RADIAN GROUP INC
Form 10-Q
November 08, 2018

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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, 2018

OR

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

For the transition period from to

Commission File Number 1-11356

Radian Group Inc.
(Exact name of registrant as specified in its charter)

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

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer x	Accelerated filer o	Non-accelerated filer o	Smaller reporting company o	Emerging growth company o

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 213,333,428 shares of common stock, $0.001 par value per share, outstanding on November 5, 2018.

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GLOSSARY OF ABBREVIATIONS AND ACRONYMS

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

Term	Definition
2014 Master Policy	Radian Guaranty's master insurance policy, setting forth the terms and conditions of our mortgage insurance coverage, which became effective October 1, 2014
2016 Single Premium QSR Agreement	Quota share reinsurance agreement entered into with a panel of third-party reinsurance providers in the first quarter of 2016 and subsequently amended in the fourth quarter of 2017
2017 Form 10-K	Annual Report on Form 10-K for the year ended December 31, 2017
2018 Single Premium QSR Agreement	Quota share reinsurance agreement entered into with a panel of third-party reinsurance providers in October 2017 to cede a portion of Single Premium NIW beginning January 1, 2018
ABS	Asset-backed securities
Alt-A	Alternative-A loans, representing loans for which the underwriting documentation is generally limited as compared to fully documented loans (considered a non-prime loan grade)
Available Assets	As defined in the PMIERs, assets primarily including the liquid assets of a mortgage insurer, and reduced by premiums received but not yet earned
Back-end	With respect to credit risk transfer programs established by the GSEs, policies written on loans that are already part of an existing GSE portfolio, as contrasted with loans that are to be purchased by the GSEs in the future
Borrower	With respect to our securities lending agreements, the third-party institutions to which we loan certain securities in our investment portfolio for short periods of time
Claim Curtailment	Our legal right, under certain conditions, to reduce the amount of a claim, including due to servicer negligence
Claim Denial	Our legal right, under certain conditions, to deny a claim
Claim Severity	The total claim amount paid divided by the original coverage amount
Clayton	Clayton Holdings LLC, a Delaware domiciled indirect non-insurance subsidiary of Radian Group
CMBS	Commercial mortgage-backed securities
Convertible Senior Notes due 2017	Our 3.000% convertible unsecured senior notes due November 2017 ($450 million original principal amount)
Convertible Senior Notes due 2019	Our 2.250% convertible unsecured senior notes due March 2019 ($400 million original principal amount)
Cures	Loans that were in default as of the beginning of a period and are no longer in default because payments were received such that the loan is no longer 60 or more days past due
Default to Claim Rate	The percentage of defaulted loans that are assumed to result in a claim
Discrete Item(s)	For tax calculation purposes, certain items that are required to be accounted for in the provision for income taxes as they occur and are not considered components of the estimated annualized effective tax rate for purposes of reporting interim results. Generally, these are items that are: (i) clearly defined (such as changes in tax rate or tax law); (ii) infrequent or unusual in nature; or (iii) gains or losses that are not components of continuing operating income, such as income from discontinued operations or losses reflected as components of other comprehensive income. These items impact the difference between the statutory rate and Radian's effective tax rate.
EnTitle Direct	EnTitle Direct Group, Inc., a wholly-owned subsidiary of Radian Group
EnTitle Insurance	EnTitle Insurance Company, a wholly-owned subsidiary of EnTitle Direct
Exchange Act	Securities Exchange Act of 1934, as amended
Extraordinary Dividend	A dividend distribution required to be approved by an insurance company's primary regulator that is greater than would be permitted as an ordinary dividend which does not require regulatory approval
Fannie Mae	Federal National Mortgage Association
FASB	Financial Accounting Standards Board

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Term	Definition
FEMA	Federal Emergency Management Agency, an agency of the U.S. Department of Homeland Security
FEMA Designated Area	Generally, an area that has been subject to a disaster, designated by FEMA as an individual assistance disaster area for the purpose of determining eligibility for various forms of federal assistance
FHA	Federal Housing Administration
FHFA	Federal Housing Finance Agency
FHLB	Federal Home Loan Bank of Pittsburgh
FICO	Fair Isaac Corporation (“FICO”) credit scores, for Radian’s portfolio statistics, represent the borrower’s credit score at origination and, in circumstances where there is more than one borrower, the FICO score for the primary borrower is utilized
Flow Basis	With respect to mortgage insurance, includes mortgage insurance policies that are written on an individual loan basis as each loan is originated or on an aggregated basis (in which each individual loan in a group of loans is insured in a single transaction, typically shortly after the loans have been originated). Among other items, Flow Basis business excludes Pool Insurance, which we originated prior to 2009.
Foreclosure Stage Default	The Stage of Default indicating that the foreclosure sale has been scheduled or held
Freddie Mac	Federal Home Loan Mortgage Corporation
Freddie Mac Agreement	The Master Transaction Agreement between Radian Guaranty and Freddie Mac entered into in August 2013
Front-end	With respect to credit risk transfer programs established by the GSEs, policies written on loans that are to be purchased by the GSEs in the future, as contrasted with loans that are already part of an existing GSE portfolio
GAAP	Accounting principles generally accepted in the U.S.
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. See “Item 1. Business—Regulation—Federal Regulation—*Homeowner Assistance Programs*” in our 2017 Form 10-K for more information.
IBNR	Losses incurred but not reported
IIF	Insurance in force, equal to the aggregate unpaid principal balances of the underlying loans
IRS	Internal Revenue Service
IRS Matter	Our dispute with the IRS related to the assessed tax liabilities, penalties and interest from the IRS’s examination of our 2000 through 2007 consolidated federal income tax returns. See Note 9 of Notes to Unaudited Condensed Consolidated Financial Statements for more information.
LAE	Loss adjustment expenses, which include the cost of investigating and adjusting losses and paying claims
Loss Mitigation Activity/Activities	Activities such as Rescissions, Claim Denials, Claim Curtailments and cancellations
LTV	Loan-to-value ratio, calculated as the percentage of the original loan amount to the original value of the property
Master Policies	The Prior Master Policy and the 2014 Master Policy, collectively
Minimum Required Assets	A risk-based minimum required asset amount, as defined in the PMIERs, calculated based on net RIF (RIF, net of credits permitted for reinsurance) and a variety of measures related to expected credit performance and other factors
Model Act	Mortgage Guaranty Insurers Model Act, as issued by the NAIC to establish minimum capital and surplus requirements for mortgage insurers
Monthly and Other Premiums	Insurance policies where premiums are paid on a monthly or other installment basis, in contrast to Single Premium Policies
Monthly Premium Policies	Insurance policies where premiums are paid on a monthly installment basis
Moody’s	Moody’s Investors Service

