TRIAD GUARANTY INC
Form 10-K
March 27, 2003

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

[x] Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended December 31, 2002
[ ] 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 0-22342

TRIAD GUARANTY INC.
(Exact name of registrant as specified in its charter)

DELAWARE	56-1838519
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

101 SOUTH STRATFORD ROAD
WINSTON-SALEM, NORTH CAROLINA 27104
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (336) 723-1282

Securities registered pursuant to Section 12(b) of the Act:

None

Securities registered pursuant to Section 12(g) of the Act:

Title of each class
Common Stock, par value $.01 per share

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 if disclosure of delinquent filers pursuant to Item 405 of RegulationS-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes /X/ No / /.

State the aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant, computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter: $353,805,876 as of June 28, 2002, which amount excludes the value of all shares beneficially owned (as defined in Rule 13d-3 under the Securities Exchange Act of 1934) by officers and directors of the registrant (however this does not constitute a representation or acknowledgment that any such individual is an affiliate of the registrant).

The number of shares of the registrant's common stock, par value $.01 per share, outstanding as of February 15, 2003, was 14,218,674.

Portions of the following documents are incorporated by reference into this Form 10-K:	Part of this Form 10-K into which the document is incorporated by reference
Triad Guaranty Inc. Proxy Statement for 2003 Annual Meeting of Stockholders	Part III

PART I

ITEM 1. BUSINESS.

Triad Guaranty Inc. is a holding company which, through its wholly-owned subsidiary, Triad Guaranty Insurance Corporation ("Triad"), provides private mortgage insurance ("MI") coverage in the United States to residential mortgage lenders and investors. Triad Guaranty Inc. and its subsidiaries are collectively referred to as the "Company". The "Company" when used within this document refers to the holding company and/or one or more of its subsidiaries, as appropriate.

Private mortgage insurance, also known as mortgage guaranty insurance, is issued in most home purchases and refinancings involving conventional residential first mortgage loans to borrowers with equity of less than 20%. If the homeowner defaults, private mortgage insurance reduces, and in some instances eliminates, the loss to the insured lender. Private mortgage insurance also facilitates the sale of low down payment mortgage loans in the secondary mortgage market, principally to the Federal National Mortgage Association ("Fannie Mae") and the Federal Home Loan Mortgage Corporation ("Freddie Mac"). Under risk-based capital regulations applicable to most financial institutions, private mortgage insurance also reduces the capital requirement for such lenders on residential mortgage loans with equity of less than 20%. In addition, mortgage insurance is purchased by investors and lenders who seek additional default protection or capital relief on loans with equity of greater than 20%.

Private mortgage insurance has traditionally involved underwriting and insuring an individual loan. This type of mortgage insurance is known as "traditional flow" mortgage insurance and will be referred to as such throughout this document. In 2001, the Company began participating in structured bulk transactions which involve underwriting and insuring a group of loans. This type of mortgage insurance is known as "structured bulk" mortgage insurance and will be referred to as such throughout this document.

Triad was formed in 1987 as a wholly-owned subsidiary of Primerica Corporation and began writing private mortgage insurance in 1988. In September 1989, Triad was acquired by Collateral Mortgage, Ltd. ("CML"), a mortgage banking and real estate lending firm located in Birmingham, Alabama. In 1990, CML contributed the outstanding stock of Triad to its affiliate, Collateral Investment Corp. ("CIC"), an insurance holding company.

The Company was incorporated by CIC in Delaware in August 1993, for the purpose of holding all the outstanding stock of Triad and to undertake the initial public offering of the Company's Common Stock, which was completed in November 1993. CIC currently owns 18.9% and CML owns 18.2% of the outstanding

Common Stock of the Company.

The principal executive offices of the Company are located at 101 South Stratford Road, Winston-Salem, North Carolina 27104. Its telephone number is (336) 723-1282.

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TYPES OF MORTGAGE INSURANCE PRODUCTS

PRIMARY INSURANCE

Primary insurance provides mortgage default protection on individual loans and covers unpaid loan principal, delinquent interest, and certain expenses associated with the default and subsequent foreclosure (collectively, the "claim amount"). The claim amount, to which the appropriate coverage percentage is applied, generally ranges from 110% to 115% of the unpaid principal balance of the loan. The Company's obligation to an insured lender with respect to a claim is determined by applying the appropriate coverage percentage to the claim amount. Under its master policy, the Company has the option of paying the entire claim amount and taking title to the mortgaged property or paying the coverage percentage in full satisfaction of its obligations under the insurance written. Primary insurance can be placed on many types of loan instruments and generally applies to loans secured by mortgages on owner occupied homes.

The Company offers primary coverage generally from 6% to 45% of the claim amount, with most coverage from 12% to 40% as of December 31, 2002. The coverage percentage provided by the Company is selected by the insured lender, subject to the Company's underwriting approval, usually in order to comply with investor requirements to reduce investor loss exposure on loans they purchase.

Fannie Mae and Freddie Mac are the ultimate purchasers of a large percentage of the loans insured by the Company. Generally they require a coverage percentage that will reduce their loss exposure on loans they purchase to 75% or less of the property's value at the time the loan is originated. Since 1999, Fannie Mae and Freddie Mac have accepted lower coverage percentages for certain categories of mortgages when the loan is approved by their automated underwriting services. The reduced coverage percentages limit loss exposure to 80% or less of the property's value at the time the loan is originated.

The Company's premium rates vary depending upon the loan-to-value (LTV) ratio, loan type, mortgage term, coverage amount, documentation required, and use of property, which all affect the perceived risk of a claim on the insured mortgage loan. Generally, premium rates cannot be changed after issuance of coverage. The Company, consistent with industry practice, generally utilizes a nationally based, rather than a regional or local, premium rate structure, although special risk rates are utilized as well.

With respect to its traditional flow mortgage insurance, the premiums are paid by either the borrower (borrower-paid) or the lender (lender-paid). Under the Company's borrower-paid plan, mortgage insurance premiums are charged to the mortgage lender or servicer which collects the premium from the borrower and, in turn, remits the premiums to the Company. Under the Company's lender-paid plan, mortgage insurance premiums are charged to the mortgage lender or loan servicer, which pays the premium to the Company. The lender typically builds the mortgage insurance premium into the borrower's interest rate. Approximately 72% and 82% of the Company's traditional flow insurance was written under its borrower-paid plan during 2002 and 2001, respectively. The remainder was written under its lender-paid plan (28% and 18% of traditional flow insurance during 2002 and 2001, respectively). The Company's lender-paid volume is concentrated among larger mortgage lender customers. The premium rate structures associated with the lender-paid plan are lower than standard borrower-paid rates. The Company is able to have lower premium rate structures with lender-paid plans due to lower acquisition costs, higher expected persistency, and expected favorable loss development associated with lender-paid plans.

Premiums may be remitted to the Company monthly, annually, or in one single payment. The monthly premium payment plan involves the payment of one or two months' premium at the mortgage loan closing. Thereafter, level monthly premiums are collected by the loan servicer for monthly remittance to the Company. The Company also offers a plan under which the first monthly mortgage insurance payment is deferred until the first loan payment is remitted to the Company. This deferred monthly premium product decreases the amount of cash required from the borrower at closing, therefore making home ownership more affordable. Monthly premium plans represented approximately 80% and 88% of traditional flow insurance written in 2002 and 2001, respectively.

The annual premium payment plan requires a first-year premium paid at mortgage loan closing with annual renewal payments. With respect to the Company's borrower-paid plan, renewal payments are collected monthly from the borrower and held in escrow by the mortgage lender or servicer for annual remittance to the Company in advance of each renewal year. Annual premium plans represented approximately 20% and 11% of traditional flow insurance written in 2002 and 2001, respectively. The increase in the percentage of traditional flow insurance written under the Company's annual premium plan is primarily the result of a large mortgage lender customer choosing the Company's annual premium plan for its lender-paid volume in 2002.

The single premium payment plan requires a single payment paid at loan closing. The single premium payment can be financed by the borrower by adding it to the principal amount of the mortgage or can be paid in cash at closing by the borrower. Single premium plans represented less than 1% of traditional flow insurance written in 2002 and 2001.

POOL INSURANCE

Pool insurance generally has been offered by private mortgage insurers to lenders as an additional credit enhancement for certain mortgage-backed securities and provides coverage for the full amount of the net loss on each individual loan included in the pool, subject to a provision limiting aggregate losses to a specified percentage of the total original balances of all loans in the pool. The Company does not offer this traditional form of pool insurance.

In the second quarter of 2000, the Company began to participate in modified pool insurance programs on loans purchased by Freddie Mac. Modified pool insurance provides coverage for a specified percentage of the claim amount for each loan insured, subject to an overall stop-loss provision applicable to the entire pool of loans insured. At December 31, 2002, Freddie Mac modified pool

insurance programs represented less than 1% of the Company's insurance in force. The Company ceased participation in the Freddie Mac modified pool insurance programs in September of 2002 and has not entered into any new Freddie Mac programs subsequent to that date.

STRUCTURED BULK TRANSACTIONS

The Company participates in structured bulk transactions. Structured bulk transactions involve insuring a group of loans where the insured loans have individual loan level coverage. These transactions frequently include an aggregate stop-loss limit applied to the entire group of insured loans. Insurance issued in structured bulk transactions is generally either primary, supplemental if the policy already has primary coverage, or a combination of both. Individual loan level coverage is determined in order to reduce the insured's exposure on a given loan down to a percentage of the loan's balance ("down to" coverage). Through December 31, 2002, insurance written through the structured bulk channel has not been subject to captive mortgage reinsurance or other risk-sharing arrangements.

Structured bulk transactions are generally initiated by secondary mortgage market participants, including underwriters of mortgage-backed securities, mortgage lenders, and mortgage investors such as Fannie Mae and Freddie Mac, where mortgage insurance is used as a credit enhancement. The Company is provided loan-level information on the group of loans and, based on the risk characteristics of the entire group of loans and the requirements of the secondary mortgage market participant, the Company will submit a price for insuring the entire group of loans. The Company competes against other mortgage insurers as well as other forms of credit enhancements provided by capital markets for these transactions.

The structured bulk market can be divided into three broad segments: the Prime segment (predominantly fully underwritten loans, high credit scores, high percentage of low LTV's), the Alternative - A segment (generally high credit score, low to moderate LTV loans that have been underwritten with reduced documentation), and the Sub-prime segment (generally fully underwritten loans with credit impaired borrowers). Although the Company has evaluated transactions in all segments of the structured bulk market, all of the Company's insurance in force from structured bulk transactions at December 31, 2002 was in the Prime segment and the Alternative - A segment. During 2002, all of the Company's structured bulk insurance written was in the Alternative - A segment of the structured bulk market. During 2001, approximately 80% of the Company's structured bulk insurance written was in the Prime segment of the structured bulk market and approximately 20% was in the Alternative - A segment. The Company anticipates bidding on and insuring loans across all market segments in 2003.

During 2002, structured bulk transactions represented approximately 9% of the Company's insurance written for the year. Insurance written during 2001 attributed to structured bulk transactions represented approximately 36% of the Company's total insurance written. The Company expects to continue to be

competitive in the structured bulk transaction market. However, it is difficult to predict the Company's volume of business during 2003 due to the relatively small number of transactions that encompass this market (as opposed to the traditional flow market), competitiveness with other mortgage insurers, the attractiveness in the marketplace of mortgage insurance versus other forms of credit enhancements, and the changing loan composition of the market.

RISK-SHARING PRODUCTS

The Company offers mortgage insurance programs designed to allow lenders to share in the risks of mortgage insurance in exchange for a portion of the insurance premium. One such program is the captive reinsurance program. Under the captive reinsurance program, a reinsurance company, generally an affiliate of the lender, assumes a portion of the risk associated with the lender's insured book of business in exchange for a percentage of the premium. Typically, the reinsurance program is an excess of loss arrangement with defined entry and exit points and a maximum exposure limit for the captive reinsurance company. These captive reinsurance programs may also be in the form of a quota share arrangement, although the Company had no quota share arrangements in force as of December 31, 2002. Under excess-of-loss programs, with respect to a given book year of business, Triad retains a first loss position on a defined aggregate layer of risk and reinsures a second defined aggregate layer with the reinsurer. Triad generally retains the remaining risk above the layer reinsured. Because claims incidence is generally highest in the third through six years after loan origination, Triad is likely to retain all losses in the earlier years, particularly in the first two years after loans for a given book year are originated, and the reinsurer will assume the losses in subsequent years subject to the defined layer of risk and up to their aggregate limit. The ultimate impact on the Company's financial performance of an excess-of-loss captive structure is dependent on the operating environment, primarily the total level of losses and the persistency rates, during the life of a given book year of business. The Company believes that its excess-of-loss captive reinsurance programs provide valuable reinsurance protection by limiting the aggregate level of losses, and under normal operating environments potentially reduces the degree of volatility in the Company's earnings from the development of such losses over a period of years.

The Company believes that its excess-of-loss captive reinsurance programs provide valuable reinsurance protection and potentially reduce the risk of volatility in the Company's earnings.

In addition to captive reinsurance programs, the Company has insurance in force under programs, which are in run-off, that increase a lender's share of the risk of loss on an insured book of business and provide a fee to the lender for the increased risk. Approximately 46% and 35% of the Company's insurance in force at December 31, 2002 and December 31, 2001, respectively, was subject to risk-sharing programs. This increase in insurance in force subject to

risk-sharing arrangements is due primarily to the increased market penetration of the Company's risk-sharing arrangements and the high level of refinance activity during the past twelve months, as policies that were previously not subject to risk-sharing arrangements refinanced and new policies issued were subject to risk-sharing arrangements. One of the Company's competitors has announced that as of March 31, 2003 it will not participate in excess of loss risk-sharing arrangements where the net premium cede rate is greater than 25% ("deep ceded"). The Company currently participates in excess of loss risk-sharing arrangements where the net premium cede rate is greater than 25%. As of December 31, 2002, the Company had "deep ceded" captive arrangements with 15% of the lenders participating in risk-sharing programs. Insurance in force subject to risk-sharing arrangements from these lenders represented approximately 69% of the Company's total insurance in force subject to risk-sharing arrangements at December 31, 2002. The Company believes that, based upon historical data and actuarial studies, its deep ceded captive arrangements will produce acceptable returns on capital. It is uncertain at this time what impact, if any, the competitor's decision to exit this business will have on the Company.

Regulatory issues exist regarding the future of risk-sharing programs currently being marketed within the mortgage insurance industry. Management is unable to predict the impact of the regulatory issues on these products.

CANCELLATION OF INSURANCE

Mortgage insurance coverage cannot be canceled by the Company except for nonpayment of premium or certain material violations of the master policy, and remains renewable at the option of the insured lender. Generally, mortgage insurance is renewable at a rate fixed when the insurance on the loan was initially issued.

Insured lenders may cancel insurance at any time at their option. Pursuant to the Homeowners Protection Act, most loans with borrower-paid mortgage insurance made on or after July 29, 1999 are required to have their private mortgage insurance canceled automatically by lenders when the outstanding loan amount is 78% or less of the property's original purchase price and certain other conditions are met. A borrower may request that a loan servicer cancel borrower-paid mortgage insurance on a mortgage loan when the loan balance is less than 80% of the property's current value, but loan servicers are generally restricted in their ability to grant such requests by secondary market requirements and by certain other regulatory restrictions.

Mortgage insurance coverage can also be cancelled when an insured loan is refinanced. If the Company provides insurance on the refinanced mortgage, the policy on the refinanced home loan is considered new insurance written. Therefore, continuation of the Company's coverage from a refinanced loan to a new loan results in both a cancellation of insurance and new insurance written. The percentage of insurance written from refinanced loans was 40.1%, 35.8%, and 13.2% in 2002, 2001, and 2000, respectively.

To the extent canceled insurance coverage in areas experiencing economic growth is not replaced by new insurance in such areas, the percentage of the Company's book of business in economically weaker areas may increase. This development may occur during periods of heavy mortgage refinancing. Refinanced

loans in regions experiencing economic growth are less likely to require private mortgage insurance, while borrowers in economically distressed areas are less likely to qualify for refinancing because of depreciated real estate values. The percentage of the Company's insurance in force at the end of the previous year that was canceled during 2002, 2001, and 2000 was 39.1%, 32.4%, and 17.4%, respectively. The high cancellation levels in 2002 were due to significant refinance activity as mortgage rates remained low throughout the year. The cancellations have not had a material impact on the geographic dispersion of the Company's risk in force.

CUSTOMERS

Residential mortgage lenders such as mortgage bankers, mortgage brokers, commercial banks and savings institutions are the principal customers of traditional flow insurance written by the Company. At December 31, 2002, approximately 73% of the Company's traditional flow risk in force came from mortgage bankers, 15% from commercial banks, 9% from mortgage brokers, and the remainder from savings institutions and credit unions. At December 31, 2001, approximately 67% of the Company's traditional flow risk in force came from mortgage bankers, 16% from commercial banks, 13% from mortgage brokers, and the remainder from savings institutions and credit unions.

To obtain primary insurance from the Company written on a traditional flow basis, a mortgage lender must first apply for and receive a master policy from the Company. The Company's approval of a lender as a master policyholder is based, among other factors, upon evaluation of the lender's financial position and demonstrated adherence to sound loan origination practices.

The master policy sets forth the terms and conditions of the Company's mortgage insurance policy. The master policy does not obligate the lender to obtain insurance from the Company, nor does it obligate the Company to issue insurance on a particular loan. The master policy provides that the lender must submit individual loans for insurance to the Company and the loan, subject to certain underwriting criteria, must be approved by the Company to effect coverage (except in the case of delegated underwriting and when the originator has the authority to approve coverage within certain guidelines). The Company had 7,809 master policyholders at December 31, 2002, compared to 7,337 at December 31, 2001.

The Company's ten largest customers generated 73.0%, 64.3%, and 47.1% of traditional flow insurance written during 2002, 2001, and 2000, respectively. The Company's two largest customers generated 53.4%, 42.0%, and 24.8% of traditional flow insurance written during 2002, 2001, and 2000, respectively.

The Company's ten largest customers were responsible for 58.9%, 42.3%, and 30.0% of traditional flow risk in force at December 31, 2002, 2001, and 2000, respectively. The two largest customers of the Company accounted for 39.7%, 24.8%, and 11.5% of traditional flow risk in force at December 31, 2002, 2001, and 2000, respectively.

Premium revenue for the Company is comprised of premium from current year originated business plus renewal premiums from insurance originated in prior years. There was no single customer whose revenue from current year originated business accounted for 10% or more of the Company's consolidated revenue in 2002, 2001, or 2000. However, approximately 11% of the Company's consolidated revenue in 2002 was from current year and prior years originated business from Countrywide Credit Industries, Inc. There was no single customer whose revenue from current and prior years originated business accounted for 10% or more of the Company's consolidated revenue in 2001 or 2000.

The mortgage lending industry continues to experience consolidation and a greater percentage of origination volume is being generated by the large lenders. The top 30 lenders in the United States, as ranked by mortgage origination volume, accounted for approximately 82% of originated mortgage volume in 2002 compared to 73% in 2001. As a result of this continued consolidation, the number of lenders making decisions as to which insurer to select for mortgage insurance is being reduced. The Company could be adversely affected if one of its large customers is consolidated with a lender with which the Company is not approved to do business or if one of its large lenders terminates its relationship with the Company for any reason. Currently the Company is approved to do business with 21 of the top 30 lenders and production from these lenders accounted for approximately 60% of the Company's traditional flow insurance written in 2002 compared to 51% in 2001.

Structured bulk transactions are generally initiated by secondary mortgage market participants such as underwriters of mortgage-backed securities.

SALES AND MARKETING

The Company currently markets its insurance products through a dedicated sales force, including sales management, of approximately 41 professionals and an exclusive commissioned general agency serving a specific geographic market. The Company is licensed to do business in 46 states and the District of Columbia and has license applications pending in four states. The Company will continue to evaluate geographic expansion opportunities as well as the need for additional sales representation.

The Company's field sales force is divided into two sales divisions, each with its own manager, regional account representatives, and national account executives. The division managers report to a senior executive who oversees all sales and marketing activities for the Company. The national account executives are primarily responsible for managing the Company's sales efforts toward the larger national mortgage originators. The division managers and the regional account executives serve key regional accounts and provide support for national account sales efforts. This reporting structure allows the senior executive in

charge of all sales activities to focus time on large, national accounts while maintaining responsibility of all other sales activities. This senior executive reports directly to the President of the Company.

The success of the Company is dependent upon the services of its sales force and its general agency. For 2002, the Company's commissioned general agency produced approximately 4% of the Company's traditional flow insurance written while the salaried account executives and the national account representatives produced the remainder.

The marketing department's mission is to develop and implement programs in support of the Company's sales objectives and to promote the Company's image. A variety of tools are used to achieve these goals including public relations, marketing materials, internal/external publications, convention trade shows, and the Internet. A national advertising and public relations campaign designed to raise corporate visibility to lenders and investors is also part of the Company's integrated marketing approach.

CONTRACT UNDERWRITING

The Company provides fee-based contract underwriting services that enable customers to improve the efficiency of their operations by outsourcing all or part of their mortgage loan underwriting. Contract underwriting involves examining a prospective borrower's information contained in a lender's mortgage application file and making a determination whether the borrower is approved for a mortgage loan subject to the lender's underwriting guidelines. This service is provided for loans that require mortgage insurance as well as loans that do not require mortgage insurance. In the event that Triad fails to properly underwrite a loan subject to the lender's underwriting guidelines, Triad may be required to provide monetary or other remedies to the lender customer.

Contract underwriting services have become increasingly important to lenders as they seek to reduce fixed costs. Accordingly, contract underwriting significantly contributes to the Company's mortgage insurance production. The Company provides contract underwriting services through its own employees as well as independent contractors. If the Company becomes unable to maintain and provide a sufficient number of qualified underwriters, the Company's operations could be materially adversely affected.

