

Radian Group Inc. and Subsidiaries
Definition of Consolidated Non-GAAP Financial Measure
Exhibit F (page 1 of 2)

Use of Non-GAAP Financial Measure

In addition to the traditional GAAP financial measures, we have presented non-GAAP financial measures for the consolidated company, "adjusted pretax operating income (loss)" and "adjusted diluted net operating income (loss) per share," 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 core operating trends and enabling more meaningful comparisons with our peers. Although on a consolidated basis "adjusted pretax operating income (loss)" and adjusted diluted net operating income (loss) per share" 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 (the Company'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 (loss) is defined as GAAP pretax income (loss) from continuing operations excluding the effects of net gains (losses) on investments and other financial instruments, acquisition-related expenses, amortization and impairment of intangible assets and net impairment losses recognized in earnings. Adjusted diluted net operating income (loss) per share is calculated by dividing (i) adjusted pretax operating income (loss) attributable to common shareholders, net of taxes computed using the period's effective 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 stock-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.

Although adjusted pretax operating income (loss) excludes certain items that have occurred in the past and are expected to occur in the future, the excluded items represent those that are: (1) not viewed as part of the operating performance of our primary activities; or (2) not expected to result in an economic impact equal to the amount reflected in pretax income (loss) from continuing operations. 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. These valuation adjustments may not necessarily result in economic gains or losses. We do not view them to be indicative of our fundamental operating activities. 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. Therefore, these items are excluded from our calculation of adjusted pretax operating income (loss). However, we include the change in expected economic loss or recovery associated with our consolidated VIEs, if any, in the calculation of adjusted pretax operating income (loss).
- (2) *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).

Radian Group Inc. and Subsidiaries
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Exhibit F (page 2 of 2)

- (3) *Amortization and impairment of intangible assets.* Amortization of intangible assets represents the periodic expense required to amortize the cost of intangible assets over their estimated useful lives. 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).
- (4) *Net impairment losses recognized in earnings.* The recognition of net impairment losses on investments can vary significantly in both size and timing, depending on market credit cycles. We do not view these impairment 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 Exhibit G for the reconciliation of our non-GAAP financial measures for the consolidated company, adjusted pretax operating income and adjusted diluted net operating income per share, to the most comparable GAAP measures, pretax income from continuing operations and net income per share from continuing operations, respectively.

Total adjusted pretax operating income (loss) and adjusted diluted net operating income (loss) per share are not measures of total profitability, and therefore should not be viewed as substitutes for GAAP pretax income (loss) from continuing operations or net income (loss) per share from continuing operations. Our definitions of adjusted pretax operating income (loss) and adjusted diluted net operating income (loss) per share may not be comparable to similarly-named measures reported by other companies.

Radian Group Inc. and Subsidiaries
Consolidated Non-GAAP Financial Measure Reconciliations
Exhibit G

Reconciliation of Adjusted Pretax Operating Income (Loss) to Consolidated Pretax Income
from Continuing Operations

<u>(In thousands)</u>	Three Months Ended March 31,	
	2015	2014
Adjusted pretax operating income (loss):		
Mortgage Insurance (1)	\$ 125,892	\$ 84,719
Mortgage and Real Estate Services (2)	(1,991)	(729)
Total adjusted pretax operating income	<u>123,901</u>	<u>83,990</u>
Net gains on investments and other financial instruments (3)	16,779	43,107
Acquisition-related expenses (4)	(207)	—
Amortization and impairment of intangible assets (4)	(3,023)	—
Consolidated pretax income from continuing operations	<u>\$ 137,450</u>	<u>\$ 127,097</u>

- (1) Includes certain corporate income and expenses that have been reallocated from our prior financial guaranty segment to the Mortgage Insurance segment and that were not reclassified to discontinued operations.
- (2) Includes the acquisition of Clayton Holdings, effective June 30, 2014. Also, effective with the fourth quarter of 2014, the Mortgage and Real Estate Services segment undertook the management responsibilities of certain additional loan servicer surveillance functions previously considered part of the Mortgage Insurance segment. As a result, these activities are now reported in the Mortgage and Real Estate Services segment for all periods presented.
- (3) The change in expected economic loss or recovery associated with our consolidated VIEs is included in adjusted pretax operating income above. Therefore, for purposes of this reconciliation, net gains on investments and other financial instruments has been adjusted by \$0.1 million for the three months ended March 31, 2014, to reverse this item, which represents a non-GAAP amount that is not included in net income.
- (4) Please see Exhibit F for the definition of this line item.

Reconciliation of Adjusted Diluted Net Operating Income Per Share to Net Income Per Share
from Continuing Operations

	Three Months Ended March 31, 2015
Adjusted diluted net operating income per share	<u>\$ 0.35</u>
After tax per share impact:	
Net gains on investments and other financial instruments	0.05
Acquisition-related expenses	—
Amortization and impairment of intangible assets	(0.01)
Net income per share from continuing operations	<u>\$ 0.39</u>

On a consolidated basis, "adjusted pretax operating income" and "adjusted diluted net operating income per share" are measures not determined in accordance with GAAP. These measures are not representative of total profitability, and therefore should not be viewed as substitutes for GAAP pretax income from continuing operations or net income per share from continuing operations. Our definitions of adjusted pretax operating income and adjusted diluted net operating income per share may not be comparable to similarly-named measures reported by other companies. See Exhibit F for additional information on our consolidated non-GAAP financial measures.