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Term	Definition
Mortgage Insurance	Radian's Mortgage Insurance business segment, which provides credit-related insurance coverage, principally through private mortgage insurance, as well as other credit risk management solutions to mortgage lending institutions and mortgage investors
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; for tax purposes, accumulated during years a company reported more tax deductions than taxable income. NOLs may be carried back or carried forward a certain number of years, depending on each jurisdiction, when the NOL occurs and the type of legal entity, thus reducing a company's tax liability
OCI	Other comprehensive income (loss)
Persistency Rate	The percentage of insurance in force that remains in force over a period of time
PMIERs	Private Mortgage Insurer Eligibility Requirements effective on December 31, 2015, issued by the GSEs under oversight of the FHFA to set forth requirements an approved insurer must meet and maintain to provide mortgage guaranty insurance on loans acquired by the GSEs
PMIERs 2.0	Revised PMIERs issued by the GSEs on September 27, 2018, which will become effective on March 31, 2019
Pool Insurance	Pool Insurance differs from primary insurance in that our maximum liability is not limited to a specific coverage percentage on an individual mortgage loan. Instead, an aggregate exposure limit, or "stop loss," is applied to the initial aggregate loan balance on a group or "pool" of mortgages
Prior Master Policy	Radian Guaranty's master insurance policy, setting forth the terms and conditions of our mortgage insurance coverage, which was in effect prior to the effective date of its 2014 Master Policy
QSR Program	The quota share reinsurance agreements entered into with a third-party reinsurance provider in the second and fourth quarters of 2012, collectively
Radian	Radian Group Inc. together with its consolidated subsidiaries
Radian Group	Radian Group Inc.
Radian Guaranty	Radian Guaranty Inc., a Pennsylvania domiciled insurance subsidiary of Radian Group
Radian Reinsurance	Radian Reinsurance Inc., a Pennsylvania domiciled insurance subsidiary of Radian Group
RBC States	Risk-based capital states, which are those states that currently impose a statutory or regulatory risk-based capital requirement
Red Bell	Red Bell Real Estate, LLC, a wholly-owned subsidiary of Clayton
Reinstatements	Reversals of previous Rescissions, Claim Denials and Claim Curtailments
REMIC	Real Estate Mortgage Investment Conduit
REO	Real estate owned
Rescission	Our legal right, under certain conditions, to unilaterally rescind coverage on our mortgage insurance policies if we determine that a loan did not qualify for insurance
RIF	Risk in force; for primary insurance, RIF is equal to the underlying loan unpaid principal balance multiplied by the insurance coverage percentage, whereas for Pool Insurance, it represents the remaining exposure under the agreements
Risk-to-capital	Under certain state regulations, a minimum ratio of statutory capital calculated relative to the level of net RIF
RMBS	Residential mortgage-backed securities
S&P	Standard & Poor's Financial Services LLC
SAPP	Statutory accounting principles and practices include those required or permitted, if applicable, by the insurance departments of the respective states of domicile of our insurance subsidiaries
SEC	United States Securities and Exchange Commission

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Term	Definition
Senior Notes due 2017	Our 9.000% unsecured senior notes due June 2017 ($195.5 million original principal amount, of which the remaining outstanding principal was redeemed in August 2016)
Senior Notes due 2019	Our 5.500% unsecured senior notes due June 2019 ($300 million original principal amount)
Senior Notes due 2020	Our 5.250% unsecured senior notes due June 2020 ($350 million original principal amount)
Senior Notes due 2021	Our 7.000% unsecured senior notes due March 2021 ($350 million original principal amount)
Senior Notes due 2024	Our 4.500% unsecured senior notes due October 2024 ($450 million original principal amount)
Services	Radian’s Services business segment, which is primarily a fee-for-service business that offers a broad array of both mortgage and real estate services to market participants across the mortgage and real estate value chain
Single Premium NIW (or IIF)	New insurance written or insurance in force, respectively, on Single Premium Policies
Single Premium Policy/Policies	Insurance policies where premiums are paid in a single payment, which 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 shortly after the loans have been originated)
Single Premium QSR Program	The 2016 Single Premium QSR Agreement and the 2018 Single Premium QSR Agreement, collectively
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
Surplus Note	An intercompany 0.000% surplus note issued by Radian Guaranty to Radian Group
TCJA	H.R. 1, known as the Tax Cuts and Jobs Act, signed into law on December 22, 2017
Time in Default	The time period from the point a loan reaches default status (based on the month the default occurred) to the current reporting date
U.S.	The United States of America
U.S. Treasury	United States Department of the Treasury
VA	U.S. Department of Veterans Affairs
ValuAmerica	ValuAmerica, Inc., a wholly-owned subsidiary of Clayton

