

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2016
OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____
Commission File Number 1-11356

RADIAN

Radian Group Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or organization)

23-2691170
(I.R.S. Employer Identification No.)

1601 Market Street, Philadelphia, PA
(Address of principal executive offices)

19103
(Zip Code)

(215) 231-1000
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

(Do not check if a smaller
reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 214,364,262 shares of common stock, \$0.001 par value per share, outstanding on August 3, 2016.

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GLOSSARY OF ABBREVIATIONS AND ACRONYMS

The following list defines various abbreviations and acronyms used throughout this report, including the Condensed Consolidated Financial Statements, the Notes to Unaudited Condensed Consolidated Financial Statements and Management's Discussion and Analysis of Financial Condition and Results of Operations.

Term	Definition
2014 Master Policy	Radian Guaranty's Master Policy that became effective October 1, 2014
2015 Form 10-K	Annual Report on Form 10-K for the year ended December 31, 2015
ABS	Asset-backed securities
Alt-A	Alternative-A loan where the documentation is generally limited as compared to fully documented loans (considered a non-prime loan grade)
AOCI	Accumulated other comprehensive income (loss)
Appeals	Internal Revenue Service Office of Appeals
Assured	Assured Guaranty Corp., a subsidiary of Assured Guaranty Ltd.
Available Assets	As defined in the PMIERS, these assets primarily include the liquid assets of a mortgage insurer and its affiliated reinsurers, and exclude premiums received but not yet earned
BofA Settlement Agreement	The Confidential Settlement Agreement and Release dated September 16, 2014, by and among Radian Guaranty and Countrywide Home Loans, Inc. and Bank of America, N.A., as a successor to BofA Home Loan Servicing f/k/a Countrywide Home Loan Servicing LP, entered into in order to resolve various actual and potential claims or disputes as to mortgage insurance coverage on certain Subject Loans
Claim Curtailment	Our legal right, under certain conditions, to reduce the amount of a claim, including due to servicer negligence
Claim Denial	Our legal right, under certain conditions, to deny a claim
Claim Severity	The total claim amount paid divided by the original coverage amount
Clayton	Clayton Holdings LLC, a Delaware domiciled indirect non-insurance subsidiary of Radian Group
CMBS	Commercial mortgage-backed securities
Convertible Senior Notes due 2017	Our 3.000% convertible unsecured senior notes due November 2017 (\$450 million original principal amount)
Convertible Senior Notes due 2019	Our 2.250% convertible unsecured senior notes due March 2019 (\$400 million original principal amount)
Cures	Loans that were in default as of the beginning of a period and are no longer in default because payments were received and the loan is no longer past due
Default to Claim Rate	Rate at which defaulted loans result in a claim
Deficiency Amount	The assessed tax liabilities, penalties and interest associated with a formal notice of deficiency letter from the IRS
Exchange Act	Securities Exchange Act of 1934, as amended
Fannie Mae	Federal National Mortgage Association
FHA	Federal Housing Administration
FICO	Fair Isaac Corporation
Flow Business	With respect to mortgage insurance, transactions in which mortgage insurance is provided on mortgages on an individual loan basis as they are originated. Flow Business contrasts with Structured Transactions, in which mortgage insurance is provided on a group of mortgages after they have been originated
Foreclosure Stage Default	The Stage of Default indicating that the foreclosure sale has been scheduled or held
Freddie Mac	Federal Home Loan Mortgage Corporation
Freddie Mac Agreement	The Master Transaction Agreement between Radian Guaranty and Freddie Mac entered into in August 2013

Term	Definition
Future Legacy Loans	With respect to the BofA Settlement Agreement, Legacy Loans where a claim decision has been or will be communicated by Radian Guaranty after February 13, 2013
GAAP	Accounting principles generally accepted in the United States of America
Green River Capital	Green River Capital LLC, a wholly-owned subsidiary of Clayton
GSEs	Government-Sponsored Enterprises (Fannie Mae and Freddie Mac)
HARP	Home Affordable Refinance Program
IBNR	Losses incurred but not reported
IIF	Insurance in force
Initial QSR Transaction	Initial quota share reinsurance agreement entered into with a third-party reinsurance provider in the second quarter of 2012
Insureds	Insured parties, with respect to the BofA Settlement Agreement, Countrywide Home Loans, Inc. and Bank of America, N.A., as a successor to BofA Home Loan Servicing f/k/a Countrywide Home Loans Servicing LP
IRS	Internal Revenue Service
LAE	Loss adjustment expense, which includes the cost of investigating and adjusting losses and paying claims
Legacy Loans	With respect to the BofA Settlement Agreement, loans that were originated or acquired by an Insured and were insured by Radian Guaranty prior to January 1, 2009, excluding such loans that were refinanced under HARP 2 (the FHFA's extension of and enhancements to the HARP program)
Legacy Portfolio	Mortgage insurance written during the poor underwriting years of 2005 through 2008, together with business written prior to 2005
Loss Mitigation Activity/Activities	Activities such as Rescissions, Claim Denials, Claim Curtailments and cancellations
LTV	Loan-to-value ratio which is calculated as the percentage of the original loan amount to the original value of the property
Master Policies	The Prior Master Policy and the 2014 Master Policy, collectively
Minimum Required Assets	A risk-based minimum required asset amount, as defined in the PMIERS, calculated based on net RIF (RIF, net of credits permitted for reinsurance) and a variety of measures designed to evaluate credit quality
Model Act	Mortgage Guaranty Insurers Model Act
Monthly and Other	Insurance policies where premiums are paid on a monthly or other installment basis, excluding Single Premium Policies that are paid in a single premium at origination
Monthly Premium Policy/Policies	Insurance policies where premiums are paid on a monthly installment basis
Mortgage Insurance	Radian's Mortgage Insurance business segment, which provides credit-related insurance coverage, principally through private mortgage insurance, to mortgage lending institutions
MPP Requirement	Certain states' statutory or regulatory risk-based capital requirement that the mortgage insurer must maintain a minimum policyholder position, which is calculated based on both risk and surplus levels
NAIC	National Association of Insurance Commissioners
NIW	New insurance written
NOL	Net operating loss, calculated on a tax basis
Notices of Deficiency	Formal letters from the IRS informing the taxpayer of an IRS determination of tax deficiency and appeal rights
OCI	Other comprehensive income (loss)
Persistency Rate	The percentage of insurance in force that remains on our books over a period of time
PMIERS	Private Mortgage Insurer Eligibility Requirements that were issued by the Federal Housing Finance Agency in proposed form for public comment on July 10, 2014 and issued in final form on April 17, 2015, as updated on June 30, 2015

Term	Definition
PMIERS Financial Requirements	Financial requirements of the PMIERS
Prior Master Policy	Radian Guaranty's master insurance policy in effect prior to the effective date of its 2014 Master Policy
QSR	Quota share reinsurance
QSR Transactions	The Initial QSR Transaction and Second QSR Transaction, collectively
Radian	Radian Group Inc. together with its consolidated subsidiaries
Radian Asset Assurance	Radian Asset Assurance Inc., a New York domiciled insurance company that was formerly a subsidiary of Radian Guaranty
Radian Asset Assurance Stock Purchase Agreement	The Stock Purchase Agreement dated December 22, 2014, between Radian Guaranty and Assured, to sell 100% of the issued and outstanding shares of Radian Asset Assurance, Radian's financial guaranty insurance subsidiary, to Assured
Radian Group	Radian Group Inc., the registrant
Radian Guaranty	Radian Guaranty Inc., a Pennsylvania domiciled insurance subsidiary of Radian Group
RBC States	Risk-based capital states, which are those states that currently impose a statutory or regulatory risk-based capital requirement
Red Bell	Red Bell Real Estate, LLC, a wholly-owned subsidiary of Clayton
Reinstatements	Reversals of previous Rescissions, Claim Denials and Claim Curtailments
REMIC	Real Estate Mortgage Investment Conduit
REO	Real estate owned
Rescission	Our legal right, under certain conditions, to unilaterally rescind coverage on our mortgage insurance policies if we determine that a loan did not qualify for insurance
RIF	Risk in force is equal to the underlying loan unpaid principal balance multiplied by the insurance coverage percentage
Risk-to-capital	Under certain state regulations, a minimum ratio of statutory capital calculated relative to the level of RIF, net of both RIF ceded under reinsurance and RIF related to defaulted loans
RMBS	Residential mortgage-backed securities
S&P	Standard & Poor's Financial Services LLC
SAP	Statutory accounting practices include those required or permitted, if applicable, by the insurance departments of the respective states of domicile of our insurance subsidiaries
SEC	United States Securities and Exchange Commission
Second QSR Transaction	Second quota share reinsurance transaction entered into with a third-party reinsurance provider in the fourth quarter of 2012
Second-lien	Second-lien mortgage loan
Senior Notes due 2017	Our 9.000% unsecured senior notes due June 2017 (\$195.5 million principal amount)
Senior Notes due 2019	Our 5.500% unsecured senior notes due June 2019 (\$300 million principal amount)
Senior Notes due 2020	Our 5.250% unsecured senior notes due June 2020 (\$350 million principal amount)
Senior Notes due 2021	Our 7.000% unsecured senior notes due March 2021 (\$350 million principal amount)
Services	Radian's Mortgage and Real Estate Services business segment, which provides mortgage- and real estate-related products and services to the mortgage finance market

Term	Definition
Servicing Only Loans	With respect to the BofA Settlement Agreement, loans other than Legacy Loans that were or are serviced by the Insureds and were 90 days or more past due as of July 31, 2014, or if servicing has been transferred to a servicer other than the Insureds, 90 days or more past due as of the transfer date
SFR	Single family rental
Single Premium Policy/Policies	Insurance policies where premiums are paid in a single payment at origination
Single Premium QSR Transaction	Quota share reinsurance agreement covering Single Premium Policies that was entered into with a panel of six third-party reinsurance providers in the first quarter of 2016, effective January 1, 2016
Stage of Default	The stage a loan is in relative to the foreclosure process, based on whether a foreclosure sale has been scheduled or held
Statutory RBC Requirement	Risk-based capital requirement imposed by the RBC States, requiring a minimum surplus level and, in certain states, a minimum ratio of statutory capital relative to the level of risk
Structured Transactions	With respect to mortgage insurance, transactions in which mortgage insurance is provided on a group of mortgages after they have been originated. Structured Transactions contrast with Flow Business, in which mortgage insurance is provided on mortgages on an individual loan basis as they are originated
Subject Loans	Loans covered under the BofA Settlement Agreement, comprising Legacy Loans and Servicing Only Loans
Surplus Note	An intercompany 0.000% surplus note due December 31, 2025 (\$325 million principal amount), issued by Radian Guaranty to Radian Group in December 2015 and repaid by Radian Guaranty on June 30, 2016
Time in Default	The time period from the point a loan reaches default status (based on the month the default occurred) to the current reporting date
TRID	Truth in Lending Act - Real Estate Settlement Procedures Act of 1974 ("RESPA") Integrated Disclosure
U.S.	The United States of America
U.S. Treasury	United States Department of the Treasury
ValuAmerica	ValuAmerica, Inc., a wholly-owned subsidiary of Clayton
VIE	Variable interest entity is a legal entity subject to the variable interest entity subsections of the accounting standard regarding consolidation, and generally includes a corporation, trust or partnership in which, by design, equity investors do not have a controlling financial interest or do not have sufficient equity at risk to finance activities without additional subordinated financial support

Cautionary Note Regarding Forward Looking Statements—Safe Harbor Provisions

All statements in this report 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. 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 general economic and political conditions, including in particular but without limitation, unemployment rates, interest rates and changes in housing markets and mortgage credit markets that could impact the size of the insurable market and the credit performance of our insured portfolio;
- changes in the way customers, investors, regulators or legislators perceive the performance and financial strength of private mortgage insurers;
- Radian Guaranty’s ability to remain eligible under the PMIERS and other applicable requirements imposed by the Federal Housing Finance Agency and by the GSEs to insure loans purchased by the GSEs;
- our ability to successfully execute and implement our capital plans 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 in particular but without limitation, plans and strategies that require GSE and/or regulatory approvals;
- 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, including the GSEs’ interpretation and application of the PMIERS to Radian Guaranty;
- changes in the current housing finance system in the U.S., including in particular but without limitation, the role of 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 of our Monthly Premium Policies;
- heightened competition in our mortgage insurance business, including in particular but without limitation, increased price competition and competition 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;
- the adoption of new laws and regulations, or changes in existing laws and regulations, or the way they are interpreted;
- the outcome of legal and regulatory 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 payments or adjustments associated with federal or other tax examinations, including deficiencies assessed by the IRS resulting from its examination of our 2000 through 2007 tax years, which we are currently contesting;

- the possibility that we may fail to estimate accurately the likelihood, magnitude and timing of losses in connection with establishing loss reserves for our mortgage insurance business;
- 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;
- changes in GAAP or SAP rules and guidance, or their interpretation;
- legal and other limitations on dividends and other amounts we may receive from our subsidiaries;
and
- the possibility that we may need to impair the carrying value of goodwill established in connection with our acquisition of Clayton.

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 2015 Form 10-K, and in our subsequent quarterly and other reports filed from time to time with the SEC. 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 report. 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.

PART I—FINANCIAL INFORMATION

Radian Group Inc.
CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

	June 30, 2016	December 31, 2015
(\$ in thousands, except share amounts)		
ASSETS		
Investments (Note 5)		
Fixed-maturities available for sale—at fair value (amortized cost \$2,614,680 and \$1,893,356)	\$ 2,711,395	\$ 1,865,461
Equity securities available for sale—at fair value (cost \$500 and \$75,538)	500	75,430
Trading securities—at fair value	1,123,038	1,279,137
Short-term investments—at fair value	800,465	1,076,944
Other invested assets	1,516	1,714
Total investments	4,636,914	4,298,686
Cash	55,062	46,898
Restricted cash	9,298	13,000
Accounts and notes receivable	77,170	61,734
Deferred income taxes, net (Note 9)	444,513	577,945
Goodwill and other intangible assets, net (Note 6)	282,703	289,417
Prepaid reinsurance premium	229,231	40,491
Other assets (Note 8)	332,372	313,929
Total assets	<u>\$ 6,067,263</u>	<u>\$ 5,642,100</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Unearned premiums	\$ 677,599	\$ 680,300
Reserve for losses and loss adjustment expense ("LAE") (Note 10)	848,379	976,399
Long-term debt (Note 11)	1,278,051	1,219,454
Reinsurance funds withheld (Note 1)	163,360	—
Other liabilities	294,507	269,016
Total liabilities	3,261,896	3,145,169
Commitments and contingencies (Note 12)		
Stockholders' equity		
Common stock: par value \$.001 per share; 485,000,000 shares authorized at June 30, 2016 and December 31, 2015; 231,844,615 and 224,432,465 shares issued at June 30, 2016 and December 31, 2015, respectively; 214,283,918 and 206,871,768 shares outstanding at June 30, 2016 and December 31, 2015, respectively	232	224
Treasury stock, at cost: 17,560,697 shares at June 30, 2016 and December 31, 2015	(893,176)	(893,176)
Additional paid-in capital	2,781,136	2,716,618
Retained earnings	855,070	691,742
Accumulated other comprehensive income (loss) ("AOCI") (Note 14)	62,105	(18,477)
Total stockholders' equity	2,805,367	2,496,931
Total liabilities and stockholders' equity	<u>\$ 6,067,263</u>	<u>\$ 5,642,100</u>

See Notes to Unaudited Condensed Consolidated Financial Statements.

Radian Group Inc.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

(In thousands, except per share amounts)	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Revenues:				
Net premiums earned—insurance	\$ 229,085	\$ 237,437	\$ 450,035	\$ 462,032
Services revenue	38,294	43,503	69,894	74,133
Net investment income	28,839	19,285	56,040	36,613
Net gains (losses) on investments and other financial instruments	30,527	28,448	61,813	45,227
Other income	3,423	1,743	5,338	3,074
Total revenues	330,168	330,416	643,120	621,079
Expenses:				
Provision for losses	49,725	32,560	92,716	77,588
Policy acquisition costs	5,393	6,963	11,782	14,713
Direct cost of services	24,858	23,520	46,607	42,773
Other operating expenses	65,680	67,731	124,669	121,505
Interest expense	22,546	24,501	44,080	48,886
Loss on induced conversion and debt extinguishment (Note 11)	2,108	91,876	57,678	91,876
Amortization and impairment of intangible assets	3,311	3,281	6,639	6,304
Total expenses	173,621	250,432	384,171	403,645
Pretax income from continuing operations	156,547	79,984	258,949	217,434
Income tax provision (benefit)	58,435	34,791	94,588	80,514
Net income from continuing operations	98,112	45,193	164,361	136,920
Income (loss) from discontinued operations, net of tax	—	4,855	—	5,385
Net income	\$ 98,112	\$ 50,048	\$ 164,361	\$ 142,305
Net income per share:				
Basic:				
Net income from continuing operations	\$ 0.46	\$ 0.23	\$ 0.79	\$ 0.71
Income (loss) from discontinued operations, net of tax	—	0.03	—	0.03
Net income	\$ 0.46	\$ 0.26	\$ 0.79	\$ 0.74
Diluted:				
Net income from continuing operations	\$ 0.44	\$ 0.20	\$ 0.73	\$ 0.59
Income (loss) from discontinued operations, net of tax	—	0.02	—	0.02
Net income	\$ 0.44	\$ 0.22	\$ 0.73	\$ 0.61
Weighted-average number of common shares outstanding—basic	214,274	193,112	208,991	192,245
Weighted-average number of common and common equivalent shares outstanding—diluted	226,203	246,650	232,945	244,981
Dividends per share	\$ 0.0025	\$ 0.0025	\$ 0.0050	\$ 0.0050

See Notes to Unaudited Condensed Consolidated Financial Statements.

Radian Group Inc.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (UNAUDITED)

<u>(In thousands)</u>	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Net income	\$ 98,112	\$ 50,048	\$ 164,361	\$ 142,305
Other comprehensive income (loss), net of tax (Note 14):				
Unrealized gains (losses) on investments:				
Unrealized holding gains (losses) arising during the period	40,297	(21,620)	79,671	(15,166)
Less: Reclassification adjustment for net gains (losses) included in net income	758	44,664	(1,399)	44,631
Net unrealized gains (losses) on investments	39,539	(66,284)	81,070	(59,797)
Net foreign currency translation adjustments	(225)	158	(310)	32
Activity related to investments recorded as assets held for sale	—	(5,082)	—	(3,254)
Net actuarial gains (losses)	—	—	(178)	—
Other comprehensive income (loss), net of tax	39,314	(71,208)	80,582	(63,019)
Comprehensive income (loss)	\$ 137,426	\$ (21,160)	\$ 244,943	\$ 79,286

See Notes to Unaudited Condensed Consolidated Financial Statements.

Radian Group Inc.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN COMMON STOCKHOLDERS' EQUITY (UNAUDITED)

<u>(In thousands)</u>	Six Months Ended June 30,	
	2016	2015
Common Stock		
Balance, beginning of period	\$ 224	\$ 209
Impact of extinguishment of Convertible Senior Notes due 2017 and 2019 (Note 11)	17	28
Issuance of common stock under incentive and benefit plans	—	1
Termination of capped calls (Note 11)	—	(3)
Shares repurchased under share repurchase program (Note 13)	(9)	(9)
Balance, end of period	232	226
Treasury Stock		
Balance, beginning of period	(893,176)	(892,961)
Repurchases of common stock under incentive plans	—	(215)
Balance, end of period	(893,176)	(893,176)
Additional Paid-in Capital		
Balance, beginning of period	2,716,618	2,531,513
Issuance of common stock under incentive and benefit plans	726	1,594
Stock-based compensation	14,428	6,494
Impact of extinguishment of Convertible Senior Notes due 2017 and 2019 (Note 11)	149,543	349,033
Termination of capped calls (Note 11)	—	11,976
Change in equity component of currently redeemable convertible senior notes	—	11,102
Shares repurchased under share repurchase program (Note 13)	(100,179)	(201,991)
Balance, end of period	2,781,136	2,709,721
Retained Earnings		
Balance, beginning of period	691,742	406,814
Net income	164,361	142,305
Dividends declared	(1,033)	(958)
Balance, end of period	855,070	548,161
Accumulated Other Comprehensive Income (Loss) ("AOCI")		
Balance, beginning of period	(18,477)	51,485
Net foreign currency translation adjustment, net of tax	(310)	32
Net unrealized gains (losses) on investments, net of tax	81,070	(63,051)
Net actuarial gains (losses)	(178)	—
Balance, end of period	62,105	(11,534)
Total Stockholders' Equity	\$ 2,805,367	\$ 2,353,398

See Notes to Unaudited Condensed Consolidated Financial Statements.

Radian Group Inc.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

<u>(In thousands)</u>	Six Months Ended June 30,	
	2016	2015
Cash flows from operating activities:		
Net cash provided by (used in) operating activities, continuing operations	\$ 154,498	\$ (66,804)
Net cash provided by (used in) operating activities, discontinued operations	—	(1,759)
Net cash provided by (used in) operating activities	154,498	(68,563)
Cash flows from investing activities:		
Proceeds from sales of:		
Fixed-maturity investments available for sale	306,575	3,621
Equity securities available for sale	74,868	145,550
Trading securities	150,118	13,566
Proceeds from redemptions of:		
Fixed-maturity investments available for sale	137,909	25,179
Trading securities	60,127	120,861
Purchases of:		
Fixed-maturity investments available for sale	(1,170,474)	(671,952)
Equity securities available for sale	—	(500)
Sales, redemptions and (purchases) of:		
Short-term investments, net	276,292	(348,702)
Other assets and other invested assets, net	1,157	965
Proceeds from the sale of investment in affiliate, net of cash transferred	—	784,866
Purchases of property and equipment, net	(16,626)	(10,654)
Acquisitions, net of cash acquired	—	(6,449)
Net cash provided by (used in) investing activities, continuing operations	(180,054)	56,351
Net cash provided by (used in) investing activities, discontinued operations	—	4,999
Net cash provided by (used in) investing activities	(180,054)	61,350
Cash flows from financing activities:		
Dividends paid	(1,033)	(958)
Issuance of long-term debt, net	343,549	344,260
Purchases and redemptions of long-term debt	(208,251)	(128,303)
Proceeds from termination of capped calls	—	11,973
Issuance of common stock	65	—
Purchase of common shares	(100,188)	(202,000)
Excess tax benefits from stock-based awards	63	2,679
Repayment of other borrowings	(206)	—
Net cash provided by (used in) financing activities, continuing operations	33,999	27,651
Net cash provided by (used in) financing activities, discontinued operations	—	—
Net cash provided by (used in) financing activities	33,999	27,651
Effect of exchange rate changes on cash	(279)	57
Increase (decrease) in cash	8,164	20,495
Cash, beginning of period	46,898	30,465
Less: Increase (decrease) in cash of business held for sale	—	(421)
Cash, end of period	\$ 55,062	\$ 51,381

See Notes to Unaudited Condensed Consolidated Financial Statements.

1. Condensed Consolidated Financial Statements—Business Overview and Significant Accounting Policies**Business Overview**

We provide mortgage insurance and products and services to the real estate and mortgage finance industries through our two business segments—Mortgage Insurance and Services.

Mortgage Insurance

Our Mortgage Insurance segment provides credit-related insurance coverage, principally through private mortgage insurance, to mortgage lending institutions nationwide. Private mortgage insurance helps protect mortgage lenders from all or a portion of default-related losses on residential mortgage loans made to home buyers who generally make downpayments of less than 20% of the home's purchase price. Private mortgage insurance also facilitates the sale of these low-downpayment mortgage loans in the secondary mortgage market, most of which are sold to the GSEs.

Our Mortgage Insurance segment currently offers primary mortgage insurance coverage on residential first-lien mortgage loans, which comprised approximately 97.7% of our \$46.4 billion total direct RIF at June 30, 2016. At June 30, 2016, pool insurance represented approximately 2.2% of our total direct RIF. We provide our mortgage insurance products mainly through our wholly-owned subsidiary, Radian Guaranty.

The GSEs and state insurance regulators impose capital and financial requirements on our insurance subsidiaries. These include Risk-to-capital, other risk-based capital measures and surplus requirements, as well as the PMIERS Financial Requirements discussed below. Failure to comply with these capital and financial requirements may limit the amount of insurance that our insurance subsidiaries may write. The GSEs and our state insurance regulators also possess significant discretion with respect to our insurance subsidiaries. See Note 16 for additional regulatory information.

Private mortgage insurers, including Radian Guaranty, are required to comply with the PMIERS to remain eligible insurers of loans purchased by the GSEs. The PMIERS became effective on December 31, 2015. The PMIERS Financial Requirements, among other things, require that a mortgage insurer's Available Assets meet or exceed its Minimum Required Assets. There is the possibility that the GSEs will increase the capital requirements under the PMIERS Financial Requirements in the future given that the PMIERS provide that the factors that are applied to calculate and determine a mortgage insurer's Minimum Required Assets will be updated every two years, or more frequently, as determined by the GSEs, to reflect changes in macroeconomic conditions or loan performance. We have entered into reinsurance transactions as part of our capital and risk management activities, including to help manage Radian Guaranty's Risk-to-capital and its position under the PMIERS Financial Requirements in a cost-effective manner. The credit that we receive under the PMIERS Financial Requirements for our third-party reinsurance transactions, including our QSR Transactions and our Single Premium QSR Transaction, is subject to review by the GSEs periodically.

Under the PMIERS, Radian Guaranty's Available Assets and Minimum Required Assets are determined on an aggregate basis, taking into account the assets and insured risk of Radian Guaranty and its affiliated reinsurers. Therefore, developments that impact the assets and insured risk of Radian Guaranty's affiliated reinsurers individually also will impact the aggregate Available Assets and Minimum Required Assets, and importantly, Radian Guaranty's compliance with the PMIERS Financial Requirements. As a result, references to Radian Guaranty's Available Assets and Minimum Required Assets take into consideration both Radian Guaranty and its affiliated reinsurers. At June 30, 2016, Radian Guaranty is in compliance with the PMIERS.

Services

Our Services segment provides outsourced services, information-based analytics and specialty consulting for buyers and sellers of, and investors in, mortgage- and real estate-related loans and securities as well as other ABS. These services and solutions are provided primarily through Clayton and its subsidiaries, including Green River Capital, Red Bell and ValuAmerica. The primary lines of business in our Services segment include:

- loan review and due diligence;
- surveillance, including RMBS surveillance, loan servicer oversight, loan-level servicing compliance reviews and operational reviews of mortgage servicers and originators;
- real estate valuation and component services that provide outsourcing and technology solutions for the SFR and residential real estate markets; as well as outsourced solutions for appraisal, title and closing services;
- REO management services; and
- services for the United Kingdom and European mortgage markets through our EuroRisk operations.

2016 Developments**Capital and Debt Maturity Management**

During the first half of 2016, we completed a series of transactions to strengthen our financial position. The combination of these actions had the impact of decreasing diluted shares, improving Radian Group's debt maturity profile and improving Radian Guaranty's position under the PMIERS Financial Requirements. This series of capital and debt maturity management transactions consisted of:

- the issuance of \$350 million aggregate principal amount of Senior Notes due 2021;
- the purchases of aggregate principal amounts of \$30.1 million and \$300.8 million, respectively, of our outstanding Convertible Senior Notes due 2017 and 2019;
- the termination of the portion of the capped call transactions related to the purchased Convertible Senior Notes due 2017;
- the completion of the share repurchase program announced in January 2016, by purchasing an aggregate of 9.4 million shares of Radian Group common stock for \$100.2 million, including commissions; and
- the execution of the Single Premium QSR Transaction, which had the effect of increasing the amount by which Radian Guaranty's Available Assets exceed its Minimum Required Assets under the PMIERS Financial Requirements.

The purchases of Convertible Senior Notes due 2017 and 2019 resulted in a pretax charge of \$57.7 million during the first half of 2016, recorded as a loss on induced conversion and debt extinguishment.

On June 30, 2016, Radian Guaranty repaid in full the \$325 million Surplus Note due to Radian Group. This repayment increased our holding company liquidity by \$325 million. In anticipation of the planned redemption of the Surplus Note, on June 29, 2016, Radian Group's board of directors authorized the following actions as part of Radian's capital management strategies:

- the early redemption of the remaining \$195.5 million aggregate principal amount of our 9.000% Senior Notes due 2017; and
- a new share repurchase program of up to \$125 million of Radian Group common stock.

See Notes 7, 11, 13 and 17 for additional information, including activities subsequent to June 30, 2016 in accordance with these authorizations.

Significant Accounting Policies**Basis of Presentation**

Our condensed consolidated financial statements include the accounts of Radian Group Inc. and its subsidiaries. We refer to Radian Group Inc. together with its consolidated subsidiaries as "Radian," the "Company," "we," "us" or "our," unless the context requires otherwise. We generally refer to Radian Group Inc. alone, without its consolidated subsidiaries, as "Radian Group." Unless otherwise defined in this report, certain terms and acronyms used throughout this report are defined in the Glossary of Abbreviations and Acronyms included as part of this report.

Our condensed consolidated financial statements are prepared in accordance with GAAP and include the accounts of all wholly-owned subsidiaries. All intercompany accounts and transactions, and intercompany profits and losses, have been eliminated. We have condensed or omitted certain information and footnote disclosures normally included in consolidated financial statements prepared in accordance with GAAP pursuant to the instructions set forth in Article 10 of Regulation S-X of the SEC.

The financial information presented for interim periods is unaudited; however, such information reflects all adjustments that are, in the opinion of management, necessary for the fair statement of the financial position, results of operations, comprehensive income and cash flows for the interim periods presented. Such adjustments are of a normal recurring nature. The year-end condensed balance sheet data was derived from our audited financial statements, but does not include all disclosures required by GAAP. These interim financial statements should be read in conjunction with the audited financial statements and notes thereto included in our 2015 Form 10-K. The results of operations for interim periods are not necessarily indicative of results to be expected for the full year or for any other period. Certain prior period amounts have been reclassified to conform to current period presentation.

As previously disclosed in our 2015 Form 10-K, for the six months ended June 30, 2015, certain cash flows were incorrectly classified in the Company's Condensed Consolidated Statements of Cash Flows. The Company has determined that these misclassifications are not material to the financial statements of any period. These amounts (shown below in thousands) have been corrected herein. These adjustments affected certain line items within cash flows from investing activities, but had no net impact to net cash provided by (used in) investing activities. For the six months ended June 30, 2015, these adjustments to the affected line items within the Consolidated Statements of Cash Flows consist of the following: (i) proceeds from sales of fixed-maturity investments available for sale reported as \$57,309 has been adjusted to \$3,621; and (ii) purchases of fixed-maturity investments available for sale reported as \$725,640 has been adjusted to \$671,952.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of our contingent assets and liabilities at the dates of the financial statements, as well as the reported amounts of revenues and expenses during the reporting periods. While the amounts included in our condensed consolidated financial statements include our best estimates and assumptions, actual results may vary materially.

Other Significant Accounting Policies

2016 Purchases of Convertible Debt Prior to Maturity. We accounted for the 2016 purchases of a portion of our outstanding convertible debt in exchange for cash and shares of Radian Group common stock as induced conversions of convertible debt in accordance with the accounting standard regarding derecognition of debt with conversion and other options, and the accounting standard regarding debt modifications and extinguishments. The accounting standards require the recognition through earnings of an inducement charge equal to the fair value of the consideration delivered in excess of the consideration issuable under the original conversion terms. The remaining consideration delivered and transaction costs incurred are required to be allocated between the extinguishment of the liability component and the reacquisition of the equity component. As a result, we recognized a loss on induced conversion and debt extinguishment equal to: (i) the inducement charges; (ii) the differences between the fair value and the carrying value of the liability component of the purchased debt; (iii) transaction costs allocated to the debt components; and (iv) unamortized debt issuance costs related to the purchased debt.

Reinsurance. In accordance with the terms of the Single Premium QSR Transaction, rather than making a cash payment or transferring investments for ceded premiums written, Radian Guaranty holds the related amounts to collateralize the reinsurers' obligations and has established a corresponding funds withheld liability. Any loss recoveries and any potential profit commission to Radian Guaranty will be realized from this account. This liability also includes an interest credit on funds withheld, which is recorded as ceded premiums at a rate specified in the agreement and, depending on experience under the contract, may be paid to either Radian Guaranty or the reinsurers. As described in Note 2 of our 2015 Form 10-K, ceded premiums written are recorded on the balance sheet as prepaid reinsurance premiums and amortized to ceded premiums earned in a manner consistent with the recognition of income on direct premiums. See Note 7 for further discussion of our reinsurance transactions.

See Note 2 in our 2015 Form 10-K for information regarding other significant accounting policies.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (“FASB”) issued an update to the accounting standard regarding revenue recognition. This update is intended to provide a consistent approach in recognizing revenue. In accordance with the new standard, recognition of revenue occurs when a customer obtains control of promised goods or services, in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In addition, the new standard requires that reporting companies disclose the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. This update is not expected to change revenue recognition principles related to investments and our insurance products, which represents a significant portion of total revenues. This update is primarily applicable to revenues from our Services segment. In July 2015, the FASB delayed the effective date for this updated standard for public companies to interim and annual periods beginning after December 15, 2017, and in March, April and May 2016, issued clarifying updates. We are currently evaluating the impact to our financial statements and future disclosures as a result of these updates, if any.

In April 2015, the FASB issued an update to the accounting standard for the accounting of internal-use software. The update provides guidance to customers about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, then the customer should account for the software license element of the arrangement consistent with its treatment of the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. The provisions of this update are effective for interim and annual periods beginning after December 15, 2015. The implementation of this update did not have a material impact to our financial position, results of operations or cash flows.

In May 2015, the FASB issued an update to the accounting standard for the accounting of short-duration insurance contracts by insurance entities. The amendments in this update require insurance entities to disclose certain information about the liability for unpaid claims and claim adjustment expenses. The additional information required is focused on improving disclosures regarding insurance liabilities, including the timing, nature and uncertainty of future cash flows related to insurance liabilities and the effect of those cash flows on the statement of comprehensive income. The disclosures required by this update are effective for public companies for annual periods beginning after December 15, 2015, and interim periods within annual periods beginning after December 15, 2016; early adoption is permitted. We are currently evaluating the additional disclosures required in our financial statements as a result of this update.

In January 2016, the FASB issued an update to the standard for the accounting of financial instruments. Among other things, the update requires: (i) equity investments to be measured at fair value with changes in fair value recognized in net income; (ii) the use of an exit price (i.e., the price that would be received to sell the asset) when measuring the fair value of financial instruments for disclosure purposes; (iii) separate presentation of financial assets and financial liabilities by measurement category and form of financial asset; and (iv) separate presentation in other comprehensive income of the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the organization has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. The update also eliminates the requirement to disclose the methods and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet. This update is effective for public companies for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is not permitted, with the exception of the “own credit” provision. We are currently evaluating the impact to our financial statements and future disclosures as a result of this update.

In February 2016, the FASB issued an update that replaces the existing accounting and disclosure requirements for leases of property, plant and equipment. The update requires lessees to recognize, as of the lease commencement date, assets and liabilities for all such leases with lease terms of more than 12 months, which is a change from the current GAAP requirement to recognize only capital leases on the balance sheet. Pursuant to the new standard, the liability initially recognized for the lease obligation is equal to the present value of the lease payments not yet made, discounted over the lease term at the implicit interest rate of the lease, if available, or otherwise at the lessee's incremental borrowing rate. The lessee is also required to recognize an asset for its right to use the underlying asset for the lease term, based on the liability subject to certain adjustments, such as for initial direct costs. Leases are required to be classified as either operating or finance, with expense on operating leases recorded as a single lease cost on a straight-line basis. For finance leases, interest expense on the lease liability is required to be recognized separately from the straight-line amortization of the right-of-use asset. Quantitative disclosures are required for certain items, including the cost of leases, the weighted-average remaining lease term, the weighted-average discount rate and a maturity analysis of lease liabilities. Additional qualitative disclosures are also required regarding the nature of the leases, such as basis, terms and conditions of: (i) variable interest payments; (ii) extension and termination options; and (iii) residual value guarantees. This update is effective for public companies for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. The new standard must be adopted by applying the new guidance as of the beginning of the earliest comparative period presented, using a modified retrospective transition approach with certain optional practical expedients. We are currently evaluating the impact to our financial statements and future disclosures as a result of this update.

In March 2016, the FASB issued an update seeking to reduce complexity in the accounting standards for share-based payment transactions, including: (i) accounting for income taxes; (ii) classification of excess tax benefits on the statement of cash flows; (iii) forfeitures; (iv) minimum statutory tax withholding requirements; (v) classification of employee taxes paid on the statement of cash flows when an employer withholds shares for tax withholding purposes; (vi) the practical expedient for estimating the expected term; and (vii) intrinsic value. Among other things, the update requires: (i) all excess tax benefits and tax deficiencies to be recognized as income tax expense or benefit in the income statement as they occur; (ii) recognition of excess tax benefits, regardless of whether the benefits reduce taxes payable in the current period; and (iii) excess tax benefits to be classified along with other cash flows as an operating activity, rather than separated from other income tax cash flows as a financing activity. For companies with significant share-based compensation, these changes may result in more volatile effective tax rates and net earnings, and result in additional dilution in earnings per share calculations. This update is effective for public companies for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. Early adoption is permitted in any annual or interim period; however, an entity electing early adoption must adopt all amendments in the same period. We are currently evaluating the impact to our financial statements, earnings per share and future disclosures as a result of this update.

In June 2016, the FASB issued an update to the accounting standard regarding the measurement of credit losses on financial instruments. This update requires that financial assets measured at amortized cost basis be presented at the net (of allowance for credit losses) amount expected to be collected. Credit losses relating to available-for-sale debt securities are to be recorded through an allowance for credit losses, rather than a write-down of the asset, with the amount of the allowance limited to the amount by which fair value is less than amortized cost. This update is effective for public companies for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted as of the fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. We are currently evaluating the impact to our financial statements and future disclosures as a result of this update.

2. Net Income Per Share

Basic net income per share is computed by dividing net income by the weighted-average number of common shares outstanding, while diluted net income per share is computed by dividing net income attributable to common shareholders by the sum of the weighted average number of common shares outstanding and all dilutive potential common shares outstanding. Dilutive potential common shares relate to our stock-based compensation arrangements and our outstanding convertible senior notes. For all calculations, the determination of whether potential common shares are dilutive or anti-dilutive is based on net income from continuing operations.

Notes to Unaudited Condensed Consolidated Financial Statements — (Continued)

The calculation of the basic and diluted net income per share was as follows:

<u>(In thousands, except share and per share amounts)</u>	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Net income from continuing operations:				
Net income from continuing operations - basic	\$ 98,112	\$ 45,193	\$ 164,361	\$ 136,920
Adjustment for dilutive Convertible Senior Notes due 2019, net of tax ⁽¹⁾	913	3,707	4,303	7,380
Net income from continuing operations - diluted	\$ 99,025	\$ 48,900	\$ 168,664	\$ 144,300
Net income:				
Net income from continuing operations - basic	\$ 98,112	\$ 45,193	\$ 164,361	\$ 136,920
Income (loss) from discontinued operations, net of tax	—	4,855	—	5,385
Net income - basic	98,112	50,048	164,361	142,305
Adjustment for dilutive Convertible Senior Notes due 2019, net of tax ⁽¹⁾	913	3,707	4,303	7,380
Net income - diluted	\$ 99,025	\$ 53,755	\$ 168,664	\$ 149,685
Average common shares outstanding - basic	214,274	193,112	208,991	192,245
Dilutive effect of Convertible Senior Notes due 2017 ⁽²⁾	12	12,438	—	11,789
Dilutive effect of Convertible Senior Notes due 2019	8,928	37,736	21,256	37,736
Dilutive effect of stock-based compensation arrangements ⁽²⁾	2,989	3,364	2,698	3,211
Adjusted average common shares outstanding - diluted	226,203	246,650	232,945	244,981
Net income per share:				
Basic:				
Net income from continuing operations	\$ 0.46	\$ 0.23	\$ 0.79	\$ 0.71
Income (loss) from discontinued operations	—	0.03	—	0.03
Net income	\$ 0.46	\$ 0.26	\$ 0.79	\$ 0.74
Diluted:				
Net income from continuing operations	\$ 0.44	\$ 0.20	\$ 0.73	\$ 0.59
Income (loss) from discontinued operations	—	0.02	—	0.02
Net income	\$ 0.44	\$ 0.22	\$ 0.73	\$ 0.61

(1) As applicable, includes coupon interest, amortization of discount and fees, and other changes in income or loss that would result from the assumed conversion.

(2) The following number of shares of our common stock equivalents issued under our stock-based compensation arrangements and convertible debt were not included in the calculation of net income per share because they were anti-dilutive:

<u>(in thousands)</u>	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Shares of common stock equivalents	1,042	264	1,042	530
Shares of Convertible Senior Notes due 2017	—	—	1,902	—

3. Segment Reporting

We have two strategic business units that we manage separately—Mortgage Insurance and Services. Adjusted pretax operating income (loss) for each segment represents segment results on a standalone basis; therefore, inter-segment eliminations and reclassifications required for consolidated GAAP presentation have not been reflected.

We allocate to our Mortgage Insurance segment: (i) corporate expenses based on an allocated percentage of time spent on the Mortgage Insurance segment; (ii) all interest expense except for interest expense related to the Senior Notes due 2019 that were issued to fund our purchase of Clayton; and (iii) all corporate cash and investments.

We allocate to our Services segment: (i) corporate expenses based on an allocated percentage of time spent on the Services segment; and (ii) as noted above, all interest expense related to the Senior Notes due 2019. No corporate cash or investments are allocated to the Services segment. Inter-segment activities are recorded at market rates for segment reporting and eliminated in consolidation.

Adjusted Pretax Operating Income (Loss)

Our senior management, including our Chief Executive Officer (our chief operating decision maker), uses adjusted pretax operating income (loss) as our primary measure to evaluate the fundamental financial performance of each of Radian's business segments and to allocate resources to the segments. Adjusted pretax operating income (loss) is defined as pretax income (loss) 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.

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.

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).
- (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).

Notes to Unaudited Condensed Consolidated Financial Statements — (Continued)

Summarized operating results for our segments as of and for the periods indicated, are as follows:

<u>(In thousands)</u>	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Mortgage Insurance				
Net premiums written—insurance (1)	\$ 232,353	\$ 251,082	\$ 258,663	\$ 492,990
Decrease (increase) in unearned premiums	(3,268)	(13,645)	191,372	(30,958)
Net premiums earned—insurance	229,085	237,437	450,035	462,032
Net investment income	28,839	19,285	56,040	36,613
Other income	3,424	1,743	5,339	3,074
Total (2)	261,348	258,465	511,414	501,719
Provision for losses	50,074	31,637	93,349	77,488
Policy acquisition costs	5,393	6,963	11,782	14,713
Other operating expenses before corporate allocations	36,126	41,853	69,955	75,903
Total (3)	91,593	80,453	175,086	168,104
Adjusted pretax operating income before corporate allocations	169,755	178,012	336,328	333,615
Allocation of corporate operating expenses	14,286	12,516	23,615	22,274
Allocation of interest expense	18,124	20,070	35,236	40,023
Adjusted pretax operating income	\$ 137,345	\$ 145,426	\$ 277,477	\$ 271,318

- (1) Net of ceded premiums written under the QSR Transactions and the Single Premium QSR Transaction. See Note 7 for additional information.
- (2) Excludes net gains on investments and other financial instruments of \$30.5 million and \$61.8 million, respectively, for the three and six months ended June 30, 2016, and \$28.4 million and \$45.2 million, respectively, for the three and six months ended June 30, 2015, not included in adjusted pretax operating income.
- (3) Includes inter-segment expenses as follows:

<u>(In thousands)</u>	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Inter-segment expenses	\$ 709	\$ 1,092	\$ 1,305	\$ 1,994

Radian Group Inc.

