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Financial Results Q1 2019

NYSE: RDN

www.radian.biz

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, including potential future changes to the PMIERs which, among other things, may be impacted by the general economic environment and housing market, as well as the proposed Conservatorship Capital Framework ("CCF") that would establish capital requirements for the GSEs, if the CCF is finalized;
- our ability to successfully execute and implement our capital plans, including our risk distribution strategy through the capital markets and reinsurance markets, 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 and grow 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 changes impacting loans purchased by the GSEs, such as the GSEs' requirements regarding mortgage credit and loan size and the GSEs' pricing;
- 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 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 and U.S. Department of Veterans Affairs as well as from other forms of credit enhancement, including GSE sponsored alternatives to traditional mortgage insurance;
- 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, including future changes to the Qualified Mortgage (QM) loan requirements;
- 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;
- 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, increased reserves 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," each as defined under the PMIERs, which will be impacted by, among other things, the size and mix of our insurance in force, 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;
- changes in "GAAP" (accounting principles generally accepted in the U.S.) or "SAPP" (statutory accounting principles and 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 amounts we may receive from our subsidiaries, including dividends or ordinary course distributions under our internal tax and expense sharing arrangements.

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, 2018, and to 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.

About Us

NYSE: RDN

Mortgage Insurance Segment

Radian Mortgage Insurance promotes responsible and sustainable homeownership and allows lenders to offer affordable mortgage financing options to prospective homeowners. Our products also facilitate the sale of low-down payment mortgages in the secondary market and enable homebuyers to purchase homes more quickly with down payments of less than 20%.

Radian Risk Services offers proprietary mortgage risk analytics and custom insurance products to help lenders more efficiently manage risk and help investors participate in mortgage risk sharing.

Services Segment

Radian Mortgage Services helps loan originators and investors evaluate, acquire, surveil and securitize mortgages. These services include loan review, RMBS securitization and distressed asset reviews, review and valuation services related to single family rental properties, servicer and loan surveillance and underwriting.

Radian Real Estate Services helps lenders, investors and real estate agents evaluate, manage, monitor and sell properties. These real estate services include software as a service solutions and platforms, as well as managed services, such as REO asset management, real estate valuation services and real estate brokerage services.

Radian Title Services provides a comprehensive suite of title insurance products, title settlement services and both traditional and digital closing services.

Radian is committed to **ensuring the American dream** of homeownership responsibly and sustainably through products and services that span the mortgage and real estate spectrum. Learn more about Radian's financial strength and flexibility at **www.radian.biz** and visit **www.radian.com** to see how Radian is shaping the future of mortgage and real estate services.

Q1 Highlights

$171.0 million
Net Income

Compared to $114.5 million in Q1 2018

$0.78
Diluted Net Income Per Share

50% increase compared to diluted net income per share of $0.52 in Q1 2018

$0.73
Adjusted Diluted Net Operating Income Per Share (1)

24% increase compared to adjusted diluted net operating income per share of $0.59 in Q1 2018 (1)

19.0%
Return on Equity

Compared to 15.1% return on equity in Q1 2018

17.7%
Adjusted Net Operating Return on Equity (1)

Compared to 17.1% adjusted net operating return on equity in Q1 2018

24% increase
In Book Value Per Share

Book value per share of $17.49 as of March 31, 2019, compared to $14.16 as of March 31, 2018

$17.5M accumulated other comprehensive income as of March 31, 2019 as compared to $31.5M accumulated other comprehensive loss as of March 31, 2018

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 22-25.

Q1 Highlights

10% increase
In Primary Insurance In Force

$223.7 billion as of March 31, 2019, compared to $204.0 billion as of March 31, 2018

$10.9 billion of new insurance written, compared to $11.7 billion in Q1 2018

8% increase
In Net Mortgage Insurance Premiums Earned

$261.8 million in Q1 2019, compared to $242.6 million in Q1 2018

$20.8 million
MI Provision for Losses

44% improvement compared to $37.4 million in Q1 2018

8.0% loss ratio in Q1 2019, compared to 15.4% in Q1 2018

17% increase
In Investment Portfolio

$5.5 billion as of March 31, 2019, compared to $4.7 billion as of March 31, 2018

$43.8 million net investment income in Q1 2019, compared to $34.0 million in Q1 2018

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GAAP Diluted Net Income Per Share