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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 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's ability to remain eligible under the PMIERs and other applicable requirements imposed by the FHFA and by the GSEs to insure loans purchased by the GSEs;
- our ability to successfully execute and implement our capital plans, including plans for expanding our risk distribution strategy through the capital markets and reinsurance markets, 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 plans and strategies to reposition our Services segment as well as plans and strategies that require GSE and/or regulatory approvals and licenses;
- our ability to maintain an adequate level of capital in our insurance subsidiaries to satisfy existing and future state regulatory requirements;
- changes in the charters or business practices of, or rules or regulations imposed by or applicable to, the GSEs, 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 potential future changes to the PMIERs requirements which, among other things, may be impacted by the general economic environment and housing market, as well as the proposed Conservator Capital Framework ("CCF") that would establish capital requirements for the GSEs, if the CCF is finalized;
- changes in the current housing finance system in the U.S., including the role of the FHA, the GSEs and private mortgage insurers in this system;
- any disruption in the servicing of mortgages covered by our insurance policies, as well as poor servicer performance;
- a significant decrease in the Persistency Rates of our mortgage insurance on monthly premium products;
- competition in our mortgage insurance business, including price competition and competition from the FHA and VA as well as from other forms of credit enhancement;
- the effect of the Dodd-Frank Wall Street Reform and Consumer Protection Act on the financial services industry in general, and on our businesses in particular;
- 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, including interpretations and guidance pertaining to recently enacted tax reform legislation;
- legal and regulatory claims, assertions, actions, reviews, audits, inquiries and investigations that could result in adverse judgments, settlements, fines, injunctions, restitutions or other relief that could require significant

expenditures or have other effects on our business;

- the amount and timing of potential settlements, payments or adjustments associated with federal or other tax examinations;

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- 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, including PMIERs 2.0, which will be impacted by, among other things, the size and mix of our IIF, 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 results of operations caused by changes in the fair value of our assets and liabilities, including a significant portion of our investment portfolio;
- potential future impairment charges related to our goodwill and other acquired intangible assets, and uncertainties regarding our ability to execute our restructuring plans within expected costs;
- changes in GAAP or SAPP rules and guidance, or their interpretation;
- our ability to attract and retain key employees; and
- legal and other limitations on dividends and other amounts we may receive from our subsidiaries.

For more information regarding these risks and uncertainties as well as certain additional risks that we face, you should refer to the Risk Factors detailed in Item 1A of our 2017 Form 10-K, and to subsequent 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.

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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, 2018	December 31, 2017
Assets		
Investments (Note 5)		
Fixed-maturities available for sale—at fair value (amortized cost $3,838,823 and $3,426,217)	$3,763,710	$3,458,719
Trading securities—at fair value	493,956	606,401
Equity securities—at fair value (at December 31, 2017, classified as available for sale with related cost of $163,106)	121,865	162,830
Short-term investments—at fair value (includes $31,799 and $19,357 of reinvested cash collateral held under securities lending agreements)	645,119	415,658
Other invested assets—at fair value (amortized cost at December 31, 2017)	3,585	334
Total investments	5,028,235	4,643,942
Cash	104,413	80,569
Restricted cash	9,925	15,675
Accounts and notes receivable	108,003	72,558
Deferred income taxes, net (Note 9)	134,201	229,567
Goodwill and other acquired intangible assets, net (Note 6)	55,707	64,212
Prepaid reinsurance premium	413,728	386,509
Other assets (Note 8)	415,272	407,849
Total assets	$6,269,484	$5,900,881
Liabilities and Stockholders' Equity		
Unearned premiums	$747,921	$723,938
Reserve for losses and loss adjustment expense ("LAE") (Note 10)	412,460	507,588
Senior notes (Note 11)	1,029,511	1,027,074
Reinsurance funds withheld	352,952	288,398
Other liabilities (Note 12)	379,362	353,845
Total liabilities	2,922,206	2,900,843
Commitments and contingencies (Note 13)		
Stockholders' equity		
Common stock: par value $0.001 per share; 485,000,000 shares authorized at September 30, 2018 and December 31, 2017; 230,978,401 and 233,416,989 shares issued at September 30, 2018 and December 31, 2017, respectively; 213,333,428 and 215,814,188 shares outstanding at September 30, 2018 and December 31, 2017, respectively	231	233
Treasury stock, at cost: 17,644,973 and 17,602,801 shares at September 30, 2018 and December 31, 2017, respectively	(894,635)	(893,888)
Additional paid-in capital	2,720,626	2,754,275
Retained earnings	1,580,296	1,116,333
Accumulated other comprehensive income (loss) (Note 15)	(59,240)	23,085
Total stockholders' equity	3,347,278	3,000,038
Total liabilities and stockholders' equity	$6,269,484	$5,900,881

See Notes to Unaudited Condensed Consolidated Financial Statements.

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

(In thousands, except per-share amounts)	Three Months Ended September 30, 2018	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
Revenues:				
Net premiums earned—insurance	$258,431	$236,702	$752,325	$687,598
Services revenue	36,566	39,571	106,558	115,400
Net investment income	38,995	32,540	110,424	93,643
Net gains (losses) on investments and other financial instruments	(4,480)	2,480	(30,771)	4,960
Other income	1,174	760	2,997	2,118
Total revenues	330,686	312,053	941,533	903,719
Expenses:				
Provision for losses	20,881	35,841	77,501	99,976
Policy acquisition costs	5,667	5,554	18,780	18,406
Cost of services	25,854	27,240	73,185	81,250
Other operating expenses	70,125	64,195	203,552	201,322
Restructuring and other exit costs (Note 1)	4,464	12,038	5,940	12,038
Interest expense	15,535	15,715	45,906	47,832
Loss on induced conversion and debt extinguishment	—	45,766	—	51,469
Impairment of goodwill (Note 6)	—	—	—	184,374
Amortization and impairment of other acquired intangible assets	3,472	2,890	8,968	25,042
Total expenses	145,998	209,239	433,832	721,709
Pretax income	184,688	102,814	507,701	182,010
Income tax provision	41,891	37,672	41,469	67,738
Net income	$142,797	$65,142	$466,232	$114,272
Net income per share:				
Basic	$0.67	$0.30	$2.17	$0.53
Diluted	$0.66	$0.30	$2.13	$0.52
Weighted-average number of common shares outstanding—basic	213,309	215,279	214,499	215,194
Weighted-average number of common and common equivalent shares outstanding—diluted	217,902	219,391	218,783	220,230

See Notes to Unaudited Condensed Consolidated Financial Statements.

