. Beginning in the third quarter of 2009, we began to use a discounted cash flow valuation approach to determine fair value for these transactions. As a result of significant credit deterioration during this reporting period, we determined that the market spreads utilized in prior periods were no longer a relevant key assumption in determining fair value of these transactions. We utilize a discounted cash flow valuation approach that captures the credit characteristics of each transaction. We estimate projected claims based on our internal credit analysis which is based on the current performance of each underlying reference obligation. The present value of the expected cash flows to the TruPs transaction is then determined using a discount rate derived from the observed market pricing for a TruPs transaction with similar characteristics. The present value of the insured cash flows is determined using a discount rate that is equal to our CDS rate plus a risk-free rate.

For certain of our TruPs transactions, our counterparties may require that we pay them the outstanding par on the underlying TruPs bond if an event of default remains outstanding as of the CDS termination date (the Conditional Liquidity Claim ). For these transactions, an additional fair value adjustment is made. To calculate this adjustment, a probability that we will be required to pay a Conditional Liquidity Claim is assigned based on our internal cash flow projections, which provides us with information as to the likelihood of the existence of a

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**Notes to Unaudited Condensed Consolidated Financial Statements (Continued)**

Conditional Liquidity Claim. A discounted cash flow valuation is also performed for this scenario where we are required to make a Conditional Liquidity Claim. The fair value is set equal to the probability weighted average of the valuations from the two scenarios: one in which our counterparty makes a Conditional Liquidity Claim and one in which the claim is not made.

Prior to the third quarter of 2009, we used internally-generated models to calculate the fair premium amount for a typical market participant based on the following inputs: our contractual premium rate (which was estimated to be equal to the typical fair premium rate as of the contract date), the estimated change in the spread of the underlying referenced obligations, the remaining term of the TruPs CDOs and the deterioration (if any) of the subordination.

*CDOs of ABS, including Related VIE Liabilities* The fair value amounts for our CDO of ABS transactions are derived using standard market indices and discounted cash flows, to the extent expected losses are estimable.

For one CDO of ABS transaction, the credit quality of the underlying referenced obligations is reasonably similar to that which is included in the AAA-rated ABX.HE index, a standardized list of RMBS reference obligations. Accordingly, the fair premium amount for a typical market participant for this transaction is derived directly from the observed spreads of this index. This transaction matured during the quarter ended March 31, 2010.

Prior to January 1, 2010, our guaranty on our other CDO of ABS transaction was accounted for as a derivative. Upon the adoption of the accounting standard update regarding improvements to financial reporting by enterprises involving VIEs, we determined that we are the primary beneficiary for this CDO of ABS transaction and consolidated the VIE assets and liabilities as of January 1, 2010. Upon consolidation, we elected the fair value option for all financial assets and financial liabilities held by this VIE, which primarily consist of trading securities, interest rate swaps and VIE debt to note holders in the trust. The fair value election results in a net fair value of the VIE assets and VIE liabilities that is equal to the fair value liability of our exposure as previously accounted for as a derivative. See Note 5 for further discussion of the primary beneficiary analysis and the related financial impact to our financial position, financial performance and cash flows.

The investment securities in this VIE have experienced significant credit deterioration. Fair value for these securities is estimated using a discounted cash flow analysis. We estimate cash flows based on our internal credit analysis, which is based on the current performance of each security. The present value of the expected cash flows from the securities is then determined using a discount rate derived from the BBB-ABX.HE index. The present value of the insured cash flows (which represent the VIE debt) is determined using a discount rate that is equal to our CDS rate plus a risk-free rate. We continue to utilize this model to estimate the fair value of our exposure, and to derive the fair value of this consolidated VIE debt.

The VIE debt and derivative liability within this CDO of ABS transaction are categorized in Level III of the fair value hierarchy. Our maximum principal exposure to loss from this CDO of ABS transaction is $462.6 million. The recorded net fair value of our consolidated assets and liabilities related to this consolidated CDO of ABS as of March 31, 2010 was $128.7 million, as the fair value of the VIE debt and other liabilities exceeds the net value of the assets of the VIE. Because our fair value estimate of the VIE debt incorporates a discount rate that is based on our CDS spread, the fair value is substantially less than our expected ultimate claim payment.

*CDOs of CMBS* The fair premium amounts for our CMBS CDO transactions for a typical market participant are derived directly from the observed spreads on the CMBX indices. The CMBX indices represent standardized lists of CMBS reference obligations. A different CMBX index exists for different types of underlying referenced obligations based on their various origination periods and credit grades. For each of our

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**Radian Group Inc.**

**Notes to Unaudited Condensed Consolidated Financial Statements (Continued)**

CMBS CDO transactions, we use the CMBX index that most directly correlates to our transaction with respect to the origination period and credit rating of the referenced obligations included in our transactions. The typical fair premium amount is the fair value of the expected future fair premiums (determined by the observed index spreads) determined by using a discount rate equal to the CDS spread of a typical market participant plus a risk-free rate.

*All Other Non-Corporate CDOs and Other Derivative Transactions* For all of our other non-corporate CDO and other derivative transactions, observed prices and market indices are not available. As a result, we utilize an internal model that estimates fair premium. The fair premium amount is calculated such that the expected profit (fair premium amount net of expected losses and other expenses) is proportional to an internally-developed risk-based capital amount. Expected losses and our internally developed risk-based capital amounts are projected by our model using the internal credit rating, term, and current par outstanding for each transaction.