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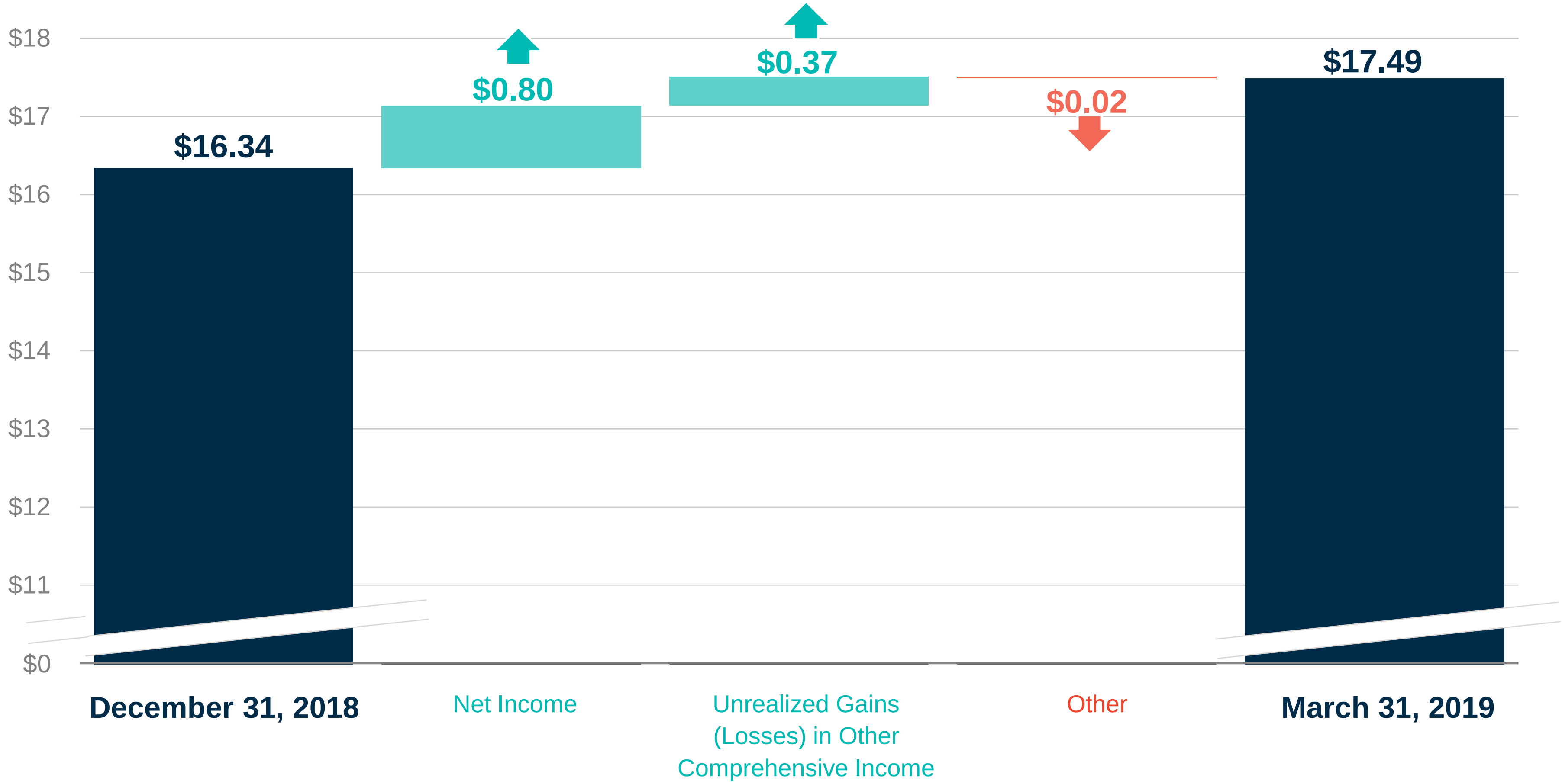
GAAP Book Value Per Share [1]

Q4 2018 to Q1 2019



1) All book value per share items are calculated based on 213.5 million shares outstanding as of December 31, 2018 except for the March 31, 2019 book value per share, which was calculated based on 212.1 million shares outstanding as of March 31, 2019.

Financial Highlights

Radian Group Inc. Consolidated *($ in millions, except per-share amounts)*	**March 31, 2019**	**December 31, 2018**	**March 31, 2018**
Primary Insurance In Force	$223,734	$221,443	$204,025
Total Assets	$6,600	$6,315	$6,010
Total Investments	$5,476	$5,153	$4,668
Loss Reserves	$389	$401	$489
Debt-to-capital	21.7%[1]	22.8%	25.2%
Stockholders' Equity [2]	$3,710	$3,489	$3,052
Book Value Per Share [3]	$17.49	$16.34	$14.16
Available / Total Holding Company Liquidity [4]	$718 / $986	$714 / $982	$203 / $428
PMIERs Cushion [5]	$488 / 16%	$567 / 19%	$526 / 16%

1) See slide 18 for further detail on the components and calculation of the debt-to-capital ratio.
2) Includes accumulated other comprehensive income (loss) of $17.5 million, $(60.9) million and $(31.5) million as of March 31, 2019, December 31, 2018 and March 31, 2018, respectively.
3) Accumulated other comprehensive income (loss) impacted book value per share by $0.08 per share, $(0.29) per share and $(0.15) per share as of March 31, 2019, December 31, 2018 and March 31, 2018, respectively.
4) Total holding company liquidity includes the Company's unsecured revolving credit facility of $267.5 million as of March 31, 2019 and December 31, 2018 and $225.0 million as of March 31, 2018. The credit facility requires that the Company maintain a minimum of $35 million in liquidity.
5) Radian Guaranty currently is an approved mortgage insurer under the PMIERs, and is in compliance with the PMIERs financial requirements. PMIERs cushion represents Radian Guaranty's excess of Available Assets over its Minimum Required Assets, calculated in accordance with the PMIERs financial requirements in effect for each date shown. PMIERs 1.0 was in effect for March 31, 2018 and December 31, 2018; PMIERs 2.0 was in effect for March 31, 2019. PMIERs cushion as a percentage represents PMIERs cushion over its Minimum Required Assets under the PMIERs. See slide 20 for PMIERs resources.

