radian

Financial Results Q3 2018

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SAFE HARBOR STATEMENTS

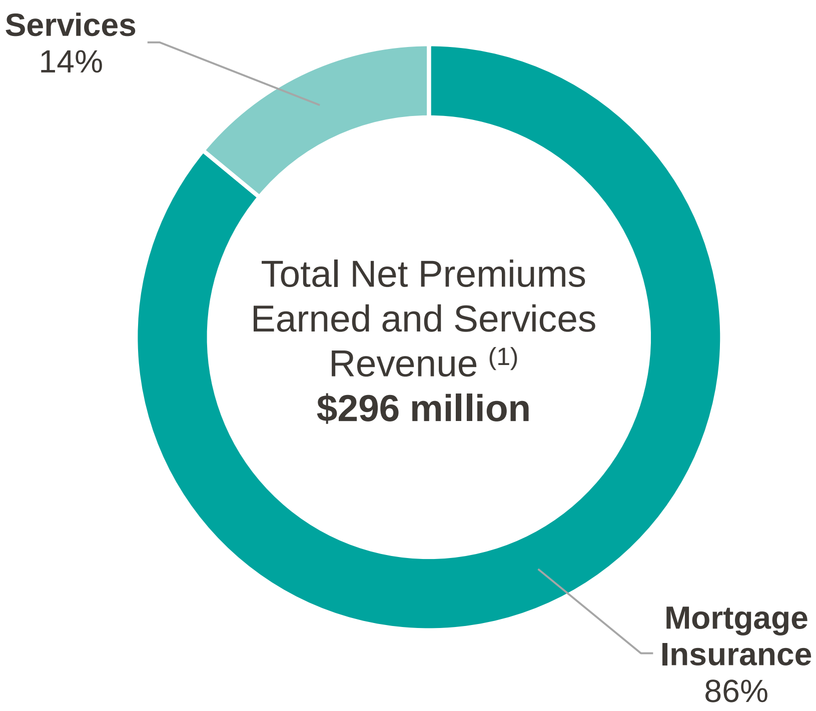
All statements in this presentation that address events, developments or results that we expect or anticipate may occur in the future are "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, Section 21E of the Exchange Act and the U.S. Private Securities Litigation Reform Act of 1995. In most cases, forward-looking statements may be identified by words such as "anticipate," "may," "will," "could," "should," "would," "expect," "intend," "plan," "goal," "contemplate," "believe," "estimate," "predict," "project," "potential," "continue," "seek," "strategy," "future," "likely" or the negative or other variations on these words and other similar expressions. These statements, which may include, without limitation, projections regarding our future performance and financial condition, are made on the basis of management's current views and assumptions with respect to future events. Any forward-looking statement is not a guarantee of future performance and actual results could differ materially from those contained in the forward-looking statement. These statements speak only as of the date they were made, and we undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. We operate in a changing environment where new risks emerge from time to time and it is not possible for us to predict all risks that may affect us. The forward-looking statements, as well as our prospects as a whole, are subject to risks and uncertainties that could cause actual results to differ materially from those set forth in the forward-looking statements. These risks and uncertainties include, without limitation:

- changes in economic and political conditions that impact the size of the insurable market, the credit performance of our insured portfolio, and our business prospects;
- changes in the way customers, investors, ratings agencies, regulators or legislators perceive our performance, financial strength and future prospects;
- Radian Guaranty Inc.'s ("Radian Guaranty") ability to remain eligible under the Private Mortgage Insurer Eligibility Requirements (the "PMIERs") and other applicable requirements imposed by the Federal Housing Finance Agency ("FHFA") and by Fannie Mae and Freddie Mac (collectively, the "GSEs") to insure loans purchased by the GSEs;
- our ability to successfully execute and implement our capital plans, including plans for expanding our risk distribution strategy through the use of reinsurance, and to maintain sufficient holding company liquidity to meet our short- and long-term liquidity needs;
- our ability to successfully execute and implement our business plans and strategies, including plans and strategies to reposition our Services segment as well as plans and strategies that require GSE and/or regulatory approvals and licenses;
- our ability to maintain an adequate level of capital in our insurance subsidiaries to satisfy existing and future state regulatory requirements;
- changes in the charters or business practices of, or rules or regulations imposed by or applicable to the GSEs, which may include changes in the requirements to remain an approved insurer to the GSEs, the GSEs' interpretation and application of the PMIERs, as well as potential future changes to the PMIERs requirements which, among other things, may be impacted by the general economic environment and housing market, as well as the proposed Conservator Capital Framework ("CCF") that would establish capital requirements for the GSEs, if the CCF is finalized;
- changes in the current housing finance system in the U.S., including the role of the Federal Housing Administration (the "FHA"), the GSEs and private mortgage insurers in this system;
- any disruption in the servicing of mortgages covered by our insurance policies, as well as poor servicer performance;
- a significant decrease in the "Persistency Rates" (the percentage of insurance in force that remains in force over a period of time) of our mortgage insurance on monthly premium products;
- competition in our mortgage insurance business, including price competition and competition from the FHA, U.S. Department of Veterans Affairs as well as from other forms of credit enhancement;
- the effect of the Dodd-Frank Wall Street Reform and Consumer Protection Act on the financial services industry in general, and on our businesses in particular;
- legislative and regulatory activity (or inactivity), including the adoption of (or failure to adopt) new laws and regulations, or changes in existing laws and regulations, or the way they are interpreted or applied, including interpretations and guidance pertaining to recently enacted tax reform legislation;
- legal and regulatory claims, assertions, actions, reviews, audits, inquiries and investigations that could result in adverse judgments, settlements, fines, injunctions, restitutions or other relief that could require significant expenditures or have other effects on our business;
- the amount and timing of potential settlements, payments or adjustments associated with federal or other tax examinations;
- the possibility that we may fail to estimate accurately the likelihood, magnitude and timing of losses in establishing loss reserves for our mortgage insurance business or to accurately calculate and/or project our Available Assets and Minimum Required Assets under the PMIERs, including the revised PMIERs ("PMIERs 2.0"), which will be impacted by, among other things, the size and mix of our IIF, the level of defaults in our portfolio, the level of cash flow generated by our insurance operations, and our risk distribution strategies;
- volatility in our results of operations caused by changes in the fair value of our assets and liabilities, including a significant portion of our investment portfolio;
- potential future impairment charges related to our goodwill and other acquired intangible assets, and uncertainties regarding our ability to execute our restructuring plans within expected costs;
- changes in "GAAP" (accounting principles generally accepted in the U.S.) or "SAP" (statutory accounting practices including those required or permitted, if applicable, by the insurance departments of the respective states of domicile of our insurance subsidiaries) rules and guidance, or their interpretation;
- our ability to attract and retain key employees; and
- legal and other limitations on dividends and other amounts we may receive from our subsidiaries.

For more information regarding these risks and uncertainties as well as certain additional risks that we face, you should refer to the Risk Factors detailed in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2017, and subsequent reports filed from time to time with the U.S. Securities and Exchange Commission. We caution you not to place undue reliance on these forward-looking statements, which are current only as of the date on which we issued this presentation. We do not intend to, and we disclaim any duty or obligation to, update or revise any forward-looking statements to reflect new information or future events or for any other reason.

WHO IS RADIAN?

Q3 2018 REVENUE



Radian Group Inc., headquartered in Philadelphia, is a diversified mortgage and real estate services business. Radian provides private mortgage insurance and products and services to the real estate and mortgage finance industries through two business segments:

Mortgage Insurance:

Provided through its principal Mortgage Insurance subsidiary, Radian Guaranty Inc., helps protect lenders by mitigating default-related losses, facilitates the sale of low down payment mortgages in the secondary market and enables homebuyers to purchase homes more quickly with down payments less than 20%.

Mortgage and Real Estate Services

Provided through its principal Services subsidiary, Clayton Holdings, as well as Entitle Direct, Green River Capital, Red Bell Real Estate and ValuAmerica. Solutions include information and services that financial institutions, investors and government entities use to evaluate, acquire, securitize, service and monitor loans and asset-backed securities.