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

(In thousands)	Three Months Ended September 30, 2018	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
Net income	$142,797	$65,142	$466,232	$114,272
Other comprehensive income, net of tax (Note 15):				
Unrealized gains (losses) on investments:				
Unrealized holding gains (losses) arising during the period	(5,341)	6,239	(93,788)	33,845
Less: Reclassification adjustment for net gains (losses) included in net income	(4,044)	111	(8,512)	(2,687)
Net unrealized gains (losses) on investments	(1,297)	6,128	(85,276)	36,532
Unrealized foreign currency translation adjustments	—	28	3	136
Other comprehensive income (loss), net of tax	(1,297)	6,156	(85,273)	36,668
Comprehensive income	$141,500	$71,298	$380,959	$150,940

See Notes to Unaudited Condensed Consolidated Financial Statements.

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Radian Group Inc.

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

	Nine Months Ended September 30,	
(In thousands)	2018	2017
Common Stock		
Balance, beginning of period	$233	$232
Issuance of common stock under incentive and benefit plans	1	1
Shares repurchased under share repurchase program (Note 14)	(3)	—
Balance, end of period	231	233
Treasury Stock		
Balance, beginning of period	(893,888)	(893,332)
Repurchases of common stock under incentive plans	(747)	(422)
Balance, end of period	(894,635)	(893,754)
Additional Paid-in Capital		
Balance, beginning of period	2,754,275	2,779,891
Issuance of common stock under incentive and benefit plans	2,593	4,761
Share-based compensation	13,808	10,290
Impact of extinguishment of convertible senior notes	—	(52,408)
Cumulative effect of adopting the accounting standard update for share-based payment transactions	—	756
Termination of capped calls	—	4,109
Shares repurchased under share repurchase program (Note 14)	(50,050)	(6)
Balance, end of period	2,720,626	2,747,393
Retained Earnings		
Balance, beginning of period	1,116,333	997,890
Net income	466,232	114,272
Dividends declared	(1,606)	(1,614)
Cumulative effect of adopting the accounting standard update for financial instruments	2,061	—
Cumulative effect of adopting the accounting standard update for the reclassification of certain tax effects from accumulated other comprehensive income	(2,724)	—
Cumulative effect of adopting the accounting standard update for share-based payment transactions, net of tax	—	(491)
Balance, end of period	1,580,296	1,110,057
Accumulated Other Comprehensive Income (Loss)		
Balance, beginning of period	23,085	(12,395)
Cumulative effect of adopting the accounting standard update for financial instruments	224	—
Cumulative effect of adopting the accounting standard update for the reclassification of certain tax effects from accumulated other comprehensive income	2,724	—
Net unrealized gains (losses) on investments, net of tax	(85,276)	36,532
Net foreign currency translation adjustment, net of tax	3	136
Balance, end of period	(59,240)	24,273
Total Stockholders' Equity	$3,347,278	$2,988,202

See Notes to Unaudited Condensed Consolidated Financial Statements.

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

(In thousands)	Nine Months Ended September 30, 2018	2017
Cash flows from operating activities:		
Net cash provided by (used in) operating activities	$491,929	$218,425
Cash flows from investing activities:		
Proceeds from sales of:		
Fixed-maturity investments available for sale	577,034	737,054
Trading securities	35,182	176,448
Equity securities	92,702	23,423
Proceeds from redemptions of:		
Fixed-maturity investments available for sale	337,857	377,219
Trading securities	53,437	70,161
Purchases of:		
Fixed-maturity investments available for sale	(1,307,335)	(1,491,083)
Equity securities	(59,625)	(195,297)
Sales, redemptions and (purchases) of:		
Short-term investments, net	(216,778)	251,509
Other assets and other invested assets, net	2,111	596
Purchases of property and equipment, net	(20,323)	(25,173)
Acquisitions, net of cash acquired	(662)	(86)
Net cash provided by (used in) investing activities	(506,400)	(75,229)
Cash flows from financing activities:		
Dividends paid	(1,606)	(1,614)
Issuance of senior notes, net	—	443,250
Purchases and redemptions of senior notes	—	(591,918)
Proceeds from termination of capped calls	—	4,109
Issuance of common stock	1,128	3,283
Purchase of common shares	(50,053)	(6)
Credit facility commitment fees paid	(643)	—
Change in secured borrowings (Note 12)	41,414	36,782
Proceeds from secured borrowings (with terms greater than 3 months)	45,458	—
Payments of secured borrowings (with terms greater than 3 months)	(3,000)	—
Repayment of other borrowings	(133)	(207)
Net cash provided by (used in) financing activities	32,565	(106,321)
Effect of exchange rate changes on cash and restricted cash	—	116
Increase (decrease) in cash and restricted cash	18,094	36,991
Cash and restricted cash, beginning of period	96,244	61,814
Cash and restricted cash, end of period	$114,338	$98,805

See Notes to Unaudited Condensed Consolidated Financial Statements.

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

Business Overview

We are a diversified mortgage and real estate services business, providing both credit-related insurance coverage and other credit risk management solutions, as well as a broad array of mortgage and real estate services. We have two reportable business segments—Mortgage Insurance and Services.