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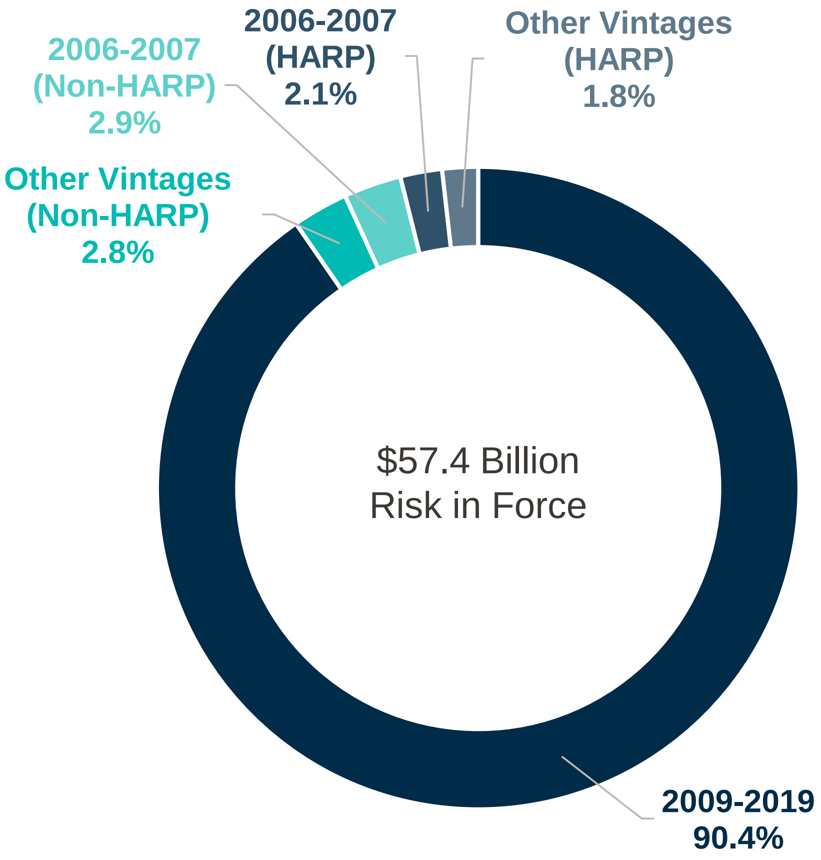
MI Portfolio Composition



As of March 31, 2019, 94% of mortgage insurance primary risk in force consists of new business written after 2008, including HARP volume

Premium Yields

(in basis points)	Mortgage Insurance Premium Yield Trends				
	Q1 2019	**Q4 2018**	**Q3 2018**	**Q2 2018**	**Q1 2018**
In Force Portfolio Yield [(1)]	48.6	49.0	48.6	48.4	48.7
Single Premium Cancellations [(2)]	1.8	1.7	2.1	2.8	2.4
Total Direct Yield	**50.4**	**50.7**	**50.7**	**51.2**	**51.1**
Ceded Earned Premiums, Incl. Profit Commission [(3)]	(3.4)	(3.3)	(2.9)	(3.2)	(3.2)
Total Net Yield [(4)]	**47.0**	**47.4**	**47.8**	**48.0**	**47.9**
Beginning Primary IIF ($B)	$221.4	$217.1	$210.7	$204.0	$200.7
Ending Primary IIF ($B)	$223.7	$221.4	$217.1	$210.7	$204.0
Average Primary IIF ($B)	**$222.6**	**$219.3**	**$213.9**	**$207.4**	**$202.4**

