RADIAN GROUP INC
Form 10-Q
November 03, 2017
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2017
OR
o 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 Group Inc.
(Exact name of registrant as specified in its charter)

Delaware	23-2691170
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1500 Market Street, Philadelphia, PA	19102
(Address of principal executive offices)	(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 x No o

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 x No o

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

Large accelerated filer x	Accelerated filer o	Non-accelerated filer o	Smaller reporting company o	Emerging growth company o
		(Do not check if a smaller reporting company)		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

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

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: 215,565,249 shares of common stock, $0.001 par value per share, outstanding on November 1, 2017.

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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
2016 Form 10-K	Annual Report on Form 10-K for the year ended December 31, 2016
2018 Single Premium QSR Transaction	Quota share reinsurance agreement entered into with a panel of third-party reinsurance providers in October 2017, to cede a portion of Single Premium Policy NIW beginning January 1, 2018
ABS	Asset-backed securities
Alt-A	Alternative-A loans, representing loans for which the underwriting documentation is generally limited as compared to fully documented loans (considered a non-prime loan grade)
AMT	Alternative minimum tax
AOCI	Accumulated other comprehensive income (loss)
Appeals	Internal Revenue Service Office of Appeals
Available Assets	As defined in the PMIERs, assets primarily including the liquid assets of a mortgage insurer, and reduced by premiums received but not yet earned
Back-end	With respect to credit risk transfer programs established by the GSEs, policies written on loans that are already part of an existing GSE portfolio, as contrasted with loans that are to be purchased by the GSEs in the future
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 (the "Insureds"), entered into in order to resolve various actual and potential claims or disputes as to mortgage insurance coverage on certain Subject Loans
Borrower	With respect to our securities lending agreements, the third-party institutions to which we loan certain securities in our investment portfolio for short periods of time
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 60 or more days past due
Default to Claim Rate	The assumed percentage of defaulted loans that will 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

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Term	Definition
Fannie Mae	Federal National Mortgage Association
FASB	Financial Accounting Standards Board
FEMA	Federal Emergency Management Agency, an agency of the U.S. Department of Homeland Security
FEMA Designated Area	Generally, an area that has been subject to a disaster, designated for the purpose of determining eligibility for various forms of federal assistance
FHA	Federal Housing Administration
FHFA	Federal Home Finance Agency
FHLB	Federal Home Loan Bank of Pittsburgh
FICO	Fair Isaac Corporation (“FICO”) credit scores used throughout this report, for Radian’s portfolio statistics, represent the borrower’s credit score at origination and, in circumstances where there is more than one borrower, the FICO score for the primary borrower is utilized
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
Front-end	With respect to credit risk transfer programs established by the GSEs, policies written on loans that are to be purchased by the GSEs in the future, as contrasted with loans that are already part of an existing GSE portfolio
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, equal to the aggregate unpaid principal balances of the underlying loans
IRS	Internal Revenue Service
JCT	Congressional Joint Committee on Taxation
LAE	Loss adjustment expenses, which include 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 HARP)
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, 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 related to expected credit performance and other factors
Model Act	Mortgage Guaranty Insurers Model Act

Term	Definition
Monthly and Other Premiums	Insurance policies where premiums are paid on a monthly or other installment basis, excluding Single Premium Policies
Monthly Premium Policies	Insurance policies where premiums are paid on a monthly installment basis
Moody's	Moody's Investors Service
Mortgage Insurance	Radian's Mortgage Insurance business segment, which provides credit-related insurance coverage, principally through private mortgage insurance, to mortgage lending institutions
NAIC	National Association of Insurance Commissioners
NIW	New insurance written
NOL	Net operating loss; for tax purposes, accumulated during years the company reported more tax deductions than taxable income. NOLs may be carried back or carried forward a certain number of years, depending on each jurisdiction, thus reducing the company's tax liability
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 in force over a period of time
PMIERs	Private Mortgage Insurer Eligibility Requirements effective on December 31, 2015, issued by the GSEs under oversight of the FHFA to set forth requirements an approved insurer must meet and maintain to provide mortgage guaranty insurance on loans acquired by the GSEs
Pool Insurance	Pool Insurance differs from primary insurance in that our maximum liability is not limited to a specific coverage percentage on an individual mortgage loan. Instead, an aggregate exposure limit, or "stop loss," is applied to the initial aggregate loan balance on a group or "pool" of mortgages
Post-legacy	The time period subsequent to 2008
Post-legacy Portfolio	Mortgage insurance on loans written subsequent to 2008
Prior Master Policy	Radian Guaranty's master insurance policy in effect prior to the effective date of its 2014 Master Policy
QSR Transactions	The quota share reinsurance agreements entered into with a third-party reinsurance provider in the second and fourth quarters of 2012, collectively
Radian	Radian Group Inc. together with its consolidated subsidiaries
Radian Group	Radian Group Inc., the registrant
Radian Guaranty	Radian Guaranty Inc., a Pennsylvania domiciled insurance subsidiary of Radian Group
Radian Reinsurance	Radian Reinsurance 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; for primary insurance, RIF is equal to the underlying loan unpaid principal balance multiplied by the insurance coverage percentage, whereas for Pool Insurance it represents the remaining exposure under the agreements