Notes to Unaudited Condensed Consolidated Financial Statements — (Continued)

<u>(In thousands)</u>	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Services				
Services revenue (1)	\$ 39,002	\$ 44,595	\$ 71,198	\$ 76,127
Direct cost of services	25,224	25,501	47,277	44,754
Other operating expenses before corporate allocations	12,537	11,522	26,420	20,379
Total	37,761	37,023	73,697	65,133
Adjusted pretax operating income (loss) before corporate allocations	1,241	7,572	(2,499)	10,994
Allocation of corporate operating expenses	2,779	1,307	4,530	2,288
Allocation of interest expense	4,422	4,431	8,844	8,863
Adjusted pretax operating income (loss)	\$ (5,960)	\$ 1,834	\$ (15,873)	\$ (157)

(1) Includes inter-segment revenues as follows:

<u>(In thousands)</u>	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Inter-segment revenues	\$ 709	\$ 1,092	\$ 1,305	\$ 1,994

Selected balance sheet information for our segments as of the periods indicated, is as follows:

<u>(In thousands)</u>	At June 30, 2016		
	Mortgage Insurance	Services	Total
Total assets	\$ 5,708,233	\$ 359,030	\$ 6,067,263

<u>(In thousands)</u>	At December 31, 2015		
	Mortgage Insurance	Services	Total
Total assets	\$ 5,281,597	\$ 360,503	\$ 5,642,100

The reconciliation of adjusted pretax operating income to consolidated pretax income from continuing operations is as follows:

<u>(In thousands)</u>	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Adjusted pretax operating income (loss):				
Mortgage Insurance (1)	\$ 137,345	\$ 145,426	\$ 277,477	\$ 271,318
Services (1)	(5,960)	1,834	(15,873)	(157)
Total adjusted pretax operating income	131,385	147,260	261,604	271,161
Net gains (losses) on investments and other financial instruments	30,527	28,448	61,813	45,227
Loss on induced conversion and debt extinguishment	(2,108)	(91,876)	(57,678)	(91,876)
Acquisition-related (expenses) benefits (2)	54	(567)	(151)	(774)
Amortization and impairment of intangible assets	(3,311)	(3,281)	(6,639)	(6,304)
Consolidated pretax income from continuing operations	<u>\$ 156,547</u>	<u>\$ 79,984</u>	<u>\$ 258,949</u>	<u>\$ 217,434</u>

(1) Includes inter-segment expenses and revenues as listed in the notes to the preceding tables.

(2) Acquisition-related (expenses) benefits represent expenses incurred to effect the acquisition of a business, net of adjustments to accruals previously recorded for acquisition expenses.

On a consolidated basis, “adjusted pretax operating income (loss)” is a measure not determined in accordance with GAAP. Total adjusted pretax operating income (loss) is not a measure of total profitability, and therefore should not be viewed as a substitute for GAAP pretax income (loss) from continuing operations. Our definition of adjusted pretax operating income (loss) may not be comparable to similarly-named measures reported by other companies.

4. Fair Value of Financial Instruments

Available for sale securities, trading securities and certain other assets are recorded at fair value. All changes in the fair value of trading securities and certain other assets are included in our condensed consolidated statements of operations. All changes in the fair value of available for sale securities are recorded in AOCI. There were no significant changes to our fair value methodologies during the six months ended June 30, 2016.

In accordance with GAAP, we established a three-level valuation hierarchy for disclosure of fair value measurements based on the transparency of inputs to the valuation of an asset or liability as of the measurement date. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level I measurements) and the lowest priority to unobservable inputs (Level III measurements). The level in the fair value hierarchy within which the fair value measurement falls is determined based on the lowest level input that is significant to the measurement in its entirety. The three levels of the fair value hierarchy are defined below:

Level I — Unadjusted quoted prices for identical assets or liabilities in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level II — Prices or valuations based on observable inputs other than quoted prices in active markets for identical assets and liabilities; and

Level III — Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable. Level III inputs are used to measure fair value only to the extent that observable inputs are not available.

The level of market activity used to determine the fair value hierarchy is based on the availability of observable inputs market participants would use to price an asset or a liability, including market value price observations. We provide a qualitative description of the valuation techniques and inputs used for Level II recurring and non-recurring fair value measurements in our audited annual financial statements as of December 31, 2015. For a complete understanding of the valuation techniques and inputs used as of June 30, 2016, these unaudited condensed consolidated financial statements should be read in conjunction with the audited annual financial statements and notes thereto included in our 2015 Form 10-K.

Notes to Unaudited Condensed Consolidated Financial Statements — (Continued)

The following is a list of assets that are measured at fair value by hierarchy level as of June 30, 2016:

<u>(In thousands)</u>	Level I	Level II	Level III	Total
Assets at Fair Value				
Investment Portfolio:				
U.S. government and agency securities	\$ 256,943	\$ 7,400	\$ —	\$ 264,343
State and municipal obligations	—	378,094	—	378,094
Money market instruments	601,101	—	—	601,101
Corporate bonds and notes	—	1,885,964	—	1,885,964
RMBS	—	390,219	—	390,219
CMBS	—	611,524	—	611,524
Other ABS	—	442,636	—	442,636
Foreign government and agency securities	—	43,499	—	43,499
Equity securities	—	—	500	500
Other investments (1)	—	17,018	500	17,518
Total Investments at Fair Value (2)	<u>858,044</u>	<u>3,776,354</u>	<u>1,000</u>	<u>4,635,398</u>
Total Assets at Fair Value	<u>\$ 858,044</u>	<u>\$ 3,776,354</u>	<u>\$ 1,000</u>	<u>\$ 4,635,398</u>

- (1) Comprising short-term certificates of deposit and commercial paper, included within Level II, and private convertible notes, included within Level III.
- (2) Does not include certain other invested assets (\$1.5 million), primarily invested in limited partnerships, accounted for as cost-method investments and not measured at fair value.

At June 30, 2016, total Level III assets of \$1.0 million accounted for less than 0.1% of total assets measured at fair value. Within other investments is an investment which was purchased during the three months ended June 30, 2016, and there were no related gains or losses recorded during the quarter. Within equity securities is an investment which was purchased during the three months ended June 30, 2015, and there were no related gains or losses recorded during the quarter. There were no Level III liabilities at June 30, 2016.

The following is a list of assets that are measured at fair value by hierarchy level as of December 31, 2015:

<u>(In thousands)</u>	Level I	Level II	Level III	Total
Assets at Fair Value				
Investment Portfolio:				
U.S. government and agency securities	\$ 670,328	\$ 8,000	\$ —	\$ 678,328
State and municipal obligations	—	341,845	—	341,845
Money market instruments	443,272	—	—	443,272
Corporate bonds and notes	—	1,383,186	—	1,383,186
RMBS	—	297,097	—	297,097
CMBS	—	544,588	—	544,588
Other ABS	—	371,625	—	371,625
Foreign government and agency securities	—	37,576	—	37,576
Equity securities	74,930	25,016	500	100,446
Other investments (1)	—	99,009	—	99,009
Total Investments at Fair Value (2)	<u>1,188,530</u>	<u>3,107,942</u>	<u>500</u>	<u>4,296,972</u>
Total Assets at Fair Value	<u>\$ 1,188,530</u>	<u>\$ 3,107,942</u>	<u>\$ 500</u>	<u>\$ 4,296,972</u>

- (1) Comprising short-term certificates of deposit and commercial paper.
- (2) Does not include certain other invested assets (\$1.7 million), primarily invested in limited partnerships, accounted for as cost-method investments and not measured at fair value.

Notes to Unaudited Condensed Consolidated Financial Statements — (Continued)

At December 31, 2015, total Level III assets of \$0.5 million accounted for less than 0.1% of total assets measured at fair value. This investment was purchased during the three months ended June 30, 2015, and there were no related gains or losses recorded during the year ended December 31, 2015. There were no Level III liabilities at December 31, 2015.

There were no transfers between Level I and Level II for the three and six months ended June 30, 2016 or 2015. There were also no transfers involving Level III assets or liabilities for the three and six months ended June 30, 2016 or 2015.

Other Fair Value Disclosure

The carrying value and estimated fair value of other selected assets and liabilities not carried at fair value on our condensed consolidated balance sheets were as follows as of the dates indicated:

	June 30, 2016		December 31, 2015	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
(In thousands)				
Assets:				
Other invested assets	\$ 1,516	\$ 4,864	\$ 1,714	\$ 4,901
Liabilities:				
Long-term debt	1,278,051	1,371,141	1,219,454	1,414,875

5. Investments

Our available for sale securities within our investment portfolio consisted of the following as of the dates indicated:

	June 30, 2016			
	Amortized Cost	Fair Value	Gross Unrealized Gains	Gross Unrealized Losses
(In thousands)				
Fixed-maturities available for sale:				
U.S. government and agency securities	\$ 110,167	\$ 114,482	\$ 4,315	\$ —
State and municipal obligations	72,134	79,052	6,918	—
Corporate bonds and notes	1,163,406	1,225,809	63,955	1,552
RMBS	316,533	323,980	7,641	194
CMBS	485,693	501,811	17,061	943
Other ABS	436,535	435,693	1,754	2,596
Foreign government and agency securities	29,712	30,068	680	324
Other investments	500	500	—	—
Total fixed-maturities available for sale	2,614,680	2,711,395	102,324	5,609
Equity securities available for sale	500	500	—	—
Total debt and equity securities	\$ 2,615,180	\$ 2,711,895	\$ 102,324	\$ 5,609

Radian Group Inc.

Notes to Unaudited Condensed Consolidated Financial Statements — (Continued)

	December 31, 2015			
	Amortized Cost	Fair Value	Gross Unrealized Gains	Gross Unrealized Losses
(In thousands)				
Fixed-maturities available for sale:				
U.S. government and agency securities	\$ 13,773	\$ 13,752	\$ —	\$ 21
State and municipal obligations	36,920	37,900	1,100	120
Corporate bonds and notes	815,024	802,193	4,460	17,291
RMBS	226,744	224,905	625	2,464
CMBS	415,780	406,910	69	8,939
Other ABS	359,452	355,494	16	3,974
Foreign government and agency securities	25,663	24,307	27	1,383
Total fixed-maturities available for sale	1,893,356	1,865,461	6,297	34,192
Equity securities available for sale (1)	75,538	75,430	—	108
Total debt and equity securities	<u>\$ 1,968,894</u>	<u>\$ 1,940,891</u>	<u>\$ 6,297</u>	<u>\$ 34,300</u>

(1) Comprising primarily a multi-sector exchange-traded fund.

The trading securities within our investment portfolio, which are recorded at fair value, consisted of the following as of the dates indicated:

	June 30, 2016	December 31, 2015
	(In thousands)	
Trading securities:		
U.S. government and agency securities	\$ 33,874	\$ 129,913
State and municipal obligations	299,042	303,946
Corporate bonds and notes	596,018	580,993
RMBS	66,239	72,192
CMBS	107,608	137,678
Other ABS	6,826	16,131
Foreign government and agency securities	13,431	13,268
Equity securities	—	25,016
Total	<u>\$ 1,123,038</u>	<u>\$ 1,279,137</u>

For trading securities held at June 30, 2016 and December 31, 2015, we had net unrealized gains of \$58.4 million during the six months ended June 30, 2016 and net unrealized losses of \$25.2 million during the year ended December 31, 2015 associated with those securities.

For the six months ended June 30, 2016, we did not transfer any securities from the available for sale or trading categories.

Radian Group Inc.

Notes to Unaudited Condensed Consolidated Financial Statements — (Continued)

Net realized and unrealized gains (losses) on investments and other financial instruments consisted of:

(In thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Net realized gains (losses):				
Fixed-maturities available for sale	\$ 1,166	\$ (8)	\$ (1,982)	\$ (59)
Equities available for sale	—	68,723	(170)	68,723
Trading securities	421	(8,291)	(1,819)	(12,859)
Short-term investments	—	4	(39)	4
Other gains (losses)	—	1	18	106
Net realized gains (losses) on investments	1,587	60,429 ⁽¹⁾	(3,992)	55,915 ⁽¹⁾
Unrealized gains (losses) on trading securities	27,678	(31,638)	62,909	(10,937)
Total net gains (losses) on investments	29,265	28,791	58,917	44,978
Net gains (losses) on other financial instruments	1,262	(343)	2,896	249
Net gains (losses) on investments and other financial instruments	\$ 30,527	\$ 28,448	\$ 61,813	\$ 45,227

- (1) During the second quarter of 2015, we sold equity securities in our portfolio and reinvested the proceeds in assets that qualify as PMIERs-compliant Available Assets, recognizing pretax gains of \$68.7 million.

The following tables show the gross unrealized losses and fair value of our securities deemed “available for sale” aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, as of the dates indicated:

June 30, 2016: (\$ in thousands) Description of Securities	Less Than 12 Months			12 Months or Greater			Total		
	# of securities	Fair Value	Unrealized Losses	# of securities	Fair Value	Unrealized Losses	# of securities	Fair Value	Unrealized Losses
Corporate bonds and notes	5	\$ 10,699	\$ 63	16	\$ 28,962	\$ 1,489	21	\$ 39,661	\$ 1,552
RMBS	6	84,687	194	—	—	—	6	84,687	194
CMBS	18	59,486	322	3	17,815	621	21	77,301	943
Other ABS	56	138,443	701	35	90,446	1,895	91	228,889	2,596
Foreign government and agency securities	1	996	4	8	9,723	320	9	10,719	324
Total	86	\$ 294,311	\$ 1,284	62	\$ 146,946	\$ 4,325	148	\$ 441,257	\$ 5,609

Radian Group Inc.

Notes to Unaudited Condensed Consolidated Financial Statements — (Continued)

December 31, 2015: (\$ in thousands) Description of Securities	Less Than 12 Months			12 Months or Greater			Total		
	# of securities	Fair Value	Unrealized Losses	# of securities	Fair Value	Unrealized Losses	# of securities	Fair Value	Unrealized Losses
U.S. government and agency securities	1	\$ 5,752	\$ 21	—	\$ —	\$ —	1	\$ 5,752	\$ 21
State and municipal obligations	2	11,674	120	—	—	—	2	11,674	120
Corporate bonds and notes	117	510,807	16,773	6	8,700	518	123	519,507	17,291
RMBS	12	168,415	2,464	—	—	—	12	168,415	2,464
CMBS	58	387,268	8,939	—	—	—	58	387,268	8,939
Other ABS	96	284,998	2,559	14	43,225	1,415	110	328,223	3,974
Foreign government and agency securities	18	18,733	1,095	3	2,278	288	21	21,011	1,383
Equity securities	1	74,930	108	—	—	—	1	74,930	108
Total	305	\$ 1,462,577	\$ 32,079	23	\$ 54,203	\$ 2,221	328	\$ 1,516,780	\$ 34,300

During the first six months of 2016 and 2015, we did not recognize in earnings any impairment losses related to credit deterioration.

Although we held securities in an unrealized loss position as of June 30, 2016, we did not consider them to be other-than-temporarily impaired as of such date. For all investment categories, the unrealized losses of 12 months or greater duration as of June 30, 2016, were generally caused by interest rate or credit spread movements since the purchase date. As of June 30, 2016, we estimated that the present value of cash flows expected to be collected from these securities would be sufficient to recover the amortized cost basis of these securities. As of June 30, 2016, we did not have the intent to sell any debt securities in an unrealized loss position, and we determined that it is more likely than not that we will not be required to sell the securities before recovery of their cost basis, which may be at maturity; therefore, we did not consider these investments to be other-than-temporarily impaired at June 30, 2016.

The contractual maturities of fixed-maturity investments are as follows:

(In thousands)	June 30, 2016	
	Available for Sale	
	Amortized Cost	Fair Value
Due in one year or less ⁽¹⁾	\$ 25,974	\$ 25,768
Due after one year through five years ⁽¹⁾	289,287	295,684
Due after five years through ten years ⁽¹⁾	670,894	700,619
Due after ten years ⁽¹⁾	389,764	427,840
RMBS ⁽²⁾	316,533	323,980
CMBS ⁽²⁾	485,693	501,811
Other ABS ⁽²⁾	436,535	435,693
Total	\$ 2,614,680	\$ 2,711,395

(1) Actual maturities may differ as a result of calls before scheduled maturity.

(2) RMBS, CMBS and Other ABS are shown separately, as they are not due at a single maturity date.

At June 30, 2016 and December 31, 2015, Radian Guaranty had \$75.4 million and \$74.7 million, respectively, in a collateral account pursuant to the Freddie Mac Agreement. This collateral account, which contains investments primarily invested in and classified as part of our trading securities, is pledged to cover Loss Mitigation Activity on the loans subject to the Freddie Mac Agreement. Subject to certain conditions in the Freddie Mac Agreement, amounts in the collateral account may be released to Radian Guaranty over time to the extent that Loss Mitigation Activity becomes final in accordance with the terms of that agreement. See Note 10 for additional information.

6. Goodwill and Other Intangible Assets, Net

All of our goodwill and other intangible assets relate to our Services segment, as a result of our acquisition of Clayton in 2014 and its subsequent acquisitions of Red Bell and ValuAmerica in 2015. The following table shows the changes in the carrying amount of goodwill as of and for the year-to-date periods ended June 30, 2016 and December 31, 2015:

<u>(In thousands)</u>	<u>Goodwill</u>	<u>Accumulated Impairment Losses</u>	<u>Net</u>
Balance at December 31, 2014	\$ 194,027	\$ (2,095)	\$ 191,932
Goodwill acquired	3,238	—	3,238
Impairment losses	—	—	—
Balance at December 31, 2015	197,265	(2,095)	195,170
Goodwill acquired	—	—	—
Impairment losses	—	—	—
Balance at June 30, 2016	<u>\$ 197,265</u>	<u>\$ (2,095)</u>	<u>\$ 195,170</u>

During the first quarter of 2015, Clayton expanded its service offerings by acquiring Red Bell, a real estate brokerage company that provides products and services that include automated valuation models; broker price opinions used by investors, lenders and loan servicers; and advanced technology solutions for: (i) monitoring loan portfolio performance; (ii) tracking non-performing loans; (iii) managing REO assets; and (iv) valuing and selling residential real estate through a secure platform. The transaction was treated as a purchase for accounting purposes, with the excess of the acquisition price over the estimated fair value of the net assets acquired resulting in goodwill of \$2.4 million. In addition, in October 2015, Clayton acquired ValuAmerica, a national title agency and appraisal management company with a technology platform that helps mortgage lenders and their vendors streamline and manage their supply chains and operational workflow. The transaction was treated as a purchase for accounting purposes, with the excess of the acquisition price over the estimated fair value of the net assets acquired resulting in goodwill of \$0.8 million. These acquisitions are consistent with our strategy to be positioned to offer products and services throughout the entire mortgage value chain. Neither of these acquisitions met the criteria to be considered a material business combination.

Goodwill is an asset representing the estimated future economic benefits arising from the assets we have acquired that were not individually identified and separately recognized, and includes the value of the discounted expected future cash flows, the workforce, expected synergies with our other affiliates and other unidentifiable intangible assets. Goodwill is deemed to have an indefinite useful life and is subject to review for impairment annually, or more frequently, whenever circumstances indicate potential impairment. Events that could result in an interim assessment of goodwill impairment and/or a potential impairment loss include, but are not limited to: (i) significant under-performance relative to historical or projected future operating results; (ii) significant changes in the strategy for the Services segment; (iii) significant negative industry or economic trends; and (iv) a decline in market capitalization below book value attributable to the Services segment. Management regularly updates certain assumptions related to our projections, including potential revenues from new initiatives and business strategies. To the extent these new initiatives and business strategies have a significant impact on the reporting unit's projections we may perform additional analysis to determine whether an impairment charge is needed.

The calculation of the estimated fair value of goodwill and other intangibles is performed using an income approach and requires the use of significant estimates and assumptions that are highly subjective in nature, such as attrition rates, discount rates, future expected cash flows and market conditions. The most significant assumptions relate to the valuation of goodwill and customer relationships. In particular, future expected cash flows include: estimated transaction volumes that are not currently contracted; volume projections associated with non-agency RMBS securitizations for which current market conditions are not favorable; and projected revenues from new business initiatives that do not have an established customer base. Our estimates are based upon assumptions believed to be reasonable, but which are inherently uncertain and unpredictable. If the projected revenues are not as favorable as those currently being used in our annual goodwill impairment assessment, or if revenues related to new initiatives and business strategies are not realized, it could result in an impairment charge which could have a material adverse effect on the results of operations for the period in which the impairment occurs.

We performed a qualitative assessment for the quarter ended June 30, 2016, and considered factors such as the decline in revenues and gross margins during the first six months of 2016, the improvement in revenue and gross margins during the second quarter of 2016 (as compared to the first quarter of 2016), new senior management of the segment and new business initiatives. Our second quarter 2016 qualitative evaluation of impairment included future revenue projections that were updated from those included in our annual impairment analysis conducted in the fourth quarter of 2015. Based on our second quarter 2016 analysis, we concluded that it is not "more likely than not" that the fair value of the Services reporting unit is less than its carrying amount as of June 30, 2016. We monitor the performance of the Services segment each quarter, including through our annual impairment assessment planned for the fourth quarter of 2016. Based on our most recent annual goodwill impairment analysis performed in the fourth quarter 2015, the excess of the estimated fair value over the carrying amount of the Services segment was approximately 19%.

The following is a summary of the gross and net carrying amounts and accumulated amortization of our other intangible assets as of the periods indicated:

(In thousands)	As of June 30, 2016		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Client relationships	\$ 83,374	\$ (15,382)	\$ 67,992
Technology	15,100	(4,216)	10,884
Trade name and trademarks	8,340	(1,684)	6,656
Client backlog	6,680	(4,709)	1,971
Non-competition agreements	185	(155)	30
Total	<u>\$ 113,679</u>	<u>\$ (26,146)</u>	<u>\$ 87,533</u>

	As of December 31, 2015		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Client relationships	\$ 83,471	\$ (11,038)	\$ 72,433
Technology	15,100	(2,949)	12,151
Trade name and trademarks	8,340	(1,243)	7,097
Client backlog	6,680	(4,184)	2,496
Non-competition agreements	185	(115)	70
Total	<u>\$ 113,776</u>	<u>\$ (19,529)</u>	<u>\$ 94,247</u>

The estimated aggregate amortization expense for the remainder of 2016 and thereafter is as follows (in thousands):

2016	\$	6,579
2017		12,623
2018		12,029
2019		10,769
2020		9,161
2021		7,354
Thereafter		29,018

Generally, for tax purposes, substantially all of our goodwill and other intangible assets are deductible and will be amortized over a period of 5 years.

7. Reinsurance

The effect of reinsurance on net premiums written and earned is as follows:

(In thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Net premiums written-insurance:				
Direct	\$ 252,728	\$ 258,198	\$ 486,654	\$ 513,446
Assumed	—	8	—	55
Ceded (1)	(20,375)	(7,124)	(227,991)	(20,511)
Net premiums written-insurance	\$ 232,353	\$ 251,082	\$ 258,663	\$ 492,990
Net premiums earned-insurance:				
Direct	\$ 248,938	\$ 249,797	\$ 489,268	\$ 491,961
Assumed	9	10	18	23
Ceded (1)	(19,862)	(12,370)	(39,251)	(29,952)
Net premiums earned-insurance	\$ 229,085	\$ 237,437	\$ 450,035	\$ 462,032

(1) Net of profit commission.

In 2012, Radian Guaranty entered into two separate QSR Transactions with a third-party reinsurance provider. Radian Guaranty has ceded the maximum amount permitted under the QSR Transactions; therefore, Radian Guaranty is no longer ceding NIW under these transactions. Effective January 1, 2016, the ceding commission was reduced from 35% to 30% for a portion of the remaining reinsurance ceded under the Second QSR Transaction. Ceded losses to date under the QSR Transactions have been immaterial. See Note 8 of Notes to Consolidated Financial Statements in our 2015 Form 10-K for more information.

In the first quarter of 2016, in order to proactively manage the risk and return profile of Radian Guaranty's insured portfolio and continue managing its position under the PMIERS Financial Requirements in a cost-effective manner, Radian Guaranty entered into the Single Premium QSR Transaction with a panel of third-party reinsurers.

Under the Single Premium QSR Transaction, effective January 1, 2016, Radian Guaranty began ceding the following Single Premium IIF and NIW, subject to certain conditions:

- 20% of its existing performing Single Premium Policies written between January 1, 2012 and March 31, 2013;
- 35% of its existing performing Single Premium Policies written between April 1, 2013 and December 31, 2015; and
- 35% of its Single Premium NIW from January 1, 2016 to December 31, 2017, subject to a limitation on ceded premiums equal to \$195 million for policies issued between January 1, 2016 and December 31, 2017.

Radian Group Inc.

Notes to Unaudited Condensed Consolidated Financial Statements — (Continued)

Radian Guaranty will receive a 25% ceding commission for premiums ceded pursuant to this transaction. Radian Guaranty will also receive a profit commission, provided that the loss ratio on the loans covered under the agreement generally remains below 55%. Losses on the ceded risk reduce Radian Guaranty's profit commission on a dollar-for-dollar basis. Ceded losses to date under the Single Premium QSR Transaction have been immaterial.

Notwithstanding the limitation on ceded premiums on the Single Premium QSR Transaction, the parties may mutually agree to increase the amount of ceded risk on December 31, 2017. Radian Guaranty is entitled to discontinue ceding new policies under the agreement at the end of any calendar quarter. The agreement is scheduled to terminate on December 31, 2027; however, Radian Guaranty has the option, based on certain conditions and subject to a termination fee, to terminate the agreement as of January 1, 2020, or at the end of any calendar quarter thereafter, which would result in Radian Guaranty reassuming the related RIF in exchange for a net payment from the reinsurer calculated in accordance with the terms of the agreement.

The following tables show the amounts related to the QSR Transactions and the Single Premium QSR Transaction for the periods indicated:

	QSR Transactions			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
(In thousands)				
Ceded premiums written (1)	\$ 7,356	\$ 4,217	\$ 15,318	\$ 14,813
Ceded premiums earned (1)	11,172	9,463	22,497	24,249
Ceding commissions written	2,099	2,982	4,369	6,147
Ceding commissions earned	4,976	5,363	10,715	12,027

	Single Premium QSR Transaction	
	Three Months Ended June 30,	Six Months Ended June 30,
	2016	2016
(In thousands)		
Ceded premiums written (1)	\$ 11,488	\$ 209,081
Ceded premiums earned (1)	7,146	13,140
Ceding commissions written	4,844	55,776
Ceding commissions earned	3,759	6,791

(1) Net of profit commission.

RIF ceded under the QSR Transactions was approximately \$1.9 billion and \$2.4 billion as of June 30, 2016 and 2015, respectively. RIF ceded under the Single Premium QSR Transaction was \$3.5 billion as of June 30, 2016.

8. Other Assets

The following table shows the components of other assets as of the dates indicated:

<u>(In thousands)</u>	<u>June 30, 2016</u>	<u>December 31, 2015</u>
Deposit with the IRS (Note 9)	\$ 88,557	\$ 88,557
Corporate-owned life insurance	85,579	82,543
Property and equipment (1)	58,800	46,802
Accrued investment income	28,630	25,620
Deferred policy acquisition costs	12,304	14,267
Reinsurance recoverables	6,432	11,044
Other	52,070	45,096
Total other assets	<u>\$ 332,372</u>	<u>\$ 313,929</u>

(1) Property and equipment, at cost less accumulated depreciation of \$111.5 million and \$106.9 million at June 30, 2016 and December 31, 2015, respectively.

9. Income Taxes

As required under the accounting standard regarding accounting for income taxes, our deferred tax assets (“DTAs”) and deferred tax liabilities (“DTLs”) are recognized under the balance sheet method, which recognizes the future tax effect of temporary differences between the amounts recorded in our condensed consolidated financial statements and the tax bases of these amounts. DTAs and DTLs are measured using the enacted tax rates expected to apply to taxable income in the periods in which the DTA or DTL is expected to be realized or settled.

Our provision for income taxes for interim financial periods is based on an estimate of our annual effective tax rate for continuing operations for the full year. When estimating our full year 2016 and 2015 annual effective tax rates, we accounted for the tax effects of gains and losses on our investments, changes as a result of the accounting standard regarding the accounting for uncertainty in income taxes and certain other adjustments, as discrete items at the federal applicable tax rate.

For federal income tax purposes, as of June 30, 2016, we had approximately \$949 million of NOL carryforwards and no foreign tax credit carryforward. To the extent not utilized, the NOL carryforwards will expire during tax years 2030 through 2032.

We are required to establish a valuation allowance against our DTAs when it is more likely than not that all or some portion of our DTAs will not be realized. At each balance sheet date, we assess our need for a valuation allowance. Our assessment is based on all available evidence, both positive and negative. This requires management to exercise judgment and make assumptions regarding whether our DTAs will be realized in future periods. In making this assessment as of June 30, 2016, we determined that certain state and local NOLs, relating to non-insurance entities within our consolidated group, may not be realized during their appropriate carryforward period. Therefore, we have recorded a valuation allowance of \$39.2 million, primarily relating to the DTAs associated with these state and local NOLs as of June 30, 2016.

Our 2016 purchases of Convertible Senior Notes due 2017 and 2019 resulted in a pretax charge of \$57.7 million. This included \$41.0 million of market premium related to the purchases, of which \$29.2 million was non-deductible for tax purposes and impacted our annualized effective tax rate. Overall, we recorded an income tax benefit of \$9.1 million related to these purchases as of June 30, 2016.

We are contesting adjustments resulting from the examination by the IRS of our 2000 through 2007 consolidated federal income tax returns. The IRS opposes the recognition of certain tax losses and deductions that were generated through our investment in a portfolio of non-economic REMIC residual interests and has proposed denying the associated tax benefits of these items. We appealed these proposed adjustments to Appeals and made “qualified deposits” with the U.S. Treasury of \$85 million in June 2008 relating to the 2000 through 2004 tax years and \$4 million in May 2010 relating to the 2005 through 2007 tax years, in order to avoid the accrual of incremental above-market-rate interest with respect to the proposed adjustments.

We attempted to reach a compromised settlement with Appeals, but in September 2014 we received Notices of Deficiency covering the 2000 through 2007 tax years that assert unpaid taxes and penalties of approximately \$157 million. The Deficiency Amount has not been reduced to reflect our NOL carryback ability. As of June 30, 2016, there also would be interest of approximately \$130 million related to these matters. Depending on the outcome, additional state income taxes, penalties and interest (estimated in the aggregate to be approximately \$33 million as of June 30, 2016) also may become due when a final resolution is reached. The Notices of Deficiency also reflected additional amounts due of approximately \$105 million, which are primarily associated with the disallowance of the previously filed carryback of our 2008 NOL to the 2006 and 2007 tax years. We currently believe that the disallowance of our 2008 NOL carryback is a precautionary position by the IRS and that we will ultimately maintain the benefit of this NOL carryback claim.

On December 3, 2014, we petitioned the U.S. Tax Court to litigate the Deficiency Amount. On September 1, 2015, we received a notice that the case had been scheduled for trial. However, the parties have jointly filed, and the U.S. Tax Court has approved, motions for continuance in this matter to postpone the trial date. Also, in February 2016, the U.S. Tax Court approved a joint motion to consolidate for trial, briefing and opinion our case with a similar case involving MGIC Investment Corporation. The litigation could take several years to resolve and may result in substantial legal expenses. We can provide no assurance regarding the outcome of any such litigation or whether a compromised settlement with the IRS will ultimately be reached. We believe that an adequate provision for income taxes has been made for the potential liabilities that may result from this matter. However, if the ultimate resolution of this matter produces a result that differs materially from our current expectations, there could be a material impact on our effective tax rate, results of operations and cash flows.

10. Losses and Loss Adjustment Expense

The following table shows our reserve for Mortgage Insurance losses and LAE by category at the end of each period indicated:

<u>(In thousands)</u>	<u>June 30, 2016</u>	<u>December 31, 2015</u>
Reserves for losses by category:		
Prime	\$ 420,281	\$ 480,481
Alt-A	173,284	203,706
A minus and below	112,001	129,352
IBNR and other (1)	74,639	83,066
LAE	22,389	26,108
Reinsurance recoverable (2)	6,044	8,286
Total primary reserves	<u>808,638</u>	<u>930,999</u>
Pool	36,982	42,084
IBNR and other	897	1,118
LAE	1,163	1,335
Reinsurance recoverable (2)	33	—
Total pool reserves	<u>39,075</u>	<u>44,537</u>
Total First-lien reserves	<u>847,713</u>	<u>975,536</u>
Second-lien and other (3)	666	863
Total reserve for losses	<u>\$ 848,379</u>	<u>\$ 976,399</u>

(1) Primarily related to expected payments under the Freddie Mac Agreement.

(2) Represents ceded losses on captive transactions, the QSR Transactions and the Single Premium QSR Transaction.

(3) Does not include our Second-lien premium deficiency reserve that is included in other liabilities.

The following table presents information relating to our reserve for losses, including our IBNR reserve and LAE but excluding our Second-lien premium deficiency reserve, for the periods indicated:

(In thousands)	Six Months Ended June 30,	
	2016	2015
Balance at beginning of period	\$ 976,399	\$ 1,560,032
Less: Reinsurance recoverables (1)	8,286	26,665
Balance at beginning of period, net of reinsurance recoverables	968,113	1,533,367
Add: Losses and LAE incurred in respect of default notices reported and unreported in:		
Current year (2)	100,999	134,054
Prior years	(8,438)	(55,195)
Total incurred	92,561	78,859
Deduct: Paid claims and LAE related to:		
Current year (2)	632	576
Prior years	217,740	418,535
Total paid	218,372	419,111
Balance at end of period, net of reinsurance recoverables	842,302	1,193,115
Add reinsurance recoverables (1)	6,077	11,677
Balance at end of period	\$ 848,379	\$ 1,204,792

(1) Related to ceded losses recoverable, if any, on captive reinsurance transactions, the QSR Transactions and the Single Premium QSR Transaction. See Note 7 for additional information.

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

2016 Activity

Our loss reserves at June 30, 2016 declined as compared to December 31, 2015, primarily as a result of the amount of paid claims continuing to outpace losses incurred related to new default notices reported in the current year. Reserves established for new default notices were the primary driver of our total incurred loss for the six months ended June 30, 2016, and they were impacted primarily by the number of new primary default notices received in the period and our related gross Default to Claim Rate assumption applied to those new defaults, which was approximately 12.5% as of June 30, 2016. The impact to incurred losses from default notices reported in the first half of 2016 was partially mitigated by favorable reserve development on prior year defaults, which was driven primarily by a reduction during the first quarter in certain Default to Claim Rate assumptions for these prior year defaults. The reductions in Default to Claim Rate assumptions resulted primarily from observed trends, including higher Cures than were previously estimated. The positive development in prior year defaults was partially offset by a slight increase in estimated severity rates from those used at December 31, 2015, based on observed trends.

Total claims paid decreased for the six months ended June 30, 2016, compared to the same period in 2015, primarily due to the elevated claim payments associated with the BofA Settlement Agreement (discussed below) in 2015.

2015 Activity

During the first six months of 2015, reserves established for new default notices were the primary driver of our total incurred loss, and they were impacted primarily by the number of new primary default notices received in the period and our related gross Default to Claim Rate assumption applied to those new defaults, which was approximately 14% as of June 30, 2015. In addition, we experienced favorable reserve development on prior year defaults due primarily to a reduction in certain Default to Claim Rate assumptions based on observed trends.

Claims paid for the six months ended June 30, 2015 include \$174.6 million related to the implementation of the BofA Settlement Agreement beginning in February 2015.

Default to Claim Rate

Our aggregate weighted average Default to Claim Rate assumption for our primary loans (net of Claim Denials and Rescissions) used in estimating our primary reserve for losses was approximately 46% (43% excluding pending claims) at June 30, 2016, and 46% (42% excluding pending claims) at December 31, 2015. During the six months ended June 30, 2016, our gross Default to Claim Rate assumption for new primary defaults was modestly reduced from approximately 13% as of December 31, 2015, to approximately 12.5%. As of June 30, 2016, our gross Default to Claim Rates on our primary portfolio ranged from approximately 12.5% for new defaults, up to approximately 65% for certain defaults not in Foreclosure Stage, and 81% for Foreclosure Stage Defaults. Our estimate of expected Rescissions and Claim Denials (net of expected Reinstatements) embedded in our Default to Claim Rate is generally based on our experience in the most recent nine months. Consideration is also given for differences in characteristics between those previously rescinded policies and denied claims and the loans remaining in our defaulted inventory, as well as the estimated impact of the BofA Settlement Agreement (discussed below) on the volume of future Rescissions and Claim Denials.

Loss Mitigation

Although our estimates of future Rescissions and Claim Denials have generally been declining, our Rescissions and Claim Denials continue to reduce our paid losses and have resulted in a reduction in our loss reserve. Our estimate of net future Rescissions and Claim Denials reduced our loss reserve as of June 30, 2016 and December 31, 2015 by approximately \$65 million and \$69 million, respectively. The amount of estimated Rescissions and Claim Denials incorporated into our reserve analysis at any point in time is affected by a number of factors, including not only our estimated rate of Rescissions and Claim Denials on future claims, but also the volume and attributes of our defaulted insured loans, our estimated Default to Claim Rate and our estimated Claim Severity, among other assumptions. Our assumptions also reflect the estimated future impact of the BofA Settlement Agreement, as further discussed below.

As our Legacy Portfolio has become a smaller percentage of our overall insured portfolio, we have undertaken a reduced amount of Loss Mitigation Activity with respect to the claims we receive, and we expect this trend to continue. As a result, our future Loss Mitigation Activity is not expected to mitigate our paid losses to the same extent as in recent years.

Our reported Rescission and Claim Denial activity in any given period is subject to challenge by our lender and servicer customers. We expect that a portion of previous Rescissions will be reinstated and previous Claim Denials will be resubmitted with the required documentation and ultimately paid; therefore, we have incorporated this expectation into our IBNR reserve estimate. Our IBNR reserve estimate of \$18.5 million and \$26.6 million at June 30, 2016 and December 31, 2015, respectively, includes reserves for this expected activity.

BofA Settlement Agreement

On September 16, 2014, Radian Guaranty entered into the BofA Settlement Agreement in order to resolve various actual and potential claims or disputes related to the parties' respective rights and duties as to mortgage insurance coverage on certain Subject Loans. Implementation of the BofA Settlement Agreement commenced on February 1, 2015 for Subject Loans held in portfolio by the Insureds or purchased by the GSEs as of that date and implementation was completed by December 31, 2015. In addition, except for certain limited circumstances, Radian Guaranty also agreed that with respect to Future Legacy Loans it will not assert any origination error or servicing defect as a basis for a decision not to pay a claim, nor will it effect a Claim Curtailment of such claims. See Note 10 of Notes to Consolidated Financial Statements in our 2015 Form 10-K for additional information about the BofA Settlement Agreement.

Freddie Mac Agreement

At June 30, 2016 and December 31, 2015, Radian Guaranty had \$75.4 million and \$74.7 million, respectively, in a collateral account pursuant to the Freddie Mac Agreement. Subject to certain conditions in the Freddie Mac Agreement, amounts in the collateral account may be released to Radian Guaranty over time to the extent that Loss Mitigation Activity becomes final in accordance with the terms of that agreement. If, as of August 29, 2017, the amount of additional Loss Mitigation Activity that has become final in accordance with the Freddie Mac Agreement is less than approximately \$74 million, then any shortfall will be paid to Freddie Mac from the funds remaining in the collateral account, subject to certain adjustments designed to allow for any Loss Mitigation Activity that has not become final or any claims evaluation that has not been completed as of that date. As of June 30, 2016, we have approximately \$57 million, recorded in reserve for losses, that we expect to be paid to Freddie Mac from the funds expected to be remaining in the collateral account as of the August 29, 2017 measurement date.

11. Long-Term Debt

The carrying value of our long-term debt at June 30, 2016 and December 31, 2015 was as follows:

<u>(In thousands)</u>		<u>June 30, 2016</u>	<u>December 31, 2015</u>
9.000%	Senior Notes due 2017	\$ 193,318	\$ 192,261
3.000%	Convertible Senior Notes due 2017	20,261	46,115
2.250%	Convertible Senior Notes due 2019	79,649	341,214
5.500%	Senior Notes due 2019	296,320	295,751
5.250%	Senior Notes due 2020	344,702	344,113
7.000%	Senior Notes due 2021	343,801	—
	Total long-term debt	<u>\$ 1,278,051</u>	<u>\$ 1,219,454</u>

Senior Notes due 2017

As part of Radian Group's capital management strategies, on June 29, 2016, Radian Group's board of directors authorized the early redemption of the remaining \$195.5 million aggregate principal amount of our 9.000% Senior Notes due 2017. See Note 17 for additional information, including activities subsequent to June 30, 2016 in accordance with this authorization.

Senior Notes due 2021

In March 2016, we issued \$350 million aggregate principal amount of Senior Notes due 2021 and received net proceeds of \$343.5 million. These notes mature on March 15, 2021 and bear interest at a rate of 7.000% per annum, payable semi-annually on March 15 and September 15 of each year, commencing on September 15, 2016. We have the option to redeem these notes, in whole or in part, at any time or from time to time prior to maturity at a redemption price equal to the greater of: (i) 100% of the aggregate principal amount of the notes to be redeemed; and (ii) the make-whole amount, which is the sum of the present value of the remaining scheduled payments of principal and interest in respect of the notes, discounted at the applicable treasury rate plus 50 basis points, plus, in each case, accrued and unpaid interest thereon to, but excluding, the redemption date.

The Senior Notes due 2021 have covenants customary for securities of this nature, including covenants related to the payments of the notes, reports, compliance certificates and modification of the covenants. Additionally, the indenture governing the Senior Notes due 2021 includes covenants restricting us from encumbering the capital stock of a designated subsidiary (as defined in the indenture for the notes) or disposing of any capital stock of any designated subsidiary unless we either dispose of all of the stock or we retain more than 80% of the stock.

Convertible Senior Notes due 2017 and 2019

During the first six months of 2016, we entered into privately negotiated agreements to purchase, for cash or a combination of cash and shares of Radian Group common stock, aggregate principal amounts of \$30.1 million and \$300.8 million, respectively, of our outstanding Convertible Senior Notes due 2017 and 2019. We funded the purchases with \$206.9 million in cash (plus accrued and unpaid interest due on the purchased notes) and by issuing to the sellers 17.0 million shares of Radian Group common stock. These purchases of Convertible Senior Notes due 2017 and 2019 resulted in a pretax charge in the first half of 2016 of \$57.7 million. This charge represents:

- the \$41.0 million market premium representing the consideration paid to the sellers of the Convertible Senior Notes due 2017 and 2019 in excess of the conversion value of the purchased notes;
- the \$15.6 million difference between the fair value and the carrying value, net of unamortized issuance costs, of the liability component of the purchased notes; and
- the \$1.1 million impact of related transaction costs.

In connection with our March 2016 purchases of Convertible Senior Notes due 2017, we terminated a corresponding portion of the capped call transactions we had entered into in 2010 related to the initial issuance of the Convertible Senior Notes due 2017. As a result of this termination, we received consideration of 0.2 million shares of Radian Group common stock, which was valued at \$2.6 million based on a stock price on the closing date of \$11.86. In accordance with the accounting standards regarding equity and contracts in an entity's own equity, the total consideration received was recorded as an increase to additional paid-in capital. The shares of Radian Group common stock received were retired, resulting in a decrease in shares issued and outstanding and a corresponding increase in unissued shares.

Upon the original issuance of the Convertible Senior Notes due 2017 and 2019, in accordance with accounting standards related to convertible debt instruments that may be settled in cash upon conversion, the Company recorded a pretax equity component, net of the capped call transaction (with respect to the Convertible Senior Notes due 2017) and related issuance costs (with respect to the Convertible Senior Notes due 2017 and 2019). The pretax equity component is not subject to remeasurement, and therefore remains unchanged unless a reduction of outstanding principal occurs. As a result of our purchases during the first six months of 2016, the remaining pretax equity component associated with the Convertible Senior Notes due 2017 and 2019 decreased from \$11.3 million and \$75.1 million, respectively, at December 31, 2015 to \$5.0 million and \$17.2 million, respectively, at June 30, 2016.

During the three-month period ended June 30, 2016, our closing stock price did not exceed the thresholds required for the holders of our Convertible Senior Notes due 2017 or our Convertible Senior Notes due 2019 to be able to exercise their conversion rights during the three-month period ending September 30, 2016. In any period when holders of the Convertible Senior Notes due 2017 are eligible to exercise their conversion option, the equity component related to these instruments would be classified as mezzanine (temporary) equity rather than permanent equity, because we are required to settle the aggregate principal amount of the notes in cash. This equity component is the difference between (1) the amount of cash deliverable upon conversion (i.e., par value of debt) and (2) the carrying value of the debt.

