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Financial Results Q4 2019

NYSE: RDN

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Safe Harbor Statements

All statements in this presentation 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 Securities Exchange Act of 1934 and the U.S. Private Securities Litigation Reform Act of 1995. In most cases, forward-looking statements may be identified by words such as “anticipate,” “may,” “will,” “could,” “should,” “would,” “expect,” “intend,” “plan,” “goal,” “contemplate,” “believe,” “estimate,” “predict,” “project,” “potential,” “continue,” “seek,” “strategy,” “future,” “likely” or the negative or other variations on these words and other similar expressions. These statements, which may include, without limitation, projections regarding our future performance and financial condition, are made on the basis of management’s current views and assumptions with respect to future events. Any forward-looking statement is not a guarantee of future performance and actual results could differ materially from those contained in the forward-looking statement. These statements speak only as of the date they were made, and we undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. We operate in a changing environment where 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 economic and political conditions that impact the size of the insurable market, the credit performance of our insured portfolio, and our business prospects;
- changes in the way customers, investors, ratings agencies, regulators or legislators perceive our performance, financial strength and future prospects;
- Radian Guaranty Inc.’s (“Radian Guaranty”) ability to remain eligible under the Private Mortgage Insurer Eligibility Requirements (the “PMIERs”) and other applicable requirements imposed by the Federal Housing Finance Agency and by Fannie Mae and Freddie Mac (collectively, the “GSEs”) to insure loans purchased by the GSEs, including potential future changes to the PMIERs which, among other things, may be impacted by the general economic environment and housing market, as well as the proposed Conservatorship Capital Framework (”CCF”) that would establish capital requirements for the GSEs, if the CCF is finalized;
- our ability to successfully execute and implement our capital plans, including our risk distribution strategy through the capital markets and reinsurance markets, and to maintain sufficient holding company liquidity to meet our liquidity needs;
- our ability to successfully execute and implement our business plans and strategies, including 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 regulatory requirements;
- changes in the charters or business practices of, or rules or regulations imposed by or applicable to, the GSEs, which may include changes in the requirements to remain an approved insurer to the GSEs, the GSEs’ interpretation and application of the PMIERs, as well as changes impacting loans purchased by the GSEs, such as whether GSE eligible loans meet the “qualified mortgages” (QM) loan requirements under applicable law, requirements regarding mortgage credit and loan size and the GSEs’ pricing;
- changes in the current housing finance system in the U.S., including the role of the Federal Housing Administration (the “FHA”), the GSEs and private mortgage insurers in this system;
- uncertainty from the expected discontinuance of LIBOR and transition to any other interest rate benchmark that could cause interest rate volatility and, among other things, impact our investment portfolio, cost of debt and cost of reinsurance through insurance-linked notes transactions;
- any disruption in the servicing of mortgages covered by our insurance policies, as well as poor servicer performance;
- a decrease in the “Persistency Rates” (the percentage of insurance in force that remains in force over a period of time) of our mortgage insurance on monthly premium products;
- competition in our mortgage insurance business, including price competition and competition from the FHA and U.S. Department of Veterans Affairs as well as from other forms of credit enhancement, including GSE sponsored alternatives to traditional mortgage insurance;
- 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, including future changes to the QM loan requirements, which currently are subject to an Advanced Notice of Proposed Rulemaking (ANPR) issued by the Consumer Financial Protection Bureau;
- 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, new or increased reserves or have other effects on our business;
- the amount and timing of potential settlements, payments or adjustments associated with federal or other tax examinations;
- the possibility that we may fail to estimate accurately the likelihood, magnitude and timing of losses in establishing loss reserves for our mortgage insurance business or to accurately calculate and/or project our “Available Assets” and “Minimum Required Assets” under the PMIERs, which will be impacted by, among other things, the size and mix of our insurance in force, the level of defaults in our portfolio, the level of cash flow generated by our insurance operations and our risk distribution strategies;
- volatility in our financial results caused by changes in the fair value of our assets and liabilities, including our investment portfolio;
- potential future impairment charges related to our goodwill and other acquired intangible assets;
- changes in “GAAP” (accounting principles generally accepted in the U.S.) or “SAPP” (statutory accounting principles and practices including those required or permitted, if applicable, by the insurance departments of the respective states of domicile of our insurance subsidiaries) rules and guidance, or their interpretation;
- our ability to attract and retain key employees; and
- legal and other limitations on amounts we may receive from our subsidiaries, including dividends or ordinary course distributions under our internal tax- and expense- sharing arrangements.

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 Annual Report on Form 10-K for the year ended December 31, 2018, and to subsequent reports and registration statements filed from time to time with the U.S. Securities and Exchange Commission. 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 presentation. 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.

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Full Year 2019 Highlights

$672.3 million
Net Income
11% increase compared to $606.0 million in 2018

$3.20
Diluted Net Income Per Share
16% increase compared to diluted net income per share of $2.77 in 2018

$3.21
Adjusted Diluted Net Operating Income Per Share (1)
19% increase compared to adjusted diluted net operating income per share of $2.69 in 2018 (1)

17.8%
Return on Equity
Compared to 18.7% return on equity 2018

17.9%
Adjusted Net Operating Return on Equity (1)
Compared to 18.2% adjusted net operating return on equity in 2018

13.5 million
Shares Repurchased
Purchased $300 million or 13.5 million shares of Radian Group common stock in 2019

9% increase
In Primary Insurance In Force
$240.6 billion as of December 31, 2019, compared to $221.4 billion as of December 31, 2018

26% increase
In New Insurance Written
NIW for the full year 2019 set a company record for NIW written on a flow basis with $71.3 billion of new insurance written, compared to $56.5 billion in 2018

13% increase
In Net Mortgage Insurance Premiums Earned
$1.13 billion in 2019, compared to $1.01 billion in 2018 (2)

10% increase
In Investment Portfolio
$5.7 billion as of December 31, 2019, compared to $5.2 billion as of December 31, 2018

$171.8 million net investment income in 2019, compared to $152.5 million in 2018

8% decrease
In Interest Expense
$56.3 million interest expense in 2019, compared to $61.5 million in 2018

61 basis point decrease in weighted average cost of debt compared to 2018

1) Adjusted results, including adjusted diluted net operating income per share and adjusted net operating return on equity, as used in this presentation, are non-GAAP financial measures. For a reconciliation of the adjusted results to the comparable GAAP measures and the definitions of adjusted diluted net operating income per share and adjusted net operating return on equity, see Appendix, Slides 20-23.
2) Net Mortgage Insurance Premiums Earned includes a cumulative impact of $50.3 million, in aggregate, related to the recognition of deferred initial premiums on monthly policies and the cumulative adjustment to unearned premiums related to an update to the amortization rates used to recognize revenue for single premium policies.