For each of the non-corporate CDOs and other derivative transactions discussed above, with the exception of our CDOs of ABS and TruPs transactions that are valued using a discounted cash flow analysis, we make an adjustment to the fair premium amounts as described above under *Non-Performance Risk Adjustments on Corporate CDOs* to incorporate our own non-performance risk. The non-performance risk adjustment associated with our CDOs of ABS and our TruPs transactions is incorporated in the fair value as described above; therefore, no separate adjustment is required. These credit derivatives are categorized in Level III of the fair value hierarchy.

*Assumed Financial Guaranty Credit Derivatives*

In making our determination of fair value for these credit derivatives, we use information provided to us by our counterparties to these reinsurance transactions, which are the primary insurers (the primaries ) of the underlying credits, including the primaries fair valuations for these credits. The information obtained from our counterparties is not received with sufficient time for us to properly record the mark-to-market liability as of the balance sheet date. Therefore, the amount recorded as of March 31, 2010 is based on the most recent available financial information, which is reported on a quarterly lag. The lag in reporting is consistent from period to period. The fair value is based on credit spreads obtained by primaries from market data sources published by third parties (e.g., dealer spread tables for collateral similar to assets within the transactions being valued) as well as collateral-specific spreads provided by trustees or obtained from market sources if such data is available. If observable market spreads are not available or reliable for the underlying reference obligations, then the primaries valuations are predominantly based on market indices that most closely resemble the underlying reference obligations, considering asset class, credit quality rating and maturity of the underlying reference obligations. In addition, these valuations incorporate an adjustment for our non-performance risk that is based on our CDS spread. The primaries models used to estimate the fair value of these instruments include a number of factors, including credit spreads, changes in interest rates and the credit ratings of referenced entities. In establishing our fair value for these transactions, we assess the reasonableness of the primaries valuations by (1) reviewing the primaries publicly available information regarding their mark-to-market processes, including methodology and key assumptions; and (2) analyzing and discussing the changes in fair value with the primaries where the changes appear unusual or do not appear materially consistent with credit loss related information when provided by the primaries for these transactions. These credit derivatives are categorized in Level III of the fair value hierarchy.

*Other Financial Guaranty VIE Consolidated Assets/Liabilities*

Upon the adoption of the accounting standard update regarding improvements to financial reporting by enterprises involving VIEs, we determined that we are the primary beneficiary for two other VIEs as of January 1, 2010 for which we have provided financial guarantees. Upon consolidation, we elected the fair value

**Radian Group Inc.**

**Notes to Unaudited Condensed Consolidated Financial Statements (Continued)**

option for all financial assets and financial liabilities held by these two VIEs, which primarily consist of manufactured housing loans and VIE debt to note holders in the trust. The fair value election allows us to offset the changes in fair value of the assets and liabilities of the trust, providing a better representation of our net exposure to the VIEs. See Note 5 for further discussion of the primary beneficiary analysis and the related financial impacts to our financial position, financial performance and cash flows.

The fair value of the VIE debt related to these other financial guaranty VIEs is estimated based on prices of comparable securities and spreads observed in the market. The overall net fair value for this transaction is determined using a discounted cash flow analysis. We do not currently estimate any projected claims based on our internal credit analysis, which is based on the current performance of the underlying collateral and the remaining subordination available to support the transaction. The present value of the insured cash flows is determined by using a discount rate that is equal to our CDS rate plus a risk-free rate. We utilize this model to determine the fair value of our exposure to these VIEs, and to derive the fair value of the assets in these VIEs, which are reported within other assets on our condensed consolidated balance sheets.

The assets and VIE debt related to these transactions are categorized in Level III of the fair value hierarchy. Our maximum principal exposure to loss from these transactions is $131.0 million; however, we do not currently expect to pay any claims related to these two VIEs. At March 31, 2010, we recorded $118.3 million of other assets, $117.9 million of VIE debt and $0.4 million of accounts payable and accrued expenses associated with these two VIEs.

*Mortgage Insurance Domestic and International CDS*

The estimated fair value of our mortgage insurance domestic CDS was determined using internal models that employed a discounted cash flow methodology. We estimated losses in each securitization by applying expected default rates separately to loans that were delinquent and to those that were current. We then projected prepayment speeds on the underlying collateral in each securitization, incorporating historical prepayment experience. The estimated loss and prepayment speeds were used to estimate the cash flows for each underlying securitization, and ultimately, to produce the projected credit losses for each mortgage insurance domestic CDS. In addition to expected credit losses, the fair value for each mortgage insurance domestic CDS was approximated by incorporating future expected premiums to be received from the transaction. These future expected premiums were discounted utilizing a risk-adjusted interest rate that was based on the current rating of each transaction. The projected net losses were discounted using a rate of return that incorporates our own non-performance risk, which resulted in a significant reduction of the derivative liability. Prior to their termination in the second quarter of 2009, our mortgage insurance domestic CDS were categorized in Level III of the fair value hierarchy.

In determining the estimated fair value of our mortgage insurance international CDS, we use the following information: (1) non-binding fair value quotes from our counterparties on each respective transaction, which are based on quotes for transactions with similar underlying collateral from market makers and other broker dealers, and (2) in the absence of observable market data for these transactions, a review of monthly information regarding the performance of the underlying collateral and discussion with our counterparties regarding any unusual or inconsistent changes in fair value. In either case, in the event there are material inconsistencies in the inputs to determine estimated fair value, they are reviewed and a final determination is made by management in light of the specific facts and circumstances surrounding each price. We make an adjustment to the fair value amount described above to incorporate our own non-performance risk. The amount of the adjustment is computed based on the correlation between the default probability of the transaction and our default probability as described more fully under *Non-Performance Risk Adjustments on Corporate CDOs.* Our international CDS transaction is categorized in Level III of the fair value hierarchy.