COMPETITION AND MARKET SHARE

The Company and other private mortgage insurers compete directly with federal and state governmental and quasi-governmental agencies, principally the Federal Housing Administration ("FHA"). These agencies sponsor government-backed mortgage insurance programs which accounted for approximately 36% of high LTV loans in 2002 and 37% in 2001. In addition to competition from federal agencies, the Company and other private mortgage insurers face competition from state-supported mortgage insurance funds, some of which are either independent agencies or affiliated with state housing agencies. Indirectly, the Company also competes with certain mortgage lenders which forego private mortgage insurance and self-insure against the risk of loss from defaults on all or a portion of their low down payment mortgage loans.

Fannie Mae and Freddie Mac have the ability to modify the required level of mortgage insurance coverage which should be maintained by lenders on loans for resale to the secondary market. Both Fannie Mae and Freddie Mac have programs that reduce the amount of private mortgage insurance they require in exchange for the lender providing an upfront delivery fee. The Company's financial condition and results of operations could be adversely affected as a result of these programs or if Fannie Mae and/or Freddie Mac adopt private mortgage insurance substitutes.

Various proposals are periodically discussed by Congress and certain federal agencies to reform or modify the FHA. Management is unable to predict the scope and content of such proposals, or whether any such proposals will be enacted into law, and if enacted, the effect on the Company.

The private mortgage insurance industry consists of eight active mortgage insurance companies including Triad, Mortgage Guaranty Insurance Corporation, PMI Mortgage Insurance Co., United Guaranty Residential Insurance Company, Radian Guaranty Inc, General Electric Mortgage Insurance Corporation, Republic Mortgage Insurance Company, and CMG Mortgage Insurance Co. Triad is the seventh largest private mortgage insurer based on 2002 market share and, according to industry data, had a 3.7% share of net new primary insurance written in 2002 compared to 3.6% in 2001. Net new primary insurance written includes insurance written on a traditional flow basis as well as that attributed to structured bulk transactions. Triad's national market share of net new primary insurance written on a traditional flow basis was 4.3% for 2002 compared to 3.4% for 2001.

Management believes the Company competes with other private mortgage insurers principally on the basis of personalized and professional service, a strong management and sales team, responsive and versatile technology, and innovative products.

Underwriting Practices

The Company considers effective risk management to be critical to its long-term financial stability. Market analysis, prudent underwriting, the use of automated risk evaluation models, auditing, and customer service are all important elements of the Company's risk management process.

UNDERWRITING PERSONNEL

The Company's Senior Vice President of Audit and Senior Vice President of Underwriting have been in their positions since shortly after the Company was formed. The Company's Senior Vice President of Risk Management has been with the

Company since 2001 and has more than 20 years of industry experience. In addition to a centralized underwriting department in the home office, the Senior Vice President of Underwriting is responsible for the Company's regional offices in Arizona, California, Colorado, Georgia, Illinois, Ohio, Pennsylvania, Texas, and Washington. The Senior Vice President of Audit is responsible for the quality control function. The Senior Vice President of Risk Management is responsible for assessing the risk factors used by the Company in its underwriting procedures

The Company employed an underwriting staff of 46 at December 31, 2002. The Company's field underwriters and underwriting managers are limited in their authority to approve programs for certain mortgage loans. The authority levels are tied to underwriting position, knowledge, and experience and relate primarily to loan amounts and property type. All loans insured by the Company are subject to quality control reviews.

The Company also utilizes various non-employee underwriters to perform contract underwriting services. The number can vary substantially depending on the need for this service.

RISK MANAGEMENT APPROACH

The Company evaluates risk based on historical performance of risk factors and utilizes automated underwriting systems in the risk selection process to assist the underwriter with decision making. This process evaluates the following categories of risk:

- MORTGAGE LENDER. The Company reviews each lender's financial statements and management experience before issuing a master policy. The Company also tracks the historical risk performance, including loan level risk characteristics, of all customers that hold a master policy. This information is factored into determining the loan programs the Company approves for various lenders. The Company assigns delegated underwriting authority only to lenders with substantial financial resources and established records of originating good quality loans.

- PURPOSE AND TYPE OF LOAN. The Company analyzes five general characteristics of a loan to evaluate its level of risk: (i) LTV ratio; (ii) purpose of the loan; (iii) type of loan instrument; (iv) level of documentation; and, (v) type of property. Generally, the Company seeks loan types with proven track records for which an assessment of risk can be readily made and the premium received sufficiently offsets that risk. Loan types that do not have a proven track record are charged a higher premium, as are other loans which have been shown to carry higher risks, such as adjustable rate mortgages ("ARMs") and loans having higher LTV ratios. Certain categories of loans are not actively pursued by the Company because such loans have a disproportionate amount of risk, including scheduled negatively amortizing ARMs and investment properties.

- INDIVIDUAL LOAN AND BORROWER. Except to the extent that the Company's delegated underwriting program and Freddie Mac's and Fannie Mae's automated underwriting services are being utilized, the Company evaluates insurance applications based on analysis of the borrower's

ability and willingness to repay the mortgage loan and the characteristics and value of the mortgaged property. The analysis of the borrower includes reviewing the borrower's housing and total debt ratios as well as the borrower's Fair, Isaac and Co., Inc. ("FICO") credit score, as reported by credit rating agencies. Loans may be submitted under the Stick With Triad program provided the loans meet the program requirements. Within this program, the degree to which the borrower must meet certain underwriting standards, as well as the amount of documentation required, is a function of the credit score.

(For a further description of the Stick With Triad program, see Underwriting Process below.) In the case of delegated underwriting, compliance with program parameters is monitored by periodic audits of delegated business. With the automated underwriting services provided by Fannie Mae and Freddie Mac, lenders are able to obtain approval for mortgage guaranty insurance with any participating mortgage insurer. Triad works with both agencies in offering insurance services through their systems, while monitoring the risk quality of loans insured through such systems.

- GEOGRAPHIC SELECTION OF RISK. The Company places significant emphasis on the condition of the regional housing markets in determining marketing and underwriting policies. Using both internal and external data, the Company's risk management department continually monitors the economic conditions in the Company's active and potential markets.

UNDERWRITING PROCESS FOR TRADITIONAL FLOW BUSINESS

The Company accepts applications for insurance under three basic programs: a traditional fully-documented program, a credit-score driven reduced documentation program, and a delegated underwriting program which allows a lender's underwriters to commit insurance to a loan based on strict, agreed upon underwriting guidelines. The Company also accepts loans approved through Feddie Mac's or Fannie Mae's automated underwriting systems.

The Company generally utilizes nationwide underwriting guidelines to evaluate the potential risk of default on mortgage loans submitted for insurance coverage. These guidelines have evolved over time and take into account the loss experience of the entire private mortgage insurance industry. They also are largely influenced by Fannie Mae and Freddie Mac underwriting guidelines. The Company believes its guidelines generally are consistent with those used by other private mortgage insurers with respect to the types of loans that the Company will insure. Specific underwriting guidelines applicable to a given local, state, or regional market are modified to address concerns resulting from the Company's review of regional economies and housing patterns.

Subject to the Company's underwriting guidelines and exception approval procedures, the Company expects its internal underwriters and contract underwriters to utilize their experience and business judgment in evaluating each loan on its own merits. Accordingly, the Company's underwriting staff has discretionary authority to insure loans which deviate in certain minor respects from the Company's underwriting guidelines. More significant exceptions are subject to management approval. In all such cases, compensating factors must be identified. The predominant reason for such deviations involves instances where the borrower's debt-to-income ratio exceeds the Company's guidelines. To compensate for exceptions, the Company's underwriters give favorable consideration to such factors as excellent borrower credit history, the availability of satisfactory cash reserves after closing, and employment stability.

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In addition to the borrower's willingness and ability to repay the loan, the Company believes that mortgage default risk is affected by a variety of other factors, including the borrower's employment status. Insured mortgage loans made to self-employed borrowers are perceived by the Company to have higher risk of claim, all other factors being equal, than loans to borrowers employed by third parties. The Company's percentage of risk in force involving self-employed borrowers was 2.6% at December 31, 2002 and 1.8% at December 31, 2001.

The Company's Stick With Triad program featuring the Slam Dunk Loan SM approval process allows lenders to submit insurance applications with reduced documentation. Under this program, Triad issues a certificate of insurance based on the borrower's FICO credit score or the approval of the loan through Fannie Mae's or Freddie Mac's automated underwriting system. The Company issues a certificate of insurance without the standard underwriting process if certain program parameters are met and the borrower has a credit score above established thresholds. Documentation submission requirements for non-automated underwritten loans vary depending on the borrower's credit score. The Stick With Triad program represented approximately 33% of the Company's traditional flow applications in 2002 and 36% in 2001. The Company randomly and through adverse selection audits lenders' files on loans submitted under the Stick With Triad program.

The Company's delegated underwriting program, in addition to the Company's risk management strategies, utilizes extensive quality control practices including reunderwriting, reappraisal, and similar procedures following issuance of the policy. Standards for type of loan, property type, and credit history of the borrower are established consistent with the Company's risk strategy. The program has allowed the Company to serve a greater number of the larger, well-established mortgage originators. The Company's delegated underwriting program accounted for 44% of traditional flow applications received in 2002 compared to 40% in 2001. Many lenders who are not part of the delegated underwriting program participate in the Stick With Triad underwriting program. The performance of loans insured under the delegated underwriting program has been comparable to the Company's non-delegated business.

The Company utilizes its underwriting staff as well as contract personnel to provide contract underwriting services to customers. For a fee, Triad underwrites applications for secondary market compliance, while at the same time assessing the application for mortgage insurance, if applicable. In addition, the Company offers Fannie Mae's Desktop Originator(R) and Desktop Underwriter(R) and Freddie Mac's Loan Prospector(R), as well as the personnel to conduct the underwriting tasks, as a service to its contract underwriting customers. These products, which are designed to streamline and reduce costs in the mortgage origination process, supply the Company's customers with fast and accurate service regarding loan compliance and Fannie Mae's or Freddie Mac's decision for loan purchase or securitization.

UNDERWRITING STRUCTURED BULK TRANSACTIONS

The Company employs a risk review process in underwriting structured bulk transactions that is designed to identify the loans which pose the greatest risk of nonperformance. High risk loans are identified based on an analysis of

multiple risk factors including, but not limited to, credit score, loan-to-value, documentation type, loan purpose, and loan amount. The pertinent risk characteristics of each loan are evaluated to determine the impact on the transaction's frequency and severity of loss and persistency. The Company may utilize an outside due diligence firm in this process as well as mortgage risk analysis systems such as Standard & Poor's Levels. The Company's pricing for structured bulk transactions is commensurate with a transaction's risk profile. The Company also employs an audit procedure to test the integrity of the loan level data provided to Triad. The risk review and audit procedure may result in a request by the Company to remove certain loans from the transaction.

OTHER RISK MANAGEMENT

A comprehensive audit plan determines whether underwriting decisions being made are consistent with the policies, procedures, and expectations for quality set forth by management. All areas of business activity which involve an underwriting decision are examined, with emphasis on new products, new procedures, contract underwritten loans, delegated loans, new employees, new master policyholders, and new branches of an existing master policyholder. The process used to identify categories of loans selected for audit begins with identification and evaluation of certain defined and verifiable risk elements. Each loan is then tested against these elements to identify loans which fail to meet prescribed policies or an identified norm. The procedure allows the Company's management to identify concerns, not only at the loan level, but also portfolio concerns which may exist within a given category of business.

TECHNOLOGY

Triad's TAXI - Transactions Across the Internet - allows qualified customers to view, update, and process certain data within their borrowers' private mortgage insurance records. TAXI is an internet-based service. Business areas that can be addressed through TAXI include applying for mortgage insurance, contract underwriting through eU Xpress, loan servicing, claims and default processing, and risk-sharing performance.

eU Xpress is an internet-based service that automates the contract underwriting and mortgage insurance commitment process. The Company introduced eU Xpress in 2002. eU Xpress is accessed through TAXI and provides an interface with automated underwriting systems.

FINANCIAL STRENGTH RATING

Credit ratings generally are considered an important element in a mortgage insurer's ability to compete for new business, indicating the insurer's present financial strength and capacity to pay future claims. Certain national mortgage

lenders and a large segment of the mortgage securitization market, including Fannie Mae and Freddie Mac, generally will not purchase high LTV mortgages or mortgage-backed securities unless the insurer issuing private mortgage insurance coverage has a financial strength rating of at least "AA-" by either Standard & Poor's Ratings Services ("S&P") or Fitch Ratings ("Fitch") or a rating of at least "Aa3" from Moody's Investors Service ("Moody's"). Fannie Mae and Freddie Mac require mortgage guaranty insurers to maintain two ratings of "AA- " or better. Triad is rated "AA" by both S&P and Fitch and "Aa3" by Moody's. Private mortgage insurers are not rated by any other independent nationally-recognized insurance industry rating organization or agency (such as the A.M. Best Company).

S&P defines insurers rated "AA" as having very strong financial security characteristics, differing only slightly from those rated higher. Fitch defines insurance companies rated "AA" as possessing very strong capacity to meet policyholder and contract obligations, risk factors that are modest, and the impact of any adverse business and economic factors is expected to be very small. Moody's defines insurers rated "Aa" as offering exceptional financial security but appearing to have somewhat larger long-term risks than companies rated "Aaa". Ratings from S&P and Fitch are modified with a "+" or "-" sign to indicate the relative position of a company within its category. Moody's uses numeric modifiers to refer to the ranking within a group - with "1" being the highest and "3" being the lowest.

When assigning a financial strength rating, S&P, Fitch, and Moody's generally consider: (i) the specific risks associated with the mortgage insurance industry, such as regulatory climate, market demand, growth, and competition; (ii) management depth, corporate strategy, and effectiveness of operations; (iii) historical operating results and expectations of current and future performance; and, (iv) long-term capital structure, the ratio of debt to equity, the ratio of risk to capital, near-term liquidity, and cash flow levels, as well as any reinsurance relationships and the financial strength ratings of such reinsurers. Ratings are based on factors relevant to policyholders, agents, insurance brokers, and intermediaries. Such ratings are not directed to the protection of investors and do not apply to any securities issued by the Company.

Rating agencies issue financial strength ratings based, in part, upon a company's performance sensitivity to various economic depression scenarios. In determining capital levels required to maintain a company's rating, the rating agencies allow the use of different forms of capital including statutory capital, reinsurance and debt. In January 1998, the Company completed a $35 million private offering of notes due January 15, 2028. The notes, which are rated "A" by S&P and "A+" by Fitch, were issued to provide additional capital considered in the rating agency's depression models.

S&P, Fitch, and Moody's will periodically review Triad's rating, as they do with all rated insurers. Ratings can be withdrawn or changed at any time by a rating agency. A reduction in the Company's rating by S&P, Fitch, or Moody's could materially impact the ability of the Company to write new business.

In January of 2003, Fitch revised its rating outlook for the U.S. private mortgage insurance industry to "Negative" from "Stable". As it relates to the mortgage insurance industry, Fitch defines a negative industry outlook as the

expectation that insurers' ratings or ratings outlook downgrades will exceed upgrades during a 12-18 month time frame and that the number of downgrades are expected to be material to the rated universe. As of the end of 2002, Fitch, S&P, and Moody's all report a "Stable" ratings outlook for Triad. A reduction in the Company's rating outlook by Fitch, S&P, or Moody's could adversely impact the Company's operations.

REINSURANCE

The use of reinsurance as a source of capital and as a risk management tool is well established within the mortgage insurance industry. Reinsurance does not legally discharge an insurer from its primary liability for the full amount of the risk it insures, although it does make the reinsurer liable to the primary insurer. There can be no assurance that the Company's reinsurers will be able to meet their obligations under the reinsurance agreements.

RISK-SHARING ARRANGEMENTS

Triad's product offerings include captive mortgage reinsurance programs whereby an affiliate of a lender reinsures a portion of the insured risk on loans originated or purchased by the lender. Triad entered the captive reinsurance market in 1999 with the LEAPSM (Lower Entry- Additional Profitability) program. The LEAP program is an excess of loss mortgage reinsurance program that provides lenders an opportunity to share in the risk and return of mortgage insurance on loans the lender originates or services. Under LEAP, the lender may elect a risk band with a flexible entry and exit point. LEAP also permits cessions greater than the 25% industry standard arrangements that existed prior to this program. Ceded premium under captive reinsurance agreements represented 12.7% of direct written premiums in 2002 compared to 6.6% in 2001.

In November 1999, Triad formed Triad Re Insurance Corporation ("Triad Re") as a wholly-owned sponsored captive reinsurance company domiciled in Vermont. Triad Re was formed to allow small and mid-sized lenders to participate in captive reinsurance arrangements with reduced up-front capital costs and without co-mingling its risk with other lenders. Triad Re was initially capitalized in February 2000, with regulatory capital of $1.0 million. As of December 31, 2002, approximately $5 million of Triad's risk in force had been ceded to sponsored captive reinsurer cells under participating agreements with Triad Re.

Triad's captive reinsurance agreements provide for trust arrangements whereby the captive reinsurer is the grantor of the trust and Triad is the beneficiary of the trust. Trusts are established to support the reinsurers' obligations under the reinsurance agreements. The trust agreement includes covenants regarding minimum and ongoing capitalization, required reserves, authorized investments, and withdrawal of assets and is funded by ceded premium and investment earnings on trust assets as well as capital contributions by the reinsurer.

The Company also has in place an agreement with a non-affiliated reinsurer in association with certain of the Company's non-captive risk sharing programs, which will indemnify the Company with respect to losses covered as defined by

the agreement. In 2002, less than one percent of the Company's direct written premium was ceded under this agreement as compared to 2.1% in 2001.

At the end of 2002, 45.7% of Triad's insurance in force had been insured under some type of risk-sharing arrangement as compared to 34.6% at the end of 2001. Risk-sharing arrangements represented 50.5% of Triad's traditional flow insurance written in 2002 as compared to 57.9% in 2001.

OTHER REINSURANCE

Certain premiums and losses are assumed from and ceded to non-affiliated insurance companies under various quota share reinsurance agreements. The ceding agreement principally provides the Company with increased capacity to write business and achieve a more favorable geographic dispersion of risk. Less than 0.1% of Triad's risk in force at December 31, 2002 and direct premiums written in 2002 were ceded in quota share arrangements to non-affiliated reinsurance companies.

Pursuant to deeper coverage requirements imposed by Fannie Mae and Freddie Mac, certain loans eligible for sale to such agencies with a loan-to-value ratio over 90% require insurance with a coverage percentage of 30% or more. Certain states limit the amount of risk a mortgage insurer may retain with respect to coverage of an insured loan to 25% of the claim amount, and, as a result, the deeper coverage portion of such insurance must be reinsured. To minimize reliance on third-party reinsurers and to permit the Company to retain the premiums and related risk on deeper coverage business, Triad reinsures this deeper coverage business with its wholly-owned subsidiary, Triad Guaranty Assurance Corporation ("TGAC"). As of December 31, 2002, TGAC had assumed approximately $59.4 million in risk from Triad.

The Company continues to maintain excess of loss reinsurance arrangements designed to protect the Company in the event of a catastrophic level of losses. The Company currently maintains $125 million of excess of loss reinsurance through non-affiliated reinsurers that have financial strength ratings of "AA" or better from Standard & Poor's.

DEFAULTS AND CLAIMS

DEFAULTS

The claim process on private mortgage insurance begins with the insurer's receipt of notification from the lender of a default on an insured's loan. Default is defined in the primary master policy as the failure by the borrower to pay, when due, an amount at least equal to the scheduled monthly mortgage payment under the terms of the mortgage. The master policy requires lenders to notify the Company of default on a mortgage payment within 10 days of either (i) the date on which the borrower becomes four months in default or (ii) the date

on which any legal proceeding affecting the loan commences, whichever occurs first. Notification is required within 45 days of default if it occurs when the first payment is due. The incidence of default is affected by a variety of factors including, but not limited to, changes in borrower income, unemployment, divorce, illness, the level of interest rates, and general borrower creditworthiness. Defaults that are not cured generally result in a claim to the Company. Borrowers may cure defaults by making all delinquent loan payments or by selling the property and satisfying all amounts due under the mortgage.

The following table shows default statistics as of December 31, 2002, and the preceding four year ends:

Default Statistics

			December 31	
	2002	2001	2000	
Number of insured loans in force.........................	190,480	159,400	123,046	10
Number of loans in default...............................	2,379	1,420	740	
Percentage of loans in default (default rate)............	1.25%	0.89%	0.60%	
Number of insured loans in force excluding bulk loans.....	171,723	141,220	-	
Number of loans in default excluding bulk loans...........	2,120	1,420	-	
Percentage of loans in default excluding bulk loans.......	1.23%	1.01%	-	
Number of bulk loans in force............................	18,757	18,180	-	
Number of bulk loans in default..........................	259	0	-	
Percentage of bulk loans in default......................	1.38%	0.00%	-	

The number of loans in default includes all reported delinquencies that are three or more payments in arrears at the reporting date and all reported delinquencies that were previously three or more payments in arrears and have not made payments to the current date.

CLAIMS

Claims result from defaults that are not cured. The frequency of claims does not directly correlate to the frequency of defaults due, in part, to the Company's loss mitigation efforts and the borrower's ability to overcome temporary financial setbacks. The likelihood that a claim will result from a default, and the amount of such claim, principally depend on the borrower's equity at the time of default and the borrower's (or the lender's) ability to sell the home for an amount sufficient to satisfy all amounts due under the mortgage, as well as the effectiveness of loss mitigation efforts. The ability to mitigate a claim is affected by the local housing market, interest rates, employment growth, the housing supply, and the borrower's desire to avoid foreclosure. During the default period, the Company works with the insured as well as the borrower in an effort to either reinstate the loan or sell the property for an amount which results in a reduced claim prior to foreclosure.