Term	Definition
Risk-to-capital	Under certain state regulations, a minimum ratio of statutory capital calculated relative to the level of net RIF
RMBS	Residential mortgage-backed securities
S&P	Standard & Poor’s Financial Services LLC
SAPP	Statutory accounting principles and 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-lien	Second-lien mortgage loan
Senior Notes due 2017	Our 9.000% unsecured senior notes due June 2017 ($195.5 million original principal amount, of which the remaining outstanding principal was redeemed in August 2016)
Senior Notes due 2019	Our 5.500% unsecured senior notes due June 2019 ($300 million original principal amount)
Senior Notes due 2020	Our 5.250% unsecured senior notes due June 2020 ($350 million original principal amount)
Senior Notes due 2021	Our 7.000% unsecured senior notes due March 2021 ($350 million original principal amount)
Senior Notes due 2024	Our 4.500% unsecured senior notes due October 2024 ($450 million original principal amount)
Services	Radian’s Services business segment, which provides services and solutions to the real estate and mortgage finance industries
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 and includes policies written on an individual basis (as each loan is originated) and on an aggregated basis (in which each individual loan in a group of loans is insured in a single transaction, typically after the loans have been originated)
Single Premium QSR Transaction	Quota share reinsurance agreement entered into with a panel of third-party reinsurance providers in the first quarter of 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
Subject Loans	Loans covered under the BofA Settlement Agreement, comprising Legacy Loans and Servicing Only Loans
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
U.S.	The United States of America
U.S. Treasury	United States Department of the Treasury
VA	U.S. Department of Veterans Affairs
ValuAmerica	ValuAmerica, Inc., a wholly-owned subsidiary of Clayton

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,” “pl “contemplate,” “believe,” “estimate,” “predict,” “project,” “potential,” “continue,” “seek,” “strategy,” “future,” “likely” or the 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 unemployment rates, interest rates and changes in housing and mortgage credit markets, that impact the size of the insurable market, the credit performance of our insured portfolio, and the business opportunities in our Services segment;
- changes in the way customers, investors, ratings agencies, regulators or legislators perceive our performance, financial strength and future prospects;
- Radian Guaranty’s ability to remain eligible under the PMIERs and other applicable requirements imposed by the FHFA 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, including temporary reductions in liquidity resulting from federal AMT payments that we are currently required to make and future federal income tax payments that we expect to make once our NOLs are fully utilized, which we anticipate occurring within the next 12 months;
- our ability to successfully execute and implement our business plans and strategies, including plans and strategies to reposition our Services segment as well as plans and strategies that require GSE and/or regulatory approvals and licenses;
- our ability to maintain an adequate level of capital in our insurance subsidiaries to satisfy existing and future state regulatory requirements;
- changes in the charters or business practices of, or rules or regulations imposed by or applicable to, the GSEs, including the GSEs’ interpretation and application of the PMIERs to our mortgage insurance business;
- changes in the current housing finance system in the U.S., including 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 mortgage insurance policies;
- competition in our mortgage insurance business, including price competition and competition from the FHA, VA and 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;
- legislative and regulatory activity (or inactivity), including the adoption of (or failure to adopt) new laws and regulations, or changes in existing laws and regulations, or the way they are interpreted or applied;
- legal and regulatory claims, assertions, actions, reviews, audits, inquiries and investigations that could result in adverse judgments, settlements, fines, injunctions, restitutions or other relief that could require significant expenditures 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;
- potential future impairment charges related to our goodwill and other intangible assets, and uncertainties regarding our ability to execute our restructuring plans within expected costs;
- changes in GAAP or SAPP rules and guidance, or their interpretation;
- our ability to attract and retain key employees; and
- legal and other limitations on dividends and other amounts we may receive from our subsidiaries.

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 2016 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

Item 1. Financial Statements (Unaudited)

Radian Group Inc.

CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

($ in thousands, except per-share amounts)	September 30, 2017	December 31, 2016
Assets		
Investments (Note 5)		
Fixed-maturities available for sale—at fair value (amortized cost $3,218,614 and $2,856,468)	$ 3,256,581	$ 2,838,512
Equity securities available for sale—at fair value (cost $161,159 and $1,330)	161,303	1,330
Trading securities—at fair value	636,225	879,862
Short-term investments—at fair value (includes $36,782 and $0 of reinvested cash collateral held under securities lending agreements)	491,956	741,531
Other invested assets	599	1,195
Total investments	4,546,664	4,462,430
Cash	61,917	52,149
Restricted cash	36,888	9,665
Accounts and notes receivable	97,020	77,631
Deferred income taxes, net (Note 9)	356,181	411,798
Goodwill and other intangible assets, net (Note 6)	66,967	276,228
Prepaid reinsurance premium	239,620	229,438
Other assets (Note 8)	439,016	343,835
Total assets	$ 5,844,273	$ 5,863,174
Liabilities and Stockholders' Equity		
Unearned premiums	$ 717,589	$ 681,222
Reserve for losses and loss adjustment expense ("LAE") (Note 10)	556,488	760,269
Long-term debt (Note 11)	1,026,806	1,069,537
Reinsurance funds withheld	194,353	158,001
Other liabilities	360,835	321,859
Total liabilities	2,856,071	2,990,888
Commitments and contingencies (Note 12)		
Stockholders' equity		
Common stock: par value $.001 per share; 485,000,000 shares authorized at September 30, 2017 and December 31, 2016; 232,894,636 and 232,091,921 shares issued at September 30, 2017 and December 31, 2016, respectively; 215,298,551 and 214,521,079 shares outstanding at September 30, 2017 and December 31, 2016, respectively	233	232
Treasury stock, at cost: 17,596,085 and 17,570,842 shares at September 30, 2017 and December 31, 2016, respectively	(893,754)	(893,332)
Additional paid-in capital	2,747,393	2,779,891
Retained earnings	1,110,057	997,890
Accumulated other comprehensive income (loss) ("AOCI") (Note 14)	24,273	(12,395)
Total stockholders' equity	2,988,202	2,872,286
Total liabilities and stockholders' equity	$ 5,844,273	$ 5,863,174

See Notes to Unaudited Condensed Consolidated Financial Statements.

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Radian Group Inc.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands, except per-share amounts)	2017	2016	2017	2016
Revenues:				
Net premiums earned—insurance	$236,702	$238,149	$687,598	$688,184
Services revenue	39,571	45,877	115,400	118,989
Net investment income	32,540	28,430	93,643	84,470
Net gains (losses) on investments and other financial instruments	2,480	7,711	4,960	69,524
Other income	760	716	2,118	2,836
Total revenues	312,053	320,883	903,719	964,003
Expenses:				
Provision for losses	35,841	55,785	99,976	148,501
Policy acquisition costs	5,554	6,119	18,406	17,901
Cost of services	27,240	29,447	81,250	80,362
Other operating expenses	64,195	62,119	201,322	182,480
Restructuring and other exit costs (Note 1)	12,038	—	12,038	—
Interest expense	15,715	19,783	47,832	63,863
Loss on induced conversion and debt extinguishment (Note 11)	45,766	17,397	51,469	75,075
Impairment of goodwill (Note 6)	—	—	184,374	—
Amortization and impairment of other intangible assets	2,890	3,292	25,042	9,931
Total expenses	209,239	193,942	721,709	578,113
Pretax income	102,814	126,941	182,010	385,890
Income tax provision	37,672	44,138	67,738	138,726
Net income	$65,142	$82,803	$114,272	$247,164
Net income per share:				
Basic	$0.30	$0.39	$0.53	$1.17
Diluted	$0.30	$0.37	$0.52	$1.09
Weighted-average number of common shares outstanding—basic	215,279	214,387	215,194	210,858
Weighted-average number of common and common equivalent shares outstanding—diluted	219,391	225,968	220,230	230,672
Dividends per share	$0.0025	$0.0025	$0.0075	$0.0075

See Notes to Unaudited Condensed Consolidated Financial Statements.

Radian Group Inc.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (UNAUDITED)

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	2017	2016	2017	2016
Net income	$65,142	$82,803	$114,272	$247,164
Other comprehensive income, net of tax (Note 14):				
Unrealized gains (losses) on investments:				
Unrealized holding gains (losses) arising during the period	6,239	6,943	33,845	86,614
Less: Reclassification adjustment for net gains (losses) included in net income (loss)	111	3,695	(2,687)	2,296
Net unrealized gains (losses) on investments	6,128	3,248	36,532	84,318
Net foreign currency translation adjustments	28	(36)	136	(346)
Net actuarial gains (losses)	—	156	—	(22)
Other comprehensive income, net of tax	6,156	3,368	36,668	83,950
Comprehensive income	$71,298	$86,171	$150,940	$331,114

See Notes to Unaudited Condensed Consolidated Financial Statements.

