RADIAN GROUP INC
Form 10-Q
November 04, 2016
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, 2016
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.)
1601 Market Street, Philadelphia, PA	19103
(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, 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 x	Accelerated filer o	Non-accelerated filer o	Smaller reporting company o
		(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 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: 214,427,037 shares of common stock, $0.001 par value per share, outstanding on November 2, 2016.

TABLE OF CONTENTS

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
FASB	Financial Accounting Standards Board
FHA	Federal Housing Administration
FICO	Fair Isaac Corporation
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

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

Term	Definition
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, consisting of 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 Federal Housing Finance Agency’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
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 effective on December 31, 2015, issued by the GSEs under oversight of the Federal Housing Finance Agency to set forth requirements an approved insurer must meet and maintain to provide mortgage guaranty insurance on loans acquired by the GSEs

4

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
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 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
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

Term	Definition
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 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
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
VA	U.S. Department of Veterans Affairs
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," "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 but without limitation, unemployment rates, interest rates and changes in housing and mortgage credit markets, that 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;
- competition in our mortgage insurance business, including in particular but without limitation, 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;
- 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;

7

- 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 SAPP 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
Item 1. Financial Statements (Unaudited)
Radian Group Inc.
CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

($ in thousands, except per-share amounts)	September 30, 2016	December 31, 2015
Assets		
Investments (Note 5)		
Fixed-maturities available for sale—at fair value (amortized cost $2,655,791 and $1,893,356)	$ 2,757,508	$ 1,865,461
Equity securities available for sale—at fair value (cost $1,330 and $75,538)	1,330	75,430
Trading securities—at fair value	969,657	1,279,137
Short-term investments—at fair value	835,960	1,076,944
Other invested assets	1,293	1,714
Total investments	4,565,748	4,298,686
Cash	46,356	46,898
Restricted cash	10,312	13,000
Accounts and notes receivable	94,692	61,734
Deferred income taxes, net (Note 9)	401,442	577,945
Goodwill and other intangible assets, net (Note 6)	279,400	289,417
Prepaid reinsurance premium	229,754	40,491
Other assets (Note 8)	422,123	313,929
Total assets	$ 6,049,827	$ 5,642,100
Liabilities and Stockholders' Equity		
Unearned premiums	$ 680,973	$ 680,300
Reserve for losses and loss adjustment expense ("LAE") (Note 10)	821,934	976,399
Long-term debt (Note 11)	1,067,666	1,219,454
Reinsurance funds withheld (Note 1)	177,147	—
Other liabilities	413,401	269,016
Total liabilities	3,161,121	3,145,169
Commitments and contingencies (Note 12)		
Stockholders' equity		
Common stock: par value $.001 per share; 485,000,000 shares authorized at September 30, 2016 and December 31, 2015; 231,967,395 and 224,432,465 shares issued at September 30, 2016 and December 31, 2015, respectively; 214,405,103 and 206,871,768 shares outstanding at September 30, 2016 and December 31, 2015, respectively	232	224
Treasury stock, at cost: 17,562,292 and 17,560,697 shares at September 30, 2016 and December 31, 2015, respectively	(893,197)	(893,176)
Additional paid-in capital	2,778,860	2,716,618
Retained earnings	937,338	691,742
Accumulated other comprehensive income (loss) ("AOCI") (Note 14)	65,473	(18,477)
Total stockholders' equity	2,888,706	2,496,931
Total liabilities and stockholders' equity	$ 6,049,827	$ 5,642,100

See Notes to Unaudited Condensed Consolidated Financial Statements.