The payment of claims is not evenly spread through the coverage period. Relatively few claims are paid during the first two years following issuance of

insurance. A period of rising claim payments follows, which, based on industry experience, has historically reached its highest level in the third through sixth years after the loan origination. Thereafter, the number of claim payments made has historically declined at a gradual rate, although the rate of decline can be affected by local economic conditions. There can be no assurance that the historical pattern of claims will continue in the future.

Generally, the Company does not pay a claim for loss under the master policy if the application for insurance for the loan in question contains fraudulent information, material omissions, or misrepresentations which increase the risk characteristics of the loan. The Company's master policy also excludes any cost or expense related to the repair or remedy of any physical damage (other than "normal wear and tear") to the property collateralizing an insured mortgage loan. Such physical damage may be caused by accident, natural occurrence or otherwise.

Under the terms of the master policy, the lender is required to file a claim with the Company no later than 60 days after it has acquired borrower's title to the underlying property through foreclosure or a deed-in-lieu of foreclosure. A primary insurance claim amount includes (i) the amount of unpaid principal due under the loan; (ii) the amount of accumulated delinquent interest due on the loan (excluding late charges) to the date of claim filing; (iii) expenses advanced by the insured under the terms of the master policy, such as hazard insurance premiums, property maintenance expenses and property taxes prorated to the date of claim filing; and (iv) certain foreclosure and other expenses, including attorneys fees. Such claim amount is subject to review and possible adjustment by the Company. Depending on the applicable state foreclosure law, an average of about 12 months elapses from date of default to payment of claim on an uncured default. The Company's experience indicates that the claim amount on a policy generally ranges from 110% to 115% of the unpaid principal amount of a foreclosed loan.

Within 60 days after the claim has been filed, the Company has the option of either (i) paying the coverage percentage specified on the certificate of insurance (usually 12% to 40% of the claim), with the insured retaining title to the underlying property and receiving all proceeds from the eventual sale of the property, or (ii) paying 100% of the claim amount in exchange for the lender's conveyance of good and marketable title to the property to the Company, with the Company selling the property for its own account. The Company chooses the claim settlement option believed to cost the least. In most cases, the Company settles claims by paying the coverage percentage of the claim amount. At December 31, 2002, the Company held properties with a combined net realizable value of $1.6 million which were acquired by electing to pay 100% of the claim amount.

LOSS MITIGATION

Once a default notice is received, the Company attempts to mitigate its loss. Through proactive intervention with insured lenders and borrowers, the Company has been successful in reducing the number and severity of its claims for loss. Loss mitigation techniques include pre-foreclosure sales, property

sales after foreclosure, advances to assist distressed borrowers who have suffered a temporary economic setback, and the use of repayment schedules, refinances, loan modifications, forbearance agreements, and deeds-in-lieu of foreclosure. Such mitigation efforts typically result in a savings to the Company over the percentage coverage amount payable under the certificate of insurance. Through loss mitigation efforts, the Company paid out approximately 65% of its potential exposure on claims in 2002 and 69% of its ever-to-date exposure.

LOSS RESERVES

The Company establishes reserves to provide for the estimated costs of settling claims on loans reported in default and estimates of loans in default which have not been reported. Consistent with industry accounting practices, the Company does not establish loss reserves for future claims on insured loans currently not in default. Although the Company believes that overall reserve levels at December 31, 2002, are adequate to meet future obligations, due to the inherent uncertainty of the reserving process there can be no assurance that reserves will prove to be adequate to cover ultimate loss developments.

In determining the liability for unpaid losses related to outstanding defaults, the Company establishes loss reserves using estimated claim rates (frequency) and claim amounts (severity) to estimate ultimate losses. The Company relies on historical experience in the estimation of claim rates and claim amounts. The Company also establishes reserves for the estimated costs of settling claims ("loss adjustment expenses" or "LAE"), which include, but are not limited to, legal fees and general expenses of administering the claims settlement process, and for losses and loss adjustment expenses incurred from defaults which have occurred but have not yet been reported to the insurer ("Incurred But Not Reported" or "IBNR").

Management periodically reviews the loss reserve process in order to improve its estimate of ultimate losses. In 2001, management refined its methodology for setting loss reserves for outstanding defaults and for IBNR defaults. The enhancements made to the reserving process incorporate a more multi-dimensional analytical form, which gives effect to current economic conditions and profiles delinquencies by such factors as age, policy year, geography, and chronic late payment characteristics.

The Company's reserving process is based upon the assumption that past experience, adjusted for the anticipated effect of current economic conditions and projected future economic trends, provides a reasonable basis for estimating future events. However, estimation of loss reserves is a difficult and inexact process. Economic conditions that have affected the development of loss reserves in the past may not necessarily affect development patterns in the future in either a similar manner or degree. Due to the inherent uncertainty in estimating reserves for losses and loss adjustment expenses, there can be no assurance that reserves will be adequate to cover ultimate loss developments on loans in default, currently or in the future. The Company's profitability and financial condition could be adversely affected to the extent that the Company's estimated reserves are insufficient to cover losses on loans in default.

The following table represents a reconciliation of the beginning and ending loss reserves (net of reinsurance) for the periods indicated:

Reconciliation of Losses and Loss Adjustment Expense Reserves

	Year Ended Dece		
	(in thousan		
	2002	2001	2000
Reserve for losses and LAE, net of related reinsurance recoverables, at beginning of year	$17,981	$14,976	$14,723
Add losses and LAE incurred in respect of defaults occurring in:			
Current year (1)	14,798	14,219	11,229
Prior years (1) (2)	(735)	(5,200)	(3,642)
Total incurred losses and LAE	14,063	9,019	7,587
Deduct losses and LAE paid in respect of defaults occurring in:			
Current year	508	286	574
Prior years	10,181	5,728	6,760
Total payments	10,689	6,014	7,334
Reserve for losses and LAE, net of related reinsurance recoverables, at end of year	21,355	17,981	14,976
Reinsurance recoverables on unpaid losses and LAE, at the end of year	5	10	11
Reserve for unpaid losses and LAE, before deduction of reinsurance recoverables on unpaid losses, at end of year	$21,360	$17,991	$14,987

The top section of the above table shows losses incurred on insurance policies with respect to defaults which occurred in the current and prior periods. The amount of losses incurred relating to defaults occurring in the

current period represents the estimated amount to be ultimately paid on defaults occurring in that period. The amount of losses incurred relating to defaults occurring in prior periods represents an adjustment made in the current period for defaults which were included in the loss reserve at the end of the prior period.

The middle section of the above table shows claims paid on insurance policies with respect to defaults which occurred in the current period and in prior periods, respectively. Since it takes, on average, about 12 months for a default which is not cured to eventually develop into a paid claim, most losses paid relate to defaults occurring in prior periods.

ANALYSIS OF DIRECT RISK IN FORCE

A foundation of the Company's business strategy is proactive risk selection. The Company analyzes its portfolio in a number of ways to identify any concentrations of risk or imbalances in risk dispersion. The Company believes that the quality of its insurance portfolio is affected predominantly by (i) the quality of loan originations (including the strength of the borrower and the marketability of the property); (ii) the attributes of loans insured (including LTV ratio, purpose of the loan, type of loan instrument and type of underlying property securing the loan); (iii) the seasoning of the loans insured; (iv) the geographic dispersion of the underlying properties subject to mortgage insurance; and, (v) the quality and integrity of lenders from which the Company receives loans to insure.

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LENDER AND PRODUCT CHARACTERISTICS

The following table reflects the percentage of direct gross risk in force (as determined on the basis of information available on the date of mortgage origination) by the categories indicated on December 31, 2002 and 2001:

Direct Risk in Force

	December 31	
PRODUCT TYPE:	2002	2001
Primary	100.0%	100.0%
Pool	0.0%	0.0%
Total	100.0%	100.0%

Direct Primary Risk in Force

	December 31	
	2002	2001
DIRECT PRIMARY RISK IN FORCE (dollars in millions)	$5,791	$4,582
Lender Concentration (excludes bulk):		
Top 10 lenders (by original applicant)	58.9%	42.3%
LTV:		
95.01% and above	5.1%	2.3%
90.01% to 95.00%	42.0%	41.4%
90.00% and below	52.9%	56.3%
Total	100.0%	100.0%
Loan Type:		
Fixed	87.3%	86.2%
ARM (positive amortization) (1)	12.7%	13.8%
ARM (potential negative amortization) (2)	0.0%	0.0%
ARM (scheduled negative amortization) (2)	0.0%	0.0%
Other	0.0%	0.0%

Total	100.0%	100.0%
Mortgage Term:		
15 years and under	5.2%	3.8%
Over 15 years	94.8%	96.2%
Total	100.0%	100.0%
Property Type:		
Noncondominium (principally single-family detached)	94.6%	95.2%
Condominium	5.4%	4.8%
Total	100.0%	100.0%
Occupancy Status:		
Primary residence	94.4%	95.9%
Second home	2.1%	1.7%
Nonowner occupied	3.5%	2.4%
Total	100.0%	100.0%
Mortgage Amount:		
$200,000 or less	72.2%	70.8%
Over $200,000	27.8%	29.2%
Total	100.0%	100.0%

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(1) Refers to loans where payment adjustments are the same as mortgage interest rate adjustments.

(2) Scheduled negative amortization is defined by the Company as the increase in loan balance that will occur if interest rates do not change. Loans with potential negative amortization will not have increasing principal balances unless interest rates increase.

An important determinant of claim incidence is the relative amount of borrower's equity in the home (which at the time of origination is the down payment). For the industry as a whole, historical evidence indicates that claim incidence on loans having a LTV ratio in excess of 90% is greater than claim incidence on loans with LTV ratios equal to or less than 90%. The Company believes the higher premium rates charged on high LTV loans adequately reflects the additional risk.

Approximately 5.1% of the Company's risk in force is comprised of loans with an LTV greater than 95%. These high LTV loans are offered primarily to low and moderate income borrowers. The Company believes that these loans have higher risks than its other insured business and has often attracted borrowers with weak credit histories, generally resulting in higher loss ratios. In keeping with the Company's established risk strategy, the Company has not aggressively solicited this segment of the industry. The Company does not routinely delegate the underwriting of high LTV loans.

In 2000 the State of Illinois Insurance Department, as well as the insurance departments of several other states, began to permit mortgage insurers to write coverage on loans with LTV's in excess of 97% up to 100% and, in certain instances, up to 103%. This determination was made in response to the development by certain entities in the mortgage securitization market, including Fannie Mae and Freddie Mac, of programs that allowed LTV's in excess of 97%.

These programs are designed to accommodate the credit-worthy borrower who lacks the ability or otherwise chooses not to provide a down payment on a home. The Company accepts loans with LTV's greater than 97% on a limited basis.

The Company actively pursues only positively amortizing ARMs with industry standard caps. Payments on these loans adjust fully with interest rate adjustments. To date, the performance of the Company's ARM loans has been consistent with that of its fixed rate portfolio. However, since historical claim frequency data on ARMs has not yet been tested during a prolonged period of economic stress, there can be no assurance that claim frequency on ARMs may not eventually be higher, particularly during a period of rising interest rates combined with decreasing housing prices. In its normal course of operations, the Company's existing underwriting policy does not permit coverage of ARMs with "scheduled" negative amortization. ARMs with "potential" negative amortization characteristics due to possible interest rate increases and borrower payment option changes are accepted under limited conditions for approved lenders.

Historical evidence indicates that higher-priced properties experience wider fluctuations in value than moderately priced residences. These fluctuations exist primarily because there is a smaller pool of qualified buyers for higher-priced homes which, in turn, reduces the likelihood of achieving a quick sale at fair market value when necessary to avoid a default.

The Company believes that 15-year mortgages present a lower level of risk than 30-year mortgages, primarily as a result of the faster amortization and the more rapid accumulation of borrower equity in the property. Accordingly, the Company charges lower premium rates on these loans than on comparable 30-year mortgages.

The Company believes that the risk of claim is also affected by the type of property securing the insured loan. In management's opinion, loans on single-family detached housing are subject to less risk of claim incidence than loans on other types of properties. The Company believes that attached housing types, particularly condominiums and cooperatives, are a higher risk because in most areas condominiums and cooperatives tend to be more susceptible to downward fluctuations in value than single-family detached dwellings in the same market.

Loans on primary residences that were owner occupied at the time of loan origination constituted approximately 94% of the Company's risk in force at December 31, 2002. Because management believes that loans on non-owner occupied properties represent a substantially higher risk of claim incidence and are subject to greater value declines than loans on primary homes, the Company does not actively pursue these loans.

The Company's book of business is less mature than that of the private mortgage insurance industry as a whole, with the Company's direct risk in force having a weighted average life of 2.3 years at December 31, 2002 and 2.6 years at December 31, 2001, compared to an estimated industry average of 2.8 years at December 31, 2002.

The following table shows the percentage of direct risk in force as of December 31, 2002, for policies written from 1988 through 2002, as well as the cumulative loss ratio (calculated as direct losses paid divided by direct premiums written, in each case for a particular certificate year) which has developed through December 31, 2002, for the policies written during the years indicated and excludes the effects of reinsurance:

Certificate Year	Direct Risk in Force (in millions)	Percent of Total	Cumulative Ratio of Losses Paid to Premiums Written(1)
1988	$ 0.4	0.0%	15.3%
1989	0.4	0.0	24.0
1990	0.9	0.0	18.7
1991	3.7	0.1	11.9
1992	9.4	0.2	8.5
1993	34.2	0.6	5.2
1994	30.0	0.5	10.1
1995	50.1	0.9	12.4
1996	79.9	1.4	13.1
1997	148.8	2.5	8.4
1998	403.0	7.0	4.6
1999	346.4	6.0	3.7
2000	314.4	5.4	11.2
2001	1,730.8	29.9	1.4
2002	2,638.5	45.5	0.0
Total	$ 5,790.9	100.0%	

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(1) Claim activity is not spread evenly throughout the coverage period of the book of business. Based on the Company's and the industry's historical experience, claims incidence is highest in the third through sixth years after loan origination, and relatively few claims are paid during the first two years after loan origination. Thus, the cumulative loss experience of recent certificate years is not indicative of ultimate losses.

The above table reflects a relatively higher cumulative ratio of losses paid to premium written for the 2000 policy year at this stage of development. This is due, in part, to the high level of refinancing for this policy year and the resulting lower aggregate level of premium written.

GEOGRAPHIC DISPERSION

The following tables reflect the percentage of direct risk in force on the Company's book of business (by location of property) for the top ten states and the top ten metropolitan statistical areas ("MSAs") as of December 31, 2002:

Top Ten States	December 31 2002	Top Ten MSAs	December 31 2002
California	11.9%	Chicago, IL	4.6%
Florida	7.8	Atlanta, GA	3.1
Texas	7.7	Los Angeles/Long Beach, CA	2.8
North Carolina	5.6	Phoenix/Mesa, AZ	2.7
Georgia	5.5	Houston, TX	2.1
Illinois	5.1	Riverside/San Bernardino, CA	1.7
Pennsylvania	3.9	Dallas, TX	1.5
Arizona	3.7	New York, NY	1.5
Colorado	3.4	Denver, CO	1.4
New Jersey	3.3	Philadelphia, PA	1.3
Total	57.9%	Total	22.7%

While the Company continues to diversify its risk in force geographically, a prolonged regional recession, particularly in its high concentration areas, or a prolonged national economic recession, could significantly increase loss development.

INVESTMENT PORTFOLIO

Income from its investment portfolio is one of the Company's primary sources of cash flow to support its operations and claims payments. The Company has an investment advisory agreement with CML for management of its portfolio.

The Company follows an investment policy which requires: (i) 80% of its investment portfolio (together with cash assets) to consist of cash, short-term investments, and debt securities (including redeemable preferred stocks) which, at the date of purchase, were rated investment grade by a nationally recognized rating agency (e.g.,"BBB-" or better by S&P), and (ii) at least 50% of its investment portfolio (together with cash assets) to consist of cash, cash equivalents, and securities which, at the date of purchase, were rated one of the two highest investment grades by a nationally recognized rating agency.

At December 31, 2002, the Company's total investment portfolio had a fair market value of $344.6 million. The investment portfolio was composed of approximately 87% fixed maturity securities, 3% equities, and 10% short-term investments.

Liquidity is sought through cash equivalent investments and through diversification and investment in publicly traded securities. The Company attempts to maintain a level of liquidity and a duration in its investment portfolio consistent with its business outlook and the expected timing, direction, and degree of changes in interest rates. As of December 31, 2002, no investment in the securities of any single issuer (other than the U.S. government and its agencies) exceeded 2% of the Company's investment portfolio.

The Company actively monitors investment securities considered to be at risk for impairment. When the Company determines that a decline in the value of a security below its amortized cost is other-than-temporary, an impairment loss has occurred. In the event of impairment, the Company writes down the cost basis of the security to its fair value and recognizes a realized loss for the amount of the writedown. During 2002, the Company realized approximately $2.0 million of impairment writedowns on securities held in its portfolio.

The Company's investment policies and strategies are subject to change depending upon regulatory, economic, and market conditions and the existing or anticipated financial condition and operating requirements, including the tax position, of the Company.

The following table shows the results of the Company's investment portfolio for the periods indicated:

INVESTMENT PORTFOLIO RESULTS
(dollar amounts in thousands)

	2002	2001	2000	1999	199
Average investments (1)................	$301,434	$252,509	$212,029	$183,988	$151,71
Pre-tax net investment income..........	$ 16,099	$ 14,765	$ 12,645	$ 10,546	$ 9,28
Effective pre-tax yield (1)............	5.3%	5.8%	6.0%	5.7%	6.1
Tax-equivalent yield-to-maturity (2)...	7.9%	8.0%	8.2%	7.7%	7.9
Pre-tax realized investment (loss) gain	$(2,519)	$ 297	$ 286	$ 1,153	$ 88

The diversification of the Company's investment portfolio at December 31, 2002, is shown in the table below:

Investment Portfolio Diversification
(dollar amounts in thousands)

	December 31, 2002		
	Amortized Cost	Fair Value	Percent(

Available-for-sale securities:			
Fixed maturity securities:			
U. S. government obligations..............	$ 10,189	$ 10,596	3.1%
Mortgage-backed bonds......................	167	186	0.1
State and municipal bonds.................	231,210	242,336	70.3
Corporate bonds...........................	43,171	45,352	13.2
Total fixed maturities................	284,737	298,470	
Equity securities.........................	11,266	10,808	3.1
Total available-for-sale securities....	296,003	309,278	
Short-term investments......................	35,303	35,303	10.2
	$331,306	$344,581	100.0%

The following table shows the scheduled maturities at December 31, 2002, of the fixed maturity securities held in the Company's investment portfolio:

Investment Portfolio Scheduled Maturity
(dollar amounts in thousands)

	December 31, 2002	
	Fair Value	Percent
One year or less........................	$ 4,115	1.4%
After one year through five years........	17,000	5.7
After five years through ten years.......	35,366	11.8
After ten years though twenty years......	165,662	55.5
After twenty years......................	76,141	25.5
Mortgage-backed securities (1)..........	186	0.1
Total.........................	$298,470	100.0%

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(1) Substantially all of these securities are guaranteed by U.S. Government Agencies.

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The following table shows the ratings of the Company's investment portfolio as of December 31, 2002 and December 31, 2001:

Investment Portfolio by Rating

(dollar amounts in thousands)

Rating(1)	December 31, 2002 Fair Value	December 31, 2002 Percent	Dec Fair V
Fixed maturities:			
U.S. Treasury and U.S. agency bonds.....	$ 9,040	3.0%	$ 12,
AAA....................................	185,346	62.1	119,
AA.....................................	32,114	10.8	28,
A......................................	42,433	14.2	42,
BBB....................................	14,784	5.0	26,
BB.....................................	8,534	2.9	9,
B......................................	2,437	0.8	4,
C......................................	361	0.1	
D......................................	38	0.0	
NR.....................................	3,383	1.1	2,
Total fixed maturities............	$298,470	100.0%	$245,
Equities:			
AAA....................................	$ 361	3.3%	$
AA.....................................	1,432	13.2	2,
A......................................	4,622	42.8	4,
BBB....................................	2,132	19.7	1,
BB.....................................	180	1.7	
B......................................	2,081	19.3	2,
Total equities..................	$ 10,808	100.0%	$ 12,
Total portfolio................................	$309,278		$258,

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REGULATION

DIRECT REGULATION

The Company's insurance subsidiaries are subject to comprehensive, detailed regulation, principally for the protection of policyholders and their borrowers rather than for the benefit of investors, by the insurance departments of the various states in which each insurer is licensed to transact business. Although their scope varies, state insurance laws in general grant broad powers to supervisory agencies or officials to examine companies and to enforce rules or exercise discretion touching almost every significant aspect of the insurance business. These include the licensing of companies to transact business, and varying degrees of control over claims handling practices, reinsurance requirements, premium rates, the forms and policies offered to customers, financial statements, periodic financial reporting, permissible investments, and adherence to financial standards relating to statutory surplus, dividends, and other criteria of solvency intended to assure the satisfaction of obligations to policyholders.

All states have enacted legislation that requires each insurance company in a holding company system to register with the insurance regulatory authority of its state of domicile and furnish to the regulator financial and other information concerning the operations of companies within the holding company system that may materially affect the operations, management, or financial condition of the insurers within the system. Generally, all transactions within a holding company system between an insurer and its affiliates must be fair and reasonable and the insurer's statutory policyholders' surplus following any transaction with an affiliate must be both reasonable in relation to its outstanding liabilities and adequate for its needs. Most states also regulate transactions between insurance companies and their parents and/or affiliates. There can be no assurance that state regulatory requirements will not become more stringent in the future and have an adverse effect on the Company.