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Q4 2019 Highlights

$161.2 million **Net Income**	15% increase compared to $139.8 million in Q4 2018
$0.79 **Diluted Net Income Per Share**	23% increase compared to diluted net income per share of $0.64 in Q4 2018
$0.86 **Adjusted Diluted Net Operating Income Per Share** (1)	23% increase compared to adjusted diluted net operating income per share of $0.70 in Q4 2018 (1)
15% increase **In Net Mortgage Insurance Premiums Earned**	$298.5 million in Q4 2019, compared to $259.7 million in Q4 2018 (2)
57% increase **In New Insurance Written**	$20.0 billion of new insurance written, compared to $12.7 billion in Q4 2018

16.2% **Return on Equity**	Compared to 16.4% return on equity in Q4 2018
17.8% **Adjusted Net Operating Return on Equity** (1)	Compared to 17.9% adjusted net operating return on equity in Q4 2018
23% increase **In Book Value Per Share**	Book value per share of $20.13 as of December 31, 2019, compared to $16.34 as of December 31, 2018

1) Adjusted results, including adjusted diluted net operating income per share and adjusted net operating return on equity, as used in this presentation, are non-GAAP financial measures. For a reconciliation of the adjusted results to the comparable GAAP measures and the definitions of adjusted diluted net operating income per share and adjusted net operating return on equity, see Appendix, Slides 20-23.
2) Includes a cumulative impact of $17.4 million recorded to earned premiums related to the recognition of deferred initial premiums on monthly policies in Q4 2019.

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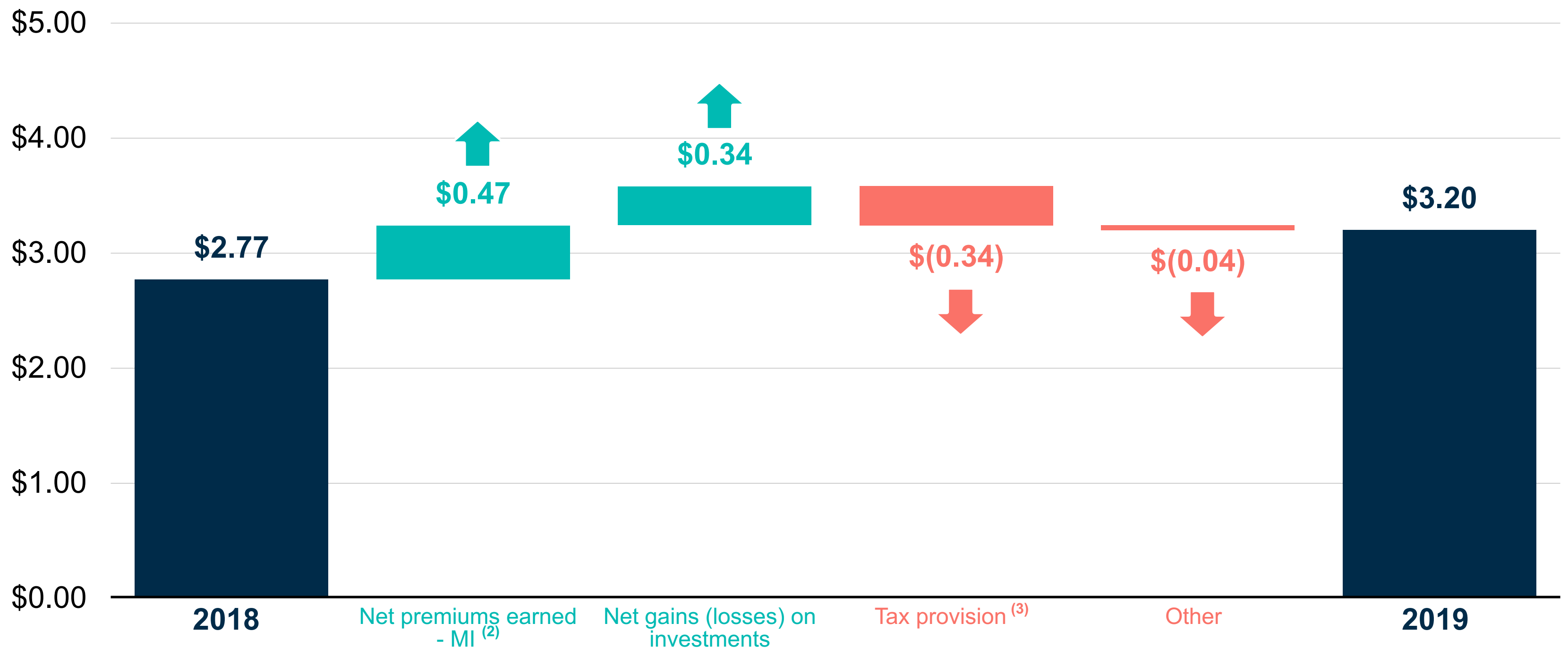
GAAP Diluted Net Income Per Share (1)

2018 to 2019



1) All diluted net income per share items are calculated based on 218.6 million weighted-average diluted shares outstanding as of December 31, 2018 except for the December 31, 2019 diluted net income per share, which was calculated based on 210.3 million weighted-average diluted shares outstanding as of December 31, 2019.
2) 2019 included a cumulative impact of $17.4 million to premiums related to the recognition of deferred initial premiums on monthly policies and an adjustment of $32.9 million in net premiums earned as a result of a cumulative adjustment recorded to reduce our unearned premiums, related to an update to the amortization rates used to recognize revenue for single premium policies.
3) Reflects a tax benefit of approximately $74 million recognized in 2018.