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1) Represents revenues on individual segment basis.

Q3 HIGHLIGHTS

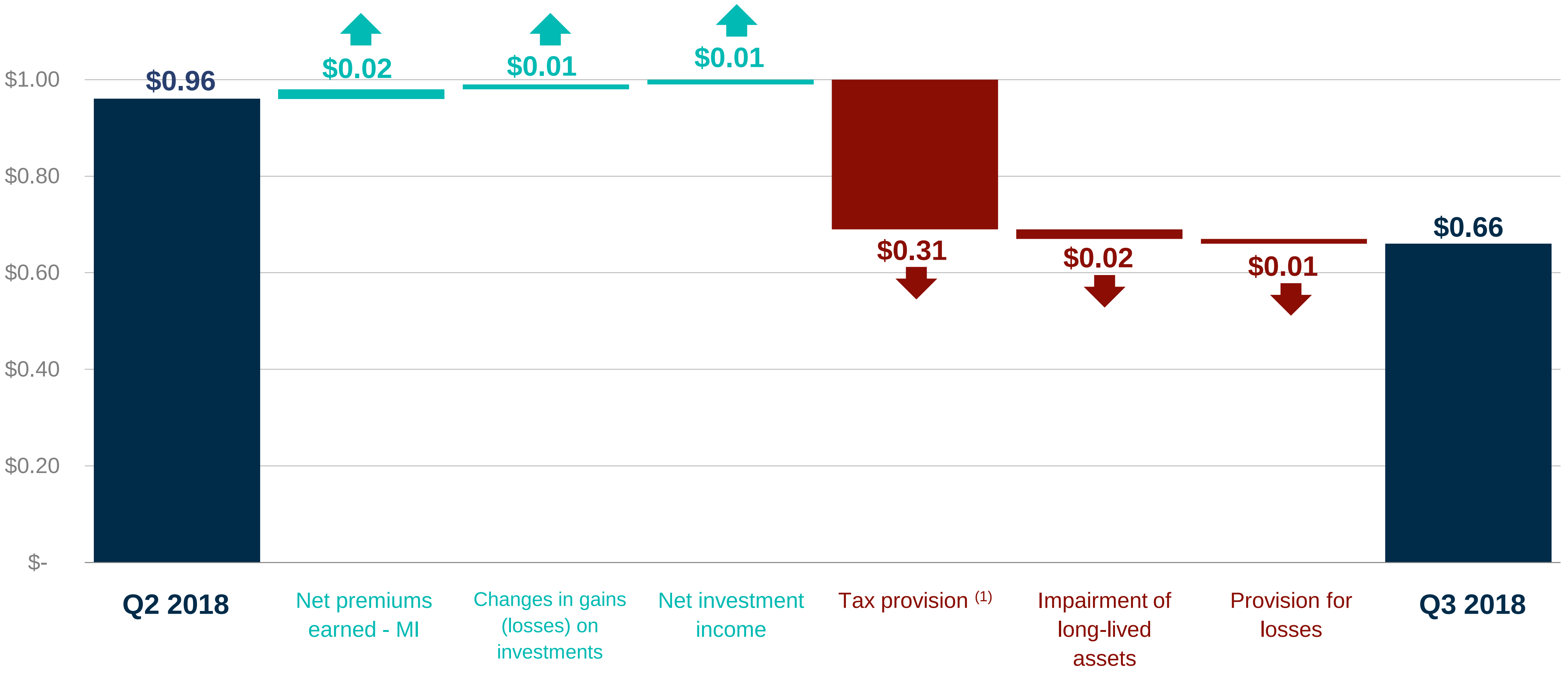
$142.8 million **Net Income** **$0.66** **Diluted Net Income Per Share**	119% increase in net income compared to $65.1M in Q3 2017. Q3 2017 included pretax loss on induced conversion – debt extinguishment of $45.8 million
$0.71 **Adjusted Diluted Net Operating Income Per Share [(1)]**	54% increase compared to adjusted diluted net operating income per share of $0.46 in Q3 2017 [(1)]
17.4% **Return on Equity**	Compared to 8.8% return on equity in Q3 2017
19.0% **Adjusted Net Operating Return on Equity [(1)]**	Compared to 13.7% adjusted net operating return on equity in Q3 2017

$20.9 million **Provision for Losses**	42% improvement over Q3 2017, primarily due to an increased benefit on prior period defaults from a reduction in assumed default to claim rates and a lower volume of new defaults
4% increase **In New Insurance Written**	$15.8 billion of new insurance written, compared to $15.1 billion in Q3 2017 22% increase in total borrower-paid originations compared to Q3 2017
10% increase **In Primary Insurance In Force**	$217.1 billion as of September 30, 2018, compared to $196.5 billion as of September 30, 2017
8% increase **In Net Mortgage Insurance Premiums Earned**	$255.5 million in Q3 2018, compared to $236.7 million in Q3 2017
13% increase **In Book Value Per Share**	Book value per share of $15.69 as of September 30 2018, compared to $13.88 as of September 30, 2017

1) Adjusted results, including adjusted diluted net operating income per share and adjusted net operating return on equity, as used in this presentation, are non-GAAP financial measures. For a reconciliation of the adjusted results to the comparable GAAP measures and the definitions of adjusted diluted net operating income per share and adjusted net operating return on equity, see Appendix, Slides 21-24.

NET INCOME

Q2 2018 to Q3 2018 GAAP Diluted Net Income Per Share



1) Reflects a tax benefit of approximately $74M recognized in Q2 2018, which included both the impact of the settlement with the IRS as well as reversal of certain previously accrued state and local tax liabilities.