Mortgage Insurance

Our Mortgage Insurance segment provides credit-related insurance coverage, principally through private mortgage insurance, as well as other credit risk management solutions, to mortgage lending institutions and mortgage investors. We provide our mortgage insurance products and services mainly through our wholly-owned subsidiary, Radian Guaranty. Private mortgage insurance plays an important role in the U.S. housing finance system because it promotes affordable home ownership and helps protect mortgage lenders, investors and other beneficiaries by mitigating default-related losses on residential mortgage loans. Generally, these loans are made to home buyers who make down payments of less than 20% of the purchase price for their home or, in the case of refinancings, have less than 20% equity in their homes. Private mortgage insurance also facilitates the sale of these low down payment loans in the secondary mortgage market, most of which are currently sold to the GSEs. Our total direct primary mortgage insurance RIF was $55.6 billion as of September 30, 2018.

The GSEs and state insurance regulators impose various capital and financial requirements on our insurance subsidiaries. These include Risk-to-capital, other risk-based capital measures and surplus requirements, as well as the PMIERs financial requirements discussed below. Failure to comply with these capital and financial requirements may limit the amount of insurance that our insurance subsidiaries may write or prohibit our insurance subsidiaries from writing insurance altogether. The GSEs and state insurance regulators also possess significant discretion with respect to our insurance subsidiaries and all aspects of their businesses. See Note 16 for additional regulatory information.

PMIERs. In order to be eligible to insure loans purchased by the GSEs, mortgage insurers such as Radian Guaranty must meet the GSEs' eligibility requirements, or PMIERs. At September 30, 2018, Radian Guaranty is an approved mortgage insurer under the PMIERs and is in compliance with the PMIERs financial requirements.

The PMIERs are comprehensive, covering virtually all aspects of the business and operations of a private mortgage insurer, including internal risk management and quality controls, the relationship between the GSEs and the approved insurer as well as the approved insurer's financial condition. In addition, the GSEs have a broad range of consent rights under the PMIERs, and require private mortgage insurers to obtain the prior consent of the GSEs before taking certain actions, which may include paying dividends, entering into various intercompany agreements, and commuting or reinsuring risk, among others. If Radian Guaranty is unable to satisfy the requirements set forth in the PMIERs, the GSEs could restrict it from conducting certain types of business with them or take actions that may include not purchasing loans insured by Radian Guaranty.

The PMIERs financial requirements 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 Radian Guaranty's Available Assets and/or Minimum Required Assets. On September 27, 2018, the GSEs issued PMIERs 2.0, which will become effective on March 31, 2019. Radian expects that it will be able to fully comply with PMIERs 2.0 and maintain an excess of Available Assets over Minimum Required Assets as of the effective date.

Services

Our Services segment is primarily a fee-for-service business that offers a broad array of services to market participants across the mortgage and real estate value chain. These services comprise mortgage services, real estate services and title services, including technology-based and turn-key solutions, that provide information and other resources and services used to originate, evaluate, acquire, securitize, service and monitor residential real estate and loans secured by residential real estate. We provide these services to, among others, mortgage lenders, financial institutions, mortgage and real estate investors and government entities.

Our mortgage services include transaction management services such as loan review, RMBS securitization and distressed asset reviews, servicer and loan surveillance and underwriting. We offer a comprehensive suite of real estate services that includes software solutions and platforms, as well as digitally delivered services, including: REO asset management; review and valuation services related to single family rental properties; real estate valuation services and real estate brokerage services. Our title services include title search, title insurance, settlement and closing services.

2018 Developments

Capital and Liquidity Actions. On August 9, 2017, Radian Group's board of directors authorized the Company to repurchase up to $50 million of its common stock. The Company completed this program during the first half of 2018 by purchasing 3,022,856 shares at an average price of $16.56 per share, including commissions.

On August 16, 2018, Radian Group's board of directors approved a new share repurchase program that authorizes the Company to repurchase up to $100 million of its common stock in the open market or in privately negotiated transactions until expiration of the program on July 31, 2019. As of September 30, 2018, the full purchase authority of up to $100 million remained available under this program. See Note 14 for additional information.

Restructuring and Other Exit Costs. As a result of the Company's continued implementation of its 2017 plan to restructure the Services business, in the three months ended September 30, 2018, pretax restructuring charges of $0.9 million were recognized, which include: (i) $0.4 million in cash expenses and (ii) $0.5 million of asset impairment charges. For the nine months ended September 30, 2018, pretax restructuring charges of $2.4 million were recognized, including: (i) $1.9 million of cash expenses; (ii) $0.6 million asset impairment charges; and (iii) an adjustment to the previously recognized loss related to the sale of our EuroRisk business. We expect to incur additional pretax charges of approximately $0.2 million under this restructuring plan, all of which represent cash payments. These remaining charges are expected to be recognized by December 31, 2018. Total estimated restructuring charges for 2018 of approximately $2.6 million are expected to consist of: (i) asset impairment charges of approximately $0.5 million; (ii) employee severance and benefit costs of approximately $0.8 million; and (iii) facility and lease termination costs of approximately $1.3 million. See Notes 1 and 7 of Notes to Consolidated Financial Statements in our 2017 Form 10-K for additional information, including the events that led to the restructuring plan.

We review assets for impairment in accordance with the accounting guidance for long-lived assets. As part of this assessment, during the three months ended September 30, 2018, we incurred $3.6 million of other exit costs associated with impairment of internal-use software that was in addition to the asset impairment charges recognized as part of the restructuring charges associated with our services business.

IRS Matter. Radian finalized a settlement with the IRS which resolved the issues and concluded all disputes related to the IRS Matter. In the three-month period ended June 30, 2018, we recorded tax benefits of $73.6 million, which includes both the impact of the settlement with the IRS as well as the reversal of certain previously accrued state and local tax liabilities. Under the terms of the settlement, Radian will submit to the IRS approximately $31 million of its $89 million "qualified deposits" with the U.S. Treasury, and the remaining balance will be returned to Radian. See Note 9 for additional information.

Significant Accounting Policies

Basis of Presentation

Our condensed consolidated financial statements are prepared in accordance with GAAP and include the accounts of Radian Group Inc. and its 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.

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.

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 2017 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.