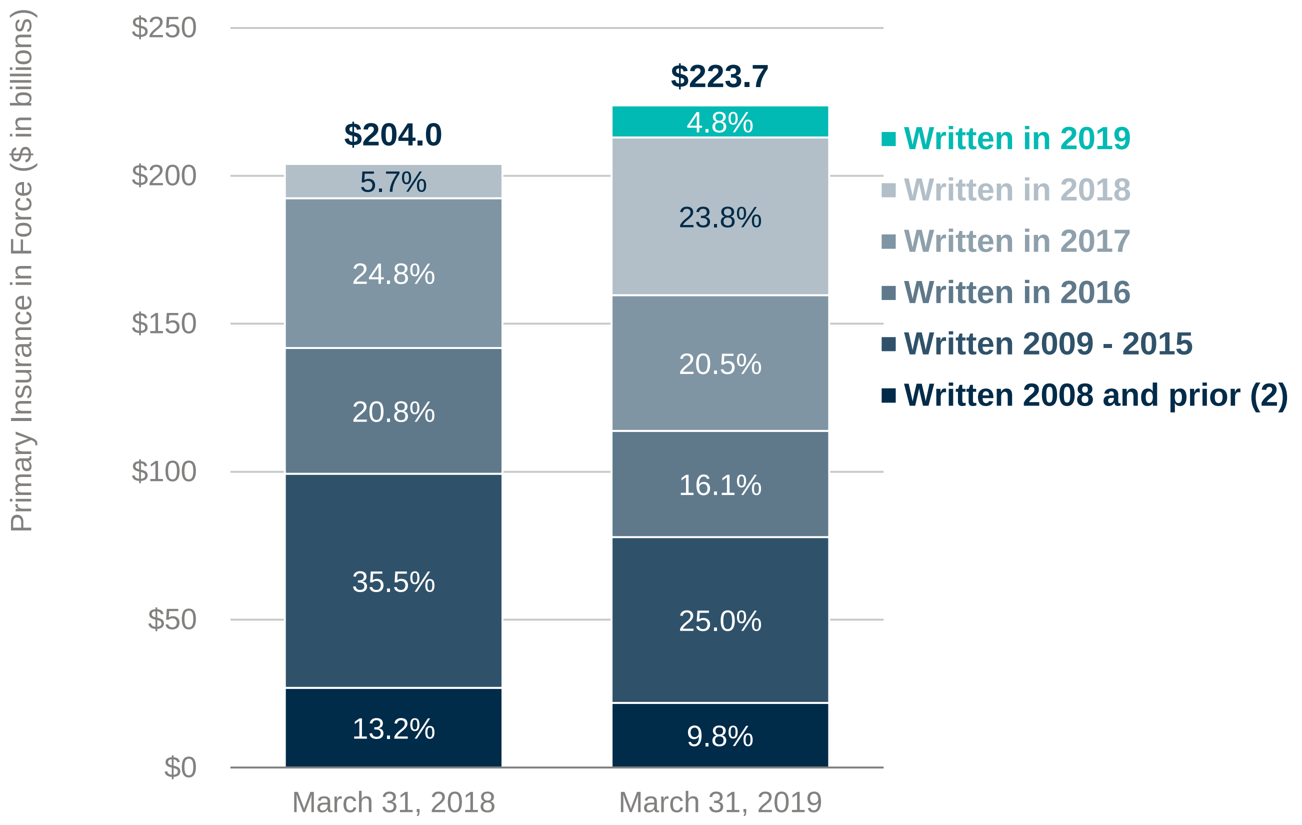
1) Total direct premiums earned, excluding single premium cancellations, annualized, as a percentage of average primary IIF. Includes premiums earned related to Radian's participation in GSE credit risk sharing transactions (Freddie Mac ACIS and Fannie Mae CIRT). The impact of this revenue is minimal, and ranges from 0.4 - 0.6 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

2019 Performance by Vintage *($ in millions)*	Three Months Ended March 31, 2019		
Vintage	Premiums Earned [1]	Incurred Losses [1]	Net
2008 & Prior	$24.8	$8.4	$16.4
2009	$1.0	$0.1	$0.9
2010	$0.5	$0.1	$0.4
2011	$1.3	$0.3	$1.0
2012	$6.0	$0.0	$6.0
2013	$13.6	$0.6	$13.0
2014	$16.5	$1.1	$15.4
2015	$27.8	$0.7	$27.1
2016	$44.7	$2.2	$42.5
2017	$55.0	$3.7	$51.3
2018	$63.9	$3.6	$60.3
2019	$3.5	$0.1	$3.4

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 5.7% and 7.7% as of March 31, 2019 and March 31, 2018, respectively.