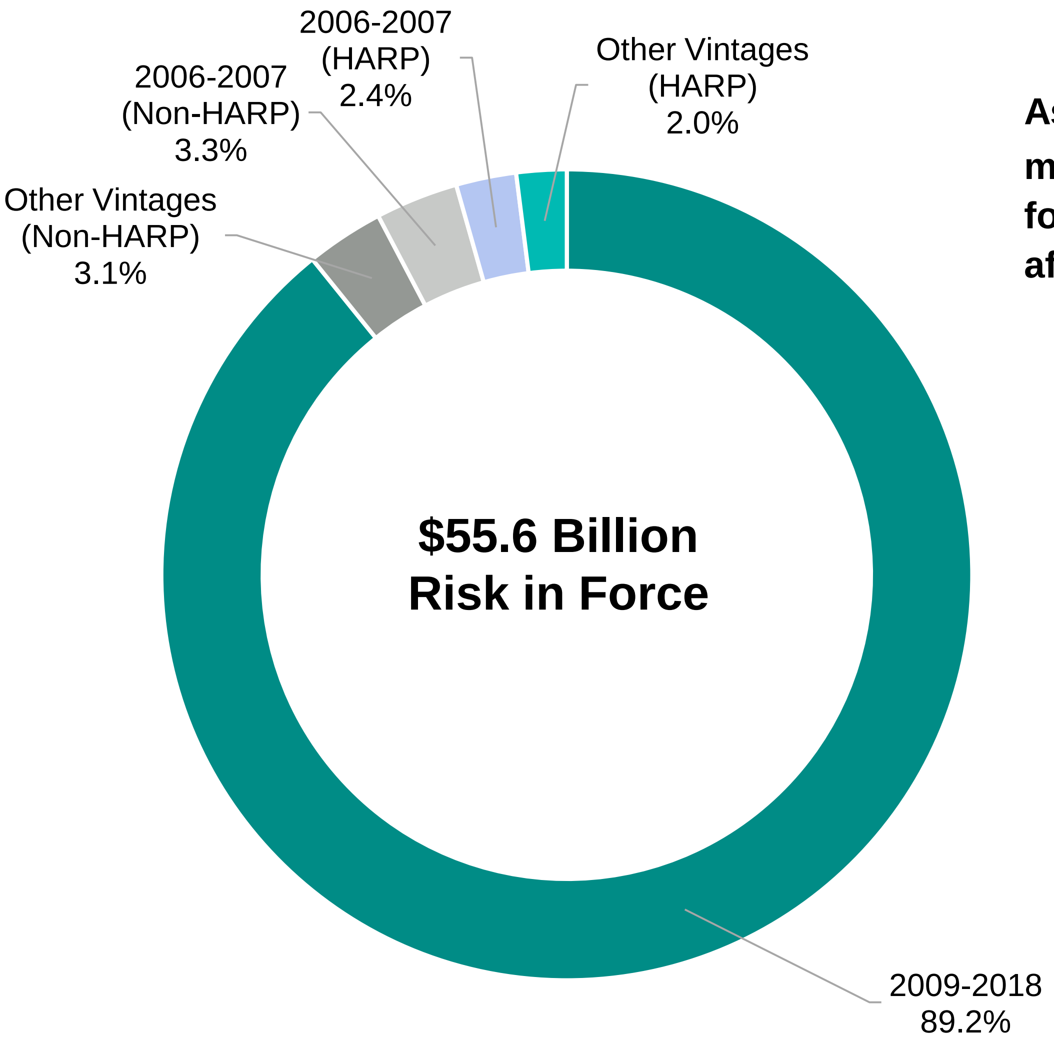
FINANCIAL HIGHLIGHTS

Radian Group Inc. Consolidated
($ in millions, except per-share amounts)

	September 30, 2018	June 30, 2018	March 31, 2018
Primary Insurance In Force	$217,096	$210,741	$204,025
Total Assets	$6,269	$6,139	$6,010
Total Investments	$5,028	$4,874	$4,668
Loss Reserves	$412	$452	$489
Debt-to-capital (1)	23.5%	24.3%	25.2%
Stockholders' Equity	$3,347	$3,201	$3,052
Book Value Per Share	$15.69	$15.01	$14.16
Available / Total Holding Company Liquidity (2)	$246 / $471	$202 / $427	$203 / $428
PMIERs Cushion (3)	$530 / 16%	$480 / 15%	$526 / 16%

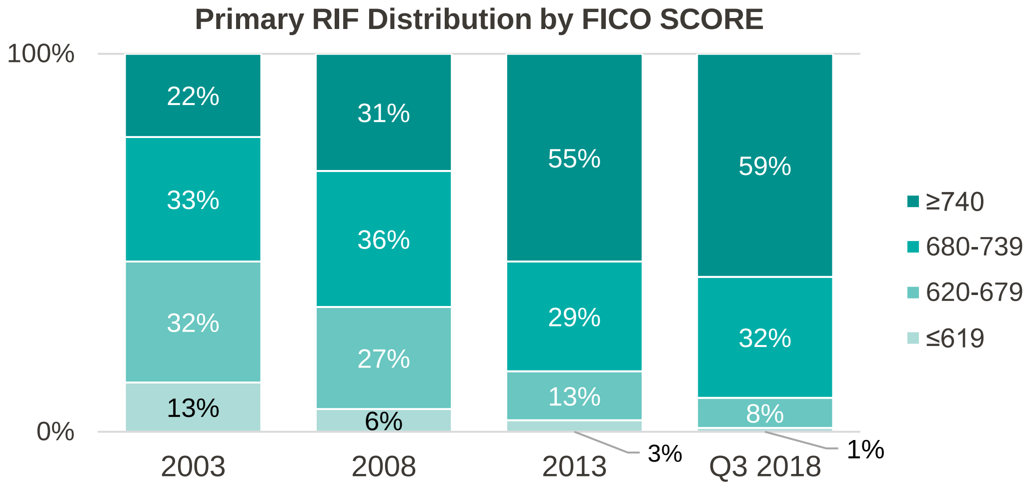
1) See slide 17 for further detail on the components and calculation of the debt-to-capital ratio.
2) Total holding company liquidity includes the Company's $225 million unsecured revolving credit facility. The credit facility requires that the Company maintain a minimum of $35 million in liquidity.
3) Radian Guaranty currently is an approved mortgage insurer under the PMIERs, and is in compliance with the PMIERs financial requirements. PMIERs cushion is the excess of Radian Guaranty's Available Assets under the PMIERs over its Minimum Required Assets under the PMIERs. PMIERs cushion as a percentage represents PMIERs cushion over its Minimum Required Assets under the PMIERs. Radian Guaranty also expects to comply with PMIERs 2.0 and to maintain a PMIERs cushion as of the effective date, March 31, 2019. See slide 19 for PMIERs resources.