Issuance and transaction costs incurred at the time of the original issuance of the convertible notes were allocated to the liability and equity components in proportion to the allocation of proceeds and are accounted for as debt issuance costs and equity issuance costs, respectively. The convertible notes are reflected on our condensed consolidated balance sheets as follows:

	Convertible Senior Notes due 2017		Convertible Senior Notes due 2019	
	June 30, 2016	December 31, 2015	June 30, 2016	December 31, 2015
(In thousands)				
Liability component:				
Principal	\$ 22,233	\$ 52,370	\$ 89,194	\$ 389,992
Debt discount, net (1)	(1,873)	(5,941)	(8,671)	(44,313)
Debt issuance costs (1)	(99)	(314)	(874)	(4,465)
Net carrying amount	<u>\$ 20,261</u>	<u>\$ 46,115</u>	<u>\$ 79,649</u>	<u>\$ 341,214</u>

(1) Included within long-term debt and is being amortized over the life of the convertible notes.

The following tables set forth total interest expense recognized related to the convertible notes for the periods indicated:

Convertible Senior Notes due 2017

(\$ in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Contractual interest expense	\$ 167	\$ 3,122	\$ 539	\$ 6,497
Amortization of debt issuance costs	17	298	54	616
Amortization of debt discount	314	5,394	1,022	11,102
Total interest expense	<u>\$ 498</u>	<u>\$ 8,814</u>	<u>\$ 1,615</u>	<u>\$ 18,215</u>

Convertible Senior Notes due 2019

(\$ in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Contractual interest expense	\$ 537	\$ 2,250	\$ 2,550	\$ 4,500
Amortization of debt issuance costs	80	330	373	658
Amortization of debt discount	788	3,123	3,697	6,196
Total interest expense	<u>\$ 1,405</u>	<u>\$ 5,703</u>	<u>\$ 6,620</u>	<u>\$ 11,354</u>

12. Commitments and Contingencies

Legal Proceedings

See Note 17 of Notes to Consolidated Financial Statements in our 2015 Form 10-K for information regarding our accounting policies for contingencies.

We are routinely involved in a number of legal actions, reviews and audits, as well as inquiries and investigations by various regulatory entities involving compliance with laws or other regulations, the outcome of which are uncertain. We are contesting the allegations in each matter and management believes, based on current knowledge and after consultation with counsel, that the outcome of such matters will not have a material adverse effect on our consolidated financial condition. However, the outcome of litigation and other legal and regulatory matters is inherently uncertain, and it is possible that one or more of the matters currently pending or threatened could have an unanticipated adverse effect on our liquidity, financial condition or results of operations for any particular period.

In June 2015, we and other mortgage insurers received a letter from the Office of the Commissioner of Insurance of the State of Wisconsin (“Wisconsin OCI”) requesting information pertaining to customized insurance rates and terms offered to mortgage insurance customers. We submitted a response to the Wisconsin OCI in June 2015, as requested. Although we believe we are in compliance with applicable Wisconsin state law requirements for mortgage guaranty insurance, we cannot predict the outcome of this matter or whether additional inquiries, actions or proceedings may be pursued against us by the Wisconsin OCI or other regulators.

As described in Note 9, on September 4, 2014, we received formal Notices of Deficiency from the IRS related to certain losses and deductions resulting from our investment in a portfolio of non-economic REMIC residual interests. We believe that an adequate provision for income taxes has been made for the potential liabilities that may result from this matter, which is now the subject of litigation as more fully described in Note 9. However, if the ultimate resolution of this matter produces a result that differs materially from our current expectations, there could be a material impact on our effective tax rate, results of operations and cash flows.

Our Master Policies establish the timeline within which any suit or action arising from any right of an insured under the policy generally must be commenced. From time to time we face challenges from certain lender and servicer customers regarding these activities and practices. We are currently in discussions regarding our Loss Mitigation Activities and claim payment practices, which if not resolved, could result in arbitration or judicial proceedings. We are not able to estimate the reasonably possible loss or range of loss, if any, that could result from these discussions because they remain in preliminary stages. Although we believe that our Loss Mitigation Activities and claims paying practices are in compliance with our policies, if we are not successful in defending our actions we may need to reassume the risk on, and increase loss reserves for, those policies or pay additional claims. See Note 10 for further information.

Further, there are loans in our total defaulted portfolio (in particular, our older defaulted portfolio) for which actions or proceedings (such as foreclosure) may not have been commenced within the outermost deadline in our Prior Master Policy. We are evaluating these loans regarding this potential violation and our corresponding rights under the Prior Master Policy. While we can provide no assurance regarding the ultimate resolution of these issues, it is possible that arbitration or legal proceedings could result.

Other

Securities regulations became effective in 2005 that impose enhanced disclosure requirements on issuers of ABS (including mortgage-backed securities). To allow our customers to comply with these regulations at that time, we typically were required, depending on the amount of credit enhancement we were providing, to provide: (1) audited financial statements for the insurance subsidiary participating in the transaction; or (2) a full and unconditional holding company-level guarantee for our insurance subsidiaries' obligations in such transactions. Radian Group has guaranteed two Structured Transactions for Radian Guaranty involving approximately \$118.2 million of remaining credit exposure as of June 30, 2016.

13. Capital Stock

In the first quarter of 2016, we announced and completed a share repurchase program. Pursuant to this program, we purchased an aggregate of 0.4 million shares of Radian Group common stock for \$100.2 million, at a weighted average price per share of \$10.62, including commissions. No further purchase authority remains under this share repurchase program. However, see Note 17 for information regarding subsequent events related to the Company's common stock.

As partial consideration for our March 2016 purchases of a portion of our Convertible Senior Notes due 2017 and 2019, we issued to the seller 7.0 million shares of Radian Group common stock. In addition, in connection with our termination of the related capped call transactions, we received consideration of 0.2 million shares of Radian Group common stock. See Note 11 for additional information regarding these transactions.

All shares of Radian Group common stock that we received from the above transactions were retired, resulting in a decrease in shares issued and outstanding and a corresponding increase in unissued shares.

We may also from time to time purchase shares on the open market to meet option exercise obligations and to fund 401(k) matches and purchases under our Employee Stock Purchase Plan.

14. Accumulated Other Comprehensive Income (Loss)

The following table shows the rollforward of AOCI as of the periods indicated:

(In thousands)	Three Months Ended June 30, 2016			Six Months Ended June 30, 2016		
	Before Tax	Tax Effect	Net of Tax	Before Tax	Tax Effect	Net of Tax
Balance at beginning of period	\$ 35,064	\$ 12,273	\$ 22,791	\$ (28,425)	\$ (9,948)	\$ (18,477)
OCI:						
Unrealized gains (losses) on investments:						
Unrealized holding gains (losses) arising during the period	61,996	21,699	40,297	122,571	42,900	79,671
Less: Reclassification adjustment for net gains (losses) included in net income (1)	1,166	408	758	(2,152)	(753)	(1,399)
Net unrealized gains (losses) on investments	60,830	21,291	39,539	124,723	43,653	81,070
Net foreign currency translation adjustments	(346)	(121)	(225)	(476)	(166)	(310)
Net actuarial gains (losses)	—	—	—	(274)	(96)	(178)
OCI	60,484	21,170	39,314	123,973	43,391	80,582
Balance at end of period	\$ 95,548	\$ 33,443	\$ 62,105	\$ 95,548	\$ 33,443	\$ 62,105
	Three Months Ended June 30, 2015			Six Months Ended June 30, 2015		
(In thousands)	Before Tax	Tax Effect	Net of Tax	Before Tax	Tax Effect	Net of Tax
Balance at beginning of period	\$ 91,806	\$ 32,132	\$ 59,674	\$ 79,208	\$ 27,723	\$ 51,485
OCI:						
Unrealized gains (losses) on investments:						
Unrealized holding gains (losses) arising during the period	(33,261)	(11,641)	(21,620)	(23,332)	(8,166)	(15,166)
Less: Reclassification adjustment for net gains (losses) included in net income (1)	68,714	24,050	44,664	68,663	24,032	44,631
Net unrealized gains (losses) on investments	(101,975)	(35,691)	(66,284)	(91,995)	(32,198)	(59,797)
Net foreign currency translation adjustments	243	85	158	49	17	32
Activity related to investments recorded as assets held for sale (2)	(7,818)	(2,736)	(5,082) (3)	(5,006)	(1,752)	(3,254)
OCI	(109,550)	(38,342)	(71,208)	(96,952)	(33,933)	(63,019)
Balance at end of period	\$ (17,744)	\$ (6,210)	\$ (11,534)	\$ (17,744)	\$ (6,210)	\$ (11,534)

- (1) Included in net gains (losses) on investments and other financial instruments on our unaudited condensed consolidated statements of operations. During the second quarter of 2015, we sold equity securities in our portfolio and reinvested the proceeds in assets that qualify as PMIERS-compliant Available Assets, recognizing pretax gains of \$68.7 million.
- (2) Represents the unrealized holding gains (losses) arising during the period on investments recorded as assets held for sale, net of reclassification adjustments for net gains (losses) included in net income (loss) from discontinued operations.
- (3) For the three months ended June 30, 2015, this amount represents the recognition of investment gains included in income from discontinued operations, net of tax, as a result of the completion of the sale of Radian Asset Assurance on April 1, 2015. Previously, pursuant to accounting standards, such investment gains had been deferred and recorded in AOCI.

15. Discontinued Operations

On April 1, 2015, Radian Guaranty completed the sale of 100% of the issued and outstanding shares of Radian Asset Assurance for a purchase price of approximately \$810 million, pursuant to the Radian Asset Assurance Stock Purchase Agreement.

Prior to this, we had determined that Radian Asset Assurance met the criteria for held for sale and discontinued operations accounting at December 31, 2014. As a result, we recognized a pretax impairment charge of \$467.5 million for the year ended December 31, 2014 and an additional pretax impairment charge of \$14.3 million for the six months ended June 30, 2015. We recorded net income on discontinued operations of \$5.4 million related to this sale in the first six months of 2015, consisting primarily of the recognition of investment gains previously deferred and recorded in AOCI and recognized as a result of the completion of the sale of Radian Asset Assurance to Assured on April 1, 2015, and adjustments to estimated transaction costs and taxes. The operating results of Radian Asset Assurance have been classified as discontinued operations for all periods presented in our condensed consolidated statements of operations. No general corporate overhead or interest expense was allocated to discontinued operations.

The table below summarizes the components of income from discontinued operations, net of tax, for the period indicated. There was no activity for discontinued operations in the three and six months ended June 30, 2016.

<u>(In thousands)</u>	<u>Three Months Ended June 30, 2015</u>	<u>Six Months Ended June 30, 2015</u>
Net premiums earned	\$ —	\$ 1,007
Net investment income	—	9,153
Net gains (losses) on investments and other financial instruments	7,818	21,486
Change in fair value of derivative instruments	—	2,625
Total revenues	<u>7,818</u>	<u>34,271</u>
Provision for losses	—	502
Policy acquisition costs	—	(191)
Other operating expenses	—	4,107
Total expenses	<u>—</u>	<u>4,418</u>
Equity in net income (loss) of affiliates	—	(13)
Income (loss) from operations of businesses held for sale	7,818	29,840
Income (loss) on sale	(350)	(14,280)
Income tax provision (benefit)	2,613	10,175
Income (loss) from discontinued operations, net of tax	<u>\$ 4,855</u>	<u>\$ 5,385</u>

16. Statutory Information

We prepare our statutory financial statements in accordance with the accounting practices required or permitted, if applicable, by the insurance departments of the respective states of domicile of our insurance subsidiaries. Required statutory accounting practices are established by a variety of publications of the NAIC as well as state laws, regulations and general administrative rules. In addition, insurance departments have the right to permit other specific practices that may deviate from prescribed practices. As of June 30, 2016, we did not have any prescribed or permitted statutory accounting practices that resulted in reported statutory surplus or risk-based capital being significantly different from what would have been reported if NAIC statutory accounting practices had been followed.

The state insurance regulations include various capital requirements and dividend restrictions based on our insurance subsidiaries' statutory financial position and results of operations, as described below. Failure to maintain adequate levels of capital could lead to intervention by the various insurance regulatory authorities, which could materially and adversely affect our business, business prospects and financial condition. As of June 30, 2016, the amount of restricted net assets held by our consolidated insurance subsidiaries (which represents our equity investment in those insurance subsidiaries) totaled \$2.9 billion of our consolidated net assets.

Radian Guaranty

Under state insurance regulations, Radian Guaranty is required to maintain minimum surplus levels and, in certain states, a minimum Risk-to-capital ratio. The sixteen RBC States currently impose a Statutory RBC Requirement. The most common Statutory RBC Requirement is that a mortgage insurer's Risk-to-capital may not exceed 25 to 1. In certain of the RBC States, a mortgage insurer must satisfy an MPP Requirement. The statutory capital requirements for the non-RBC States are de minimis (ranging from \$1 million to \$5 million); however, the insurance laws of these states generally grant broad supervisory powers to state agencies or officials to enforce rules or exercise discretion affecting almost every significant aspect of the insurance business, including the power to revoke or restrict an insurance company's ability to write new business. Unless an RBC State grants a waiver or other form of relief, if a mortgage insurer is not in compliance with the Statutory RBC Requirement of that state, the mortgage insurer may be prohibited from writing new mortgage insurance business in that state. Radian Guaranty's domiciliary state, Pennsylvania, is not one of the RBC States.

Radian Guaranty was in compliance with the Statutory RBC Requirements or MPP Requirements, as applicable, in each of the RBC States as of June 30, 2016. The NAIC is in the process of developing a new Model Act for mortgage insurers, which is expected to include among other items, new capital adequacy requirements for mortgage insurers. In May 2016, a working group of State regulators released an exposure draft of a risk-based capital framework to establish capital requirements for mortgage insurers. While the outcome and timing of this process are uncertain, the new Model Act, if and when finalized by the NAIC, has the potential to increase capital requirements in those states that adopt the Model Act. However, we continue to believe the changes to the Model Act will not result in financial requirements that require greater capital than the level required under the PMIERS Financial Requirements. See also Note 1 for information regarding the PMIERS, which set requirements for private mortgage insurers to remain eligible insurers of loans purchased by the GSEs.

Radian Guaranty's Risk-to-capital calculation appears in the table below. For purposes of the Risk-to-capital calculation, as well as the Risk-to-capital requirements imposed by certain states, statutory capital is defined as the sum of statutory policyholders' surplus (i.e., statutory capital and surplus) plus statutory contingency reserves.

	June 30, 2016	December 31, 2015
(\$ in millions)		
RIF, net (1)	\$ 34,028.0	\$ 36,396.1
Common stock and paid-in capital	\$ 2,041.5	\$ 2,041.4
Surplus Note	—	325.0
Unassigned earnings (deficit)	(653.6)	(679.9)
Statutory policyholders' surplus	1,387.9	1,686.5
Contingency reserve	1,051.1	860.9
Statutory capital	<u>\$ 2,439.0</u>	<u>\$ 2,547.4</u>
Risk-to-capital	14.0:1	14.3:1

(1) Excludes risk ceded through reinsurance contracts (to third parties and affiliates) and RIF on defaulted loans.

The net decrease in Radian Guaranty's Risk-to-capital in the first six months of 2016 was primarily due to a decrease in net RIF at Radian Guaranty, resulting from insurance ceded pursuant to the Single Premium QSR Transaction during 2016, combined with statutory net income, which had the effect of increasing statutory policyholders' surplus. The effect of both of these items was mainly offset by the repayment of the \$325 million Surplus Note on June 30, 2016.

We have actively managed Radian Guaranty's capital position in various ways, including: (1) through internal and external reinsurance arrangements; (2) by seeking opportunities to reduce our risk exposure through negotiated transactions; and (3) by contributing additional capital from Radian Group, including through the use of the Surplus Note.

17. Subsequent Event

On June 29, 2016, Radian Group's board of directors authorized the following actions:

- the early redemption of the remaining \$195.5 million aggregate principal amount of its 9.000% Senior Notes due 2017; and
- a new share repurchase program of up to \$125 million of Radian Group common stock.

In accordance with the board authorization, on July 13, 2016, Radian Group delivered notices of redemption designating a redemption date of August 12, 2016 ("Redemption Date") for the remaining \$195.5 million aggregate principal amount outstanding of its 9.000% Senior Notes due 2017. Pursuant to the terms of the indentures governing these notes, the notes will be redeemed at a redemption price equal to the greater of: (i) 100% of the aggregate principal amount of the outstanding notes; or (ii) the sum of the present value of the remaining scheduled payments of principal of and interest on the outstanding notes (not including any portion of such payments of interest accrued to the Redemption Date) discounted to the Redemption Date on a semi-annual basis at the Adjusted Treasury Rate (as defined in the Indenture) plus 50 basis points, plus, in each case accrued and unpaid interest. The Adjusted Treasury Rate will be calculated on the second business day preceding the Redemption Date.

As of August 5, 2016, no shares have been purchased under the share repurchase program approved on June 29, 2016. Therefore, the full purchase authority of up to \$125 million remains available under this program.

Part I. Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following analysis should be read in conjunction with our unaudited condensed consolidated financial statements and the notes thereto included in this report, and our audited annual financial statements, notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations included in our 2015 Form 10-K, for a more complete understanding of our financial position and results of operations. Certain terms and acronyms used throughout this report are defined in the Glossary of Abbreviations and Acronyms included as part of this report. In addition, investors should review the "Cautionary Note Regarding Forward Looking Statements—Safe Harbor Provisions" above and the "Risk Factors" detailed in Item 1A of our 2015 Form 10-K for a discussion of those risks and uncertainties that have the potential to affect our business, financial condition, results of operations, cash flows or prospects in a material and adverse manner. Our results of operations for interim periods are not necessarily indicative of results to be expected for the full year or for any other period.

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Overview

We have two business segments—Mortgage Insurance and Services. Our Mortgage Insurance segment provides credit-related insurance coverage, principally through private mortgage insurance, to mortgage lending institutions nationwide. We provide our mortgage insurance products mainly through our wholly-owned subsidiary, Radian Guaranty. Our Services segment provides outsourced services, information-based analytics and specialty consulting for buyers and sellers of, and investors in, mortgage- and real estate-related loans and securities as well as other ABS. These services and solutions are provided primarily through Clayton and its subsidiaries, including Green River Capital, Red Bell and ValuAmerica.

Operating Environment and Business Strategy

Operating Environment. As a seller of mortgage credit protection and mortgage and real estate products and services, our results are subject to macroeconomic conditions and specific events that impact the mortgage origination environment and the credit performance of our underlying insured assets. The operating environment for our mortgage insurance business has been improving over the past several years as the U.S. economy generally, and unemployment levels and the housing markets in particular, have been recovering from the financial crisis that began in 2007.

New lending laws and regulations were enacted in response to the financial crisis, resulting in increased regulation and regulatory scrutiny. When combined with lenders' more restrictive lending guidelines and the absence of a robust securitization market for non-GSE loans, this has resulted in more restrictive credit standards for home financing. As a result, post-2008 loan originations have consisted primarily of high credit quality loans with significantly better credit performance than the loans in our Legacy Portfolio. While credit quality has been improving, the restrictive credit environment has made it more challenging for many first-time home buyers to finance a home, which has limited the growth of the mortgage industry, and therefore, the number of loans available for private mortgage insurance. See "—Results of Operations—Mortgage Insurance—*NIW, IIF, RIF*" for additional information regarding our portfolio mix and the mortgage industry. Further, while the increased regulatory environment generally benefits our compliance consulting services, the lack of a robust securitization market has significantly limited the volume of business available for our Services business as further discussed below.

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As of June 30, 2016, our portfolio of business written in this improving environment since the beginning of 2009, including HARP refinancings, represented approximately 86% of our total primary RIF. The number of new primary mortgage insurance defaults declined by approximately 6% in the six months ended June 30, 2016, compared to the same period of 2015. Similarly, our primary default rate of 3.4% at June 30, 2016 declined from 4.3% at June 30, 2015. In recent years these favorable credit trends have had a significant positive impact on our results of operations, in particular the provision for losses in our Mortgage Insurance segment.

Private mortgage insurers, including Radian Guaranty, are required to comply with the PMIERS to remain eligible insurers of loans purchased by the GSEs. The PMIERS became effective on December 31, 2015. The PMIERS were designed to ensure that the approved insurers will continue to possess the financial and operational capacity to serve as strong counterparties to the GSEs throughout various market conditions. The PMIERS are comprehensive, covering virtually all aspects of a private mortgage insurer's business and operations, including internal risk management and quality controls, the relationship between the GSEs and the approved insurer and the approved insurer's financial condition. The GSEs have significant discretion under the PMIERS as well as a broad range of consent rights to approve various actions of the approved insurer. In addition, there is the possibility that the GSEs will increase the capital requirements under the PMIERS Financial Requirements in the future given that the PMIERS provide that the factors that are applied to calculate and determine a mortgage insurer's Minimum Required Assets will be updated every two years, or more frequently, as determined by the GSEs, to reflect changes in macroeconomic conditions or loan performance. Radian Guaranty is in compliance with the PMIERS. See "—Liquidity and Capital Resources—*Radian Group—Short-Term Liquidity Needs*" for additional information.

For our mortgage insurance business, our competitors include other private mortgage insurers and governmental agencies, principally the FHA and the U.S. Department of Veterans Affairs ("VA"). We compete with six other private mortgage insurers that are eligible to write business for the GSEs. We compete with these private mortgage insurers on the basis of price, underwriting guidelines, customer relationships, reputation, perceived financial strength (including based on comparative credit ratings) and overall service, including services and products that complement our mortgage insurance products and that are offered through our Services business. We compete with the FHA and VA on the basis of loan limits, pricing, credit guidelines and terms of our insurance policies. The FHA's pricing reduction of its annual mortgage insurance premiums in January 2015, combined with our premium changes in April 2016 to increase our pricing for borrowers with lower FICO scores has impacted our ability to compete with the FHA on certain high-LTV loans to borrowers with FICO scores below 720. However, we believe that our recent pricing changes enable us to more effectively compete with the FHA on certain high-LTV loans to borrowers with FICO scores above 720. The FHA may again determine to reduce its pricing or alter the terms of its insurance, which could further impact the competitiveness of private mortgage insurance with respect to certain products. However, we believe there is an increasing preference among many lenders for conventional versus FHA lending, and we believe that borrowers are often attracted to the cancellation option offered by private mortgage insurance. This, combined with the growing number of higher-LTV programs utilizing private mortgage insurance that have been introduced by lenders recently, could help increase the private mortgage insurance industry's penetration of the insured market.

The positive macroeconomic and credit trends in recent years also have encouraged newer entrants into the private mortgage insurance industry. The presence of newer entrants in the industry has increased price competition as these companies seek to gain a greater presence in the market and more established industry participants seek to defend their market share and customer relationships. As a result, recent pricing trends have included: (i) the use of a spectrum of filed rates to allow for formulaic, risk-based pricing (commonly referred to as "black-box" pricing) or customized pricing engines; (ii) the use of customized (often discounted) rates on lender-paid, Single Premium policies; and (iii) overall reductions in standard filed rates on borrower-paid Monthly Premium Policies. In the recent past, the willingness of mortgage insurers to offer reduced pricing (whether through filed or customized rates) has been met with an increased demand from certain lenders for reduced rate products. This produced a marketplace where balancing both targeted returns on new business and an acceptable share of the insured market became more challenging for all participants. Although the industry remains highly competitive and there can be no assurance that there will not be further broad-based declines in mortgage insurance pricing, the use of discounted pricing strategies related to borrower-paid Monthly Premium Policies appears to have moderated subsequent to the widespread industry pricing changes for standard rates that occurred during the first half of 2016.

Business Strategy. Radian is focused on a number of strategic objectives, as described below.

RADIAN'S LONG-TERM STRATEGIC OBJECTIVES

- Grow earnings per share while maintaining attractive returns on equity
 - » Write high-quality and profitable NIW
 - » Improve margins through efficiency initiatives and business mix
- Expand the role of private mortgage insurance in the mortgage finance industry
- Grow fee income by expanding our presence in the real estate and mortgage finance industries
- Enhance our financial strength and effectively manage Radian Group's debt maturity profile
- Manage risk and compliance proactively through strong governance and culture

In formulating our strategy in this highly competitive operating environment, we have taken a disciplined approach to establishing our premium rates and delivering a mix of business that we expect to produce our targeted level of returns on a blended basis and an acceptable level of NIW. In the first half of 2016, in furtherance of this strategy, we:

- increased our filed rates for lender-paid mortgage insurance;
- adjusted our borrower-paid, filed rates, effective on April 7, 2016, which generally had the effect of decreasing our standard rates on higher FICO business, and raising our standard rates on lower FICO business where the FHA is already very competitive;
- continued to use the authority set forth in our rate filings to provide customized premiums for lender-paid, Single Premium mortgage insurance on a limited basis while maintaining our focus on our overall risk and return targets, and subsequent to June 30, 2016, because the level of discounting has moderated, have chosen to selectively participate in certain discounted, Single Premium business that has been offered on an aggregated basis; and
- entered into the Single Premium QSR Transaction to proactively manage the risk and return profile of Radian Guaranty's insured portfolio, which resulted in increasing our return on required capital for Single Premium Policies and decreasing the percentage of our Single Premium RIF, net of reinsurance ceded.

See Note 7 of Notes to Unaudited Condensed Consolidated Financial Statements and “—Liquidity and Capital Resources—*Radian Group—Short-Term Liquidity Needs*” for more information about the Single Premium QSR Transaction.

As a result of the actions described above, we believe we remain well positioned to compete for the high-quality business being originated today, including the generally more profitable, borrower-paid business, while at the same time maintaining projected returns on NIW within our targeted ranges. In addition, the changes that were implemented to our filed premium rates in the first half of 2016 are expected to generate more consistent returns across the credit spectrum and provide stable loss ratios in periods of further credit expansion. Over the life of the policies, we expect our current pricing (including the impact of the Single Premium QSR Transaction) will produce returns on required capital on new business on an unlevered basis (i.e., after-tax underwriting returns plus projected investment income) of approximately 13% to 14%, and approximately 16% to 17% on a levered basis (i.e., after-tax returns taking into consideration a targeted corporate debt to capital ratio of less than 30%). Our actual portfolio returns will depend on a number of factors, including the amount and mix of NIW that we are able to write at these new pricing levels and the amount of reinsurance we use.

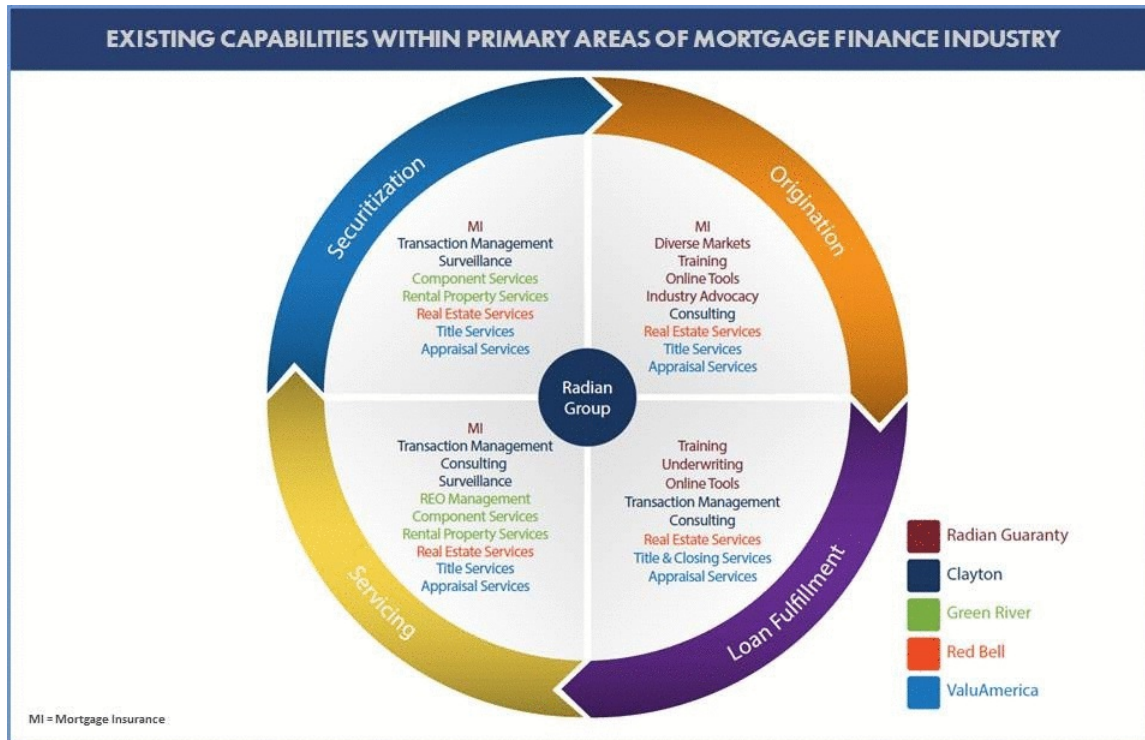
Our Services segment provides a diverse array of services to participants in multiple facets of the residential real estate and mortgage finance markets. As a result, we believe the Services segment is well-positioned to generate revenue in both healthy and distressed mortgage market conditions. Historically, a significant portion of this revenue was generated from activities related to non-agency RMBS issuance, which, as discussed above, has been limited since the financial crisis. We believe that the potential future re-emergence of the non-agency RMBS market may represent a significant long-term growth opportunity for our loan review, due diligence and surveillance services. However, the size and timing for the return of this market are uncertain and will be impacted by factors outside our control, including market demand and regulation.

Following the financial crisis, SFR securitizations, fueled by home purchases by institutional investors, experienced rapid growth. Our Services business was able to capitalize on this growth by providing a variety of services to this market, including REO management. Recently, there has been a decline in the pace of home purchases by institutional investors and a slowdown in SFR securitizations, which have negatively impacted our Services revenues in 2015 and the first half of 2016.

Part I. Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

Our strategy for future growth includes continuing to grow our Mortgage Insurance business and expanding our capabilities in our Services business to increase the depth and breadth of mortgage and real estate products and services we offer to the residential real estate and mortgage finance markets. A key element of this business strategy is to use our Services segment to broaden our participation in the residential mortgage market value chain by offering a range of mortgage and real estate-related products and services that complement our mortgage insurance business. This strategy is designed to satisfy demand in the market, grow our fee-based revenues, strengthen our existing mortgage insurance customer relationships, attract new customers and differentiate us from our mortgage insurance peers.

Through the combination of our Mortgage Insurance and Services business segments, our array of capabilities is illustrated below.



2016 Developments

Capital and Debt Maturity Management. During the first half of 2016, we completed a series of transactions to strengthen our financial position. The combination of these actions had the impact of decreasing diluted shares, improving Radian Group's debt maturity profile and improving Radian Guaranty's position under the PMIERS Financial Requirements. This series of capital and debt maturity management transactions consisted of:

- the issuance of \$350 million aggregate principal amount of Senior Notes due 2021;
- the purchases of aggregate principal amounts of \$30.1 million and \$300.8 million, respectively, of our outstanding Convertible Senior Notes due 2017 and 2019;
- the termination of the portion of the capped call transactions related to the purchased Convertible Senior Notes due 2017;
- the completion of the share repurchase program announced in January 2016, by purchasing an aggregate of 9.4 million shares of Radian Group common stock for \$100.2 million, including commissions; and
- the execution of the Single Premium QSR Transaction, which had the effect of increasing the amount by which Radian Guaranty's Available Assets exceed its Minimum Required Assets under the PMIERS Financial Requirements.

See Notes 7, 11 and 13 of Notes to Unaudited Condensed Consolidated Financial Statements for additional information on the individual transactions.

Our purchases of Convertible Senior Notes due 2017 and 2019 resulted in a loss on induced conversion and debt extinguishment of \$57.7 million for the six months ended June 30, 2016. Following the purchases described above, \$22.2 million and \$89.2 million, respectively, of the principal amounts of the Convertible Senior Notes due 2017 and 2019 remained outstanding as of June 30, 2016.

In connection with the termination of the capped call transactions related to the purchased Convertible Senior Notes due 2017, we received 0.2 million shares of Radian Group common stock, which was valued at \$2.6 million based on a stock price on the closing date of \$11.86.

In the aggregate, the series of recent capital and debt maturity management transactions described above resulted in the following changes to liquidity, long-term debt and stockholders' equity:

- a net increase in available holding company liquidity of \$34.9 million;
- a net increase in long-term debt of \$50.9 million;
- and
- a net decrease in stockholders' equity of \$0.8 million.

Available holding company liquidity also increased by an additional \$325 million due to the repayment of the Surplus Note, as further described below.

As of the dates of the completion of the purchases of the convertible notes, the series of transactions described above also resulted in a net decrease of approximately 21.1 million diluted shares. This decrease reflects that the number of dilutive shares related to the purchased Convertible Senior Notes due 2017 and 2019 (which shares had been included in the calculations of dilutive shares for prior periods, in accordance with GAAP) exceeded the actual net increase in shares issued as a result of these transactions.

In the first quarter of 2016, in order to proactively manage the risk and return profile of Radian Guaranty's insured portfolio and continue managing its position under the PMIERS Financial Requirements in a cost-effective manner, Radian Guaranty entered into the Single Premium QSR Transaction with a panel of third-party reinsurers. Radian Guaranty began ceding business under this agreement effective January 1, 2016.

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The Single Premium QSR Transaction had the effect of increasing the amount by which Radian Guaranty's Available Assets exceed its Minimum Required Assets under the PMIERS Financial Requirements, and it was the primary factor in positioning Radian Guaranty to fully redeem the Surplus Note on June 30, 2016. The Single Premium QSR Transaction also results in the following impacts, which are expected to continue over the term of the transaction:

- increases the amount of our RIF covered by reinsurance, and therefore, the amount of premiums and losses ceded;
- reduces net premiums written and earned;
- reduces other operating expenses by the amount of ceding commissions earned; and
- improves Radian Guaranty's return on required capital for its Single Premium mortgage insurance products as a result of the combination of the favorable impact to our PMIERS Financial Requirements and the expected ceded underwriting margin.

For risks ceded under the Single Premium QSR Transaction, the after-tax implied cost of required capital over the term of the transaction under the current PMIERS Financial Requirements is expected to be less than 2%. See Note 7 of Notes to Unaudited Condensed Consolidated Financial Statements and "—Liquidity and Capital Resources—*Radian Group—Short-Term Liquidity Needs*" for more information about the Single Premium QSR Transaction.

On June 30, 2016, Radian Guaranty repaid in full the \$325 million Surplus Note due to Radian Group, which increased our holding company liquidity by \$325 million. In anticipation of the planned redemption of the Surplus Note, on June 29, 2016, Radian Group's board of directors authorized the following actions as part of Radian's capital management strategies:

- the early redemption of the remaining \$195.5 million aggregate principal amount of our 9.000% Senior Notes due 2017; and
- a new share repurchase program of up to \$125 million of Radian Group common stock.

In accordance with the board authorization and pursuant to the terms of the indentures governing the notes, on July 13, 2016, Radian Group delivered notices of redemption designating a redemption date of August 12, 2016 for the remaining \$195.5 million aggregate principal amount outstanding of its 9.000% Senior Notes due 2017. See "—Liquidity and Capital Resources—*Radian Group—Short-Term Liquidity Needs*" and Note 17 of Notes to Unaudited Condensed Consolidated Financial Statements for additional information.

As of August 5, 2016, no shares have been purchased under the share repurchase program approved on June 29, 2016. Therefore, the full purchase authority of up to \$125 million remains available under this program.

Key Factors Affecting Our Results

There have been no material changes to the key factors affecting our results that are discussed in our 2015 Form 10-K.

Results of Operations—Consolidated

Radian Group serves as the holding company for our operating subsidiaries and does not have any operations of its own. Our consolidated operating results for the three and six months ended June 30, 2016 primarily reflect the financial results and performance of our two business segments—Mortgage Insurance and Services. See Note 3 of Notes to Unaudited Condensed Consolidated Financial Statements for information regarding the basis of our segment reporting, including the related allocations. See "—Results of Operations—Mortgage Insurance" and "—Results of Operations—Services" for the operating results of these business segments for the three and six months ended June 30, 2016.

In addition to the results of our operating segments, pretax income (loss) is also affected by those factors described in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations "—Key Factors Affecting Our Results" in our 2015 Form 10-K.

Part I. Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

The following table highlights selected information related to our consolidated results of operations for the three and six months ended June 30, 2016 and 2015:

(\$ in millions, except per-share amounts)	Three Months Ended June 30,		\$ Change Favorable (Unfavorable)	Six Months Ended June 30,		\$ Change Favorable (Unfavorable)
	2016	2015	2016 vs. 2015	2016	2015	2016 vs. 2015
Pretax income from continuing operations	\$ 156.5	\$ 80.0	\$ 76.5	\$ 258.9	\$ 217.4	\$ 41.5
Net income from continuing operations	98.1	45.2	52.9	164.4	136.9	27.5
Income (loss) from discontinued operations, net of tax	—	4.9	(4.9)	—	5.4	(5.4)
Net income	98.1	50.1	48.0	164.4	142.3	22.1
Diluted net income per share	0.44	0.22	0.22	0.73	0.61	0.12
Book value per share at June 30	13.09	11.28	1.81	13.09	11.28	1.81
Net premiums earned—insurance	229.1	237.4	(8.3)	450.0	462.0	(12.0)
Services revenue	38.3	43.5	(5.2)	69.9	74.1	(4.2)
Net investment income	28.8	19.3	9.5	56.0	36.6	19.4
Net gains (losses) on investments and other financial instruments	30.5	28.4	2.1	61.8	45.2	16.6
Provision for losses	49.7	32.6	(17.1)	92.7	77.6	(15.1)
Direct cost of services	24.9	23.5	(1.4)	46.6	42.8	(3.8)
Other operating expenses	65.7	67.7	2.0	124.7	121.5	(3.2)
Interest expense	22.5	24.5	2.0	44.1	48.9	4.8
Loss on induced conversion and debt extinguishment	2.1	91.9	89.8	57.7	91.9	34.2
Amortization and impairment of intangible assets	3.3	3.3	—	6.6	6.3	(0.3)
Income tax provision (benefit)	58.4	34.8	(23.6)	94.6	80.5	(14.1)
Adjusted pretax operating income (1)	131.4	147.3	(15.9)	261.6	271.2	(9.6)

(1) See “—Use of Non-GAAP Financial Measure” below.

Net Income from Continuing Operations. As discussed in more detail below, our net income from continuing operations for the three and six months ended June 30, 2016 was higher compared to the same period in 2015, primarily due to a decrease in loss on induced conversion and debt extinguishment, combined with increases in net investment income and net gains on investments and other financial instruments, partially offset by an increase in provision for losses and lower revenue. See “—Results of Operations—Mortgage Insurance” and “—Results of Operations—Services” for more information on our segment results.

Income from Discontinued Operations, Net of Tax. Radian completed the sale of Radian Asset Assurance to Assured on April 1, 2015, pursuant to the Radian Asset Assurance Stock Purchase Agreement. As a result, until the April 1, 2015 sale date, the operating results of Radian Asset Assurance were classified as discontinued operations for all periods presented in our condensed consolidated statements of operations. The divestiture of our financial guaranty business was part of Radian’s strategy to focus its business on the mortgage and real estate markets and to comply with the PMIERS.

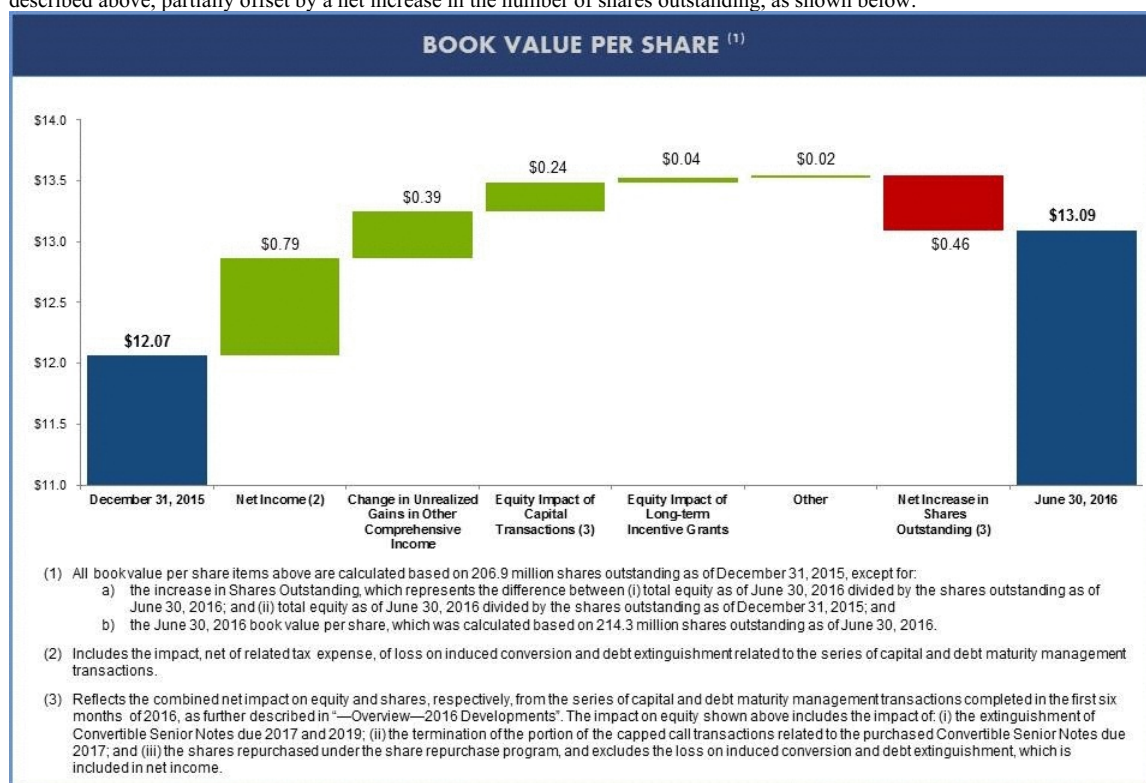
There were no amounts recorded in 2016 related to discontinued operations. We recorded net income from discontinued operations of \$5.4 million in the first six months of 2015, consisting primarily of the recognition of investment gains previously deferred and recorded in accumulated other comprehensive income and recognized as a result of the completion of the sale of Radian Asset Assurance to Assured on April 1, 2015, as well as adjustments to estimated transaction costs and taxes.

For additional information related to discontinued operations, see Note 15 of Notes to Unaudited Condensed Consolidated Financial Statements.

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Diluted Net Income Per Share. The increase in diluted net income per share for the three and six months ended June 30, 2016, compared to the same periods in 2015, is primarily due to the increase in net income from continuing operations, as discussed above, and the decrease in average diluted shares. The average diluted shares decreased from 246.7 million shares and 245.0 million shares for the three and six months ended June 30, 2015, respectively, to 226.2 million shares and 232.9 million shares, respectively, for the same periods in 2016. This decrease in average diluted shares is primarily due to the impact of the June 2015 repurchase of \$389.1 million of our Convertible Senior Notes due 2017, combined with the impact of the series of 2016 capital and debt maturity management transactions described above, included as of their effective dates. See “—Overview—2016 Developments” above.

Book Value Per Share. The increase in book value per share from \$12.07 at December 31, 2015 to \$13.09 at June 30, 2016 is primarily due to net income, the increase in unrealized gains in other comprehensive income and the equity impact of the series of 2016 capital and debt maturity management transactions described above, partially offset by a net increase in the number of shares outstanding, as shown below.



Although the actual shares outstanding at June 30, 2016 increased from December 31, 2015 as a result of the series of recent capital and debt maturity management transactions described in “—Overview—2016 Developments” above, the diluted shares for purposes of determining earnings per share decreased by approximately 21.1 million shares as of the date these transactions were completed. This decrease reflects that the number of dilutive shares related to the purchased Convertible Senior Notes due 2017 and 2019 (which shares had been included in the calculations of dilutive shares for prior periods, in accordance with GAAP) exceeded the actual net increase in shares issued as a result of these transactions.