Because the Company is an insurance holding company and Triad is an Illinois domiciled insurance company, the Illinois insurance laws regulate, among other things, certain transactions in the Company's Common Stock and certain transactions between Triad and the Company or affiliates. Specifically, no person may, directly or indirectly, offer to acquire or acquire beneficial ownership of more than 10% of any class of outstanding securities of the Company or its subsidiaries unless such person files a statement and other documents with the Illinois Director of Insurance and obtains the Director's prior approval. In addition, material transactions between Triad and the Company or affiliates are subject to certain conditions, including that they be "fair and reasonable." These restrictions generally apply to all persons controlling or under common control with the insurance companies. "Control" is presumed to exist if 10% or more of Triad's voting securities is owned or controlled, directly or indirectly, by a person, although the Illinois Director may find that "control" in fact does or does not exist where a person owns or controls either a lesser or greater amount of securities. Other states in addition to Illinois may regulate affiliated transactions and the acquisition of control of the Company or its insurance subsidiaries.

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Triad is required by Illinois insurance laws to provide for a contingency reserve in an amount equal to at least 50% of earned premiums in its statutory financial statements. Such reserves must be maintained for a period of 10 years except in circumstances where high levels of losses exceed regulatory thresholds. The contingency reserve, designed to provide a cushion against the effect of adverse economic cycles, has the effect of reducing statutory surplus and restricting dividends and other distributions by Triad. At December 31, 2002, Triad had statutory policyholders' surplus of $112.9 million and a statutory contingency reserve of $245.0 million. At December 31, 2001, Triad had statutory policyholders' surplus of `$105.3 million and a statutory contingency reserve of $193.7 million. Triad's statutory earned surplus was $29.2 million at December 31, 2002 and $21.6 million at December 31, 2001, reflecting growth in statutory net income greater than the increase in the statutory contingency reserve.

The insurance laws of Illinois provide that Triad may pay dividends only out of statutory earned surplus and further establish standards limiting the maximum amount of dividends which may be paid without prior approval by the Illinois Director. Under such standards, Triad may pay dividends during any 12-month period equal to the greater of (i) 10% of the preceding year-end statutory policyholders' surplus or (ii) the preceding year's net income. In addition, insurance regulatory authorities have broad discretion to limit the payment of dividends by insurance companies.

Although not subject to a rating law in Illinois, premium rates for mortgage insurance are subject to regulation in most states to protect policyholders against the adverse effects of excessive, inadequate, or unfairly discriminatory rates and to encourage competition in the insurance marketplace. Any increase in premium rates must be justified, generally on the basis of the insurer's loss experience, expenses, and future trend analysis. The general mortgage default experience also may be considered.

TGAC was organized as a subsidiary of Triad under the insurance laws of the state of Illinois in December 1994, and as an Illinois domiciled insurer, is subject to all Illinois insurance regulatory requirements applicable to Triad.

Triad Re was organized as a subsidiary of Triad under the insurance laws of the state of Vermont in November 1999, and as a Vermont domiciled insurer, is subject to Vermont insurance regulatory requirements.

Triad, TGAC, and Triad Re are each subject to examination of their affairs by the insurance departments of every state in which they are licensed to transact business. The Illinois Insurance Director and Vermont Insurance Commissioner periodically conduct financial examinations of insurance companies domiciled in their states. The most recent examinations of Triad and TGAC were issued by the Illinois Insurance Department on February 3, 2000, and covered the

period January 1, 1995, through December 31, 1998. No material recommendations were made as a result of these examinations.

A number of states generally limit the amount of insurance risk which may be written by a private mortgage insurer to 25 times the insurer's total policyholders' surplus. This restriction is commonly known as the risk-to-capital requirement.

Mortgage insurers are generally restricted by state insurance laws and regulations to writing residential mortgage guaranty insurance business only. This restriction generally prohibits Triad from using its capital resources in support of other types of insurance and restricts its noninsurance business. However, noninsurance businesses of the Company would not generally be subject to regulation under state insurance laws.

Regulation of reinsurance varies by state. Except for Illinois, Wisconsin, New York, Ohio, and California, most states have no special restrictions on reinsurance that would apply to private mortgage insurers other than standard reinsurance requirements applicable to property and casualty insurance companies. Certain restrictions, including reinsurance trust fund or letter of credit requirements, apply under Illinois law to domestic companies and under the laws of several other states to any licensed company ceding business to unlicensed reinsurers. If a reinsurer is not admitted or approved, the company doing business with the reinsurer cannot take credit in its statutory financial statements for the risk ceded to such reinsurer absent compliance with the reinsurance security requirements. In addition, some states in which Triad does business have limited private mortgage insurers to a maximum policy coverage limit of 25% of the insured's claim amount and require coverages in excess of 25% to be reinsured through another licensed mortgage insurer.

The National Association of Insurance Commissioners ("NAIC") adopted a risk-based capital ("RBC") formula designed to help regulators identify property and casualty insurers in need of additional capital. The RBC formula establishes minimum capital needs based upon risks applicable to individual insurers, including asset risks, off-balance sheet risks (such as guarantees for affiliates and contingent liabilities), and credit risks (such as reinsurance ceded and receivables). The NAIC and the Illinois Department of Insurance currently do not require mortgage guaranty insurers to file RBC analysis in their annual statements.

As the dominant purchasers and sellers of conventional mortgage loans and beneficiaries of private mortgage guaranty insurance, Government Sponsored Enterprises (GSEs) Fannie Mae and Freddie Mac impose requirements on private mortgage insurers in order for such insurers to be eligible to insure loans sold to such agencies. Freddie Mac's current eligibility requirements impose limitations on the types of risk insured, standards for geographic and customer diversification of risk, procedures for claims handling, acceptable underwriting practices, and financial requirements which generally mirror state insurance regulatory requirements. These requirements are subject to change from time to time. Freddie Mac most recently modified its eligibility guidelines in March 2002.

Fannie Mae is in the process of revising its approval requirements for mortgage insurers. The new requirements, which have not yet been finalized,

would require prior approval by Fannie Mae for many of Triad's activities and new products, allow for other approved types of mortgage insurers rated less than "AA," and give Fannie Mae increased rights to revise the eligibility standards of mortgage insurers. The form the eligibility guidelines ultimately will take is unknown at this time, but new guidelines, if issued, could have an adverse effect on the Company.

Triad is an approved mortgage insurer for both Fannie Mae and Freddie Mac and meets all existing eligibility requirements. There can be no assurance, however, that such requirements or the interpretation of the requirements will not change or that Triad will continue to meet such requirements. In addition, to the extent Fannie Mae or Freddie Mac assumes default risk for itself that would otherwise be insured, changes current guarantee fee arrangements, allows alternative credit enhancements, alters or liberalizes underwriting guidelines on low down payment mortgages it purchases, or otherwise changes its business practices or processes with respect to such mortgages, private mortgage insurers may be affected. Triad could be particularly adversely affected if changes in eligibility requirements regarding captive arrangements that permit premium cessions greater than 25% were to impede Triad's ability to offer this form of captive reinsurance.

Fannie Mae and Freddie Mac both accept reduced mortgage insurance coverage from lenders that deliver loans approved by the their automated underwriting services, Desktop Underwriter and Loan Prospector, respectively. Generally, Fannie Mae's and Freddie Mac's reduced mortgage insurance coverage options provide for: (i) across-the-board reductions in required MI coverage on 30-year fixed-rate loans recommended for approval by the their automated underwriting services to the levels in effect in 1994; (ii) reduction in required MI coverage for loans with only a 5% down payment (a 95% LTV) from 30% to 25% of the mortgage loan covered by MI; and, (iii) reduction in required MI coverage for loans with a 10% down payment (a 90% LTV loan) from 25% to 17% of the mortgage loan covered by MI. In addition, Fannie Mae and Freddie Mac have implemented other programs that further reduce MI coverage upon the payment of an additional fee by the lender. Under this option, a 95% LTV loan will require 18% of the mortgage loan to have mortgage insurance coverage. Similarly, a 90% LTV loan will require 12% of the mortgage loan to have mortgage insurance. In order for the homebuyer to have MI at these levels, such loans would require a payment at closing or a higher note rate.

Certain national mortgage lenders and a large segment of the mortgage securitization market, including Fannie Mae and Freddie Mac, generally will not purchase mortgages or mortgage-backed securities unless the private mortgage insurance on the mortgages has been issued by an insurer with a financial strength rating of at least "AA-" from S&P or Fitch or a rating of at least "Aa3" from Moody's. Fannie Mae and Freddie Mac require mortgage guaranty insurers to maintain two ratings of "AA-" or better. Triad has a financial strength rating of "AA" from S&P and Fitch and a rating of "Aa3" from Moody's. S&P, Fitch, and Moody's consider Triad's consolidated operations and financial

position in determining the rating. There can be no assurance that Triad's rating, the method by which this rating is determined, or the eligibility requirements of Fannie Mae and Freddie Mac will not change.

The Real Estate Settlement and Procedures Act of 1974 ("RESPA") applies to most residential mortgages insured by Triad, and related regulations provide that the provision of services involving mortgage insurance is a "settlement service" for purposes of loans subject to RESPA. Subject to limited exceptions, RESPA prohibits persons from accepting anything of value for referring real estate settlement services to any provider of such services. Although many states prohibit mortgage insurers from giving rebates, RESPA has been interpreted to cover many non-fee services as well.

Various lawsuits filed in US district court in Augusta, Georgia as well as other jurisdictions against each of the national mortgage insurers, including the Company, assert that defendant mortgage insurers have violated RESPA guidelines by offering pool insurance, captive reinsurance, contract underwriting, and other services at preferential below market prices as an illegal inducement to persuade lenders to use those mortgage insurers for primary insurance coverage. The lawsuits seek class action status. Four mortgage insurers have entered into settlements of the lawsuits. In August 2000, Triad filed a motion for summary judgment in the case which was granted on February 13, 2001. The summary judgment was overturned by the 11th Circuit Court of Appeals in January 2002. In overturning the judgment, the court addressed the applicability of the McCarron-Ferguson Act (regarding federal preemption of state law) to the case; it did not address the merits of the case. Triad subsequently filed a motion opposing class certification which was granted. Plaintiffs have appealed this decision. Triad believes that its products and services comply with RESPA as well as all other applicable laws and regulations. While the ultimate outcome of the RESPA litigation is uncertain, the litigation is not expected to have a material adverse affect on the financial position of the Company.

Most originators of mortgage loans are required to collect and report data relating to a mortgage loan applicant's race, nationality, gender, marital status, and census tract to HUD or the Federal Reserve under the Home Mortgage Disclosure Act of 1975 ("HMDA"). The purpose of HMDA is to detect possible discrimination in home lending and, through disclosure, to discourage such discrimination. Mortgage insurers are not required pursuant to any law or regulation to report HMDA data, although under the laws of several states, mortgage insurers are currently prohibited from discriminating on the basis of certain classifications. The active mortgage insurers, through their trade association, the Mortgage Insurance Companies of America ("MICA"), have entered into an agreement with the Federal Financial Institutions Examinations Council ("FFIEC") to report the same data on loans submitted for insurance as is required for most mortgage lenders under HMDA.

Upon request by an insured, Triad must cancel the mortgage insurance for a mortgage loan. Fannie Mae and Freddie Mac guidelines, as well as several existing and proposed state statutes, contain various provisions which give borrowers the right to request cancellation of borrower-paid mortgage insurance when specified conditions are met.

The Homeowners Protection Act of 1998 provides for certain termination and cancellation requirements for borrower-paid mortgage insurance and requires mortgage lenders to periodically update borrowers about their private mortgage

insurance. Under the legislation, borrowers may generally request termination of mortgage insurance once the LTV reaches 80%, provided that certain conditions are met. The legislation further requires lenders to automatically cancel borrower-paid private mortgage insurance when home equity reaches 78% if certain conditions are met. The legislation also requires lenders to notify borrowers that they have private mortgage insurance and requires certain disclosures to borrowers of their rights under the law. Because most mortgage borrowers who obtain private mortgage insurance do not achieve 20% equity in their homes before the homes are sold or the mortgages refinanced, the Company has not lost and does not expect to lose a significant amount of its insurance in force due to the enactment of this legislation.

INDIRECT REGULATION

The Company, Triad, and Triad's subsidiaries are also indirectly, but significantly, impacted by regulations affecting purchasers of mortgage loans, such as Fannie Mae and Freddie Mac, and regulations affecting governmental insurers, such as the FHA and the Department of Veterans Affairs ("VA"), as well as lenders. Private mortgage insurers, including Triad, are highly dependent upon federal housing legislation and other laws and regulations which affect the demand for private mortgage insurance and the housing market generally. For example, housing legislation enacted in 1992 permits up to 100% of borrower closing costs to be financed by loans insured by FHA, a significant increase from the previous 57% limit. Also, in 1994, HUD reduced the initial premium (payable at loan origination) for FHA insurance from 3.0% to 2.25%. FHA loan limits are adjusted in response to changes in the Freddie Mac/Fannie Mae conforming loan limits. Currently, the maximum individual loan amount that the FHA can insure is $280,749. The maximum FHA loan amount is subject to adjustment and may increase in the future. While there is no maximum VA loan amount, lenders will generally limit VA loans to $240,000 according to the VA. This implied maximum VA loan amount may also increase in the future. Any future legislation that increases the number of persons eligible for FHA or VA mortgages could have an adverse effect on Triad's ability to compete with the FHA or VA.

Pursuant to the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 ("FIRREA"), the Office of Thrift Supervision ("OTS") issued risk-based capital rules for savings institutions. These rules establish a lower capital requirement for a low down payment loan that is insured with private mortgage insurance, as opposed to remaining uninsured. Furthermore, the guidelines for real estate lending policies applicable to savings institutions and commercial banks provide that such institutions should require appropriate credit enhancement in the form of either mortgage insurance or readily marketable collateral for any high LTV mortgage. To the extent FIRREA's risk-based capital rules or the guidelines for real estate lending policies applicable to savings institutions and commercial banks are changed in the future, some of the benefits of FIRREA and the guidelines for real estate lending policies to the mortgage insurance industry, including Triad, may be curtailed or eliminated.

In the first quarter of 2002, the Office of Federal Housing Enterprise Oversight (OFHEO) released its risk-based capital rules for Fannie Mae and Freddie Mac. The regulation provides capital guidelines for Fannie Mae and Freddie Mac in connection with their use of various types of credit protection counterparties including a more preferential capital credit for insurance from a "AAA" rated private mortgage insurer than for insurance from a "AA" rated private mortgage insurer. The phase-in period for the new rule is ten years. The Company does not believe the new rules had an adverse impact on it in 2002 nor that the new rules will have a significant adverse impact on the Company in the future. However, if the new capital guidelines result in future changes to the preferences of Fannie Mae and Freddie Mac regarding their use of the various types of credit enhancements or their choice of mortgage insurers based on their credit rating, the Company's financial condition could be significantly harmed.

Fannie Mae and Freddie Mac each provide their own automated underwriting system to be used by mortgage originators selling mortgages to them. These systems, which are provided by Triad as a service to the Company's contract underwriting customers, streamline the mortgage process and reduce costs. The increased acceptance of these products is driving the automation of the process by which mortgage originators sell loans to Fannie Mae and Freddie Mac, a trend which is expected to continue. As a result, Fannie Mae and Freddie Mac could develop the capability to become the decision maker regarding selection of a private mortgage insurer for loans sold to them, a decision traditionally made by the mortgage originator. The Company, however, is not aware of any plans to do so. The concentration of purchasing power that would be attained if such development in fact occurred could adversely affect, from the Company's perspective, the terms on which mortgage insurance is written on loans sold to Fannie Mae and Freddie Mac.

Additionally, proposals have been advanced which would allow Fannie Mae and Freddie Mac additional flexibility in determining the amount and nature of alternative recourse arrangements or other credit enhancements which they could utilize as substitutes for private mortgage insurance. The Company cannot predict if or when any of the foregoing legislation or proposals will be adopted, but if adopted and depending upon the nature and extent of revisions made, demand for private mortgage insurance may be adversely affected. There can be no assurance that other federal laws affecting such institutions and entities will not change, or that new legislation or regulation will not be adopted.

In 1996, the Office of the Comptroller of the Currency ("OCC") granted permission to national banks to have a reinsurance company as a wholly-owned operating subsidiary for the purpose of reinsuring mortgage insurance written on loans originated, purchased, or serviced by such banks. Several subsequent applications by banks to offer reinsurance have been approved by the OCC including at least one request to engage in quota share reinsurance. The OTS, which regulates thrifts and savings institutions, has approved applications for such captive arrangements as well. The reinsurance subsidiaries of national banks or savings institutions could become significant competitors of the Company in the future.

In November 1999, the Gramm-Leach-Bliley Act, also known as the Financial Services Modernization Act of 1999, became effective and allows holding companies of banks also to own a company that underwrites insurance. As a result

of this Act, banking organizations that previously were not allowed to be affiliated with insurance companies may now do so. Management does not know to what extent this expanded opportunity for banks will be utilized or how it will affect the mortgage insurance industry. However, the evolution of federal law making it easier for banks to engage in the mortgage guaranty business through affiliates may subject mortgage guaranty insurers to more intense competition and risk-sharing with bank lender customers.

WEB SITE ACCESS TO COMPANY REPORTS

The Company makes available, free of charge, through its Web site, its Annual Report on Form 10-K, quarterly reports on Form 10-Q, and current reports on Form 8-K, and amendments to those reports as soon as reasonably practicable after this material is electronically filed with or furnished to the Securities and Exchange Commission. This material may be accessed by visiting the Investors/Financial Information/SEC Filing Information section of the Company's Web site at www.triadguaranty.com.

EMPLOYEES

As of December 31, 2002, the Company employed 209 persons. Employees are not covered by any collective bargaining agreement. The Company considers its employee relations to be satisfactory.

EXECUTIVE OFFICERS

The executive officers of the Company are as follows:

Name	Position	Age
William T. Ratliff, III	Chairman of the Board of the Company and Triad	49
Darryl W. Thompson	President, Chief Executive Officer, and Director of the Company and Triad	62
Ron D. Kessinger	Executive Vice President and Chief Financial Officer of the Company and Triad	48
Kenneth N. Lard	Executive Vice President of the Company and Executive Vice President, Sales and Marketing of Triad	44
Earl F. Wall	Senior Vice President, Secretary, and General Counsel of the Company and Triad	45
Michael R. Oswalt	Senior Vice President, Treasurer, and Principal Accounting Officer	41

	of the Company and Triad	
Kenneth C. Foster	Senior Vice President of Triad	54

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WILLIAM T. RATLIFF, III has been the Chairman of the Board of the Company since 1993. Mr. Ratliff has also been Chairman of the Board of Triad since 1989, President of CIC since 1990 and was President and General Partner of CML from 1987 to 1995. Since 1995, he has served as President of Collat, Inc., CML's corporate general partner. Mr. Ratliff has been Chairman of New South Federal Savings Bank ("New South") since 1986 and President and Director of New South Bancshares, Inc., New South's parent company, since 1994. From March 1994, until December 1996, Mr. Ratliff served as President of Southwide Life Insurance Corp., of which he had been Executive Vice President since 1993. Mr. Ratliff joined CML in 1981 after completing his doctoral degree with a study of planning processes in an insurance company. Previously, he worked as an educator, counselor, and organizational consultant.

DARRYL W. THOMPSON has been the President, Chief Executive Officer and a Director of the Company since 1993. Mr. Thompson has also been President, Chief Executive Officer, and a Director of Triad since its inception in 1987. From 1986 to 1989, Mr. Thompson also served as President and Chief Executive Officer of Triad Life Insurance Company, which sold mortgage insurance products. From 1976 to 1985, Mr. Thompson served as Senior Vice President/Southeast Division Manager of MGIC. Mr. Thompson joined MGIC in 1972.

RON D. KESSINGER has been Executive Vice President and Chief Financial Officer of the Company since December 1999. Mr. Kessinger has been Chief Financial Officer of Triad since November 1999 and Executive Vice President of Insurance Operations of Triad since June 1996. Mr. Kessinger was Vice President of Claims and Administration of Triad from January 1991 to June 1996. From 1985 to 1991, Mr. Kessinger was employed by Integon Mortgage Guaranty Insurance Corporation, most recently serving as Senior Vice President of Operations. Prior to joining Integon Mortgage Guaranty Insurance Corporation, Mr. Kessinger was employed by the parent company of Integon Mortgage Guaranty Insurance Corporation.

KENNETH N. LARD has been Executive Vice President of the Company and Executive Vice President, Sales and Marketing of Triad since February 2003. Mr. Lard was Senior Vice President, Sales and Marketing of Triad from June 2002 to January 2003. From November 1997 to May 2002, Mr. Lard was Senior Vice President, National Sales Director of Triad. From November 1995 to September 1996 Mr. Lard was Vice President, National Accounts of Triad. Prior to joining Triad, Mr. Lard was employed by Signet Bank from 1987 to 1995, as Vice President, Capitol Markets Division and most recently as Vice President, Secondary Marketing. Mr. Lard has been with Triad for 7 years and has over 20 years experience in the mortgage industry.

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EARL F. WALL has been Senior Vice President of Triad since November 1999, General Counsel of Triad since January 1996, and Secretary since June 1996. Mr. Wall was Vice President of Triad from 1996 till 1999. Mr. Wall has been Senior Vice President of the Company since December 1999, and Secretary and General Counsel of the Company since September 1996. Mr. Wall was Vice President of the Company from 1996 to 1999. From 1982 to 1995, Mr. Wall was employed by Integon in a number of capacities including Vice President, Associate General Counsel, and Director of Integon Life Insurance Corporation and Georgia International Life Insurance Corporation, Vice President, and General Counsel of Integon Mortgage Guaranty Insurance Corporation, and Vice President, General Counsel, and Director of Marketing One, Inc.

MICHAEL R. OSWALT has been Senior Vice President and Treasurer of the Company since December 1999. Mr. Oswalt has been a Senior Vice President and Treasurer of Triad since November 1999. Mr. Oswalt was Controller of the Company from March 1994 to October 2001 and he was Controller of Triad from June 1996 to October 2001. Mr. Oswalt was Vice President of the Company and Triad from December 1994 to December 1999. Mr. Oswalt previously served as Vice President and Controller of CIC and Southwide Life Insurance Corp. from February 1994, until June 1996. From January 1993, to February 1994, Mr. Oswalt was employed by Complete Health Services, Inc. where he performed internal audit services. From 1991 to 1993, Mr. Oswalt was employed by Arthur Andersen & Co. Prior to joining Arthur Andersen & Co., Mr. Oswalt was employed by Deloitte & Touche from 1988 to 1991. Mr. Oswalt is a certified public accountant.