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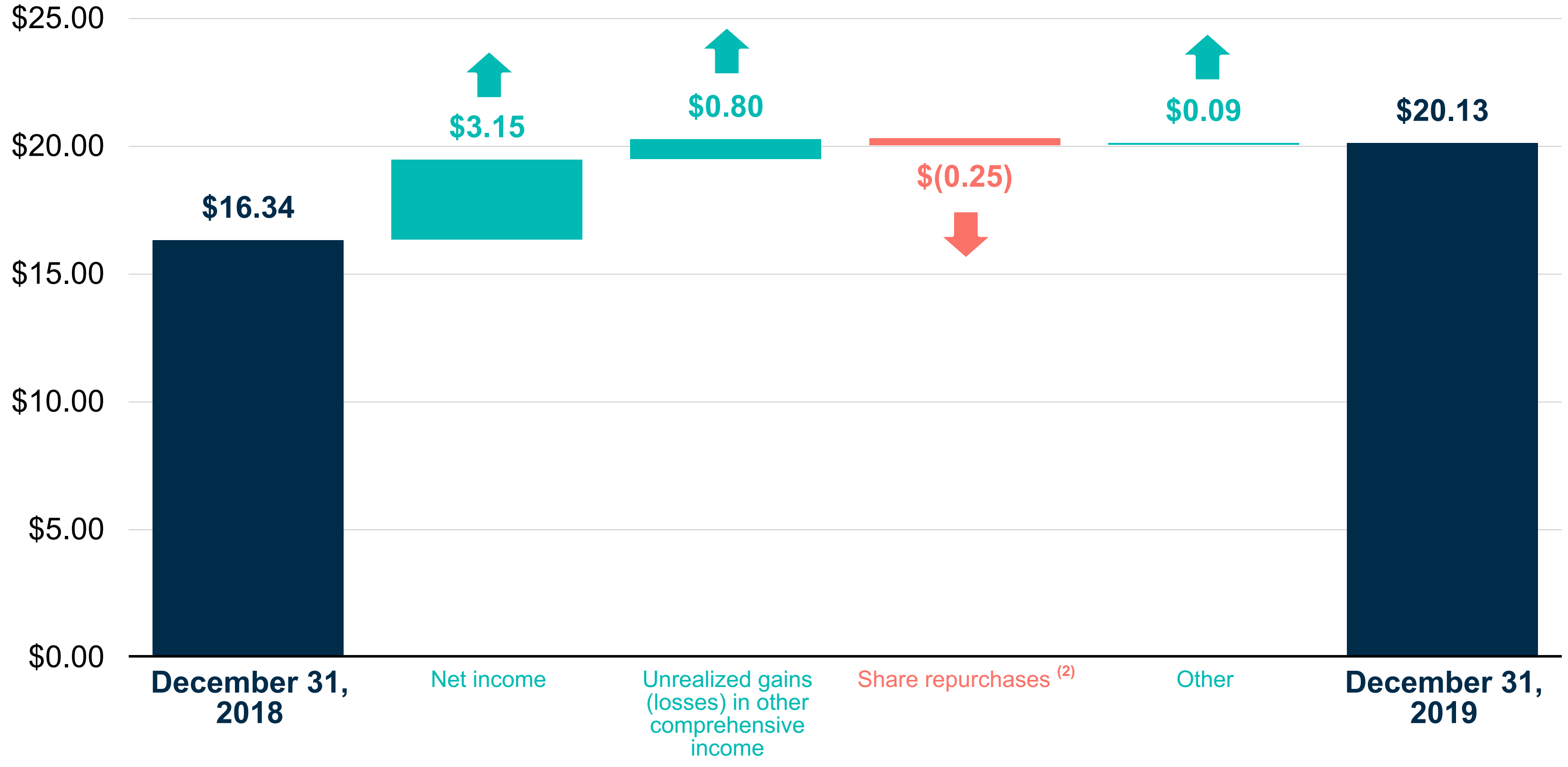
GAAP Book Value Per Share (1)

December 31, 2018 to December 31, 2019



1) All book value per share items are calculated based on 213.5 million shares outstanding as of December 31, 2018 except for the December 31, 2019 book value per share, which was calculated based on 201.2 million shares outstanding as of December 31, 2019.

2) Reflects the impact of our share repurchases for the year ended December 31, 2019, inclusive of the cost of these repurchases.

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Financial Highlights

Radian Group Inc. Consolidated *($ in millions, except per-share amounts)*	**December 31, 2019**	**September 30, 2019**	**June 30, 2019**	**March 31, 2019**	**December 31, 2018**
Primary Insurance In Force	$240,558	$237,158	$230,756	$223,734	$221,443
Total Assets	$6,808	$6,671	$6,592	$6,600	$6,315
Total Investments	$5,659	$5,534	$5,513	$5,476	$5,153
Loss Reserves	$405	$398	$405	$389	$401
Debt-to-capital (1)	18.0%	18.4%	20.6%	21.7%	22.8%
Stockholders' Equity (2)	$4,049	$3,923	$3,783	$3,710	$3,489
Book Value Per Share (3)	$20.13	$19.40	$18.42	$17.49	$16.34
Available / Total Holding Company Liquidity (4)	$653 / $920	$731 / $998	$879 / $1,146	$723 / $991	$714 / $982
PMIERs Cushion (5)	$822 / 29%	$652 / 24%	$660 / 26%	$488 / 16%	$567 / 19%

1) See slide 17 for further detail on the components and calculation of the debt-to-capital ratio as of December 31, 2019.
2) Includes accumulated other comprehensive income (loss) of $110.5 million, $125.6 million, $88.5 million, $17.5 million and $(60.9) million as of December 31, 2019, September 30, 2019, June 30, 2019, March 31, 2019 and December 31, 2018, respectively.
3) Accumulated other comprehensive income (loss) impacted book value per share by $0.55 per share, $0.62 per share, $0.43 per share, $0.08 per share and $(0.29) per share as of December 31, 2019, September 30, 2019, June 30, 2019, March 31, 2019 and December 31, 2018, respectively.
4) Total holding company liquidity includes the Company's unsecured revolving credit facility of $267.5 million for all periods presented. The credit facility requires that the Company maintain a minimum of $35 million in liquidity.
5) Radian Guaranty currently is an approved mortgage insurer under the PMIERs, and is in compliance with the PMIERs financial requirements. PMIERs cushion represents Radian Guaranty's excess of Available Assets over its Minimum Required Assets, calculated in accordance with the PMIERs financial requirements in effect for each date shown. PMIERs 1.0 was in effect for December 31, 2018; PMIERs 2.0 was in effect for March 31, 2019, June 30, 2019, September 30, 2019 and December 31, 2019. PMIERs cushion as a percentage represents PMIERs cushion over its Minimum Required Assets under the PMIERs. See slide 18 for PMIERs resources.