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**Radian Group Inc.**

**Notes to Unaudited Condensed Consolidated Financial Statements (Continued)**

The following is a list of those assets and liabilities that are measured at fair value by hierarchy level as of March 31, 2010:

**(In millions)**

| Assets and Liabilities at Fair Value | Level I | Level II | Level III | Total | Investments Not Carried at Fair Value | Total Investments |
|---|---|---|---|---|---|---|
| Investment Portfolio: | | | | | | |
| U.S. government and agency securities | $ | $ 648.7 | $ | $ 648.7 | $ | $ 648.7 |
| State and municipal obligations | | 1,587.3 | 24.4 | 1,611.7 | | 1,611.7 |
| Money market instruments | 764.5 | | | 764.5 | | 764.5 |
| Corporate bonds and notes | | 966.3 | | 966.3 | | 966.3 |
| RMBS | | 724.9 | 54.1 | 779.0 | | 779.0 |
| CMBS | | 88.8 | 24.3 | 113.1 | | 113.1 |
| CDO | | | 3.8 | 3.8 | | 3.8 |
| Other ABS | | 129.2 | 3.5 | 132.7 | | 132.7 |
| Foreign government securities | | 71.8 | | 71.8 | | 71.8 |
| Hybrid securities | | 371.9 | 1.1 | 373.0 | | 373.0 |
| Equity securities (1) | 155.4 | 118.0 | 1.5 | 274.9 | | 274.9 |
| Other investments (2) | | 209.9 | 6.7 | 216.6 | | 216.6 |
| Other investments not carried at fair value (3) | | | | | 46.2 | 46.2 |
| Total Investments | 919.9 | 4,916.8 | 119.4 | 5,956.1 | $ 46.2 | $ 6,002.3 |
| Derivative Assets | | | 66.8 | 66.8 | | |
| Other Assets (4) | | | 118.3 | 118.3 | | |
| Total Assets at Fair Value | $ 919.9 | $ 4,916.8 | $ 304.5 | $ 6,141.2 | | |
| Derivative Liabilities | $ | $ | $ 234.5 | $ 234.5 | | |
| VIE debt (5) | | | 596.1 | 596.1 | | |
| Total Liabilities at Fair Value | $ | $ | $ 830.6 | $ 830.6 | | |

(1) Comprised of broadly diversified domestic equity mutual funds included within Level I and various preferred and common stocks invested across numerous companies and industries included within Level II and III.

(2) Comprised of short-term commercial paper from CPS trusts ($100.0 million) and other securities in our investment portfolio ($109.9 million) included within Level II, and lottery annuities ($3.0 million) and TruPs held by consolidated VIEs ($3.7 million) included within Level III.

(3) Comprised of fixed-maturities held to maturity ($17.1 million), short-term investments ($0.6 million), primarily invested in time deposits, and other invested assets ($28.5 million), primarily invested in limited partnerships, accounted for as cost-method investments and not measured at fair value.

(4) Comprised of manufactured housing loan collateral related to two consolidated financial guaranty VIEs.

(5) Comprised of consolidated debt related to NIMS VIEs ($268.4 million) and CPS trusts ($6.6 million). Also includes amounts related to financial guaranty VIEs ($321.1 million) that required consolidation as of January 1, 2010 under the accounting standard update regarding improvements to financial reporting by enterprises involving VIEs.

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**Radian Group Inc.**

**Notes to Unaudited Condensed Consolidated Financial Statements (Continued)**

The following is a list of those assets and liabilities that are measured at fair value by hierarchy level as of December 31, 2009:

| **(In millions)** Assets and Liabilities at Fair Value | Level I | Level II | Level III | Total | Investments Not Carried at Fair Value | Total Investments |
|---|---|---|---|---|---|---|
| Investment Portfolio: | | | | | | |
| U.S. government and agency securities | $ | $ 581.6 | $ | $ 581.6 | $ | $ 581.6 |
| State and municipal obligations | | 1,545.1 | 24.4 | 1,569.5 | | 1,569.5 |
| Money market instruments | 1,300.6 | | | 1,300.6 | | 1,300.6 |
| Corporate bonds and notes | | 976.9 | | 976.9 | | 976.9 |
| RMBS | | 785.7 | | 785.7 | | 785.7 |
| CMBS | | 46.2 | | 46.2 | | 46.2 |
| Other ABS | | 106.8 | | 106.8 | | 106.8 |
| Foreign government securities | | 86.1 | | 86.1 | | 86.1 |
| Hybrid securities | | 278.8 | 0.6 | 279.4 | | 279.4 |
| Equity securities (1) | 146.8 | 106.5 | 1.7 | 255.0 | | 255.0 |
| Other investments. (2) | | 99.9 | 3.8 | 103.7 | | 103.7 |
| Other investments not carried at fair value (3) | | | | | 45.7 | 45.7 |
| Total Investments | 1,447.4 | 4,613.6 | 30.5 | 6,091.5 | $ 45.7 | $ 6,137.2 |
| Derivative Assets | | | 68.5 | 68.5 | | |
| Total Assets at Fair Value | $ 1,447.4 | $ 4,613.6 | $ 99.0 | $ 6,160.0 | | |
| Derivative Liabilities | $ | $ | $ 238.7 | $ 238.7 | | |
| VIE debt (4) | | | 296.1 | 296.1 | | |
| Total Liabilities at Fair Value | $ | $ | $ 534.8 | $ 534.8 | | |

(1) Comprised of broadly diversified domestic equity mutual funds included within Level I, and various preferred and common stocks invested across numerous companies and industries included within Level II and III.
(2) Comprised of short-term commercial paper from CPS trusts included in Level II and lottery annuities included in Level III.
(3) Comprised of fixed-maturities held to maturity ($19.3 million), short-term investments ($0.6 million), primarily invested in time deposits, and other invested assets ($25.8 million), primarily invested in limited partnerships, accounted for as cost-method investments and not measured at fair value.
(4) Comprised of consolidated debt related to NIMS VIEs ($288.0 million) and CPS trusts ($8.1 million) that required consolidation upon our becoming the primary beneficiary of the VIE.