KENNETH C. FOSTER has been Senior Vice President, Risk Management of Triad since April 2002. From June 2001 to April 2002 Mr. Foster was Senior Vice President, Product Development of Triad. Prior to joining Triad, Mr. Foster was Principal of Applied Mortgage Solutions from 1994 to 2001. Previously Mr. Foster was employed by MGIC from 1980 to 1994, most recently as Vice President of Business/Information Development. Mr. Foster has been associated with Triad for 8 years and in the insurance/mortgage industry for over 30 years.

Officers of the Company serve at the discretion of the Board of Directors of the Company.

ITEM 2. PROPERTIES.

As of December 31, 2002, the Company leases office space in its Winston-Salem headquarters and its twelve underwriting offices located throughout the country comprising approximately 77,000 square feet under leases expiring between 2003 and 2012 and which require annual lease payments of approximately $1.3 million in 2003. With respect to all facilities, the Company either has renewal options or believes it will be able to obtain lease renewals on satisfactory terms. The Company believes its existing properties are well utilized and are suitable and adequate for its present circumstances.

The Company maintains mid-range and micro-computer systems from its corporate data center located in its headquarters building to support its data processing requirements for accounting, claims, marketing, risk management, and underwriting. The Company has in place back-up procedures in the event of emergency situations.

ITEM 3. LEGAL PROCEEDINGS.

The Company is involved in litigation in the ordinary course of business. No pending litigation is expected to have a material adverse affect on the financial position of the Company.

Triad is a defendant in Patton v. Triad. This action was commenced on June 30, 2000 with the filing of a complaint in Federal District Court for the Southern District of Georgia seeking class action status on behalf of a nationwide class of home mortgage borrowers. The complaint alleges that Triad violated the Real Estate Settlement Procedures Act ("RESPA") by entering into transactions with lenders (including captive mortgage reinsurance and contract underwriting) that were not properly priced, in return for the referral of mortgage insurance. In August 2000, Triad filed a motion for summary judgement in the case which was granted on February 13, 2001. The summary judgement was overturned by the 11th Circuit Court of Appeals in January 2002. In overturning the judgement, the court addressed the applicability of the McCarron-Ferguson Act (regarding federal preemption of state law) to the case; it did not address the merits of the case. Triad subsequently filed a motion opposing class certification which was granted. Plaintiffs have appealed this decision. While the ultimate outcome of the RESPA litigation is uncertain, the litigation is not expected to have a material adverse affect on the financial position of the Company.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

None.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

The Company's Common Stock trades on The Nasdaq National Market(R) under the symbol "TGIC." At December 31, 2002, 14,159,601 shares were issued and outstanding. The following table sets forth the highest and lowest closing prices of the Company's Common Stock, $0.01 par value, as reported by Nasdaq during the periods indicated.

	2002		2001	
	High	Low	High	Low
First Quarter..........	$43.470	$34.740	$35.438	$26.688
Second Quarter.........	$48.470	$40.270	$40.000	$30.125
Third Quarter..........	$46.000	$32.400	$39.750	$29.650
Fourth Quarter	$41.610	$31.002	$36.530	$30.400

As of March 12, 2003, the number of stockholders of record of Company Common Stock was approximately 200. In addition, there were an estimated 3,600 beneficial owners of shares held by brokers and fiduciaries.

Payments of future dividends are subject to declaration by the Company's Board of Directors. The dividend policy is dependent also on the ability of Triad to pay dividends to the Company. Because of regulatory dividend restrictions by the Illinois Department of Insurance and Triad's need to maintain capital levels required by rating agencies, the Company has no present intention to pay dividends.

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ITEM 6. SELECTED FINANCIAL DATA.

	Year Ended December 31			
	2002	2001	2000	
Income Statement Data (for period ended):	(Dollars in thousands, except per s			
Premiums written:				
Direct	$ 124,214	$ 95,551	$ 76,867	$
Assumed	3	4	8	
Ceded	(18,348)	(10,557)	(4,993)	
	$ 105,869	$ 84,998	$ 71,882	$
Earned premiums	$ 105,067	$ 84,356	$ 71,843	$
Net investment income	16,099	14,765	12,645	
Net realized investment (losses) gains	(2,519)	297	286	
Other income	72	1,892	37	
Total revenues	118,719	101,310	84,811	
Net losses and loss adjustment expenses	14,063	9,019	7,587	
Interest expense on debt	2,771	2,771	2,770	
Amortization of deferred policy acquisition cost.	13,742	11,712	8,211	
Other operating expenses (net of acquisition cost deferred)	22,900	18,136	16,008	
Income before income taxes	65,243	59,672	50,235	
Income taxes	20,140	18,413	15,237	
Net income	$ 45,103	$ 41,259	$ 34,998	$
Basic earnings per share	$ 3.21	$ 3.05	$ 2.63	$
Diluted earnings per share	$ 3.15	$ 2.95	$ 2.55	$
Weighted average common and common share equivalents outstanding				
Basic	14,060,420	13,545,725	13,321,901	
Diluted	14,331,581	13,977,435	13,726,088	
Balance Sheet Data (at year end):				
Total assets (1)	$ 482,886	$ 396,455	$ 328,377	$
Total invested assets	$ 344,581	$ 277,200	$ 232,025	$
Losses and loss adjustment expenses	$ 21,360	$ 17,991	$ 14,987	$
Unearned premiums	$ 8,539	$ 7,650	$ 6,933	$

Long-term debt	$ 34,479	$ 34,473	$ 34,467	$
Stockholders' equity	$ 309,407	$ 246,070	$ 199,831	$
Statutory Ratios (2):				
Loss ratio	13.4%	10.7%	10.6%	
Expense ratio	38.0%	39.9%	37.4%	
Combined ratio	51.4%	50.6%	48.0%	
GAAP Ratios:				
Loss ratio	13.4%	10.7%	10.6%	
Expense ratio	34.6%	35.1%	33.7%	
Combined ratio	48.0%	45.8%	44.3%	
Other Statutory Data (dollars in millions) (2):				
Direct insurance in force	$ 25,379.1	$ 21,726.0	$ 15,123.5	$
Direct risk in force (gross)	$ 5,790.9	$ 4,581.5	$ 3,760.0	$
Risk-to-capital	15.5:1	15.0:1	14.8:1	

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

RESULTS OF OPERATIONS

2002 COMPARED TO 2001

Net income for 2002 increased 9.3% to $45.1 million from $41.3 million in 2001. Net income per share on a diluted basis increased 6.6% to $3.15 for 2002 from $2.95 per share for 2001. This improvement in net income was led by a 24.6% increase in earned premiums and a 9.0% increase in net investment income. Net income for 2002 includes net realized investment losses of $2.5 million, or $0.11 per diluted share, while net income for 2001 included net realized investment gains of $297,000, or $0.01 per diluted share. Also included in net income for 2001 was the receipt of a nonrecurring incentive payment of approximately $1.9 million, or $0.09 per diluted share, relating to the voluntary cancellation of one of the Company's excess of loss reinsurance contracts. The payment was reported as other income in the first quarter of 2001.

Operating earnings, which exclude realized investment gains and losses net of related taxes, increased 13.8% to $46.7 million in 2002 compared to $41.1 million in 2001. Operating earnings per share were $3.26 for 2002 compared to $2.94 for 2001, an increase of 11.0%. Management believes operating earnings and operating earnings per share are relevant and useful information, and they are primary measurements used by management in assessing the Company's performance. Management does not believe that net realized investment gains and losses are strong indicators of trends in operations. Operating earnings and operating earnings per share results, as described above, may not be comparable to similarly titled measures reported by other companies. Excluding the effects of the nonrecurring incentive payment from operating results, operating earnings increased 17.3%, and operating earnings per diluted share increased approximately 14.4% for 2002 compared to 2001.

Total insurance written in 2002 was $13.4 billion compared to $13.3 billion in 2001, an increase of 1.3%. Total insurance written includes insurance written from traditional flow production and insurance written attributable to structured bulk transactions. Total direct insurance in force reached $25.4

billion at December 31, 2002, compared to $21.7 billion at December 31, 2001, an increase of 16.8%. Significant refinance activity in 2002 drove a high level of policy cancellations that partially offset the impact that the high level of insurance written had on in force growth.

Traditional flow insurance written for 2002 increased 42.8% to $12.2 billion from $8.5 billion in 2001. The increase in insurance written from traditional flow production was primarily the result of expanding relationships with national lenders, strong demand for risk-sharing arrangements, and a lower interest rate environment. Insurance written in 2002 attributable to structured bulk transactions totaled $1.2 billion compared to $4.7 billion in 2001. Structured bulk transactions are generally initiated by secondary mortgage market participants who wish to use mortgage insurance as a credit enhancement. The Company competes against other mortgage insurers as well as other forms of credit enhancements provided by capital markets for these transactions.

Insurance written attributed to structured bulk transactions is likely to vary significantly from period to period due to the relatively small number of transactions that encompass this market (as opposed to the traditional flow market), competitiveness with other mortgage insurers, the attractiveness in the marketplace of mortgage insurance versus other forms of credit enhancements, and the changing loan composition of the market. The Company has evaluated all segments of the bulk market - Prime (predominantly fully underwritten loans, high credit scores, high percentage of low LTVs), Alternative-A (generally high credit score, low to moderate LTV loans that have been underwritten with reduced documentation), and Sub-prime (generally fully underwritten loans with credit impaired borrowers). All insurance written through the bulk channel in 2002 and 2001 was in the Prime segment and the Alternative-A segment of the bulk market.

Consolidation within the mortgage origination industry and Triad's continued focus on national lenders has resulted in a greater percentage of production volume being concentrated among a smaller customer base. The Company's ten largest customers were responsible for 58.9%, 42.3%, and 30.0% of traditional flow risk in force at December 31, 2002, 2001, and 2000, respectively. The loss of one or more of these significant customers could have a significant adverse effect on the Company's business. According to industry data, Triad's national market share of net new primary insurance written, which includes insurance written on a traditional flow basis as well as that attributed to structured bulk transactions, was 3.7% for 2002 (3.9% for the fourth quarter) compared to 3.6% for 2001 (4.0% for the fourth quarter). Triad's national market share of net new primary insurance written on a traditional flow basis was 4.3% for 2002 (4.7% for the fourth quarter) compared to 3.4% for 2001 (4.1% in the fourth quarter). Net new primary insurance written excludes insurance placed on loans more than 12 months after loan origination, insurance placed on loans already covered by primary mortgage insurance, and insurance placed on loans where lender exposure is effectively reduced below defined minimums. This treatment is consistent with the definitions adopted by the Company and the industry in the third quarter of 2001 regarding the computation of new insurance written for market share purposes.

Total direct premiums written were $124.2 million for 2002, an increase of 30.0% compared to $95.6 million for 2001. Net premiums written increased by 24.6% to $105.9 million in 2002 from $85.0 million for 2001. Earned premiums increased 24.6% to $105.1 million for 2002 from $84.4 million for 2001. This growth in written and earned premium resulted from record levels of insurance written offset by the impact of a declining persistency rate due to a high level of refinance activity.

Growth in direct premiums written was partially offset by an increase in ceded premiums written. Driven primarily by increases in risk-sharing arrangements and also by excess of loss reinsurance, ceded premiums written increased 73.8% to $18.3 million in 2002 from $10.6 million in 2001. The Company's premium cede rate (the ratio of ceded premiums written to direct premiums written) was 14.8% for 2002 compared to 11.0% for 2001. The Company's premium cede rate for captive reinsurance was 12.7% for 2002 compared to 6.6% for 2001. Approximately 51% of flow insurance written (46% of total insurance

written including structured bulk transactions) during 2002 is subject to captive mortgage reinsurance and other risk-sharing arrangements compared to 58% of flow insurance written (37% of total insurance written including structured bulk transactions) in 2001. The decline in the percentage of flow insurance written subject to risk-sharing arrangements from 2001 to 2002 is primarily a result of increased production in the Company's lender-paid mortgage insurance program which is generally not subject to risk-sharing arrangements. Through December 31, 2002, insurance written attributable to structured bulk transactions has not been subject to captive mortgage reinsurance or other risk-sharing arrangements. Approximately 45.7% of direct insurance in force is subject to risk-sharing arrangements at December 31, 2002, compared to 34.6% at December 31, 2001. This increase in insurance in force subject to risk-sharing arrangements is due primarily to the increased market penetration of the Company's risk-sharing arrangements and the high level of refinance activity during the past twelve months, as policies that were previously not subject to risk-sharing arrangements refinanced and new policies issued were subject to risk-sharing arrangements. Management anticipates that ceded premiums will continue to increase as a result of the expected increase in insurance written and growth in the Company's risk-sharing programs.

The Company currently participates in excess of loss risk-sharing arrangements with various entrance and exit attachment points. One of the Company's competitors has announced that as of March 31, 2003, it will not participate in excess of loss risk-sharing arrangements where the net premium cede rate is greater than 25%. The Company believes that its risk-sharing arrangements provide valuable reinsurance protection and potentially reduce the risk of volatility in the Company's earnings. The Company plans to continue to participate in its excess of loss risk-sharing arrangements. It is uncertain at this time what impact, if any, the competitor's decision to exit this business will have on the Company's direct insurance in force subject to risk-sharing arrangements and its market share.

Refinance activity was 40.1% of insurance written (47.0% in the fourth quarter) in 2002 compared to 35.8% (43.3% in the fourth quarter) in 2001. Excluding structured bulk transactions, refinance activity was 40.1% of insurance written (47.0% in the fourth quarter) in 2002 compared to 37.5% of insurance written (44.4% in the fourth quarter) in 2001. Persistency, or the percentage of insurance in force remaining from one year prior, was 60.9% at December 31, 2002, compared to 67.6% at December 31, 2001. The high level of refinance activity and the resulting decrease in persistency is reflective of the low interest rate environment that has been in place during the past year. Low persistency results in an acceleration of the amortization of deferred policy acquisition costs and a reduction in renewal premiums. The annualized quarterly persistency run rate for the fourth quarter of 2002 was 32.1% compared to 40.8% for the fourth quarter of 2001.

The Company defines persistency as the percentage of insurance in force remaining from 12 months prior. Run off, defined as cancelled or terminated policies, of production originated during the past 12 months is not considered in the Company's calculation of persistency. The Company calculates persistency

by determining the run off over the prior 12 months of each individual policy year (exclusive of current year production). This method of calculating persistency may vary from that of other mortgage insurers. The Company believes that its calculation presents an accurate measure of the percentage of insurance in force remaining from 12 months prior. The Company's current method of calculating persistency is consistent with the methodology used by the Company in prior years.

Net investment income for 2002 was $16.1 million, a 9.0% increase over $14.8 million in 2001. This increase is the result of growth in the average balance of invested assets by $48.9 million to $301.4 million for the year ended December 31, 2002, from $252.5 million for 2001. The growth in invested assets is attributable to normal operating cash flow. The pre-tax yield on average invested assets decreased to 5.3% for 2002 compared to 5.8% for 2001, reflecting the current low interest rate environment for new money investments and the disposal of a number of higher yielding corporate bonds with lower credit quality during the past twelve months to enhance the overall quality of the portfolio. The portfolio's tax-equivalent yield-to-maturity was 7.9% at December 31, 2002, versus 8.0% at December 31, 2001. Based on fair value, approximately 81% and 72% of the Company's fixed maturity portfolio at December 31, 2002 and 2001, respectively, was composed of state and municipal tax-preferred securities. At December 31, 2002, based on fair value, approximately 95% of the Company's fixed maturity portfolio was either a U.S. government or U.S. agency obligation or was rated investment grade by at least one nationally recognized securities rating organization compared to approximately 93% of the Company's fixed maturity portfolio at December 31, 2001.

The Company actively monitors investment securities considered to be at risk for impairment. When the Company determines that a decline in the value of a security below its amortized cost is other-than-temporary, an impairment loss has occurred. In the event of impairment, the Company writes down the cost basis of the security to its fair value and recognizes a realized loss for the amount of the writedown. Net realized losses of $2.5 million during 2002 included impairment writedowns of approximately $2.0 million on securities held in the Company's portfolio. The net realized gain of $154,000 during the fourth quarter of 2002 included approximately $403,000 of impairment writedowns. The writedowns primarily involved securities in the telecommunications and technology sectors and, to a lesser degree, the airline, energy, electronic manufacturing, and textile manufacturing industries.

Net losses and loss adjustment expenses (net of reinsurance recoveries) increased by 55.9% in 2002 to $14.1 million from $9.0 million in 2001. The rise reflects an increase in paid losses and delinquent loans as the Company's insurance in force grows and the condition of the economy remains weak. Net paid losses and loss adjustment expenses increased to $10.7 million during 2002 from $6.0 million during 2001. Reported delinquent loans totaled 2,379 at December 31, 2002, compared to 1,420 at December 31, 2001, an increase of 67.5%. The delinquency inventory count includes all reported delinquencies that are three or more payments in arrears at the reporting date and all reported delinquencies

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - - CONTINUED

that were previously three or more payments in arrears and have not made payments to the current due date. Reserves are established for all insured loans reported as delinquent to the Company by the loan servicer. The Company's loss ratio (the ratio of net incurred losses to net earned premiums) was 13.4% for 2002 compared to 10.7% for 2001. The loss ratio was 15.4% for the fourth quarter of 2002 and 13.2% for the fourth quarter of 2001.

As of December 31, 2002, approximately 83% of the Company's insurance in force was originated in the last 36 months. Management believes, based upon its experience and industry data, that claims incidence for it and other private mortgage insurers is generally highest in the third through sixth years after loan origination. Although the claims experience on insurance written in previous years has been quite favorable, management does not expect losses to remain at the low levels currently reported. The Company expects its incurred losses to increase as a greater amount of its insurance in force reaches its anticipated highest claim frequency years. Furthermore, changes in the economic environment could accelerate paid and incurred loss development. Due to the inherent uncertainty of future premium levels, losses, economic conditions, and other factors that affect earnings, it is difficult to predict with any degree of certainty the impact of such higher claim frequencies on future earnings.

Amortization of deferred policy acquisition costs increased by 17.3% to $13.7 million in 2002 from $11.7 million for 2001. The increase in amortization reflects growth in deferred policy acquisition costs related to the growth of the Company's insurance in force and accelerated amortization due to higher cancellations from refinance activity in 2002. The Company's model calculates the amortization of deferred policy acquisition costs separately for each book year. The model accelerates the amortization of deferred policy acquisition costs through a dynamic adjustment when persistency for a book year is lower than a historical baseline level in order to match the amortization expense with the life of the policies on which the acquisition costs were originally deferred. Low persistency levels during the past two years resulted in additional amortization of deferred policy acquisition costs through dynamic adjustments totaling $2.6 million in 2002 and $2.1 million in 2001.

Other operating expenses increased 26.3% to $22.9 million for 2002 from $18.1 million for 2001. This increase in expenses is primarily attributable to personnel, technology amortization, and equipment and software costs required to support the Company's increased levels of production, product development, system enhancements, and geographic expansion. The expense ratio (ratio of the amortization of deferred policy acquisition costs and other operating expenses to net premiums written) for 2002 was 34.6% compared to 35.1% for 2001.

The effective tax rate was 30.9% for both 2002 and 2001. Management expects the Company's effective tax rate to remain at about the same annual rate as long as yields from new funds invested in tax-preferred securities remain favorable in relation to fully taxable securities.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - - CONTINUED

2001 COMPARED TO 2000

Net income for 2001 increased 17.9% to $41.3 million from $35.0 million in 2000. This improvement was led by a 17.4% increase in earned premiums and a 16.8% increase in net investment income. Net income for 2001 also included the receipt of a nonrecurring payment of approximately $1.9 million related to the voluntary cancellation of an excess of loss reinsurance contract. The payment was reported as "other income" in the first quarter of 2001.

Net income per share on a diluted basis increased 15.8% to $2.95 for 2001 from $2.55 per share for 2000. Operating earnings per share were $2.94 for 2001 compared to $2.54 for 2000, an increase of 15.8%. Operating earnings per share exclude approximately $297,000 of net realized investment gains in 2001 and $286,000 in 2000. Operating earnings in 2001 include approximately $0.09 per share related to the nonrecurring payment.

Insurance written for 2001 was $13.3 billion compared to $4.4 billion in 2000, an increase of 199%. Traditional flow production was $8.5 billion in 2001 compared to $4.4 billion in 2000, an increase of 92.6%. The increase in insurance written from traditional flow production was driven primarily by new and expanding relationships with national lenders, strong demand for risk-sharing arrangements, and a lower interest rate environment which increased refinance activity and overall mortgage origination activity. Insurance written for 2001 also included approximately $4.7 billion attributable to structured bulk transactions. For the comparable period of 2000, there was no insurance written attributable to these transactions. According to industry data, Triad's national market share of net new primary insurance written increased to 3.6% for all of 2001 from 2.7% for all of 2000. Total direct insurance in force reached $21.7 billion at December 31, 2001, compared to $15.1 billion at December 31, 2000, an increase of 43.7%.

Total direct premiums written were $95.6 million for 2001, an increase of 24.3% compared to $76.9 million for 2000. Net premiums written increased by 18.2% to $85.0 million in 2001 from $71.9 million for 2000. Earned premiums increased 17.4% to $84.4 million for 2001 from $71.8 million for 2000. This growth in written and earned premium resulted from record levels of insurance written offset by the impact of a declining persistency rate due to a high level of mortgage refinancings.