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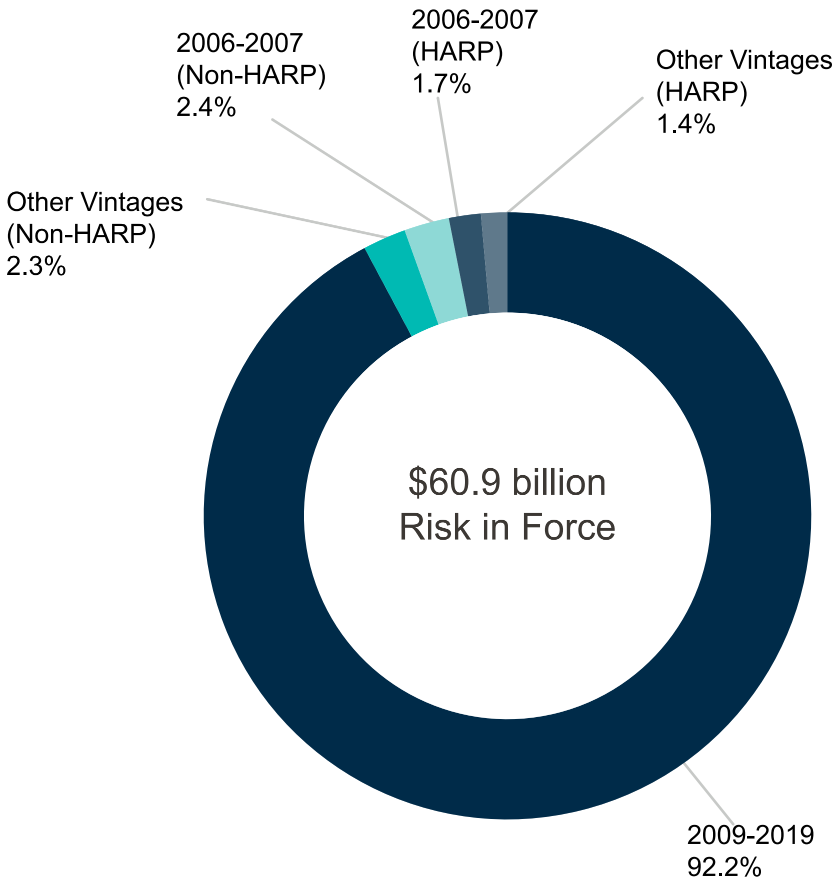
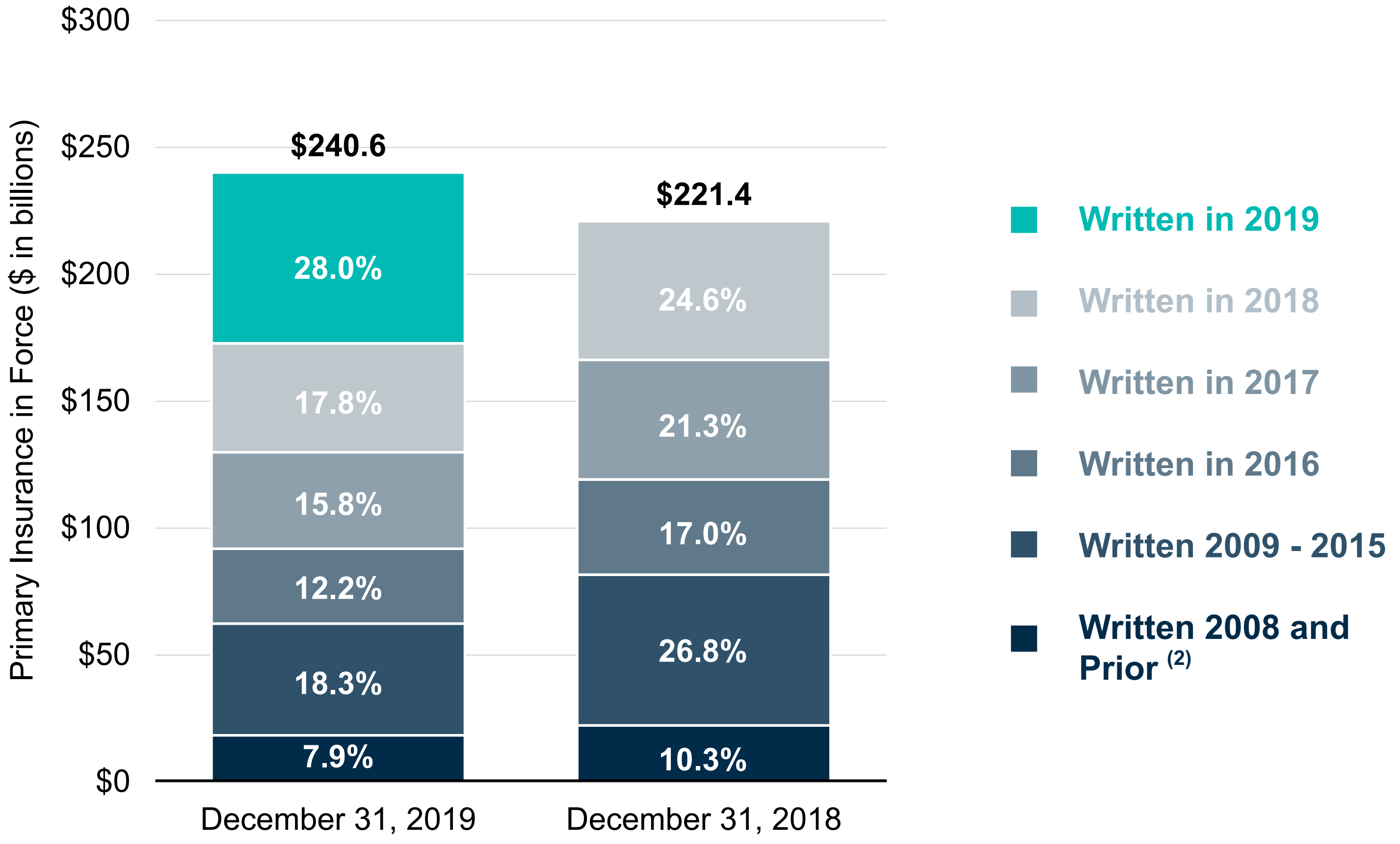
MI Portfolio Composition



As of December 31, 2019, 95% of mortgage insurance primary risk in force consists of new business written after 2008, including HARP volume

Primary Insurance In Force (1)



1) Policy years represent the original policy years, and have not been adjusted to reflect subsequent HARP refinancing activity.
2) If adjusted to reflect subsequent HARP refinancing activity, these percentages would decrease to 4.7% and 6.0% as December 31, 2019 and December 31, 2018, respectively.

In Force Portfolio Premium Yield

(in basis points)	Q4 2019 (1)	Q3 2019	Q2 2019 (2)	Q1 2019	Q4 2018
In Force Portfolio Premium Yield (3)	47.1	47.4	47.9	48.6	49.0
Single Premium Cancellations (4)	4.4	4.6	2.8	1.8	1.7
Total Direct Yield	**51.5**	**52.0**	**50.7**	**50.4**	**50.7**
Ceded Earned Premiums, Incl. Profit Commission (5)	(4.4)	(4.5)	(4.3)	(3.4)	(3.3)
Total Net Yield (6)	**47.1**	**47.5**	**46.4**	**47.0**	**47.4**
Beginning Primary IIF ($B)	$237.2	$230.8	$223.7	$221.4	$217.1
Ending Primary IIF ($B)	240.6	$237.2	$230.8	$223.7	$221.4
Average Primary IIF ($B)	**$238.9**	**$234.0**	**$227.2**	**$222.6**	**$219.3**