Services Revenue and Direct Cost of Services. Services revenue and direct cost of services represent amounts related to our Services segment. See “—Results of Operations—Services” below for more information.

Net Investment Income. For the three and six months ended June 30, 2016 and 2015, net investment income represents investment income from investments held at Radian Group that are allocated to the Mortgage Insurance segment and investment income from investments held by the Mortgage Insurance segment. See “—Results of Operations—Mortgage Insurance” for more information.

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Net Gains (Losses) on Investments and Other Financial Instruments. The components of the net gains (losses) on investments and other financial instruments for the periods indicated are as follows:

<u>(In millions)</u>	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Net unrealized gains (losses) related to change in fair value of trading securities and other investments	\$ 27.7	\$ (31.6)	\$ 62.9	\$ (10.9)
Net realized gains (losses) on sales	1.6	60.4 ⁽¹⁾	(4.0)	55.9 ⁽¹⁾
Net gains (losses) on other financial instruments	1.2	(0.4)	2.9	0.2
Net gains (losses) on investments and other financial instruments	<u>\$ 30.5</u>	<u>\$ 28.4</u>	<u>\$ 61.8</u>	<u>\$ 45.2</u>

- (1) During the second quarter of 2015, we sold equity securities in our portfolio and reinvested the proceeds in assets that qualify as PMIERS-compliant Available Assets, recognizing pretax gains of \$68.7 million.

Other Operating Expenses. Other operating expenses for the three months ended June 30, 2016, as compared to the same period of 2015, reflect a decrease primarily due to the increase in ceding commissions from the Single Premium QSR Transaction, partially offset by the increase in operating expenses resulting from the acquisition of ValuAmerica in October 2015. Other operating expenses for the three months ended June 30, 2016 also include the accelerated expense associated with the annual grants of new equity-settled long-term incentive awards, primarily due to the acceleration of such expense for retirement-eligible employees. Other operating expenses in the second quarter of 2015 did not include the accelerated expense associated with the annual grants of incentive awards, as the 2015 annual grants occurred in the third quarter of 2015. However, other operating expenses in the second quarter of 2015 included additional expense due to the impact of stock price appreciation on the estimated fair value of cash-settled equity based long-term incentive awards, which were valued, in large part relative to the price of Radian Group's common stock. Now that substantially all of the cash-settled awards have vested, the expense volatility due to the impact of Radian Group's stock price on the expense recorded for these awards is not expected in the future.

Other operating expenses for the six months ended June 30, 2016, as compared to the same period of 2015, reflect an increase primarily due to the operating expenses resulting from the acquisitions of Red Bell and ValuAmerica, which were acquired in March 2015 and October 2015, respectively. Compensation expense, inclusive of severance costs of \$3.3 million, also increased for the six months ended June 30, 2016, which was primarily related to cost reduction initiatives undertaken in the six months ended June 30, 2016. The increase in operating expenses for the six months ended June 30, 2016 was partially offset by the increase in ceding commissions from the Single Premium QSR Transaction.

Throughout 2016, we have implemented various targeted efficiency initiatives with the objective of managing expenses. We expect the initiatives to be substantially completed by the end of 2016, and as a result, we currently expect to reduce our fourth-quarter 2016 other operating expenses to approximately \$60 million. This amount includes the incremental expense related to our ongoing investment to significantly upgrade our technology systems, which we expect to continue to elevate our Mortgage Insurance operating expenses for the foreseeable future.

Interest Expense. Interest expense for the three and six months ended June 30, 2016 decreased compared to the same periods of 2015 primarily due to a reduction in interest expense from the March 2016 and June 2015 purchases of aggregate principal amounts of \$30.1 million and \$389.1 million, respectively, of Convertible Senior Notes due 2017 and from the 2016 purchases of an aggregate principal amount of \$300.8 million of Convertible Senior Notes due 2019. This decrease was partially offset by the increase in interest expense from the March 2016 issuance of \$350 million aggregate principal amount of 7.000% Senior Notes due 2021 and the June 2015 issuance of \$350 million aggregate principal amount of 5.250% Senior Notes due 2020. See Note 11 of Notes to Unaudited Condensed Consolidated Financial Statements for additional information.

Loss on Induced Conversion and Debt Extinguishment. During the first six months of 2016, our purchases of Convertible Senior Notes due 2017 and 2019 resulted in a loss on induced conversion and debt extinguishment of \$57.7 million consisting of: (i) a market premium of \$41.0 million, representing the excess of the fair value of the total consideration delivered to the sellers of the convertible notes over fair value of securities issuable pursuant to the original conversion terms; (ii) a loss on extinguishment of debt of \$15.6 million, representing the difference between the fair value and the carrying value, net of unamortized issuance costs, of the liability component of the purchased notes; and (iii) expenses totaling \$1.1 million for transaction costs.

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During the first six months of 2015, our purchases of Convertible Senior Notes due 2017 resulted in a loss on induced conversion and debt extinguishment of \$91.9 million, consisting of: (i) a market premium of \$35.5 million, representing the excess of the fair value of the total consideration delivered to the sellers of the convertible notes over the fair value of securities issuable pursuant to the original conversion terms; (ii) a loss on extinguishment of debt of \$52.3 million, representing the excess of the fair value over the carrying amount of the purchased notes; and (iii) expenses totaling \$4.1 million, representing the total of the transaction costs on the conversion and the remaining unamortized debt issuance costs on the purchased Convertible Senior Notes due 2017.

Amortization and Impairment of Intangible Assets. The amortization and impairment of intangible assets for the three and six months ended June 30, 2016 and 2015 primarily reflects the amortization of intangible assets acquired as part of the Clayton acquisition. See Note 6 of Notes to Unaudited Condensed Consolidated Financial Statements for additional information.

Income Tax Provision (Benefit). The effective tax rate for our income from continuing operations was 37.3% and 36.5% for the three and six months ended June 30, 2016, respectively, compared to 43.5% and 37.0% for the three and six months ended June 30, 2015, respectively. Our June 30, 2016 annualized effective tax rate was estimated at approximately 38.4%, which is higher than the federal statutory rate of 35%, primarily as a result of the non-deductible portion of the purchase premium relating to our Convertible Senior Notes due 2017 and 2019. Our tax rates for the three and six months ended June 30, 2016, however, also were affected by the tax impact of discrete items, including investment gains taxed at the statutory tax rate of 35%, state and local income taxes and the accounting for uncertain tax positions. The change from our federal statutory tax rate of 35% for the three and six months ended June 30, 2015 was primarily due to the impact of the non-deductible portion of the premium associated with the purchases of our Convertible Senior Notes due 2017 and the impact of state and local income taxes. The primary change from the statutory tax rate for the six months ended June 30, 2015 also included the impact of the accounting standard regarding the accounting for uncertainty of income taxes.

Use of Non-GAAP Financial Measure. In addition to the traditional GAAP financial measures, we have presented a non-GAAP financial measure for the consolidated company, "adjusted pretax operating income (loss)," among our key performance indicators to evaluate our fundamental financial performance. This non-GAAP financial measure aligns with the way the Company's business performance is evaluated by both management and Radian Group's board of directors. This measure has 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 (loss)" is a non-GAAP financial measure, for the reasons discussed above we believe this measure aids 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; loss on induced conversion and debt extinguishment; acquisition-related expenses; amortization and impairment of intangible assets; and net impairment losses recognized in earnings.

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.

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).

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- (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).
- (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).

Total adjusted pretax operating income (loss) is not a measure of total profitability, and therefore should not be viewed as a substitute for GAAP pretax income (loss) from continuing operations. Our definition of adjusted pretax operating income (loss) may not be comparable to similarly-named measures reported by other companies.

The following table provides a reconciliation of our non-GAAP financial measure for the consolidated company, adjusted pretax operating income, to the most comparable GAAP measure, pretax income from continuing operations:

Reconciliation of Consolidated Non-GAAP Financial Measure				
(In thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Adjusted pretax operating income (loss):				
Mortgage Insurance (1)	\$ 137,345	\$ 145,426	\$ 277,477	\$ 271,318
Services (1)	(5,960)	1,834	(15,873)	(157)
Total adjusted pretax operating income	131,385	147,260	261,604	271,161
Net gains (losses) on investments and other financial instruments	30,527	28,448	61,813	45,227
Loss on induced conversion and debt extinguishment	(2,108)	(91,876)	(57,678)	(91,876)
Acquisition-related (expenses) benefits (2)	54	(567)	(151)	(774)
Amortization and impairment of intangible assets	(3,311)	(3,281)	(6,639)	(6,304)
Consolidated pretax income from continuing operations	<u>\$ 156,547</u>	<u>\$ 79,984</u>	<u>\$ 258,949</u>	<u>\$ 217,434</u>

- (1) Includes inter-segment expenses and revenues as disclosed in Note 3 of Notes to Unaudited Condensed Consolidated Financial Statements.
- (2) Acquisition-related (expenses) benefits represent expenses incurred to effect the acquisition of a business, net of adjustments to accruals previously recorded for acquisition expenses.

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Results of Operations—Mortgage Insurance

Three and Six Months Ended June 30, 2016 Compared to Three and Six Months Ended June 30, 2015

The following table summarizes our Mortgage Insurance segment's results of operations for the three and six months ended June 30, 2016 and 2015:

(\$ in millions)	Three Months Ended June 30,		\$ Change Favorable (Unfavorable)	Six Months Ended June 30,		\$ Change Favorable (Unfavorable)
	2016	2015	2016 vs. 2015	2016	2015	2016 vs. 2015
Adjusted pretax operating income (1)	\$ 137.3	\$ 145.4	\$ (8.1)	\$ 277.5	\$ 271.3	\$ 6.2
Net premiums written—insurance (2)	232.4	251.1	(18.7)	258.7	493.0	(234.3)
(Increase) decrease in unearned premiums	(3.3)	(13.6)	10.3	191.4	(31.0)	222.4
Net premiums earned—insurance	229.1	237.4	(8.3)	450.0	462.0	(12.0)
Net investment income	28.8	19.3	9.5	56.0	36.6	19.4
Provision for losses	50.1	31.6	(18.5)	93.4	77.5	(15.9)
Other operating expenses	50.4	54.4	4.0	93.6	98.2	4.6
Interest expense	18.1	20.1	2.0	35.2	40.0	4.8

- (1) Our senior management uses adjusted pretax operating income (loss) as our primary measure to evaluate the fundamental financial performance of each of the Company's business segments.
- (2) Net of ceded premiums written under the QSR Transactions and the Single Premium QSR Transaction. See Note 7 of Notes to Unaudited Condensed Consolidated Financial Statements for more information.

Adjusted Pretax Operating Income. Our Mortgage Insurance segment's adjusted pretax operating income decreased for the three months ended June 30, 2016, compared to the comparable period in 2015, primarily reflecting an increase in provision for losses and the net impact of the Single Premium QSR Transaction, as further described below. The impact of these decreases in adjusted pretax operating income was partially offset by an increase in net investment income. Adjusted pretax operating income increased for the six months ended June 30, 2016, compared to the comparable period in 2015, primarily reflecting an increase in net investment income and a decrease in interest expense, partially offset by an increase in provision for losses and the net impact of the Single Premium QSR Transaction.

NIW, IIF, RIF

A key component of our current business strategy is to grow our mortgage insurance business by writing insurance on high-quality mortgages in the U.S. Consistent with this objective, we wrote \$12.9 billion and \$21.0 billion of primary new mortgage insurance in the three and six months ended June 30, 2016 respectively, compared to \$11.8 billion and \$21.1 billion in the three and six months ended June 30, 2015, respectively.

We monitor competitive and economic factors while balancing both profitability and market share considerations in developing our pricing and origination strategies. Due to the increasingly competitive environment throughout the mortgage insurance industry, price competition among private mortgage insurers continues to be strong. Although it remains difficult to project future volumes, we currently expect the total mortgage insurance market in 2016 to be slightly higher than 2015, based in part on the increased penetration of private mortgage insurance due to a higher mix of purchase originations compared to refinance activity. Given these assumptions, and based on our second quarter 2016 volume and current pipeline of mortgage insurance commitments, we expect our new business volume for 2016 will be higher than our \$41 billion of NIW in 2015.

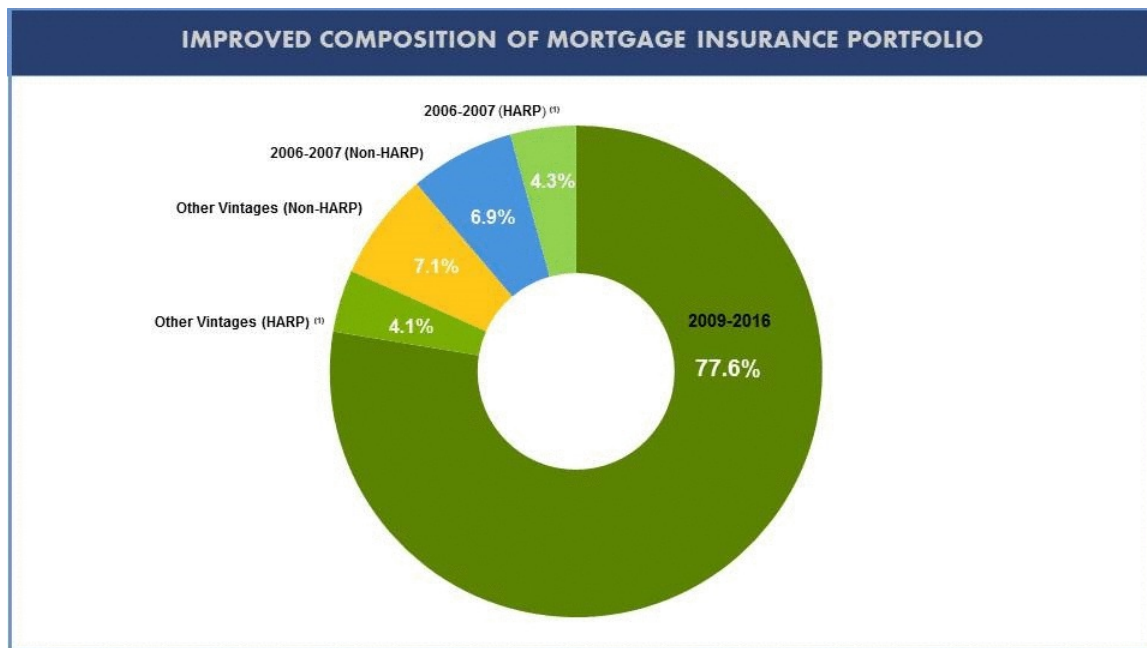
Since 2009, virtually all of our new mortgage insurance business production has been prime business. The loans from our 2009 and later origination years possess significantly improved credit characteristics compared to our Legacy Portfolio. FICO scores for the borrowers of these insured mortgages are higher and there are fewer loans with LTVs greater than 95%, both as compared to mortgages in our Legacy Portfolio.

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In addition to the improved composition of our mortgage insurance portfolio with respect to specific individual credit attributes, such as FICO scores and LTVs, more stringent underwriting requirements have also led to fewer loans from our 2009 and later origination years that combine multiple higher-risk attributes within the same loan, such as a low FICO score with an investment property, or a low FICO score with a cash-out refinancing. These changes have contributed to the improved overall credit quality of our portfolio. The combination of higher-risk attributes within the same loans was a factor that contributed to the increased defaults previously experienced in the Legacy Portfolio.

Refinancings under the HARP programs (discussed below) have also had a positive impact on the overall credit quality and composition of our mortgage insurance portfolio because the HARP refinancings generally result in terms under which a borrower has a greater ability to pay and more financial flexibility to cover the loan obligations.

The growth of our portfolio written since the beginning of 2009, together with, among other things, the various factors discussed above, has also contributed to the significant improvement in the credit quality of our mortgage insurance portfolio. Our portfolio written since the beginning of 2009, including HARP refinancings, accounted for approximately 86% of our total primary RIF at June 30, 2016, compared to 84% at December 31, 2015. The table below illustrates the improved composition of our mortgage insurance portfolio RIF, based on origination vintages.



(1) In 2009, the GSEs began offering the HARP, which allows a borrower who is not delinquent to refinance a mortgage if the borrower has been unable to take advantage of lower interest rates because the borrower’s home has decreased in value. We exclude HARP loans from our NIW for the period in which the refinance occurs. During the six months ended June 30, 2016, new HARP loans accounted for \$120.3 million of newly refinanced loans that were not included in Radian Guaranty’s NIW for the period, compared to \$505.5 million for the same period of 2015.

In April 2016, the Federal Housing Finance Agency announced a new Principal Reduction Modification program, with the objective of benefiting borrowers whose mortgages were severely delinquent as of March 1, 2016. Eligible borrowers include those: (i) whose loans are owned or guaranteed by Fannie Mae or Freddie Mac; (ii) whose outstanding unpaid mortgage balance is less than or equal to \$250,000; and (iii) whose outstanding unpaid mortgage balance exceeds 115% of the current value of their home. For certain eligible borrowers, this program includes an interest rate reduction down to the current market rate, an extension of the loan term to as much as 40 years, capitalization of certain past due amounts, and forgiveness of a portion of the principal balance after the borrower makes three on-time payments subsequent to the modification. The program is a one-time offering, and the servicers of eligible mortgages must solicit eligible borrowers by October 15, 2016.

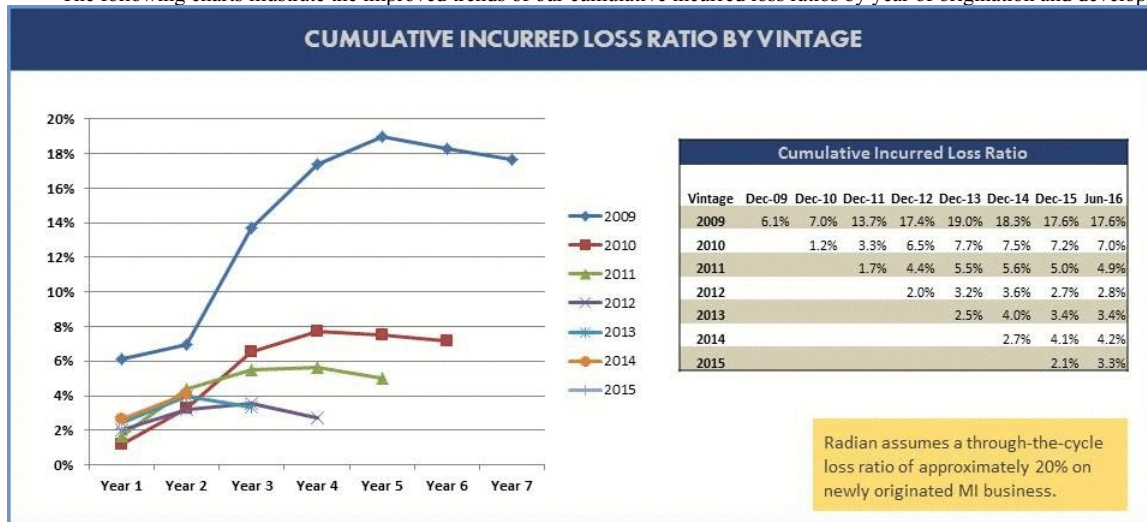
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Although this program has the potential to reduce the number of future claims we would be required to pay, based on our current evaluation of the program criteria, we do not expect that a material number of our loans currently in default would be affected. In addition, for any loans modified under this program that subsequently default and result in a claim, we would be required to pay the claim based upon the unpaid principal balance at the time of the default plus the principal forgiven in connection with the modification, without consideration of the modification. We will continue to evaluate the impact of the program as more information becomes available.

Although in our overall portfolio there are currently fewer loans with LTVs greater than 95% as compared to mortgages in our Legacy Portfolio, the percentage of recent NIW with LTVs greater than 95% is beginning to steadily increase. Factors influencing the recent increases include: (i) GSE program enhancements and guideline changes; (ii) FHA regulatory enforcement actions; (iii) mortgage insurance pricing changes effective in the first half of 2016; and (iv) recent lender response to market demands and the volume of mortgage originations.

The improvement in the credit quality of our mortgage insurance portfolio is demonstrated by improved default trends for mortgage insurance policies issued since the beginning of 2009. Our expected future losses on our mortgage insurance portfolio written since the beginning of 2009, including HARP refinancings, are significantly lower than those experienced on our Legacy Portfolio (as presented in the following chart).

The following charts illustrate the improved trends of our cumulative incurred loss ratios by year of origination and development year.



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The following tables provide selected information as of and for the periods indicated related to mortgage insurance NIW, RIF and IIF. Policy years represent the original policy years, and have not been adjusted to reflect subsequent HARP refinancing activity. Primary RIF and IIF amounts at June 30, 2016 include \$315 million and \$1.3 billion, respectively, related to loans that are subject to the Freddie Mac Agreement. Although we no longer have future claim liability on these loans, we continue to receive premiums on the related loans and the insurance remains in force; therefore, these loans are included in our primary RIF and IIF. Throughout this report, unless otherwise noted, RIF is presented on a gross basis and includes the amount ceded under reinsurance.

As a percentage of our total NIW, the level of our purchase origination volume has increased and our refinance originations have decreased during the three and six months ended June 30, 2016, compared to the same periods of 2015. Purchase borrowers tend to have lower FICO scores and higher LTVs than borrowers who are refinancing. Our most recent trends in FICO scores and LTVs reflect the recent shift in our mix of purchase and refinance business, combined with a slow, steady expansion of credit in the marketplace as a result of the improving economy.

(\$ in millions)	Three Months Ended June 30,				Six Months Ended June 30,			
	2016		2015		2016		2015	
Total primary NIW by FICO Score								
>=740	\$ 7,871	60.9%	\$ 7,405	63.0%	\$ 12,587	60.0%	\$ 13,373	63.3%
680-739	4,165	32.2	3,615	30.8	6,880	32.8	6,460	30.5
620-679	885	6.9	731	6.2	1,525	7.2	1,303	6.2
Total Primary	\$ 12,921	100.0%	\$ 11,751	100.0%	\$ 20,992	100.0%	\$ 21,136	100.0%

(\$ in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Percentage of primary NIW				
Direct Monthly and Other Premiums	74%	68%	73%	66%
Direct Single Premiums	26%	32%	27%	34%
Net Single Premiums (1)	17%	32%	18%	34%
Refinances	18%	23%	18%	27%
LTV				
95.01% and above	4.8%	3.2%	4.4%	2.5%
90.01% to 95.00%	50.2%	49.4%	50.3%	49.0%
85.01% to 90.00%	31.8%	34.0%	32.3%	33.7%
85.00% and below	13.2%	13.4%	13.0%	14.8%
Primary risk written	\$ 3,256	\$ 2,963	\$ 5,293	\$ 5,278

(1) In 2016, represents the percentage of direct single premiums written, after consideration of the 35% single premium NIW ceded under the Single Premium QSR Transaction.

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(\$ in millions)	June 30, 2016	December 31, 2015	June 30, 2015
Primary IIF			
Direct Monthly and Other premiums	68%	69%	70%
Direct Single Premiums	32%	31%	30%
Net Single Premiums (1)	25%	31%	30%
Total Primary IIF	\$ 177,672	\$ 175,584	\$ 172,692
Persistence Rate (12 months ended)	79.9%	78.8%	80.1%
Persistence Rate (quarterly, annualized) (2)	78.0%	81.8%	76.2%

- (1) Represents the percentage of single premium IIF, after giving effect to all reinsurance ceded.
- (2) The Persistence Rate on a quarterly, annualized basis may be impacted by seasonality or other factors, and may not be indicative of full-year trends.

(\$ in millions)	June 30, 2016		December 31, 2015		June 30, 2015	
Primary RIF by Product						
Flow	\$ 43,576	96.1%	\$ 42,771	95.8%	\$ 41,706	95.5%
Structured	1,748	3.9	1,856	4.2	1,957	4.5
Total Primary RIF	\$ 45,324	100.0%	\$ 44,627	100.0%	\$ 43,663	100.0%
Primary RIF by Premium Type						
Direct Monthly and Other Premiums	\$ 31,205	68.8%	\$ 30,940	69.3%	\$ 30,688	70.3%
Direct Single Premiums	14,119	31.2	13,687	30.7	12,975	29.7
Total Primary RIF	\$ 45,324	100.0%	\$ 44,627	100.0%	\$ 43,663	100.0%
Net Single Premiums (1)	\$ 9,885	24.7%	\$ 12,846	30.2%	\$ 12,077	29.3%
Primary RIF by Risk Grade						
Prime	\$ 43,076	95.0%	\$ 42,170	94.5%	\$ 40,963	93.8%
Alt-A	1,302	2.9	1,427	3.2	1,588	3.6
A minus and below	946	2.1	1,030	2.3	1,112	2.6
Total Primary RIF	\$ 45,324	100.0%	\$ 44,627	100.0%	\$ 43,663	100.0%

- (1) Represents the dollar amount and percentage, respectively, of Single Premium RIF, after giving effect to all reinsurance ceded.

(\$ in millions)	June 30, 2016		December 31, 2015		June 30, 2015	
Total primary RIF by FICO score						
>=740	\$ 25,897	57.1%	\$ 25,467	57.1%	\$ 24,778	56.7%
680-739	13,941	30.8	13,543	30.3	13,131	30.1
620-679	4,739	10.5	4,806	10.8	4,880	11.2
<=619	747	1.6	811	1.8	874	2.0
Total Primary RIF	\$ 45,324	100.0%	\$ 44,627	100.0%	\$ 43,663	100.0%
Primary RIF on defaulted loans (1)	\$ 1,398		\$ 1,625		\$ 1,753	

- (1) Excludes risk related to loans subject to the Freddie Mac Agreement.

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(\$ in millions)	June 30, 2016		December 31, 2015		June 30, 2015	
Total primary RIF by LTV						
95.01% and above	\$ 3,211	7.1%	\$ 3,249	7.3%	\$ 3,340	7.6%
90.01% to 95.00%	23,397	51.6	22,479	50.4	21,398	49.0
85.01% to 90.00%	15,107	33.3	15,184	34.0	15,103	34.6
85.00% and below	3,609	8.0	3,715	8.3	3,822	8.8
Total primary RIF	<u>\$ 45,324</u>	<u>100.0%</u>	<u>\$ 44,627</u>	<u>100.0%</u>	<u>\$ 43,663</u>	<u>100.0%</u>
Percentage of primary RIF						
Refinances	22%		23%		25%	
Loan Type:						
Fixed	96.5%		96.1%		95.7%	
Adjustable rate mortgages (fully indexed)(1)	2.5		2.7		2.9	
Mortgages with interest only or potential negative amortization	1.0		1.2		1.4	
Total	<u>100.0%</u>		<u>100.0%</u>		<u>100.0%</u>	
Total primary RIF by policy year						
2005 and prior	\$ 2,511	5.5%	\$ 2,823	6.3%	\$ 3,189	7.3%
2006	1,517	3.4	1,666	3.7	1,841	4.2
2007	3,589	7.9	3,891	8.7	4,188	9.6
2008	2,538	5.6	2,798	6.3	3,065	7.0
2009	608	1.3	736	1.7	884	2.0
2010	519	1.2	616	1.4	741	1.7
2011	1,112	2.5	1,294	2.9	1,495	3.5
2012	4,410	9.7	5,010	11.2	5,688	13.0
2013	7,028	15.5	8,056	18.1	9,071	20.8
2014	6,768	14.9	7,646	17.1	8,291	19.0
2015	9,497	21.0	10,091	22.6	5,210	11.9
2016	5,227	11.5	—	—	—	—
Total primary RIF	<u>\$ 45,324</u>	<u>100.0%</u>	<u>\$ 44,627</u>	<u>100.0%</u>	<u>\$ 43,663</u>	<u>100.0%</u>

(1) "Fully indexed" refers to loans where payment adjustments are equal to mortgage-rate adjustments.

Net Premiums Written and Earned. Net premiums written for the three and six months ended June 30, 2016 decreased compared to the same periods of 2015, primarily due to \$11.5 million and \$209.1 million, respectively, of ceded premiums written under the Single Premium QSR Transaction. The single Premium QSR Transaction was effective as of January 1, 2016.

Net premiums earned decreased for the three and six months ended June 30, 2016, compared to the same periods of 2015, primarily as a result of increased ceded premiums, net of profit commission, primarily associated with the Single Premium QSR Transaction which was effective January 1, 2016. Net ceded premiums earned increased by \$7.5 million and \$9.3 million for the three and six months ended June 30, 2016, respectively, compared to the same periods of 2015. In addition, the impact of the accelerated recognition of premiums earned on Single Premium Policies cancelled during the three and six months ended June 30, 2016, was lower than the comparable periods of 2015. The three and six months ended June 30, 2015 also included the favorable impact associated with prepayments that servicers had not previously reported to Radian. These impacts to net premiums earned were partially mitigated by our increased level of IIF in the three and six months ended June 30, 2016 as compared to the same periods of 2015.

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Our expected rate of return on our Single Premium Policies is lower than on our Monthly Premium Policies because our premium rates are generally lower for these policies. Assuming all other factors remain constant, whenever loans with Single Premium Policies prepay earlier than expected, then our profitability on Single Premium Policies will be higher than anticipated. Whenever loans with Single Premium Policies are repaid later than expected, however, our profitability on Single Premium Policies will be lower than anticipated. Prepayment speeds, which are impacted by changes in interest rates, among other factors, impact the expected profitability of our Monthly Premium Policies in the opposite direction. For our Monthly Premium Policies, earlier than anticipated prepayments reduce profitability. As a result, the ultimate profitability of our mortgage insurance business is affected by the impact of mortgage prepayment speeds on the mix of business we write. Because prepayment speeds are difficult to project, our strategy has been to write a mix of Single Premium Policies and Monthly Premium Policies, which we believe balances the overall impact on our results if actual prepayment speeds are significantly different from expectations. The Single Premium QSR Transaction is consistent with our strategy to balance our mix of Single Premium Policies and Monthly Premium Policies. The impact of third-party quota share reinsurance reduced our Single Premium RIF from 31.2% to 24.7% at June 30, 2016. See “—*Operating Environment and Business Strategy*” for more information.

Refinancing transactions frequently are conducted using Single Premium Policies. As a result, the reduced level of refinancing activity we experienced in the first six months of 2016, compared to the same period of 2015, contributed to a decrease in our total mix of Single Premium Policies to 27% of our NIW for the first six months of 2016, compared to 34% for the first six months of 2015. In addition, a portion of the decline in the percentage of Single Premium Policies was due to a shift in mix toward Monthly Premium Policies due to widespread industry pricing changes. The decrease was also consistent with our deliberate actions related to pricing, including our disciplined approach to offering customized pricing levels. We believe our current production level of Single Premium Policies can be absorbed into our portfolio while maintaining an appropriate balance between risk and returns, which has been further enhanced by the Single Premium QSR Transaction, discussed below.

Historically, we have entered into reinsurance transactions as part of our capital and risk management activities, including to help manage Radian Guaranty's Risk-to-capital. Most recently, in the first quarter of 2016, in order to proactively manage the risk and return profile of Radian Guaranty's insured portfolio and continue managing its position under the PMIERS Financial Requirements in a cost-effective manner, Radian Guaranty entered into the Single Premium QSR Transaction with a panel of third-party reinsurers. Radian Guaranty began ceding business under this agreement effective January 1, 2016.

The Single Premium QSR Transaction had the following impact on Radian's first half 2016 financial results:

- A decrease to net premiums earned of \$13.1 million, net of accrued profit commission;
- A decrease to operating expenses of \$6.5 million, related to the ceding commission;
- A decrease to provision for losses and amortization of deferred acquisition costs totaling \$1.2 million; and
- A net decrease to pretax income from continuing operations (and to adjusted pretax operating income) of \$5.4 million.

The Single Premium QSR Transaction is expected to increase Radian Guaranty's return on required capital for its Single Premium Policies. In future quarters, the impact of the Single Premium QSR Transaction will vary depending on the level of ceded risk in force, as well as the levels of prepayments and incurred losses on the reinsured portfolio, among other factors. See Note 7 of Notes to Unaudited Condensed Consolidated Financial Statements for more information about our reinsurance transactions. See “Liquidity and Capital Resources—*Radian Group—Short-Term Liquidity Needs*” for more information about our Single Premium QSR Transaction.

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The following table provides information about our reinsurance transactions. For the ceded amounts related to the QSR Transactions and the Single Premium QSR Transaction, see Note 7 of Notes to Unaudited Condensed Consolidated Financial Statements.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Initial and Second QSR Transactions				
% of total direct premiums written	2.9%	1.7%	3.2%	2.9%
% of total direct premiums earned	4.5%	3.8%	4.6%	4.9%
Single Premium QSR Transaction				
% of total direct premiums written	4.6%	—%	43.1%	—%
% of total direct premiums earned	2.9%	—%	2.7%	—%
First-Lien Captives				
% of total direct premiums written	0.5%	1.0%	0.7%	1.0%
% of total direct premiums earned	0.5%	1.1%	0.7%	1.1%

Net Investment Income. For the three and six months ended June 30, 2016, net investment income increased compared to the same periods in 2015. This was primarily due to increases in investment portfolio yields and investment portfolio balances at Radian Guaranty from the proceeds of the sale of our financial guaranty business. As we invested the proceeds from the sale of our financial guaranty business and determined the appropriate holding company liquidity levels, we extended the duration of investments in our portfolio and increased our investment yields. All periods include full allocation to the Mortgage Insurance segment of net investment income from investments held at Radian Group.

Provision for Losses. The following table details the significant components of our provision for losses for the periods indicated:

(In millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Current year defaults (1)	\$ 44.8	\$ 53.7	\$ 101.0	\$ 134.1
Prior year defaults	5.1	(19.8)	(8.4)	(55.2)
Second-lien premium deficiency reserve and other	0.2	(2.3)	0.8	(1.4)
Provision for losses	\$ 50.1	\$ 31.6	\$ 93.4	\$ 77.5

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

Our mortgage insurance provision for losses for the three and six months ended June 30, 2016 increased by \$18.5 million and \$15.9 million, respectively, as compared to the same periods in 2015, primarily due to the higher amount of positive reserve development in prior year defaults that was reflected in the three and six months ended June 30, 2015, partially offset by a decrease in losses related to current year defaults.

Reserves established for new default notices were the primary driver of our total incurred losses for the three and six months ended June 30, 2016 and 2015. New primary defaults decreased by approximately 5% and 6% for the three and six months ended June 30, 2016, compared to the same periods in 2015. In addition, our Default to Claim Rate assumption for new primary defaults was approximately 12.5% as of June 30, 2016, compared to 14% as of June 30, 2015. This reduction in estimated Default to Claim Rates, which was based on observed trends, contributed to the reduction in our provision for losses for current year defaults in 2016, as compared to the same periods in 2015.

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Partially mitigating the impact of our provision for losses for current year defaults in both 2016 and 2015 was positive reserve development on prior year defaults, primarily due to a reduction in Default to Claim Rate assumptions for certain other defaults as a result of higher Cures than were previously estimated. However, the positive development on prior year defaults observed for the six months ended June 30, 2016, was lower than the comparable period for 2015. For the three months ended June 30, 2016, there was slight adverse development recorded on prior year defaults, primarily due to refinements in Default to Claim Rate assumptions.

Our primary default rate at June 30, 2016 was 3.4% compared to 4.0% at December 31, 2015. Our primary defaulted inventory comprised 29,827 loans at June 30, 2016, compared to 35,303 loans at December 31, 2015, representing a 15.5% decrease. The reduction in our primary defaulted inventory is the result of the total number of defaulted loans: (1) that have cured; (2) for which claim payments have been made; or (3) that have resulted in net Rescissions and Claim Denials, collectively exceeding the total number of new defaults on insured loans. We currently expect total new defaults for 2016 to continue to decrease, although the rate of decrease has moderated from that observed in 2015. This is due, in part, to the shift in our portfolio composition toward more recent vintages for which we expect increasing levels of new defaults, consistent with typical default seasoning patterns.

The following table shows the number of primary loans that we have insured, the number of loans in default and the percentage of loans in default as of the dates indicated:

	June 30, 2016	December 31, 2015	June 30, 2015
Default Statistics—Primary Insurance:			
Total Primary Insurance			
Prime			
Number of insured loans	826,511	816,797	802,719
Number of loans in default	19,025	22,223	23,237
Percentage of loans in default	2.30%	2.72%	2.89%
Alt-A			
Number of insured loans	29,445	32,411	35,927
Number of loans in default	4,820	5,813	6,949
Percentage of loans in default	16.37%	17.94%	19.34%
A minus and below			
Number of insured loans	29,450	31,902	34,224
Number of loans in default	5,982	7,267	7,490
Percentage of loans in default	20.31%	22.78%	21.89%
Total Primary Insurance			
Number of insured loans (1)	885,406	881,110	872,870
Number of loans in default (2)	29,827	35,303	37,676
Percentage of loans in default	3.37%	4.01%	4.32%

(1) Includes 6,690; 7,353; and 8,041 insured loans subject to the Freddie Mac Agreement at June 30, 2016, December 31, 2015 and June 30, 2015, respectively.

(2) Excludes 2,180; 2,821; and 3,246 loans that are in default at June 30, 2016, December 31, 2015 and June 30, 2015, respectively, subject to the Freddie Mac Agreement, and for which we no longer have claims exposure.

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The following table shows a rollforward of our primary loans in default:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Beginning default inventory	30,869	40,440	35,303	45,319
Plus: New defaults	9,544	10,006	19,115	20,259
Less: Cures	8,750	9,591	20,327	21,180
Less: Claims paid (1) (2)	1,797	3,891	4,285	7,823
Less: Rescissions and Claim Denials, net of (Reinstatements) (3) (4)	39	10	(21)	7
Less: Rescissions and Claim Denials, net of (Reinstatements), related to the BofA Settlement Agreement (4)	—	(722)	—	(1,108)
Ending default inventory	29,827	37,676	29,827	37,676

- (1) Includes those charged to a deductible or captive.
- (2) Includes 1,315 and 2,790 claim payments related to the BofA Settlement Agreement for the three and six months ended June 30, 2015, respectively.
- (3) Net of any previous Rescissions and Claim Denials that were reinstated during the period. Such reinstated Rescissions and Claim Denials may ultimately result in a paid claim.
- (4) Includes Rescissions, Claim Denials and Reinstatements on the population of loans subject to the BofA Settlement Agreement. Rescissions and Claim Denials, net of (Reinstatements), related to the BofA Settlement Agreement prior to the February 1, 2015 implementation date represent such activities on loans that subsequently became subject to the BofA Settlement Agreement.

Our aggregate weighted average Default to Claim Rate assumption for our primary loans used in estimating our reserve for losses, which is net of estimated Claim Denials and Rescissions, was approximately 46% at both June 30, 2016 and December 31, 2015. We develop our Default to Claim Rate estimates on defaulted loans based on models that use a variety of loan characteristics to determine the likelihood that a default will reach claim status. Our Default to Claim Rate estimates on defaulted loans are mainly developed based on the Stage of Default and Time in Default of the underlying defaulted loans, as measured by the progress toward foreclosure sale and the number of months in default. During the six months ended June 30, 2016, our gross Default to Claim Rate assumption for new primary defaults was modestly reduced from approximately 13% at December 31, 2015, to approximately 12.5%. As of June 30, 2016, our gross Default to Claim Rates on our primary portfolio ranged from approximately 12.5% for new defaults, up to approximately 65% for certain defaults not in Foreclosure Stage, and 81% for Foreclosure Stage Defaults.

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The following tables show additional information about our primary loans in default as of the dates indicated:

(\$ in thousands)	June 30, 2016					
	Total		Foreclosure Stage Defaulted Loans	Cure % During the 2nd Quarter	Reserve for Losses	% of Reserve
	#	%	#	%	\$	%
Missed payments: (1)						
Three payments or less	8,917	29.9%	153	32.2%	\$ 94,075	13.2%
Four to eleven payments	7,272	24.4	543	20.0	121,827	17.1
Twelve payments or more	11,882	39.8	3,098	6.4	410,242	57.7
Pending claims	1,756	5.9	N/A	1.8	85,466	12.0
Total	<u>29,827</u>	<u>100.0%</u>	<u>3,794</u>		<u>711,610</u>	<u>100.0%</u>
IBNR and other					74,639	
LAE					22,389	
Total primary reserve					<u>\$ 808,638</u>	

June 30, 2016		
Key Reserve Assumptions		
Gross Default to Claim Rate %	Net Default to Claim Rate %	Claim Severity % (2)
49%	46%	102%

(\$ in thousands)	December 31, 2015					
	Total		Foreclosure Stage Defaulted Loans	Cure % During the 4th Quarter	Reserve for Losses	% of Reserve
	#	%	#	%	\$	%
Missed payments:						
Three payments or less	10,742	30.4%	187	29.0%	\$ 107,632	13.1%
Four to eleven payments	8,481	24.0	541	16.2	127,183	15.5
Twelve payments or more	13,731	38.9	3,160	4.2	473,440	57.6
Pending claims	2,349	6.7	N/A	1.5	113,570	13.8
Total	<u>35,303</u>	<u>100.0%</u>	<u>3,888</u>		<u>821,825</u>	<u>100.0%</u>
IBNR and other					83,066	
LAE					26,108	
Total primary reserve					<u>\$ 930,999</u>	

December 31, 2015		
Key Reserve Assumptions		
Gross Default to Claim Rate %	Net Default to Claim Rate %	Claim Severity % (2)
48%	46%	101%

N/A – Not applicable

- (1) A total of 77% of new notices of default are from our Legacy Portfolio.
- (2) Factors that impact the severity of a claim include, but are not limited to: the size of the loan; the amount of mortgage insurance coverage placed on the loan; the amount of time between default and claim during which we are expected to cover interest (capped at two years under our Prior Master Policy and capped at three years under our 2014 Master Policy) and certain expenses; and the impact of certain loss management activities with respect to the loan.

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We considered the sensitivity of our loss reserve estimates at June 30, 2016 by assessing the potential changes resulting from a parallel shift in Claim Severity and Default to Claim Rate for primary loans. For example, assuming all other factors remain constant, for every one percentage point change in primary Claim Severity (which we estimated to be 102% of our risk exposure at June 30, 2016), we estimated that our total loss reserve would change by approximately \$7 million at June 30, 2016. For every one percentage point change in our primary net Default to Claim Rate (which we estimated to be 46% at June 30, 2016, including our assumptions related to Rescissions and Claim Denials), we estimated a change of approximately \$15 million in our primary loss reserve at June 30, 2016.

Our net Default to Claim Rate and loss reserve estimate incorporate our future expectations with respect to future Claim Denials and Rescissions. These expectations are based on our recent experience with respect to the number of claims that have been denied due to the policyholder's failure to submit sufficient documentation to perfect a claim within the time period permitted under our Master Policies and also our recent experience with respect to the number of insurance certificates that have been rescinded due to fraud, underwriter negligence or other factors. See Note 10 of Notes to Unaudited Condensed Consolidated Financial Statements.

Our mortgage insurance total loss reserve as a percentage of our mortgage insurance total RIF was 1.8% at June 30, 2016, compared to 2.1% at December 31, 2015. See Note 10 of Notes to Unaudited Condensed Consolidated Financial Statements for information regarding our reserves for losses by category and a reconciliation of our Mortgage Insurance segment's beginning and ending reserves for losses and LAE.

Our primary reserve per default (calculated as primary reserve excluding IBNR and other reserves divided by the number of primary defaults) was \$24,609 and \$24,019 at June 30, 2016 and December 31, 2015, respectively. This increase is primarily attributable to a seasonal decline in newer defaults, and therefore a shift in composition to defaults aged four months or more.

The level of Rescissions and Claim Denials has been declining in recent periods as our defaulted Legacy Portfolio continues to decline, and we expect this trend to continue. Although our estimates of future Rescissions and Claim Denials have generally been declining, our Rescissions and Claim Denials continue to reduce our paid losses and have resulted in a reduction in our loss reserve. Our estimate of net future Rescissions and Claim Denials reduced our loss reserve as of June 30, 2016 and December 31, 2015 by approximately \$65 million and \$69 million, respectively. The impact to our mortgage insurance reserves due to estimated future Rescissions and Claim Denials incorporates our expectations regarding the number of policies that we expect to be reinstated as a result of our claims rebuttal process.