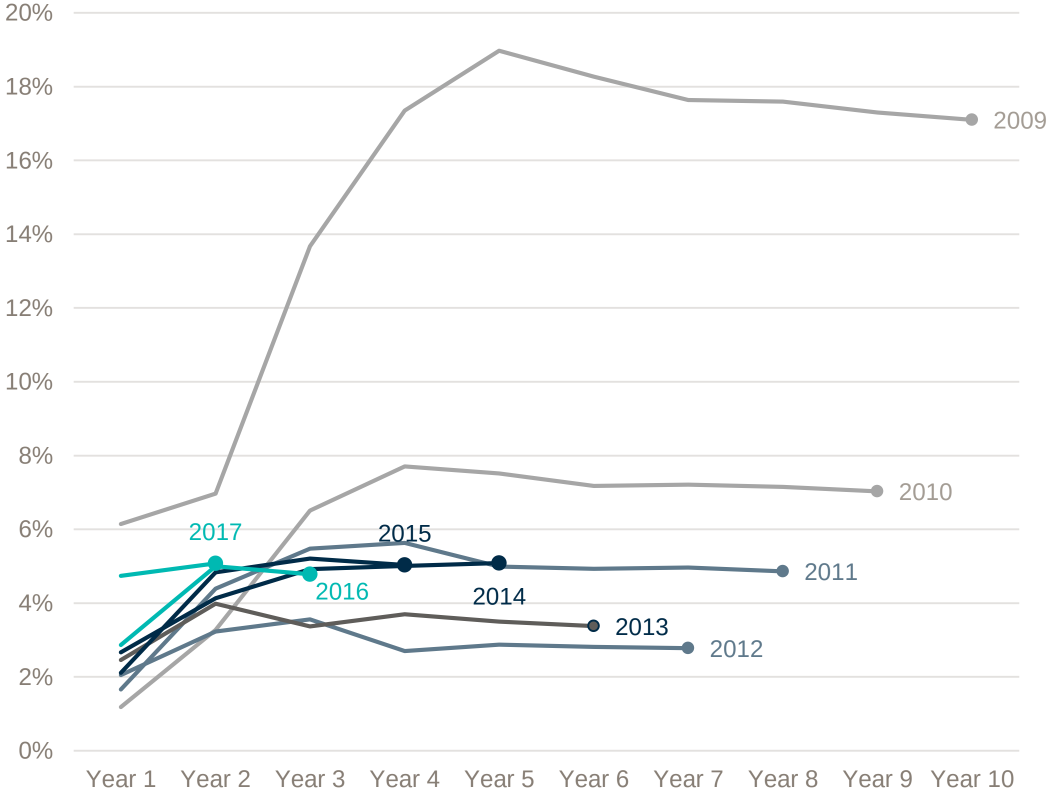
Primary Mortgage Insurance

Cumulative Incurred Loss Ratio by Development Year [1]											
Vintage	Dec-09	Dec-10	Dec-11	Dec-12	Dec-13	Dec-14	Dec-15	Dec-16	Dec-17	Dec-18	Mar-19
2009	6.1%	7.0%	13.7%	17.4%	19.0%	18.3%	17.6%	17.6%	17.3%	17.1%	17.1%
2010		1.2%	3.3%	6.5%	7.7%	7.5%	7.2%	7.2%	7.2%	7.0%	7.1%
2011			1.7%	4.4%	5.5%	5.6%	5.0%	4.9%	5.0%	4.9%	4.9%
2012				2.0%	3.2%	3.6%	2.7%	2.9%	2.8%	2.8%	2.7%
2013					2.5%	4.0%	3.4%	3.7%	3.5%	3.4%	3.4%
2014						2.7%	4.1%	4.9%	5.0%	5.1%	5.1%
2015							2.1%	4.8%	5.2%	5.0%	4.9%
2016								2.9%	5.0%	4.8%	4.8%
2017									4.7%[2]	5.1%	5.3%
2018										3.0%	4.0%

1) Represents inception-to-date losses incurred as a percentage of net premiums earned on mortgage insurance.
2) Incurred losses in 2017 were slightly elevated due to the impact of Hurricanes Harvey and Irma.

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

Cumulative Incurred Loss Ratio by Development Year



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Components of MI Provision for Losses

($ in millions)	Three Months Ended				
	Mar 31, 2019	Dec 31, 2018	Sep 30, 2018	Jun 30, 2018	Mar 31, 2018
Current period defaults [(1)]	$38.9	$41.4	$40.4	$37.2	$36.5
Prior period defaults [(2)]	(18.2)	(13.8)	(20.4)	(18.1)	0.4
Second-lien premium deficiency reserve & other	0.1	(0.5)	0.7	0.3	0.5
Provision for losses	**$20.8**	**$27.1**	**$20.7**	**$19.4**	**$37.4**

1) 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) 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

March 31, 2019 *($ in thousands)*	Total		Foreclosure Stage Defaulted Loans	Cure % During Q1	Reserve for Losses	% Of Reserve
Missed Payments	**#**	**%**	**#**	**%**	**$**	**%**
3 Payments or Fewer	9,248	46.0%	122	39.0%	$82,416	23.4%
4 to 11 Payments	6,051	30.1	444	23.0	90,616	25.7
12 Payments or More (1)	4,215	20.9	1,254	7.4	147,525	41.9
Pending Claims (1)	608	3.0	N/A	4.0	31,887	9.0
Total	**20,122** (2)	**100.0%**	**1,820**	**26.7%**	**352,444**	**100.0%**
IBNR and Other					13,008	
LAE					8,994	
Total Primary Reserves					**$374,446**	

Key Reserve Assumptions	**Gross Default to Claim Rate %**	**Net Default to Claim Rate %** (3)	**Claim Severity %** (4)
	35%	**33%**	**98%**

1) 21% of defaults that had missed 12 payments or more (including the portion in pending claims) made a payment during Q1 2019.
2) Primary risk in force on defaulted loans at March 31, 2019 was $1.0 billion. Defaults include 2,420 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 March 31, 2019.
4) For every one percentage point change in primary Claim Severity, we estimated that our total loss reserve at March 31, 2019 would change by approximately $3.6 million.