9

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)	2016	2015	2016	2015
Revenues:				
Net premiums earned—insurance	$238,149	$227,433	$688,184	$689,465
Services revenue	43,096	42,189	112,990	116,322
Net investment income	28,430	22,091	84,470	58,704
Net gains (losses) on investments and other financial instruments	7,711	3,868	69,524	49,095
Other income	3,497	1,711	8,835	4,785
Total revenues	320,883	297,292	964,003	918,371
Expenses:				
Provision for losses	55,785	64,192	148,501	141,780
Policy acquisition costs	6,119	2,880	17,901	17,593
Direct cost of services	26,704	24,949	73,311	67,722
Other operating expenses	64,862	65,082	189,531	186,587
Interest expense	19,783	21,220	63,863	70,106
Loss on induced conversion and debt extinguishment (Note 11)	17,397	11	75,075	91,887
Amortization and impairment of intangible assets	3,292	3,273	9,931	9,577
Total expenses	193,942	181,607	578,113	585,252
Pretax income from continuing operations	126,941	115,685	385,890	333,119
Income tax provision	44,138	45,594	138,726	126,108
Net income from continuing operations	82,803	70,091	247,164	207,011
Income (loss) from discontinued operations, net of tax	—	—	—	5,385
Net income	$82,803	$70,091	$247,164	$212,396
Net income per share:				
Basic:				
Net income from continuing operations	$0.39	$0.34	$1.17	$1.05
Income (loss) from discontinued operations, net of tax	—	—	—	0.03
Net income	$0.39	$0.34	$1.17	$1.08
Diluted:				
Net income from continuing operations	$0.37	$0.29	$1.09	$0.88
Income (loss) from discontinued operations, net of tax	—	—	—	0.02
Net income	$0.37	$0.29	$1.09	$0.90
Weighted-average number of common shares outstanding—basic	214,387	207,938	210,858	197,562
Weighted-average number of common and common equivalent shares outstanding—diluted	225,968	250,795	230,672	246,993
Dividends per share	$0.0025	$0.0025	$0.0075	$0.0075

See Notes to Unaudited Condensed Consolidated Financial Statements.

10

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

(In thousands)	Three Months Ended September 30, 2016	2015	Nine Months Ended September 30, 2016	2015
Net income	$82,803	$70,091	$247,164	$212,396
Other comprehensive income (loss), net of tax (Note 14):				
Unrealized gains (losses) on investments:				
Unrealized holding gains (losses) arising during the period	6,943	4,012	86,614	(11,154)
Less: Reclassification adjustment for net gains (losses) included in net income	3,695	(223)	2,296	44,408
Net unrealized gains (losses) on investments	3,248	4,235	84,318	(55,562)
Net foreign currency translation adjustments	(36)	(120)	(346)	(88)
Activity related to investments recorded as assets held for sale	—	—	—	(3,254)
Net actuarial gains (losses)	156	—	(22)	—
Other comprehensive income (loss), net of tax	3,368	4,115	83,950	(58,904)
Comprehensive income	$86,171	$74,206	$331,114	$153,492

See Notes to Unaudited Condensed Consolidated Financial Statements.

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

(In thousands)	Nine Months Ended September 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)	(11)
Balance, end of period	232	224
Treasury Stock		
Balance, beginning of period	(893,176)	(892,961)
Repurchases of common stock under incentive plans	(21)	(215)
Balance, end of period	(893,197)	(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	1,711	2,394
Stock-based compensation	17,632	13,214
Impact of extinguishment of Convertible Senior Notes due 2017 and 2019 (Note 11)	143,078	349,191
Termination of capped calls (Note 11)	—	11,976
Change in equity component of currently redeemable convertible senior notes	—	11,911
Shares repurchased under share repurchase program (Note 13)	(100,179)	(201,989)
Balance, end of period	2,778,860	2,718,210
Retained Earnings		
Balance, beginning of period	691,742	406,814
Net income	247,164	212,396
Dividends declared	(1,568)	(1,479)
Balance, end of period	937,338	617,731
Accumulated Other Comprehensive Income (Loss) ("AOCI")		
Balance, beginning of period	(18,477)	51,485
Net foreign currency translation adjustment, net of tax	(346)	(88)
Net unrealized gains (losses) on investments, net of tax	84,318	(58,816)
Net actuarial gains (losses)	(22)	—
Balance, end of period	65,473	(7,419)
Total Stockholders' Equity	$2,888,706	$2,435,570

See Notes to Unaudited Condensed Consolidated Financial Statements.