1) During Q4 2019, the Company recorded a cumulative impact of $17.4 million to earned premiums related to the recognition of deferred initial premiums on monthly policies. The yields and other amounts shown in this column exclude the impact of this adjustment. Including the impact of this adjustment, the Q4 2019 In Force Portfolio Yield was 50.0 basis points, Total Direct Yield was 54.4 basis points and the Total Net Yield was 50.0 basis points.
2) During Q2 2019, the Company recorded a cumulative adjustment of $32.9 million to unearned premiums related to an update to the amortization rates used to recognize revenue for single premium policies. This adjustment included a $45.3 million increase in direct premiums earned partially offset by a $12.4 million increase in ceded premiums, net of profit commissions. The yields and other amounts shown in this column exclude the impact of this update in single premium policy amortization rates. Including the impact of this adjustment, the Q2 2019 In Force Portfolio Yield was 55.9 basis points, Total Direct Yield was 58.7 basis points, Ceded Earned Premiums including Profit Commission was (6.5) basis points, and the Total Net Yield was 52.2 basis points.
3) Total direct premiums earned, excluding single premium cancellations, annualized, as a percentage of average primary IIF. Includes premiums earned related to Radian’s participation in GSE credit risk sharing transactions (Freddie Mac ACIS and Fannie Mae CIRT). The impact of this revenue ranges from 0.5 – 0.6 basis points across all time periods presented.
4) Single premium cancellations, annualized, as a percentage of average primary IIF.
5) Ceded premiums earned, net of profit commissions, annualized, as a percentage of average primary IIF.
6) Net premiums earned, annualized, as a percentage of average primary IIF.

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First-lien Mortgage Insurance

2019 Performance by Vintage
($ in millions)

	Twelve Months Ended December 31, 2019		
Vintage	**Premiums Earned (1)**	**Incurred Losses (1)**	**Net**
2008 & Prior	$92.0	$74.8	$17.2
2009	$2.6	$(0.2)	$2.8
2010	$1.4	$0.1	$1.3
2011	$4.5	$0.5	$4.0
2012	$21.5	$0.7	$20.8
2013	$53.8	$0.9	$52.9
2014	$64.7	$3.8	$60.9
2015	$109.3	$3.0	$106.3
2016	$179.2	$8.3	$170.9
2017	$229.6	$17.1	$212.5
2018	$258.8	$20.3	$238.5
2019	$110.8	$3.1	$107.7

1) Represents premiums earned and incurred losses on first-lien portfolio, net of reinsurance.

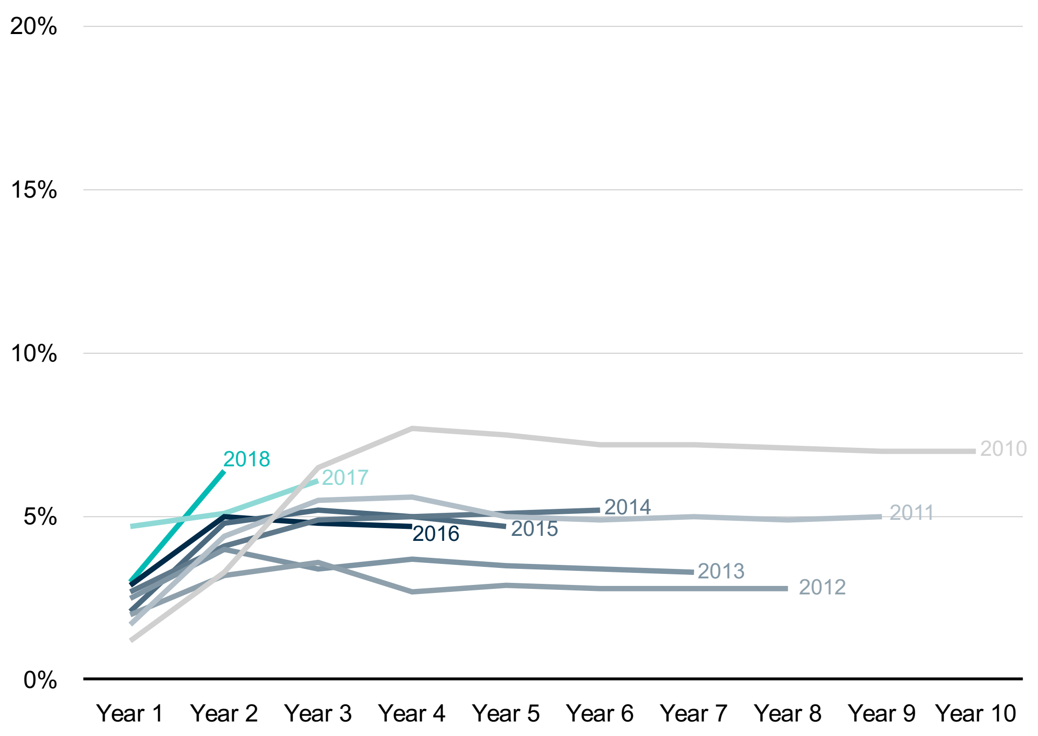
Primary Mortgage Insurance

Cumulative Incurred Loss Ratio by Development Year (1)										
Vintage	Dec-10	Dec-11	Dec-12	Dec-13	Dec-14	Dec-15	Dec-16	Dec-17	Dec-18	Dec-19
2010	1.2%	3.3%	6.5%	7.7%	7.5%	7.2%	7.2%	7.2%	7.0%	7.0%
2011		1.7%	4.4%	5.5%	5.6%	5.0%	4.9%	5.0%	4.9%	5.0%
2012			2.0%	3.2%	3.6%	2.7%	2.9%	2.8%	2.8%	2.8%
2013				2.5%	4.0%	3.4%	3.7%	3.5%	3.4%	3.3%
2014					2.7%	4.1%	4.9%	5.0%	5.1%	5.2%
2015						2.1%	4.8%	5.2%	5.0%	4.7%
2016							2.9%	5.0%	4.8%	4.7%
2017								4.7%(2)	5.1%	6.1%
2018									3.0%	6.4%
2019										2.8%

1) Represents inception-to-date losses incurred as a percentage of net premiums earned on mortgage insurance.
2) Incurred losses in 2017 were slightly elevated due to the impact of Hurricanes Harvey and Irma.

Radian's stochastic modeling indicates an approximate 20% through-the-cycle loss ratio on newly originated MI business.