Radian Group Inc.
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN COMMON STOCKHOLDERS' EQUITY (UNAUDITED)

	Nine Months Ended September 30,	
(In thousands)	2017	2016
Common Stock		
Balance, beginning of period	$232	$224
Impact of extinguishment of Convertible Senior Notes due 2017 and 2019 (Note 11)	—	17
Issuance of common stock under incentive and benefit plans	1	—
Shares repurchased under share repurchase program (Note 13)	—	(9)
Balance, end of period	233	232
Treasury Stock		
Balance, beginning of period	(893,332)	(893,176)
Repurchases of common stock under incentive plans	(422)	(21)
Balance, end of period	(893,754)	(893,197)
Additional Paid-in Capital		
Balance, beginning of period	2,779,891	2,716,618
Issuance of common stock under incentive and benefit plans	4,761	1,711
Share-based compensation	10,290	17,632
Impact of extinguishment of Convertible Senior Notes due 2017 and 2019 (Note 11)	(52,408)	143,078
Cumulative effect of adoption of the accounting standard update for share-based payment transactions	756	—
Termination of capped calls (Note 11)	4,109	—
Shares repurchased under share repurchase program (Note 13)	(6)	(100,179)
Balance, end of period	2,747,393	2,778,860
Retained Earnings		
Balance, beginning of period	997,890	691,742
Net income	114,272	247,164
Dividends declared	(1,614)	(1,568)
Cumulative effect of adoption of the accounting standard update for share-based payment transactions, net of tax	(491)	—
Balance, end of period	1,110,057	937,338
Accumulated Other Comprehensive Income (Loss) ("AOCI")		
Balance, beginning of period	(12,395)	(18,477)
Net foreign currency translation adjustment, net of tax	136	(346)
Net unrealized gains (losses) on investments, net of tax	36,532	84,318
Net actuarial gains (losses)	—	(22)
Balance, end of period	24,273	65,473
Total Stockholders' Equity	$2,988,202	$2,888,706

See Notes to Unaudited Condensed Consolidated Financial Statements.

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

(In thousands)	Nine Months Ended September 30, 2017	2016
Cash flows from operating activities:		
Net cash provided by (used in) operating activities	$218,425	$287,449
Cash flows from investing activities:		
Proceeds from sales of:		
Fixed-maturity investments available for sale	737,054	537,679
Equity securities available for sale	23,423	74,868
Trading securities	176,448	178,227
Proceeds from redemptions of:		
Fixed-maturity investments available for sale	377,219	220,126
Trading securities	70,161	106,589
Purchases of:		
Fixed-maturity investments available for sale	(1,491,083)	(1,419,431)
Equity securities available for sale	(195,297)	(830)
Sales, redemptions and (purchases) of:		
Short-term investments, net	251,509	241,579
Other assets and other invested assets, net	596	2,390
Purchases of property and equipment, net	(25,173)	(28,252)
Acquisitions, net of cash acquired	(86)	—
Net cash provided by (used in) investing activities	(75,229)	(87,055)
Cash flows from financing activities:		
Dividends paid	(1,614)	(1,568)
Issuance of long-term debt, net	443,250	343,417
Purchases and redemptions of long-term debt	(591,918)	(445,069)
Proceeds from termination of capped calls	4,109	—
Issuance of common stock	3,283	343
Purchase of common shares	(6)	(100,188)
Change in payable under securities lending agreements	36,782	—
Excess tax benefits from share-based awards (Note 1)	—	115
Repayment of other borrowings	(207)	(292)
Net cash provided by (used in) financing activities	(106,321)	(203,242)
Effect of exchange rate changes on cash and restricted cash	116	(382)
Increase (decrease) in cash and restricted cash	36,991	(3,230)
Cash and restricted cash, beginning of period	61,814	59,898
Cash and restricted cash, end of period	$98,805	$56,668

See Notes to Unaudited Condensed Consolidated Financial Statements.

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Radian Group Inc.

Notes to Unaudited Condensed Consolidated Financial Statements

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

Business Overview

We provide mortgage insurance on first-lien mortgage loans, 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 plays an important role in the U.S. housing finance system because it helps protect mortgage lenders and third-party beneficiaries by mitigating default-related losses on residential mortgage loans. Generally, these loans are made to home buyers who make down payments of less than 20% of the home's purchase price or, in the case of refinancings, have less than 20% equity in the home. Private mortgage insurance also facilitates the sale of these low down payment 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 98.2% of our $51.2 billion total direct RIF as of September 30, 2017. At September 30, 2017, Pool Insurance represented 1.6% 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 various 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. Failure to comply with these capital and financial requirements could limit the amount of insurance that our insurance subsidiaries may write. The GSEs and state insurance regulators also possess significant discretion with respect to our insurance subsidiaries and their business. See Note 15 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. At September 30, 2017, Radian Guaranty is an approved mortgage insurer under the PMIERs and is in compliance with the PMIERs financial requirements.

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 as well as the approved insurer's financial condition. The GSEs have a broad range of consent rights to approve various actions of the approved insurer. If Radian Guaranty is unable to satisfy the requirements set forth in the PMIERs, the GSEs could restrict it from conducting certain types of business with them or take actions that may include not purchasing loans insured by Radian Guaranty. See Note 1 of Notes to Consolidated Financial Statements in our 2016 Form 10-K for additional information about the PMIERs.