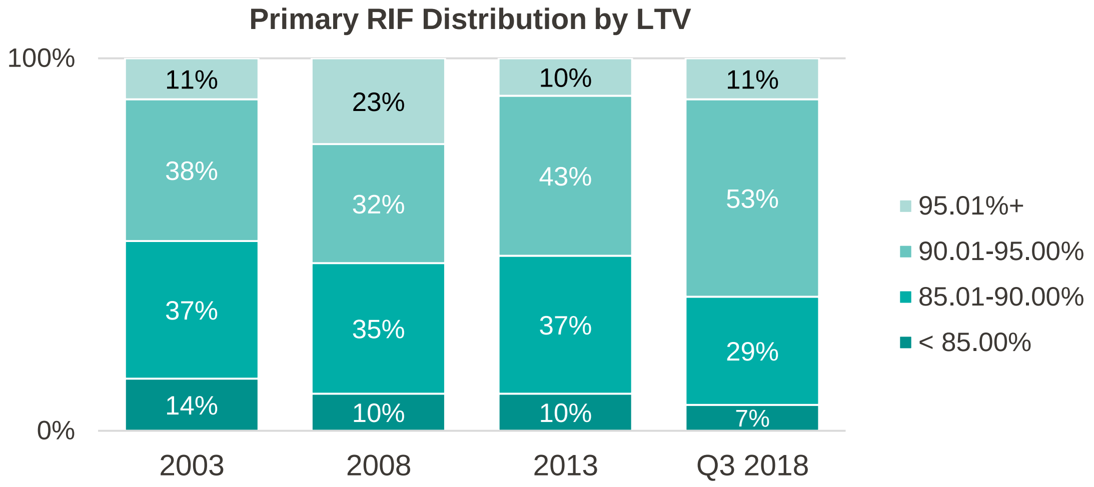
MI PORTFOLIO COMPOSITION

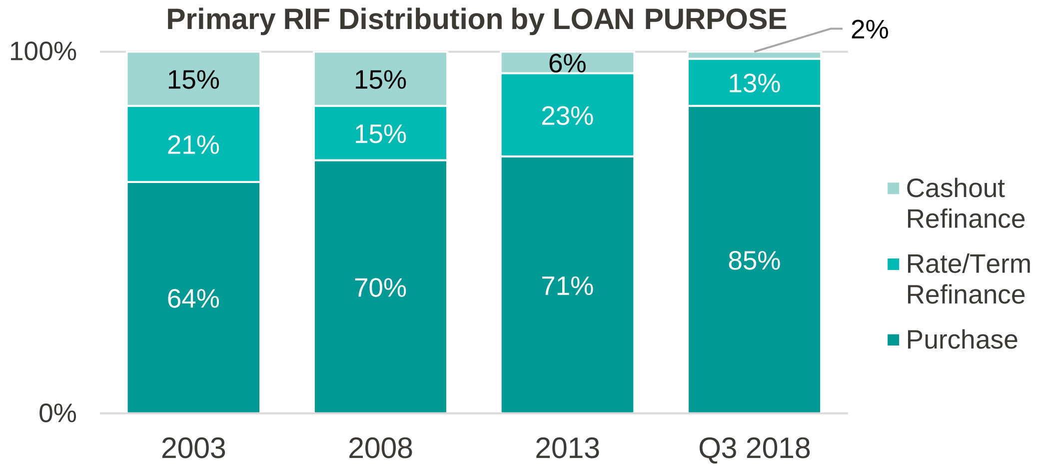


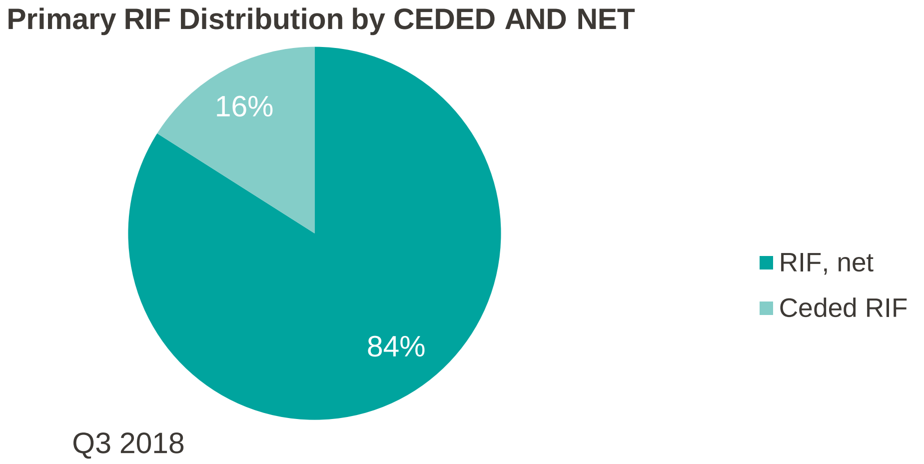
As of September 30, 2018, 94% of mortgage insurance primary risk in force consists of new business written after 2008, including HARP volume

MI PORTFOLIO CHARACTERISTICS









Data provided for 2003-2013 is as of year-end.

PREMIUM YIELDS

(in basis points)	Mortgage Insurance Premium Yield Trends				
	Q3 2018	**Q2 2018**	**Q1 2018**	**Q4 2017**	**Q3 2017**
In Force Portfolio Yield (1)	48.6	48.4	48.7	48.1	48.4
Single Premium Cancellations (2)	2.1	2.8	2.4	4.3	3.2
Total Direct Yield	**50.7**	**51.2**	**51.1**	**52.4**	**51.6**
Ceded Earned Premiums, Incl. Profit Commission (3)	(2.9)	(3.2)	(3.2)	(3.0)	(2.8)
Total Net Yield (4)	**47.8**	**48.0**	**47.9**	**49.4**	**48.8**

Beginning Primary IIF ($B)	$210.7	$204.0	$200.7	$196.5	$191.6
Ending Primary IIF ($B)	$217.1	$210.7	$204.0	$200.7	$196.5
Average Primary IIF ($B)	**$213.9**	**$207.4**	**$202.4**	**$198.6**	**$194.1**

1) Total direct premiums earned, excluding single premium cancellations, annualized, as a percentage of average primary IIF. Includes premiums earned related to Radian's participation in GSE credit risk sharing transactions (Freddie Mac ACIS and Fannie Mae CIRT). The impact of this revenue is minimal, and ranges from 0 - 0.5 basis points across all time periods presented.
2) Single premium cancellations, annualized, as a percentage of average primary IIF.
3) Ceded premiums earned, annualized, as a percentage of average primary IIF.
4) Net premiums earned, annualized, as a percentage of average primary IIF.

FIRST-LIEN MORTGAGE INSURANCE

2018 Performance by Vintage

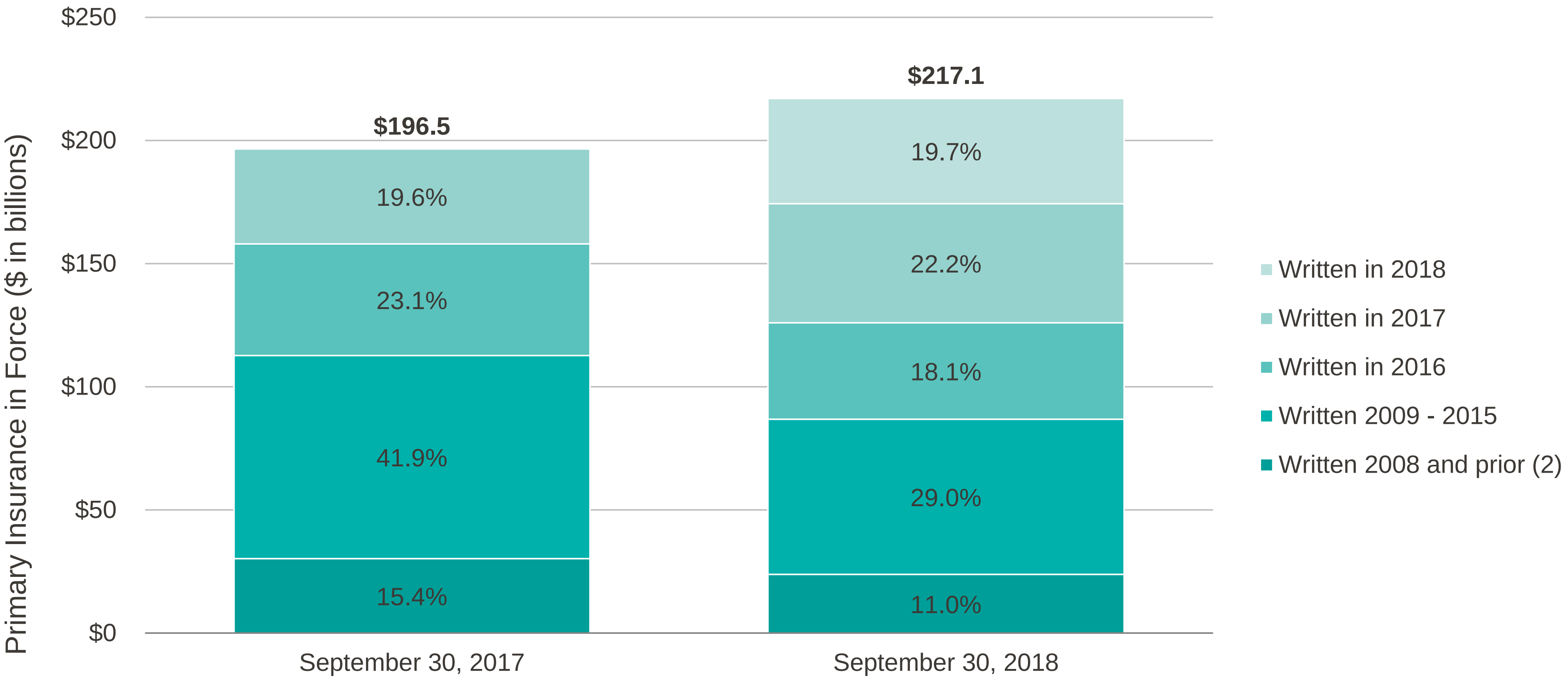
($ in millions)

	THREE MONTHS ENDED SEPTEMBER 30, 2018		
Vintage	**Premiums Earned [1]**	**Incurred Losses [1]**	**Net**
2008 & Prior	$26.7	$12.6	$14.1
2009	$1.6	$(0.2)	$1.8
2010	$0.6	$(0.3)	$0.9
2011	$1.3	$(0.1)	$1.4
2012	$6.4	$0.6	$5.8
2013	$16.9	$0.2	$16.7
2014	$17.8	$0.1	$17.7
2015	$31.0	$0.9	$30.1
2016	$47.9	$1.8	$46.1
2017	$59.6	$3.2	$56.4
2018	$43.1	$1.3	$41.8

Pre-2009 portfolio is contributing to earnings.

1) Represents premiums earned and incurred losses on first-lien portfolio, including the impact of ceded premiums and losses related to the Quota Share Reinsurance Program and the Single Premium Quota Share Reinsurance Program, but excluding any reduction for ceded premiums and losses recoverable through our other reinsurance transactions, as these impacts are not material.