Default Rollforward

Primary Insurance in Force	Q1 2019	Q4 2018	Q3 2018	Q2 2018	Q1 2018
Beginning Default Inventory	21,093	20,770	22,088	24,597	27,922
Pre-2009 New Defaults	4,557	4,999	4,922	4,695	5,013
2009+ New Defaults	5,659	5,307	4,713	3,644	4,076
Total New Defaults (1) (2)	10,216	10,306	9,635	8,339	9,089
Cures (1) (2)	(10,479)	(9,060)	(9,633)	(9,739)	(11,367)
Claims Paid (3)	(662)	(885)	(1,280)	(1,105)	(1,052)
Recessions and Denials, net (4)	(46)	(38)	(40)	(4)	5
Ending Default Inventory	**20,122**	**21,093**	**20,770**	**22,088**	**24,597**
FEMA Designated Areas (5)	2,420	2,627	2,946	4,132	5,780
Non-FEMA Designated Areas	17,702	18,466	17,824	17,956	18,817

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	1,106	1,079	953	755	989
Cures	1,239	1,289	1,982	2,284	2,168

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:

4,849	4,175	3,950	3,423	4,439

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 Q1 2019, there were 94 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.

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Capital and Debt Structure

Capital Structure

Total Capitalization as of March 31, 2019

Coupon	Description	Carrying Value ($'000)	Principal ($'000)	% of Total Capitalization [1]
5.50%	Senior Notes due June 2019	$158,502	$158,623	3.3%
5.25%	Senior Notes due June 2020	232,961	234,126	4.9
7.00%	Senior Notes due March 2021	196,056	197,661	4.1
4.50%	Senior Notes due October 2024	443,678	450,000	9.4
	Total	**1,031,197**	**$1,040,410**	**21.7**
	Stockholders' Equity	3,710,091		78.3
	Total Capitalization	**$4,741,288**		**100.0%**

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

Share Repurchase Program:

On March 20, 2019, the Company's board of directors approved a $150 million increase in authorization for the Company's existing share repurchase plan, increasing the total authorization to repurchase shares to $250 million. During the first quarter, the Company purchased 1,546,674 shares at an average price of $20.54 per share, including commissions. At March 31, 2019, purchase authority of up to $218 million remained available under this program, which expires on July 31, 2020. As of April 26, 2019, the Company purchased an additional 4,131,329 shares at an average price of $21.94 per share, including commissions.

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

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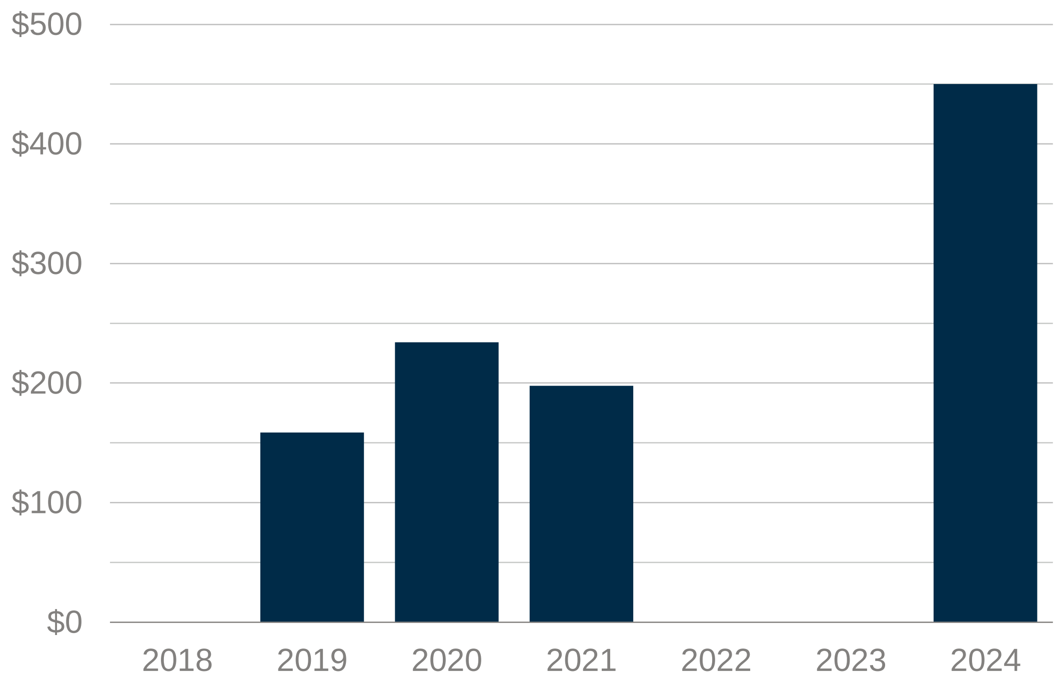
Capital Structure