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

(In thousands)	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015
Cash flows from operating activities:		
Net cash provided by (used in) operating activities, continuing operations	$290,137	$(5,993)
Net cash provided by (used in) operating activities, discontinued operations	—	(1,759)
Net cash provided by (used in) operating activities	290,137	(7,752)
Cash flows from investing activities:		
Proceeds from sales of:		
Fixed-maturity investments available for sale	537,679	16,208
Equity securities available for sale	74,868	145,550
Trading securities	178,227	13,566
Proceeds from redemptions of:		
Fixed-maturity investments available for sale	220,126	64,747
Trading securities	106,589	169,991
Purchases of:		
Fixed-maturity investments available for sale	(1,419,431)	(1,006,985)
Equity securities available for sale	(830)	(500)
Sales, redemptions and (purchases) of:		
Short-term investments, net	241,579	(160,874)
Other assets and other invested assets, net	2,390	13,596
Proceeds from the sale of investment in affiliate, net of cash transferred	—	784,866
Purchases of property and equipment, net	(28,252)	(19,264)
Acquisitions, net of cash acquired	—	(6,449)
Net cash provided by (used in) investing activities, continuing operations	(87,055)	14,452
Net cash provided by (used in) investing activities, discontinued operations	—	4,999
Net cash provided by (used in) investing activities	(87,055)	19,451
Cash flows from financing activities:		
Dividends paid	(1,568)	(1,479)
Issuance of long-term debt, net	343,417	343,479
Purchases and redemptions of long-term debt	(445,069)	(128,486)
Proceeds from termination of capped calls	—	11,973
Issuance of common stock	343	—
Purchase of common shares	(100,188)	(202,000)
Excess tax benefits from stock-based awards	115	3,000
Repayment of other borrowings	(292)	—
Net cash provided by (used in) financing activities, continuing operations	(203,242)	26,487
Net cash provided by (used in) financing activities, discontinued operations	—	—
Net cash provided by (used in) financing activities	(203,242)	26,487
Effect of exchange rate changes on cash	(382)	(42)
Increase (decrease) in cash	(542)	38,144
Cash, beginning of period	46,898	30,465
Less: Increase (decrease) in cash of business held for sale	—	(421)
Cash, end of period	$46,356	$69,030

See Notes to Unaudited Condensed Consolidated Financial Statements.

13

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 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 by mitigating default-related losses on residential mortgage loans made to home buyers who generally make downpayments of less than 20% of the purchase price for their homes. 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 97.8% of our $47.3 billion total direct RIF at September 30, 2016. At September 30, 2016, pool insurance represented 2.1% 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. At September 30, 2016, Radian Guaranty was in compliance with the PMIERs.

The PMIERs Financial Requirements, among other things, require that a mortgage insurer's Available Assets meet or exceed its Minimum Required Assets. The GSEs may amend the PMIERs at any time, and they have broad discretion to interpret the requirements, which could impact the calculation of our Available Assets and/or Minimum Required Assets. The PMIERs specifically provide that the factors that are applied to calculate and determine a mortgage insurer's Minimum Required Assets will be updated every two years following a minimum of 180 days' notice (with the next review scheduled to take place in 2017), 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 manage Radian Guaranty's position under the PMIERs Financial Requirements, and the credit that we receive under the PMIERs Financial Requirements for these transactions is subject to the periodic review of the GSEs. In addition, it is our understanding that while a more comprehensive review of the PMIERs Financial Requirements is expected to take place in 2017, the GSEs currently are considering interim guidance for the industry that would negatively impact the amount of credit that we receive for our Single Premium QSR Transaction but also would give credit to certain liquid investments that are readily available to pay claims that previously were not permitted to be included in our Available Assets. As a result, we do not expect that this potential interim guidance, if and when issued, will impact Radian Guaranty's compliance with the PMIERs.