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Radian Group Inc.
Notes to Unaudited Condensed Consolidated Financial Statements — (Continued)

Use of Estimates

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

Other Significant Accounting Policies

See Note 2 of Notes to Consolidated Financial Statements in our 2017 Form 10-K for information regarding other significant accounting policies. There have been no significant changes in our significant accounting policies from those discussed in our 2017 Form 10-K, other than described below, including in "*—Revenue Recognition*" and "*—Recent Accounting Pronouncements—Accounting Standards Adopted During 2018.*"

Revenue Recognition

The FASB issued an update to the accounting standard regarding revenue recognition, *Revenue from Contracts with Customers*, which establishes principles for reporting information about the nature, amount, timing and uncertainty of revenue and cash flows arising from our contracts with customers to provide services. We adopted this update effective January 1, 2018, using the modified retrospective approach. The principle of this update requires an entity to recognize revenue representing the transfer of services to customers in an amount that reflects the consideration that it expects to be entitled to receive in exchange for those services, recognized as the performance obligations are satisfied.

The majority of our revenue-generating transactions are not subject to the new standard as this update did not change revenue recognition principles related to our investments and insurance products, which together represented the majority of our total revenue for the nine months ending September 30, 2018 and are subject to other GAAP guidance discussed elsewhere within our disclosures. This update is primarily applicable to revenues from our Services segment. See "—Business Overview—*Services*" for information about the services we offer.

The table below represents the disaggregation of Services revenues by revenue type:

(In thousands)	Three Months Ended September 30, 2018	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
Services segment revenue				
Mortgage Services	$14,663	$17,005	$44,998	$53,158
Real Estate Services	20,920	17,386	58,124	49,863
Title Services	2,198	6,671	6,933	18,105
Total (1)	$37,781	$41,062	$110,055	$121,126

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Includes inter-segment revenues of $0.8 million and $2.7 million for the three and nine months ended September 30, 2018 and $1.5 million and $5.7 million for the three and nine months ended September 30, 2017, respectively.

(1) For the three and nine months ended September 30, 2018, amounts exclude $3.1 million and $5.5 million, respectively, of Services segment net premiums earned—insurance and net investment income, as both are excluded from the scope of the revenue recognition standard. See Note 3 for segment information.

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Radian Group Inc.
Notes to Unaudited Condensed Consolidated Financial Statements — (Continued)

Our Services segment revenues are recognized over time and measured each period based on the progress to date as services are performed and made available to customers. Our contracts with customers, including payment terms, are generally short-term in nature; therefore, any impact related to timing is immaterial. Revenue recognized related to services made available to customers and billed is reflected in accounts receivables. Revenue recognized related to services performed and not yet billed is recorded in unbilled receivables and reflected in other assets. We have no material bad-debt expense. The following represents balances related to Services contracts as of the dates indicated:

(In thousands)	September 30, 2018	December 31, 2017
Accounts Receivable - Services Contracts	$12,544	$17,391
Unbilled Receivables - Services Contracts	19,580	22,257
Deferred Revenues - Services Contracts	4,131	3,235

Revenue expected to be recognized in any future period related to remaining performance obligations, such as contracts where revenue is recognized as invoiced and contracts with variable consideration related to undelivered performance obligations, is not material.

Fee-for-Service Contracts

Generally, our contracts with our clients do not include minimum volume commitments and can be terminated at any time by our clients. Although some of our contracts and assignments are recurring in nature, and include repetitive monthly assignments, a significant portion of our engagements are transactional in nature and may be performed in connection with securitizations, loan sales, loan purchases or other transactions. Due to the transactional nature of our business, our Services segment revenues may fluctuate from period to period as transactions are commenced or completed. We do not recognize revenue or expense related to amounts advanced by us and subsequently reimbursed by clients for maintenance or repairs because we do not take control of the service prior to the client taking control. We record an expense if an advance is made that is not in accordance with a client contract and the client is not obligated to reimburse us.

Due to the nature of the services provided, our Services arrangements with customers may include any of the following three basic types of contracts:

Fixed-Price Contracts. We use fixed-price contracts in our real estate valuation and component services, our loan review, underwriting and due diligence services as well as our title and closing services. We also use fixed-price contracts in our surveillance business for our servicer oversight services and RMBS surveillance services, and in our asset management business activities. Under fixed-price contracts we agree to perform the specified services and deliverables for a pre-determined per-unit or per-file price or day rate. Each service qualifies as a separate performance obligation and revenue is recognized as the service performed is made available to the client.

Time-and-Expense Contracts. The Services segment also derives a portion of its revenue from professional service activities under time-and-expense contracts. In these types of contracts, we are paid a fixed hourly rate, and we are reimbursed for billable out-of-pocket expenses as work is performed. These contracts are used in our loan review, underwriting and due diligence services. Services revenue consisting of billed time fees and pass-through expenses is recorded over time and based on the progress to date as services are performed and made available to customers. Services revenue may also include expenses billed to clients, which includes travel and other out-of-pocket expenses, and other reimbursable expenses.

Percentage-of-Sale Contracts. Under percentage-of-sale contracts, we are paid a contractual percentage of the sale proceeds upon the sale of each property. These contracts are only used for a portion of our REO management services and our real estate brokerage services. In addition, through the use of our proprietary technology, property leads are sent to select clients. Revenue attributable to services provided under a percentage-of-sale contract is recognized over time and measured based on the progress to date and typically coincides with the client's successful closing on the property. The revenue recognized for these transactions is based on a percentage of the sale.

In certain instances, fees are received at the time that an asset is assigned to Radian for management. These fees are recorded as deferred revenue and are recognized over time based on progress to date and the availability to customers.

