

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 (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 (loss) 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 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.

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 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 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).

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- (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).

We have also presented a non-GAAP measure for tangible book value per share, which represents book value per share less the per-share impact of goodwill and other intangible assets, net. We use this measure to assess the quality and growth of our capital. Because tangible book value per share is a widely-used financial measure which focuses on the underlying fundamentals of our financial position and operating trends without the impact of goodwill and other intangible assets, we believe that current and prospective investors may find it useful in their analysis of the Company.

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 tax provision (benefit), 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 (loss), diluted net income (loss) per share and book value per share, to our non-GAAP financial measures for the consolidated company, adjusted pretax operating income, adjusted diluted net operating income per share and tangible book value per share, respectively. Exhibit G also contains the reconciliation of the most comparable GAAP measure, net income (loss), to Services adjusted EBITDA.

Total adjusted pretax operating income, adjusted diluted net operating income per share, tangible book value per share and Services adjusted EBITDA should not be considered in isolation or viewed as substitutes for GAAP pretax income (loss), diluted net income (loss) per share, book value per share or net income (loss). Our definitions of adjusted pretax operating income, adjusted diluted net operating income per share, tangible book value 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 5)

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

(In thousands)	2017				2016
	Qtr 4	Qtr 3	Qtr 2	Qtr 1	Qtr 4
Consolidated pretax income (loss)	\$ 164,727	\$ 102,814	\$ (35,474)	\$ 114,670	\$ 97,796
Less income (expense) items:					
Net gains (losses) on investments and other financial instruments	(1,339)	2,480	5,331	(2,851)	(38,773)
Loss on induced conversion and debt extinguishment	—	(45,766)	(1,247)	(4,456)	—
Acquisition-related expenses (1)	21	(54)	(64)	(8)	(358)
Impairment of goodwill	—	—	(184,374)	—	—
Amortization and impairment of other intangible assets	(2,629)	(2,890)	(18,856)	(3,296)	(3,290)
Impairment of other long-lived assets and loss from the sale of a business line (2)	(3,865)	(6,575)	—	—	—
Total adjusted pretax operating income (3)	\$ 172,539	\$ 155,619	\$ 163,736	\$ 125,281	\$ 140,217

- (1) Please see Exhibit F for the definition of this line item. This line is included within other operating expenses on the Condensed Consolidated Statement of Operations in Exhibit A.
- (2) This item is included within restructuring and other exit costs on the Condensed Consolidated Statement of Operations in Exhibit A.
- (3) Total adjusted pretax operating income consists of adjusted pretax operating income for each segment as follows:

(In thousands)	2017				2016
	Qtr 4	Qtr 3	Qtr 2	Qtr 1	Qtr 4
Adjusted pretax operating income (loss):					
Mortgage Insurance	\$ 177,513	\$ 168,508	\$ 170,361	\$ 134,633	\$ 142,795
Services	(4,974)	(12,889)	(6,625)	(9,352)	(2,578)
Total adjusted pretax operating income	\$ 172,539	\$ 155,619	\$ 163,736	\$ 125,281	\$ 140,217

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

	2017				2016
	Qtr 4	Qtr 3	Qtr 2	Qtr 1	Qtr 4
Diluted net income (loss) per share	\$ 0.03	\$ 0.30	\$ (0.13)	\$ 0.34	\$ 0.27
Less per-share impact of debt items:					
Loss on induced conversion and debt extinguishment	—	(0.21)	(0.01)	(0.02)	—
Income tax provision (benefit) ⁽¹⁾	—	(0.07)	—	(0.01)	—
Per-share impact of debt items	—	(0.14)	(0.01)	(0.01)	—
Less per-share impact of other income (expense) items:					
Net gains (losses) on investments and other financial instruments	(0.01)	0.01	0.02	(0.01)	(0.17)
Acquisition-related expenses	—	—	—	—	—
Impairment of goodwill	—	—	(0.86)	—	—
Amortization and impairment of intangible assets	(0.01)	(0.01)	(0.09)	(0.01)	(0.02)
Impairment of other long-lived assets and loss from the sale of a business line	(0.02)	(0.03)	—	—	—
Income tax provision (benefit) on other income (expense) items ⁽²⁾	(0.01)	(0.01)	(0.32)	(0.01)	(0.07)
Difference between statutory and effective tax rate ⁽³⁾	(0.45)	—	—	(0.01)	(0.02)
Per-share impact of other income (expense) items	(0.48)	(0.02)	(0.61)	(0.02)	(0.14)
Add per-share impact of share dilution	—	—	\$ (0.01)	—	—
Adjusted diluted net operating income per share ⁽²⁾	\$ 0.51	\$ 0.46	\$ 0.48	\$ 0.37	\$ 0.41

- (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.
- (3) The three months 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.

Reconciliation of Book Value Per Share to Tangible Book Value Per Share ⁽¹⁾

	2017				2016
	Qtr 4	Qtr 3	Qtr 2	Qtr 1	Qtr 4
Book value per share	\$ 13.90	\$ 13.88	\$ 13.54	\$ 13.58	\$ 13.39
Less: Goodwill and other intangible assets, net per share	0.30	0.31	0.32	1.27	1.29
Tangible book value per share	\$ 13.60	\$ 13.57	\$ 13.22	\$ 12.31	\$ 12.10

- (1) All book value per share items are calculated based on the number of shares outstanding at the end of each respective period.