PRIMARY INSURANCE IN FORCE (1)



1) Policy years represent the original policy years, and have not been adjusted to reflect subsequent HARP refinancing activity.

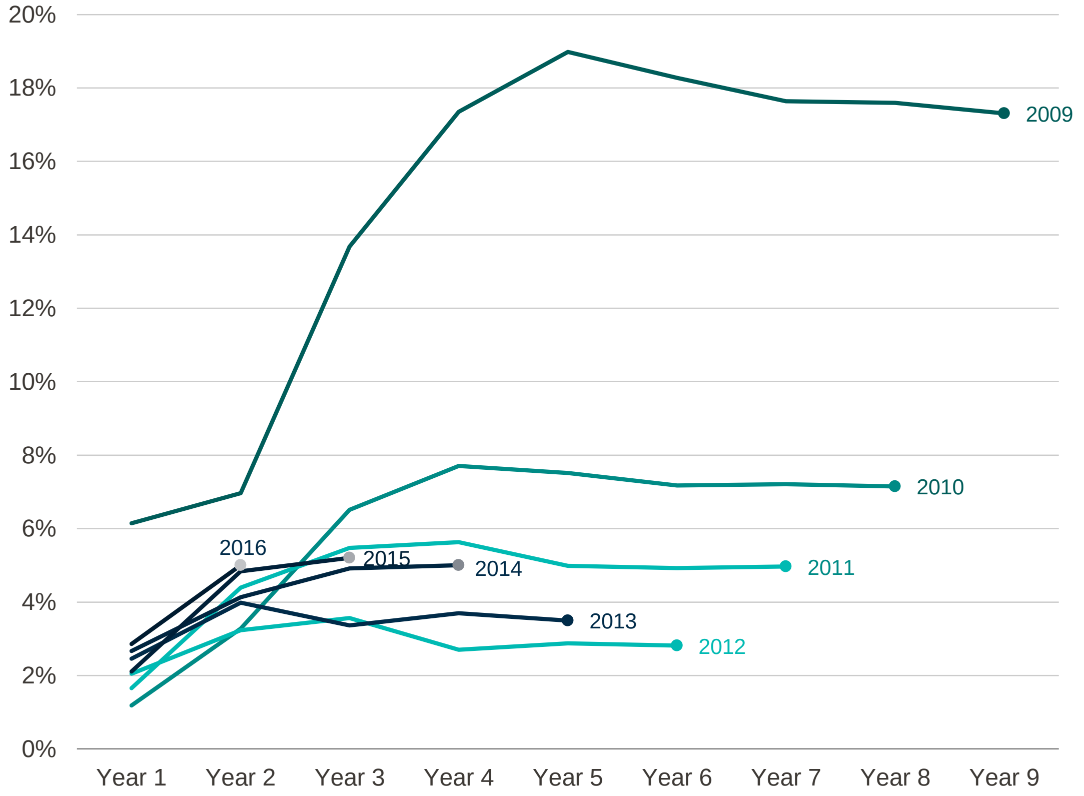
2) If adjusted to reflect subsequent HARP refinancing activity, this percentage would decrease to 6.4% and 9.1% as of September 31, 2018 and September 31, 2017, respectively.

PRIMARY MORTGAGE INSURANCE

Cumulative Incurred Loss Ratio by Development Year

CUMULATIVE INCURRED LOSS RATIO [1]										
Vintage	**Dec-09**	**Dec-10**	**Dec-11**	**Dec-12**	**Dec-13**	**Dec-14**	**Dec-15**	**Dec-16**	**Dec-17**	**Sep-18**
2009	6.1%	7.0%	13.7%	17.4%	19.0%	18.3%	17.6%	17.6%	17.3%	17.1%
2010		1.2%	3.3%	6.5%	7.7%	7.5%	7.2%	7.2%	7.2%	7.0%
2011			1.7%	4.4%	5.5%	5.6%	5.0%	4.9%	5.0%	4.9%
2012				2.0%	3.2%	3.6%	2.7%	2.9%	2.8%	2.8%
2013					2.5%	4.0%	3.4%	3.7%	3.5%	3.3%
2014						2.7%	4.1%	4.9%	5.0%	5.0%
2015							2.1%	4.8%	5.2%	5.0%
2016								2.9%	5.0%	4.7%
2017									4.7%	4.5%

Radian's stochastic modeling indicates an approximate 20% through-the-cycle loss ratio on newly originated MI business.



1) Represents inception-to-date losses incurred as a percentage of net premiums earned.

COMPONENTS OF MI PROVISION FOR LOSSES

($ in millions)	THREE MONTHS ENDED				
	Sep 30, 2018	**Jun 30, 2018**	**Mar 31, 2018**	**Dec 31, 2017**	**Sep 30, 2017**
Current period defaults [1]	$40.4	$37.2	$36.5	$55.8	$50.3
Prior period defaults [2]	(20.4)	(18.1)	0.4	(20.1)	(14.0)
Second-lien premium deficiency reserve & other	0.7	0.3	0.5	(0.5)	(0.3)
Provision for losses	**$20.7**	**$19.4**	**$37.4**	**$35.2**	**$36.0**

1) Related to defaulted loans with a most recent default notice dated in the quarter indicated. For example, if a loan had defaulted in a prior quarter, but then subsequently cured and later re-defaulted in the current quarter, that default would be considered a current period default.

2) Related to defaulted loans with a default notice dated in a period earlier than the period indicated, which have been continuously in default since that time.

PRIMARY LOANS IN DEFAULT

September 30, 2018 *($ in thousands)*	TOTAL		FORECLOSURE STAGE DEFAULTED LOANS	CURE % DURING Q3	RESERVE FOR LOSSES	% OF RESERVE
MISSED PAYMENTS	**#**	**%**	**#**	**%**	**$**	**%**
3 Payments or Fewer	9,270	44.6%	130	34.7%	$78,795	21.2%
4 to 11 Payments	5,872	28.3	406	31.7	86,113	23.2
12 Payments or More [(1)]	5,020	24.2	1,515	6.5	173,977	46.9
Pending Claims [(1)]	608	2.9	N/A	3.9	32,270	8.7
Total	**20,770 [(2)]**	**100.0%**	**2,051**	**25.7%**	**371,155**	**100.0%**
IBNR and Other					14,505	
LAE					11,203	
Total Primary Reserves					**$396,863**	

KEY RESERVE ASSUMPTIONS

Gross Default to Claim Rate %	Net Default to Claim Rate % [(3)]	Claim Severity % [(4)]
36%	**34%**	**97%**

1) 20% of defaults that had missed 12 payments or more (including the portion in pending claims) made a payment during Q3 2018.
2) Primary risk in force on defaulted loans at September 30, 2018 was $1.0 billion. Defaults include 2,946 defaults in FEMA Designated Areas associated with Hurricanes Harvey and Irma.
3) For every one percentage point change in our primary net Default to Claim Rate, we estimated a change of approximately $10.4 million in our primary loss reserve at September 30, 2018.
4) For every one percentage point change in primary Claim Severity, we estimated that our total loss reserve at September 30, 2018 would change by approximately $3.8 million.

DEFAULT ROLLFORWARD

Primary Insurance in Force

	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017
Beginning Default Inventory	22,088	24,597	27,922	23,826	23,755
Pre-2009 New Defaults	4,922	4,695	5,013	7,076	6,331
2009+ New Defaults	4,713	3,644	4,076	7,971	3,752
Total New Defaults (1) (2)	9,635	8,339	9,089	15,047	10,083
Cures (1) (2)	(9,633)	(9,739)	(11,367)	(9,461)	(8,501)
Claims Paid (3)	(1,280)	(1,105)	(1,052)	(1,426)	(1,465)
Recessions and Denials, net (4)	(40)	(4)	5	(64)	(46)
Ending Default Inventory	**20,770**	**22,088**	**24,597**	**27,922**	**23,826**
FEMA Designated Areas (5)	2,946	4,132	5,780	7,051	2,934
Non-FEMA Designated Areas	17,824	17,956	18,817	20,871	20,892

1) Amounts include the following number of new defaults and cures in the FEMA Designated Areas associated with the Q3 2017 Hurricanes, Harvey and Irma:

New Defaults	953	755	989	5,904	1,219
Cures	1,982	2,284	2,168	1,617	859

2) Amounts reflected above are compiled on a monthly basis consistent with reports received from loan servicers. The number of New Defaults and Cures presented includes the following number of monthly defaults that both defaulted and cured within the period indicated:

3,950	3,423	4,439	4,720	3,909

3) Includes: (i) those charged to a deductible or captive and (ii) commutations.