The PMIERs specifically provide that the factors that are applied to determine a mortgage insurer's Minimum Required Assets may be updated every two years. The GSEs have informed us that they expect updates to the PMIERs will become effective in the fourth quarter of 2018. Based on this timing, we would expect to receive a draft of the recommended changes later this year and then to engage in an iterative review process with the GSEs and FHFA before the updated PMIERs are finalized. The GSEs will provide approved insurers with an implementation period of at least 180 days after the updated requirements are finalized and prior to their effective date. While we have not received a draft of the changes to the PMIERs to date, it is reasonably possible that updates to the PMIERs could, among other things, result in a material increase to Radian Guaranty's capital requirements under the PMIERs financial requirements.

Services

Our Services segment provides services and solutions to participants in multiple facets of the residential real estate and mortgage finance markets. Our Services business is a fee-for-service business that provides outsourced services to buyers and sellers of, and investors in, mortgage- and real estate-related loans and securities as well as other consumer ABS.

Radian Group Inc.

Notes to Unaudited Condensed Consolidated Financial Statements — (Continued)

2017 Developments

Capital and Liquidity Actions. During the third quarter of 2017, we completed the following transactions:

- the issuance of $450 million aggregate principal amount of Senior Notes due 2024; and
- tender offers resulting in the purchases of aggregate principal amounts of $141.4 million, $115.9 million and $152.3 million of our Senior Notes due 2019, 2020 and 2021, respectively.

The purchases of Senior Notes due 2019, 2020 and 2021 resulted in a pretax charge of $45.8 million during the third quarter of 2017, recorded as a loss on induced conversion and debt extinguishment. See Note 11 for additional information.

On August 9, 2017, Radian Group's board of directors renewed its share repurchase program that enables the Company to repurchase its common stock. The current authorization allows the Company to spend up to $50 million to repurchase Radian Group common stock in the open market or in privately negotiated transactions, based on market and business conditions, stock price and other factors. See Note 13 for additional information.

During the second quarter of 2017, we purchased an aggregate principal amount of $21.6 million of our outstanding Convertible Senior Notes due 2017. These purchases of Convertible Senior Notes due 2017 resulted in a loss on induced conversion and debt extinguishment of $1.2 million.

On January 27, 2017, we settled our obligations with respect to the remaining $68.0 million aggregate principal amount of our Convertible Senior Notes due 2019, resulting in a loss on induced conversion and debt extinguishment of $4.5 million. As of the settlement date, this transaction resulted in an aggregate decrease of 6.4 million diluted shares for purposes of determining diluted net income per share. See Note 11 for additional information on our transactions related to long-term debt.

Restructuring and Other Exit Costs. Based on our strategic assessment of the Services business, on September 5, 2017, the Company committed to a plan to restructure the Services business and incurred pretax restructuring charges of $12.0 million in the third quarter of 2017, including $5.4 million in cash payments. Additional pretax charges of approximately $7.5 million, including approximately $6.0 million in cash payments, are expected to be recognized within the next 12 months. The total restructuring charges of approximately $19.5 million are expected to consist of: (i) asset impairment charges of approximately $8.1 million; (ii) employee severance and benefit costs of approximately $6.9 million; (iii) facility and lease termination costs of approximately $2.7 million; and (iv) contract termination and other restructuring costs of approximately $1.8 million. See Note 6 for additional information, including the events that led to the restructuring decision.

Impairment of Goodwill and Other Intangible Assets. During the second quarter of 2017, we recorded a goodwill impairment charge of $184.4 million, as well as an impairment charge for other intangible assets of $15.8 million, in each case related to our Services segment. These charges were primarily due to changes in expectations regarding the future growth of certain Services product lines resulting from changes in our business strategy, combined with market trends observed during the second quarter of 2017 that we expect to persist. As of September 30, 2017 the remaining balances of goodwill and other intangible assets reported in our condensed consolidated balance sheet were $10.9 million and $56.0 million, respectively. See Note 6 for additional information.

Developments Subsequent to September 30, 2017. For information on transactions that occurred subsequent to September 30, 2017, see Note 16.

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.

Radian Group Inc.

Notes to Unaudited Condensed Consolidated Financial Statements — (Continued)

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 2016 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.

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

See Note 2 of Notes to Consolidated Financial Statements in our 2016 Form 10-K for information regarding other significant accounting policies. There have been no significant changes in our significant accounting policies from those discussed in our 2016 Form 10-K, other than described below.