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**Radian Group Inc.**

**Notes to Unaudited Condensed Consolidated Financial Statements (Continued)**

The following is a rollforward of Level III assets and liabilities measured at fair value for the quarter ended March 31, 2010:

| | Beginning Balance at January 1 2010 | VIE Consolidation at January 1 2010 (1) | Realized and Unrealized Gains (Losses) Recorded in Earnings | Purchases, Sales, Issuances & Settlement | Transfers Into (Out of) Level III (2) | Ending Balance at March 31 2010 |
|---|---|---|---|---|---|---|
| Investments: | | | | | | |
| State and municipal obligations | $ 24.4 | $ | $ | $ | $ | $ 24.4 |
| RMBS | | 44.3 | 12.0 | (2.2) | | 54.1 |
| CMBS | | 23.8 | 0.5 | | | 24.3 |
| CDO | | 3.8 | (0.1) | 0.1 | | 3.8 |
| Other ABS | | 3.5 | | | | 3.5 |
| Hybrid securities | 0.6 | | | | 0.5 | 1.1 |
| Equity securities | 1.7 | | (0.3) | 0.1 | | 1.5 |
| Other investments | 3.8 | 3.7 | | (0.8) | | 6.7 |
| Total Level III Investments | 30.5 | 79.1 | 12.1 | (2.8) | 0.5 | 119.4 |
| NIMS and CPS derivative assets | 44.7 | | (2.8) | 0.6 | | 42.5 |
| Other assets | | 119.7 | 2.0 | (3.4) | | 118.3 |
| Total Level III Assets, net | $ 75.2 | $ 198.8 | $ 11.3 | $ (5.6) | $ 0.5 | $ 280.2 |
| Derivative liabilities, net | $ (214.9) | $ 51.8 | $ (75.1)(3) | $ 28.0 | $ | $ (210.2) |
| VIE debt | (296.1) | (253.5) | (107.0) | 60.5 | | (596.1) |
| Total Level III liabilities, net | $ (511.0) | $ (201.7) | $ (182.1) | $ 88.5 | $ | $ (806.3) |

(1) Represents the impact of our adoption of the accounting standard update regarding improvements to financial reporting by enterprises involving VIEs.
(2) Transfers are assumed to be made at the end of the period as the availability of market observed inputs change from period to period.
(3) Included in this amount is a $22.1 million reversal of an unrealized loss for a contract which expired during the first quarter of 2010.

There were no investment transfers into or out of Level I and Level II during the first quarter of 2010.

The following is a rollforward of Level III assets and liabilities measured at fair value for the quarter ended March 31, 2009:

| (In millions) | Beginning Balance at January 1 2009 | Realized and Unrealized Gains (Losses) Recorded in Earnings | Purchases, Sales, Issuances & Settlements | Transfers Into (Out of) Level III (1) | Ending Balance at March 31 2009 |
|---|---|---|---|---|---|
| Investments: | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| Hybrid securities | $ 4.5 | $ 4.8 | $ (9.3) | $ 0.4 | $ 0.4 |
| Equity securities | 0.8 | 0.3 | | 0.3 | 1.4 |
| Other investments | 5.1 | 0.1 | (0.8) | | 4.4 |
| Total Level III Investments | 10.4 | 5.2 | (10.1) | 0.7 | 6.2 |
| NIMS and CPS derivative assets | 155.8 | (1.5) | 4.6 | | 158.9 |
| Total Level III Assets, net | $ 166.2 | $ 3.7 | $ (5.5) | $ 0.7 | $ 165.1 |
| Derivative liabilities, net | $ (495.6) | $ (278.5)(2) | $ 43.6 | $ | $ (730.5) |
| VIE debt | (160.0) | 6.2 | (52.7)(3) | | (206.5) |
| Total Level III liabilities, net | $ (655.6) | $ (272.3) | $ (9.1) | $ | $ (937.0) |

(1) Transfers are assumed to be made at the end of the period as the availability of market observed inputs change from period to period.

**Radian Group Inc.**

**Notes to Unaudited Condensed Consolidated Financial Statements (Continued)**

(2) This amount relates to derivatives still held at March 31, 2009.
(3) This amount represents derivative assets of $3.7 million and derivative liabilities of $49.0 million transferred to VIE debt related to NIMS trusts that we were required to consolidate during the period.