Debt Maturity Profile: Principal by Year of Maturity

Senior Notes As of March 31, 2019

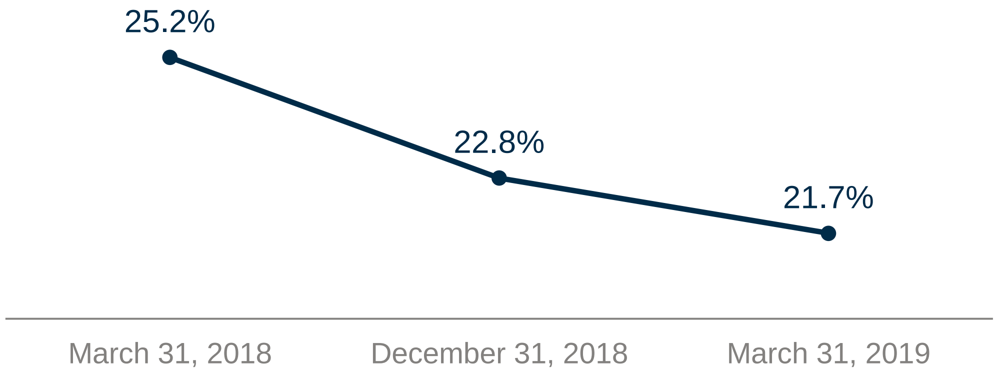
($ in millions)



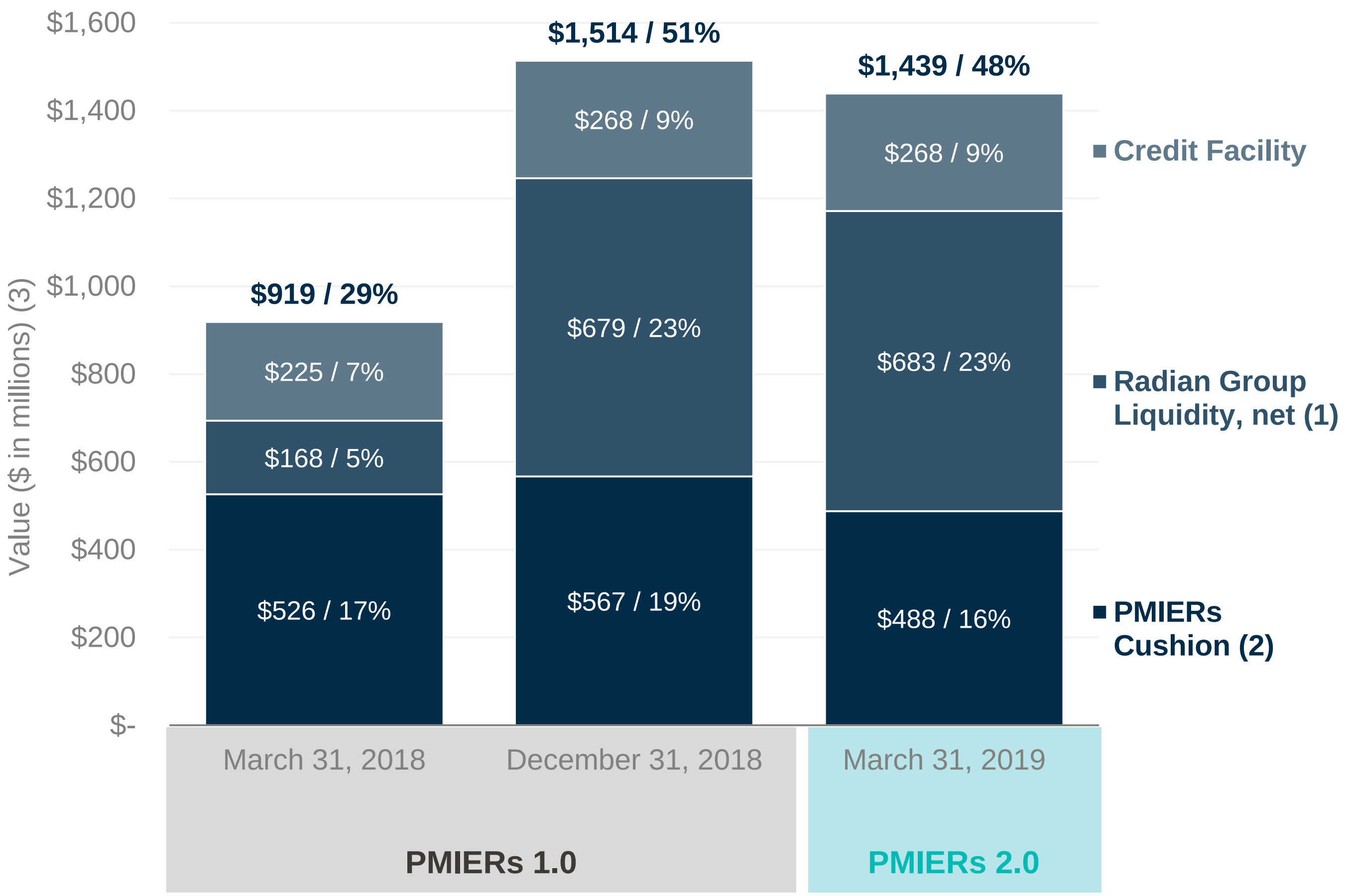
Stockholders' Equity

($ in billions)

Debt to Capital Ratio



PMIERs Excess Available Resources



1) Represents Radian Group's Liquidity, net of the $35 million minimum liquidity requirement under the unsecured revolving credit facility. Radian Group Liquidity as of March 31, 2019 and December 31, 2018 includes $450 million from the December 2018 return of capital to our holding company from its mortgage insurance subsidiary, as approved by the Pennsylvania Insurance Department.