Our reported Rescission and Claim Denial activity in any given period is subject to challenge by our lender and servicer customers through our claims rebuttal process. In addition, we at times engage in discussions with our lender and servicer customers regarding our Loss Mitigation Activities. Unless a liability associated with such activities or discussions becomes probable and can be reasonably estimated, we consider our claim payments and our Rescissions, Claim Denials and Claim Curtailments to be resolved for financial reporting purposes. In accordance with the accounting standard regarding contingencies, we accrue for an estimated loss when we determine that the loss is probable and can be reasonably estimated.

On September 16, 2014, Radian Guaranty entered into the BofA Settlement Agreement in order to resolve various actual and potential claims or disputes related to the parties' respective rights and duties as to mortgage insurance coverage on the Subject Loans. The consent of the GSEs required to implement the BofA Settlement Agreement was received in December 2014, and implementation of the agreement for Subject Loans owned by the GSEs or held in portfolio by the Insureds commenced on February 1, 2015. See Note 10 of Notes to Consolidated Financial Statements in our 2015 Form 10-K for additional information about the BofA Settlement Agreement.

We expect that a portion of previous Rescissions will be reinstated and previous Claim Denials will be resubmitted with the required documentation and ultimately paid; therefore, we have incorporated this expectation into our IBNR reserve estimate. Our IBNR reserve estimate was \$18.5 million and \$26.6 million at June 30, 2016 and December 31, 2015, respectively.

In addition, as part of our claims review process, we assess whether defaulted loans were serviced appropriately in accordance with our insurance policies and servicing guidelines. To the extent a servicer has failed to satisfy its servicing obligations, our policies provide that we may curtail the claim payment for such default, and in some circumstances, cancel coverage or deny the claim. Claim Curtailments due to servicer noncompliance with our insurance policies and servicing guidelines impact the severity of our claim payments. Claim Curtailments due to servicer noncompliance with our insurance policies and servicing guidelines were approximately \$2.3 million and \$4.8 million for the three and six months ended June 30, 2016, respectively, compared to approximately \$4.0 million and \$11.3 million for the three and six months ended June 30, 2015, respectively.

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Total mortgage insurance claims paid of \$90.7 million and \$218.4 million for the three and six months ended June 30, 2016, respectively, have decreased from claims paid of \$212.0 million and \$419.1 million for the three and six months ended June 30, 2015, respectively, primarily due to the completion of the reinstatement activities required by the BofA Settlement Agreement, which increased claims paid from February 2015 through December 31, 2015. Claims paid in the first half of 2015 included \$174.6 million of claim payments associated with the BofA Settlement Agreement. We currently expect claims paid of approximately \$400 million for the full year of 2016.

The following table shows claims paid by product and average claim paid by product for the periods indicated:

(In thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Net claims paid (1):				
Prime	\$ 56,036	\$ 83,489	\$ 130,468	\$ 159,675
Alt-A	18,349	23,260	47,278	43,259
A minus and below	12,315	14,965	25,511	30,106
Total primary claims paid	86,700	121,714	203,257	233,040
Pool	5,451	10,798	12,840	19,672
Second-lien and other	(231)	(53)	114	(164)
Subtotal	91,920	132,459	216,211	252,548
Impact of captive terminations	(2,619)	—	(2,739)	(12,000)
Impact of settlements (2)	1,400	79,557	4,900	178,563
Total net claims paid	\$ 90,701	\$ 212,016	\$ 218,372	\$ 419,111
Average net claim paid (3):				
Prime	\$ 48.6	\$ 48.1	\$ 48.3	\$ 46.3
Alt-A	63.5	59.5	63.5	56.8
A minus and below	39.9	40.1	38.4	38.4
Total average net primary claim paid	49.5	48.7	49.4	46.7
Pool	58.0	69.7	55.1	63.3
Total average net claim paid	\$ 49.6	\$ 49.6	\$ 49.4	\$ 47.4
Average direct primary claim paid (3) (4)	\$ 49.9	\$ 49.6	\$ 50.0	\$ 47.6
Average total direct claim paid (3) (4)	\$ 50.0	\$ 50.4	\$ 49.9	\$ 48.3

(1) Net of reinsurance recoveries.

(2) For 2015, includes the impact of the BofA Settlement Agreement.

(3) Calculated without giving effect to the impact of the termination of captive transactions and settlements.

(4) Before reinsurance recoveries.

Other Operating Expenses. Other operating expenses for the three and six months ended June 30, 2016, decreased compared to the same periods in 2015, primarily as a result of the benefit of ceding commissions from the Single Premium QSR Transaction, partially offset by an increase in technology expenses associated with a significant investment in upgrading our systems.

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Interest Expense. These amounts reflect the allocated portion of interest on Radian Group's long-term debt, which exclude the Senior Notes due 2019. The allocated interest decreased in the three and six months ended June 30, 2016, compared to the same periods in 2015. This decrease was primarily due to a reduction in interest expense from the March 2016 and June 2015 purchases of aggregate principal amounts of \$30.1 million and \$389.1 million, respectively, of Convertible Senior Notes due 2017 and the 2016 purchases of \$300.8 million aggregate principal amount of Convertible Senior Notes due 2019. This decrease was partially offset by the increase in interest expense from the March 2016 issuance of \$350 million aggregate principal amount of 7.000% Senior Notes due 2021 and the June 2015 issuance of \$350 million aggregate principal amount of 5.250% Senior Notes due 2020. See Note 11 of Notes to Unaudited Condensed Consolidated Financial Statements for additional information.

Results of Operations—Services

Three and Six Months Ended June 30, 2016 Compared to Three and Six Months Ended June 30, 2015

The following table summarizes our Services segment's results of operations for the three and six months ended June 30, 2016 and 2015:

(\$ in millions)	Three Months Ended June 30, 2016		\$ Change Favorable (Unfavorable)	Six Months Ended June 30,		\$ Change Favorable (Unfavorable)
	2016	2015	2016 vs. 2015	2016	2015	2016 vs. 2015
Adjusted pretax operating income (loss) (1)	\$ (6.0)	\$ 1.8	\$ (7.8)	\$ (15.9)	\$ (0.2)	\$ (15.7)
Services revenue	39.0	44.6	(5.6)	71.2	76.1	(4.9)
Direct cost of services	25.2	25.5	0.3	47.3	44.7	(2.6)
Gross profit on services	13.8	19.1	(5.3)	23.9	31.4	(7.5)
Other operating expenses	15.3	12.8	(2.5)	31.0	22.7	(8.3)
Interest expense	4.4	4.4	—	8.8	8.9	0.1

- (1) Our senior management uses adjusted pretax operating income (loss) as our primary measure to evaluate the fundamental financial performance of each of the Company's business segments.

The Services segment is a fee-for-service business, with revenue derived from: (i) loan review and due diligence services; (ii) surveillance services, including RMBS surveillance, loan servicer oversight, loan-level servicing compliance reviews and operational reviews of mortgage servicers and originators; (iii) real estate valuation and component services that provide outsourcing and technology solutions for the SFR and residential real estate markets, as well as outsourced solutions for appraisal, title and closing services offered through Red Bell and ValuAmerica; (iv) REO management services; and (v) services for the United Kingdom and European mortgage markets through our EuroRisk operations.

Adjusted pretax operating income (loss). Our Services segment's adjusted pretax operating loss was \$6.0 million and \$15.9 million for the three and six months ended June 30, 2016, respectively, compared to adjusted pretax operating income of \$1.8 million and an adjusted pretax operating loss of \$0.2 million for the three and six months ended June 30, 2015, respectively. The decrease in our adjusted pretax operating income in 2016 as compared to 2015 was primarily driven by decreases in revenue and gross profit, combined with increases in other operating expenses, as discussed further below.

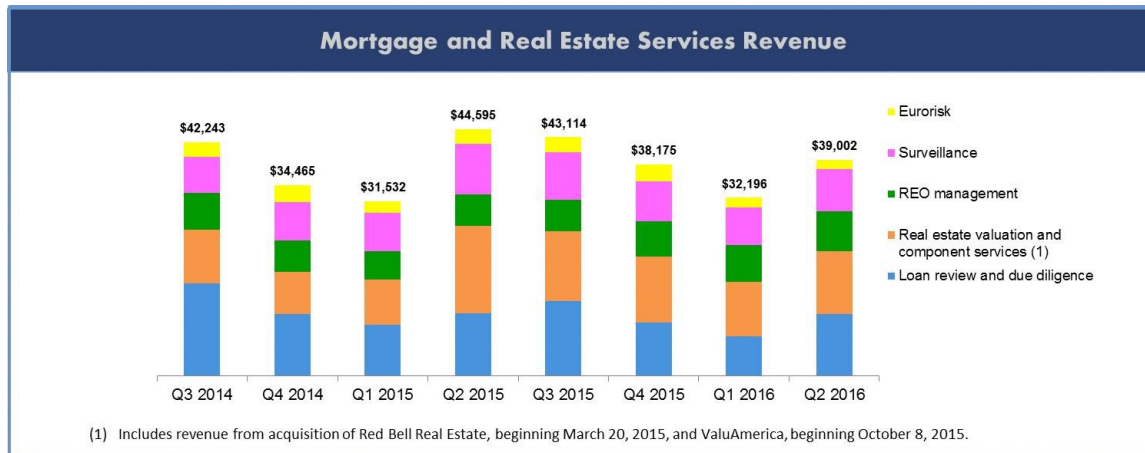
Services Revenue. Revenue decreased for the three and six months ended June 30, 2016 as compared to the three and six months ended June 30, 2015, primarily due to decreased activity in the SFR securitization market. This decrease was partially offset by a full three and six months of Red Bell and ValuAmerica operations in 2016, which were acquired in March 2015 and October 2015, respectively.

The top 10 customers of the Services segment generated approximately 54% and 52% of the services revenue for the three and six months ended June 30, 2016, respectively, compared to 52% and 54% for the three and six months ended June 30, 2015, respectively. The largest single customer generated approximately 9% of the services revenue for the six months ended June 30, 2016 as compared to 13% for the six months ended June 30, 2015.

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Real estate valuation and component services revenue for the three and six months ended June 30, 2016 and 2015 includes revenue from SFR securitizations as well as revenue from financial institutions that extend loans to institutional investors to fund purchases of homes for the SFR market. Approximately 9% of services revenue for both the three and six months ended June 30, 2016 related to the SFR market, including SFR securitizations, as compared to 21% and 22% for the three and six months ended June 30, 2015, respectively. This decrease has been driven by a decline in the pace of home purchases by institutional investors and a slowdown in SFR securitizations, which negatively impacted our revenue in both 2015 and the first half of 2016. This trend is expected to continue throughout the remainder of 2016.

The chart below provides the composition of services revenue on a quarterly basis for periods subsequent to the June 30, 2014 acquisition of Clayton.



Direct Cost of Services. Direct cost of services primarily consists of employee compensation and related payroll benefits, and, to a lesser extent, other direct costs of providing services, such as travel and related expenses incurred in providing client services and costs paid to outside vendors. Direct cost of services is primarily affected by the level of services being provided and, therefore, is correlated to the level of services revenue.

Gross Profit on Services. For the three and six months ended June 30, 2016, our services revenues were \$39.0 million and \$71.2 million, respectively, compared to \$44.6 million and \$76.1 million for the three and six months ended June 30, 2015, respectively. Our gross profit on services represented 35% and 34% of our services revenues for the three and six months ended June 30, 2016, respectively, compared to 43% and 41% for the three and six months ended June 30, 2015, respectively. The reduction in our services gross profit percentage for the three and six months ended June 30, 2016, as compared to the same periods of 2015, was primarily due to a decrease in revenue associated with SFR securitizations and non-agency securitizations, which generally have relatively higher gross profit margins, combined with a shift in the mix of services and specific client assignments, as well as higher than anticipated direct costs of services due to increased TRID documentation requirements.

Other Operating Expenses. Other operating expenses primarily consist of compensation costs not classified as direct cost of services because they are related to employees, such as sales and corporate employees, who are not directly involved in providing client services. Compensation-related costs represent approximately 56% and 58% for the three and six months ended June 30, 2016, respectively of the segment’s other operating expenses, compared to 58% for both the three and six months ended June 30, 2015. Although compensation-related costs for the three months ended June 30, 2016 compared to the same period of 2015 decreased, primarily due to cost reduction initiatives undertaken in the first quarter of 2016, these decreases were offset by the increased expense for the three months ended June 30, 2016 from the acquisition of ValuAmerica in October 2015. In addition, the six month period ended June 30, 2016 includes the impact of the expenses from Red Bell, acquired in March 2015, for the full period. Other operating expenses also include other selling, general and administrative expenses, depreciation, and allocations of corporate general and administrative expenses. Other operating expenses for the three and six months ended June 30, 2016 include an allocation of corporate operating expenses of \$2.8 million and \$4.5 million, respectively, compared to \$1.3 million and \$2.3 million for the three and six months ended June 30, 2015, respectively.

Interest Expense. For the three and six months ended June 30, 2016 and 2015, interest expense represents all of the interest expense related to our Senior Notes due 2019, the proceeds of which were used to fund our acquisition of Clayton.

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Off-Balance Sheet Arrangements

There have been no material changes in off-balance sheet arrangements from those specified in our 2015 Form 10-K.

Contractual Obligations and Commitments

There have been no material changes outside of the ordinary course of business in our contractual obligations and commitments from those specified in our 2015 Form 10-K, except as follows:

- During the first six months of 2016, Radian Group entered into privately negotiated agreements to purchase, for cash or a combination of cash and shares of Radian Group common stock, aggregate principal amounts of \$30.1 million and \$300.8 million, respectively, of our outstanding Convertible Senior Notes due 2017 and 2019. Radian Group funded the purchases with \$206.9 million in cash (plus accrued and unpaid interest due on the purchased notes) and by issuing to the sellers 17.0 million shares of Radian Group common stock. Following the purchases described above, \$22.2 million and \$89.2 million, respectively, of the principal amounts of the Convertible Senior Notes due 2017 and 2019 remained outstanding as of June 30, 2016. See Note 11 of Notes to Unaudited Condensed Consolidated Financial Statements for further information.
- In March 2016, Radian Group issued \$350 million aggregate principal amount of Senior Notes due 2021 and received net proceeds of \$343.5 million. See Note 11 of Notes to Unaudited Condensed Consolidated Financial Statements for further information.

On July 13, 2016, Radian Group delivered notices of redemption designating a redemption date of August 12, 2016 for the remaining \$195.5 million aggregate principal amount outstanding of its 9.000% Senior Notes due 2017. We estimate that Radian Group's redemption payment will total approximately \$211 million, including accrued interest through the redemption date. See Note 17 of Notes to Unaudited Condensed Consolidated Financial Statements for additional information.

Liquidity and Capital Resources

Radian Group—Short-Term Liquidity Needs

Radian Group serves as the holding company for our insurance and other subsidiaries and does not have any operations of its own. At June 30, 2016, Radian Group had immediately available, either directly or through an unregulated subsidiary, unrestricted cash and liquid investments of approximately \$718 million. This amount excludes certain additional cash and liquid investments that have been advanced from our subsidiaries for corporate expenses and interest payments, but includes \$89 million that has been deposited with the IRS in connection with our dispute with the IRS related to the Deficiency Amount from the IRS's examination of our 2000 through 2007 consolidated federal income tax returns. We have the ability to recall this deposit at any time.

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During the first six months of 2016, we completed a series of transactions to strengthen our financial position. The combination of these actions had the impact of decreasing our diluted shares, improving Radian Group's debt maturity profile and improving Radian Guaranty's position under the PMIERS Financial Requirements. This series of capital and debt maturity management transactions is summarized as follows:

CAPITAL AND DEBT MATURITY MANAGEMENT

- Issued \$350 million aggregate principal amount of Senior Notes due 2021 for net proceeds of \$343.5 million;
- Purchased aggregate principal amounts of \$30.1 million and \$300.8 million, respectively, of our outstanding Convertible Senior Notes due 2017 and 2019, for a combination of \$206.9 million in cash and 17.0 million shares of Radian Group common stock;
- Terminated the portion of the capped call transactions related to the purchased Convertible Senior Notes due 2017, and received consideration of 0.2 million shares of Radian Group common stock;
- Completed the share repurchase program announced in January 2016, by purchasing an aggregate of 9.4 million shares of Radian Group common stock for \$100.2 million, including commissions; and
- Entered into the Single Premium QSR Transaction, which had the effect of increasing the amount by which Radian Guaranty's Available Assets exceed its Minimum Required Assets under the PMIERS Financial Requirements.

The above purchases of Convertible Senior Notes due 2017 and 2019, combined with the issuance of the Senior Notes due 2021, improved Radian Group's debt maturity profile by increasing the time to maturity for our long-term debt. No further purchase authority remains under the January 2016 share repurchase program described above.

On June 30, 2016, Radian Guaranty repaid in full the \$325 million Surplus Note due to Radian Group that was issued in December 2015, which increased our holding company liquidity by \$325 million. In anticipation of the planned redemption of the Surplus Note, on June 29, 2016, Radian Group's board of directors authorized the following actions as part of Radian's capital management strategies:

- the early redemption of the remaining \$195.5 million aggregate principal amount of our 9.000% Senior Notes due 2017; and
- a new share repurchase program of up to \$125 million of Radian Group common stock.

In accordance with the board authorization and pursuant to the terms of the indentures governing the notes, on July 13, 2016, Radian Group delivered notices of redemption designating a redemption date of August 12, 2016 for the remaining \$195.5 million aggregate principal amount outstanding of our 9.000% Senior Notes due 2017. We estimate that Radian Group's redemption payment will total approximately \$211 million, including accrued interest through the redemption date.

See Notes 7, 11, 13 and 17 of Notes to Unaudited Condensed Consolidated Financial Statements for additional information on the individual transactions.

In addition to the potential use of up to \$125 million to repurchase Radian Group common stock and the redemption payment for our 9.000% Senior Notes due 2017, Radian Group's principal liquidity demands for the next 12 months are expected to include: (i) the payment of corporate expenses; (ii) interest payments on our outstanding long-term debt; and (iii) the payment of dividends on our common stock. These items occur in the ordinary course of our business and are expected to continue to result in liquidity demands in periods beyond the next twelve months.

Radian Group's principal liquidity demands for the next 12 months could also include: (i) additional conversion settlements, repurchases or early redemptions of portions of our long-term debt; (ii) potential investments to support our strategy of growing our businesses; and (iii) potential payments to the U.S. Treasury resulting from our ongoing dispute with the IRS relating to the examination of our 2000 through 2007 consolidated federal income tax returns, as discussed below. These items could result in liquidity demands in the next twelve months or in future periods.

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Long-Term Debt. On a quarterly basis, we evaluate whether the conversion threshold requirements for our Convertible Senior Notes due 2017 and our Convertible Senior Notes due 2019 have been met. As of June 30, 2016, the holders of our Convertible Senior Notes due 2017 and of our Convertible Senior Notes due 2019 are not eligible to exercise their conversion rights during the three-month period ending September 30, 2016. In the event the conversion threshold requirements are met in the future and holders elect to exercise their conversion rights, we may elect, in our sole discretion, to settle any Convertible Senior Notes due 2019 in the form of cash, common shares or a combination thereof. In the case of the Convertible Senior Notes due 2017, the principal amount must be settled in cash, with the conversion premium to be settled in cash or common shares at our discretion. We cannot predict whether holders of our Convertible Senior Notes will choose to exercise their conversion rights prior to maturity. See Note 11 of Notes to Consolidated Financial Statements in our 2015 Form 10-K for further information about our Convertible Senior Notes due 2017 and 2019.

We may redeem at our option all or part of our Convertible Senior Notes due 2019, as long as the daily last reported sale price of our common stock is at least 130% of the then-current conversion price for at least 20 out of the immediately preceding 30 consecutive trading days before the delivery of a redemption notice. This threshold is equal to \$13.78 per share and is subject to adjustments made pursuant to the terms of the indenture for the notes. The conversion rate initially is 94.3396 shares of our common stock per \$1,000 principal amount of notes (corresponding to an initial conversion price of approximately \$10.60 per share of common stock), subject to adjustment in certain events. See Note 11 of Notes to Consolidated Financial Statements in our 2015 Form 10-K for further information.

Corporate Expenses and Interest Expense. Radian Group has expense-sharing arrangements in place with its principal operating subsidiaries that require those subsidiaries to pay their allocated share of certain holding-company-level expenses, including interest payments on most of our outstanding long-term debt. Payments of such corporate expenses for the next 12 months, excluding interest payments on our long-term debt, are expected to be between \$50 million and \$55 million, a substantial portion of which are expected to be reimbursed by our subsidiaries under our existing expense-sharing arrangements. For the same period, payments of interest on our long-term debt are expected to be approximately \$62 million, a significant portion of which is expected to be reimbursed by our subsidiaries under our existing expense-sharing arrangements. These expense-sharing arrangements, as amended, have been approved by applicable state insurance departments, but such approval may be modified or revoked at any time.

Capital Support for Subsidiaries. Private mortgage insurers, including Radian Guaranty, are required to comply with the PMIERS to remain eligible insurers of loans purchased by the GSEs. The PMIERS became effective on December 31, 2015. See Note 1 in Notes to Unaudited Condensed Consolidated Financial Statements for additional information.

In the first quarter of 2016, in order to proactively manage the risk and return profile of Radian Guaranty's insured portfolio and continue managing its position under the PMIERS Financial Requirements in a cost-effective manner, Radian Guaranty entered into the Single Premium QSR Transaction with a panel of third-party reinsurers. The Single Premium QSR Transaction had the effect of increasing the amount by which Radian Guaranty's Available Assets exceed its Minimum Required Assets under the PMIERS Financial Requirements. The Single Premium QSR Transaction strengthened Radian Guaranty's financial position and was the primary factor enabling it to redeem its \$325 million Surplus Note on June 30, 2016.

Radian Guaranty is in compliance with the PMIERS, including the PMIERS Financial Requirements. At June 30, 2016, Radian Guaranty's Available Assets under the PMIERS totaled approximately \$4.0 billion, resulting in an excess of \$183.9 million over its Minimum Required Assets of approximately \$3.8 billion. This cushion increased significantly from December 31, 2015, primarily as a result of the positive impact of the Single Premium QSR Transaction discussed above, combined with a further net decrease in Minimum Required Assets, primarily due to a decrease in the ending default inventory. These positive effects were partially offset by Radian Guaranty's repayment of the Surplus Note. We expect to maintain Radian Guaranty's Available Assets at a targeted minimum range of approximately 5% to 8% above its Minimum Required Assets. We expect our current cushion to increase over time to levels above our targeted minimum range based, in part, on our expectations regarding the future financial performance of Radian Guaranty, combined with our projected NIW and expected decrease in defaults. Therefore, based on our projections, Radian Guaranty is not expected to require any additional capital contributions.

Radian Guaranty's Risk-to-capital was 14.0 to 1 as of June 30, 2016. See Note 16 of Notes to Unaudited Condensed Consolidated Financial Statements for more information. Our combined Risk-to-capital, which represents the consolidated Risk-to-capital measure for all of our Mortgage Insurance subsidiaries (including affiliated reinsurers), was 14.2 to 1 as of June 30, 2016.

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Although we do not believe it is likely in light of the PMIERS Financial Requirements, Radian Group could also be required to provide additional capital support for Radian Guaranty and our other mortgage insurance subsidiaries if additional capital is required pursuant to future changes to insurance laws and regulations. The NAIC is in the process of reviewing the minimum capital and surplus requirements for mortgage insurers and considering changes to the Model Act. In May 2016, a working group of state regulators released an exposure draft of a risk-based capital framework to establish capital requirements for mortgage insurers. While the timing and outcome of this process is not known, in the event the NAIC adopts changes to the Model Act we expect that the capital requirements in states that adopt the new Model Act may increase as a result of the changes. However, we continue to believe the changes to the Model Act will not result in financial requirements that require greater capital than the level required under the PMIERS Financial Requirements.

See also "*Radian Group—Long-Term Liquidity Needs—Services.*"

Dividends. Our quarterly common stock dividend is currently \$0.0025 per share and, based on our current outstanding shares of common stock, we would require approximately \$2.1 million in the aggregate to pay our quarterly dividends for the next 12 months. Radian Group is not subject to any limitations on its ability to pay dividends except those generally applicable to corporations that are incorporated in Delaware. Delaware corporation law provides that dividends are only payable out of a corporation's capital surplus or (subject to certain limitations) recent net profits. As of June 30, 2016, our capital surplus was \$2.8 billion, representing our dividend limitation under Delaware law.

IRS Matter. In addition to the items discussed above, in the event a final judgment or compromised settlement agreement is reached in Radian Group's ongoing dispute with the IRS, Radian Group may be required to make a payment to the U.S. Treasury to resolve our dispute with the IRS related to the Deficiency Amount from the examination of our 2000 through 2007 consolidated federal income tax returns. On December 3, 2014, we petitioned the U.S. Tax Court to litigate the Deficiency Amount. On September 1, 2015, we received a notice that the case had been scheduled for trial. However, the parties jointly filed, and the U.S. Tax Court approved, motions for continuance in this matter to postpone the trial date. The litigation could take several years to resolve and may result in substantial legal expenses. We can provide no assurance regarding the outcome of any such litigation or whether a compromised settlement with the IRS will ultimately be reached. As such, there remains significant uncertainty with regard to the amount and timing of any potential payments. See Note 9 of Notes to Unaudited Condensed Consolidated Financial Statements for additional information regarding the IRS matter.

Sources of Liquidity. On June 30, 2016, Radian Guaranty repaid in full the \$325 million Surplus Note due to Radian Group, which increased our holding company liquidity by \$325 million.

In addition to existing available cash and marketable securities, Radian Group's principal sources of cash to fund future short-term liquidity needs include: (i) payments made to Radian Group under tax- and expense-sharing arrangements with our subsidiaries, as discussed above; and (ii) to the extent available, potential dividends from our Services segment, if any, in excess of payments due under tax- and expense-sharing arrangements.

If Radian Group's current sources of liquidity are insufficient for Radian Group to fund its obligations during the next 12 months, or if we otherwise decide to increase our liquidity position, Radian Group may seek additional capital by incurring additional debt, by issuing additional equity, or by selling assets, which we may not be able to do on favorable terms, if at all.

We regularly evaluate opportunities, based on market conditions, to finance our operations by accessing the capital markets or other types of indebtedness with institutional lenders, and consider various measures to improve our capital and liquidity positions, as well as to strengthen our balance sheet and improve Radian Group's debt maturity profile. In the past, we have repurchased and exchanged, prior to maturity, some of our outstanding debt, and in the future, we may, from time to time, seek to redeem, repurchase or exchange for other securities, some or all of our outstanding debt, prior to maturity, in the open market, through other public or private transactions, including pursuant to one or more tender offers, or through any combination of the foregoing, as circumstances may allow. The timing or amount of any potential transactions will depend on a number of factors, including market opportunities and our views regarding our capital and liquidity positions and potential future needs. There can be no assurance that any such transactions will be completed on favorable terms, or at all.

Radian Group—Long-Term Liquidity Needs

In addition to the items identified above with respect to our short-term liquidity needs, our most significant needs for liquidity beyond the next 12 months are expected to include:

- (1) the repayment of our outstanding long-term debt, consisting of:
 - \$22.2 million principal amount of convertible debt due in November 2017, which must be settled in cash, plus, any related conversion premium which may, at our option, be settled in cash, common shares or a combination thereof;
 - \$89.2 million principal amount of convertible debt due in March 2019 for which the principal amount, if converted, and any conversion premium may, at our option, be settled in cash, common shares or a combination thereof;
 - \$300 million principal amount of outstanding debt due in June 2019;
 - \$350 million principal amount of outstanding debt due in June 2020;
 - \$350 million principal amount of outstanding debt due in March 2021;and
- (2) potential additional capital contributions to our subsidiaries.

As of the balance sheet date, certain of our insurance subsidiaries, including Radian Guaranty, have incurred NOLs that could not be carried-back and utilized on a separate company tax return basis. As a result, we are not currently obligated under our tax-sharing agreement to reimburse these subsidiaries for their separate company NOL Carryforward. However, if in a future period our consolidated NOL is fully utilized before a subsidiary has utilized its share of NOLs on a separate entity basis, then Radian Group may be obligated to fund such subsidiary's share of our consolidated tax liability to the IRS. Currently, we do not expect to fund material obligations related to these subsidiary NOLs.

We expect to meet the long-term liquidity needs of Radian Group with a combination of: (i) available cash and marketable securities; (ii) private or public issuances of debt or equity securities, which we may not be able to do on favorable terms, if at all; (iii) cash received under tax- and expense-sharing arrangements with our subsidiaries; and (iv) to the extent available, dividends from our subsidiaries.

Under Pennsylvania's insurance laws, ordinary dividends and other distributions may only be paid out of an insurer's positive unassigned surplus, measured as of the end of the prior fiscal year. Radian Guaranty had negative unassigned surplus at December 31, 2015 of \$679.9 million, and therefore, no ordinary dividends can be paid from Radian Guaranty in 2016. Due in part to the need to set aside contingency reserves, we do not expect that Radian Guaranty will have positive unassigned surplus, and therefore will not have the ability to pay ordinary dividends, for the foreseeable future. Under Pennsylvania's insurance laws, an insurer may request an extraordinary dividend, but payment is subject to the approval of the Pennsylvania Insurance Commissioner.

Mortgage Insurance

As of June 30, 2016, our Mortgage Insurance segment maintained claims paying resources of \$4.0 billion on a statutory basis, which consist of contingency reserves, policyholders' surplus, unearned premium reserves (premiums received but not yet earned) and loss reserves.

The principal demands for liquidity in our mortgage insurance business include the payment of claims and potential claim settlement transactions, operating expenses (including those allocated from Radian Group) and taxes. The principal sources of liquidity in our mortgage insurance business currently include insurance premiums, net investment income, cash flows from investment sales and maturities and, potentially, capital contributions from Radian Group. We believe that the operating cash flows generated by each of our mortgage insurance subsidiaries will provide these subsidiaries with a substantial portion of the funds necessary to satisfy their claim payments, operating expenses and taxes for the foreseeable future.

Private mortgage insurers, including Radian Guaranty, are required to comply with the PMIERS to remain eligible insurers of loans purchased by the GSEs. The PMIERS became effective on December 31, 2015. See "Radian Group—Short-Term Liquidity Needs" and Note 1 of Notes to Unaudited Condensed Consolidated Financial Statements for additional information. Radian Guaranty is in compliance with the PMIERS, including the PMIERS Financial Requirements.

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Freddie Mac Agreement

At June 30, 2016 and December 31, 2015, Radian Guaranty had \$75.4 million and \$74.7 million, respectively, in a collateral account pursuant to the Freddie Mac Agreement. This collateral account, which contains investments primarily invested in and classified as part of our trading securities, is pledged to cover Loss Mitigation Activity on the loans subject to the Freddie Mac Agreement. Subject to certain conditions in the Freddie Mac Agreement, amounts in the collateral account may be released to Radian Guaranty over time to the extent that Loss Mitigation Activity becomes final in accordance with the terms of that agreement. If, as of August 29, 2017, the amount of additional Loss Mitigation Activity that has become final in accordance with the Freddie Mac Agreement is less than approximately \$74 million, then any shortfall will be paid to Freddie Mac from the funds remaining in the collateral account, subject to certain adjustments designed to allow for any Loss Mitigation Activity that has not become final or any claims evaluation that has not been completed as of that date. As of June 30, 2016, we have approximately \$57 million, recorded in reserve for losses, that we expect to be paid to Freddie Mac from the funds expected to be remaining in the collateral account as of the August 29, 2017 measurement date.

Services

The principal demands for liquidity in our Services segment include the payment of employee compensation and other operating expenses (including those allocated from Radian Group), interest payments related to the Senior Notes due 2019, and dividends to Radian Group. The principal sources of liquidity in our Services segment are cash generated by operations and, to the extent necessary, capital contributions from Radian Group.

Liquidity levels fluctuate depending on the levels and contractual timing of our invoicing and the payment practices of the Services clients, in combination with the timing of Services' payments for employee compensation and to external vendors. The amount, if any, and timing of the Services segment's future dividend paying capacity also will depend primarily on the amount and availability of excess cash flow generated by the segment.

The Services segment has not generated sufficient cash flows to pay any dividends to Radian Group in 2016. Additionally, while cash flow is expected to be sufficient to pay the Services segment's direct operating expenses, it has not been sufficient to reimburse Radian Group for \$22.4 million of its allocated operating expense and interest expense. We expect the Services segment will be able to bring its reimbursement obligations current in the next three to five years. In the event the cash flow from operations of the Services segment is not adequate to fund all of its needs, Radian Group may provide additional funds to the Services segment in the form of a capital contribution or an intercompany note.

Cash Flows

The following table summarizes our consolidated cash flows from operating, investing and financing activities:

<u>(In thousands)</u>	Six Months Ended June 30,	
	2016	2015
Net cash provided by (used in):		
Operating activities	\$ 154,498	\$ (68,563)
Investing activities	(180,054)	61,350
Financing activities	33,999	27,651
Effect of exchange rate changes on cash	(279)	57
Increase (decrease) in cash	<u>\$ 8,164</u>	<u>\$ 20,495</u>

Net cash provided by operating activities totaled \$154.5 million for the six months ended June 30, 2016, compared to net cash used in operating activities of \$68.6 million in the same period of 2015. This improvement in net cash provided by operating activities was principally the result of a reduction in total claims paid in the six months ended June 30, 2016 compared to the same period of 2015. Claims paid in 2015 were elevated from February 2015 through December 2015, primarily due to the implementation of the BofA Settlement Agreement.

Net cash flows used in investing activities increased for the six months ended June 30, 2016, compared to net cash provided by investing activities in the same period of 2015, primarily due to an increase in purchases, net of proceeds, of fixed-maturity investments available for sale and partially offset by an increase in net sales and redemptions of short-term investments.

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Net cash flows provided by financing activities for the six months ended June 30, 2016 were comparable to the same period of 2015. The primary source of the net cash flows provided by financing activities for the six months ended June 30, 2016, was the issuance of \$350 million aggregate principal amount of Senior notes due 2021, partially offset by purchases of aggregate principal amounts of \$30.1 million and \$300.8 million, respectively, of our outstanding Convertible Senior Notes due 2017 and 2019, which were partially settled in cash in the amount of \$206.9 million. In addition, we completed the share repurchase program, and purchased an aggregate of 9.4 million shares of Radian Group common stock for \$100.2 million, including commissions. See "Item 1. Condensed Consolidated Statements of Cash Flows (Unaudited)" for additional information.

Stockholders' Equity

Stockholders' equity was \$2.8 billion at June 30, 2016, compared to \$2.5 billion at December 31, 2015. The increase in stockholders' equity resulted primarily from: (i) our net income of \$164.4 million for the six months ended June 30, 2016; (ii) the impact of our recently completed debt and equity transactions to strengthen Radian's capital position, which increased stockholder's equity by \$47.7 million, after excluding the \$48.5 million after-tax impact from the loss on induced conversion and debt extinguishment already reflected in our net income; and (iii) net unrealized gains on investment of \$81.1 million. See "—2016 Developments—Capital and Debt Maturity Management" for additional information.

Ratings

Radian Group and Radian Guaranty have been assigned the ratings set forth in the chart below. We believe that ratings often are considered by others in assessing our credit strength and the financial strength of our primary mortgage insurance subsidiary.

	Moody's (1)	S&P (2)
Radian Group	Ba3	BB-
Radian Guaranty	Baa3	BBB-

- (1) Moody's outlook for Radian Group and Radian Guaranty is currently Stable.
- (2) S&P's outlook for Radian Group and Radian Guaranty is currently Positive.

Critical Accounting Policies

As of the filing date of this report, there were no significant changes in our critical accounting policies from those discussed in our 2015 Form 10-K. See Note 1 of Notes to Unaudited Condensed Consolidated Financial Statements for accounting pronouncements issued but not yet adopted that may impact the Company's consolidated financial position, earnings, cash flows or disclosures.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Market risk represents the potential for loss due to adverse changes in the value of financial instruments as a result of changes in market conditions. Examples of market risk include changes in interest rates, foreign currency exchange rates, credit spreads and equity prices. We perform a sensitivity analysis to determine the effects of market risk exposures on our investment securities. Our sensitivity analysis for interest rates is generally calculated as a parallel shift in yield curve with all other factors remaining constant. This analysis is performed by determining the potential loss in future earnings, fair values or cash flows of market-risk-sensitive instruments resulting from one or more selected hypothetical changes in interest rates, foreign currency exchange rates and equity prices.

Interest-Rate Risk

The primary market risk in our investment portfolio is interest-rate risk, namely the fair value sensitivity of a fixed-income security to changes in interest rates. We regularly analyze our exposure to interest-rate risk and have determined that the fair value of our interest-rate sensitive investment assets is materially exposed to changes in interest rates.

We estimate the changes in fair value of our fixed-income securities by projecting an instantaneous increase and decrease in interest rates. The carrying value of our investment portfolio at June 30, 2016 and December 31, 2015 was \$4.6 billion and \$4.3 billion, respectively, of which 99.9%, for both periods, was invested in fixed-income securities. We calculate the duration of our fixed-income securities, expressed in years, in order to estimate interest-rate sensitivity of these securities. At June 30, 2016, a 100 basis point increase in interest rates would reduce the market value of our fixed-income securities by \$217.1 million or 4.68%, while a 100 basis point decrease in interest rates would increase the market value of our fixed-income securities by \$234.9 million or 5.07%. At June 30, 2016, the average duration of the fixed-income portfolio was 5.1 years compared to 4.3 years at December 31, 2015, reflecting an increase in the percentage of corporate bonds and notes as well as a decrease in the percentage of short-term securities in the portfolio.

We analyze (i) the interest rate sensitivities of our liabilities; (ii) entity specific cash flows; and (iii) our current risk appetite to assist us in setting duration targets for the investment portfolio.

Foreign Exchange Rate Risk

As of June 30, 2016 and December 31, 2015, we did not hold any foreign currency denominated securities in our investment portfolio. Exchange gains and losses on foreign currency transactions from our foreign operations have not been material due to the limited amount of business performed in those locations. Currency risk is further limited because, in general, both the revenues and expenses of our foreign operations are denominated in their respective functional currencies, based on the countries in which the operations occur.

Equity Market Price

At June 30, 2016, both the market value and cost of the equity securities in our investment portfolio were \$0.5 million. Although none of these securities were classified as trading securities, due to our limited basis in these investments, the exposure to changes in equity market prices is not significant.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures designed to provide reasonable assurance that information required to be disclosed in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Our management, including our Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) of the Exchange Act) as of June 30, 2016, pursuant to Rule 15d-15(e) under the Exchange Act. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of June 30, 2016, our disclosure controls and procedures were effective to provide reasonable assurance that the information required to be disclosed by us in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

Changes in Internal Control Over Financial Reporting

During the three-month period ended June 30, 2016, there has been no change in our internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings.

We are routinely involved in a number of legal actions, reviews and audits, as well as inquiries and investigations by various regulatory entities involving compliance with laws or other regulations, the outcome of which are uncertain. These legal and regulatory matters could result in adverse judgments, settlements, fines, injunctions, restitutions or other relief that could require significant expenditures or have other effects on our business. Except as set forth below, there have been no material developments in the legal proceedings disclosed in our 2015 Form 10-K, in Part I, Item 3, “Legal Proceedings” and no additional reportable legal proceedings for the six months ended June 30, 2016.

We are contesting adjustments resulting from the examination by the IRS of our 2000 through 2007 consolidated federal income tax returns. The IRS opposes the recognition of certain tax losses and deductions that were generated through our investment in a portfolio of non-economic REMIC residual interests and has proposed denying the associated tax benefits of these items. We appealed these proposed adjustments to Appeals and made “qualified deposits” with the U.S. Treasury of \$85 million in June 2008 relating to the 2000 through 2004 tax years and \$4 million in May 2010 relating to the 2005 through 2007 tax years, in order to avoid the accrual of incremental above-market-rate interest with respect to the proposed adjustments.

We attempted to reach a compromised settlement with Appeals, but in September 2014 we received Notices of Deficiency covering the 2000 through 2007 tax years that assert unpaid taxes and penalties of approximately \$157 million. The Deficiency Amount has not been reduced to reflect our NOL carryback ability. As of June 30, 2016, there also would be interest of approximately \$130 million related to these matters. Depending on the outcome, additional state income taxes, penalties and interest (estimated in the aggregate to be approximately \$33 million as of June 30, 2016) also may become due when a final resolution is reached. The Notices of Deficiency also reflected additional amounts due of approximately \$105 million, which are primarily associated with the disallowance of the previously filed carryback of our 2008 NOL to the 2006 and 2007 tax years. We currently believe that the disallowance of our 2008 NOL carryback is a precautionary position by the IRS and that we will ultimately maintain the benefit of this NOL carryback claim. On December 3, 2014, we petitioned the U.S. Tax Court to litigate the Deficiency Amount. On September 1, 2015, we received a notice that the case had been scheduled for trial. However, the parties have jointly filed, and the U.S. Tax Court has approved, motions for continuance in this matter to postpone the trial date. Also, in February 2016, the U.S. Tax Court approved a joint motion to consolidate for trial, briefing and opinion our case with a similar case involving MGIC Investment Corporation. The litigation could take several years to resolve and may result in substantial legal expenses. We can provide no assurance regarding the outcome of any such litigation or whether a compromised settlement with the IRS will ultimately be reached. We believe that an adequate provision for income taxes has been made for the potential liabilities that may result from this matter. However, if the ultimate resolution of this matter produces a result that differs materially from our current expectations, there could be a material impact on our effective tax rate, results of operations and cash flows.

We are involved in litigation that has arisen in the normal course of our business. We are contesting the allegations in each such pending action and management believes, based on current knowledge and after consultation with counsel, that the outcome of such actions will not have a material adverse effect on our consolidated financial condition. However, the outcome of litigation and other legal and regulatory matters is inherently uncertain, and it is possible that one or more of the matters currently pending or threatened could have an unanticipated adverse effect on our liquidity, financial condition or results of operations for any particular period.

Item 1A. Risk Factors.

There have been no material changes to our risk factors from those previously disclosed in our 2015 Form 10-K.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.**Issuance of Unregistered Securities**

On March 21, 2016, March 22, 2016 and March 24, 2016, we issued 1,914,620; 4,673,478; and 393,690 shares, respectively, of Radian Group common stock in separately negotiated transactions with certain holders of the Convertible Senior Notes due 2017 and 2019. These issuances were made in connection with, and as partial consideration for, the purchases in March, 2016 of aggregate principal amounts of \$30.1 million and \$288.4 million of our Convertible Senior Notes due 2017 and 2019, respectively, for cash or a combination of cash and shares of Radian Group common stock. See Notes 11 and 13 of Notes to Unaudited Condensed Consolidated Financial Statements for additional information on the individual transactions.

The shares issued pursuant to these transactions were issued to “qualified institutional buyers” within the meaning of Rule 144A promulgated under the Securities Act and were offered and sold in reliance on the exemption from registration afforded by Section 4(a)(2) of the Securities Act and corresponding provisions of state securities laws.

Issuer Purchases of Equity Securities

There were no issuer purchases of equity securities during the three months ended June 30, 2016. However, on June 29, 2016, Radian Group’s board of directors authorized a new share repurchase program of up to \$125 million of Radian Group common stock, under which share repurchases began during the third quarter of 2016. See Note 17 of Notes to Unaudited Condensed Consolidated Financial Statements.

Item 6. Exhibits.

The information required by this item is set forth on the Exhibit Index that follows the signature page of this report.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Radian Group Inc.