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Reconciliation of Net Income (Loss) to Services Adjusted EBITDA

(In thousands)	2017				2016
	Qtr 4	Qtr 3	Qtr 2	Qtr 1	Qtr 4
Net income (loss)	\$ 6,816	\$ 65,142	\$ (27,342)	\$ 76,472	\$ 61,089
Less income (expense) items:					
Net gains (losses) on investments and other financial instruments	(1,339)	2,480	5,331	(2,851)	(38,773)
Loss on induced conversion and debt extinguishment	—	(45,766)	(1,247)	(4,456)	—
Acquisition-related expenses	21	(54)	(64)	(8)	(358)
Impairment of goodwill	—	—	(184,374)	—	—
Amortization and impairment of other intangible assets	(2,629)	(2,890)	(18,856)	(3,296)	(3,290)
Impairment of other long-lived assets and loss from the sale of a business line	(3,865)	(6,575)	—	—	—
Income tax provision (benefit)	157,911	37,672	(8,132)	38,198	36,707
Mortgage Insurance adjusted pretax operating income	177,513	168,508	170,361	134,633	142,795
Services adjusted pretax operating income (loss)	(4,974)	(12,889)	(6,625)	(9,352)	(2,578)
Less income (expense) items:					
Allocation of corporate operating expenses to Services	(3,467)	(3,730)	(3,404)	(3,718)	(1,738)
Allocation of corporate interest expenses to Services	(4,452)	(4,433)	(4,431)	(4,429)	(4,426)
Services depreciation and amortization	(893)	(1,172)	(835)	(858)	(829)
Services adjusted EBITDA	\$ 3,838	\$ (3,554)	\$ 2,045	\$ (347)	\$ 4,415

Reconciliation of Consolidated Pretax Income to Adjusted Pretax Operating Income

(In thousands)	Year Ended December 31,	
	2017	2016
Consolidated pretax income	\$ 346,737	\$ 483,686
Less income (expense) items:		
Net gains on investments and other financial instruments	3,621	30,751
Loss on induced conversion and debt extinguishment	(51,469)	(75,075)
Acquisition-related expenses ⁽¹⁾	(105)	(519)
Impairment of goodwill	(184,374)	—
Amortization and impairment of intangible assets	(27,671)	(13,221)
Impairment of other long-lived assets and loss from the sale of a business line ⁽²⁾	(10,440)	—
Total adjusted pretax operating income ⁽³⁾	\$ 617,175	\$ 541,750

- (1) Please see Exhibit F for the definition of this line item. This item is included within other operating expenses on the Condensed Consolidated Statement of Operations in Exhibit A.
- (2) This item is included within restructuring and other exit costs on the Condensed Consolidated Statement of Operations in Exhibit A.

See notes continued on next page.

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Notes continued from prior page.

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

<u>(In thousands)</u>	<u>Year Ended December 31,</u>	
	<u>2017</u>	<u>2016</u>
Adjusted pretax operating income (loss):		
Mortgage Insurance	\$ 651,015	\$ 561,911
Services	(33,840)	(20,161)
Total adjusted pretax operating income	\$ 617,175	\$ 541,750

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

	<u>Year Ended December 31,</u>	
	<u>2017</u>	<u>2016</u>
Diluted net income per share	\$ 0.55	\$ 1.37
Less per-share impact of debt items:		
Loss on induced conversion and debt extinguishment	(0.23)	(0.33)
Income tax provision (benefit) ⁽¹⁾	(0.08)	(0.07)
Per-share impact of debt items	(0.15)	(0.26)
Less per-share impact of other income (expense) items:		
Net gains (losses) on investments and other financial instruments	0.02	0.14
Acquisition-related expenses	—	—
Impairment of goodwill	(0.84)	—
Amortization and impairment of intangible assets	(0.13)	(0.06)
Impairment of other long-lived assets and loss from the sale of a business line	(0.05)	—
Income tax provision (benefit) on other income (expense) items ⁽²⁾	(0.35)	0.03
Difference between statutory and effective tax rate ⁽³⁾	(0.47)	0.02
Per-share impact of other income (expense) items	(1.12)	0.07
Adjusted diluted net operating income per share ⁽²⁾	\$ 1.82	\$ 1.56

- (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.
- (3) All of the 2017 amount represents the incremental tax provision related to the remeasurement of our net deferred tax assets as a result of the Tax Cuts and Jobs Act enacted in December 2017.

Reconciliation of Net Income to Services Adjusted EBITDA

<u>(In thousands)</u>	<u>Year Ended December 31,</u>	
	<u>2017</u>	<u>2016</u>
Net income	\$ 121,088	\$ 308,253
Less income (expense) items:		
Net gains (losses) on investments and other financial instruments	3,621	30,751
Loss on induced conversion and debt extinguishment	(51,469)	(75,075)
Acquisition-related expenses	(105)	(519)
Impairment of goodwill	(184,374)	—
Amortization and impairment of other intangible assets	(27,671)	(13,221)
Impairment of other long-lived assets and loss from the sale of a business line	(10,440)	—
Income tax provision (benefit)	225,649	175,433
Mortgage Insurance adjusted pretax operating income	651,015	561,911
Services adjusted pretax operating income (loss)	<u>(33,840)</u>	<u>(20,161)</u>
Less income (expense) items:		
Allocation of corporate operating expenses to Services	(14,319)	(8,533)
Allocation of corporate interest expenses to Services	(17,745)	(17,693)
Services depreciation and amortization	(3,758)	(3,125)
Services adjusted EBITDA	<u>\$ 1,982</u>	<u>\$ 9,190</u>

On a consolidated basis, “adjusted pretax operating income,” “adjusted diluted net operating income per share” and “tangible book value per share” are measures not determined in accordance with GAAP. “Services adjusted EBITDA” is also a non-GAAP measure. These measures should not be considered in isolation or viewed as substitutes for GAAP pretax income (loss), diluted net income (loss) per share, book value per share or net income (loss). Our definitions of adjusted pretax operating income, adjusted diluted net operating income per share, tangible book value 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.