***Other Fair Value Disclosure***

The carrying value and estimated fair value of other selected assets and liabilities not carried at fair value on our condensed consolidated balance sheets is as follows:

| | March 31, 2010 | | December 31, 2009 | |
|---|---|---|---|---|
| **(In millions)** | **Carrying Amount** | **Estimated Fair Value** | **Carrying Amount** | **Estimated Fair Value** |
| Assets: | | | | |
| Fixed-maturities held to maturity | $ 17.1 | $ 18.0 | $ 19.3 | $ 20.3 |
| Short-term investments (carried at cost) | 0.6 | 0.6 | 0.6 | 0.6 |
| Other invested assets | 28.5 | 28.5 | 25.8 | 25.8 |
| Liabilities: | | | | |
| Long-term debt | 665.9 | 557.5 | 698.2 | 499.4 |
| Non-derivative financial guaranty liabilities | 522.9 | 647.3 | 526.3 | 627.1 |

*Fixed-Maturity Held to Maturity* The fair values of fixed-maturity securities are obtained from independent pricing services that use observed market transactions, including broker-dealer quotes and actual trade activity as a basis for valuation.

*Short-Term Investments Carried at Cost* These investments are carried at cost.

*Other Invested Assets* The fair value of other invested assets is based on the present value of the estimated net future cash flows. The carrying value of cost-method investments approximates fair value.

*Long-Term Debt* The fair value is estimated based on the quoted market prices for the same or similar issue or on the current rates offered to us for debt of the same remaining maturities.

*Non-Derivative Financial Guaranty Liabilities* We estimate the fair value of these non-derivative financial guarantees in a hypothetical market where market participants include other monoline mortgage and financial guaranty insurers with similar credit quality to us, assuming that the net liability related to these insurance contracts could be transferred to these other mortgage and financial guaranty insurance and reinsurance companies.

This fair value estimate of non-derivative financial guarantees includes direct and assumed contracts written, and is based on the difference between the present value of (1) the expected future contractual premiums and (2) the fair premium amount to provide the same credit protection assuming a transfer of our obligation to a guarantor of similar credit quality as Radian as of the measurement date.

The key variables considered in estimating fair value include par amounts outstanding (including future periods for the estimation of future installment premiums), expected term, unearned premiums, expected losses and our CDS spread. Estimates of future installment premiums received are based on contractual premium rates.

With respect to the fair premium amount, the accounting standard regarding fair value measurements requires that the non-performance risk of a financial liability be included in the estimation of fair value.

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**Radian Group Inc.**

**Notes to Unaudited Condensed Consolidated Financial Statements (Continued)**

Accordingly, the fair premium amount for financial guaranty insurance contracts includes consideration of our credit quality as represented by our CDS spread.

Our ability to accurately estimate the fair value of our non-derivative financial guarantees is limited. There are no observable market data points as a result of the current disruption in the credit markets and we have experienced significant rating agency downgrades. These factors have significantly limited our ability to write new financial guaranty business, except in limited circumstances. We believe that in the absence of a principal market, our estimate of fair value described above in a hypothetical market provides the most relevant information with respect to fair value estimates given the information currently available to us. Due to the volume and geographic diversification of our financial guaranty exposures, in the future we may need to consider other key variables that may influence the fair value estimate. Variables not currently incorporated in our current fair value estimate of non-derivative financial guarantees include the credit spreads of the underlying insured obligations, the underlying ratings of those insured obligations and assumptions about current financial guaranty premium levels relative to the underlying insured obligations credit spreads.

The carrying value of our non-derivative financial guaranty liabilities consists of unearned premiums, premiums receivable, deferred policy acquisition costs, and reserve for losses and LAE as reported on our condensed consolidated balance sheets.

**5. Variable Interest Entities ( VIEs )**

Effective January 1, 2010, we adopted the accounting standard update regarding improvements to financial reporting by enterprises involving VIEs. As a provider of credit enhancement, we have entered into insurance contracts with VIEs and derivative contracts with counterparties where we have provided credit protection directly on variable interests and, in some cases, obtained the contractual rights of our counterparties with respect to the VIEs. The credit protection we provide to these VIEs is described in detail below. VIEs are entities as defined by the accounting standard and include corporations, trusts or partnerships in which equity investors do not have a controlling financial interest or do not have sufficient equity at risk to finance activities without additional subordinated financial support. In addition, as a result of the update to the standard regarding accounting for transfers of financial assets, effective January 1, 2010, special purpose entities that were previously considered qualified special purpose entities ( QSPEs ) are to be considered in the VIE accounting framework as prescribed by the standard regarding financial reporting by enterprises involving VIEs.

An entity is considered the primary beneficiary and is required to consolidate a VIE if its variable interest (i) gives us the power to most significantly impact the economic performance of the VIE and (ii) has the obligation to absorb losses or the right to receive residual benefits that could potentially be significant to the VIE. For all VIEs in which we have a variable interest, we determine whether we are the primary beneficiary. In determining whether we are the primary beneficiary, a number of factors are considered, including the structure of the entity, contractual provisions that grant us additional rights upon an event of default, a servicer termination event or breach of a performance trigger, and our obligation to absorb significant losses. Due to the continued deterioration of the performance of many of our financial guaranty transactions, these performance tests and events could be triggered. When we obtain control rights, we perform an analysis to reassess our involvement with these VIEs to determine whether we are the primary beneficiary. As of January 1, 2010, we have determined that we are the primary beneficiary of all of our NIMS transactions, two of our CPS transactions and certain financial guaranty structured transactions discussed below. While the implementation of this accounting standard impacted the classification of our assets, liabilities, and certain line items in our statement of operations, we recorded no transition adjustment since the net liabilities associated with these transactions remained unchanged.