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.

Radian Group Inc.

Notes to Unaudited Condensed Consolidated Financial Statements — (Continued)

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 Management

During the first nine months 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 management transactions consists 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 $322.0 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;
- 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; and
- the early redemption of the remaining $195.5 million aggregate principal amount of our Senior Notes due 2017.

The purchases of Convertible Senior Notes due 2017 and 2019 and the early redemption of the Senior Notes due 2017 resulted in a pretax charge of $75.1 million during the first nine months of 2016, recorded as a loss on induced conversion and debt extinguishment.

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. As of September 30, 2016, the full purchase authority remained available under this share repurchase program, which expires on June 30, 2017. See Notes 7, 11 and 13 for additional information.

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.

Radian Group Inc.

Notes to Unaudited Condensed Consolidated Financial Statements — (Continued)

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 nine months ended September 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 nine months ended September 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 $96,684 has been adjusted to $16,208; and (ii) purchases of fixed-maturity investments available for sale reported as $1,087,461 has been adjusted to $1,006,985.

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.

Radian Group Inc.

Notes to Unaudited Condensed Consolidated Financial Statements — (Continued)

Recent Accounting Pronouncements

Accounting Standards Adopted During 2016. 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.

Accounting Standards Not Yet Adopted. In May 2014, the 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 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.

Radian Group Inc.

Notes to Unaudited Condensed Consolidated Financial Statements — (Continued)

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.

18

Radian Group Inc.

Notes to Unaudited Condensed Consolidated Financial Statements — (Continued)

In August 2016, the FASB issued an update to the accounting standard regarding the statement of cash flows. This update reduces differences in practice over the presentation and classification of certain cash receipts and cash payments. The revision provides guidance related to eight specific identified cash flow issues. The guidance will be applied on a retrospective basis beginning with the earliest period presented. 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 an interim period. We are currently evaluating the impact to our financial statements 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 is intended to reduce complexity in accounting for the income tax consequences from intra-entity transfers of assets other than inventory. 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 are currently evaluating the impact to our financial statements 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.

Radian Group Inc.

Notes to Unaudited Condensed Consolidated Financial Statements — (Continued)

The calculation of the 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)	2016	2015	2016	2015
Net income from continuing operations:				
Net income from continuing operations - basic	$82,803	$70,091	$247,164	$207,011
Adjustment for dilutive Convertible Senior Notes due 2019, net of tax (1)	848	3,714	5,151	11,094
Net income from continuing operations - diluted	$83,651	$73,805	$252,315	$218,105
Net income:				
Net income from continuing operations - basic	$82,803	$70,091	$247,164	$207,011
Income (loss) from discontinued operations, net of tax	—	—	—	5,385
Net income - basic	82,803	70,091	247,164	212,396
Adjustment for dilutive Convertible Senior Notes due 2019, net of tax (1)	848	3,714	5,151	11,094
Net income - diluted	$83,651	$73,805	$252,315	$223,490
Average common shares outstanding - basic	214,387	207,938	210,858	197,562
Dilutive effect of Convertible Senior Notes due 2017 (2)	178	1,798	71	8,620
Dilutive effect of Convertible Senior Notes due 2019	8,274	37,736	16,897	37,736
Dilutive effect of stock-based compensation arrangements (2)	3,129	3,323	2,846	3,075
Adjusted average common shares outstanding - diluted	225,968	250,795	230,672	246,993
Net income per share:				
Basic:				
Net income from continuing operations	$0.39	$0.34	$1.17	$1.05
Income (loss) from discontinued operations, net of tax	—	—	—	0.03
Net income	$0.39	$0.34	$1.17	$1.08
Diluted:				
Net income from continuing operations	$0.37	$0.29	$1.09	$0.88
Income (loss) from discontinued operations, net of tax	—	—	—	0.02
Net income	$0.37	$0.29	$1.09	$0.90

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(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 diluted net income per share because they were anti-dilutive:

Three Months Ended September 30,	Nine Months Ended September 30,

(in thousands)	2016	2015	2016	2015
Shares of common stock equivalents	1,045	469	1,045	730
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.