Cumulative Incurred Loss Ratio by Development Year



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Components of MI Provision for Losses

($ in millions)	Three Months Ended				
	Dec 31, 2019	Sep 30, 2019	Jun 30, 2019	Mar 31, 2019	Dec 31, 2018
Current period defaults [1]	$42.9	$42.0	$40.7	$38.9	$41.4
Prior period defaults [2]	(8.2)	(12.6) [3]	6.5 [4]	(18.2)	(13.8)
Second-lien premium deficiency reserve & other	(0.3)	(0.3)	–	0.1	(0.5)
Provision for losses	**$34.4**	**$29.1**	**$47.2**	**$20.8**	**$27.1**

1) Defaulted loans with a most recent default notice dated in the quarter indicated. For example, if a loan had defaulted in a prior quarter, but then subsequently cured and later re-defaulted in the current quarter, that default would be considered a current period default.
2) Defaulted loans with a default notice dated in a period earlier than the period indicated, which have been continuously in default since that time.
3) This positive development was driven by a reduction in certain default-to-claim rate assumptions due to favorable observed credit trends, partially offset by an increase of $11.8 million in the Company's IBNR reserve estimate related to previously disclosed legal proceedings involving challenges from certain servicers regarding loss mitigation activities.
4) This adverse development was driven by an increase of $19.4 million in the Company's IBNR reserve estimate related to previously disclosed legal proceedings involving challenges from certain servicers regarding loss mitigation activities, partially offset by a reduction in certain default-to-claim rate assumptions due to favorable observed credit trends.

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Default Rollforward

Primary Insurance in Force *(number of loans)*	Q4 2019	Q3 2019	Q2 2019	Q1 2019	Q4 2018
Beginning Default Inventory	20,184	19,643	20,122	21,093	20,770
Pre-2009 New Defaults	4,386	4,413	4,174	4,548	4,999
2009+ New Defaults	6,483	6,149	5,164	5,668	5,307
Total New Defaults (1)	10,869	10,562	9,338	10,216	10,306
Cures (1)	(9,119)	(9,215)	(9,192)	(10,479)	(9,060)
Claims Paid (2)	(663)	(818)	(604)	(662)	(885)
Rescissions and Denials, net (3)	(5)	12	(21)	(46)	(38)
Ending Default Inventory	**21,266**	**20,184**	**19,643**	**20,122**	**21,093**

1) Amounts reflected above are compiled on a monthly basis consistent with reports received from loan servicers. The number of New Defaults and Cures presented includes the following number of monthly defaults that both defaulted and cured within the period indicated:

	Q4 2019	Q3 2019	Q2 2019	Q1 2019	Q4 2018
	4,323	4,384	3,860	4,849	4,175

2) Includes: (i) those charged to a deductible or captive and (ii) commutations.
3) Net of any previously rescinded and denied policies and/or claims that were reinstated during the period. Reinstated rescissions may ultimately result in a paid claim. Previously denied but reinstated claims are generally reviewed for possible rescission prior to any claim payment.

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Primary Loans In Default

December 31, 2019 *($ in thousands)*	Total		Foreclosure Stage Defaulted Loans	Cure % During Q4	Reserve for Losses	% Of Reserve
Missed Payments	#	%	#	%	$	%
3 Payments or Fewer	10,816	50.9%	125	32.6%	$89,187	26.2%
4 to 11 Payments	6,222	29.3%	462	21.5%	$94,912	27.9%
12 Payments or More (1)	3,646	17.1%	1,077	7.0%	$124,534	36.7%
Pending Claims (1)	582	2.7%	N/A	3.7%	$31,187	9.2%
Total (2)	**21,266**	**100.0%**	**1,664**	**23.8%**	**$339,820**	**100.0%**
IBNR and Other					$40,920	
LAE					$8,918	
Total Primary Reserves					**$389,658**	

Key Reserve Assumptions

Gross Default to Claim Rate %	Net Default to Claim Rate % (3)	Claim Severity % (4)
31%	**30%**	**98%**

1) 21% of defaults that had missed 12 payments or more (including the portion in pending claims) made a payment during Q4 2019.
2) Primary risk in force on defaulted loans at December 31, 2019 was $1.1 billion.
3) For every one percentage point change in our primary net Default to Claim Rate, we estimated a change of approximately $11.0 million in our primary loss reserve at December 31, 2019.
4) For every one percentage point change in primary Claim Severity, we estimated that our total loss reserve at December 31, 2019 would change by approximately $3.5 million.

Capital and Debt Structure

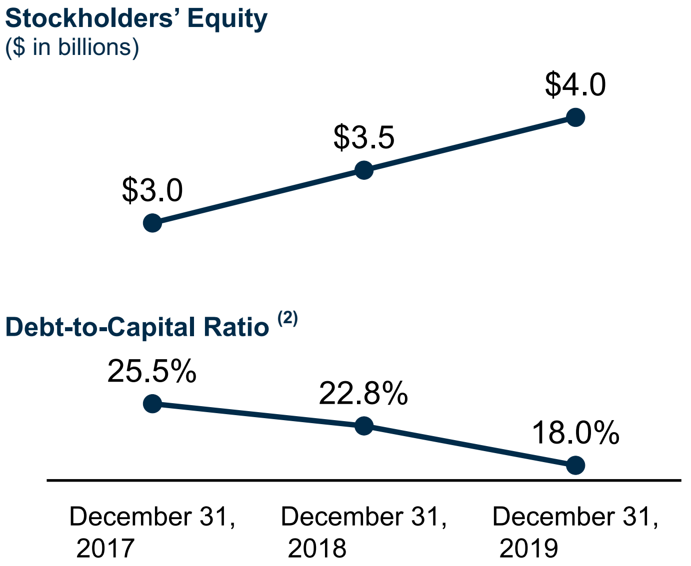
Capital Structure

Total Capitalization as of December 31, 2019

Coupon	Description	Carrying Value ($'000)	Principal ($'000)	% of Total Capitalization [1]
4.500%	Senior Notes due October 2024	$444,445	$450,000	9.0%
4.875%	Senior Notes due March 2027	$442,665	$450,000	9.0%
	Total	**$887,110**	**$900,000**	**18.0%**
	Stockholders' Equity	$4,048,723		82.0%
	Total Capitalization	**$4,935,833**		**100.0%**

Share Repurchase Program:

During the fourth quarter of 2019, Radian repurchased approximately 1.1 million shares, or approximately $25 million of Radian Group common stock, including commissions. For the full year 2019, the Company repurchased 13.5 million shares of Radian Group common stock at a total cost of $300 million, including commissions. In January 2020, the Company purchased an additional 381,331 shares, or approximately $9 million of Radian Group common stock, including commissions.