2) Represents Radian Guaranty's excess of Available Assets over its Minimum Required Assets, calculated in accordance with the PMIERs financial requirements in effect for each date shown. PMIERs 1.0 was in effect for March 31, 2018 and December 31, 2018; PMIERs 2.0 was in effect for March 31, 2019.

3) Percentages represent the values shown as a percentage of Minimum Required Assets under the PMIERs.

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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," which are 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 infrequent or unusual non-operating items. Adjusted diluted net operating income per share is calculated by dividing (i) adjusted pretax operating income attributable to common stockholders, 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 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 and changes in fair value of other financial instruments. 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, we do not view acquisition-related expenses as 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 infrequent or unusual non-operating items.* The recognition of net impairment losses on investments and the impairment of other long-lived assets can vary significantly in both amount and frequency, depending on market credit cycles and other factors. Infrequent and unusual non-operating items reflect activities that we do not view 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 23 through 25 for the reconciliation of the most comparable GAAP measures of consolidated pretax income, diluted net income per share and return on equity, to our non-GAAP financial measures for the consolidated company of 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 to Adjusted Pretax Operating Income

($ in thousands)	2019	2018			
	Q1	Q4	Q3	Q2	Q1
Consolidated pretax income	**$216,136**	$176,485	$184,688	$180,571	$142,442
Less reconciling income (expense) items:					
Net gains (losses) on investments and other financial instruments	**21,913**	(11,705)	(4,480)	(7,404)	(18,887)
Acquisition-related expenses [(1)]	**(233)**	(463)	(2)	(416)	–
Amortization and impairment of other acquired intangible assets	**(2,187)**	(3,461)	(3,472)	(2,748)	(2,748)
Impairment of other long-lived assets and infrequent or unusual non-operating items[(2)]	**(5,427)**	(1,570)	(4,057)	130	(26)
Total adjusted pretax operating income [(1)]	**$202,070**	$193,684	$196,699	$191,009	$164,103

1) Please see slide 22 for the definition of this line item and additional information regarding our use of non-GAAP financial measures.

2) The amounts for the three months ended March 31, 2019 and December 31, 2018 are included in other operating expenses and primarily relate to impairments of other long-lived assets. The amounts for all other periods are included within restructuring and other exit costs.

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Reconciliation of Diluted Net Income Per Share to Adjusted Diluted Net Operating Income Per Share

	2019	2018			
	Q1	Q4	Q3	Q2	Q1
Diluted net income per share	**$0.78**	$0.64	$0.66	$0.96	$0.52
Less per-share impact of reconciling income (expense) items:					
Net gains (losses) on investments and other financial instruments	**0.10**	(0.05)	(0.02)	(0.03)	(0.09)
Amortization and impairment of other acquired intangible assets	**(0.01)**	(0.02)	(0.02)	(0.01)	(0.01)
Impairment of other long-lived assets and infrequent or unusual non-operating items	**(0.02)**	(0.01)	(0.02)	–	–
Income tax provision (benefit) on reconciling income (expense) items [(1)]	**0.01**	(0.02)	(0.01)	(0.01)	(0.02)
Difference between statutory and effective tax rates [(2)]	**(0.01)**	–	–	0.30	0.01
Per-share impact of reconciling income (expense) items	**0.05**	(0.06)	(0.05)	0.27	(0.07)
Adjusted diluted net operating income per share [(1)] [(3)]	**$0.73**	$0.70	$0.71	$0.69	$0.59

1) Calculated using the company's federal statutory tax rate of 21%. 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) Please see Slide 22 for additional information regarding our use of non-GAAP financial measures.

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

	2019	2018			
	Q1	Q4	Q3	Q2	Q1
Return on equity [1]	**19.0%**	16.4%	17.4%	26.7%	15.1%
Less impact of reconciling income (expense) items: [2]					
Net gains (losses) on investments and other financial instruments	**2.4**	(1.4)	(0.5)	(0.9)	(2.5)
Acquisition-related expenses	–	(0.1)	–	(0.1)	–
Amortization and impairment of other acquired intangible assets	**(0.2)**	(0.4)	(0.4)	(0.4)	(0.4)
Impairment of other long-lived assets and infrequent or unusual non-operating items	**(0.6)**	(0.2)	(0.5)	–	–
Income tax provision (benefit) on reconciling income (expense) items [3]	**0.3**	(0.4)	(0.3)	(0.3)	(0.6)
Difference between statutory and effective tax rates [4]	–	0.2	(0.5)	8.5	0.3
Impact of reconciling income (expense) items	**1.3**	(1.5)	(1.6)	7.4	(2.0)
Adjusted net operating return on equity [5]	**17.7%**	17.9%	19.0%	19.3%	17.1%

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 rate of 21%. 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 22 for additional information regarding our use of non-GAAP financial measures.

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