

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

Use of Non-GAAP Financial Measures

In addition to the traditional GAAP financial measures, we have presented “adjusted pretax operating income” and “adjusted diluted net operating income per share,” 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” and “adjusted diluted net operating income 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 is defined as GAAP consolidated pretax income from continuing operations excluding the effects of net gains (losses) on investments and other financial instruments, loss on induced conversion and debt extinguishment, acquisition-related expenses, amortization and impairment of intangible assets and net impairment losses recognized in earnings. 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 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 consolidated 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.

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). 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) *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 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).

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

- (5) *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).

In addition to the above non-GAAP measures for the consolidated company, we also have presented as supplemental information a non-GAAP measure for our Services segment, representing a measure of earnings before interest, income taxes, depreciation and amortization (“EBITDA”). We calculate Services adjusted EBITDA by using adjusted pretax operating income as described above, further adjusted to remove the impact of depreciation and corporate allocations for interest and operating expenses. We have presented Services adjusted EBITDA to facilitate comparisons with other services companies, since it is a widely accepted measure of performance in the services industry.

See Exhibit G for the reconciliation of the most comparable GAAP measures, consolidated pretax income from continuing operations and diluted net income per share from continuing operations, to our non-GAAP financial measures for the consolidated company, adjusted pretax operating income and adjusted diluted net operating income per share, respectively. Exhibit G also contains the reconciliation of the most comparable GAAP measure, net income, to Services adjusted EBITDA.

Total adjusted pretax operating income, adjusted diluted net operating income per share and Services adjusted EBITDA are not measures of total profitability, and therefore should not be viewed as substitutes for GAAP pretax income, diluted net income per share or net income. Our definitions of adjusted pretax operating income, adjusted diluted net operating income per share or Services adjusted EBITDA 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 (page 1 of 4)

Reconciliation of Consolidated Pretax Income to Adjusted Pretax Operating Income

(In thousands)	2016				2015
	Qtr 4	Qtr 3	Qtr 2	Qtr 1	Qtr 4
Consolidated pretax income	\$ 97,796	\$ 126,941	\$ 156,547	\$ 102,402	\$ 104,710
Less income (expense) items:					
Net gains (losses) on investments and other financial instruments	(38,773)	7,711	30,527	31,286	(13,402)
Loss on induced conversion and debt extinguishment	—	(17,397)	(2,108)	(55,570)	(2,320)
Acquisition-related expenses (1)	(358)	(10)	54	(205)	(266)
Amortization and impairment of intangible assets	(3,290)	(3,292)	(3,311)	(3,328)	(3,409)
Total adjusted pretax operating income (2)	\$ 140,217	\$ 139,929	\$ 131,385	\$ 130,219	\$ 124,107

(1) Please see Exhibit F for the definition of this line item.

(2) Total adjusted pretax operating income consists of adjusted pretax operating income for each segment as follows:

(In thousands)	2016				2015
	Qtr 4	Qtr 3	Qtr 2	Qtr 1	Qtr 4
Adjusted pretax operating income (loss):					
Mortgage Insurance	\$ 142,795	\$ 141,814	\$ 137,136	\$ 140,166	\$ 125,309
Services	(2,578)	(1,885)	(5,751)	(9,947)	(1,202)
Total adjusted pretax operating income	\$ 140,217	\$ 139,929	\$ 131,385	\$ 130,219	\$ 124,107

Radian Group Inc. and Subsidiaries
Consolidated Non-GAAP Financial Measure Reconciliations
Exhibit G (page 2 of 4)

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

	2016				2015
	Qtr 4	Qtr 3	Qtr 2	Qtr 1	Qtr 4
Diluted net income per share	\$ 0.27	\$ 0.37	\$ 0.44	\$ 0.29	\$ 0.32
Less per-share impact of debt items:					
Loss on induced conversion and debt extinguishment	—	(0.08)	(0.01)	(0.23)	(0.01)
Income tax provision (benefit) ⁽¹⁾	—	(0.03)	—	(0.03)	(0.04)
Per-share impact of debt items	—	(0.05)	(0.01)	(0.20)	0.03
Less per-share impact of other income (expense) items:					
Net gains (losses) on investments and other financial instruments	(0.17)	0.03	0.13	0.13	(0.05)
Acquisition-related expenses	—	—	—	—	—
Amortization and impairment of intangible assets	(0.02)	(0.01)	(0.01)	(0.01)	(0.01)
Income tax provision (benefit) on other income (expense) items ⁽²⁾	(0.07)	0.01	0.04	0.04	(0.02)
Difference between statutory and effective tax rate	(0.02)	—	(0.01)	0.04	(0.01)
Per-share impact of other income (expense) items	(0.14)	0.01	0.07	0.12	(0.05)
Adjusted diluted net operating income per share ⁽²⁾	\$ 0.41	\$ 0.41	\$ 0.38	\$ 0.37	\$ 0.34

- (1) A portion of the loss on induced conversion and debt extinguishment is non-deductible for tax purposes. The income tax benefit is based on the tax deductible loss using the company's federal statutory tax rate.
- (2) Calculated using the company's federal statutory tax rate. Any permanent tax adjustments and state income taxes on these items have been deemed immaterial and are not included.