Current Radian Group Ratings:

S&P

BB+ with stable outlook

Upgraded from BB to BB+ on September 11, 2017

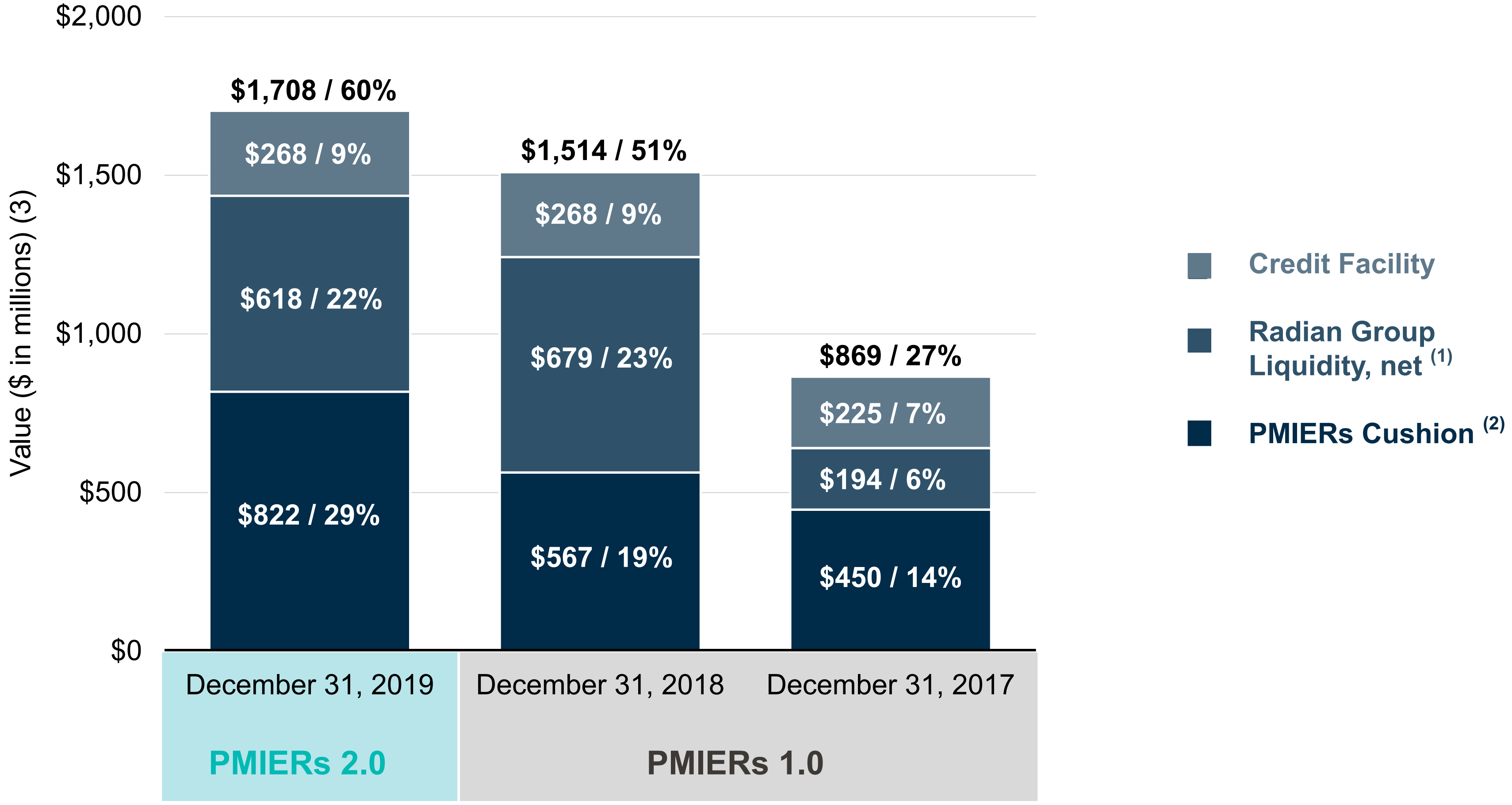
Moody's

Ba1 with stable outlook

Upgraded from Ba2 to Ba1 on October 17, 2019

1) Based on carrying value of our outstanding senior notes and stockholders' equity.
2) Calculated as senior notes divided by senior notes and stockholders' equity.

PMIERs Excess Available Resources



1) Represents Radian Group's Liquidity, net of the $35 million minimum liquidity requirement under the unsecured revolving credit facility. Radian Group's Liquidity as of December 31, 2019 and December 31, 2018 includes $825 million and $450 million, respectively, from the April 2019 and December 2018 distributions of capital of $375 million and $450 million, respectively, from Radian Guaranty to Radian Group, as approved by the Pennsylvania Insurance Department.
2) Represents Radian Guaranty's excess of Available Assets over its Minimum Required Assets, calculated in accordance with the PMIERs financial requirements in effect for each date shown. PMIERs 1.0 was in effect for December 31, 2017 and December 31, 2018; PMIERs 2.0 was in effect for December 31, 2019.
3) Percentages represent the values shown as a percentage of Minimum Required Assets under the applicable PMIERs as of the date shown.

Consolidated Non-GAAP Financial Measures Reconciliations

Use of Non-GAAP Financial Measures

In addition to the traditional GAAP financial measures, we have presented “adjusted pretax operating income,” “adjusted diluted net operating income per share” and “adjusted net operating return on equity,” which are non-GAAP financial measures for the consolidated company, among our key performance indicators to evaluate our fundamental financial performance. These non-GAAP financial measures align with the way the Company’s business performance is evaluated by both management and the board of directors. These measures have been established in order to increase transparency for the purposes of evaluating our operating trends and enabling more meaningful comparisons with our peers. Although on a consolidated basis “adjusted pretax operating income,” “adjusted diluted net operating income per share” and “adjusted net operating return on equity” are non-GAAP financial measures, we believe these measures aid in understanding the underlying performance of our operations. Our senior management, including our Chief Executive Officer (Radian's chief operating decision maker), uses adjusted pretax operating income (loss) as our primary measure to evaluate the fundamental financial performance of the Company’s business segments and to allocate resources to the segments.

Adjusted pretax operating income is defined as GAAP consolidated pretax income (loss), excluding the effects of: (i) net gains (losses) on investments and other financial instruments; (ii) loss on extinguishment of debt; (iii) amortization and impairment of goodwill and other acquired intangible assets; and (iv) impairment of other long-lived assets and other non-operating items, such as losses from the sale of lines of business and acquisition-related expenses. Adjusted diluted net operating income per share is calculated by dividing (i) adjusted pretax operating income attributable to common stockholders, net of taxes computed using the Company’s statutory tax rate, by (ii) the sum of the weighted average number of common shares outstanding and all dilutive potential common shares outstanding. Adjusted net operating return on equity is calculated by dividing annualized adjusted pretax operating income, net of taxes computed using the Company's statutory tax rate, by average stockholders' equity, based on the average of the beginning and ending balances for each period presented.

Although adjusted pretax operating income excludes certain items that have occurred in the past and are expected to occur in the future, the excluded items represent those that are: (i) not viewed as part of the operating performance of our primary activities or (ii) not expected to result in an economic impact equal to the amount reflected in pretax income. These adjustments, along with the reasons for their treatment, are described below.