Recent Accounting Pronouncements

Accounting Standards Adopted During 2018. In May 2014, the FASB issued an update to the accounting standard regarding revenue recognition. In July 2015, the FASB delayed the effective date for this updated standard for public companies to interim and annual periods beginning after December 15, 2017, and subsequently issued various clarifying updates. Our

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adoption of this standard, effective January 1, 2018, had no impact on our financial statements. The disclosures required by this update are included above in "—*Revenue Recognition.*"

In January 2016, the FASB issued an update that makes certain changes to the standard for the accounting of financial instruments. Among other things, the update requires: (i) equity investments to be measured at fair value with changes in fair value recognized in net income; (ii) the use of the exit price notion when measuring the fair value of financial instruments for disclosure purposes; (iii) separate presentation of financial assets and financial liabilities by measurement category and form of financial asset; and (iv) separate presentation in other comprehensive income of the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk (also referred to as "own credit") when the organization has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. The update also eliminates the requirement to disclose the methods and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet. This update is effective for public companies for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. In February 2018, the FASB issued technical corrections related to this update, which addresses common questions regarding the application and adoption of the new guidance and the subsequent amendments. As a result of adopting these updates, equity securities are no longer classified as available for sale securities and changes in fair value are recognized through earnings. Consequently, we recorded a cumulative effect adjustment to retained earnings from accumulated other comprehensive income representing unrealized losses related to equity securities in the amount of $0.2 million, net of tax. In addition, we elected to utilize net asset value as a practical expedient to measure certain other investments, which resulted in an increase to other invested assets with an offset to retained earnings in the amount of $2.3 million, net of tax**.** Our adoption of both these updates effective January 1, 2018 resulted in a net increase to retained earnings of $2.1 million. See Notes 4 and 5 for additional information.

In February 2018, the FASB issued an update to the accounting standard regarding income statement reporting of comprehensive income and reclassification of certain tax effects from accumulated other comprehensive income. The amendments in this update allow a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the TCJA. The provisions of this update are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period, for reporting periods for which financial statements have not been available for issuance. We elected to early adopt this update effective January 1, 2018. As a result we recorded a reclassification adjustment from other comprehensive income to retained earnings in the amount of $2.7 million. See Note 9 for additional information regarding the TCJA.

Accounting Standards Not Yet Adopted. In February 2016, the FASB issued an update that replaces the existing accounting and disclosure requirements for leases of property, plant and equipment. The update requires lessees to recognize, as of the lease commencement date, assets and liabilities for all leases with lease terms of more than 12 months, which is a change from the current GAAP requirement to recognize only capital leases on the balance sheet. Pursuant to the new standard, the liability initially recognized for the lease obligation is equal to the present value of the lease payments not yet made, discounted over the lease term at the implicit interest rate of the lease, if available, or otherwise at the lessee's incremental borrowing rate. The lessee is also required to recognize an asset for its right to use the underlying asset for the lease term, based on the liability subject to certain adjustments, such as for initial direct costs. Leases are required to be classified as either operating or finance, with expense on operating leases recorded as a single lease cost on a straight-line basis. For finance leases, interest expense on the lease liability is required to be recognized separately from the straight-line amortization of the right-of-use asset. Quantitative disclosures are required for certain items, including the cost of leases, the weighted-average remaining lease term, the weighted-average discount rate and a maturity analysis of lease liabilities. Additional qualitative disclosures are also required regarding the nature of the leases, such as basis, terms and conditions of: (i) variable interest payments; (ii) extension and termination options; and (iii) residual value guarantees. This update, and the clarifying update issued in

July 2018, 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 in the process of identifying our current leases that are subject to the scope of this standard and evaluating the impact on our financial statements and future disclosures as a result of this update. We expect to recognize right-of-use assets and related obligations upon adoption of this update. In July 2018 the FASB issued a further update containing certain targeted improvements to the accounting and disclosure requirements for leases, including an additional (and optional) transition method to recognize the cumulative-effect adjustment as of the beginning of the period of adoption, rather than recognizing the cumulative-effect adjustment as of the beginning of the earliest comparative period presented. We expect to elect the optional transition method to recognize the cumulative-effect adjustment as of the beginning of the period of adoption. In addition, we expect to elect the practical expedients for transitioning existing leases to the new standard as of the effective date. As a result of applying the practical expedients: (i) we are not required to reassess expired or existing contracts to determine if they contain additional leases; (ii) we are not required to reassess the lease classification for expired and existing leases; and (iii) we are not required to reassess initial direct costs for existing leases. We are currently evaluating the impact of adoption of these updates on our financial statements and future disclosures. See Note 13 of Notes to Consolidated Financial Statements in our 2017 Form 10-K for additional information about our leases.

In June 2016, the FASB issued an update to the accounting standard regarding the measurement of credit losses on financial instruments. This update requires that financial assets measured at their amortized cost basis be presented at the net amount expected to be collected. Credit losses relating to available-for-sale debt securities are to be recorded through an allowance for credit losses, rather than a write-down of the asset, with the amount of the allowance limited to the amount by which fair value is less than amortized cost. This update is effective for public companies for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted for the fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. This update is not applicable to credit losses associated with our mortgage insurance policies. We are currently evaluating the impact on our financial statements and future disclosures as a result of this update.

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

In August 2018, the FASB issued an update to the accounting standard regarding the accounting for long-duration insurance contracts. The new standard: (i) requires that assumptions used to measure the liability for future policy benefits be reviewed at least annually; (ii) defines and simplifies the measurement of market risk benefits; (iii) simplifies the amortization of deferred acquisition costs; and (iv) enhances the required disclosures about long-duration contracts. This update is effective for fiscal years beginning after December 15, 2020, including interim periods within those fiscal years. Early adoption is permitted. We are currently evaluating the potential impact of the adoption of this update.

In August 2018, the FASB issued an update to the accounting standard regarding the disclosure requirements for fair value measurement. The amendments in this update remove certain disclosure requirements regarding transfers between assets as well as the valuation process for Level III assets. This update is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. An entity is permitted to early adopt any removed or modified disclosures and delay adoption of the additional disclosures until their required effective date. We are currently evaluating the impact on our financial statements and future disclosures as a result of this update.