August 5, 2016

/s/ J. FRANKLIN HALL

J. Franklin Hall
Executive Vice President, Chief Financial Officer

/s/ CATHERINE M. JACKSON

Catherine M. Jackson
Senior Vice President, Controller

EXHIBIT INDEX

<u>Exhibit No.</u>	<u>Exhibit Name</u>
3.1	Certificate of Amendment of the Amended and Restated Certificate of Incorporation of the Registrant effective as of May 11, 2016 (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K dated May 11, 2016 and filed on May 17, 2016).
*+10.1	2016 Performance-Based Restricted Stock Unit Grant Letter under the 2014 Equity Compensation Plan, dated as of May 11, 2016, between the Registrant and Sanford A. Ibrahim
*+10.2	2016 Stock Option Agreement under the 2014 Equity Compensation Plan, dated as of May 11, 2016, between the Registrant and Sanford A. Ibrahim
*+10.3	Form of 2016 Performance-Based Restricted Stock Unit Grant Letter under the 2014 Equity Compensation Plan
*+10.4	Form of 2016 Stock Option Agreement under the 2014 Equity Compensation Plan
*12	Statement of Ratio of Earnings to Fixed Charges
*31	Rule 13a - 14(a) Certifications
**32	Section 1350 Certifications
*101	Pursuant to Rule 405 of Regulation S-T, the following financial information from Radian Group Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2016 is formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets as of June 30, 2016 and December 31, 2015; (ii) Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2016 and 2015; (iii) Condensed Consolidated Statements of Comprehensive Income (Loss) for the three and six months ended June 30, 2016 and 2015; (iv) Condensed Consolidated Statements of Changes in Common Stockholders' Equity for the six months ended June 30, 2016, and 2015; (v) Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2016, and 2015; and (vi) the Notes to Unaudited Condensed Consolidated Financial Statements.

* Filed herewith.

** Furnished herewith.

+ Management contract, compensatory plan or arrangement.

RADIANT GROUP INC.
2014 EQUITY COMPENSATION PLAN

PERFORMANCE-BASED RESTRICTED STOCK UNIT GRANT

TERMS AND CONDITIONS

These Terms and Conditions ("**Terms and Conditions**") are part of the Performance-Based Restricted Stock Unit Grant made as of May 11, 2016 (the "**Grant Date**"), by Radian Group Inc., a Delaware corporation (the "**Company**"), to S.A. Ibrahim, an employee of the Company (the "**Grantee**").

RECITALS

WHEREAS, the Radian Group Inc. 2014 Equity Compensation Plan (the "**Plan**") permits the grant of Restricted Stock Units in accordance with the terms and provisions of the Plan;

WHEREAS, the Company desires to grant Restricted Stock Units to the Grantee, and the Grantee desires to accept such Restricted Stock Units, on the terms and conditions set forth herein and in the Plan;

WHEREAS, the Restricted Stock Units granted pursuant to these Terms and Conditions shall vest based on the attainment of performance goals related to total shareholder return ("**TSR**"), LTI Book Value per Share (as defined below), and continued employment; and

WHEREAS, the applicable provisions of the Plan are incorporated into these Terms and Conditions by reference, including the definitions of terms contained in the Plan (unless such terms are otherwise defined herein).

NOW, THEREFORE, the parties hereto, intending to be legally bound hereby, agree as follows:

1. Grant of Performance-Based Restricted Stock Units.

(a) **Grant of Restricted Stock Units.** The Company hereby awards to the Grantee a target award of **261,520** Restricted Stock Units (hereinafter, the "**Target Award**"), which consists of the TSR Target Award and the BV Target Award described below, subject to the vesting and other conditions of these Terms and Conditions.

(b) **TSR Target Award and BV Target Award.** Payment of the Restricted Stock Units will be based on achievement of the performance goals set forth herein and continued employment as follows:

(i) Fifty percent of the Target Award (the "**TSR Target Award**") will be based on attainment of the performance goals set forth in Schedule A (the "**TSR Performance Goals**") and continued employment.

(ii) Fifty percent of the Target Award (the "**BV Target Award**") will be based on attainment of the performance goals set forth in Schedule B (the "**BV Performance Goals**") and continued employment.

2. Vesting.

(a) **General Vesting Terms.** Except as set forth in Sections 2(c) and 2(d) below, the Grantee shall vest in a number of Restricted Stock Units with respect to the TSR Target Award (the "**TSR Component**") and the BV Target Award (the "**BV Component**") based on the attainment of the TSR Performance Goals and BV Performance Goals, respectively, as of the end of the applicable performance period, provided that in each case the Grantee remains employed by the Company or a Subsidiary through May 11, 2019 (the "**Vesting Date**"). The performance period with respect to the TSR Component is the period beginning on May 11, 2016 and ending on May 11, 2019 (the "**TSR Performance Period**") and the performance period with respect to the BV Component is the period beginning on March 31, 2016 and ending on March 31, 2019 (the "**BV Performance Period**"). Except as specifically provided below in this Section 2, no Restricted Stock Units will vest for any reason prior to the Vesting Date, and in the event of a termination of the Grantee's employment prior to the Vesting Date, the Grantee will forfeit to the Company all Restricted Stock Units that have not yet vested as of the termination date. Except as

provided in Sections 2(c) and 2(d) below, if the TSR Performance Goals are not attained at the end of the TSR Performance Period, the Restricted Stock Units with respect to TSR Component will be immediately forfeited and if the BV Performance Goals are not attained at the end of the BV Performance Period, the Restricted Stock Units with respect to the BV Component will be immediately forfeited.

(b) **Retirement.**

(i) If the Grantee terminates employment prior to the Vesting Date on account of the Grantee's Retirement, the Grantee will not forfeit the Restricted Stock Units upon Retirement, and the Restricted Stock Units will continue to vest based on the attainment of the TSR Performance Goals and the BV Performance Goals, except as provided in Sections 2(c) and 2(d) below.

(ii) For purposes of these Terms and Conditions, "**Retirement**" shall mean the Grantee's separation from service without Cause, other than on account of death or Disability (as defined below), (A) following the Grantee's attainment of age 65 and completion of five years of service with the Company or a Subsidiary, or (B) following the Grantee's attainment of age 55 and completion of 10 years of service with the Company or a Subsidiary.

(iii) For purposes of these Terms and Conditions, "**Cause**" shall have the meaning given that term in the Grantee's Employment Agreement with the Company dated as of November 12, 2014 (the "**Employment Agreement**").

(c) **Death or Disability.** In the event of the Grantee's death or Disability while employed by the Company or a Subsidiary prior to the Vesting Date, the Grantee's Restricted Stock Units will automatically vest at the Target Award level on the date of the Grantee's death or Disability, as applicable. If, following the Grantee's termination of employment due to Retirement, the Grantee dies prior to the Vesting Date, the Grantee's Restricted Stock Units will automatically vest at the Target Award level on the date of the Grantee's death. For purposes of these Terms and Conditions, the term "**Disability**" shall have the meaning given that term in the Grantee's Employment Agreement.

(d) **Change of Control.**

(i) If a Change of Control occurs prior to the Vesting Date, the Restricted Stock Units will vest at the Target Award level on the Vesting Date, provided that, except as set forth in subsections (ii), (iv) and (v) below, the Grantee remains employed by the Company or a Subsidiary through the Vesting Date. In no event shall vesting occur after the end of the Performance Period.

(ii) Notwithstanding the foregoing, if, prior to the Vesting Date, a Change of Control occurs and the Grantee's employment with the Company and its Subsidiaries is terminated by the Company or a Subsidiary without Cause, or the Grantee terminates employment for Good Reason (as defined in, and determined under, the Employment Agreement), and the Grantee's date of termination of employment (or in the event of the Grantee's termination for Good Reason, the event giving rise to Good Reason) occurs during the period beginning on the date that is 90 days before the Change of Control and ending on the date that is one year following the Change of Control, the unvested Restricted Stock Units will automatically vest at the Target Award level as of the Grantee's date of termination of employment (or, if later, on the date of the Change of Control).

(iii) Notwithstanding the foregoing, if the Grantee's employment terminates on account of Retirement before a Change of Control, and a Change of Control subsequently occurs prior to the Vesting Date, the outstanding Restricted Stock Units will vest at the Target Award level on the Vesting Date (or on the Grantee's date of death, if earlier).

(iv) Notwithstanding the foregoing, if the Grantee's employment terminates on account of Retirement on or after a Change of Control, the Restricted Stock Units will vest at the Target Award level on the Grantee's Retirement date.

(e) **Cause.** In the event the Grantee's employment is terminated by the Company or a Subsidiary for Cause, all outstanding Restricted Stock Units held by the Grantee shall immediately terminate and be of no further force or effect.

(f) **Other Termination.** Except as provided in Sections 2(b), 2(c), 2(d) and 2(e), in the event of a termination of employment, the Grantee will forfeit all unvested Restricted Stock Units. Except as provided in Section 2(b) or 2(d), no Restricted Stock Units will vest after the Grantee's employment with the Company or a Subsidiary has terminated for any reason.

3. Restricted Stock Units Account.

The Company shall establish a bookkeeping account on its records for the Grantee and shall credit the Grantee's Restricted Stock Units to the bookkeeping account.

4. Conversion of Restricted Stock Units.

(a) Except as otherwise provided in this Section 4, if the Restricted Stock Units vest in accordance with these Terms and Conditions, the Grantee shall be entitled to receive payment of the vested Restricted Stock Units within 90 days after the one-year anniversary of the Vesting Date (the one year anniversary of the Vesting Date is referred to as the "**Distribution Date**").

(b) The vested Restricted Stock Units shall be paid earlier than the Distribution Date in the following circumstances:

(i) If (A) the Restricted Stock Units vest in accordance with Section 2(c) (the Grantee's death or Disability), or (B) the Grantee dies or incurs a Disability after the Vesting Date but before the Distribution Date, the vested Restricted Stock Units shall be paid within 90 days after the date of the Grantee's death or Disability, as applicable.

(ii) If a Change of Control occurs after the Vesting Date but before the Distribution Date, the vested Restricted Stock Units shall be paid within 90 days after the date of the Change of Control.

(iii) If a Change of Control occurs and the Grantee's employment terminates upon or within one year after the Change of Control in accordance with Section 2(d)(ii), the vested Restricted Stock Units shall be paid within 90 days after the Grantee's termination of employment.

(iv) If a Change of Control occurs and the Grantee's employment terminates within 90 days prior to the Change of Control in accordance with Section 2(d)(ii), and the Grantee subsequently dies prior to the Vesting Date, the vested Restricted Stock Units shall be paid within 90 days after the date of the Grantee's death.

(v) If the Restricted Stock Units vest in accordance with Section 2(d)(v) (Retirement on or after a Change of Control), the vested Restricted Stock Units shall be paid within 90 days after the Grantee's Retirement date; provided that, if required by section 409A of the Code, if the Retirement date does not occur within two years after the Change of Control, payment will be made within 90 days after the Distribution Date.

(vi) Notwithstanding subsections (ii), (iii) and (v), if the Change of Control is not a "change in control event" under section 409A of the Code, and if required by section 409A of the Code, payment will not be made on the dates described in subsections (ii), (iii) and (v) and, instead, will be made within 90 days after the Distribution Date.

(c) On the applicable payment date, each vested Restricted Stock Unit credited to the Grantee's account shall be settled in whole shares of Common Stock of the Company equal to the number of vested Restricted Stock Units, subject to (i) the limitation of subsection (d) below, (ii) compliance with the six-month delay described in Section 16 below, if applicable, and (iii) the payment of any federal, state, local or foreign withholding taxes as described in Section 12 below, and subject to compliance with the restrictive covenants in Section 6 below. The obligation of the Company to distribute shares upon vesting shall be subject to the rights of the Company as set forth in the Plan and to all applicable laws, rules, regulations, and such approvals by governmental agencies as may be deemed appropriate by the Committee, including as set forth in Section 14 below.

(d) Notwithstanding anything in these Terms and Conditions to the contrary, in no event shall the fair market value (as defined in the Plan) of the vested Restricted Stock Units to be distributed with respect to the TSR Component exceed \$72.96 (\$12.16 multiplied by 600%) multiplied by the TSR Target Award, measured as of the Valuation Date (as defined below). If the fair market value of the vested Restricted Stock Units with respect to the TSR Component would exceed this amount, the number of shares of the Company's Common Stock to be distributed to the Grantee shall be limited to the amount calculated as follows:

- \$72.96 multiplied by the TSR Target Award,
 - Divided by the fair market value of a share of the Company's Common Stock on the Valuation Date.
-

For this purpose, the “**Valuation Date**” is the Vesting Date for Restricted Stock Units that are payable on or after the Vesting Date. If the Restricted Stock Units are payable before the Vesting Date, the “**Valuation Date**” is the Grantee’s applicable payment date under this Section 4 (termination date, date of Disability, date of death, or Change of Control, as applicable).

(e) For the avoidance of doubt, the Grantee will forfeit all Restricted Stock Units if the Grantee’s employment is terminated for Cause prior to the Distribution Date or other applicable payment date under this Section 4.

5. Certain Corporate Changes.

If any change is made to the Common Stock (whether by reason of merger, consolidation, reorganization, recapitalization, stock dividend, stock split, combination of shares, or exchange of shares or any other change in capital structure made without receipt of consideration), then unless such event or change results in the termination of all the Restricted Stock Units granted under these Terms and Conditions, the Committee shall adjust, as provided in the Plan, the number and class of shares underlying the Restricted Stock Units held by the Grantee, the maximum number of shares for which the Restricted Stock Units may vest, the share price or class of Common Stock for purposes of the TSR Performance Goals, and the BV Performance Goals as appropriate to reflect the effect of such event or change in the Company’s capital structure in such a way as to preserve the value of the Restricted Stock Units. Any adjustment that occurs under the terms of this Section 5 or the Plan will not change the timing or form of payment with respect to any Restricted Stock Units except in accordance with section 409A of the Code.

6. Restrictive Covenants.

(a) In consideration of this Restricted Stock Unit grant, the Grantee agrees to comply with the restrictive covenants and agreements set forth in Section 16 (“Restrictive Covenants”) of the Employment Agreement, all other written restrictive covenants and agreements with the Company, and all confidentiality obligations with respect to the Company under the Company’s Code of Conduct and Ethics, including without limitation non-competition, non-solicitation and confidentiality restrictions (collectively, the “**Restrictive Covenants**”).

(b) Nothing in these Terms and Conditions or in the Employment Agreement, including any restrictions on the use of “Confidential Information” and “Trade Secrets” (as defined in the Employment Agreement), shall prohibit or restrict the Grantee from initiating communications directly with, or responding to any inquiry from, or providing testimony before, the Equal Employment Opportunity Commission, the Department of Justice, the Securities and Exchange Commission, or any other federal, state, or local regulatory authority. To the extent permitted by law, upon receipt of any subpoena, court order, or other legal process compelling the disclosure of Confidential Information and Trade Secrets, the Grantee agrees to give prompt written notice to the Company so as to permit the Company to protect its interests in confidentiality to the fullest extent possible.

(c) The Grantee acknowledges and agrees that in the event the Grantee breaches any of the Restrictive Covenants:

(i) The Committee may in its discretion determine that the Grantee shall forfeit the outstanding Restricted Stock Units (without regard to whether the Restricted Stock Units have vested, except as to the vested shares where forfeiture of vested shares is expressly prohibited by law), and the outstanding Restricted Stock Units shall immediately terminate, and

(ii) The Committee may in its discretion require the Grantee to return to the Company any shares of Common Stock received in settlement of the Restricted Stock Units; provided, that if the Grantee has disposed of any shares of Common Stock received upon settlement of the Restricted Stock Units, then the Committee may require the Grantee to pay to the Company, in cash, the fair market value of such shares of Common Stock as of the date of disposition. The Committee shall exercise the right of recoupment provided in this subsection (c)(ii) within 180 days after the Committee’s discovery of the Grantee’s breach of any of the Restrictive Covenants.

(d) If any portion of the covenants or agreements contained in this Section 6, the specific forfeiture provisions related to vested shares, or the application thereof, is construed to be invalid or unenforceable, the other portions of such covenants or agreements or the application thereof shall not be affected and shall be given full force and effect without regard to the invalid or unenforceable portions to the fullest extent possible. If any covenant or agreement in this Section 6 is held to be unenforceable because of the duration thereof or the scope thereof, then the court making such determination shall have the power to reduce the duration and limit the scope thereof, and the covenant or agreement shall then be enforceable in its reduced

form. The covenants and agreements contained in this Section 6 shall survive the termination of the Grantee's employment with the Company or any of its Affiliates and shall survive the termination of these Terms and Conditions.

7. No Stockholder Rights.

The Grantee has no voting rights and no rights to receive dividends or dividend equivalents or other ownership rights and privileges of a stockholder with respect to the shares of Common Stock subject to the Restricted Stock Units.

8. Retention Rights.

Neither the award of Restricted Stock Units, nor any other action taken with respect to the Restricted Stock Units, shall confer upon the Grantee any right to continue in the employ or service of the Company or an Affiliate or shall interfere in any way with the right of the Company or an Affiliate to terminate Grantee's employment or service at any time.

9. Cancellation or Amendment.

This award may be canceled or amended by the Committee, in whole or in part, in accordance with the applicable terms of the Plan.

10. Notice.

Any notice to the Company provided for in these Terms and Conditions shall be addressed to it in care of the Corporate Secretary of the Company, 1601 Market Street, Philadelphia, Pennsylvania 19103-2197, and any notice to the Grantee shall be addressed to such Grantee at the current address shown on the payroll system of the Company or an Affiliate thereof, or to such other address as the Grantee may designate to the Company in writing. Any notice provided for hereunder shall be delivered by hand, sent by telecopy or electronic mail, or enclosed in a properly sealed envelope addressed as stated above, registered and deposited, postage and registry fee prepaid in the United States mail, or other mail delivery service. Notice to the Company shall be deemed effective upon receipt. By receipt of these Terms and Conditions, the Grantee hereby consents to the delivery of information (including without limitation, information required to be delivered to the Grantee pursuant to the applicable securities laws) regarding the Company, the Plan, and the Restricted Stock Units via the Company's electronic mail system or other electronic delivery system.

11. Incorporation of Plan by Reference.

These Terms and Conditions are made pursuant to the terms of the Plan, the terms of which are incorporated herein by reference, and shall in all respects be interpreted in accordance therewith. The decisions of the Committee shall be conclusive upon any question arising hereunder. The Grantee's receipt of the Restricted Stock Units awarded under these Terms and Conditions constitutes such Grantee's acknowledgment that all decisions and determinations of the Committee with respect to the Plan, these Terms and Conditions, and/or the Restricted Stock Units shall be final and binding on the Grantee, his beneficiaries, and any other person having or claiming an interest in such Restricted Stock Units. The settlement of any award with respect to Restricted Stock Units is subject to the provisions of the Plan and to interpretations, regulations, and determinations concerning the Plan as established from time to time by the Committee in accordance with the provisions of the Plan. A copy of the Plan will be furnished to each Grantee upon request. Additional copies may be obtained from the Corporate Secretary of the Company, 1601 Market Street, Philadelphia, Pennsylvania 19103-2197.

12. Income Taxes; Withholding Taxes.

The Grantee is solely responsible for the satisfaction of all taxes and penalties that may arise in connection with the Restricted Stock Units pursuant to these Terms and Conditions. At the time of taxation, the Company shall have the right to deduct from other compensation or from amounts payable with respect to the Restricted Stock Units, including by withholding shares of the Company's Common Stock, an amount equal to the federal (including FICA), state, local and foreign income and payroll taxes and other amounts as may be required by law to be withheld with respect to the Restricted Stock Units, provided that any share withholding shall not exceed the Grantee's minimum applicable withholding tax rate for federal (including FICA), state, local, and foreign tax liabilities. Without limiting the foregoing, upon vesting of the Restricted Stock Units, the Company may withhold shares subject to the vested Restricted Stock Units to cover the minimum applicable withholding for FICA tax and related income tax liabilities.

13. Governing Law.

The validity, construction, interpretation, and effect of this instrument shall exclusively be governed by, and determined in accordance with, the applicable laws of the State of Delaware, excluding any conflicts or choice of law rule or principle. The Grantee irrevocably and unconditionally (a) agrees that any legal proceeding arising out of these Terms and Conditions may be brought only in the United States District Court for the Eastern District of Pennsylvania, or if such court does not have jurisdiction or will not accept jurisdiction, in any court of general jurisdiction in Philadelphia County, Pennsylvania, (b) consents to the sole and exclusive jurisdiction and venue of such court in any such proceeding, and (c) waives any objection to the laying of venue of any such proceeding in any such court. The Grantee also irrevocably and unconditionally consents to the service of any process, pleadings, notices, or other papers.

14. Grant Subject to Applicable Laws and Company Policies.

These Terms and Conditions shall be subject to any required approvals by any governmental or regulatory agencies. This award of Restricted Stock Units shall also be subject to any applicable clawback or recoupment policies, share trading policies, and other policies that may be implemented by the Board from time to time in accordance with applicable law. Notwithstanding anything in these Terms and Conditions to the contrary, the Plan, these Terms and Conditions, and the Restricted Stock Units awarded hereunder shall be subject to all applicable laws, including any laws, regulations, restrictions, or governmental guidance that becomes applicable in the event of the Company's participation in any governmental programs, and the Committee reserves the right to modify these Terms and Conditions and the Restricted Stock Units as necessary to conform to any restrictions imposed by any such laws, regulations, restrictions, or governmental guidance or to conform to any applicable clawback or recoupment policies, share trading policies, and other policies that may be implemented by the Board from time to time. As a condition of participating in the Plan, and by the Grantee's acceptance of the Restricted Stock Units, the Grantee is deemed to have agreed to any such modifications that may be imposed by the Committee, and agrees to sign such waivers or acknowledgments as the Committee may deem necessary or appropriate with respect to such modifications.

15. Assignment.

These Terms and Conditions shall bind and inure to the benefit of the successors and assignees of the Company. The Grantee may not sell, assign, transfer, pledge, or otherwise dispose of the Restricted Stock Units, except to a Successor Grantee in the event of the Grantee's death.

16. Section 409A.

This award of Restricted Stock Units is intended to comply with the applicable requirements of section 409A of the Code and shall be administered in accordance with section 409A of the Code. Notwithstanding anything in these Terms and Conditions to the contrary, if the Restricted Stock Units constitute "deferred compensation" under section 409A of the Code and the Restricted Stock Units become vested and settled upon the Grantee's termination of employment, payment with respect to the Restricted Stock Units shall be delayed for a period of six months after the Grantee's termination of employment if the Grantee is a "specified employee" as defined under section 409A of the Code (as determined by the Committee) and if required pursuant to section 409A of the Code. If payment is delayed, the shares of Common Stock of the Company shall be distributed within 30 days of the date that is the six-month anniversary of the Grantee's termination of employment. If the Grantee dies during the six-month delay, the shares shall be distributed in accordance with the Grantee's will or under the applicable laws of descent and distribution. Notwithstanding any provision to the contrary herein, payments made with respect to this award of Restricted Stock Units may only be made in a manner and upon an event permitted by section 409A of the Code, and all payments to be made upon a termination of employment hereunder may only be made upon a "separation from service" as defined under section 409A of the Code. To the extent that any provision of these Terms and Conditions would cause a conflict with the requirements of section 409A of the Code, or would cause the administration of the Restricted Stock Units to fail to satisfy the requirements of section 409A of the Code, such provision shall be deemed null and void to the extent permitted by applicable law. In no event shall a Grantee, directly or indirectly, designate the calendar year of payment.

17. Notice of Immunity for Confidential Disclosure of a Trade Secret to an Attorney, the Government or in a Court Filing in Particular Circumstances.

The Grantee is hereby notified that these Terms and Conditions are entered into pursuant to the United States Federal Trade Secrets law. In addition to other provisions, federal law provides certain protections to individuals who disclose a trade secret to their attorney, a court, or a government official in certain, confidential circumstances. Specifically, federal law provides that an individual shall not be held criminally or civilly liable under any federal or state trade secret law for the disclosure of a trade secret under either of the following conditions:

(a) Where the disclosure is made (i) in confidence to a federal, state, or local government official, either directly or indirectly, or to an attorney; and (ii) solely for the purpose of reporting or investigating a suspected violation of law; or

(b) Where the disclosure is made in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal. *See* 18 U.S.C. § 1833(b)(1)).

Federal law also provides that an individual who files a lawsuit for retaliation by an employer for reporting a suspected violation of law may disclose the trade secret to the attorney of the individual and use the trade secret information in the court proceeding, if the individual (A) files any document containing the trade secret under seal; and (B) does not disclose the trade secret, except pursuant to court order. *See* 18 U.S.C. § 1833(b)(2).

IN WITNESS WHEREOF, the Company has caused its duly authorized officer to execute and attest this instrument, and the Grantee has placed his signature hereon, effective as of the Grant Date set forth above.

RADIAN GROUP INC.

By: /s/ Anita Scott

Name: Anita Scott

Title: SVP, Chief Human Resources Officer

I hereby accept this award of Restricted Stock Units and (a) acknowledge receipt of the Plan incorporated herein, (b) acknowledge that I have read the Award Summary delivered in connection with this grant of Restricted Stock Units and these Terms and Conditions and understand the terms and conditions of them, (c) accept the award of the Restricted Stock Units described in these Terms and Conditions, (d) agree to be bound by the terms of the Plan and these Terms and Conditions, and (e) agree that all decisions and determinations of the Committee with respect to the Restricted Stock Units shall be final and binding.

Agreed to and Accepted By Grantee:

Signature: /s/ S.A. Ibrahim

Print Name: S.A. Ibrahim

Date: July 15, 2016

Schedule A
TSR Performance Goals

1. **Calculation of TSR.** Vesting of the Restricted Stock Units with respect to the TSR Component will be based on the following performance results: (i) the relative total shareholder return (“**TSR**”) for the TSR Performance Period beginning on May 11, 2016 and ending on May 11, 2019, which means the Company’s TSR relative to the median TSR of the TSR Peer Group (as defined in Section 2(d) below), as set forth in Section 2 below, and (ii) the Company’s TSR for the TSR Performance Period (“**Company Absolute TSR**”), as set forth in Section 3 below. At the end of the TSR Performance Period, the TSR for the Company, and for each company in the TSR Peer Group, shall be calculated by dividing the Closing Average Share Value (as defined below) by the Opening Average Share Value (as defined below).

(a) The term “**Closing Average Share Value**” means the average value of the common stock, including Accumulated Shares, for the 20 trading days ending on the last day of the TSR Performance Period (i.e., the 20 trading days ending on and including May 11, 2019), which shall be calculated as follows: (i) determine the closing price of the common stock on each trading date during the 20-day period, (ii) multiply each closing price by the Accumulated Shares as of that trading date, and (iii) average the amounts so determined for the 20-day period.

(b) The term “**Opening Average Share Value**” means the average value of the common stock, including Accumulated Shares, for the 20 trading days ending on the first day of the TSR Performance Period (i.e., the 20 trading days ending on and including May 11, 2016), which shall be calculated as follows: (i) determine the closing price of the common stock on each trading day during the 20-day period, (ii) multiply each closing price by the Accumulated Shares as of that trading date, and (iii) average the amounts so determined for the 20-day period. The Opening Average Share Value is \$12.44.

(c) The term “**Accumulated Shares**” means, for a given trading day, the sum of (i) one share and (ii) a cumulative number of shares of the company’s common stock purchased with dividends declared on a company’s common stock, assuming same day reinvestment of the dividends in the common stock of a company at the closing price on the ex-dividend date. The calculations under this Schedule A shall include ex-dividend dates between April 14, 2016 and the trading day.

2. **Relative TSR Vesting Percentage.**

(a) Subject to Sections 3 and 5, the number of Restricted Stock Units that will vest for the TSR Performance Period shall be determined by multiplying the TSR Target Award by the Relative TSR Vesting Percentage, as determined under this Section 2.

(b) The Relative TSR Vesting Percentage will be determined based on the Company’s TSR as compared to the median TSR of the companies in the TSR Peer Group for the TSR Performance Period (the “**Median Peer Group TSR**”) as follows:

Performance (increments of +/- point differential)	Relative TSR Vesting Percentage
Maximum at 50% above Median	200%
+1% Company Absolute TSR above Median	102%
Median Peer Group TSR	100%
-1% Company Absolute TSR below Median	97%
Threshold at -34% below Median	0%

(i) If the Company’s TSR exceeds the Median Peer Group TSR, the Relative TSR Vesting Percentage will increase by 2% above 100% (but not in excess of 200%) for every 1% by which the Company’s TSR exceeds the Median Peer Group TSR.

(ii) If the Company’s TSR is less than the Median Peer Group TSR, the Relative TSR Vesting Percentage will be below 100%, in an amount such that there is a 3% reduction for every 1% by which the Company’s TSR is less than the Median Peer Group TSR. There is no vesting if the Company’s TSR is less than 34% of the Median Peer Group TSR.

(iii) If the Company’s TSR rank falls between the measuring points, the Company’s TSR rank will be rounded to the nearest whole percentage point.

(c) The companies in the TSR Peer Group will be determined on the first day of the TSR Performance Period for purposes of the TSR calculation and will be changed only in accordance with Section 2(d) below. No company shall be added to the TSR Peer Group during the TSR Performance Period for purposes of the TSR calculation.

(d) The term “**TSR Peer Group**” means the companies listed on Exhibit A and will be subject to change as follows:

(i) In the event of a merger, acquisition or business combination transaction of a company in the TSR Peer Group in which the company in the TSR Peer Group is the surviving entity and remains publicly traded, the surviving entity shall remain a company in the TSR Peer Group. Any entity involved in the transaction that is not the surviving company shall no longer be a company in the TSR Peer Group.

(ii) In the event of a merger, acquisition or business combination transaction of a company in the TSR Peer Group, a “going private” transaction or other event involving a company in the TSR Peer Group or the liquidation of a company in the TSR Peer Group, in each case where the company in the TSR Peer Group is not the surviving entity or is no longer publicly traded, the company shall no longer be a company in the TSR Peer Group.

(iii) Notwithstanding the foregoing, in the event of a bankruptcy of a company in the TSR Peer Group where the company in the TSR Peer Group is not publicly traded at the end of the TSR Performance Period, such company shall remain a company in the TSR Peer Group but shall be deemed to have a TSR of negative 100% (-100%).

3. **Vesting Cap Based on Company Absolute TSR** After the Relative TSR Vesting Percentage is determined, as described in Section 2 above, the Company Absolute TSR for the TSR Performance Period will be evaluated to determine the actual number of Restricted Stock Units that vest (the “**Final Payout Percentage**”). If the Company Absolute TSR is negative, the Final Payout Percentage will not exceed 75% of the TSR Target Award, even if the Relative TSR Vesting Percentage determined under Section 2 is greater than 75%. If the Company Absolute TSR is zero or positive, the Final Payout Percentage will be the Relative TSR Vesting Percentage determined under Section 2 above.

4. **General Vesting Terms**. Any fractional Restricted Stock Unit resulting from the vesting of the Restricted Stock Units in accordance with these Terms and Conditions shall be rounded down to the nearest whole number. Any portion of the Restricted Stock Units with respect to the TSR Component that does not vest as of the end of the TSR Performance Period shall be forfeited as of the end of the TSR Performance Period.

5. **Maximum Vesting and Payment**. In no event shall the maximum number of Restricted Stock Units that may be payable pursuant to these Terms and Conditions with respect to the TSR Component exceed 200% of the TSR Target Award. In addition, notwithstanding anything in this Schedule A to the contrary, in no event shall the fair market value of the vested Restricted Stock Units to be distributed on the applicable Valuation Date exceed \$72.96 (\$12.16 multiplied by 600%) multiplied by the TSR Target Award, as described in Section 4(d) of the Terms and Conditions.

Exhibit A

TSR Peer Group

CoreLogic, Inc. (CLGX)

Essent Group Ltd. (ESNT)

EverBank Financial Corp. (EVER)

Fidelity National Financial, Inc. (FNF)

First American Corporation (FAF)

Genworth Financial, Inc. (GNW)

MGIC Investment Corp. (MTG)

Nationstar Mortgage Holdings, Inc. (NSM)

NMI Holdings Inc. (NMIH)

Ocwen Financial Corp. (OCN)

Old Republic International Corp. (ORI)

PHH Corp. (PHH)

Stewart Information Services Corp. (STC)

Walter Investment Management Corp. (WAC)

Schedule B
BV Performance Goals

1. Calculation of Book Value per Share Vesting of the Restricted Stock Units with respect to the BV Component will be based on the Company's growth in LTI Book Value per Share (as defined below) over the BV Performance Period beginning on March 31, 2016 and ending on March 31, 2019 as compared to the following reference points:

LTI Book Value per Share Growth ⁽¹⁾	Payout Percentage ⁽¹⁾ (Percentage of BV Target Award)
≥45%	200%
35%	150%
25%	100%
15%	50%
<5% ⁽²⁾	0%

(1) If the Company's growth in LTI Book Value per Share falls between two referenced percentages, the payout percentage will be interpolated.

(2) The LTI Book Value on the first day of the BV Performance Period (March 31, 2016) was \$10.97. If the Company's growth in LTI Book Value per Share is less than 5%, the payout percentage will be zero.

The Company's "LTI Book Value per Share" is defined as: (i) Tangible Book Value (Total Stockholders' Equity less Goodwill and Other Intangible Assets, net) adjusted to exclude Accumulated Other Comprehensive Income and the impacts, if any, during the BV Performance Period from repurchases or retirements of convertible bonds, merger and acquisition-related expenses, changes in goodwill and other intangible assets related to acquisitions or dispositions, repurchases of common shares and declared dividends on common shares, divided by (ii) basic shares of Common Stock of the Company outstanding as of the applicable measurement date, as adjusted to exclude the share impact, if any, related to any of the items identified in (i) above, each applied on a consistent basis. The LTI Book Value per Share shall be derived from the Company's financial statements, prepared in accordance with GAAP, and the adjustments described above.

2. General Vesting Terms. Any fractional Restricted Stock Unit resulting from the vesting of the Restricted Stock Units in accordance with these Terms and Conditions shall be rounded down to the nearest whole number. Any portion of the Restricted Stock Units with respect to BV Component that does not vest as of the end of the BV Performance Period shall be forfeited as of the end of the BV Performance Period.

3. Maximum Vesting and Payment. In no event shall the maximum number of Restricted Stock Units that may be payable pursuant to these Terms and Conditions with respect to the BV Component exceed 200% of the BV Target Award.

**RADIAN GROUP INC.
2014 EQUITY COMPENSATION PLAN**

STOCK OPTION GRANT

TERMS AND CONDITIONS

These Terms and Conditions ("**Terms and Conditions**") are part of the Stock Option Grant made as of May 11, 2016 (the "**Grant Date**"), by Radian Group Inc., a Delaware corporation (the "**Company**"), to S.A. Ibrahim (the "**Grantee**"), an employee of the Company or one of its Subsidiaries.

RECITALS

WHEREAS, the Radian Group Inc. 2014 Equity Compensation Plan (the "**Plan**"), permits the grant of stock options to purchase shares of Common Stock, in accordance with the terms and provisions of the Plan;

WHEREAS, the Company desires to grant a Nonqualified Stock Option to the Grantee, and the Grantee desires to accept such Nonqualified Stock Option, on the terms and conditions set forth herein and in the Plan; and

WHEREAS, the applicable provisions of the Plan are incorporated in these Terms and Conditions by reference, including the definitions of terms contained in the Plan (unless such terms are otherwise defined herein).

NOW, THEREFORE, the parties hereto, intending to be legally bound hereby, agree as follows:

1. **Grant of Option.** The Company hereby awards to the Grantee a Nonqualified Stock Option to purchase **106,910** shares of Common Stock at the exercise price per share of \$12.16, subject to the vesting and other conditions of these Terms and Conditions (the "**Option**"). The Grantee hereby accepts the Option and agrees to be bound by the terms and conditions of these Terms and Conditions and the Plan with respect to the award.

2. **Vesting.**

(a) Provided the Grantee remains employed by the Company or a Subsidiary through the applicable vesting date and meets any applicable vesting requirements set forth in these Terms and Conditions, and provided that the Stock Price Hurdle (as defined below) is met, except as set forth in Sections 3 and 5 below, the Option awarded under these Terms and Conditions shall vest as follows:

Date Vested Shares subject to the Option

(subject to achievement of the Stock Price Hurdle)

May 11, 2019 50% of the shares

May 11, 2020 Remaining 50% of the shares

(b) Notwithstanding the foregoing, the Option will only vest if the closing price of the Company's Common Stock on the New York Stock Exchange equals or exceeds \$15.20 (which is 125% of the fair market value of the Company's Common Stock on the Grant Date) for ten consecutive trading days ending on or after May 11, 2019 (the "**Stock Price Hurdle**"), except as provided in Sections 3 and 5 below. If the Stock Price Hurdle has not been met on the third anniversary of the Grant Date (May 11, 2019), the Option with respect to 50% of the shares will vest on the first date after the third anniversary on which the Stock Price Hurdle is met, provided the Grantee remains employed by the Company or a Subsidiary through the applicable vesting date. If the Stock Price Hurdle has not been met on the fourth anniversary of the Grant Date (May 11, 2020), the Option with respect to the remaining 50% of the shares will vest on the first date after the fourth anniversary on which the Stock Price Hurdle is met, provided the Grantee remains employed by the Company or a Subsidiary through the applicable vesting date. The Stock Price Hurdle must be met by May 10, 2026 in order for the Option to vest under this Section 2.

(c) If the vesting schedule above would produce a fractional share, the portion of the Option that is exercisable shall be rounded down to the nearest whole share.

(d) Except as provided in Sections 3, 4 and 5 below, no portion of the Option will vest after the Grantee's employment with the Company and its Subsidiaries has terminated for any reason, whether by the Grantee or by the Company

or any of its Affiliates. In the event of any termination of employment, the Grantee will forfeit the portion of the Option that does not vest either before the termination date or on the applicable date designated in Sections 3, 4 or 5.

3. **Disability and Death.** In the event of the Grantee's death or Disability while employed by the Company or a Subsidiary, the Grantee's Option will automatically vest in full on the date of the Grantee's death or Disability, as applicable, regardless of whether the Stock Price Hurdle has been met. For purposes of these Terms and Conditions, "**Disability**" shall have the meaning given that term in the Grantee's Employment Agreement with the Company dated as of November 12, 2014 (the "**Employment Agreement**").

4. **Retirement.**

(a) If the Grantee terminates employment on account of Retirement, the Grantee's Option shall continue to vest in accordance with Section 2, subject to achievement of the Stock Price Hurdle, except as provided in Section 5 below, but without regard to continued employment.

(b) For purposes of these Terms and Conditions, "**Retirement**" shall mean the Grantee's separation from service, without Cause, other than on account of death or Disability, (A) following the Grantee's attainment of age 65 and completion of five years of service with the Company or a Subsidiary, or (B) following the Grantee's attainment of age 55 and completion of 10 years of service with the Company or a Subsidiary.

(c) For purposes of these Terms and Conditions, "**Cause**" shall have the meaning given that term in the Grantee's Employment Agreement.

5. **Change of Control.**

(a) If a Change of Control occurs, the Grantee's Option shall continue to vest in accordance with Section 2(a) on the third and fourth anniversaries of the Grant Date, without regard to whether the Stock Price Hurdle is met, provided that the Grantee remains continuously employed by the Company and its Subsidiaries through such vesting date. If the Change of Control occurs after the third anniversary of the Grant Date and before the Stock Price Hurdle has been met, the Option with respect to 50% of the shares will vest on the Change of Control date. If the Change of Control occurs after the fourth anniversary of the Grant Date and before the Stock Price Hurdle has been met, the Option with respect to all of the shares will vest on the Change of Control date. However, in no event may the Option be exercised after ten years from the Grant Date.

(b) Notwithstanding the foregoing, if a Change of Control occurs and the Grantee's employment with the Company and its Subsidiaries is terminated by the Company or a Subsidiary without Cause or the Grantee terminates employment for Good Reason (as defined in, and determined under, the Employment Agreement), and the Grantee's date of termination occurs (or in the event of the Grantee's termination for Good Reason, the event giving rise to Good Reason occurs), in each case, during the period beginning on the date that is 90 days before the Change of Control and ending on the date that is one year following the Change of Control, the Option will automatically vest in full on the Grantee's date of termination (or, if later, on the date of the Change of Control), regardless of whether the Stock Price Hurdle has been met. However, in no event may the Option be exercised after ten years from the Grant Date.

(c) Except as provided in subsection (b), if the Grantee's employment terminates on account of Retirement before a Change of Control, and a Change of Control subsequently occurs, the Grantee's Option shall continue to vest in accordance with Section 5(a), but without regard to continued employment. Except as provided in subsection (b), if the Grantee's employment terminates on account of Retirement on or after a Change of Control, the Grantee's Option shall continue to vest in accordance with Section 5(a), but without regard to continued employment.

6. **Exercise of the Option.** When the Option becomes vested in accordance with Sections 2, 3, 4, or 5 above, the Grantee may exercise part or all of the vested and exercisable Option by delivering a duly completed notice of intent to exercise to the Company, specifying the number of shares as to which the Option is to be exercised and the method of payment. Payment of the exercise price shall be made in accordance with procedures in effect from time to time based on the type of payment being made but, in any event, prior to issuance of the shares of Common Stock. The Grantee shall pay the exercise price (i) in cash, (ii) by authorizing a third party to sell shares of Common Stock acquired upon exercise of the Option and remit to the Company a sufficient portion of the sale proceeds to pay the exercise price and any applicable tax withholding resulting from such exercise, (iii) if so permitted by the Committee and subject to such conditions as may be established by the Committee, (1) by tendering (actually or by attestation) shares of Common Stock owned by the Grantee and valued at the then Fair Market Value thereof or (2) by having shares subject to the exercisable Option withheld to pay the exercise price, with the shares valued at the then Fair Market Value thereof, or (iv) by any combination of the foregoing. The Company's obligation to deliver shares of Common Stock upon exercise of the Option shall be subject to all applicable laws, rules and regulations and also to such approvals by governmental agencies as may be deemed appropriate by the Committee. Upon exercise of the Option (or portion thereof), the Option (or portion thereof) will terminate and cease to be outstanding.

7. **Transferability.**

(a) During the Grantee's lifetime, except as set forth in subsection (b) below, exercise of the Option shall be solely by the Grantee (or his legal guardian or legal representative) and, after the Grantee's death, the Option shall be exercisable (subject to the limitations specified in the Plan) solely by the legal representatives of the Grantee, or by the person or persons who acquire the right to exercise such Option by will or by the laws of descent and distribution, to the extent that the Option was outstanding as of the date of the Grantee's death. Neither the Option nor any right hereunder shall be assignable or otherwise transferable except by will or by the laws of descent and distribution or except as otherwise permitted by the Plan, nor shall any Option be subject to attachment, execution or other similar process. In the event of any attempt by the Grantee to alienate, assign, pledge, hypothecate or otherwise dispose of any Option or any right hereunder, except as provided for herein, or in the event of the levy of any attachment, execution or similar process upon the rights or interest hereby conferred, the Company may terminate any Option by notice to the Grantee and the Option and all rights hereunder shall thereupon become null and void.

(b) Notwithstanding the foregoing, the Committee may provide that a Grantee may transfer this Option to family members, one or more trusts for the benefit of family members, or one or more partnerships of which family members are the only partners, according to such terms as the Committee may determine; provided that the Grantee receives no consideration for the transfer of an Option and the transferred Option shall continue to be subject to the same terms and conditions as were applicable to the Option immediately before the transfer.

8. **Termination of the Option.**

(a) The Option shall have a term of ten years from the Grant Date and shall terminate at the expiration of that period (on May 10, 2026), unless the Option is terminated at an earlier date pursuant to the provisions of these Terms and Conditions or the Plan.

(b) The Option granted and subsequently vested hereunder (including pursuant to Section 5 hereof) shall terminate immediately after the first to occur of: (i) one year after the termination of the Grantee's employment with the Company or a Subsidiary due to an involuntary termination by the Company or a Subsidiary without Cause (except as provided in subsection (c) below), (ii) one year after the termination of the Grantee's employment with the Company or a Subsidiary by the Grantee for Good Reason during the Change of Control period described in Section 5(b) hereof (except as provided in subsection (c) below), (iii) 90 days after the Grantee's voluntary termination of employment with the Company and its Subsidiaries (except as provided in subsection (c) below or as provided in clause (ii) above), or (iv) ten years from the Grant Date.

(c) In the event of the termination of the Grantee's employment on account of Retirement, Disability or death of a Grantee, the Option held by the Grantee may be exercised, pursuant to the terms of the Plan, by the Grantee (or the Grantee's personal representative) at any time prior to the expiration of the ten-year term of the Option.

(d) Notwithstanding the foregoing, in no event may the Option be exercised after ten years from the Grant Date (after May 10, 2026).

(e) In the event a Grantee's employment is terminated by the Company or a Subsidiary for Cause, the Option (including the vested portion, if any) held by such Grantee shall immediately terminate and be of no further force or effect.