1) *Net gains (losses) on investments and other financial instruments*. The recognition of realized investment gains or losses can vary significantly across periods as the activity is highly discretionary based on the timing of individual securities sales due to such factors as market opportunities, our tax and capital profile and overall market cycles. Unrealized gains and losses arise primarily from changes in the market value of our investments that are classified as trading or equity 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 and changes in fair value of other financial instruments. We do not view them to be indicative of our fundamental operating activities.

2) *Loss on extinguishment of debt*. Gains or losses on early extinguishment of debt and losses incurred to purchase our 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) *Amortization and impairment of goodwill and other acquired intangible assets.* Amortization of acquired intangible assets represents the periodic expense required to amortize the cost of acquired intangible assets over their estimated useful lives. Acquired intangible assets are also periodically reviewed for potential impairment, and impairment adjustments are made whenever appropriate. We do not view these charges as part of the operating performance of our primary activities.

4) *Impairment of other long-lived assets and other non-operating items.* Includes activities that we do not view to be indicative of our fundamental operating activities, such as: (i) losses from the sale of lines of business and (ii) acquisition-related expenses.

See Slides 21 through 23 for the reconciliation of the most comparable GAAP measures of consolidated pretax income, diluted net income per share and return on equity, to our non-GAAP financial measures for the consolidated company of adjusted pretax operating income, adjusted diluted net operating income per share and adjusted net operating return on equity, respectively.

Total adjusted pretax operating income, adjusted diluted net operating income per share and adjusted net operating return on equity are not measures of total profitability and therefore should not be considered in isolation or viewed as substitutes for GAAP pretax income, diluted net income per share or return on equity. Our definitions of adjusted pretax operating income, adjusted diluted net operating income per share and adjusted net operating return on equity may not be comparable to similarly-named measures reported by other companies.

Reconciliation of Consolidated Pretax Income to Adjusted Pretax Operating Income

($ in thousands)	2019				2018	Year Ended December 31	
	Q4	Q3	Q2	Q1	Q4	2019	2018
Consolidated pretax income	**$205,639**	$217,673	$209,545	$216,136	$176,485	**$848,993**	$684,186
Less reconciling income (expense) items:							
Net gains (losses) on investments and other financial instruments	**4,257**	13,009	12,540	21,913	(11,705)	**51,719**	(42,476)
Loss on extinguishment of debt	**—**	(5,940)	(16,798)	—	—	**(22,738)**	—
Impairment of goodwill	**(4,828)**	—	—	—	—	**(4,828)**	—
Amortization and impairment of other acquired intangible assets	**(15,823)**	(2,139)	(2,139)	(2,187)	(3,461)	**(22,288)**	(12,429)
Impairment of other long-lived assets and other non-operating items [1]	**(1,950)**	—	103	(5,660)	(2,033)	**(7,507)**	(6,404)
Total adjusted pretax operating income [2]	**$223,983**	$212,743	$215,839	$202,070	$193,684	**$854,635**	$745,495

1) The amount for the year ended December 31, 2018 includes $3.6 million of other exit costs associated with impairment of internal-use software included within restructuring and other exit costs. The amounts for all other periods are included in other operating expenses and primarily relate to impairments of other long-lived assets.
2) Please see slide 20 for the definition of this line item and additional information regarding our use of non-GAAP financial measures.

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

	2019				2018	Year Ended December 31,	
	Q4	Q3	Q2	Q1	Q4	2019	2018
Diluted net income per share	**$0.79**	$0.83	$0.78	$0.78	$0.64	**$3.20**	$2.77
Less per-share impact of reconciling income (expense) items:							
Net gains (losses) on investments and other financial instruments	**0.02**	0.06	0.06	0.10	(0.05)	**0.25**	(0.19)
Loss on extinguishment of debt	**—**	(0.03)	(0.08)	—	—	**(0.11)**	—
Impairment of goodwill	**(0.02)**	—	—	—	—	**(0.02)**	—
Amortization and impairment of other acquired intangible assets	**(0.08)**	(0.01)	(0.01)	(0.01)	(0.02)	**(0.11)**	(0.06)
Impairment of other long-lived assets and other non-operating items	**(0.01)**	—	—	(0.02)	(0.01)	**(0.04)**	(0.03)
Income tax (provision) benefit on reconciling income (expense) items [(1)]	**0.02**	—	0.01	(0.01)	0.02	**0.01**	0.06
Difference between statutory and effective tax rates	**—**	—	—	(0.01)	—	**0.01**	0.30
Per-share impact of reconciling income (expense) items	**(0.07)**	0.02	(0.02)	0.05	(0.06)	**(0.01)**	0.08
Adjusted diluted net operating income per share [(1) (2)]	**$0.86**	$0.81	$0.80	$0.73	$0.70	**$3.21**	$2.69

1) Calculated using the company's federal statutory tax rate of 21%. Any permanent tax adjustments and state income taxes on these items have been deemed immaterial and are not included.

2) Please see Slide 20 for additional information regarding our use of non-GAAP financial measures.

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Reconciliation of Return on Equity to Adjusted Net Operating Return on Equity

	2019				2018	Year Ended December 31,	
	Q4	Q3	Q2	Q1	Q4	2019	2018
Return on equity [1]	**16.2%**	18.0%	17.8%	19.0%	16.4%	**17.8%**	18.7%
Less impact of reconciling income (expense) items: [2]							
Net gains (losses) on investments and other financial instruments	**0.4**	1.4	1.3	2.4	(1.4)	**1.4**	(1.3)
Loss on extinguishment of debt	**—**	(0.6)	(1.8)	—	—	**(0.6)**	—
Impairment of goodwill	**(0.5)**	—	—	—	—	**(0.1)**	—
Amortization and impairment of other acquired intangible assets	**(1.6)**	(0.2)	(0.2)	(0.2)	(0.4)	**(0.6)**	(0.4)
Impairment of other long-lived assets and other non-operating items	**(0.2)**	—	—	(0.6)	(0.3)	**(0.2)**	(0.2)
Income tax (provision) benefit on reconciling income (expense) items [3]	**0.4**	(0.1)	0.1	(0.3)	0.4	**—**	0.4
Difference between statutory and effective tax rates	**(0.1)**	0.1	0.2	—	0.2	**—**	2.0
Impact of reconciling income (expense) items	**(1.6)**	0.6	(0.4)	1.3	(1.5)	**(0.1)**	0.5
Adjusted net operating return on equity [4]	**17.8%**	17.4%	18.2%	17.7%	17.9%	**17.9%**	18.2%

1) Calculated by dividing annualized net income by average stockholders' equity, based on the average of the beginning and ending balances for each period presented.

2) Stated as a percentage of average stockholders' equity. Quarterly periods are annualized.

3) Calculated using the company's federal statutory tax rate of 21%. Any permanent tax adjustments and state income taxes on these items have been deemed immaterial and are not included.

4) Please see Slide 20 for additional information regarding our use of non-GAAP financial measures.

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