Securities Lending Agreements. Securities lending agreements, in which we loan certain securities in our investment portfolio to third parties for short periods of time, are treated as collateralized financing arrangements on our condensed consolidated balance sheets. In all of our securities lending agreements, the securities that we transfer to Borrowers (loaned securities) may be transferred or loaned by the Borrowers; however, we maintain effective control over all loaned securities, including: (i) retaining ownership of the securities; (ii) receiving the related investment or other income; and (iii) having the right to request the return of the loaned securities at any time. We report such securities within other assets in our condensed consolidated balance sheets. We receive cash or other securities as collateral for such loaned securities. Any cash collateral may be invested in liquid assets. Cash collateral, which is reinvested for our benefit by the intermediary in accordance with the investment guidelines contained in the securities lending and collateral agreements, is reflected in short-term investments, with an offsetting liability recognized in other liabilities for the obligation to return the cash collateral to the Borrower. Securities collateral we receive from Borrowers is held on deposit for the Borrower’s benefit and we may not transfer or loan such securities collateral unless the Borrower is in default. Therefore, such securities collateral is not reflected in our condensed consolidated financial statements given that the risks and rewards of ownership are not transferred to us from the Borrowers. See Note 5 for additional information.

Fees received and paid in connection with securities lending agreements are recorded in net investment income and interest expense, respectively, on the condensed consolidated statements of operations.

Radian Group Inc.

Notes to Unaudited Condensed Consolidated Financial Statements — (Continued)

Restructuring and Other Exit Costs. Restructuring and other exit costs include items such as asset impairment charges, employee severance and benefit costs, facility and lease termination costs, contract terminations and other costs of restructuring or exiting activities. The timing of the future expense and associated cash payments for restructuring and other exit costs is dependent on the type of exit cost and is expected to be completed within the next 12 months. We review assets for impairment in accordance with the accounting guidance for long-lived assets. Generally, our employee severance and benefit costs are part of the Company's ongoing benefit arrangement and are recognized when probable and estimable. A liability for facility and lease contract termination costs is recognized at the date we cease the use of rights conveyed by the contract and is measured at its fair value, which is determined based on the remaining contractual lease rentals reduced by estimated sublease rentals. Other contract termination and exit costs include future costs that will be incurred, which are recognized in total when they no longer will benefit the Company. The liabilities for restructuring and other exit costs are recorded in other liabilities.

Goodwill and Other Intangible Assets, Net. In performing the quantitative analysis for our goodwill impairment test as of June 30, 2017, we elected to early adopt the update to the accounting standard regarding goodwill and other intangibles, as discussed in "—Accounting Standards Adopted During 2017" below. This update simplifies the subsequent measurement of goodwill by eliminating step two of the goodwill impairment test. Under the new guidance, if indicators for impairment are present, we perform a quantitative analysis to evaluate our long-lived assets for potential impairment, and then determine the amount of the goodwill impairment by comparing a reporting unit's fair value to its carrying amount. After adjusting the carrying value for any impairment of other intangibles or long-lived assets, an impairment charge is recognized for any excess of the reporting unit's carrying amount over the reporting unit's estimated fair value, up to the full amount of the goodwill allocated to the reporting unit.

Other than the change to adopt the update to the accounting standard that eliminates step two of the goodwill impairment test, as described above, our accounting policy with regard to goodwill and other intangible assets has remained unchanged from that described in Notes 2 and 7 of Notes to Consolidated Financial Statements in our 2016 Form 10-K.

Recent Accounting Pronouncements

Accounting Standards Adopted During 2017. In March 2016, the FASB issued an update to 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. This update is effective for public companies for fiscal years beginning after December 15, 2016. Our adoption of this update, effective January 1, 2017, had an immaterial impact on our financial statements at implementation. As a result of implementing this new standard, however, we expect the potential for limited increased volatility in our effective tax rate and net earnings, and possible additional dilution in earnings per share calculations.

In January 2017, the FASB issued an update to the accounting standard regarding goodwill and other intangibles. This update simplifies the subsequent measurement of goodwill by eliminating step two of the goodwill impairment test. Instead, an entity should perform its annual or interim goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount and recognize an impairment charge for any excess of the reporting unit's carrying amount over the reporting unit's estimated fair value, after adjusting the carrying value for any impairment of other intangibles or long-lived assets. The provisions of this update are effective for interim and annual goodwill impairment tests in fiscal years beginning after December 15, 2019, with early adoption permitted for interim or annual goodwill impairment tests performed after January 1, 2017. We elected to early adopt this update to perform the quantitative analysis for our goodwill impairment test as of June 30, 2017. See "—Other Significant Accounting Policies" above and Note 6 for additional information.

Radian Group Inc.

Notes to Unaudited Condensed Consolidated Financial Statements — (Continued)

Accounting Standards Not Yet Adopted. In May 2014, the FASB issued an update to the accounting standard regarding revenue recognition. 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 our investments and insurance products, which combined represent a significant portion of our 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 subsequently issued various clarifying updates. Early adoption is permitted. This standard permits the use of either the full retrospective or the modified retrospective transition method. We currently anticipate using the modified retrospective method of adoption, with the cumulative effect of initially applying the guidance recognized at the date of adoption. We have reviewed current accounting policies and key contracts that are representative of our various products and services within the Services segment and are in the process of comparing our historical accounting policies and practices to the requirements of the new guidance. We are identifying potential differences resulting from applying the new requirements to our contracts and updating our accounting policy. While we anticipate differences in timing of revenue recognition, we do not expect the impact to be material to our financial statements. We are also in the process of evaluating new disclosure requirements and identifying appropriate changes to our business processes, systems and controls to support recognition and disclosure under the new guidance.