Growth in direct premiums written was partially offset by the increase in ceded premiums written. Driven primarily by increases in risk-sharing arrangements and also by excess of loss reinsurance, ceded premiums written increased 111% to $10.6 million from $5.0 million in 2000. The Company's premium cede rate (the ratio of ceded premiums written to direct premiums written) was 11.0% for 2001 compared to 6.5% for 2000. Approximately 37.3% of insurance written (57.9% excluding bulk transactions) during 2001 was subject to captive mortgage reinsurance and other risk-sharing arrangements compared to 42.9% of insurance written in 2000.

Refinance activity was 35.8% of insurance written in 2001 compared to 13.2% in 2000. Persistency, or the amount of insurance in force remaining from one year prior, was 67.6% at December 31, 2001, compared to 82.6% at December 31, 2000. The increase in refinance activity and the decrease in persistency were reflective of the low interest rate environment during 2001.

Net investment income for 2001 was $14.8 million, a 16.8% increase over $12.6 million in 2000. This increase was the result of growth in the average balance of invested assets by $40.5 million to $252.5 million for 2001, from

$212.0 million for 2000. The growth in invested assets was attributable to normal operating cash flow. The pre-tax yield on average invested assets decreased to 5.8% for 2001 as compared to 6.0% for all of 2000, reflecting the low interest rate environment during 2001. The portfolio's tax-equivalent yield-to-maturity was 8.0% at December 31, 2001, versus 8.2% at December 31, 2000. Based on fair value, approximately 72% of the Company's fixed maturity portfolio at December 31, 2001, was composed of state and municipal tax-preferred securities as compared to approximately 70% at December 31, 2000. At December 31, 2001, based on fair value, approximately 93% of the Company's fixed maturity portfolio was either a U.S. government or U.S. agency obligation or was rated investment grade by at least one nationally recognized securities rating organization compared to approximately 92% of the Company's fixed maturity portfolio at December 31, 2000.

In the first quarter of 2001, the Company recognized a nonrecurring incentive payment of approximately $1.9 million related to voluntary cancellation of an excess of loss reinsurance contract maintained by the Company with a non-affiliated reinsurer. This payment was accounted for as "other income". The Company also established excess of loss reinsurance coverage through a separate third-party reinsurer in the first quarter of 2001 under terms similar to the cancelled agreement.

Net losses and loss adjustment expenses (net of reinsurance recoveries) increased by 18.9% in 2001 to $9.0 million from $7.6 million in 2000. This rise reflected increased levels of insurance in force. The Company's loss ratio was 10.7% for 2001 compared to 10.6% for 2000. As of December 31, 2001, there were no incurred losses related to the Company's bulk business.

Approximately 76% of the Company's insurance in force at December 31, 2001, was originated in the prior 36 months.

Amortization of deferred policy acquisition costs increased by 42.6% to $11.7 million in 2001 from $8.2 million for 2000. The increase in amortization reflected growth in deferred policy acquisition costs related to the expansion of the Company's insurance in force and accelerated amortization due to higher cancellations from refinance activity in 2001.

Other operating expenses increased 13.3% to $18.1 million for 2001 from $16.0 million for 2000. This increase in expenses was primarily attributable to personnel, technology amortization, and equipment costs required to support the Company's product development, system enhancements, and expanded production. The expense ratio for 2001 was 35.1% compared to 33.7% for 2000.

The effective tax rate for 2001 was 30.9% compared to 30.3% in 2000. The increase in the effective tax rate was due to a lower percentage of pre-tax income being generated from tax-preferred securities as well as the recognition, on a taxable basis, of previously deferred income.

LIQUIDITY AND CAPITAL RESOURCES

The Company's sources of operating funds consist primarily of premiums written and investment income. Operating cash flow is applied primarily to the payment of claims, interest, expenses, and taxes.

The Company generated positive cash flow from operating activities for 2002 of $47.0 million compared to $43.8 million for 2001 and $32.7 million for 2000. The increase in cash flow from operating activities in 2002 reflects the growth in premium and investment income and the effects of tax benefits resulting from the exercise of stock options offset partially by the increase in underwriting expenses and losses paid. The Company's business does not routinely require significant capital expenditures other than for enhancements to its computer systems and technological capabilities. Positive cash flows are invested pending future payments of claims and expenses. Cash flow shortfalls, if any, could be funded through sales of short-term investments and other investment portfolio securities.

The parent company's cash flow is dependent on interest income and payments from Triad including management fees and interest payments under surplus notes. The Illinois Insurance Department permits expenses of the parent company to be reimbursed by Triad in the form of management fees. Payment of dividends is also permitted, although none have been paid to date.

The insurance laws of the State of Illinois impose certain restrictions on dividends that Triad can pay the parent company. These restrictions, based on statutory accounting practices, include requirements that dividends may be paid only out of statutory earned surplus and that limit the amount of dividends that may be paid without prior approval of the Illinois Insurance Department.

Consolidated invested assets were $344.6 million at December 31, 2002, compared to $277.2 million at December 31, 2001. Fixed maturity securities and equity securities classified as available-for-sale totaled $309.3 million at December 31, 2002. Net unrealized investment gains were $13.7 million on fixed maturity securities and net unrealized investment losses were $458,000 on equity securities at December 31, 2002. Based on fair value, the fixed maturity portfolio consisted of approximately 81% municipal securities, 15% corporate securities, and 4% U.S. government obligations at December 31, 2002. At December 31, 2001, the fixed maturity portfolio consisted of approximately 72% municipal securities, 23% corporate securities, and 5% U.S. government obligations. The weighted-average duration to maturity of the Company's fixed maturity portfolio was 12.1 years at December 31, 2002, compared to 11.2 years at December 31, 2001. This increase in duration was due to shifts in the portfolio from corporate securities to municipal securities, where the yield curve was more attractive on longer duration investments.

Fixed maturity securities represented approximately 87% of the Company's invested assets at December 31, 2002, and the fair value of these fixed rate securities generally bears an inverse relationship to changes in prevailing market interest rates. The Company's long-term debt bears interest at a fixed rate of 7.9% per annum, and as a result, the fair value of this debt is sensitive to changes in prevailing interest rates. A 10% relative increase or decrease in market interest rates that affect the Company's financial instruments would not have a material impact on earnings during the next fiscal year, and would not materially affect the fair value of the Company's financial instruments.

The Company's loss and loss adjustment expense reserves increased to $21.4 million at December 31, 2002, compared to $18.0 million at December 31, 2001. Loss and loss adjustment expense reserves are established when notices of default on insured mortgage loans are received. Reserves also are established for estimated losses incurred on notices of default not yet reported by the lender. Consistent with industry practices, the Company does not establish loss reserves for future claims on insured loans that are not currently in default. The growth in loss reserves is the result of the increase in reported defaults and the maturing of the Company's risk in force. The Company expects loss reserves to continue to grow, reflecting the growth and aging of its insurance in force. Including bulk loans, the Company's delinquency ratio (the ratio of delinquent insured loans to total insured loans) was 1.25% at December 31, 2002, compared to 0.89% at December 31, 2001. The Company's delinquency ratios for traditional flow and bulk loans were 1.23% and 1.38%, respectively, at December 31, 2002. There were no reported delinquencies for bulk loans at December 31, 2001.

Reserves are established by management using estimated claim rates (frequency) and claim amounts (severity) to estimate ultimate losses. The reserving process incorporates numerous factors in a formula that gives effect to current economic conditions and profiles delinquencies by such factors as policy year, geography, chronic late payment characteristics, and the number of months the policy has been in default. Because the estimate for loss reserves is sensitive to the estimates of claims frequency and severity, management performs sensitivity analyses to test the reasonableness of the best estimate generated by the loss reserve process. These sensitivity analyses allow management to use alternative assumptions related to claims frequency and claims severity to develop a range of reasonably possible loss reserve outcomes that can be used to challenge the best estimate. The loss reserve estimation process and the sensitivity analyses support the reasonableness of the best estimate of loss reserves recorded as a liability in the financial statements. Management periodically reviews the loss reserve process in order to improve its estimate of ultimate losses on loans currently in default. Adjustments to reserve estimates are reflected in the financial statements in the periods in which the adjustments are made.

Triad cedes business to captive reinsurance subsidiaries of certain mortgage lenders ("captives") primarily under excess of loss reinsurance agreements. Generally, reinsurance recoverables on loss reserves and unearned premiums ceded to these captives are backed by trust funds or letters of credit.

Total stockholders' equity increased to $309.4 million at December 31, 2002, from $246.1 million at December 31, 2001. This increase resulted primarily from net income of $45.1 million, an increase in net unrealized gains on invested assets classified as available-for-sale of $7.7 million (net of income tax), and additional paid-in-capital of $10.2 million resulting from the exercise of employee stock options and the related tax benefit.

Triad's total statutory policyholders' surplus increased to $112.9 million at December 31, 2002, from $105.3 million at December 31, 2001. Triad's statutory earned surplus increased to $29.2 million at December 31, 2002, from $21.6 million at December 31, 2001. The increase in Triad's statutory policyholders' surplus and statutory earned surplus resulted, primarily, from statutory net income of $61.8 million which exceeded the net increase in the statutory contingency reserve of $51.2 million and the increase in the statutory deferred tax liability of $3.0 million. The balance in the statutory contingency reserve was $245.0 million at December 31, 2002, compared to $193.7 million at December 31, 2001.

Triad's ability to write insurance depends on the maintenance of its financial strength ratings and the adequacy of its capital in relation to risk in force. A significant reduction of capital or a significant increase in risk may impair Triad's ability to write additional insurance. A number of states also generally limit Triad's risk-to-capital ratio to 25-to-1. As of December 31, 2002, Triad's risk-to-capital ratio was 15.5-to-1 as compared to 15.0-to-1 at December 31, 2001, and 11.1-to-1 for the industry as a whole at December 31, 2001, the latest industry data available.

Triad is rated "AA" by both Standard & Poor's Ratings Services and Fitch Ratings and "Aa3" by Moody's Investors Service.

Fannie Mae is in the process of revising its approval requirements for mortgage insurers. The new requirements, which have not yet been finalized, would require prior approval by Fannie Mae for many of Triad's activities and new products, allow for other approved types of mortgage insurers rated less than "AA," and give Fannie Mae increased rights to revise the eligibility standards of mortgage insurers. The final form the eligibility guidelines will take is unknown at this time, but new guidelines, if issued, could have an adverse effect on the Company.

The Office of Federal Housing Enterprise Oversight (OFHEO) issued its risk-based capital rules for Fannie Mae and Freddie Mac in the first quarter of 2002. The regulation provides capital guidelines for Fannie Mae and Freddie Mac in connection with their use of various types of credit protection counterparties including a more preferential capital credit for insurance from a "AAA" rated private mortgage insurer than for insurance from a "AA" rated private mortgage insurer. The phase-in period for the new rules is ten years. The Company does not believe the new rules had an adverse impact in 2002 nor

that the new rules will have a significant adverse impact on the Company in the future. However, if the new capital guidelines result in future changes to the preferences of Fannie Mae and Freddie Mac regarding their use of the various types of credit enhancements or their choice of mortgage insurers based on their credit rating, the Company's financial condition could be significantly harmed.

SAFE HARBOR STATEMENT UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

Management's Discussion and Analysis and this Report contain forward-looking statements relating to future plans, expectations, and performance which involve various risks and uncertainties, including but not limited to the following: interest rates may increase or decrease from their current levels; housing transactions and mortgage insurance may decrease for many reasons including changes in interest rates or economic conditions; the Company's market share may change as a result of changes in underwriting criteria or competitive products or rates; the amount of insurance written could be adversely affected by changes in federal housing legislation, including changes in the Federal Housing Administration loan limits and coverage requirements of Freddie Mac and Fannie Mae; the Company's financial condition and competitive position could be affected by legislation impacting the mortgage guaranty industry specifically and the financial services industry in general; rating agencies may revise methodologies for determining the Company's financial strength ratings and may revise or withdraw the assigned ratings at any time; decreases in persistency, which are affected by loan refinancings in periods of low interest rates, may have an adverse effect on earnings; the amount of insurance written and the growth in insurance in force or risk in force as well as the performance of the Company may be adversely impacted by the competitive environment in the private mortgage insurance industry, including the type, structure, and pricing of products and services offered by the Company and its competitors; if the Company fails to properly underwrite mortgage loans under contract underwriting service agreements, the Company may be required to assume the costs of repurchasing those loans; with consolidation occurring among mortgage lenders and the Company's concentration of insurance in force generated through relationships with significant lender customers, the loss of a significant customer may have an adverse effect on earnings; the Company's performance may be impacted by changes in the performance of the financial markets and general economic conditions; economic downturns in regions where Triad's risk is more concentrated could have a particularly adverse effect on Triad's financial condition and loss development; new OFHEO risk-based capital rules could severely limit the Company's ability to compete against various types of credit protection counterparties, including "AAA" rated private mortgage insurers; changes in the eligibility guidelines of Fannie Mae or Freddie Mac could have an adverse effect on the Company.

Accordingly, actual results may differ from those set forth in the forward-looking statements. Attention also is directed to other risk factors set forth in documents filed by the Company with the Securities and Exchange Commission.

ITEM 7 (A). QUALITATIVE AND QUANTITATIVE DISCLOSURES ABOUT MARKET RISKS.

The response to this item is submitted on page 54 of this report under the section titled "Management's Discussion and Analysis of Financial Condition and Results of Operations."

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

The Financial Statements and Supplementary Data are presented in a separate section of this report.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

Information regarding directors and nominees for directors of the Company is included in the Company's Proxy Statement for the 2003 Annual Meeting of Stockholders, and is hereby incorporated by reference.

For information regarding the executive officers of the Company, reference is made to the section entitled "Executive Officers" in Part I, Item 1 of this Report.

ITEM 11. EXECUTIVE COMPENSATION.

This information is included in the Company's Proxy Statement for the 2003 Annual Meeting of Stockholders, and is hereby incorporated by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

This information is included in the Company's Proxy Statement for the 2003 Annual Meeting of Stockholders, and is hereby incorporated by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

This information is included in the Company's Proxy Statement for the 2003 Annual Meeting of Stockholders, and is hereby incorporated by reference.

ITEM 14. CONTROLS AND PROCEDURES

Within the 90 days prior to the filing date of this report the Company evaluated the effectiveness of the design and operation of its disclosure controls and procedures pursuant to the Exchange Act of 1934, Rule 13a-15. The evaluation was conducted under the supervision and with the participation of management, including the Chief Executive Officer (CEO) and Chief Financial Officer (CFO). Based on that evaluation, management, including the CEO and CFO, concluded that the Company's disclosure controls and procedures were effective. Disclosure controls and procedures are designed to ensure that information required to be disclosed in the Company's reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

There have been no significant changes in the Company's internal controls or in other factors that could significantly affect the Company's internal controls subsequent to the date management carried out its evaluation.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K.

(a)(1) and (2) The response to this portion of Item 15 is submitted as a separate section of this report.

(a)(3) Listing of Exhibits - The response to this portion of Item 15 is submitted as a separate section of this report.

(b)Reports on Form 8-K.

No reports on form 8-K were filed during the quarter ended December 31, 2002.

(c) Exhibits - The response to this portion of Item 15 is submitted as a separate section of this report.

(d) Financial Statement Schedules - The response to this portion of Item 15 is submitted as a separate section of this report.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on the 21st day of March, 2003.

By /s/ Darryl W. Thompson

Darryl W. Thompson
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below on the 21st day of March, 2003 by the following persons on behalf of the Registrant in the capacities indicated.

SIGNATURE	TITLE
/s/ William T. Ratliff, III --------------------------- William T. Ratliff, III	Chairman of the Board

/s/ Darryl W. Thompson ---------------------------- Darryl W. Thompson	President, Chief Executive Officer, and Director
/s/ Ron D. Kessinger --------------------------- Ron D. Kessinger	Executive Vice President and Chief Financial Officer
/s/ Michael R. Oswalt --------------------------- Michael R. Oswalt	Senior Vice President, Treasurer, and Principal Accounting Officer
/s/ David W. Whitehurst --------------------------- David W. Whitehurst	Director
/s/ Robert T. David --------------------------- Robert T. David	Director
/s/ Michael A. F. Roberts --------------------------- Michael A. F. Roberts	Director

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Form 10-K

CERTIFICATIONS

I, Darryl W. Thompson, certify that:

1. I have reviewed this annual report on Form 10-K of Triad Guaranty Inc.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

   a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors:

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

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6. The registrant's other certifying officer and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

March 27, 2003

/s/Darryl W. Thompson

Darryl W. Thompson
President, Chief Executive Officer

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Form 10-K

CERTIFICATIONS

I, Ron D. Kessinger, certify that:

1. I have reviewed this annual report on Form 10-K of Triad Guaranty Inc.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

    a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

    b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

    c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors:

    a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

    b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

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6. The registrant's other certifying officer and I have indicated in this annual report whether there were significant changes in internal

controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

March 27, 2003

/s/Ron D. Kessinger

Ron D. Kessinger
Executive Vice President and
Chief Financial Officer

Triad Guaranty Inc.

Certification of Periodic Financial Report
Pursuant to 18 U.S.C. Section 1350

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, each of the undersigned officers of Triad Guaranty Inc. (the "Company") certifies that, to his knowledge, the Annual Report on Form 10-K of the Company for the year ended December 31, 2002 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and information contained in that Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: March 27, 2003

/s/Darryl W. Thompson

Darryl W. Thompson
President, Chief Executive Officer

Dated: March 27, 2003 /s/Ron D. Kessinger

Ron D. Kessinger
Executive Vice-President and
Chief Financial Officer

This certification is made solely for the purpose of 18 U.S.C. Section 1350 and not for any other purpose.

ANNUAL REPORT ON FORM 10-K

ITEM 8, ITEM 15(a)(1) and (2), (3), (c), and (d)

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND SCHEDULES

INDEX TO EXHIBITS

CONSOLIDATED FINANCIAL STATEMENTS

FINANCIAL STATEMENT SCHEDULES

CERTAIN EXHIBITS

YEAR ENDED DECEMBER 31, 2002

TRIAD GUARANTY INC.

WINSTON-SALEM, NORTH CAROLINA

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS
AND FINANCIAL STATEMENT SCHEDULES

(Item 15(a) 1 and 2)

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Consolidated Balance Sheets at December 31, 2002 and 2001	71 - 72
Consolidated Statements of Income for each of the three years in the period ended December 31, 2002	73
Consolidated Statements of Changes in Stockholders' Equity for each of the three years in the period ended December 31, 2002	74
Consolidated Statements of Cash Flows for each of the three years in the period ended December 31, 2002	75
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FINANCIAL STATEMENT SCHEDULES

Schedules at and for each of the three years in the period ended December 31, 2002

Schedule I - Summary of Investments - Other Than Investments in Related Parties	96
Schedule II - Condensed Financial Information of Registrant	97 - 101
Schedule IV - Reinsurance	102

All other schedules are omitted since the required information is not present or is not present in amounts sufficient to require submission of the schedules, or because the information required is included in the consolidated financial statements and notes thereto.

Index To Exhibits
(Item 15(a) 3)

EXHIBIT NUMBER	DESCRIPTION OF EXHIBIT
3.1	Certificate of Incorporation of the Registrant, as amended (5) (Exhibit 3.1)

*3.2 By-Laws of the Registrant as amended March 21, 2003 (Exhibit 3.2(c))

4.1 Form of Common Stock certificate (1) (Exhibit 4(a))

4.2 Indenture Between Triad Guaranty Inc. and Banker's Trust Co.(6) (Exhibit 4.2)

10.1 1993 Long-Term Stock Incentive Plan (1)(3) (Exhibit 10(a))

10.3 Agreement for Administrative Services among Triad Guaranty Insurance Corporation and Collateral Investment Corp. and Collateral Mortgage, Ltd. (1) (Exhibit 10(c))

10.4 Investment Advisory Agreement between Triad Guaranty Insurance Corporation and Collateral Mortgage, Ltd. (1) (Exhibit 10(d))

10.6 Registration Agreement among the Registrant, Collateral Investment Corp. and Collateral Mortgage, Ltd. (2) (Exhibit 10.6)

10.7 Employment Agreement between the Registrant and Darryl W. Thompson (2)(3) (Exhibit 10.7)

10.10 Employment Agreement between the Registrant and Henry B. Freeman (2)(3) (Exhibit 10.10)

10.11 Employment Agreement between the Registrant and Ron D. Kessinger (2)(3) (Exhibit 10.11)

10.16 Economic Value Added Incentive Bonus Program (Senior Management) (4) (Exhibit 10.16)

10.17 Amendment to Employment Agreement between the Registrant and Darryl W. Thompson (3)(4) (Exhibit 10.17)

10.19 Amendment to Employment Agreement between the Registrant and Henry B. Freeman (3)(4) (Exhibit 10.19)

10.20 Amendment to Employment Agreement between the Registrant and Ron D. Kessinger (3)(4) (Exhibit 10.20)

10.21 Excess of Loss Reinsurance Agreement between Triad Guaranty Insurance Corporation, Capital Mortgage Reinsurance Company, and Federal Insurance Company. (7) (Exhibit 10.21)

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10.22 Excess of Loss Reinsurance Agreement between Triad Guaranty Insurance Corporation and Ace Capital Mortgage Reinsurance Company. (8)(Exhibit 10.22)

10.23 Employment Agreement between the Registrant and Earl F. Wall (3)(9) (Exhibit 10.23)

10.24 Employment Agreement between the Registrant and Michael R. Oswalt (3)(9) (Exhibit 10.24)

*10.25 Employment Agreement between the Registrant and Kenneth N. Lard (3) (Exhibit 10.25)

*10.26 Employment Agreement between the Registrant and Kenneth C. Foster (3) (Exhibit 10.26)

21.1 Subsidiaries of the Registrant (7) (Exhibit 21.1)

*23.1 Consent of Ernst & Young LLP (Exhibit 23.1)

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* Filed Herewith.

(1) Incorporated by reference to the exhibit identified in parentheses, filed as an exhibit in the Registrant's Registration Statement on Form S-1 filed October 22, 1993 and amendments thereto.