4) Net of any previously rescinded and denied policies and/or claims that were reinstated during the period. Reinstated rescissions may ultimately result in a paid claim. Previously denied but reinstated claims are generally reviewed for possible rescission prior to any claim payment. In Q3 2018, there were 81 reinstatements of previously rescinded policies and denied claims.

5) Represents the ending default inventory in the FEMA Designated Areas associated with Hurricanes Harvey and Irma.

CAPITAL AND DEBT STRUCTURE

CAPITAL STRUCTURE

Total Capitalization as of September 30, 2018

Coupon	Description	Carrying Value ($'000)	Principal ($'000)	% of Total Capitalization (1)
5.50%	Senior Notes due June 2019	$158,148	$158,623	3.6%
5.25%	Senior Notes due June 2020	232,500	234,126	5.3
7.00%	Senior Notes due March 2021	195,682	197,661	4.5
4.50%	Senior Notes due October 2024	443,181	450,000	10.1
	Total	**1,029,511**	**1,040,410**	**23.5**
	Stockholders' Equity	3,347,278		76.5
	Total Capitalization	**$4,376,789**		**100.0%**

Share Repurchase Program:
In August 2018, the Company's board of directors approved a new share repurchase program that authorizes the Company to repurchase up to $100 million of its common stock. As of September 30, 2018, the full purchase authority remained available under this program, which expires on July 31, 2019.

Current Radian Group Ratings:

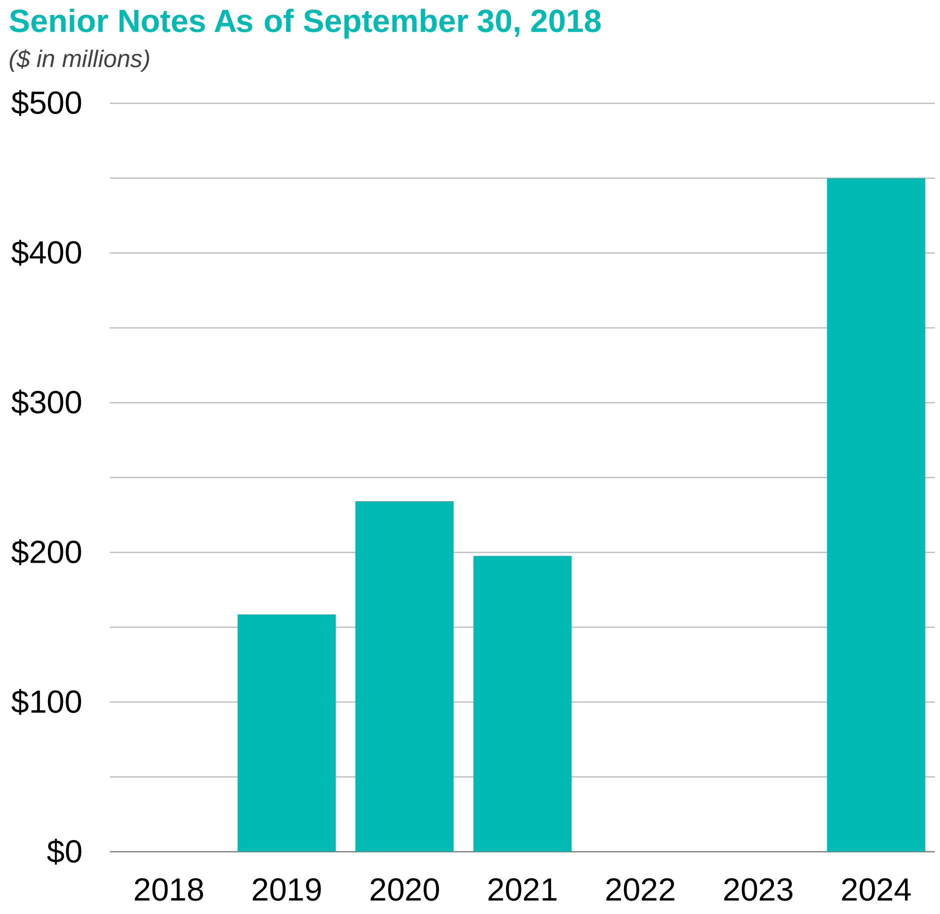
S&P
- BB+ with stable outlook
- Upgraded from BB to BB+ on September 11, 2017

Moody's
- Ba2 with stable outlook
- Upgraded from Ba3 to Ba2 on September 21, 2018

1) Based on carrying value of debt and stockholders' equity.