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**Radian Group Inc.**

**Notes to Unaudited Condensed Consolidated Financial Statements (Continued)**

When evaluating whether we are the primary beneficiary of a VIE, we determine which activities most significantly impact the economic performance of the VIE. As part of our qualitative analysis, we consider whether we have any contractual rights that would allow us to direct those activities. As a result of the adoption of this accounting standard, in addition to the VIEs we had consolidated prior to January 1, 2010, we concluded that we are the primary beneficiary of two additional VIEs with respect to which we provided credit protection pursuant to financial guaranty insurance contracts and one additional VIE with respect to which we have provided credit protection pursuant to a financial guaranty derivative contract. Our control rights in these VIEs, which we obtained due to an event of default or breach of a performance trigger as defined in the transaction, generally provide us with either a right to replace the VIE servicer, or, in some cases, the right to direct the sale of the VIE assets. In those instances where we have determined that we are the primary beneficiary, we consolidate the assets and liabilities of the VIE. We have elected to carry the financial assets and financial liabilities of these VIEs at fair value. For all VIEs, the maximum exposure is based on the net par amount of our insured obligation as of the reporting date, except for the put options on CPS, which is based on our carrying amounts.

The following table provides a summary of our maximum exposure to losses, and the financial impact on our condensed consolidated balance sheets and our condensed consolidated statements of operations and our cash flows as of and for the quarter ended March 31, 2010, as it relates to our consolidated VIEs:

| | March 31, 2010 Interests in Consolidated VIEs | | | |
|---|---|---|---|---|
| **(In millions)** | **NIMS** | **Put Options on CPS** | **CDO of ABS** | **Other Financial Guaranty VIEs** |
| Balance Sheet: | | | | |
| Trading securities | $ | $ | $ 89.4 | $ |
| Short-term investments | | 100.0 | | |
| Derivative assets | 11.7 | | | |
| Other assets | | | 2.7 | 118.3 |
| Derivative liabilities | | | 17.4 | |
| VIE debt at fair value | 268.4 | 6.6 | 203.2 | 117.9 |
| Accounts payable and accrued expenses | | | 0.2 | 0.4 |
| Statement of Operations: | | | | |
| Net investment income | | | 2.7 | |
| Change in fair value of derivative instruments loss | (0.2) | | (3.2) | |
| Net loss on other financial instruments | (30.6) | (0.8) | (59.6) | (1.3) |
| Other income | | | | 3.9 |
| Interest expense | | 0.1 | 0.3 | 0.9 |
| Other operating expenses | | 0.1 | 0.3 | 1.7 |
| Cash Inflow (Outflow): | | | | |
| Net payments related to VIE debt | (50.1) | (2.4) | (3.4) | (4.6) |
| Other activity, net | | (27.1) | 2.5 | 4.8 |
| Maximum exposure (1) | 292.1 | 93.4 | 462.6 | 131.0 |

(1) The difference between the carrying amounts of the net asset/liability position and maximum exposure related to VIEs is primarily driven by the difference between the face value of the obligation and the recorded fair values, which includes an adjustment for our non-performance risk.

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**Notes to Unaudited Condensed Consolidated Financial Statements (Continued)**

*NIMS VIEs*

We consolidate the assets and liabilities associated with various NIMS VIEs, due to contractual provisions that allow us to purchase assets of the VIEs and thus direct the activities that most significantly impact the economic performance of each VIE. For this reason, we have concluded that we have the power to most significantly impact the economic performance of these VIEs as described in this standard. As the guarantor of either all or a significant portion of the debt issued by each NIMS VIE, we have the obligation to absorb losses that are significant to the VIEs. As a result, we have concluded that we are the primary beneficiary of these VIEs. The consolidated NIMS assets are accounted for as derivatives and represent assets to be used to settle the obligation of the VIEs. We elected the fair value option as it relates to the NIMS VIE debt, and therefore, the consolidated NIMS VIE debt is recorded at fair value. Our VIE debt includes amounts for which third parties do not have recourse to us. Due to the fact that both prior to and after the implementation of this standard the assets and liabilities were recorded at fair value, and the value at December 31, 2009 is equivalent to the net fair value of the consolidated assets and liabilities on January 1, 2010, there was no transition adjustment at the date of adoption.

Our continued involvement with the NIMS VIEs also includes a risk mitigation initiative, under which we have purchased, at a discount to par, some of our insured NIMS bonds, which effectively eliminates the guarantee that we had issued to the VIE and limits our liability to the discounted purchase price. The maximum principal exposure related to NIMS consolidated VIE assets and liabilities was $292.1 million at March 31, 2010, and comprises 28 transactions. The average remaining maturity of our existing NIMS transactions is approximately two years.

*Put Options on CPS*

In September 2003, Radian Asset Assurance Inc. ( Radian Asset Assurance ) entered into a contingent capital transaction pursuant to which three custodial trusts issued an aggregate of $150 million in CPS ($50 million by each custodial trust) to various holders. In the fourth quarter of 2009 and the first quarter of 2010, Radian Group successfully completed tender offers to purchase a majority of the CPS issued by two of the three custodial trusts. In these tender offers and subsequent purchases, Radian Group purchased $32.9 million and $50.0 million, respectively, of the $50.0 million face amount of the CPS issued by each of these two custodial trusts. We purchased the CPS at a weighted average purchase price equal to approximately 35% of the face amount of such CPS. Our continued involvement with these VIEs also includes the payment of a put premium representing the spread between the assets of the trust and the auction rate notes which has typically been de minimis. We eliminate the premium associated with the purchased CPS.