(2) Incorporated by reference to the exhibit identified in parentheses, filed as an exhibit in the 1993 Form 10-K.

(3) Denotes management contract or compensatory plan of arrangement required to be filed as an exhibit to this report pursuant to Item 601 of Regulation S-K.

(4) Incorporated by reference to the exhibit identified in parentheses, filed as an exhibit in the 1996 Form 10-K.

(5) Incorporated by reference to the exhibit identified in parentheses, filed as an exhibit in the June 30, 1997 Form 10-Q.

(6) Incorporated by reference to the exhibit identified in parentheses, filed as an exhibit in the 1997 Form 10-K.

(7) Incorporated by reference to the exhibit identified in parentheses, filed as an exhibit in the 1999 Form 10-K.

(8) Incorporated by reference to the exhibit identified in parentheses, filed as an exhibit in the 2000 Form 10-K.

(9) Incorporated by reference to the exhibit identified in parentheses, filed as an exhibit in the June 30, 2002 Form 10-Q.

Report of Independent Auditors

Board of Directors
Triad Guaranty Inc.

We have audited the accompanying consolidated balance sheets of Triad Guaranty Inc. and subsidiaries as of December 31, 2002 and 2001, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2002. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Triad Guaranty Inc. and subsidiaries at December 31, 2002 and 2001, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States.

/s/ERNST & YOUNG LLP

Greensboro, North Carolina
January 22, 2003

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Triad Guaranty Inc.

Consolidated Balance Sheets

	December 31 2002	2001
	(In thousands, except share data)	
Assets		
Invested assets:		
Securities available-for-sale, at fair value:		
Fixed maturities (amortized cost: 2002 - $284,737; 2001 - $245,662)	$ 298,470	$ 245,985
Equity securities (cost: 2002 - $11,266; 2001 - $11,308)	10,808	12,476
Short-term investments	35,303	18,739
	344,581	277,200
Cash	233	853
Real estate	1,561	162
Accrued investment income	3,088	3,196
Deferred policy acquisition costs	28,997	25,944
Property and equipment, at cost less accumulated depreciation (2002 - $8,146; 2001 - $6,120)	9,533	11,170
Prepaid federal income tax	77,786	62,619
Reinsurance recoverable	396	5
Other assets	16,711	15,306

Total assets	$ 482,886	$ 396,455

See accompanying notes.

Triad Guaranty Inc.

Consolidated Balance Sheets

	December 31 2002	2001
	(In thousands, except share data)	
Liabilities and stockholders' equity		
Liabilities:		
Losses and loss adjustment expenses	$ 21,360	$ 17,991
Unearned premiums	8,539	7,650
Amounts payable to reinsurer	3,415	2,445
Current taxes payable	598	40
Deferred income taxes	94,241	74,773
Unearned ceding commission	1,386	2,324
Long-term debt	34,479	34,473
Accrued interest on debt	1,275	1,275
Accrued expenses and other liabilities	8,186	9,414
Total liabilities	173,479	150,385
Commitments and contingencies (Notes 5, 7, and 14)		
Stockholders' equity:		
Preferred stock, par value $.01 per share - authorized 1,000,000 shares, no shares issued and outstanding	-	-
Common stock, par value $.01 per share - authorized 32,000,000 shares, issued and outstanding 14,159,601 shares at December 31, 2002, and 13,691,672 at December 31, 2001	142	137
Additional paid-in capital	80,169	69,058
Accumulated other comprehensive income, net of income tax liability of $4,646 at December 31, 2002, and $521 at December 31, 2001	8,634	975
Deferred compensation	(658)	(117)
Retained earnings	221,120	176,017
Total stockholders' equity	309,407	246,070
Total liabilities and stockholders' equity	$ 482,886	$ 396,455

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Triad Guaranty Inc.

Consolidated Statements of Income

	Year ended December 31 2002	2001	
	(In thousands, except share data)		
Revenue:			
Premiums written:			
Direct	$ 124,214	$ 95,551	$
Assumed	3	4	
Ceded	(18,348)	(10,557)	
Net premiums written	105,869	84,998	
Change in unearned premiums	(802)	(642)	
Earned premiums	105,067	84,356	
Net investment income	16,099	14,765	
Net realized investment (losses) gains	(2,519)	297	
Other income	72	1,892	
	118,719	101,310	
Losses and expenses:			
Losses and loss adjustment expenses	14,064	9,020	
Reinsurance recoveries	(1)	(1)	
Net losses and loss adjustment expenses	14,063	9,019	
Interest expense on debt	2,771	2,771	
Amortization of deferred policy acquisition costs	13,742	11,712	
Other operating expenses (net of acquisition costs deferred)	22,900	18,136	
	53,476	41,638	
Income before income taxes	65,243	59,672	
Income taxes:			
Current	667	187	
Deferred	19,473	18,226	
	20,140	18,413	
Net income	$ 45,103	$ 41,259	$
Earnings per common and common equivalent share:			
Basic	$ 3.21	$ 3.05	$
Diluted	$ 3.15	$ 2.95	$
Shares used in computing earnings per common and common equivalent share:			
Basic	14,060,420	13,545,725	13,

Diluted	14,331,581	13,977,435	13,

See accompanying notes.

Triad Guaranty Inc.

Consolidated Statements of Changes in Stockholders' Equity
(In thousands, except share data)

	Common Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Income	Deferred Compensation	
Balance at December 31, 1999	$ 133	$ 61,972	$ (4,724)	$ (69)	$
Net income	-	-	-	-	
Other comprehensive income - net of tax:					
Change in unrealized (loss) gain	-	-	7,075	-	
Comprehensive income					
Issuance of 41,500 shares of common stock under stock option plans	1	471	-	-	
Tax effect of exercise of non-qualified stock options	-	130	-	-	
Issuance of 7,000 shares of restricted stock	-	151	-	(151)	
Amortization of deferred compensation	-	-	-	85	
Balance at December 31, 2000	134	62,724	2,351	(135)	
Net income	-	-	-	-	
Other comprehensive income - net of tax:					
Change in unrealized gain	-	-	(1,376)	-	
Comprehensive income					
Issuance of 336,628 shares of common stock under stock option plans	3	2,871	-	-	
Tax effect of exercise of non-qualified stock options	-	3,363	-	-	
Issuance of 3,350 shares of restricted stock	-	100	-	(100)	
Amortization of deferred compensation	-	-	-	118	
Balance at December 31, 2001	137	69,058	975	(117)	
Net income	-	-	-	-	
Other comprehensive income - net of tax:					
Change in unrealized gain	-	-	7,659	-	
Comprehensive income					
Issuance of 444,349 shares of common stock under stock option					

plans	5	5,684	-	-	
Tax effect of exercise of non-qualified stock options	-	4,494	-	-	
Issuance of 23,580 shares of restricted stock	-	933	-	(933)	
Amortization of deferred compensation	-	-	-	392	
Balance at December 31, 2002	$ 142	$ 80,169	$ 8,634	$ (658)	$

See accompanying notes.

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Triad Guaranty Inc.

Consolidated Statements of Cash Flows

	Year ended December 31	
	2002	2001
	(In thousands)	
Operating activities		
Net income	$ 45,103	$ 41,259
Adjustments to reconcile net income to net cash provided by operating activities:		
Loss and unearned premium reserves	4,258	3,720
Accrued expenses and other liabilities	(2,624)	1,359
Current taxes payable	558	(45)
Amounts due to/from reinsurer	492	1,082
Accrued investment income	108	(299)
Policy acquisition costs deferred	(16,795)	(14,840)
Amortization of policy acquisition costs	13,742	11,712
Net realized investment losses (gains)	2,519	(297)
Provision for depreciation	2,778	2,246
Accretion of discount on investments	(4,601)	(3,128)
Deferred income taxes	19,473	18,226
Prepaid federal income taxes	(15,167)	(13,244)
Unearned ceding commission	(938)	842
Other assets	(1,318)	(4,819)
Other operating activities	(636)	56
Net cash provided by operating activities	46,952	43,830
Investing activities		
Securities available-for-sale:		
Purchases - fixed maturities	(94,889)	(76,932)
Sales - fixed maturities	59,696	36,576
Purchases - equities	(2,160)	(4,999)
Sales - equities	1,797	3,899
Net change in short-term investments	(16,564)	(1,727)
Purchases of property and equipment	(1,141)	(4,181)
Net cash used in investing activities	(53,261)	(47,364)
Financing activities		
Proceeds from exercise of stock options	5,689	2,874

Net cash provided by financing activities	5,689	2,874
Net change in cash	(620)	(660)
Cash at beginning of year	853	1,513
Cash at end of year	$ 233	$ 853
Supplemental schedule of cash flow information		
Cash paid during the period for:		
Income taxes and United States Mortgage Guaranty Tax and Loss Bonds	$ 16,024	$ 13,270
Interest	2,765	2,765

See accompanying notes.

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Triad Guaranty Inc.

Notes to Consolidated Financial Statements

December 31, 2002

1. ACCOUNTING POLICIES

NATURE OF BUSINESS

Triad Guaranty Inc. (the "Company") is a holding company which, through its wholly-owned subsidiary, Triad Guaranty Insurance Corporation ("Triad"), provides private mortgage insurance coverage in the United States to mortgage lenders or investors to protect the lender or investor against loss from defaults on low down payment residential mortgage loans.

BASIS OF PRESENTATION

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States, which vary in some respects from statutory accounting practices which are prescribed or permitted by the various insurance departments.

CONSOLIDATION

The consolidated financial statements include the amounts of Triad Guaranty Inc. and its wholly-owned subsidiary, Triad Guaranty Insurance Corporation ("Triad") and Triad's wholly-owned subsidiaries, Triad Guaranty Assurance Corporation ("TGAC") and Triad Re Insurance Corporation ("Triad Re"). All significant intercompany accounts and transactions have been eliminated.

USE OF ESTIMATES

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

INVESTMENTS

Securities classified as "available-for-sale" are carried at fair value and unrealized gains and losses on such securities, net of tax, are reported as a separate component of accumulated other comprehensive income. The Company does not have any securities classified as "held-to-maturity" or "trading."

1. ACCOUNTING POLICIES (CONTINUED)

Fair value generally represents quoted market value prices for securities traded in the public market or prices analytically determined using bid or closing prices for securities not traded in the public marketplace. Realized investment gains or losses are determined on a specific identification basis. The Company evaluates its investments regularly to determine whether there are declines in value that are other-than-temporary. When the Company determines that a security has experienced an other-than-temporary impairment, the impairment loss is recognized as a realized investment loss. Short-term investments are defined as short-term, highly liquid investments both readily convertible to known amounts of cash and having maturities of twelve months or less upon acquisition by the Company.

The Company writes covered call options on certain equity securities it owns as a yield enhancement vehicle. Call options convey to the option holder the right to buy (call) a certain stock at or before a specified date for a contracted price (strike price) from the Company. The contract can expire without being exercised in the event that the price of the underlying stock is below the strike price. In this case, the fee received for granting the option is recognized as a realized gain. The Company has no credit risk related to these covered call options. The Company's financial risk in this activity is limited to the increase of the market price of the security in excess of the sum of the option's strike price and the fee received for the option. The options are carried at fair value as other liabilities on the accompanying Consolidated Balance Sheets, with changes in the fair value of these options reported as realized gains or losses. The liability recorded for these options was $10,800 and $145,500 at December 31, 2002 and 2001, respectively.

DEFERRED POLICY ACQUISITION COSTS

The costs of acquiring new business, principally commissions and certain policy underwriting and issue costs, which vary with and are primarily related to the production of new business, are deferred. Amortization of such policy acquisition costs is charged to expense in proportion to premium revenue recognized over the estimated policy life. The Company reviews the persistency of policies in force and makes appropriate adjustments to reflect policy cancellations.

1. ACCOUNTING POLICIES (CONTINUED)

PROPERTY AND EQUIPMENT

Property and equipment is recorded at cost and is depreciated principally on a straight-line basis over the estimated useful lives, generally three to five years, of the depreciable assets. Property and equipment primarily consists of computer hardware and software and furniture and equipment.

LOSS AND LOSS ADJUSTMENT EXPENSE RESERVES

Reserves are provided for the estimated costs of settling claims in respect of loans reported to be in default and estimates of loans in default which have not been reported to the Company. Consistent with industry accounting practices, the Company does not establish loss reserves for future claims on insured loans that are not currently in default. Loss reserves are established by management using historical experience and by making various assumptions and judgments about claim rates (frequency) and claim amounts (severity) to estimate ultimate losses to be paid on loans in default. The Company's reserving methodology gives effect to current economic conditions and profiles delinquencies by such factors as age, policy year, geography, and chronic late payment characteristics. The estimates are continually reviewed and, as adjustments to these liabilities become necessary, such adjustments are reflected in current operations.

REINSURANCE

Certain premiums and losses are assumed from and ceded to other insurance companies under various reinsurance agreements. Reinsurance premiums, loss reimbursement, and reserves related to reinsurance business are accounted for on a basis consistent with that used in accounting for the original policies issued and the terms of the reinsurance contracts. The Company may receive a ceding commission in connection with ceded reinsurance. If so, the ceding commission is earned on a monthly pro rata basis in the same manner as the premium and is recorded as a reduction of other operating expenses.

1. ACCOUNTING POLICIES (CONTINUED)

INCOME TAXES

The Company uses the asset and liability method of accounting for income taxes. Under the asset and liability method, deferred tax assets, net of a valuation allowance, and deferred tax liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Triad purchases ten-year non-interest bearing United States Mortgage Guaranty Tax and Loss Bonds ("Tax and Loss Bonds") in lieu of paying federal income taxes. Purchases of these Tax and Loss Bonds are treated as prepaid federal income taxes because the payment for Tax and Loss Bonds is essentially a prepayment of federal income taxes that will become due in ten years when the Tax and Loss Bonds mature. Current income tax expense is primarily associated with the maturing of a portion of Triad's Tax and Loss Bonds.

INCOME RECOGNITION

The Company writes policies that are guaranteed renewable contracts at the borrower's option on single premium, annual premium, and monthly premium bases. The Company does not have the option to reunderwrite these contracts. Premiums written on annual policies are earned on a monthly pro rata basis. Single premium policies covering more than one year are amortized over the estimated policy life in accordance with the expiration of risk. Premiums written on a monthly basis generally are earned when received.

SIGNIFICANT CUSTOMERS

Approximately 11 percent of the Company's revenue in 2002 was from a single customer. No single customer accounted for 10 percent or more of the Company's revenue in 2001 or 2000.

1. ACCOUNTING POLICIES (CONTINUED)

STOCK OPTIONS

The Company grants stock options to employees and directors for a fixed number of shares with an exercise price equal to or greater than the fair value of the shares at the date of grant. The Company accounts for stock option grants using the intrinsic value method prescribed in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees", and accordingly, recognizes no compensation expense for the stock option grants.

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period. Had compensation expense for stock options been recognized using the fair value method on the grant date, net income and earnings per share on a pro forma basis would have been (in thousands, except for earnings per share information):

	2002	2001	2000
Net income - as reported	$ 45,103	$ 41,259	$ 34,998
Net income - pro forma	$ 44,261	$ 40,375	$ 34,107
Earnings per share - as reported:			
Basic	$ 3.21	$ 3.05	$ 2.63
Diluted	$ 3.15	$ 2.95	$ 2.55
Earnings per share - pro forma:			
Basic	$ 3.15	$ 2.98	$ 2.56
Diluted	$ 3.09	$ 2.89	$ 2.48

EARNINGS PER SHARE

Basic and diluted earnings per share are based on the weighted-average daily number of shares outstanding. For diluted earnings per share, the denominator includes the dilutive effect of employee stock options on the weighted-average shares outstanding. There are no other reconciling items between the denominator used in basic earnings per share and diluted earnings per share. The numerator used in basic earnings per share and diluted earnings per share is the same for all periods presented.

1. ACCOUNTING POLICIES (CONTINUED)

COMPREHENSIVE INCOME

The only element of other comprehensive income applicable to the Company is changes in unrealized gains and losses on securities classified as available-for-sale, which is displayed in the following table, along with related tax effects (in thousands):

	2002	2001	2000
Unrealized gains (losses) arising during the period, before taxes	$ 9,265	$ (1,820)	$ 11,170
Income taxes	(3,243)	637	(3,909)
Unrealized gains (losses) arising during the period,net of taxes	6,022	(1,183)	7,261
Less reclassification adjustment:			
(Losses) gains realized in net income	(2,519)	297	286
Income taxes	882	(104)	(100)
Reclassification adjustment for (losses) gains realized in net income	(1,637)	193	186
Other comprehensive income	$ 7,659	$ (1,376)	$ 7,075

RECLASSIFICATION

Certain amounts in the 2001 and 2000 Consolidated Statements of Cash Flows have been reclassified to conform to the 2002 presentation. These reclassifications have no effect on previously reported stockholders' equity, net income, or net cash provided by operating activities.

2. INVESTMENTS

The amortized cost and the fair value of investments are as follows (in thousands):

	Amortized	Gross Unrealized	Gross Unrealized

	Cost	Gains	Losses	
At December 31, 2002				
Available-for-sale securities:				
Fixed maturity securities:				
Corporate	$ 43,171	$ 3,131	$ 950	$
U.S. Government	10,189	439	32	
Mortgage-backed	167	19	-	
State and municipal	231,210	11,610	484	
Total	284,737	15,199	1,466	
Equity securities	11,266	733	1,191	
Total	$ 296,003	$ 15,932	$ 2,657	$
At December 31, 2001				
Available-for-sale securities:				
Fixed maturity securities:				
Corporate	$ 55,464	$ 1,879	$ 2,329	$
U.S. Government	12,164	546	65	
Mortgage-backed	253	25	-	
State and municipal	177,781	3,483	3,216	
Total	245,662	5,933	5,610	
Equity securities	11,308	1,449	281	
Total	$ 256,970	$ 7,382	$ 5,891	$

2. INVESTMENTS (CONTINUED)

The amortized cost and estimated fair value of investments in fixed maturity securities, at December 31, 2002, are summarized by stated maturity as follows (in thousands):

	Available-for-Sale	
	Amortized Cost	Fair Value
Maturity:		
One year or less	$ 3,997	$ 4,115
After one year through five years	16,158	17,000
After five years through ten years	33,800	35,366
After ten years	230,615	241,803
Mortgage-backed securities	167	186
Total	$ 284,737	$ 298,470

Realized gains and losses on sales of investments are as follows (in thousands):

	Year ended December 31 2002	2001	2000
Securities available-for-sale:			
Fixed maturity securities:			
Gross realized gains	$ 1,833	$ 1,203	$ 226
Gross realized losses	(3,948)	(1,485)	(2,255)
Equity securities:			
Gross realized gains	15	940	2,561
Gross realized losses	(576)	(417)	(402)
Covered call options:			
Gross realized gains	189	113	163
Gross realized losses	(32)	(57)	(7)
Net realized (losses) gains	$ (2,519)	$ 297	$ 286

Net unrealized appreciation (depreciation) on fixed maturity securities changed by $13,409,656, $(1,821,394), and $11,543,909 in 2002, 2001, and 2000, respectively; the corresponding amounts for equity securities were $(1,625,907), $(290,284), and $(665,174).

2. INVESTMENTS (CONTINUED)

Major categories of the Company's net investment income are summarized as follows (in thousands):

Year ended December 31	2002	2001	2000
Income:			
Fixed maturities	$ 15,809	$ 14,188	$ 11,755
Preferred stocks	438	468	490
Common stocks	179	157	230
Cash and short-term investments	270	495	635
	16,696	15,308	13,110
Expenses	597	543	465
Net investment income	$ 16,099	$ 14,765	$ 12,645

At December 31, 2002 and 2001, investments with an amortized cost of $6,634,066 and $6,645,745, respectively, were on deposit with state insurance departments to satisfy regulatory requirements.

3. DEFERRED POLICY ACQUISITION COSTS

An analysis of deferred policy acquisition costs is as follows (in thousands):

	Year ended December 31 2002	2001	2000

Balance at beginning of year	$ 25,944	$ 22,816	$ 19,908
Acquisition costs deferred:			
Sales compensation	6,291	5,929	5,219
Underwriting and issue expenses	10,504	8,911	5,900
	16,795	14,840	11,119
Amortization of acquisition expenses	13,742	11,712	8,211
Net increase	3,053	3,128	2,908
Balance at end of year	$ 28,997	$ 25,944	$ 22,816

4. RESERVE FOR LOSSES AND LOSS ADJUSTMENT EXPENSES

Activity for the reserve for losses and loss adjustment expenses for 2002, 2001, and 2000 is summarized as follows (in thousands):

	2002	2001	2000
Reserve for losses and loss adjustment expenses at January 1, net of reinsurance recoverables	$ 17,981	$ 14,976	$ 14,723
Incurred losses and loss adjustment expenses net of reinsurance recoveries (principally in respect of default notices occurring in):			
Current year	14,798	14,219	11,229
Redundancy on prior years	(735)	(5,200)	(3,642)
Total incurred losses and loss adjustment expenses	14,063	9,019	7,587
Loss and loss adjustment expense payments net of reinsurance recoveries (principally in respect of default notices occurring in):			
Current year	508	286	574
Prior years	10,181	5,728	6,760
Total loss and loss adjustment expense payments	10,689	6,014	7,334
Reserve for losses and loss adjustment expenses at December 31, net of reinsurance recoverables of $5, $10, and $11 in 2002, 2001, and 2000, respectively	$ 21,355	$ 17,981	$ 14,976

The foregoing reconciliation shows a redundancy in reserves has emerged for each of the years presented. These redundancies resulted principally from settling case-basis reserves on default notices occurring in prior years for amounts less than expected or reducing incurred but not reported reserves.