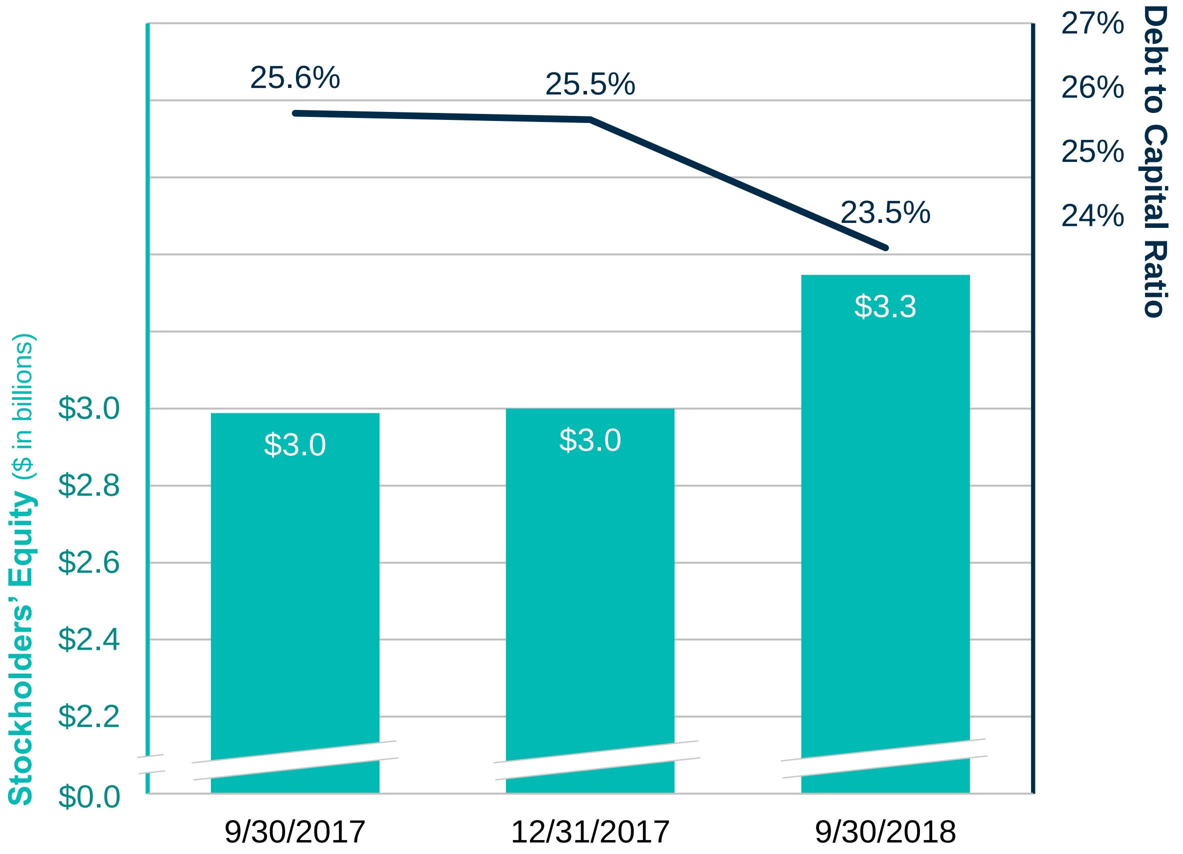
CAPITAL STRUCTURE

Debt Maturity Profile: Principal by Year of Maturity

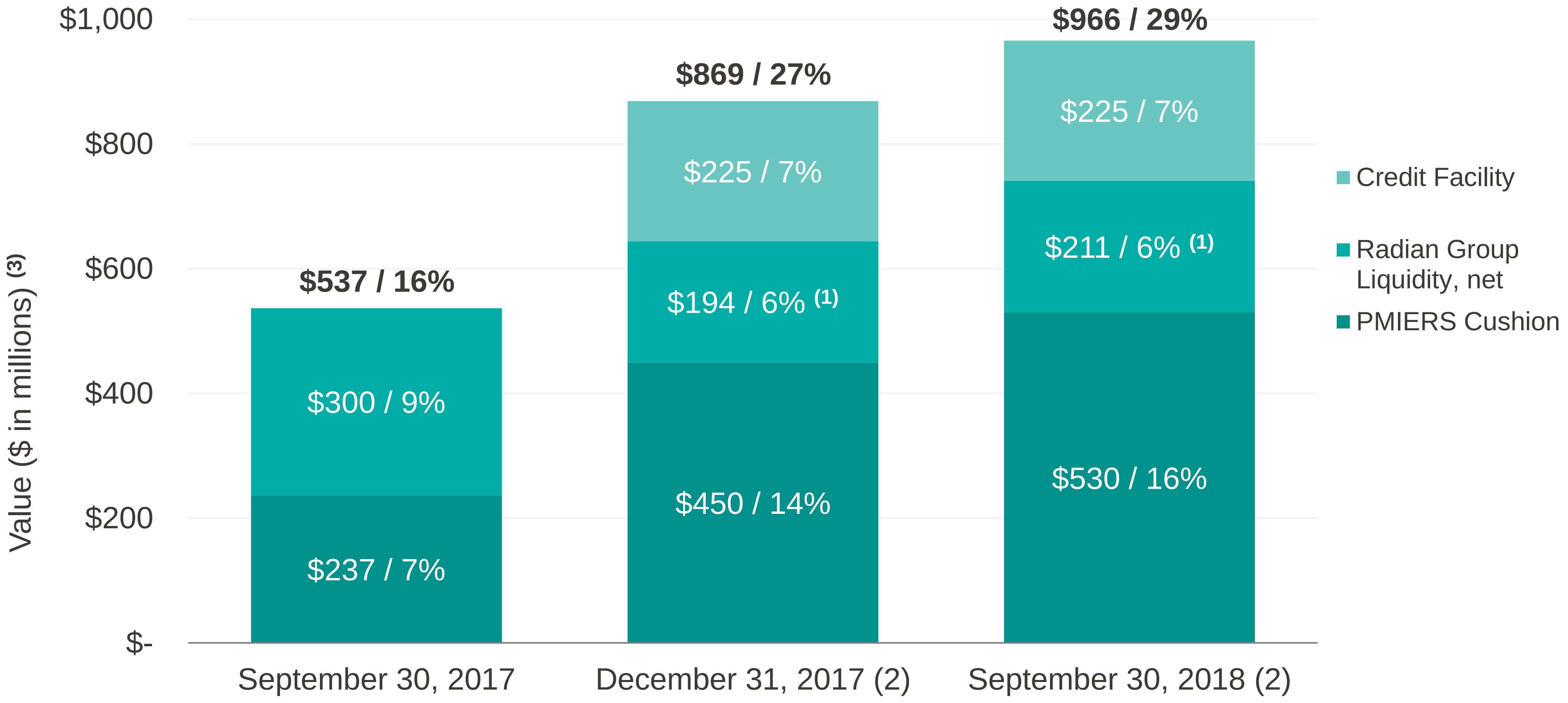


Stockholders' Equity & Debt to Capital Ratio

As of September 30, 2018



PMIERS EXCESS AVAILABLE RESOURCES



1) Represents Radian Group's Liquidity, net of the $35 million minimum liquidity requirement under the unsecured revolving credit facility.

2) The amendment to the 2016 Single Premium QSR Transaction which became effective as of December 31, 2017, and the $100 million of cash and marketable securities that Radian Group transferred to Radian Guaranty in December 2017 in exchange for a Surplus Note both had the effect of increasing the amount of Radian Guaranty's cushion under the PMIERs financial requirements at December 31, 2017. These increases were partially offset by a temporary elevated level of Minimum Required Assets at December 31, 2017 due to the increase in reported delinquencies from hurricane-affected areas. As of September 30, 2018, the impact of these hurricanes on our level of our Minimum Required Assets has substantially decreased, consistent with our expectation that most of the hurricane-related defaults would cure during 2018.

3) Percentages represent percentage of Minimum Required Assets under the PMIERs.

Consolidated Non-GAAP
Financial Measures Reconciliations

Use of Non-GAAP Financial Measures

In addition to the traditional GAAP financial measures, we have presented “adjusted pretax operating income”, “adjusted diluted net operating income per share,” and “adjusted net operating return on equity,” non-GAAP financial measures for the consolidated company, among our key performance indicators to evaluate our fundamental financial performance. These non-GAAP financial measures align with the way the Company’s business performance is evaluated by both management and the board of directors. These measures have been established in order to increase transparency for the purposes of evaluating our operating trends and enabling more meaningful comparisons with our peers. Although on a consolidated basis “adjusted pretax operating income,” “adjusted diluted net operating income per share” and “adjusted net operating return on equity” are non-GAAP financial measures, we believe these measures aid in understanding the underlying performance of our operations. Our senior management, including our Chief Executive Officer (Radian's chief operating decision maker), uses adjusted pretax operating income (loss) as our primary measure to evaluate the fundamental financial performance of the Company’s business segments and to allocate resources to the segments.

Adjusted pretax operating income is defined as GAAP consolidated pretax income excluding the effects of: (i) net gains (losses) on investments and other financial instruments; (ii) loss on induced conversion and debt extinguishment; (iii) acquisition-related expenses; (iv) amortization or impairment of goodwill and other acquired intangible assets; and (v) net impairment losses recognized in earnings and losses from the sale of lines of business. Adjusted diluted net operating income per share is calculated by dividing (i) adjusted pretax operating income attributable to common shareholders, net of taxes computed using the company’s statutory tax rate, by (ii) the sum of the weighted average number of common shares outstanding and all dilutive potential common shares outstanding. Interest expense on convertible debt, share dilution from convertible debt and the impact of share-based compensation arrangements have been reflected in the per share calculations consistent with the accounting standard regarding earnings per share, whenever the impact is dilutive. Adjusted net operating return on equity is calculated by dividing annualized adjusted pretax operating income, net of taxes computed using the company's statutory tax rate, by average stockholders' equity, based on the average of the beginning and ending balances for each period presented.

Although adjusted pretax operating income excludes certain items that have occurred in the past and are expected to occur in the future, the excluded items represent those that are: (i) not viewed as part of the operating performance of our primary activities or (ii) not expected to result in an economic impact equal to the amount reflected in pretax income. These adjustments, along with the reasons for their treatment, are described below.

1. *Net gains (losses) on investments and other financial instruments.* The recognition of realized investment gains or losses can vary significantly across periods as the activity is highly discretionary based on the timing of individual securities sales due to such factors as market opportunities, our tax and capital profile and overall market cycles. Unrealized investment gains and losses arise primarily from changes in the market value of our investments that are classified as trading or equity securities. These valuation adjustments may not necessarily result in realized economic gains or losses.