Radian Group Inc.

Notes to Unaudited Condensed Consolidated Financial Statements — (Continued)

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).

21

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)	2016	2015	2016	2015
Mortgage Insurance				
Net premiums written—insurance (1)	$240,999	$242,168	$499,662	$735,158
Decrease (increase) in unearned premiums	(2,850)	(14,735)	188,522	(45,693)
Net premiums earned—insurance	238,149	227,433	688,184	689,465
Net investment income	28,430	22,091	84,470	58,704
Other income	3,511	1,711	8,850	4,785
Total (2)	270,090	251,235	781,504	752,954
Provision for losses	56,151	64,128	149,500	141,616
Policy acquisition costs	6,119	2,880	17,901	17,593
Other operating expenses before corporate allocations	38,081	36,632	108,036	112,535
Total (3)	100,351	103,640	275,437	271,744
Adjusted pretax operating income before corporate allocations	169,739	147,595	506,067	481,210
Allocation of corporate operating expenses	11,911	14,893	35,526	37,167
Allocation of interest expense	15,360	16,797	50,596	56,820
Adjusted pretax operating income	$142,468	$115,905	$419,945	$387,223

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(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 $7.7 million and $69.5 million, respectively, for the three and nine months ended September 30, 2016, and $3.9 million and $49.1 million, respectively, for the three and nine months ended September 30, 2015, not included in adjusted pretax operating income.

(3) Includes inter-segment expenses as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	2016	2015	2016	2015
Inter-segment expenses	$718	$925	$2,023	$2,919

Radian Group Inc.

Notes to Unaudited Condensed Consolidated Financial Statements — (Continued)

(In thousands)	Three Months Ended September 30, 2016	2015	Nine Months Ended September 30, 2016	2015
Services				
Services revenue (1)	$43,800	$43,114	$114,998	$119,241
Direct cost of services	26,911	25,870	74,188	70,624
Other operating expenses before corporate allocations	12,740	11,533	39,160	31,912
Total	39,651	37,403	113,348	102,536
Adjusted pretax operating income before corporate allocations	4,149	5,711	1,650	16,705
Allocation of corporate operating expenses	2,265	1,567	6,795	3,855
Allocation of interest expense	4,423	4,423	13,267	13,286
Adjusted pretax operating income (loss)	$(2,539)	$(279)	$(18,412)	$(436)

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(1) Includes inter-segment revenues as follows:

(In thousands)	Three Months Ended September 30, 2016	2015	Nine Months Ended September 30, 2016	2015
Inter-segment revenues	$718	$925	$2,023	$2,919

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

	At September 30, 2016		
(In thousands)	Mortgage Insurance	Services	Total
Total assets	$5,686,726	$363,101	$6,049,827

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

Radian Group Inc.

Notes to Unaudited Condensed Consolidated Financial Statements — (Continued)

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	2016	2015	2016	2015
Adjusted pretax operating income (loss):				
Mortgage Insurance (1)	$142,468	$115,905	$419,945	$387,223
Services (1)	(2,539)	(279)	(18,412)	(436)
Total adjusted pretax operating income	139,929	115,626	401,533	386,787
Net gains (losses) on investments and other financial instruments	7,711	3,868	69,524	49,095
Loss on induced conversion and debt extinguishment	(17,397)	(11)	(75,075)	(91,887)
Acquisition-related (expenses) benefits (2)	(10)	(525)	(161)	(1,299)
Amortization and impairment of intangible assets	(3,292)	(3,273)	(9,931)	(9,577)
Consolidated pretax income from continuing operations	$126,941	$115,685	$385,890	$333,119

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(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 nine months ended September 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 September 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.

Radian Group Inc.