In January 2016, the FASB issued an update that makes certain changes 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 (loss); (ii) the use of the exit price notion 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 (also referred to as “own credit”) 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 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 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 their amortized cost basis be presented at the net 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 for 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.

In October 2016, the FASB issued an update to the accounting standard regarding the accounting for income taxes. This update requires an entity to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. This update will be applied on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. 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 permitted, including adoption in the first interim period of the adoption year. We have concluded there is currently no impact to our financial statements and future disclosures as a result of this update.

In March 2017, the FASB issued an update to the accounting standard regarding receivables. The new standard requires certain premiums on purchased callable debt securities to be amortized to the earliest call date. The amortization period for callable debt securities purchased at a discount will not be impacted. The provisions of this update are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. We are currently evaluating the impact to our financial statements and future disclosures as a result of this update.

Radian Group Inc.

Notes to Unaudited Condensed Consolidated Financial Statements — (Continued)

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 the weighted-average number of dilutive potential common shares. Dilutive potential common shares relate to our share-based compensation arrangements and our outstanding convertible senior notes.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands, except per-share amounts)	2017	2016	2017	2016
Net income—basic	$65,142	$82,803	$114,272	$247,164
Adjustment for dilutive Convertible Senior Notes due 2019, net of tax (1)	—	848	(215)	5,151
Net income—diluted	$65,142	$83,651	$114,057	$252,315
Average common shares outstanding—basic	215,279	214,387	215,194	210,858
Dilutive effect of Convertible Senior Notes due 2017 (2)	16	178	398	71
Dilutive effect of Convertible Senior Notes due 2019	—	8,274	611	16,897
Dilutive effect of share-based compensation arrangements (2)	4,096	3,129	4,027	2,846
Adjusted average common shares outstanding—diluted	219,391	225,968	220,230	230,672
Net income per share:				
Basic	$0.30	$0.39	$0.53	$1.17
Diluted	$0.30	$0.37	$0.52	$1.09

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(1) As applicable, includes coupon interest, amortization of discount and fees, and other changes in income that would result from the assumed conversion. Included in the nine months ended September 30, 2017 is a benefit related to our adjustment of estimated accrued expense to actual amounts, resulting from the January 2017 settlement of our obligations on the remaining Convertible Senior Notes due 2019.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	2017	2016	2017	2016
Shares of common stock equivalents	676	1,045	440	1,045
Shares of Convertible Senior Notes due 2017	—	—	—	1,902

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Radian Group Inc.

Notes to Unaudited Condensed Consolidated Financial Statements — (Continued)

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.

In the fourth quarter of 2016, we completed an organizational change that resulted in a change to our segment financial reporting structure. Previously, contract underwriting activities on behalf of third parties were reported in either the Mortgage Insurance segment or the Services segment, based on the customer relationship. Management responsibility for this contract underwriting business was moved entirely to the Services segment. This organizational change resulted in the reclassification to the Services segment of revenue and expenses for all contract underwriting performed on behalf of third parties. This change aligns with changes in personnel reporting lines and management oversight, and is consistent with the way the chief operating decision maker began assessing the performance of the reportable segments in the fourth quarter of 2016. The amounts reclassified did not have a material impact on adjusted pretax operating income. As a result, on a segment basis, Services revenue, cost of services and other operating expenses have increased, with offsetting reductions in Mortgage Insurance other income and other operating expenses. This change has been reflected in our segment operating results. Mortgage Insurance underwriting continues to be reported as an expense in the Mortgage Insurance segment.

We include underwriting-related expenses for mortgage insurance, based on a pro-rata volume of mortgage applications excluding third-party contract underwriting services, in our Mortgage Insurance segment’s other operating expenses before corporate allocations. We include underwriting-related expenses for third-party contract underwriting services, based on a pro-rata volume of mortgage applications, in our Services segment’s cost of services and other operating expenses before corporate allocations, as applicable.

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 on the original principal balance of $300 million from 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, allocated interest expense based on the original amount of debt issued to fund our purchase of Clayton. No material 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 (Radian’s 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) excluding the effects of: (i) net gains (losses) on investments and other financial instruments; (ii) loss on induced conversion and debt extinguishment; (iii) acquisition-related expenses; (iv) amortization or impairment of goodwill and other intangible assets; and (v) net impairment losses recognized in earnings.