   Trends in the profitability of our fundamental operating activities can be more clearly identified without the fluctuations of these realized and unrealized gains or losses. We do not view them to be indicative of our fundamental operating activities. Therefore, these items are excluded from our calculation of adjusted pretax operating income (loss).

2. *Loss on induced conversion and debt extinguishment.* Gains or losses on early extinguishment of debt and losses incurred to purchase our convertible debt prior to maturity are discretionary activities that are undertaken in order to take advantage of market opportunities to strengthen our financial and capital positions; therefore, we do not view these activities as part of our operating performance. Such transactions do not reflect expected future operations and do not provide meaningful insight regarding our current or past operating trends. Therefore, these items are excluded from our calculation of adjusted pretax operating income (loss).

3. *Acquisition-related expenses.* Acquisition-related expenses represent the costs incurred to effect an acquisition of a business (i.e., a business combination). Because we pursue acquisitions on a strategic and selective basis and not in the ordinary course of our business, we do not view acquisition-related expenses as a consequence of a primary business activity. Therefore, we do not consider these expenses to be part of our operating performance and they are excluded from our calculation of adjusted pretax operating income (loss).

4. *Amortization or impairment of goodwill and other acquired intangible assets.* Amortization of acquired intangible assets represents the periodic expense required to amortize the cost of acquired intangible assets over their estimated useful lives. Acquired intangible assets with an indefinite useful life are also periodically reviewed for potential impairment, and impairment adjustments are made whenever appropriate. These charges are not viewed as part of the operating performance of our primary activities and therefore are excluded from our calculation of adjusted pretax operating income (loss).

5. *Net impairment losses recognized in earnings and losses from the sale of lines of business.* The recognition of net impairment losses on investments and the impairment of other long-lived assets does not result in a cash payment and can vary significantly in both amount and frequency, depending on market credit cycles and other factors. Losses from the sale of lines of business are highly discretionary as a result of strategic restructuring decisions, and generally do not occur in the normal course of our business. We do not view these losses to be indicative of our fundamental operating activities. Therefore, whenever these losses occur, we exclude them from our calculation of adjusted pretax operating income (loss).

See Slides 22 through 24 for the reconciliation of the most comparable GAAP measures, consolidated pretax income, diluted net income per share and return on equity, to our non-GAAP financial measures for the consolidated company, adjusted pretax operating income, adjusted diluted net operating income per share and adjusted net operating return on equity, respectively.

Total adjusted pretax operating income, adjusted diluted net operating income per share and adjusted net operating return on equity should not be considered in isolation or viewed as substitutes for GAAP pretax income, diluted net income per share or return on equity. Our definitions of adjusted pretax operating income, adjusted diluted net operating income per share and adjusted net operating return on equity may not be comparable to similarly-named measures reported by other companies.

Reconciliation of Consolidated Pretax Income (Loss) to Adjusted Pretax Operating Income

	2018			2017	
($ in thousands)	Q3	Q2	Q1	Q4	Q3
Consolidated pretax income	**$184,688**	$180,571	$142,442	$164,727	$102,814
Less reconciling income (expense) items:					
Net gains (losses) on investments and other financial instruments	**(4,480)**	(7,404)	(18,887)	(1,339)	2,480
Loss on induced conversion and debt extinguishment	**–**	–	–	–	(45,766)
Acquisition-related expenses (1)	**(2)**	(416)	–	21	(54)
Amortization and impairment of other acquired intangible assets	**(3,472)**	(2,748)	(2,748)	(2,629)	(2,890)
Impairment of other long-lived assets and loss from the sale of a business line (2)	**(4,057)**	130	(26)	(3,865)	(6,575)
Total adjusted pretax operating income (1)	**$196,699**	$191,009	$164,103	$172,539	$155,619

1) Please see slide 21 for the definition of this line item and additional information regarding our use of non-GAAP financial measures.
2) This item is included within restructuring and other exit costs.

Reconciliation of Diluted Net Income (Loss) Per Share to Adjusted Diluted Net Operating Income Per Share

	2018			2017	
	Q3	Q2	Q1	Q4	Q3
Diluted net income per share	**$0.66**	$0.96	$0.52	$0.03	$0.30
Less per-share impact of reconciling income (expense) items:					
Net gains (losses) on investments and other financial instruments	**(0.02)**	(0.03)	(0.09)	(0.01)	0.01
Loss on induced conversion and debt extinguishment	**–**	–	–	–	(0.14)
Amortization and impairment of other acquired intangible assets	**(0.02)**	(0.01)	(0.01)	(0.01)	(0.01)
Impairment of other long-lived assets and loss from the sale of a business line	**(0.02)**	–	–	(0.02)	(0.03)
Income tax provision (benefit) on reconciling income (expense) items (1)	**(0.01)**	(0.01)	(0.02)	(0.01)	(0.01)
Difference between statutory and effective tax rates (2) (3)	**–**	0.30	0.01	(0.45)	–
Per-share impact of reconciling income (expense) items	**(0.05)**	0.27	(0.07)	(0.48)	(0.16)
Adjusted diluted net operating income per share (1) (4)	**$0.71**	$0.69	$0.59	$0.51	$0.46

1) Calculated using the company's federal statutory tax rates of 21% and 35% for 2018 and 2017, respectively. Any permanent tax adjustments and state income taxes on these items have been deemed immaterial and are not included.
2) The quarter ended June 30, 2018 includes $0.34 of tax benefit related to the settlement of the IRS Matter, which includes both the impact of the settlement with the IRS as well as the reversal of certain previously accrued state and local tax liabilities.
3) The quarter ended December 31, 2017 includes $0.47 in additional tax expense related to the remeasurement of our net deferred tax assets as a result of the Tax Cuts and Jobs Act enacted in December 2017.
4) Please see Slide 21 for additional information regarding our use of non-GAAP financial measures.

Reconciliation of Return on Equity to Adjusted Net Operating Return on Equity

	2018			2017	
	Q3	Q2	Q1	Q4	Q3
Return on equity [1]	**17.4%**	26.7%	15.1%	0.9%	8.8%
Less impact of reconciling income (expense) items: [2]					
Net gains (losses) on investments and other financial instruments	**(0.5)**	(0.9)	(2.5)	(0.2)	0.3
Loss on induced conversion and debt extinguishment	**–**	–	–	–	(6.2)
Acquisition-related expenses	**–**	(0.1)	–	–	–
Amortization and impairment of other acquired intangible assets	**(0.4)**	(0.4)	(0.4)	(0.4)	(0.4)
Impairment of other long-lived assets and loss from the sale of a business line	**(0.5)**	–	–	(0.5)	(0.9)
Income tax provision (benefit) on reconciling income (expense) items [3]	**(0.3)**	(0.3)	(0.6)	(0.4)	(2.5)
Difference between statutory and effective tax rates [4]	**(0.5)**	8.5	0.3	(13.4)	(0.2)
Impact of reconciling income (expense) items	**(1.6)**	7.4	(2.0)	(14.1)	(4.9)
Adjusted net operating return on equity [5]	**19.0%**	19.3%	17.1%	15.0%	13.7%

1) Calculated by dividing annualized net income by average stockholders' equity, based on the average of the beginning and ending balances for each period presented.
2) Annualized, as a percentage of average stockholders' equity.
3) Calculated using the company's federal statutory tax rates of 21% and 35% for 2018 and 2017, respectively. Any permanent tax adjustments and state income taxes on these items have been deemed immaterial and are not included.
4) The quarter ended June 30, 2018 includes 9.4% of tax benefit related to the settlement of the IRS Matter, which includes both the impact of the settlement with the IRS as well as the reversal of certain previously accrued state and local tax liabilities.
5) Please see Slide 21 for additional information regarding our use of non-GAAP financial measures.

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