5. COMMITMENTS

The Company leases certain office facilities and equipment under operating leases. Rental expense for all leases was $1,792,237, $1,656,706, and $1,398,586 for 2002, 2001, and 2000, respectively. Future minimum payments under noncancellable operating leases at December 31, 2002, are as follows (in thousands):

2003	$ 1,814
2004	1,663
2005	1,405
2006	1,159
2007	1,131
Thereafter	5,630
	$ 12,802

The Company entered into a new ten-year lease on its corporate headquarters in 2002. The Company has options to renew this lease for up to ten additional years at the fair market rental rate at the time of the renewal.

6. FEDERAL INCOME TAXES

Income tax expense differed from the amounts computed by applying the Federal statutory income tax rate to income before taxes as follows (in thousands):

	2002	2001	2000
Income tax computed at statutory rate	$ 22,835	$ 20,885	$ 17,582
(Decrease) increase in taxes resulting from:			
Tax-exempt interest	(3,933)	(3,105)	(2,641)
Other	1,238	633	296
Income tax expense	$ 20,140	$ 18,413	$ 15,237

6. FEDERAL INCOME TAXES (CONTINUED)

The tax effects of temporary differences that give rise to significant portions of deferred tax assets and deferred tax liabilities at December 31, 2002 and 2001, are presented below (in thousands):

2002	2001

Deferred tax liabilities		
Statutory contingency reserve	$ 78,420	$ 62,996
Deferred policy acquisition costs	10,149	9,080
Unrealized investment gain	4,646	521
Other	3,083	3,353
Total deferred tax liabilities	96,298	75,950
Deferred tax assets		
Unearned premiums	685	604
Losses and loss adjustment expenses	516	437
Other	856	136
Total deferred tax assets	2,057	1,177
Net deferred tax liability	$ 94,241	$ 74,773

At December 31, 2002 and 2001, Triad was obligated to purchase approximately $1,017,000 and $1,228,000, respectively, of Tax and Loss Bonds.

7. INSURANCE IN FORCE, DIVIDEND RESTRICTION, AND STATUTORY RESULTS

At December 31, 2002, approximately 52 percent of Triad's direct risk in force was concentrated in eight states, with 12 percent in California, 8 percent each in Florida and Texas, 6 percent in North Carolina, 5 percent each in Georgia and Illinois, and 4 percent each in Pennsylvania and Arizona. While Triad continues to diversify its risk in force geographically, a prolonged recession in its high concentration areas could result in higher incurred losses and loss adjustment expenses.

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Triad Guaranty Inc.

Notes to Consolidated Financial Statements (continued)

7. INSURANCE IN FORCE, DIVIDEND RESTRICTION, AND STATUTORY RESULTS (CONTINUED)

Insurance regulations limit the writing of mortgage guaranty insurance to an aggregate amount of insured risk no greater than twenty-five times the total of statutory capital and surplus and the statutory contingency reserve. The amount of net risk for insurance in force at December 31, 2002 and 2001, as presented below, was computed by applying the various percentage settlement options to the insurance in force amounts, adjusted by risk ceded under reinsurance agreements and by any applicable aggregate stop-loss limits. Triad's ratio is as follows (dollars in thousands):

	2002	2001
Net risk	$ 5,534,420	$ 4,471,705
Statutory capital and surplus	$ 112,874	$ 105,306
Contingency reserve	245,006	193,747
Total	$ 357,880	$ 299,053
Risk-to-capital ratio	15.5 to 1	15.0 to 1

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Triad and its wholly-owned subsidiaries, TGAC and Triad Re, are each required under their respective domiciliary states' insurance code to maintain a minimum level of statutory capital and surplus. Triad, an Illinois domiciled insurer, is required under the Illinois Insurance Code (the "Code") to maintain minimum capital and surplus of $5,000,000.

The Code permits dividends to be paid only out of earned surplus and also requires prior approval of extraordinary dividends. An extraordinary dividend is any dividend or distribution of cash or other property, the fair market value of which, together with that of other dividends or distributions made within a period of twelve consecutive months, exceeds the greater of (a) ten percent of statutory surplus as regards policyholders, or (b) statutory net income for the calendar year preceding the date of the dividend. Consolidated net income as determined in accordance with statutory accounting practices was $61,787,339, $55,448,185, and $47,830,174 for the years ended December 31, 2002, 2001, and 2000, respectively. At December 31, 2002, the amount of the Company's equity that can be paid out in dividends to the stockholders is $29,158,197, which is the earned surplus of Triad on a statutory basis.

7. INSURANCE IN FORCE, DIVIDEND RESTRICTION, AND STATUTORY RESULTS (CONTINUED)

The NAIC revised the Accounting Practices and Procedures Manual in a process referred to as Codification. The revised manual was effective January 1, 2001. The domiciliary states of Triad and its subsidiaries adopted the provisions of the revised manual. The revised manual changed, to some extent, prescribed statutory accounting practices and resulted in changes to the accounting practices that Triad and its subsidiaries use to prepare their statutory-basis financial statements. Triad recorded a $2,561,388 reduction in surplus in its statutory-basis financial statements during 2001 as the cumulative effect of changes in accounting principles from the adoption of Codification.

8. RELATED PARTY TRANSACTIONS

The Company pays unconsolidated affiliated companies for management, investment, and other services. The total expense incurred for such items was $500,731, $433,167, and $398,872 in 2002, 2001, and 2000, respectively. In addition, the Company provides certain investment accounting, reporting and maintenance functions for an affiliate. Income earned during 2002, 2001, and 2000, respectively, for such services was $48,628, $23,487, and $21,780. Management believes that the income and expenses incurred for such services approximate costs that the Company and affiliates would have incurred if those services had been provided by unaffiliated third parties.

9. EMPLOYEE BENEFIT PLAN

Substantially all employees participate in the Company's 401(k) Profit Sharing Plan. Under the plan, employees elect to defer a portion of their wages, with the Company matching deferrals at the rate of 50 percent of the first 8 percent of the employee's salary deferred. The Company's expense associated with the plan totaled $373,877, $353,004, and $301,281 for the years ended December 31, 2002, 2001, and 2000, respectively.

10. REINSURANCE

Certain premiums and losses are assumed from and ceded to other insurance companies under various reinsurance agreements. The ceding agreements principally provide Triad with increased capacity to write business and achieve a more favorable geographic dispersion of risk.

10. REINSURANCE (CONTINUED)

Reinsurance activity for the years ended December 31, 2002, 2001, and 2000, respectively, is as follows (in thousands):

	2002	2001	2000
Earned premiums ceded	$ 18,260	$ 10,482	$ 4,930
Losses ceded	1	1	(25)
Earned premiums assumed	4	5	9
Losses assumed	(1)	1	9

The Company cedes business to captive reinsurance subsidiaries of certain mortgage lenders ("captives") primarily under excess of loss reinsurance agreements. Generally, reinsurance recoverables on loss reserves and unearned premiums ceded to these captives are backed by trust funds or letters of credit.

The Company maintains $125 million of excess of loss reinsurance through non-affiliated reinsurers. The excess of loss reinsurance agreements are designed to protect the Company in the event of a catastrophic level of losses.

In 2001, the Company recognized a nonrecurring incentive payment of $1,863,000 related to voluntary cancellation of an excess of loss reinsurance contract maintained by the Company with a non-affiliated reinsurer. This payment is included as other income in the accompanying Consolidated Statement of Income for 2001.

Reinsurance contracts do not relieve Triad from its obligations to policyholders. Failure of the reinsurer to honor its obligation could result in losses to Triad; consequently, allowances are established for amounts deemed uncollectible. Triad evaluates the financial condition of its reinsurers and monitors credit risk arising from similar geographic regions, activities, or economic characteristics of its reinsurers to minimize its exposure to significant losses from reinsurer insolvency.

11. LONG-TERM STOCK INCENTIVE PLAN

In August 1993, the Company adopted the 1993 Long-Term Stock Incentive Plan (the "Plan"). Under the Plan, certain directors, officers, and key employees are eligible to be granted various stock-based awards. The number of shares of common stock which may be issued or sold or for which options or stock appreciation rights may be granted under the Plan is 2,600,000 shares.

Information concerning the stock option plan is summarized below:

	Number of Shares	Option Price	Weighted-Average Exercise Price
2000			
Outstanding, beginning of year	1,334,447	$4.58 - 49.08	$14.48
Granted	193,875	18.56 - 28.00	26.91
Exercised	41,500	4.58 - 27.88	11.36
Canceled	2,100	17.00 - 41.94	23.19
Outstanding, end of year	1,484,722	4.58 - 49.08	16.17
Exercisable, end of year	1,257,142	4.58 - 49.08	14.41
2001			
Outstanding, beginning of year	1,484,722	4.58 - 49.08	16.17
Granted	169,950	29.65 - 39.00	36.33
Exercised	336,628	4.58 - 27.88	8.54
Canceled	9,270	8.92 - 41.94	23.06
Outstanding, end of year	1,308,774	4.58 - 49.08	20.71
Exercisable, end of year	1,097,213	4.58 - 49.08	18.56
2002			
Outstanding, beginning of year	1,308,774	4.58 - 49.08	20.71
Granted	88,640	32.96 - 47.60	40.48
Exercised	444,349	4.58 - 41.94	12.80
Canceled	2,760	29.65 - 39.49	35.92
Outstanding, end of year	950,305	4.58 - 49.08	25.94
Exercisable, end of year	804,652	4.58 - 49.08	23.91

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Triad Guaranty Inc.

Notes to Consolidated Financial Statements (continued)

11. LONG-TERM STOCK INCENTIVE PLAN (CONTINUED)

Information concerning stock options outstanding and exercisable at December 31, 2002, is summarized below:

Outstanding				Exercisable	
Number of Shares	Option Price	Weighted-Average Exercise Price	Weighted-Average Remaining Life	Number of Shares	Weighted-Average Exercisable Price
157,900	$ 4.58 - 8.83	$ 6.45	1.77	157,900	$ 6.45
102,495	10.17 - 18.56	13.03	3.82	99,495	12.86
400,546	20.07 - 34.80	25.82	6.56	356,046	25.10
218,589	37.75 - 39.75	39.13	7.60	134,936	39.05
70,775	41.40 - 49.08	48.04	5.94	56,275	48.60
950,305				804,652	

At December 31, 2002, 1,422,453 shares of the Company's common stock were reserved and 472,148 shares were available for issuance under the Plan.

The options issued under the Plan in 2002, 2001, and 2000 vest over three years. Certain of the options will immediately vest in the event of a change in control of the Company. Options granted under the Plan terminate no later than 10 years following the date of grant.

Pro forma information required by Financial Accounting Standards Board Statement No. 123, Accounting for Stock-Based Compensation, has been estimated as if the Company had accounted for stock-based awards under the fair value method of that Statement. The fair value of options granted in 2002, 2001, and 2000 was estimated at the date of the grant using a Black-Scholes option pricing model with the following weighted-average input assumptions: risk-free interest rate of 3.63 percent for 2002, 4.86 percent for 2001, and 5.30 percent for 2000; dividend yield of 0.0 percent; expected volatility of .39 for 2002, .40 for 2001, and .42 for 2000; and a weighted-average expected life of the option of seven years.

11. LONG-TERM STOCK INCENTIVE PLAN (CONTINUED)

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

The following table summarizes the fair value of options granted in 2002, 2001, and 2000:

	Weighted-Average Exercise Price			Weighted-Average Fair Value		
Type of Option	2002	2001	2000	2002	2001	2000
Stock Price = Exercise Price	$40.48	$31.89	$22.38	$13.21	$11.14	$8.17
Stock Price <Exercise Price	$ -	$39.00	$27.95	$ -	$ 8.81	$6.70

12. LONG-TERM DEBT

In January of 1998, the Company completed a $35 million private offering of notes due January 15, 2028. Proceeds from the offering, net of debt issue costs of $547,102, totaled $34,452,898. The notes, which represent unsecured obligations of the Company, bear interest at a rate of 7.9 percent per annum and are non-callable.

13. FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying values and fair values of financial instruments as of December 31, 2002 and 2001 are summarized below (in thousands):

	2002		2001	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets				
Fixed maturity securities available-for-sale	$ 298,470	$ 298,470	$ 245,985	$ 245,985
Equity securities available-for-sale	10,808	10,808	12,476	12,476
Financial Liabilities				
Long-term debt	34,479	38,430	34,473	36,673

The fair values of cash and short-term investments approximate their carrying values due to their short-term maturity or availability.

The fair values of fixed maturity securities and equity securities have been determined using quoted market prices for securities traded in the public market or prices using bid or closing prices for securities not traded in the public marketplace.

The fair value of the Company's long-term debt is estimated using discounted cash flow analysis based on the Company's current incremental borrowing rates for similar types of borrowing arrangements.

14. CONTINGENCIES

A lawsuit has been filed against the Company in the ordinary course of the Company's business. In the opinion of management, the ultimate resolution of this pending litigation will not have a material adverse effect on the financial position or results of operations of the Company.

15. UNAUDITED QUARTERLY FINANCIAL DATA

The following is a summary of the unaudited quarterly results of operations for the years ended December 31, 2002 and 2001 (in thousands except per share data):

	2002 Quarter				
	First	Second	Third	Fourth	Year
Net premiums written	$24,492	$25,291	$28,281	$27,805	$105,869
Earned premiums	24,535	25,499	27,351	27,682	105,067
Net investment income	3,764	3,953	4,156	4,226	16,099
Net losses incurred	2,516	2,879	4,392	4,276	14,063

Underwriting and other expenses	9,748	9,516	9,657	10,492	39,413
Net income	10,038	11,290	11,765	12,010	45,103
Basic earnings per share	.73	.80	.83	.85	3.21
Diluted earnings per share	.71	.78	.82	.84	3.15

	2001 Quarter				
	First	Second	Third	Fourth	Year
Net premiums written	$19,812	$19,777	$20,822	$24,587	$ 84,998
Earned premiums	19,683	20,143	20,517	24,013	84,356
Net investment income	3,477	3,657	3,804	3,827	14,765
Net losses incurred	2,203	2,134	1,519	3,163	9,019
Underwriting and other expenses	7,378	7,660	8,051	9,530	32,619
Net income	10,920	9,830	10,338	10,171	41,259
Basic earnings per share	.82	.73	.76	.74	3.05
Diluted earnings per share	.79	.71	.73	.72	2.95

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Schedule I
Summary of Investments - Other Than Investments in Related Parties
Triad Guaranty Inc.
December 31, 2002

Type of Investment	Amortized Cost	Fair Value	Amount at Which Shown in Balance Sheet
	(dollars in thousands)		
Fixed maturity securities, available-for-sale:			
Bonds:			
U.S. Government obligations........	$ 10,189	$ 10,596	$ 10,596
Mortgage-backed securities.........	167	186	186
State and municipal bonds..........	231,210	242,336	242,336
Corporate bonds....................	42,533	44,724	44,724
Public utilities...................	638	628	628
Total	284,737	298,470	298,470
Equity securities, available-for-sale:			
Common stocks:			
Bank, trust, and insurance.......	511	586	586
Industrial and miscellaneous.....	4,573	3,867	3,867
Preferred stock	6,182	6,355	6,355

Total	11,266	10,808	10,808
Short-term investments	35,303	35,303	35,303
Total investments other than investments in related parties	$331,306	$344,581	$344,581

Schedule II - Condensed Financial Information of Registrant
Condensed Balance Sheets
Triad Guaranty Inc.
(Parent Company)

	December 31	
	2002	2001
	(dollars in thousands)	
Assets:		
Fixed maturities, available-for-sale	$ 13,315	$ 9,071
Equity securities, available-for-sale	760	501
Notes receivable from subsidiary	25,000	25,000
Investment in subsidiary	302,559	244,464
Short-term investments	1,995	1,219
Cash	196	152
Accrued investment income	1,294	1,261
Deferred income taxes	-	99
Other assets	350	120
Total assets	$345,469	$281,887
Liabilities and stockholders' equity:		
Liabilities:		
Current taxes payable	$ 52	$ 70
Long-term debt	34,479	34,473
Deferred income taxes	256	-
Accrued interest on long-term debt	1,275	1,275
Total liabilities	36,062	35,818

Stockholders' equity:		
Common stock	142	137
Additional paid-in capital	80,169	69,057
Accumulated other comprehensive income	8,634	975
Deferred compensation	(658)	(117)
Retained earnings	221,120	176,017
Total stockholders' equity	309,407	246,069
Total liabilities and stockholders' equity	$345,469	$281,887

See notes to condensed financial statements.

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Schedule II - Condensed Financial Information of Registrant
Condensed Statements of Income
Triad Guaranty Inc.
(Parent Company)

	Year Ended December 31		
	2002	2001	2000
	(dollars in thousands)		
Revenues:			
Net investment income	$ 3,170	$ 3,000	$ 2,908
Realized investment losses	(1,168)	(266)	(373)
	2,002	2,734	2,535
Expenses:			
Interest on long-term debt	2,771	2,771	2,770
Operating expenses	885	396	90
	3,656	3,167	2,860
Loss before federal income taxes and equity in undistributed income of subsidiary	(1,654)	(433)	(325)
Income taxes:			
Current	-	(121)	-
Deferred	(176)	172	(129)
	(176)	51	(129)
Loss before equity in undistributed income of subsidiary	(1,478)	(484)	(196)
Equity in undistributed income of subsidiary	46,581	41,743	35,194

Net income...........................	$45,103	$41,259	$34,998
	=======	=======	=======

See notes to condensed financial statements.

Schedule II - Condensed Financial Information of Registrant
Condensed Statements of Cash Flows
Triad Guaranty Inc.
(Parent Company)

	Year Ended December 31		
	2002	2001	2000
	----	----	----
	(dollars in thousands)		
Operating Activities			
Net income................................	$45,103	$41,259	$34,998
Adjustments to reconcile net income to net cash (used in) provided by operating activities:			
Equity in undistributed income of subsidiary..............................	(46,581)	(41,743)	(35,194)
Accrued investment income..................	(33)	(40)	(15)
Other assets...............................	(230)	96	(216)
Deferred income taxes......................	(176)	172	(129)
Current tax payable........................	(18)	-	-
Accretion of discount on investments........	(98)	(52)	(60)
Amortization of deferred compensation.......	392	118	85
Amortization of debt issue costs...........	6	6	5
Realized investment gain on securities......	1,168	266	373
Other operating activities.................	188	-	-
	-------	-------	-------
Net cash (used in) provided by operating activities......................	(279)	82	(153)
Investing Activities			
Securities available-for-sale:			
Fixed maturities:			
Purchases.........................	(8,600)	(5,756)	(2,951)
Sales.............................	4,258	3,369	2,501
Equity securities:			
Purchases.........................	(250)	(500)	-
Sales.............................	2	-	-
Change in short-term investments..........	(776)	(87)	(4)
	-------	-------	-------
Net cash used in investing activities........	(5,366)	(2,974)	(454)
Financing Activities			
Proceeds from exercise of stock options....	5,689	2,874	472
	-------	-------	-------
Net cash provided by financing activities....	5,689	2,874	472
	-------	-------	-------
Increase (decrease)in cash..................	44	(18)	(135)
Cash at beginning of year...................	152	170	305
	-------	-------	-------
Cash at end of year.........................	$ 196	$ 152	$ 170
	=======	=======	=======

See notes to condensed financial statements.

Schedule II - Condensed Financial Information of Registrant
Triad Guaranty Inc.
(Parent Company)
Supplementary Notes

NOTE 1

In the parent company financial statements, the Company's investment in its subsidiaries is stated at cost plus equity in undistributed earnings of the subsidiaries. The Company's share of net income of its subsidiaries is included in income using the equity method. The accompanying Parent Company financial statements should be read in conjunction with the Consolidated Financial Statements and Notes to Consolidated Financial Statements included as part of this Form 10-K.

Note 2

Triad Guaranty Inc. (the "Company") is a holding company which, through its wholly-owned subsidiary, Triad Guaranty Insurance Corporation ("Triad"), provides private mortgage insurance coverage in the United States to mortgage lenders to protect the lender against loss from defaults on low down payment residential mortgage loans.

Note 3

The amortized cost and the fair value of investments held by the parent company are as follows (dollars in thousands):

At December 31, 2002	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale securities:				
Fixed maturity securities:				
Corporate	$7,959	$389	$120	$8,228
Municipal	4,775	312	-	5,087
Total	12,734	701	120	13,315
Equity securities	750	17	7	760
Total	$13,484	$718	$127	$14,075

At December 31, 2001	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale securities:				
Fixed maturity securities:				
Corporate	$8,795	$159	$553	$8,401
Municipal	669	1	-	670
Total	9,464	160	553	9,071
Equity securities	500	1	-	501
Total	$9,964	$161	$553	$9,572

Schedule II - Condensed Financial Information of Registrant
Triad Guaranty Inc.
(Parent Company)
Supplementary Notes

NOTE 3 (CONTINUED)

Major categories of the parent company's investment income are summarized as follows (dollars in thousands):

	Year ended December 31 2002	2001	2000
Income:			
Fixed maturities	$ 918	$ 770	$ 664
Equity securities	51	19	-
Cash and short-term investments	28	45	55
Note receivable from subsidiary	2,225	2,225	2,225
	3,222	3,059	2,944
Expenses	52	59	36
Net investment income	$3,170	$3,000	$2,908

NOTE 4

In January of 1998, the Company completed a $35 million private offering of notes due January 15, 2028. Proceeds from the offering, net of debt issue costs of $547,102, totaled $34,452,898. The notes, which represent unsecured obligations of the Company, bear interest at a rate of 7.9% per annum and are non-callable.

Schedule IV - Reinsurance

Triad Guaranty Inc.
Mortgage Insurance Premium Earned
Years Ended December 31, 2002, 2001 and 2000

	Gross Amount	Ceded To Other Companies	Assumed From Other Companies	Net Amount	Percentage of Amount Assumed to Net
	(dollars in thousands)				
2002.......	$123,323	$18,260	$4	$105,067	0.0%
2001.......	$ 94,833	$10,482	$5	$ 84,356	0.0%

2000.......	$ 76,764	$ 4,930	$9	$ 71,843	0.0%
	========	=======	==	========	