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: (i) not viewed as part of the operating performance of our primary activities or (ii) not expected to result in an economic impact equal to the amount reflected in pretax income (loss). These adjustments, along with the reasons for their treatment, are described below.

(1) Net gains (losses) on investments and other financial instruments. The recognition of realized investment gains or losses can vary significantly across periods as the activity is highly discretionary based on the timing of individual securities sales due to such factors as market opportunities, our tax and capital profile and overall market cycles. Unrealized investment gains and losses arise primarily from changes in the market value of our investments that

are classified as trading securities. These valuation adjustments may not necessarily result in realized economic gains or losses.

Trends in the profitability of our fundamental operating activities can be more clearly identified without the fluctuations of these realized and unrealized gains or losses. We do not view them to be indicative of our fundamental operating activities. Therefore, these items are excluded from our calculation of adjusted pretax operating income (loss).

Radian Group Inc.

Notes to Unaudited Condensed Consolidated Financial Statements — (Continued)

(2) Loss on induced conversion and debt extinguishment. Gains or losses on early extinguishment of debt and losses incurred to purchase our convertible debt prior to maturity are discretionary activities that are undertaken in order to take advantage of market opportunities to strengthen our financial and capital positions; therefore, we do not view these activities as part of our operating performance. Such transactions do not reflect expected future operations and do not provide meaningful insight regarding our current or past operating trends. Therefore, these items are excluded from our calculation of adjusted pretax operating income (loss).

(3) Acquisition-related expenses. Acquisition-related expenses represent the costs incurred to effect an acquisition of a business (i.e., a business combination). Because we pursue acquisitions on a strategic and selective basis and not in the ordinary course of our business, we do not view acquisition-related expenses as a consequence of a primary business activity. Therefore, we do not consider these expenses to be part of our operating performance and they are excluded from our calculation of adjusted pretax operating income (loss).

(4) Amortization or impairment of goodwill and other intangible assets. Amortization of intangible assets represents the periodic expense required to amortize the cost of intangible assets over their estimated useful lives. Intangible assets with an indefinite useful life are also periodically reviewed for potential impairment, and impairment adjustments are made whenever appropriate. These charges are not viewed as part of the operating performance of our primary activities and therefore are excluded from our calculation of adjusted pretax operating income (loss).

(5) Net impairment losses recognized in earnings. The recognition of net impairment losses on investments and the impairment of other long-lived assets does not result in a cash payment and can vary significantly in both amount and frequency, depending on market credit cycles and other factors. 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).

Radian Group Inc.

Notes to Unaudited Condensed Consolidated Financial Statements — (Continued)

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	2017	2016 (1)	2017	2016 (1)
Mortgage Insurance				
Net premiums written—insurance (2)	$247,810	$240,999	$713,782	$499,662
(Increase) decrease in unearned premiums	(11,108)	(2,850)	(26,184)	188,522
Net premiums earned—insurance	236,702	238,149	687,598	688,184
Net investment income	32,540	28,430	93,643	84,470
Other income	760	716	2,118	2,836
Total (3)	270,002	267,295	783,359	775,490
Provision for losses	35,980	56,151	100,926	149,500
Policy acquisition costs	5,554	6,119	18,406	17,901
Other operating expenses before corporate allocations	36,941	35,940	114,169	102,851
Total (4)	78,475	98,210	233,501	270,252
Adjusted pretax operating income before corporate allocations	191,527	169,085	549,858	505,238
Allocation of corporate operating expenses	11,737	11,911	41,817	35,526
Allocation of interest expense	11,282	15,360	34,539	50,596
Adjusted pretax operating income	$168,508	$141,814	$473,502	$419,116

(1) Reflects changes made during the fourth quarter of 2016 to align our segment reporting structure concurrent with changes in personnel reporting lines and management oversight related to contract underwriting performed on behalf of third parties. Revenue and expenses for this business are now reflected in the Services segment. As a result, Services revenue, cost of services and other operating expenses have increased, with offsetting reductions in Mortgage Insurance other income and other operating expenses.

(2) Net of ceded premiums written under the QSR Transactions and the Single Premium QSR Transaction. See Note 7 for additional information.

(3) Excludes net gains on investments and other financial instruments of $2.5 million and $5.0 million, respectively, for the three and nine months ended September 30, 2017, and net gains on investments and other financial instruments of $7.7 million and $69.5 million, respectively, for the three and nine months ended September 30, 2016, not included in adjusted pretax operating income.

(4) Includes inter-segment expenses as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	2017	2016	2017	2016
Inter-segment expenses	$1,491	$2,156	$5,726	$5,702

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Radian Group Inc.

Notes to Unaudited Condensed Consolidated Financial Statements — (Continued)

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	2017	2016 (1)	2017	2016 (1)
Services				
Services revenue (2)	$41,062	$48,033	$121,126	$124,691
Cost of services	27,544	29,655	82,196	81,239
Other operating expenses before corporate allocations	12,781	13,575	38,188	