Based on our additional involvement in two of these trusts, combined with the put options Radian Asset Assurance holds on these trusts (which together are considered in the determination of the primary beneficiary), we concluded that we are the party that directs the activities that most significantly influences the economic performance of these VIEs and has the right to receive benefits that would be significant to these VIEs. This determination was based on a qualitative analysis which demonstrates that we have a variable interest in each of these VIEs, and therefore, we concluded that we are the primary beneficiary. As such, the assets and liabilities of these two trusts were consolidated at their respective fair values, net of liabilities to us. The assets of the consolidated trusts, which are reported in short-term investments, may only be used to settle obligations of the trusts, and there are no liabilities of the trusts for which creditors have recourse to our general credit. As it relates to the one remaining unconsolidated trust, we may, in the future, purchase CPS that would give us additional rights in the VIE.

**Radian Group Inc.**

**Notes to Unaudited Condensed Consolidated Financial Statements (Continued)**

*CDO of ABS*

We consolidate the assets and liabilities associated with one CDO of ABS transaction. Due to contractual provisions that allow us to direct the collateral manager to sell the underlying assets of the transaction, we concluded that this provision gives us the power to direct the activities that most significantly impact the economic performance of this VIE. In addition, as the guarantor of certain classes of debt issued by this VIE, we have the obligation to absorb losses that are significant to this VIE. The consolidated CDO of ABS VIE s assets are accounted for as trading securities and measured at fair value and represent assets to be used to settle the obligation of this VIE. We also elected the fair value option as it relates to the VIE debt, and as such, the consolidated VIE debt is recorded at fair value. While the assets of this VIE may only be used to settle the obligations of the trust, due to our guarantee, the creditors have recourse to our general credit for this consolidated VIE debt. At January 1, 2010, the net fair value of the assets and liabilities of this VIE was equal to the fair value of the derivative liability prior to consolidation; as such, no transition adjustment was necessary.

*Other Financial Guaranty VIEs*

We also consolidate the assets and liabilities associated with two other financial guaranty transactions, in which we provided guarantees for VIEs that own manufactured housing loans, and which had previously been accounted for as insurance contracts. Due to the contractual provisions that allow us to replace and appoint the servicer who manages the collateral underlying the assets of the transactions, we concluded that we have power to direct the activities of these VIEs. In addition, as the guarantor of certain classes of debt issued by these VIEs, we have the obligation to absorb losses that could be significant to these VIEs. The consolidated assets associated with these VIEs are recorded at fair value in accordance with the fair value option and classified in other assets on our condensed consolidated balance sheets. The liabilities of these VIEs are also recorded at fair value in accordance with the fair value option. The assets of these VIEs may only be used to settle the obligations of the trusts, while due to the nature of our guarantees, creditors have recourse to our general credit as it relates to the VIE debt. However, due to the seniority of our insured bonds in these transactions, we do not expect to incur a loss from our involvement with these two VIEs; as such, we did not have a reserve recorded for these transactions as of December 31, 2009. At January 1, 2010, we determined that the fair value of the VIE assets equaled the fair value of the liabilities of these VIEs such that there was no net liability to us from our involvement with these VIEs; therefore, no transition adjustment was necessary.

Our interests in VIEs for which we are not the primary beneficiary may be accounted for as insurance, reinsurance or credit derivatives. For insurance contracts, we record reserves for losses and loss adjustment expenses, and for derivative interests, we record cumulative changes in fair value as a corresponding derivative asset or derivative liability. Our primary involvement with VIEs relates to transactions in which we provide a financial guaranty to one or more classes of beneficial interest holders in the VIE. Underlying collateral in the VIEs includes residential and commercial mortgages, manufactured housing loans, consumer receivables and other financial assets sold to a VIE and repackaged into securities or similar beneficial interests. For all VIEs, the maximum exposure is based on the net par amount of our insured obligation as of the reporting date, except for the put options on CPS, which is based on our carrying amounts.

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**Radian Group Inc.**

**Notes to Unaudited Condensed Consolidated Financial Statements (Continued)**

The following table provides a summary of our maximum exposure to losses, and the financial impact on our condensed consolidated balance sheets, our condensed consolidated statements of operations and our cash flows as of and for the quarter ended March 31, 2010, as it relates to unconsolidated VIEs:

| | March 31, 2010 Interests in Unconsolidated VIEs | |
|---|---|---|
| (In millions) | Put Options on CPS | Financial Guaranty Insurance and Credit Derivatives |
| Balance Sheet: | | |
| Derivative assets | $ 30.8 | $ 2.9 |
| Premiums receivable | | 8.7 |
| Unearned premiums | | 9.5 |
| Reserves for losses and LAE | | 15.5 |
| Derivative liabilities | | 149.4 |
| Statement of Operations: | | |
| Net premiums earned | | 0.7 |
| Change in fair value of derivative instruments loss | (2.1) | (81.6) |
| Increase in provision for losses | | 5.7 |
| Cash Inflow (Outflow): | | |
| Net payments related to credit derivatives | | (35.7) |
| Losses paid | | (2.6) |
| Premiums (paid) received | (0.4) | 0.9 |
| Maximum exposure | 30.8 | 7,256.4 |

In continually assessing our involvement with VIEs, we consider certain events such as the VIEs failure to meet certain contractual conditions, such as performance tests and triggers, servicer termination events and events of default, that should they occur, may provide us with additional control rights over the VIE. These events would cause us to reassess our initial determination of whether we are the primary beneficiary of a VIE. In addition, changes to its governance structure that would allow us to direct the activities of a VIE or give us additional financial interests in the VIE would also cause us to reassess our determination of whether we are the primary beneficiary of a VIE. Because many of our financial guaranty contracts provide us with substantial control rights over the activities of VIEs upon the occurrence of default or other performance triggers described above, we expect that additional VIEs may be consolidated by us if these events occur. We will continue to reassess our involvement with these VIEs in order to determine whether we are the primary beneficiary.