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 September 30, 2016:

(In thousands)	Level I	Level II	Level III	Total
Assets at Fair Value				
Investment Portfolio:				
U.S. government and agency securities	$152,805	$—	$—	$152,805
State and municipal obligations	—	384,609	—	384,609
Money market instruments	587,628	—	—	587,628
Corporate bonds and notes	—	1,909,060	—	1,909,060
RMBS	—	433,474	—	433,474
CMBS	—	556,250	—	556,250
Other ABS	—	450,853	—	450,853
Foreign government and agency securities	—	41,627	—	41,627
Equity securities	—	830	500	1,330
Other investments (1)	—	46,319	500	46,819
Total Investments at Fair Value (2)	740,433	3,823,022	1,000	4,564,455
Total Assets at Fair Value	$740,433	$3,823,022	$ 1,000	$4,564,455

(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 ($1.3 million), primarily invested in limited partnerships, accounted for as cost-method investments and not measured at fair value.

At September 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 a Level III 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 a Level III 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 September 30, 2016.

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

(In thousands)	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)	1,188,530	3,107,942	500	4,296,972
Total Assets at Fair Value	$1,188,530	$3,107,942	$ 500	$4,296,972

(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.

Radian Group Inc.

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 nine months ended September 30, 2016 and 2015. There were also no transfers involving Level III assets or liabilities for the three and nine months ended September 30, 2016 and 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:

(In thousands)	September 30, 2016		December 31, 2015	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Assets:				
Other invested assets	$1,293	$ 3,692	$1,714	$ 4,901
Liabilities:				
Long-term debt	1,067,666	1,195,740	1,219,454	1,414,875

5. Investments

Available for Sale Securities

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

(In thousands)	September 30, 2016			
	Amortized Cost	Fair Value	Gross Unrealized Gains	Gross Unrealized Losses
Fixed-maturities available for sale:				
U.S. government and agency securities	$42,213	$45,035	$ 2,846	$ 24
State and municipal obligations	68,520	75,320	6,800	—
Corporate bonds and notes	1,249,233	1,315,525	66,683	391
RMBS	384,867	391,701	7,054	220
CMBS	446,102	462,750	17,090	442
Other ABS	435,695	437,026	2,335	1,004
Foreign government and agency securities	27,161	28,151	1,041	51
Other investments	2,000	2,000	—	—
Total fixed-maturities available for sale	2,655,791	2,757,508	103,849	2,132
Equity securities available for sale (1)	1,330	1,330	—	—
Total debt and equity securities	$2,657,121	$2,758,838	$ 103,849	$ 2,132

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(1) Comprised primarily of investments in Federal Home Loan Bank stock required in connection with the memberships of Radian Guaranty and Radian Reinsurance in the Federal Home Loan Bank of Pittsburgh.

Radian Group Inc.

Notes to Unaudited Condensed Consolidated Financial Statements — (Continued)

(In thousands)	December 31, 2015 Amortized Cost	Fair Value	Gross Unrealized Gains	Gross Unrealized Losses
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	$1,968,894	$1,940,891	$ 6,297	$ 34,300

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

Gross Unrealized Losses and Fair Value of Available for Sale Securities

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:

September 30, 2016: ($ in thousands) Description of Securities	Less Than 12 Months # of securities	Fair Value	Unrealized Losses	12 Months or Greater # of securities	Fair Value	Unrealized Losses	Total # of securities	Fair Value	Unrealized Losses
U.S. government and agency securities	4	$3,536	$ 24	—	$—	$ —	4	$3,536	$ 24
Corporate bonds and notes	14	29,166	115	6	18,271	276	20	47,437	391
RMBS	9	92,845	220	—	—	—	9	92,845	220
CMBS	19	54,676	442	—	—	—	19	54,676	442
Other ABS	28	60,953	147	30	79,609	857	58	140,562	1,004
Foreign government and agency securities	1	254	—	3	3,601	51	4	3,855	51
Total	75	$241,430	$ 948	39	$101,481	$ 1,184	114	$342,911	$ 2,132

27

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	—	—				