9. **Certain Corporate Changes.** If any change is made to the Common Stock (whether by reason of merger, consolidation, reorganization, recapitalization, stock dividend, stock split, combination of shares, or exchange of shares or any other change in capital structure made without receipt of consideration), then unless such event or change results in the termination of the Option, the Committee shall adjust, as provided in the Plan, the number and class of shares subject to the Option held by the Grantee and/or the exercise price of such Option, and the Stock Price Hurdle, if appropriate, to reflect the effect of such event or change in the Company's capital structure in such a way as to preserve the value of the Option. Any adjustment that occurs under the terms of this Section 9 or the Plan will not change the timing or form of payment with respect to any exercised Option or portion thereof.

10. **Restrictive Covenants.**

(a) In consideration of this Option grant, the Grantee agrees to comply with the restrictive covenants and agreements set forth in Section 16 ("Restrictive Covenants") of the Employment Agreement, all other written restrictive covenants and agreements with the Company, and all confidentiality obligations with respect to the Company under the Company's Code of Conduct and Ethics, including without limitation non-competition, non-solicitation and confidentiality restrictions (collectively, the "**Restrictive Covenants**").

(b) Nothing in these Terms and Conditions or in the Employment Agreement, including any restrictions on the use of "Confidential Information" and "Trade Secrets" (as defined in the Employment Agreement), shall prohibit or restrict the Grantee from initiating communications directly with, or responding to any inquiry from, or providing testimony before, the Equal Employment Opportunity Commission, the Department of Justice, the Securities and Exchange Commission, or any

other federal, state, or local regulatory authority. To the extent permitted by law, upon receipt of any subpoena, court order, or other legal process compelling the disclosure of Confidential Information and Trade Secrets, the Grantee agrees to give prompt written notice to the Company so as to permit the Company to protect its interests in confidentiality to the fullest extent possible.

(c) The Grantee acknowledges and agrees that in the event the Grantee breaches any of the Restrictive Covenants:

(i) The Committee may in its discretion determine that the Grantee shall forfeit the outstanding Option (without regard to whether any portion of the Option has vested, except as to the vested shares where forfeiture of vested shares is expressly prohibited by law), and the outstanding Option shall immediately terminate, and

(ii) The Committee may in its discretion require the Grantee to return to the Company any shares of Common Stock received upon exercise of the Option, net of the exercise price paid by the Grantee upon exercise of the Option; provided, that if the Grantee has disposed of any shares of Common Stock received upon exercise of the Option, then the Committee may require the Grantee to pay to the Company, in cash, the fair market value of such shares of Common Stock as of the date of disposition, net of the exercise price paid by the Grantee upon exercise of the Option. The Committee shall exercise the right of recoupment provided in this subsection (c)(ii) within 180 days after the Committee's discovery of the Grantee's breach of any of the Restrictive Covenants.

(d) If any portion of the covenants or agreements contained in this Section 10, the specific forfeiture provisions related to vested shares, or the application thereof, is construed to be invalid or unenforceable, the other portions of such covenants or agreements or the application thereof shall not be affected and shall be given full force and effect without regard to the invalid or unenforceable portions to the fullest extent possible. If any covenant or agreement in this Section 10 is held to be unenforceable because of the duration thereof or the scope thereof, then the court making such determination shall have the power to reduce the duration and limit the scope thereof, and the covenant or agreement shall then be enforceable in its reduced form. The covenants and agreements contained in this Section 10 shall survive the termination of the Grantee's employment with the Company or any of its Affiliates and shall survive the termination of these Terms and Conditions.

11. **Grant Subject to Plan Provisions.** These Terms and Conditions are made pursuant to the terms of the Plan, the terms of which are incorporated herein by reference, and shall in all respects be interpreted in accordance therewith. The decisions of the Committee shall be conclusive upon any question arising hereunder. The Grantee's receipt of the Option awarded under these Terms and Conditions constitutes such Grantee's acknowledgment that all decisions and determinations of the Committee with respect to the Plan, these Terms and Conditions, and/or the Option shall be final and binding on the Grantee, his beneficiaries, and any other person having or claiming an interest in such Option. The settlement of any award with respect to the Option is subject to the provisions of the Plan and to interpretations, regulations, and determinations concerning the Plan as established from time to time by the Committee in accordance with the provisions of the Plan. A copy of the Plan will be furnished to each Grantee upon request. Additional copies may be obtained from the Corporate Secretary of the Company, 1601 Market Street, Philadelphia, Pennsylvania 19103-2197.

12. **No Employment or Other Rights.** Neither the granting of the Option, nor any other action taken with respect to such Option, shall confer upon the Grantee any right to continue in the employ of the Company or a Subsidiary or shall interfere in any way with the right of the Company or a Subsidiary to terminate Grantee's employment at any time. The right of the Company or a Subsidiary to terminate at will the Grantee's employment or service at any time for any reason is specifically reserved.

13. **No Stockholder Rights.** Neither the Grantee, nor any person entitled to exercise the Grantee's rights in the event of the Grantee's death or in accordance with the terms of these Terms and Conditions, shall have any of the rights and privileges of a stockholder with respect to the shares subject to the Option, except to the extent that certificates for such shares shall have been issued upon the exercise of the Option as provided for herein (or an appropriate book entry has been made). Except as described in the Plan, no adjustments are made for dividends or other rights if the applicable record date occurs before Grantee's shares are issued (or an appropriate book entry has been made).

14. **Assignment and Transfers.** The rights and protections of the Company hereunder shall extend to any successors or assigns of the Company and to the Company's parents, subsidiaries, and other Affiliates. These Terms and Conditions may be assigned by the Company without the Grantee's consent.

15. **Income Taxes; Withholding Taxes.** All obligations of the Company under these Terms and Conditions shall be subject to the rights of the Company as set forth in the Plan to withhold amounts required to be withheld for any taxes, if applicable. At the time of exercise, the Company shall have the right to deduct from other compensation, or to withhold shares of Common Stock, in an amount equal to the federal (including FICA), state, local, and foreign income taxes and other amounts as may be required by law to be withheld with respect to the exercise of the Option, provided that any share withholding shall not exceed the Grantee's minimum applicable withholding tax rate for federal (including FICA), state, local, and foreign tax liabilities.

16. **Applicable Law.** The validity, construction, interpretation, and effect of this instrument shall exclusively be governed by, and determined in accordance with, the applicable laws of the State of Delaware, excluding any conflicts or choice of law rule or principle. This Option award shall be subject to any required approvals by any governmental or regulatory agencies. This Option award shall also be subject to any applicable clawback or recoupment policies, share trading policies, and other policies that may be implemented by the Board from time to time in accordance with applicable law. Notwithstanding anything in these Terms and Conditions to the contrary, the Plan, these Terms and Conditions, and the Option awarded hereunder shall be subject to all applicable laws, including any laws, regulations, restrictions, or governmental guidance that becomes applicable in the event of the Company's participation in any governmental programs, and the Committee reserves the right to modify these Terms and Conditions and the Option as necessary to conform to any restrictions imposed by any such laws, regulations, restrictions, or governmental guidance or to conform to any applicable clawback or recoupment policies, share trading policies, and other policies that may be implemented by the Board from time to time. As a condition of participating in the Plan, and by the Grantee's acceptance of the Option, the Grantee is deemed to have agreed to any such modifications that may be imposed by the Committee, and agrees to sign such waivers or acknowledgments as the Committee may deem necessary or appropriate with respect to such modifications. The Grantee irrevocably and unconditionally (i) agrees that any legal proceeding arising out of these Terms and Conditions may be brought only in the United States District Court for the Eastern District of Pennsylvania, or if such court does not have jurisdiction or will not accept jurisdiction, in any court of general jurisdiction in Philadelphia County, Pennsylvania, (ii) consents to the sole and exclusive jurisdiction and venue of such court in any such proceeding, and (iii) waives any objection to the laying of venue of any such proceeding in any such court. The Grantee also irrevocably and unconditionally consents to the service of any process, pleadings, notices, or other papers.

17. **Notice.** Any notice to the Company provided for in these Terms and Conditions shall be addressed to it in care of the Corporate Secretary of the Company, 1601 Market Street, Philadelphia, Pennsylvania 19103-2197, and any notice to the Grantee shall be addressed to such Grantee at the current address shown on the payroll of the Company or an Affiliate, or to such other address as the Grantee may designate to the Company in writing in accordance with this Section. Except as otherwise provided by this Section, any notice provided for hereunder shall be delivered by hand, sent by telecopy or electronic mail, or enclosed in a properly sealed envelope addressed as stated above, registered and deposited, postage and registry fee prepaid in the United States mail or other mail delivery service. Notice to the Company shall be deemed effective upon receipt. By receipt of the Option granted hereunder, Grantee hereby consents to the delivery of information (including without limitation, information required to be delivered to the Grantee pursuant to the applicable securities laws) regarding the Company, the Plan, and the Option via the Company's electronic mail system or other electronic delivery system.

18. **Notice of Immunity for Confidential Disclosure of a Trade Secret to an Attorney, the Government or in a Court Filing in Particular Circumstances.** The Grantee is hereby notified that these Terms and Conditions are entered into pursuant to the United States Federal Trade Secrets law. In addition to other provisions, federal law provides certain protections to individuals who disclose a trade secret to their attorney, a court, or a government official in certain, confidential circumstances. Specifically, federal law provides that an individual shall not be held criminally or civilly liable under any federal or state trade secret law for the disclosure of a trade secret under either of the following conditions:

- (a) Where the disclosure is made (i) in confidence to a federal, state, or local government official, either directly or indirectly, or to an attorney; and (ii) solely for the purpose of reporting or investigating a suspected violation of law; or
- (b) Where the disclosure is made in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal. *See* 18 U.S.C. § 1833(b)(1).

Federal law also provides that an individual who files a lawsuit for retaliation by an employer for reporting a suspected violation of law may disclose the trade secret to the attorney of the individual and use the trade secret information in the court proceeding, if the individual (A) files any document containing the trade secret under seal; and (B) does not disclose the trade secret, except pursuant to court order. *See* 18 U.S.C. § 1833(b)(2).

IN WITNESS WHEREOF, the Company has caused its duly authorized officer to execute and attest this instrument, and the Grantee has placed his signature hereon, effective as of the Grant Date set forth above.

RADIAN GROUP INC.

By: /s/ Anita Scott

Name: Anita Scott

Title: SVP, Chief Human Resources Officer

I hereby accept this Option award and (a) acknowledge receipt of the Plan incorporated herein, (b) acknowledge that I have read the Award Summary delivered in connection with this Option award and these Terms and Conditions and understand the terms and conditions of them, (c) accept the award of the Option described in these Terms and Conditions, (d) agree to be bound by the terms of the Plan and these Terms and Conditions, and (e) agree that all decisions and determinations of the Committee with respect to the Option shall be final and binding.

Acknowledged and Agreed by Award Recipient:

Signature: /s/ S.A. Ibrahim

Print Name: S.A. Ibrahim

Date: July 15, 2016

RADIANT GROUP INC.
2014 EQUITY COMPENSATION PLAN

PERFORMANCE-BASED RESTRICTED STOCK UNIT GRANT

TERMS AND CONDITIONS

These Terms and Conditions ("**Terms and Conditions**") are part of the Performance-Based Restricted Stock Unit Grant made as of May 11, 2016 (the "**Grant Date**"), by Radian Group Inc., a Delaware corporation (the "**Company**"), to <EMPLOYEE'S NAME>, an employee of the Company (the "**Grantee**").

RECITALS

WHEREAS, the Radian Group Inc. 2014 Equity Compensation Plan (the "**Plan**") permits the grant of Restricted Stock Units in accordance with the terms and provisions of the Plan;

WHEREAS, the Company desires to grant Restricted Stock Units to the Grantee, and the Grantee desires to accept such Restricted Stock Units, on the terms and conditions set forth herein and in the Plan;

WHEREAS, the Restricted Stock Units granted pursuant to these Terms and Conditions shall vest based on the attainment of performance goals related to total shareholder return ("**TSR**"), LTI Book Value per Share (as defined below), and continued employment; and

WHEREAS, the applicable provisions of the Plan are incorporated into these Terms and Conditions by reference, including the definitions of terms contained in the Plan (unless such terms are otherwise defined herein).

NOW, THEREFORE, the parties hereto, intending to be legally bound hereby, agree as follows:

1. Grant of Performance-Based Restricted Stock Units.

- (a) **Grant of Restricted Stock Units.** The Company hereby awards to the Grantee a target award of ZZZ Restricted Stock Units (hereinafter, the "**Target Award**"), which consists of the TSR Target Award and the BV Target Award described below, subject to the vesting and other conditions of these Terms and Conditions.
- (b) **TSR Target Award and BV Target Award.** Payment of the Restricted Stock Units will be based on achievement of the performance goals set forth herein and continued employment as follows:
- (i) Fifty percent of the Target Award (the "**TSR Target Award**") will be based on attainment of the performance goals set forth in Schedule A (the "**TSR Performance Goals**") and continued employment.
 - (ii) Fifty percent of the Target Award (the "**BV Target Award**") will be based on attainment of the performance goals set forth in Schedule B (the "**BV Performance Goals**") and continued employment.

2. Vesting.

(a) **General Vesting Terms.** Except as set forth in Sections 2(c) and 2(d) below, the Grantee shall vest in a number of Restricted Stock Units with respect to the TSR Target Award (the "**TSR Component**") and the BV Target Award (the "**BV Component**") based on the attainment of the TSR Performance Goals and BV Performance Goals, respectively, as of the end of the applicable performance period, provided that in each case the Grantee remains employed by the Company or a Subsidiary through May 11, 2019 (the "**Vesting Date**"). The performance period with respect to the TSR Component is the period beginning on May 11, 2016 and ending on May 11, 2019 (the "**TSR Performance Period**") and the performance period with respect to the BV Component is the period beginning on March 31, 2016 and ending on March 31, 2019 (the "**BV Performance Period**"). Except as specifically provided below in this Section 2, no Restricted Stock Units will vest for any reason prior to the Vesting Date, and in the event of a termination of the Grantee's employment prior to the Vesting Date, the Grantee will forfeit to the Company all Restricted Stock Units that have not yet vested as of the termination date. Except as provided in Sections 2(c) and 2(d) below, if the TSR Performance Goals are not attained at the end of the TSR Performance Period, the Restricted Stock Units with respect to TSR Component will be immediately forfeited and if the BV Performance

Goals are not attained at the end of the BV Performance Period, the Restricted Stock Units with respect to the BV Component will be immediately forfeited.

(b) **Retirement.**

(i) If the Grantee terminates employment prior to the Vesting Date on account of the Grantee's Retirement, the Grantee will not forfeit the Restricted Stock Units upon Retirement, and the Restricted Stock Units will continue to vest based on the attainment of the TSR Performance Goals and the BV Performance Goals, except as provided in Sections 2(c) and 2(d) below.

(ii) For purposes of these Terms and Conditions, "**Retirement**" shall mean the Grantee's separation from service without Cause, other than on account of death or Disability (as defined below), (A) following the Grantee's attainment of age 65 and completion of five years of service with the Company or a Subsidiary, or (B) following the Grantee's attainment of age 55 and completion of 10 years of service with the Company or a Subsidiary.

(iii) For purposes of these Terms and Conditions, "**Cause**" shall mean the Grantee's (A) indictment for, conviction of, or pleading nolo contendere to, a felony or a crime involving fraud, misrepresentation, or moral turpitude (excluding traffic offenses other than traffic offenses involving the use of alcohol or illegal substances), (B) fraud, dishonesty, theft, or misappropriation of funds in connection with the Grantee's duties with the Company and its Subsidiaries, (C) material violation of the Company's Code of Conduct or employment policies, as in effect from time to time, (D) gross negligence or willful misconduct in the performance of the Grantee's duties with the Company and its Subsidiaries, or (E) a breach of any written confidentiality, nonsolicitation, or noncompetition covenant with the Company or an Affiliate, in each case as determined in the sole discretion of the Committee.

(c) **Death or Disability.** In the event of the Grantee's death or Disability while employed by the Company or a Subsidiary prior to the Vesting Date, the Grantee's Restricted Stock Units will automatically vest at the Target Award level on the date of the Grantee's death or Disability, as applicable. If, following the Grantee's termination of employment due to Retirement, the Grantee dies prior to the Vesting Date, the Grantee's Restricted Stock Units will automatically vest at the Target Award level on the date of the Grantee's death. For purposes of these Terms and Conditions, the term "**Disability**" shall mean a physical or mental impairment of sufficient severity that the Grantee is both eligible for and in receipt of benefits under the long-term disability program maintained by the Company, and that meets the requirements of a disability under section 409A of the Code, provided that the Grantee completes 30 days of active service with the Company at any time after the Grant Date and prior to the Vesting Date. The date of Disability for purposes of these Terms and Conditions is the date on which the Grantee has been in receipt of such long-term disability benefits for six consecutive months. In the event that the Grantee is not in active service on the Grant Date (for example, on account of short-term disability) and the Grantee does not return to the Company and complete 30 days of active service with the Company prior to the Vesting Date, the award will be forfeited.

(d) **Change of Control.**

(i) If a Change of Control occurs prior to the Vesting Date, the Restricted Stock Units will vest at the Target Award level on the Vesting Date, provided that, except as set forth in subsections (ii), (iv) and (v) below, the Grantee remains employed by the Company or a Subsidiary through the Vesting Date. In no event shall vesting occur after the end of the Performance Period.

(ii) Notwithstanding the foregoing, if, prior to the Vesting Date, a Change of Control occurs and the Grantee's employment with the Company and its Subsidiaries is terminated by the Company or a Subsidiary without Cause, or the Grantee terminates employment for Good Reason, and the Grantee's date of termination of employment (or in the event of the Grantee's termination for Good Reason, the event giving rise to Good Reason) occurs during the period beginning on the date that is 90 days before the Change of Control and ending on the date that is one year following the Change of Control, the unvested Restricted Stock Units will automatically vest at the Target Award level as of the Grantee's date of termination of employment (or, if later, on the date of the Change of Control).

(iii) For purposes of these Terms and Conditions "**Good Reason**" shall mean:

(A) a material diminution of the Grantee's authority, duties, or responsibilities;

(B) a material reduction in the Grantee's base salary, which, for purposes of these Terms and Conditions, means a reduction in base salary of 10% or more that does not apply generally to all similarly situated employees of the Company; or

(C) any material change in the geographic location at which the Grantee must perform the Grantee's duties to the Company and its Subsidiaries, which, for purposes of these Terms and Conditions, means the permanent relocation of the Grantee's principal place of employment to any office or location which is located more than 100 miles from the location where the Grantee is based immediately prior to the change in location.

In order to terminate employment for Good Reason, the Grantee must provide a written notice of termination with respect to termination for Good Reason to the Company within 90 days after the event constituting Good Reason has

occurred. The Company shall have a period of 30 days in which it may correct the act, or the failure to act, that gave rise to the Good Reason event as set forth in the notice of termination. If the Company does not correct the act, or the failure to act, the Grantee must terminate employment for Good Reason within 30 days after the end of the cure period, in order for the termination to be considered a Good Reason termination. Notwithstanding the foregoing, in no event will the Grantee have Good Reason for termination if an event described in Section 2(d)(iii)(A) occurs in connection with the Grantee's inability to perform his or her duties on account of illness or short-term or long-term disability.

(iv) Notwithstanding the foregoing, if the Grantee's employment terminates on account of Retirement before a Change of Control, and a Change of Control subsequently occurs prior to the Vesting Date, the outstanding Restricted Stock Units will vest at the Target Award level on the Vesting Date (or on the Grantee's date of death, if earlier).

(v) Notwithstanding the foregoing, if the Grantee's employment terminates on account of Retirement on or after a Change of Control, the Restricted Stock Units will vest at the Target Award level on the Grantee's Retirement date.

(e) **Cause.** In the event the Grantee's employment is terminated by the Company or a Subsidiary for Cause, all outstanding Restricted Stock Units held by the Grantee shall immediately terminate and be of no further force or effect.

(f) **Other Termination.** Except as provided in Sections 2(b), 2(c), 2(d) and 2(e), in the event of a termination of employment, the Grantee will forfeit all unvested Restricted Stock Units. Except as provided in Section 2(b) or 2(d), no Restricted Stock Units will vest after the Grantee's employment with the Company or a Subsidiary has terminated for any reason.

3. **Restricted Stock Units Account.**

The Company shall establish a bookkeeping account on its records for the Grantee and shall credit the Grantee's Restricted Stock Units to the bookkeeping account.

4. **Conversion of Restricted Stock Units.**

(a) Except as otherwise provided in this Section 4, if the Restricted Stock Units vest in accordance with these Terms and Conditions, the Grantee shall be entitled to receive payment of the vested Restricted Stock Units within 90 days after the one-year anniversary of the Vesting Date (the one year anniversary of the Vesting Date is referred to as the "**Distribution Date**").

(b) The vested Restricted Stock Units shall be paid earlier than the Distribution Date in the following circumstances:

(i) If (A) the Restricted Stock Units vest in accordance with Section 2(c) (the Grantee's death or Disability), or (B) the Grantee dies or incurs a Disability after the Vesting Date but before the Distribution Date, the vested Restricted Stock Units shall be paid within 90 days after the date of the Grantee's death or Disability, as applicable.

(ii) If a Change of Control occurs after the Vesting Date but before the Distribution Date, the vested Restricted Stock Units shall be paid within 90 days after the date of the Change of Control.

(iii) If a Change of Control occurs and the Grantee's employment terminates upon or within one year after the Change of Control in accordance with Section 2(d)(ii), the vested Restricted Stock Units shall be paid within 90 days after the Grantee's termination of employment.

(iv) If a Change of Control occurs and the Grantee's employment terminates within 90 days prior to the Change of Control in accordance with Section 2(d)(ii), and the Grantee subsequently dies prior to the Vesting Date, the vested Restricted Stock Units shall be paid within 90 days after the date of the Grantee's death.

(v) If the Restricted Stock Units vest in accordance with Section 2(d)(v) (Retirement on or after a Change of Control), the vested Restricted Stock Units shall be paid within 90 days after the Grantee's Retirement date; provided that, if required by section 409A of the Code, if the Retirement date does not occur within two years after the Change of Control, payment will be made within 90 days after the Distribution Date.

(vi) Notwithstanding subsections (ii), (iii) and (v), if the Change of Control is not a "change in control event" under section 409A of the Code, and if required by section 409A of the Code, payment will not be made on the dates described in subsections (ii), (iii) and (v) and, instead, will be made within 90 days after the Distribution Date.

(c) On the applicable payment date, each vested Restricted Stock Unit credited to the Grantee's account shall be settled in whole shares of Common Stock of the Company equal to the number of vested Restricted Stock Units, subject to (i) the limitation of subsection (d) below, (ii) compliance with the six-month delay described in Section 16 below, if applicable, and (iii) the payment of any federal, state, local or foreign withholding taxes as described in Section 12 below, and subject to compliance with the restrictive covenants in Section 6 below. The obligation of the Company to distribute shares upon vesting shall be subject to the rights of the Company as set forth in the Plan and to all applicable laws, rules, regulations, and such

approvals by governmental agencies as may be deemed appropriate by the Committee, including as set forth in Section 14 below.

(d) Notwithstanding anything in these Terms and Conditions to the contrary, in no event shall the fair market value (as defined in the Plan) of the vested Restricted Stock Units to be distributed with respect to the TSR Component exceed \$72.96 (\$12.16 multiplied by 600%) multiplied by the TSR Target Award, measured as of the Valuation Date (as defined below). If the fair market value of the vested Restricted Stock Units with respect to the TSR Component would exceed this amount, the number of shares of the Company's Common Stock to be distributed to the Grantee shall be limited to the amount calculated as follows:

- \$72.96 multiplied by the TSR Target Award,
- Divided by the fair market value of a share of the Company's Common Stock on the Valuation Date.

For this purpose, the "**Valuation Date**" is the Vesting Date for Restricted Stock Units that are payable on or after the Vesting Date. If the Restricted Stock Units are payable before the Vesting Date, the "**Valuation Date**" is the Grantee's applicable payment date under this Section 4 (termination date, date of Disability, date of death, or Change of Control, as applicable).

(e) For the avoidance of doubt, the Grantee will forfeit all Restricted Stock Units if the Grantee's employment is terminated for Cause prior to the Distribution Date or other applicable payment date under this Section 4.

5. **Certain Corporate Changes.**

If any change is made to the Common Stock (whether by reason of merger, consolidation, reorganization, recapitalization, stock dividend, stock split, combination of shares, or exchange of shares or any other change in capital structure made without receipt of consideration), then unless such event or change results in the termination of all the Restricted Stock Units granted under these Terms and Conditions, the Committee shall adjust, as provided in the Plan, the number and class of shares underlying the Restricted Stock Units held by the Grantee, the maximum number of shares for which the Restricted Stock Units may vest, the share price or class of Common Stock for purposes of the TSR Performance Goals, and the BV Performance Goals as appropriate to reflect the effect of such event or change in the Company's capital structure in such a way as to preserve the value of the Restricted Stock Units. Any adjustment that occurs under the terms of this Section 5 or the Plan will not change the timing or form of payment with respect to any Restricted Stock Units except in accordance with section 409A of the Code.

6. **Restrictive Covenants.**

(a) The Grantee acknowledges and agrees that, during and after the Grantee's employment with the Company or any of its Affiliates, the Grantee will be subject to, and will comply with, the applicable confidentiality and other terms specified in the Company's Code of Conduct and Ethics, including terms applicable to former employees. A copy of the Code of Conduct and Ethics has been provided to the Grantee and can be accessed on the Company's intranet. The Code of Conduct and Ethics, including any future revisions to the Code of Conduct and Ethics, are incorporated into and made a part of these Terms and Conditions as if fully set forth herein.

(b) The Grantee acknowledges that the Grantee's relationship with the Company and its Affiliates is one of confidence and trust such that the Grantee is, and may in the future be, privy to and/or the Grantee will develop Confidential Information and Trade Secrets of the Company or any of its Affiliates. Subject to the provisions of subsection (j) and Section 17, the Grantee agrees that, at all times during the Grantee's employment and after the Grantee's employment with the Company or any of its Affiliates terminates for any reason, whether by the Grantee or by the Company or any of its Affiliates, the Grantee will hold in strictest confidence and will not disclose, use, or publish any Confidential Information and Trade Secrets, except as and only to the extent such disclosure, use, or publication is required during the Grantee's employment with the Company or any of its Affiliates for the Grantee to fulfill the Grantee's job duties and responsibilities to the Company or any of its Affiliates. At all times during the Grantee's employment and after the Grantee's termination of employment, the Grantee agrees that the Grantee shall take all reasonable precautions to prevent the inadvertent or accidental disclosure of Confidential Information and Trade Secrets. The Grantee hereby assigns to the Company any rights the Grantee may have or acquire in Confidential Information and Trade Secrets, whether developed by the Grantee or others, and the Grantee acknowledges and agrees that all Confidential Information and Trade Secrets shall be the sole property of the Company and its assigns. For purposes of these Terms and Conditions, "**Confidential Information and Trade Secrets**" shall mean information that the Company or any of its Affiliates owns or possesses, that the Company or any of its Affiliates have developed at significant expense and effort, that they use or that is potentially useful in the business of the Company or any of its Affiliates,

that the Company or any of its Affiliates treat as proprietary, private, or confidential, and that is not generally known to the public.

(c) The Grantee acknowledges and agrees that, during the Grantee's employment with the Company or any of its Affiliates, and for the 12 month period immediately following the Grantee's termination of employment for any reason, and subject to subsection (l) below (the "**Restricted Period**"), the Grantee will not, without the Company's express written consent, engage (directly or indirectly) in any employment or business activity within the United States whose primary business involves or is related to providing any mortgage- or real estate-related service or product that, during the Grantee's employment, the Company or any of its Affiliates provides or is actively engaged in developing through the use of Confidential Information and Trade Secrets; provided however, the foregoing restriction shall only apply to such service or product for which the Grantee has had access to Confidential Information and Trade Secrets or otherwise has had active involvement. The Grantee further agrees that, given the nature of the business of the Company and its Affiliates and the Grantee's position with the Company, a nationwide geographic scope is appropriate and reasonable.

(d) The Grantee acknowledges and agrees that, during the term of the Grantee's employment by the Company or any of its Affiliates and during the Restricted Period, the Grantee shall not, directly or indirectly through others, (i) hire or attempt to hire any employee of the Company or any of its Affiliates, (ii) solicit or attempt to solicit any employee of the Company or any of its Affiliates to become an employee, consultant, or independent contractor to, for, or of any other person or business entity, or (iii) solicit or attempt to solicit any employee, or any consultant or independent contractor of the Company or any of its Affiliates to change or terminate his or her relationship with the Company or any of its Affiliates, unless in each case more than six months shall have elapsed between the last day of such person's employment or service with the Company or any of its Affiliates and the first date of such solicitation or hiring or attempt to solicit or hire. If any employee, consultant, or independent contractor is hired or solicited by any entity that has hired or agreed to hire the Grantee, such hiring or solicitation shall be conclusively presumed to be a violation of these Terms and Conditions; provided, however, that any hiring or solicitation pursuant to a general solicitation conducted by an entity that has hired or agreed to hire the Grantee, or by a headhunter employed by such entity, which does not involve the Grantee, shall not be a violation of this subsection (d).

(e) The Grantee covenants and agrees that, during the term of the Grantee's employment by the Company or any of its Affiliates and during the Restricted Period, the Grantee shall not, either directly or indirectly through others:

(i) solicit, divert, appropriate, or do business with, or attempt to solicit, divert, appropriate, or do business with, any customer for whom the Company or any of its Affiliates provided goods or services within 12 months prior to the Grantee's date of termination or any actively sought prospective customer of the Company or any of its Affiliates for the purpose of providing such customer or actively sought prospective customer with services or products competitive with those offered by the Company or any of its Affiliates during the Grantee's employment with the Company or any of its Affiliates; or

(ii) encourage any customer for whom the Company or any of its Affiliates provided goods or services within 12 months prior to the Grantee's date of termination to reduce the level or amount of business such customer conducts with the Company or any of its Affiliates.

Notwithstanding the foregoing, unless provided otherwise in a written agreement entered into between the Grantee and the Company or any of its Affiliates, this subsection (e) shall not apply after the Grantee's termination of employment with the Company or any of its Affiliates, if the Grantee's employment is terminated by the Company or any of its Affiliates without Cause.

(f) The Grantee acknowledges and agrees that the business of the Company and its Affiliates is highly competitive, that the Confidential Information and Trade Secrets have been developed by the Company or any of its Affiliates at significant expense and effort, and that the restrictions contained in this Section 6 are reasonable and necessary to protect the legitimate business interests of the Company or any of its Affiliates.

(g) The parties to these Terms and Conditions acknowledge and agree that any breach by the Grantee of any of the covenants or agreements contained in this Section 6 will result in irreparable injury to the Company or any of its Affiliates, as the case may be, for which money damages could not adequately compensate such entity. Therefore, the Company or any of its Affiliates shall have the right (in addition to any other rights and remedies which it may have at law or in equity and in addition to the forfeiture requirements set forth in subsection (h) below) to seek to enforce this Section 6 and any of its provisions by injunction, specific performance, or other equitable relief, without bond and without prejudice to any other rights and remedies that the Company or any of its Affiliates may have for a breach, or threatened breach, of the restrictive covenants set forth in this Section 6. The Grantee agrees that in any action in which the Company or any of its Affiliates seeks injunction, specific performance, or other equitable relief, the Grantee will not assert or contend that any of the provisions of this Section 6 are unreasonable or otherwise unenforceable. The Grantee irrevocably and unconditionally (i) agrees that any legal proceeding arising out of these Terms and Conditions may be brought only in the United States District Court for the Eastern District of Pennsylvania, or if such court does not have jurisdiction or will not accept jurisdiction, in any court of general jurisdiction in

Philadelphia County, Pennsylvania, (ii) consents to the sole and exclusive jurisdiction and venue of such court in any such proceeding, and (iii) waives any objection to the laying of venue of any such proceeding in any such court. The Grantee also irrevocably and unconditionally consents to the service of any process, pleadings, notices, or other papers.

(h) The Grantee acknowledges and agrees that in the event the Grantee breaches any of the covenants or agreements contained in this Section 6:

(i) The Committee may in its discretion determine that the Grantee shall forfeit the outstanding Restricted Stock Units (without regard to whether the Restricted Stock Units have vested, except as to the vested shares where forfeiture of vested shares is expressly prohibited by law), and the outstanding Restricted Stock Units shall immediately terminate, and

(ii) The Committee may in its discretion require the Grantee to return to the Company any shares of Common Stock received in settlement of the Restricted Stock Units; provided, that if the Grantee has disposed of any shares of Common Stock received upon settlement of the Restricted Stock Units, then the Committee may require the Grantee to pay to the Company, in cash, the fair market value of such shares of Common Stock as of the date of disposition. The Committee shall exercise the right of recoupment provided in this subsection (h)(ii) within 180 days after the Committee's discovery of the Grantee's breach of any of the covenants or agreements contained in this Section 6.

(i) If any portion of the covenants or agreements contained in this Section 6, the specific forfeiture provisions related to vested shares, or the application thereof, is construed to be invalid or unenforceable, the other portions of such covenants or agreements or the application thereof shall not be affected and shall be given full force and effect without regard to the invalid or unenforceable portions to the fullest extent possible. If any covenant or agreement in this Section 6 is held to be unenforceable because of the duration thereof or the scope thereof, then the court making such determination shall have the power to reduce the duration and limit the scope thereof, and the covenant or agreement shall then be enforceable in its reduced form. The covenants and agreements contained in this Section 6 shall survive the termination of the Grantee's employment with the Company or any of its Affiliates and shall survive the termination of these Terms and Conditions.

(j) Nothing in these Terms and Conditions, including any restrictions on the use of Confidential Information and Trade Secrets, shall prohibit or restrict the Grantee from initiating communications directly with, or responding to any inquiry from, or providing testimony before, the Equal Employment Opportunity Commission, the Department of Justice, the Securities and Exchange Commission, or any other federal, state, or local regulatory authority. To the extent permitted by law, upon receipt of any subpoena, court order, or other legal process compelling the disclosure of Confidential Information and Trade Secrets, the Grantee agrees to give prompt written notice to the Company so as to permit the Company to protect its interests in confidentiality to the fullest extent possible.

(k) Nothing in these Terms and Conditions shall be deemed to constitute the grant of any license or other right to the Grantee in respect of any Confidential Information and Trade Secrets or other data, tangible property, or intellectual property of the Company or any of its Affiliates.

(l) Should the Grantee violate any of the restrictive covenants of these Terms and Conditions, then the period of the Grantee's breach of such covenant ("**Violation Period**") shall stop the running of the corresponding Restricted Period. Once the Grantee resumes compliance with the restrictive covenant, the Restricted Period applicable to such covenant shall be extended for a period equal to the Violation Period so that the Company enjoys the full benefit of the Grantee's compliance with the restrictive covenant for the duration of the corresponding Restricted Period.

(m) In the event of a conflict between the terms of the confidentiality, non-competition or non-solicitation covenants in this Section 6 and a confidentiality, non-competition or non-solicitation covenant in a prior stock option, restricted stock unit or other equity grant agreement between the Grantee and the Company, the confidentiality, non-competition and non-solicitation covenants in this Section 6 shall control as of the Grant Date.

7. No Stockholder Rights.

The Grantee has no voting rights and no rights to receive dividends or dividend equivalents or other ownership rights and privileges of a stockholder with respect to the shares of Common Stock subject to the Restricted Stock Units.

8. Retention Rights.

Neither the award of Restricted Stock Units, nor any other action taken with respect to the Restricted Stock Units, shall confer upon the Grantee any right to continue in the employ or service of the Company or an Affiliate or shall interfere in any way with the right of the Company or an Affiliate to terminate Grantee's employment or service at any time.

9. Cancellation or Amendment.

This award may be canceled or amended by the Committee, in whole or in part, in accordance with the applicable terms of the Plan.

10. Notice.

Any notice to the Company provided for in these Terms and Conditions shall be addressed to it in care of the Corporate Secretary of the Company, 1601 Market Street, Philadelphia, Pennsylvania 19103-2197, and any notice to the Grantee shall be addressed to such Grantee at the current address shown on the payroll system of the Company or an Affiliate thereof, or to such other address as the Grantee may designate to the Company in writing. Any notice provided for hereunder shall be delivered by hand, sent by telecopy or electronic mail, or enclosed in a properly sealed envelope addressed as stated above, registered and deposited, postage and registry fee prepaid in the United States mail, or other mail delivery service. Notice to the Company shall be deemed effective upon receipt. By receipt of these Terms and Conditions, the Grantee hereby consents to the delivery of information (including without limitation, information required to be delivered to the Grantee pursuant to the applicable securities laws) regarding the Company, the Plan, and the Restricted Stock Units via the Company's electronic mail system or other electronic delivery system.

11. Incorporation of Plan by Reference.

These Terms and Conditions are made pursuant to the terms of the Plan, the terms of which are incorporated herein by reference, and shall in all respects be interpreted in accordance therewith. The decisions of the Committee shall be conclusive upon any question arising hereunder. The Grantee's receipt of the Restricted Stock Units awarded under these Terms and Conditions constitutes such Grantee's acknowledgment that all decisions and determinations of the Committee with respect to the Plan, these Terms and Conditions, and/or the Restricted Stock Units shall be final and binding on the Grantee, his or her beneficiaries, and any other person having or claiming an interest in such Restricted Stock Units. The settlement of any award with respect to Restricted Stock Units is subject to the provisions of the Plan and to interpretations, regulations, and determinations concerning the Plan as established from time to time by the Committee in accordance with the provisions of the Plan. A copy of the Plan will be furnished to each Grantee upon request. Additional copies may be obtained from the Corporate Secretary of the Company, 1601 Market Street, Philadelphia, Pennsylvania 19103-2197.

12. Income Taxes; Withholding Taxes.

The Grantee is solely responsible for the satisfaction of all taxes and penalties that may arise in connection with the Restricted Stock Units pursuant to these Terms and Conditions. At the time of taxation, the Company shall have the right to deduct from other compensation or from amounts payable with respect to the Restricted Stock Units, including by withholding shares of the Company's Common Stock, an amount equal to the federal (including FICA), state, local and foreign income and payroll taxes and other amounts as may be required by law to be withheld with respect to the Restricted Stock Units, provided that any share withholding shall not exceed the Grantee's minimum applicable withholding tax rate for federal (including FICA), state, local, and foreign tax liabilities. Without limiting the foregoing, upon vesting of the Restricted Stock Units, the Company may withhold shares subject to the vested Restricted Stock Units to cover the minimum applicable withholding for FICA tax and related income tax liabilities.

13. Governing Law.

The validity, construction, interpretation, and effect of this instrument shall exclusively be governed by, and determined in accordance with, the applicable laws of the State of Delaware, excluding any conflicts or choice of law rule or principle.

14. Grant Subject to Applicable Laws and Company Policies.

These Terms and Conditions shall be subject to any required approvals by any governmental or regulatory agencies. This award of Restricted Stock Units shall also be subject to any applicable clawback or recoupment policies, share trading policies, and other policies that may be implemented by the Board from time to time in accordance with applicable law. Notwithstanding anything in these Terms and Conditions to the contrary, the Plan, these Terms and Conditions, and the Restricted Stock Units awarded hereunder shall be subject to all applicable laws, including any laws, regulations, restrictions,

or governmental guidance that becomes applicable in the event of the Company's participation in any governmental programs, and the Committee reserves the right to modify these Terms and Conditions and the Restricted Stock Units as necessary to conform to any restrictions imposed by any such laws, regulations, restrictions, or governmental guidance or to conform to any applicable clawback or recoupment policies, share trading policies, and other policies that may be implemented by the Board from time to time. As a condition of participating in the Plan, and by the Grantee's acceptance of the Restricted Stock Units, the Grantee is deemed to have agreed to any such modifications that may be imposed by the Committee, and agrees to sign such waivers or acknowledgments as the Committee may deem necessary or appropriate with respect to such modifications.

15. Assignment.

These Terms and Conditions shall bind and inure to the benefit of the successors and assignees of the Company. The Grantee may not sell, assign, transfer, pledge, or otherwise dispose of the Restricted Stock Units, except to a Successor Grantee in the event of the Grantee's death.

16. Section 409A.

This award of Restricted Stock Units is intended to comply with the applicable requirements of section 409A of the Code and shall be administered in accordance with section 409A of the Code. Notwithstanding anything in these Terms and Conditions to the contrary, if the Restricted Stock Units constitute "deferred compensation" under section 409A of the Code and the Restricted Stock Units become vested and settled upon the Grantee's termination of employment, payment with respect to the Restricted Stock Units shall be delayed for a period of six months after the Grantee's termination of employment if the Grantee is a "specified employee" as defined under section 409A of the Code (as determined by the Committee) and if required pursuant to section 409A of the Code. If payment is delayed, the shares of Common Stock of the Company shall be distributed within 30 days of the date that is the six-month anniversary of the Grantee's termination of employment. If the Grantee dies during the six-month delay, the shares shall be distributed in accordance with the Grantee's will or under the applicable laws of descent and distribution. Notwithstanding any provision to the contrary herein, payments made with respect to this award of Restricted Stock Units may only be made in a manner and upon an event permitted by section 409A of the Code, and all payments to be made upon a termination of employment hereunder may only be made upon a "separation from service" as defined under section 409A of the Code. To the extent that any provision of these Terms and Conditions would cause a conflict with the requirements of section 409A of the Code, or would cause the administration of the Restricted Stock Units to fail to satisfy the requirements of section 409A of the Code, such provision shall be deemed null and void to the extent permitted by applicable law. In no event shall a Grantee, directly or indirectly, designate the calendar year of payment.

17. Notice of Immunity for Confidential Disclosure of a Trade Secret to an Attorney, the Government or in a Court Filing in Particular Circumstances.

The Grantee is hereby notified that these Terms and Conditions are entered into pursuant to the United States Federal Trade Secrets law. In addition to other provisions, federal law provides certain protections to individuals who disclose a trade secret to their attorney, a court, or a government official in certain, confidential circumstances. Specifically, federal law provides that an individual shall not be held criminally or civilly liable under any federal or state trade secret law for the disclosure of a trade secret under either of the following conditions:

- (a) Where the disclosure is made (i) in confidence to a federal, state, or local government official, either directly or indirectly, or to an attorney; and (ii) solely for the purpose of reporting or investigating a suspected violation of law; or
- (b) Where the disclosure is made in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal. *See* 18 U.S.C. § 1833(b)(1)).

Federal law also provides that an individual who files a lawsuit for retaliation by an employer for reporting a suspected violation of law may disclose the trade secret to the attorney of the individual and use the trade secret information in the court proceeding, if the individual (A) files any document containing the trade secret under seal; and (B) does not disclose the trade secret, except pursuant to court order. *See* 18 U.S.C. § 1833(b)(2).

IN WITNESS WHEREOF, the Company has caused its duly authorized officer to execute and attest this instrument, and the Grantee has placed his or her signature hereon, effective as of the Grant Date set forth above.

RADIAN GROUP INC.

By: /s/ Anita Scott

Name: Anita Scott

Title: SVP, Chief Human Resources Officer

By electronically acknowledging and accepting this award of Restricted Stock Units following the date of the Company's electronic notification to the Grantee, the Grantee (a) acknowledges receipt of the Plan incorporated herein, (b) acknowledges that he or she has read the Award Summary delivered in connection with this grant of Restricted Stock Units and these Terms and Conditions and understands the terms and conditions of them, (c) accepts the award of the Restricted Stock Units described in these Terms and Conditions, (d) agrees to be bound by the terms of the Plan and these Terms and Conditions, and (e) agrees that all decisions and determinations of the Committee with respect to the Restricted Stock Units shall be final and binding.

Schedule A
TSR Performance Goals

1. **Calculation of TSR.** Vesting of the Restricted Stock Units with respect to the TSR Component will be based on the following performance results: (i) the relative total shareholder return (“**TSR**”) for the TSR Performance Period beginning on May 11, 2016 and ending on May 11, 2019, which means the Company’s TSR relative to the median TSR of the TSR Peer Group (as defined in Section 2(d) below), as set forth in Section 2 below, and (ii) the Company’s TSR for the TSR Performance Period (“**Company Absolute TSR**”), as set forth in Section 3 below. At the end of the TSR Performance Period, the TSR for the Company, and for each company in the TSR Peer Group, shall be calculated by dividing the Closing Average Share Value (as defined below) by the Opening Average Share Value (as defined below).