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**Radian Group Inc.**

**Notes to Unaudited Condensed Consolidated Financial Statements (Continued)**

The following table provides a summary of the financial statement impact on our condensed consolidated balance sheets, our condensed consolidated statements of operations and our cash flows as of and for the quarter ended March 31, 2009, as it relates to consolidated and unconsolidated entities in which we had a significant variable interest:

| | March 31, 2009 Significant Interests in VIEs | | | |
|---|---|---|---|---|
| **(In millions)** | **NIMS** | **Financial Guaranty Insurance and Credit Derivatives** | **International CDS** | **CPS** |
| Balance Sheet: | | | | |
| Derivative assets (1) | $ 8.9 | $ | $ | $ 150.0 |
| Unearned premiums | | 12.1 | | |
| Reserves for losses and LAE | | 12.8 | | |
| Derivative liabilities | 38.6 | | 25.0 | |
| VIE debt at fair value (1) | 206.5 | | | |
| Statement of Operations: | | | | |
| Change in fair value of derivative instruments loss | (4.6) | | (11.0) | (0.9) |
| Decrease in provision for losses | | 6.9 | | |
| Net gain on other financial instruments | 6.2 | | | |
| Net premiums earned | | 0.9 | | |
| Cash Inflow (Outflow): | | | | |
| Net (payments) receipts related to credit derivatives | (3.1)(2) | | 0.2 | (0.9) |
| Premiums received | | 0.9 | | |

(1) The amounts included in derivative assets and VIE debt related to the consolidation of NIMS trusts was $7.5 million and $206.5 million, respectively.
(2) Represents the amount paid for interest and the amount paid for the purchase of NIMS bonds that we insure, offset by premiums received.

*International CDS*

We provided credit enhancement in the form of CDS in the international markets and had one international CDS transaction at March 31, 2009 involving a VIE in which we had a significant interest. This transaction was terminated in the fourth quarter of 2009 for a payment of $6.5 million. The financial impact of our one remaining international CDS contract, for which we are not the primary beneficiary, is immaterial to our condensed consolidated balance sheets and condensed consolidated statements of operations. The maximum principal exposure related to this international CDS VIE was $120.2 million as of March 31, 2010.

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**Radian Group Inc.**

**Notes to Unaudited Condensed Consolidated Financial Statements (Continued)**

**6. Investments**

Our held to maturity and available for sale investment portfolio consisted of the following at March 31, 2010 and December 31, 2009:

| | March 31, 2010 | | | |
|---|---|---|---|---|
| | Amortized Cost | Fair Value | Gross Unrealized Gains | Gross Unrealized Losses |
| | (In thousands) | | | |
| Fixed-maturities held to maturity: | | | | |
| Bonds and notes: | | | | |
| State and municipal obligations | $ 17,079 | $ 18,033 | $ 987 | $ 33 |
| | $ 17,079 | $ 18,033 | $ 987 | $ 33 |
| Fixed-maturities available for sale: | | | | |
| U.S. government and agency securities | $ 25,038 | $ 27,482 | $ 2,475 | $ 31 |
| State and municipal obligations | 1,390,880 | 1,288,230 | 10,038 | 112,688 |
| Corporate bonds and notes | 96,257 | 97,243 | 2,528 | 1,542 |
| RMBS | 14,066 | 14,799 | 735 | 2 |
| CMBS | 44,690 | 45,010 | 726 | 406 |
| Other ABS | 15,696 | 16,832 | 1,139 | 3 |
| Foreign government securities | 53,974 | 55,985 | 2,068 | 57 |
| Other investments | 2,794 | 3,041 | 247 | |
| | $ 1,643,395 | $ 1,548,622 | $ 19,956 | $ 114,729 |
| Equity securities available for sale (1) | $ 168,335 | $ 181,011 | $ 12,677 | $ 1 |
| Total debt and equity securities | $ 1,828,809 | $ 1,747,666 | $ 33,620 | $ 114,763 |

(1) Comprised of broadly diversified domestic equity mutual funds ($155.4 million fair value) and various preferred and common stocks invested across numerous companies and industries ($25.6 million fair value).

| | December 31, 2009 | | | |
|---|---|---|---|---|
| | Amortized Cost | Fair Value | Gross Unrealized Gains | Gross Unrealized Losses |
| | (In thousands) | | | |
| Fixed-maturities held to maturity: | | | | |
| Bonds and notes: | | | | |
| State and municipal obligations | $ 19,283 | $ 20,308 | $ 1,060 | $ 35 |
| | $ 19,283 | $ 20,308 | $ 1,060 | $ 35 |

| | | | | |
|---|---|---|---|---|
| Fixed-maturities available for sale: | | | | |
| U.S. government and agency securities | $ 25,023 | $ 27,321 | $ 2,355 | $ 57 |
| State and municipal obligations | 1,400,739 | 1,286,287 | 9,664 | 124,116 |
| Corporate bonds and notes | 99,032 | 98,625 | 1,917 | 2,324 |
| RMBS | 14,942 | 15,629 | 687 | |
| CMBS | 48,511 | 46,195 | 107 | 2,423 |
| Other ABS | 18,049 | 19,321 | 1,275 | 3 |
| Foreign government securities | 57,282 | 58,649 | 1,513 | 146 |
| Other investments | 3,530 | 3,800 | | |