Reconciliation of Consolidated Pretax Income from Continuing Operations to Adjusted Pretax Operating Income

(In thousands)	Year Ended December 31,	
	2016	2015
Consolidated pretax income from continuing operations	\$ 483,686	\$ 437,829
Less income (expense) items:		
Net gains on investments and other financial instruments	30,751	35,693
Loss on induced conversion and debt extinguishment	(75,075)	(94,207)
Acquisition-related expenses ⁽¹⁾	(519)	(1,565)
Amortization and impairment of intangible assets	(13,221)	(12,986)
Total adjusted pretax operating income ⁽²⁾	\$ 541,750	\$ 510,894

- (1) Please see Exhibit F for the definition of this line item.
- (2) Total adjusted pretax operating income consists of adjusted pretax operating income for each segment as follows:

(In thousands)	Year Ended December 31,	
	2016	2015
Adjusted pretax operating income (loss):		
Mortgage Insurance *	\$ 561,911	\$ 511,048
Services	(20,161)	(154)
Total adjusted pretax operating income	\$ 541,750	\$ 510,894

- * For periods prior to the quarter ended June 30, 2015, 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.

Radian Group Inc. and Subsidiaries
Consolidated Non-GAAP Financial Measure Reconciliations
Exhibit G (page 3 of 4)

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

	Year Ended December 31,	
	2016	2015
Diluted net income per share from continuing operations	\$ 1.37	\$ 1.20
Less per-share impact of debt items:		
Loss on induced conversion and debt extinguishment	(0.33)	(0.38)
Income tax provision (benefit) ⁽¹⁾	(0.07)	(0.13)
Per-share impact of debt items	<u>(0.26)</u>	<u>(0.25)</u>
Less per-share impact of other income (expense) items:		
Net gains (losses) on investments and other financial instruments	0.14	0.14
Acquisition-related expenses	—	(0.01)
Amortization and impairment of intangible assets	(0.06)	(0.05)
Income tax provision (benefit) on other income (expense) items ⁽²⁾	0.03	0.03
Difference between statutory and effective tax rate	0.02	—
Per-share impact of other income (expense) items	<u>0.07</u>	<u>0.05</u>
Adjusted diluted net operating income per share ⁽²⁾	<u>\$ 1.56</u>	<u>\$ 1.40</u>

- (1) A portion of the loss on induced conversion and debt extinguishment is non-deductible for tax purposes. The income tax benefit is based on the tax deductible loss using the company's federal statutory tax rate.
- (2) Calculated using the company's federal statutory tax rate. Any permanent tax adjustments and state income taxes on these items have been deemed immaterial and are not included.

Radian Group Inc. and Subsidiaries
Consolidated Non-GAAP Financial Measure Reconciliations
Exhibit G (page 4 of 4)

Reconciliation of Net Income to Services Adjusted EBITDA

(In thousands)	2016				2015
	Qtr 4	Qtr 3	Qtr 2	Qtr 1	Qtr 4
Net income	\$ 61,089	\$ 82,803	\$ 98,112	\$ 66,249	\$ 74,528
Less income (expense) items:					
Net gains (losses) on investments and other financial instruments	(38,773)	7,711	30,527	31,286	(13,402)
Loss on induced conversion and debt extinguishment	—	(17,397)	(2,108)	(55,570)	(2,320)
Acquisition-related expenses	(358)	(10)	54	(205)	(266)
Amortization and impairment of intangible assets	(3,290)	(3,292)	(3,311)	(3,328)	(3,409)
Income tax provision	36,707	44,138	58,435	36,153	30,182
Mortgage Insurance adjusted pretax operating income	142,795	141,814	137,136	140,166	125,309
Services adjusted pretax operating income (loss)	(2,578)	(1,885)	(5,751)	(9,947)	(1,202)
Less income (expense) items:					
Allocation of corporate operating expenses to Services	(1,738)	(2,265)	(2,779)	(1,751)	(968)
Allocation of corporate interest expenses to Services	(4,426)	(4,423)	(4,422)	(4,422)	(4,414)
Services depreciation and amortization	(829)	(884)	(749)	(663)	(612)
Services adjusted EBITDA	\$ 4,415	\$ 5,687	\$ 2,199	\$ (3,111)	\$ 4,792

On a consolidated basis, “adjusted pretax operating income” and “adjusted diluted net operating income per share” are measures not determined in accordance with GAAP. “Services adjusted EBITDA” is also a non-GAAP measure. These measures are not representative of total profitability, and therefore should not be viewed as substitutes for GAAP pretax income or diluted net income per share. Our definitions of adjusted pretax operating income, adjusted diluted net operating income per share or Services adjusted EBITDA 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.