(a) The term “**Closing Average Share Value**” means the average value of the common stock, including Accumulated Shares, for the 20 trading days ending on the last day of the TSR Performance Period (i.e., the 20 trading days ending on and including May 11, 2019), which shall be calculated as follows: (i) determine the closing price of the common stock on each trading day during the 20-day period, (ii) multiply each closing price by the Accumulated Shares as of that trading date, and (iii) average the amounts so determined for the 20-day period.

(b) The term “**Opening Average Share Value**” means the average value of the common stock, including Accumulated Shares, for the 20 trading days ending on the first day of the TSR Performance Period (i.e., the 20 trading days ending on and including May 11, 2016), which shall be calculated as follows: (i) determine the closing price of the common stock on each trading day during the 20-day period, (ii) multiply each closing price by the Accumulated Shares as of that trading date, and (iii) average the amounts so determined for the 20-day period. The Opening Average Share Value is \$12.44.

(c) The term “**Accumulated Shares**” means, for a given trading day, the sum of (i) one share and (ii) a cumulative number of shares of the company’s common stock purchased with dividends declared on a company’s common stock, assuming same day reinvestment of the dividends in the common stock of a company at the closing price on the ex-dividend date. The calculations under this Schedule A shall include ex-dividend dates between April 14, 2016 and the trading day.

2. **Relative TSR Vesting Percentage.**

(a) Subject to Sections 3 and 5, the number of Restricted Stock Units that will vest for the TSR Performance Period shall be determined by multiplying the TSR Target Award by the Relative TSR Vesting Percentage, as determined under this Section 2.

(b) The Relative TSR Vesting Percentage will be determined based on the Company’s TSR as compared to the median TSR of the companies in the TSR Peer Group for the TSR Performance Period (the “**Median Peer Group TSR**”) as follows:

Performance (increments of +/- point differential)	Relative TSR Vesting Percentage
Maximum at 50% above Median	200%
+1% Company Absolute TSR above Median	102%
Median Peer Group TSR	100%
-1% Company Absolute TSR below Median	97%
Threshold at -34% below Median	0%

(i) If the Company’s TSR exceeds the Median Peer Group TSR, the Relative TSR Vesting Percentage will increase by 2% above 100% (but not in excess of 200%) for every 1% by which the Company’s TSR exceeds the Median Peer Group TSR.

(ii) If the Company's TSR is less than the Median Peer Group TSR, the Relative TSR Vesting Percentage will be below 100%, in an amount such that there is a 3% reduction for every 1% by which the Company's TSR is less than the Median Peer Group TSR. There is no vesting if the Company's TSR is less than 34% of the Median Peer Group TSR.

(iii) If the Company's TSR rank falls between the measuring points, the Company's TSR rank will be rounded to the nearest whole percentage point.

(c) The companies in the TSR Peer Group will be determined on the first day of the TSR Performance Period for purposes of the TSR calculation and will be changed only in accordance with Section 2(d) below. No company shall be added to the TSR Peer Group during the TSR Performance Period for purposes of the TSR calculation.

(d) The term "**TSR Peer Group**" means the companies listed on Exhibit A and will be subject to change as follows:

(i) In the event of a merger, acquisition or business combination transaction of a company in the TSR Peer Group in which the company in the TSR Peer Group is the surviving entity and remains publicly traded, the surviving entity shall remain a company in the TSR Peer Group. Any entity involved in the transaction that is not the surviving company shall no longer be a company in the TSR Peer Group.

(ii) In the event of a merger, acquisition or business combination transaction of a company in the TSR Peer Group, a "going private" transaction or other event involving a company in the TSR Peer Group or the liquidation of a company in the TSR Peer Group, in each case where the company in the TSR Peer Group is not the surviving entity or is no longer publicly traded, the company shall no longer be a company in the TSR Peer Group.

(iii) Notwithstanding the foregoing, in the event of a bankruptcy of a company in the TSR Peer Group where the company in the TSR Peer Group is not publicly traded at the end of the TSR Performance Period, such company shall remain a company in the TSR Peer Group but shall be deemed to have a TSR of negative 100% (-100%).

3. **Vesting Cap Based on Company Absolute TSR** After the Relative TSR Vesting Percentage is determined, as described in Section 2 above, the Company Absolute TSR for the TSR Performance Period will be evaluated to determine the actual number of Restricted Stock Units that vest (the "**Final Payout Percentage**"). If the Company Absolute TSR is negative, the Final Payout Percentage will not exceed 75% of the TSR Target Award, even if the Relative TSR Vesting Percentage determined under Section 2 is greater than 75%. If the Company Absolute TSR is zero or positive, the Final Payout Percentage will be the Relative TSR Vesting Percentage determined under Section 2 above.

4. **General Vesting Terms**. Any fractional Restricted Stock Unit resulting from the vesting of the Restricted Stock Units in accordance with these Terms and Conditions shall be rounded down to the nearest whole number. Any portion of the Restricted Stock Units with respect to the TSR Component that does not vest as of the end of the TSR Performance Period shall be forfeited as of the end of the TSR Performance Period.

5. **Maximum Vesting and Payment**. In no event shall the maximum number of Restricted Stock Units that may be payable pursuant to these Terms and Conditions with respect to the TSR Component exceed 200% of the TSR Target Award. In addition, notwithstanding anything in this Schedule A to the contrary, in no event shall the fair market value of the vested Restricted Stock Units to be distributed on the applicable Valuation Date exceed \$72.96 (\$12.16 multiplied by 600%) multiplied by the TSR Target Award, as described in Section 4(d) of the Terms and Conditions.

Exhibit A

TSR Peer Group

CoreLogic, Inc. (CLGX)

Essent Group Ltd. (ESNT)

EverBank Financial Corp. (EVER)

Fidelity National Financial, Inc. (FNF)

First American Corporation (FAF)

Genworth Financial, Inc. (GNW)

MGIC Investment Corp. (MTG)

Nationstar Mortgage Holdings, Inc. (NSM)

NMI Holdings Inc. (NMIH)

Ocwen Financial Corp. (OCN)

Old Republic International Corp. (ORI)

PHH Corp. (PHH) Stewart Information Services Corp. (STC)

Walter Investment Management Corp. (WAC)

Schedule B
BV Performance Goals

1. Calculation of Book Value per Share. Vesting of the Restricted Stock Units with respect to the BV Component will be based on the Company's growth in LTI Book Value per Share (as defined below) over the BV Performance Period beginning on March 31, 2016 and ending on March 31, 2019 as compared to the following reference points:

LTI Book Value per Share Growth ⁽¹⁾	Payout Percentage ⁽¹⁾ (Percentage of BV Target Award)
≥45%	200%
35%	150%
25%	100%
15%	50%
<5% ⁽²⁾	0%

(1) If the Company's growth in LTI Book Value per Share falls between two referenced percentages, the payout percentage will be interpolated.

(2) The LTI Book Value on the first day of the BV Performance Period (March 31, 2016) was \$10.97. If the Company's growth in LTI Book Value per Share is less than 5%, the payout percentage will be zero.

The Company's "LTI Book Value per Share" is defined as: (i) Tangible Book Value (Total Stockholders' Equity less Goodwill and Other Intangible Assets, net) adjusted to exclude Accumulated Other Comprehensive Income and the impacts, if any, during the BV Performance Period from repurchases or retirements of convertible bonds, merger and acquisition-related expenses, changes in goodwill and other intangible assets related to acquisitions or dispositions, repurchases of common shares and declared dividends on common shares, *divided by* (ii) basic shares of Common Stock of the Company outstanding as of the applicable measurement date, as adjusted to exclude the share impact, if any, related to any of the items identified in (i) above, each applied on a consistent basis. The LTI Book Value per Share shall be derived from the Company's financial statements, prepared in accordance with GAAP, and the adjustments described above.

2. General Vesting Terms. Any fractional Restricted Stock Unit resulting from the vesting of the Restricted Stock Units in accordance with these Terms and Conditions shall be rounded down to the nearest whole number. Any portion of the Restricted Stock Units with respect to BV Component that does not vest as of the end of the BV Performance Period shall be forfeited as of the end of the BV Performance Period.

3. Maximum Vesting and Payment. In no event shall the maximum number of Restricted Stock Units that may be payable pursuant to these Terms and Conditions with respect to the BV Component exceed 200% of the BV Target Award.

**RADIAN GROUP INC.
2014 EQUITY COMPENSATION PLAN**

STOCK OPTION GRANT

TERMS AND CONDITIONS

These Terms and Conditions ("**Terms and Conditions**") are part of the Stock Option Grant made as of May 11, 2016 (the "**Grant Date**"), by Radian Group Inc., a Delaware corporation (the "**Company**"), to <EMPLOYEE'S NAME>, an employee of the Company (the "**Grantee**").

RECITALS

WHEREAS, the Radian Group Inc. 2014 Equity Compensation Plan (the "**Plan**"), permits the grant of stock options to purchase shares of Common Stock, in accordance with the terms and provisions of the Plan;

WHEREAS, the Company desires to grant a Nonqualified Stock Option to the Grantee, and the Grantee desires to accept such Nonqualified Stock Option, on the terms and conditions set forth herein and in the Plan; and

WHEREAS, the applicable provisions of the Plan are incorporated in these Terms and Conditions by reference, including the definitions of terms contained in the Plan (unless such terms are otherwise defined herein).

NOW, THEREFORE, the parties hereto, intending to be legally bound hereby, agree as follows:

1. **Grant of Option.** The Company hereby awards to the Grantee a Nonqualified Stock Option to purchase <ZZZ> shares of Common Stock at the exercise price per share of \$12.16, subject to the vesting and other conditions of these Terms and Conditions (the "**Option**"). The Grantee hereby accepts the Option and agrees to be bound by the terms and conditions of these Terms and Conditions and the Plan with respect to the award.

2. **Vesting.**

(a) Provided the Grantee remains employed by the Company or a Subsidiary through the applicable vesting date and meets any applicable vesting requirements set forth in these Terms and Conditions, and provided that the Stock Price Hurdle (as defined below) is met, except as set forth in Sections 3 and 4 below, the Option awarded under these Terms and Conditions shall vest as follows:

Date Vested Shares subject to the Option

(subject to achievement of the Stock Price Hurdle)

May 11, 2019	50% of the shares
May 11, 2020	Remaining 50% of the shares

(b) Notwithstanding the foregoing, the Option will only vest if the closing price of the Company's Common Stock on the New York Stock Exchange equals or exceeds \$15.20 (which is 125% of the fair market value of the Company's Common Stock on the Grant Date) for ten consecutive trading days ending on or after May 11, 2019 (the "**Stock Price Hurdle**"), except as provided in Sections 3 and 4 below. If the Stock Price Hurdle has not been met on the third anniversary of the Grant Date (May 11, 2019), the Option with respect to 50% of the shares will vest on the first date after the third anniversary on which the Stock Price Hurdle is met, provided the Grantee remains employed by the Company or a Subsidiary through the applicable vesting date. If the Stock Price Hurdle has not been met on the fourth anniversary of the Grant Date (May 11, 2020), the Option with respect to the remaining 50% of the shares will vest on the first date after the fourth anniversary on which the Stock Price Hurdle is met, provided the Grantee remains employed by the Company or a Subsidiary through the applicable vesting date. The Stock Price Hurdle must be met by May 10, 2026 in order for the Option to vest under this Section 2.

(c) If the vesting schedule above would produce a fractional share, the portion of the Option that is exercisable shall be rounded down to the nearest whole share.

(d) Except as provided in Sections 3 and 4 below, no portion of the Option will vest after the Grantee's employment with the Company and its Subsidiaries has terminated for any reason, whether by the Grantee or by the Company

or any of its Affiliates. In the event of any termination of employment, the Grantee will forfeit the portion of the Option that does not vest either before the termination date or on the termination date associated with such termination.

3. Retirement, Disability and Death.

(a) In the event of (i) the Grantee's termination of employment due to Retirement or (ii) the Grantee's death or Disability while employed by the Company or a Subsidiary, the Grantee's Option will automatically vest in full on the date of the Grantee's Retirement, death or Disability, as applicable, regardless of whether the Stock Price Hurdle has been met.

(b) For purposes of these Terms and Conditions, "**Retirement**" shall mean the Grantee's separation from service, without Cause, other than on account of death or Disability, (A) following the Grantee's attainment of age 65 and completion of five years of service with the Company or a Subsidiary, or (B) following the Grantee's attainment of age 55 and completion of 10 years of service with the Company or a Subsidiary.

(c) For purposes of these Terms and Conditions, "**Disability**" shall mean a physical or mental impairment of sufficient severity that the Grantee is both eligible for and in receipt of benefits under the long-term disability program maintained by the Company, provided that the Grantee completes 30 days of active service with the Company at any time after the Grant Date and prior to the first vesting date. The date of Disability for purposes of these Terms and Conditions is the date on which the Grantee has been in receipt of such long-term disability benefits for six consecutive months. In the event that the Grantee is not in active service on the Grant Date (for example, on account of short-term disability) and the Grantee does not return to the Company and complete 30 days of active service with the Company prior to the first vesting date, the Option will be forfeited.

(d) For purposes of these Terms and Conditions, "**Cause**" shall mean the Grantee's (A) indictment for, conviction of, or pleading nolo contendere to, a felony or a crime involving fraud, misrepresentation, or moral turpitude (excluding traffic offenses other than traffic offenses involving the use of alcohol or illegal substances), (B) fraud, dishonesty, theft, or misappropriation of funds in connection with the Grantee's duties with the Company and its Subsidiaries, (C) material violation of the Company's Code of Conduct or employment policies, as in effect from time to time, (D) gross negligence or willful misconduct in the performance of the Grantee's duties with the Company and its Subsidiaries, or (E) a breach of any written confidentiality, nonsolicitation, or noncompetition covenant with the Company or an Affiliate, in each case as determined in the sole discretion of the Committee.

4. Change of Control.

(a) If a Change of Control occurs, the Grantee's Option shall continue to vest in accordance with Section 2(a) on the third and fourth anniversaries of the Grant Date, without regard to whether the Stock Price Hurdle is met, provided that the Grantee remains continuously employed by the Company and its Subsidiaries through such vesting date. If the Change of Control occurs after the third anniversary of the Grant Date and before the Stock Price Hurdle has been met, the Option with respect to 50% of the shares will vest on the Change of Control date. If the Change of Control occurs after the fourth anniversary of the Grant Date and before the Stock Price Hurdle has been met, the Option with respect to all of the shares will vest on the Change of Control date. However, in no event may the Option be exercised after ten years from the Grant Date.

(b) Notwithstanding the foregoing, if a Change of Control occurs and the Grantee's employment with the Company and its Subsidiaries is terminated by the Company or a Subsidiary without Cause or the Grantee terminates employment for Good Reason (as defined herein), and the Grantee's date of termination occurs (or in the event of the Grantee's termination for Good Reason, the event giving rise to Good Reason occurs), in each case, during the period beginning on the date that is 90 days before the Change of Control and ending on the date that is one year following the Change of Control, the Option will automatically vest in full on the Grantee's date of termination (or, if later, on the date of the Change of Control), regardless of whether the Stock Price Hurdle has been met. However, in no event may the Option be exercised after ten years from the Grant Date.

(c) For purposes of these Terms and Conditions, "**Good Reason**" shall mean:

- (i) a material diminution of the Grantee's authority, duties or responsibilities;
 - (ii) a material reduction in the Grantee's base salary, which, for purposes of these Terms and Conditions, means a reduction in base salary of 10% or more that does not apply generally to all similarly situated employees of the Company; or
 - (iii) any material change in the geographic location at which the Grantee must perform the Grantee's duties to the Company and its Subsidiaries, which, for purposes of these Terms and Conditions, means the permanent relocation of the Grantee's principal place of employment to any office or location which is located more than 100 miles from the location where the Grantee is based immediately prior to the change in location.
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In order to terminate employment for Good Reason, the Grantee must provide a written notice of termination with respect to termination for Good Reason to the Company within 90 days after the event constituting Good Reason has occurred. The Company shall have a period of 30 days in which it may correct the act, or the failure to act, that gave rise to the Good Reason event as set forth in the notice of termination. If the Company does not correct the act, or the failure to act, the Grantee must terminate employment for Good Reason within 30 days after the end of the cure period, in order for the termination to be considered a Good Reason termination. Notwithstanding the foregoing, in no event will the Grantee have Good Reason for termination if an event described in Section 4(c)(i) occurs in connection with the Grantee's inability to perform the Grantee's duties on account of illness or short-term or long-term disability.

5. Exercise of the Option. When the Option becomes vested in accordance with Sections 2, 3, or 4 above, the Grantee may exercise part or all of the vested and exercisable Option by delivering a duly completed notice of intent to exercise to the Company, specifying the number of shares as to which the Option is to be exercised and the method of payment. Payment of the exercise price shall be made in accordance with procedures in effect from time to time based on the type of payment being made but, in any event, prior to issuance of the shares of Common Stock. The Grantee shall pay the exercise price (i) in cash, (ii) by authorizing a third party to sell shares of Common Stock acquired upon exercise of the Option and remit to the Company a sufficient portion of the sale proceeds to pay the exercise price and any applicable tax withholding resulting from such exercise, (iii) if so permitted by the Committee and subject to such conditions as may be established by the Committee, (1) by tendering (actually or by attestation) shares of Common Stock owned by the Grantee and valued at the then Fair Market Value thereof or (2) by having shares subject to the exercisable Option withheld to pay the exercise price, with the shares valued at the then Fair Market Value thereof, or (iv) by any combination of the foregoing. The Company's obligation to deliver shares of Common Stock upon exercise of the Option shall be subject to all applicable laws, rules and regulations and also to such approvals by governmental agencies as may be deemed appropriate by the Committee. Upon exercise of the Option (or portion thereof), the Option (or portion thereof) will terminate and cease to be outstanding.

6. Transferability.

(a) During the Grantee's lifetime, except as set forth in subsection (b) below, exercise of the Option shall be solely by the Grantee (or the Grantee's legal guardian or legal representative) and, after the Grantee's death, the Option shall be exercisable (subject to the limitations specified in the Plan) solely by the legal representatives of the Grantee, or by the person or persons who acquire the right to exercise such Option by will or by the laws of descent and distribution, to the extent that the Option was outstanding as of the date of the Grantee's death. Neither the Option nor any right hereunder shall be assignable or otherwise transferable except by will or by the laws of descent and distribution or except as otherwise permitted by the Plan, nor shall any Option be subject to attachment, execution or other similar process. In the event of any attempt by the Grantee to alienate, assign, pledge, hypothecate or otherwise dispose of any Option or any right hereunder, except as provided for herein, or in the event of the levy of any attachment, execution or similar process upon the rights or interest hereby conferred, the Company may terminate any Option by notice to the Grantee and the Option and all rights hereunder shall thereupon become null and void.

(b) Notwithstanding the foregoing, the Committee may provide that a Grantee may transfer this Option to family members, one or more trusts for the benefit of family members, or one or more partnerships of which family members are the only partners, according to such terms as the Committee may determine; provided that the Grantee receives no consideration for the transfer of an Option and the transferred Option shall continue to be subject to the same terms and conditions as were applicable to the Option immediately before the transfer.

7. Termination of the Option.

(a) The Option shall have a term of ten years from the Grant Date and shall terminate at the expiration of that period (on May 10, 2026), unless the Option is terminated at an earlier date pursuant to the provisions of these Terms and Conditions or the Plan.

(b) The Option granted and subsequently vested hereunder (including pursuant to Section 4 hereof) shall terminate immediately after the first to occur of: (i) one year after the termination of the Grantee's employment with the Company or a Subsidiary due to an involuntary termination by the Company or a Subsidiary without Cause (except as provided in subsection (c) below), (ii) one year after the termination of the Grantee's employment with the Company or a Subsidiary by the Grantee for Good Reason during the Change of Control period described in Section 4(b) hereof (except as provided in subsection (c) below), (iii) 90 days after the Grantee's voluntary termination of employment with the Company and its Subsidiaries (except as provided in subsection (c) below or as provided in clause (ii) above), or (iv) ten years from the Grant Date.

(c) In the event of the termination of the Grantee's employment on account of Retirement, Disability or death of a Grantee, the Option held by the Grantee may be exercised, pursuant to the terms of the Plan, by the Grantee (or the Grantee's personal representative) at any time prior to the expiration of the ten-year term of the Option.

(d) Notwithstanding the foregoing, in no event may the Option be exercised after ten years from the Grant Date (after May 10, 2026). Any portion of the Option that is not vested at the time the Grantee ceases to be employed by the Company and its Subsidiaries shall immediately terminate.

(e) In the event a Grantee's employment is terminated by the Company or a Subsidiary for Cause, the Option (including the vested portion, if any) held by such Grantee shall immediately terminate and be of no further force or effect.

8. Certain Corporate Changes. If any change is made to the Common Stock (whether by reason of merger, consolidation, reorganization, recapitalization, stock dividend, stock split, combination of shares, or exchange of shares or any other change in capital structure made without receipt of consideration), then unless such event or change results in the termination of the Option, the Committee shall adjust, as provided in the Plan, the number and class of shares subject to the Option held by the Grantee and/or the exercise price of such Option, and the Stock Price Hurdle, if appropriate, to reflect the effect of such event or change in the Company's capital structure in such a way as to preserve the value of the Option. Any adjustment that occurs under the terms of this Section 8 or the Plan will not change the timing or form of payment with respect to any exercised Option or portion thereof.

9. Restrictive Covenants.

(a) The Grantee acknowledges and agrees that, during and after the Grantee's employment with the Company or any of its Affiliates, the Grantee will be subject to, and will comply with, the applicable confidentiality and other terms specified in the Company's Code of Conduct and Ethics, including terms applicable to former employees. A copy of the Code of Conduct and Ethics has been provided to the Grantee and can be accessed on the Company's intranet. The Code of Conduct and Ethics, including any future revisions to the Code of Conduct and Ethics, are incorporated into and made a part of these Terms and Conditions as if fully set forth herein.

(b) The Grantee acknowledges that the Grantee's relationship with the Company and its Affiliates is one of confidence and trust such that the Grantee is, and may in the future be, privy to and/or the Grantee will develop Confidential Information and Trade Secrets of the Company or any of its Affiliates. Subject to the provisions of subsection (k) and Section 17, the Grantee agrees that, at all times during the Grantee's employment and after the Grantee's employment with the Company or any of its Affiliates terminates for any reason, whether by the Grantee or by the Company or any of its Affiliates, the Grantee will hold in strictest confidence and will not disclose, use, or publish any Confidential Information and Trade Secrets, except as and only to the extent such disclosure, use, or publication is required during the Grantee's employment with the Company or any of its Affiliates for the Grantee to fulfill the Grantee's job duties and responsibilities to the Company or any of its Affiliates. At all times during the Grantee's employment and after the Grantee's termination of employment, the Grantee agrees that the Grantee shall take all reasonable precautions to prevent the inadvertent or accidental disclosure of Confidential Information and Trade Secrets. The Grantee hereby assigns to the Company any rights the Grantee may have or acquire in Confidential Information and Trade Secrets, whether developed by the Grantee or others, and the Grantee acknowledges and agrees that all Confidential Information and Trade Secrets shall be the sole property of the Company and its assigns. For purposes of these Terms and Conditions, "**Confidential Information and Trade Secrets**" shall mean information that the Company or any of its Affiliates owns or possesses, that the Company or any of its Affiliates have developed at significant expense and effort, that they use or that is potentially useful in the business of the Company or any of its Affiliates, that the Company or any of its Affiliates treat as proprietary, private, or confidential, and that is not generally known to the public.

(c) The Grantee acknowledges and agrees that, during the Grantee's employment with the Company or any of its Affiliates, and for the 12 month period immediately following the Grantee's termination of employment for any reason, and subject to subsection (m) below (the "**Restricted Period**"), the Grantee will not, without the Company's express written consent, engage (directly or indirectly) in any employment or business activity within the United States whose primary business involves or is related to providing any mortgage- or real estate-related service or product that, during the Grantee's employment, the Company or any of its Affiliates provides or is actively engaged in developing through the use of Confidential Information and Trade Secrets; provided however, the foregoing restriction shall only apply to such service or product for which the Grantee has had access to Confidential Information and Trade Secrets or otherwise has had active involvement. The Grantee further agrees that, given the nature of the business of the Company and its Affiliates and the Grantee's position with the Company, a nationwide geographic scope is appropriate and reasonable.

(d) The Grantee acknowledges and agrees that, during the term of the Grantee's employment by the Company or any of its Affiliates and during the Restricted Period, the Grantee shall not, directly or indirectly through others, (i) hire or attempt to hire any employee of the Company or any of its Affiliates, (ii) solicit or attempt to solicit any employee of the Company or any of its Affiliates to become an employee, consultant, or independent contractor to, for, or of any other person or business entity, or (iii) solicit or attempt to solicit any employee, or any consultant or independent contractor of the Company or any of its Affiliates to change or terminate his or her relationship with the Company or any of its Affiliates, unless in each case more than six months shall have elapsed between the last day of such person's employment or service with the Company or any of its Affiliates and the first date of such solicitation or hiring or attempt to solicit or hire. If any employee, consultant, or

independent contractor is hired or solicited by any entity that has hired or agreed to hire the Grantee, such hiring or solicitation shall be conclusively presumed to be a violation of these Terms and Conditions; provided, however, that any hiring or solicitation pursuant to a general solicitation conducted by an entity that has hired or agreed to hire the Grantee, or by a headhunter employed by such entity, which does not involve the Grantee, shall not be a violation of this subsection (d).

(e) The Grantee covenants and agrees that, during the term of the Grantee's employment by the Company or any of its Affiliates and during the Restricted Period, the Grantee shall not, either directly or indirectly through others:

(i) solicit, divert, appropriate, or do business with, or attempt to solicit, divert, appropriate, or do business with, any customer for whom the Company or any of its Affiliates provided goods or services within 12 months prior to the Grantee's date of termination or any actively sought prospective customer of the Company or any of its Affiliates for the purpose of providing such customer or actively sought prospective customer with services or products competitive with those offered by the Company or any of its Affiliates during the Grantee's employment with the Company or any of its Affiliates; or

(ii) encourage any customer for whom the Company or any of its Affiliates provided goods or services within 12 months prior to the Grantee's date of termination to reduce the level or amount of business such customer conducts with the Company or any of its Affiliates.

Notwithstanding the foregoing, unless provided otherwise in a written agreement entered into between the Grantee and the Company or any of its Affiliates, this subsection (e) shall not apply after the Grantee's termination of employment with the Company or any of its Affiliates, if the Grantee's employment is terminated by the Company or any of its Affiliates without Cause.]

(f) Notwithstanding the foregoing, if the Grantee is employed in California, or in another jurisdiction where otherwise prohibited by law, the following provisions shall apply:

(i) Subsection (c) above shall not apply, and instead the Grantee acknowledges and agrees that during the Grantee's employment with the Company or any of its Affiliates: (A) the Grantee will not engage (directly or indirectly) in any other employment or business activity within the United States whose primary business involves or is related to providing any mortgage- or real estate-related service or product that the Company or any of its Affiliates provides or is actively engaged in developing through the use of Confidential Information and Trade Secrets; provided however, the foregoing restriction shall only apply to such service or product for which the Grantee has had access to Confidential Information and Trade Secrets or otherwise has had active involvement, and (B) the Grantee will not, without the prior written consent of the Company or any of its Affiliates, engage (directly or indirectly) in any other employment or business activity that would tend to create an actual or apparent conflict of interest with the Company or any of its Affiliates, or undermine or interfere with the Grantee's ability to devote the Grantee's best efforts and to fulfill the full-time duties and responsibilities of the Grantee's position with the Company or any of its Affiliates. The Grantee further agrees that, given the nature of the business of the Company and its Affiliates and the Grantee's position with the Company, a nationwide geographic scope is appropriate and reasonable.

(ii) Subsection (d) above shall not apply, and instead the Grantee acknowledges and agrees that during the Grantee's employment with the Company or any of its Affiliates and during the one year period immediately after the Grantee's termination of employment for any reason, and subject to subsection (m) below (the "**Restricted Period**"), the Grantee shall not, directly or indirectly through others, solicit, encourage, or attempt to solicit or encourage any Service Provider to terminate or reduce the Service Provider's relationship or business with the Company or any of its Affiliates. For the purpose of these Terms and Conditions, "**Service Provider**" means persons and entities who, during the Grantee's employment with the Company or any of its Affiliates, were employees, consultants, vendors, or independent contractors of the Company or any of its Affiliates.

(iii) Subsection (e) above shall not apply, and instead the Grantee acknowledges and agrees that as part of the Grantee's obligations under subsection (b) above, during the Grantee's employment with the Company or any of its Affiliates and after the Grantee's employment with the Company or any of its Affiliates terminates for any reason (whether by the Grantee or by the Company or any of its Affiliates), the Grantee shall not, either directly or indirectly through others, use or disclose any Confidential Information and Trade Secrets in any effort to solicit, encourage, or attempt to solicit or encourage, any Company Customer to terminate, reduce, or forego that Company's Customer's relationship or prospective relationship with the Company or any of its Affiliates. For purposes of these Terms and Conditions, "**Company Customer**" means any person or entity to whom the Company or any of its Affiliates provided goods or services, or actively sought to provide goods or services, at any time during the Grantee's employment with the Company or any of its Affiliates.

(g) The Grantee acknowledges and agrees that the business of the Company and its Affiliates is highly competitive, that the Confidential Information and Trade Secrets have been developed by the Company or any of its Affiliates at significant expense and effort, and that the restrictions contained in this Section 9 are reasonable and necessary to protect the legitimate business interests of the Company or any of its Affiliates.

(h) The parties to these Terms and Conditions acknowledge and agree that any breach by the Grantee of any of the covenants or agreements contained in this Section 9 will result in irreparable injury to the Company or any of its Affiliates, as the case may be, for which money damages could not adequately compensate such entity. Therefore, the Company or any of its Affiliates shall have the right (in addition to any other rights and remedies which it may have at law or in equity and in addition to the forfeiture requirements set forth in subsection (i) below) to seek to enforce this Section 9 and any of its provisions by injunction, specific performance, or other equitable relief, without bond and without prejudice to any other rights and remedies that the Company or any of its Affiliates may have for a breach, or threatened breach, of the restrictive covenants set forth in this Section 9. The Grantee agrees that in any action in which the Company or any of its Affiliates seeks injunction, specific performance, or other equitable relief, the Grantee will not assert or contend that any of the provisions of this Section 9 are unreasonable or otherwise unenforceable. The Grantee irrevocably and unconditionally (i) agrees that any legal proceeding arising out of these Terms and Conditions may be brought only in the United States District Court for the Eastern District of Pennsylvania, or if such court does not have jurisdiction or will not accept jurisdiction, in any court of general jurisdiction in Philadelphia County, Pennsylvania, (ii) consents to the sole and exclusive jurisdiction and venue of such court in any such proceeding, and (iii) waives any objection to the laying of venue of any such proceeding in any such court. The Grantee also irrevocably and unconditionally consents to the service of any process, pleadings, notices, or other papers.

(i) The Grantee acknowledges and agrees that in the event the Grantee breaches any of the covenants or agreements contained in this Section 9:

(i) The Committee may in its discretion determine that the Grantee shall forfeit the outstanding Option (without regard to whether any portion of the Option has vested, except as to the vested shares where forfeiture of vested shares is expressly prohibited by law), and the outstanding Option shall immediately terminate, and

(ii) The Committee may in its discretion require the Grantee to return to the Company any shares of Common Stock received upon exercise of the Option, net of the exercise price paid by the Grantee upon exercise of the Option; provided, that if the Grantee has disposed of any shares of Common Stock received upon exercise of the Option, then the Committee may require the Grantee to pay to the Company, in cash, the fair market value of such shares of Common Stock as of the date of disposition, net of the exercise price paid by the Grantee upon exercise of the Option. The Committee shall exercise the right of recoupment provided in this subsection (i)(ii) within 180 days after the Committee's discovery of the Grantee's breach of any of the covenants or agreements contained in this Section 9.

(j) If any portion of the covenants or agreements contained in this Section 9, the specific forfeiture provisions related to vested shares, or the application thereof, is construed to be invalid or unenforceable, the other portions of such covenants or agreements or the application thereof shall not be affected and shall be given full force and effect without regard to the invalid or unenforceable portions to the fullest extent possible. If any covenant or agreement in this Section 9 is held to be unenforceable because of the duration thereof or the scope thereof, then the court making such determination shall have the power to reduce the duration and limit the scope thereof, and the covenant or agreement shall then be enforceable in its reduced form. The covenants and agreements contained in this Section 9 shall survive the termination of the Grantee's employment with the Company or any of its Affiliates and shall survive the termination of these Terms and Conditions.

(k) Nothing in these Terms and Conditions, including any restrictions on the use of Confidential Information and Trade Secrets, shall prohibit or restrict the Grantee from initiating communications directly with, or responding to any inquiry from, or providing testimony before, the Equal Employment Opportunity Commission, the Department of Justice, the Securities and Exchange Commission, or any other federal, state, or local regulatory authority. To the extent permitted by law, upon receipt of any subpoena, court order, or other legal process compelling the disclosure of Confidential Information and Trade Secrets, the Grantee agrees to give prompt written notice to the Company so as to permit the Company to protect its interests in confidentiality to the fullest extent possible.

(l) Nothing in these Terms and Conditions shall be deemed to constitute the grant of any license or other right to the Grantee in respect of any Confidential Information and Trade Secrets or other data, tangible property, or intellectual property of the Company or any of its Affiliates.

(m) Should the Grantee violate any of the restrictive covenants of these Terms and Conditions, then the period of the Grantee's breach of such covenant ("**Violation Period**") shall stop the running of the corresponding Restricted Period. Once the Grantee resumes compliance with the restrictive covenant, the Restricted Period applicable to such covenant shall be extended for a period equal to the Violation Period so that the Company enjoys the full benefit of the Grantee's compliance with the restrictive covenant for the duration of the corresponding Restricted Period.

(n) In the event of a conflict between the terms of the confidentiality, non-competition or non-solicitation covenants in this Section 9 and a confidentiality, non-competition or non-solicitation covenant in a prior stock option, restricted

stock unit or other equity grant agreement between the Grantee and the Company, the confidentiality, non-competition and non-solicitation covenants in this Section 9 shall control as of the Grant Date.

10. Grant Subject to Plan Provisions. These Terms and Conditions are made pursuant to the terms of the Plan, the terms of which are incorporated herein by reference, and shall in all respects be interpreted in accordance therewith. The decisions of the Committee shall be conclusive upon any question arising hereunder. The Grantee's receipt of the Option awarded under these Terms and Conditions constitutes such Grantee's acknowledgment that all decisions and determinations of the Committee with respect to the Plan, these Terms and Conditions, and/or the Option shall be final and binding on the Grantee, the Grantee's beneficiaries, and any other person having or claiming an interest in such Option. The settlement of any award with respect to the Option is subject to the provisions of the Plan and to interpretations, regulations, and determinations concerning the Plan as established from time to time by the Committee in accordance with the provisions of the Plan. A copy of the Plan will be furnished to each Grantee upon request. Additional copies may be obtained from the Corporate Secretary of the Company, 1601 Market Street, Philadelphia, Pennsylvania 19103-2197.

11. No Employment or Other Rights. Neither the granting of the Option, nor any other action taken with respect to such Option, shall confer upon the Grantee any right to continue in the employ of the Company or a Subsidiary or shall interfere in any way with the right of the Company or a Subsidiary to terminate Grantee's employment at any time. The right of the Company or a Subsidiary to terminate at will the Grantee's employment or service at any time for any reason is specifically reserved.

12. No Stockholder Rights. Neither the Grantee, nor any person entitled to exercise the Grantee's rights in the event of the Grantee's death or in accordance with the terms of these Terms and Conditions, shall have any of the rights and privileges of a stockholder with respect to the shares subject to the Option, except to the extent that certificates for such shares shall have been issued upon the exercise of the Option as provided for herein (or an appropriate book entry has been made). Except as described in the Plan, no adjustments are made for dividends or other rights if the applicable record date occurs before Grantee's shares are issued (or an appropriate book entry has been made).

13. Assignment and Transfers. The rights and protections of the Company hereunder shall extend to any successors or assigns of the Company and to the Company's parents, subsidiaries, and other Affiliates. These Terms and Conditions may be assigned by the Company without the Grantee's consent.

14. Income Taxes; Withholding Taxes. All obligations of the Company under these Terms and Conditions shall be subject to the rights of the Company as set forth in the Plan to withhold amounts required to be withheld for any taxes, if applicable. At the time of exercise, the Company shall have the right to deduct from other compensation, or to withhold shares of Common Stock, in an amount equal to the federal (including FICA), state, local, and foreign income taxes and other amounts as may be required by law to be withheld with respect to the exercise of the Option, provided that any share withholding shall not exceed the Grantee's minimum applicable withholding tax rate for federal (including FICA), state, local, and foreign tax liabilities.

15. Applicable Law. The validity, construction, interpretation, and effect of this instrument shall exclusively be governed by, and determined in accordance with, the applicable laws of the State of Delaware, excluding any conflicts or choice of law rule or principle. This Option award shall be subject to any required approvals by any governmental or regulatory agencies. This Option award shall also be subject to any applicable clawback or recoupment policies, share trading policies, and other policies that may be implemented by the Board from time to time in accordance with applicable law. Notwithstanding anything in these Terms and Conditions to the contrary, the Plan, these Terms and Conditions, and the Option awarded hereunder shall be subject to all applicable laws, including any laws, regulations, restrictions, or governmental guidance that becomes applicable in the event of the Company's participation in any governmental programs, and the Committee reserves the right to modify these Terms and Conditions and the Option as necessary to conform to any restrictions imposed by any such laws, regulations, restrictions, or governmental guidance or to conform to any applicable clawback or recoupment policies, share trading policies, and other policies that may be implemented by the Board from time to time. As a condition of participating in the Plan, and by the Grantee's acceptance of the Option, the Grantee is deemed to have agreed to any such modifications that may be imposed by the Committee, and agrees to sign such waivers or acknowledgments as the Committee may deem necessary or appropriate with respect to such modifications.

16. Notice. Any notice to the Company provided for in these Terms and Conditions shall be addressed to it in care of the Corporate Secretary of the Company, 1601 Market Street, Philadelphia, Pennsylvania 19103-2197, and any notice to the Grantee shall be addressed to such Grantee at the current address shown on the payroll of the Company or an Affiliate, or to such other address as the Grantee may designate to the Company in writing in accordance with this Section. Except as otherwise provided by this Section, any notice provided for hereunder shall be delivered by hand, sent by telecopy or electronic mail, or enclosed in a properly sealed envelope addressed as stated above, registered and deposited, postage and registry fee prepaid in the United States mail or other mail delivery service. Notice to the Company shall be deemed effective upon receipt. By receipt of the Option granted hereunder, Grantee hereby consents to the delivery of information (including without

limitation, information required to be delivered to the Grantee pursuant to the applicable securities laws) regarding the Company, the Plan, and the Option via the Company's electronic mail system or other electronic delivery system.

17. Notice of Immunity for Confidential Disclosure of a Trade Secret to an Attorney, the Government or in a Court Filing in Particular Circumstances. The Grantee is hereby notified that these Terms and Conditions are entered into pursuant to the United States Federal Trade Secrets law. In addition to other provisions, federal law provides certain protections to individuals who disclose a trade secret to their attorney, a court, or a government official in certain, confidential circumstances. Specifically, federal law provides that an individual shall not be held criminally or civilly liable under any federal or state trade secret law for the disclosure of a trade secret under either of the following conditions:

(a) Where the disclosure is made (i) in confidence to a federal, state, or local government official, either directly or indirectly, or to an attorney; and (ii) solely for the purpose of reporting or investigating a suspected violation of law; or

(b) Where the disclosure is made in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal. *See* 18 U.S.C. § 1833(b)(1)).

Federal law also provides that an individual who files a lawsuit for retaliation by an employer for reporting a suspected violation of law may disclose the trade secret to the attorney of the individual and use the trade secret information in the court proceeding, if the individual (A) files any document containing the trade secret under seal; and (B) does not disclose the trade secret, except pursuant to court order. *See* 18 U.S.C. § 1833(b)(2).

IN WITNESS WHEREOF, the Company has caused its duly authorized officer to execute and attest this instrument, and the Grantee has placed the Grantee's signature hereon, effective as of the Grant Date set forth above.

RADIAN GROUP INC.

By: /s/ Anita Scott
Name: Anita Scott
Title: SVP, Chief Human Resources Officer

By electronically acknowledging and accepting this Option award following the date of the Company's electronic notification to the Grantee, the Grantee (a) acknowledges receipt of the Plan incorporated herein, (b) acknowledges that he or she has read the Award Summary delivered in connection with this Option award and these Terms and Conditions and understands the terms and conditions of them, (c) accepts the award of the Option described in these Terms and Conditions, (d) agrees to be bound by the terms of the Plan and these Terms and Conditions, and (e) agrees that all decisions and determinations of the Committee with respect to the Option shall be final and binding.

Radian Group Inc.
Ratio of Earnings to Fixed Charges

(In thousands)	Six Months Ended	Fiscal Years Ended December 31,				
	June 30, 2016	2015	2014	2013	2012	2011
Net earnings (loss) from continuing operations	\$ 164,361	\$ 281,539	\$ 1,259,574	\$ (141,851)	\$ (224,105)	\$ (446,790)
Federal and state income tax provision (benefit)	94,588	156,290	(852,418)	(31,495)	(48,323)	(138,238)
Earnings (loss) before income taxes	258,949	437,829	407,156	(173,346)	(272,428)	(585,028)
Equity in net income of affiliates	—	—	—	—	—	—
Distributed income from equity investees	—	—	—	—	—	—
Net earnings (loss)	258,949	437,829	407,156	(173,346)	(272,428)	(585,028)
Fixed charges:						
Interest	44,080	91,102	90,464	74,618	51,832	61,394
One-Third of all rentals	819	1,656	1,308	1,020	1,269	1,060
Fixed charges	44,899	92,758	91,772	75,638	53,101	62,454
Preferred dividends	—	—	—	—	—	—
Fixed charges and preferred dividends	44,899	92,758	91,772	75,638	53,101	62,454
Net earnings (loss) and fixed charges	\$ 303,848	\$ 530,587	\$ 498,928	\$ (97,708)	\$ (219,327)	\$ (522,574)
Net earnings (loss), fixed charges and preferred dividends	\$ 303,848	\$ 530,587	\$ 498,928	\$ (97,708)	\$ (219,327)	\$ (522,574)
Ratio of net earnings (loss) and fixed charges to fixed charges	6.8x	5.7x	5.4x	(1)	(1)	(1)
Ratio of net earnings (loss), fixed charges and preferred dividends to fixed charges and preferred dividends	6.8x	5.7x	5.4x	(1)	(1)	(1)

(1) For the fiscal years ended December 31, 2013, 2012 and 2011, earnings were not adequate to cover fixed charges in the amounts of \$(97,708), \$(219,327) and \$(522,574), respectively.

CERTIFICATIONS

I, Sanford A. Ibrahim, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Radian Group Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 5, 2016

/s/ SANFORD A. IBRAHIM

Sanford A. Ibrahim
Chief Executive Officer

I, J. Franklin Hall, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Radian Group Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 5, 2016

/s/ J. FRANKLIN HALL

J. Franklin Hall
Executive Vice President, Chief Financial Officer

Section 1350 Certifications

I, Sanford A. Ibrahim, Chief Executive Officer of Radian Group Inc., and I, J. Franklin Hall, Chief Financial Officer of Radian Group Inc., certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Quarterly Report on Form 10-Q for the quarter ended June 30, 2016 (the "Periodic Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and
- (2) The information contained in the Periodic Report fairly presents, in all material respects, the financial condition and results of operations of Radian Group Inc.

Date: August 5, 2016

/s/ S. A. IBRAHIM

Sanford A. Ibrahim
Chief Executive Officer

/s/ J. FRANKLIN HALL

J. Franklin Hall
Executive Vice President, Chief Financial Officer