In August 2018, the FASB issued an update to the accounting standard regarding the capitalization of implementation costs for activities performed in a cloud computing arrangement that is a service contract. The new standard aligns the accounting for implementation costs of hosting arrangements that are service contracts with the accounting for capitalizing internal-use software. This update is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. We are currently evaluating the potential impact of the adoption of this update and do not expect it to have a material effect on our financial statements and disclosures.

2. Net Income Per Share

Basic net income per share is computed by dividing net income by the weighted-average number of common shares outstanding, while diluted net income per share is computed by dividing net income attributable to common shareholders by the sum of the weighted-average number of common shares outstanding and the weighted-average number of dilutive potential common shares. Dilutive potential common shares relate to our share-based compensation arrangements and our outstanding convertible senior notes, if any.

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Radian Group Inc.
Notes to Unaudited Condensed Consolidated Financial Statements — (Continued)

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

(In thousands, except per-share amounts)	Three Months Ended September 30, 2018	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
Net income—basic	$142,797	$65,142	$466,232	$114,272
Adjustment for dilutive Convertible Senior Notes due 2019, net of tax (1)	—	—	—	(215)
Net income—diluted	$142,797	$65,142	$466,232	$114,057
Average common shares outstanding—basic	213,309	215,279	214,499	215,194
Dilutive effect of Convertible Senior Notes due 2017	—	16	—	398
Dilutive effect of Convertible Senior Notes due 2019	—	—	—	611
Dilutive effect of share-based compensation arrangements (2)	4,593	4,096	4,284	4,027
Adjusted average common shares outstanding—diluted	217,902	219,391	218,783	220,230
Net income per share:				
Basic	$0.67	$0.30	$2.17	$0.53
Diluted	$0.66	$0.30	$2.13	$0.52

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

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

(In thousands)	Three Months Ended September 30, 2018	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
Shares of common stock equivalents	338	676	338	440

3. Segment Reporting

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

We allocate to our Mortgage Insurance segment: (i) corporate expenses based on its forecasted annual percentage of total revenue, which approximates the estimated percentage of time spent on the Mortgage Insurance segment; (ii) all interest expense (except for interest expense related to an intercompany note with terms consistent with the original issued amount of $300 million from the Senior Notes due 2019 that were used to fund our purchase of Clayton, all of which is allocated to our Services segment); and (iii) all corporate cash and investments.

We allocate to our Services segment: (i) corporate expenses based on its forecasted annual percentage of total revenue, which approximates the estimated percentage of time spent on the Services segment and (ii) the allocated interest expense related to the intercompany note as described above. No material corporate cash or investments are allocated to the Services segment. Inter-segment activities are recorded at market rates for segment reporting and eliminated in consolidation.

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

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Adjusted Pretax Operating Income (Loss)

Our senior management, including our Chief Executive Officer (Radian's chief operating decision maker), uses adjusted pretax operating income (loss) as our primary measure to evaluate the fundamental financial performance of each of Radian's business segments and to allocate resources to the segments. Adjusted pretax operating income (loss) is defined as pretax income (loss) 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 or impairment of goodwill and other acquired intangible assets, and net impairment losses recognized in earnings and losses from the sale of lines of business.

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

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

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

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

(4) *Amortization or impairment of goodwill and other 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 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 and losses from the sale of lines of business*. The recognition of net impairment losses on investments and the impairment of other long-lived assets does not result in a cash payment and can vary significantly in both amount and frequency, depending on market credit cycles and other factors. Losses from the sale of lines of business are highly discretionary as a result of strategic restructuring decisions, and generally do not occur in the normal course of our business. We do not view these losses to be indicative of our fundamental operating activities. Therefore, whenever these losses occur, we exclude them from our calculation of adjusted pretax operating income (loss).

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Radian Group Inc.
Notes to Unaudited Condensed Consolidated Financial Statements — (Continued)

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

(In thousands)	Three Months Ended September 30, 2018	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
Mortgage Insurance				
Net premiums written—insurance (1)	$253,827	$247,810	$743,765	$713,782
(Increase) decrease in unearned premiums	1,655	(11,108)	3,235	(26,184)
Net premiums earned—insurance	255,482	236,702	747,000	687,598
Net investment income	38,824	32,540	110,227	93,643
Other income	725	760	2,153	2,118
Total (2)	295,031	270,002	859,380	783,359
Provision for losses	20,715	35,980	77,468	100,926
Policy acquisition costs	5,667	5,554	18,780	18,406
Other operating expenses before corporate allocations	33,152	36,941	98,302	114,169
Total (3)	59,534	78,475	194,550	233,501
Adjusted pretax operating income before corporate allocations	235,497	191,527	664,830	549,858
Allocation of corporate operating expenses	19,794	11,737	58,507	41,817
Allocation of interest expense	11,083	11,282	32,552	34,539
Adjusted pretax operating income	$204,620	$168,508	$573,771	$473,502

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

(2) Excludes net losses on investments and other financial instruments of $4.5 million and $30.8 million for the three and nine months ended September 30, 2018, and net gains on investments and other financial instruments of $2.5 million and $5.0 million for the three and nine months ended September 30, 2017, not included in adjusted pretax operating income.

(3) Includes inter-segment expenses as follows:

(In thousands)	Three Months Ended September 30, 2018	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
Inter-segment expenses	$766	$1,491	$2,653	$5,726

Radian Group Inc.
Notes to Unaudited Condensed Consolidated Financial Statements — (Continued)

(In thousands)	Three Months Ended September 30, 2018	2017	Nine Months Ended September 30, 2018	2017
Services				
Net premiums earned—insurance (1)	$2,949	$—	$5,325	$—
Services revenue (2)	37,332	41,062	109,211	121,126
Net investment income (1)	171	—	197	—
Other income (1)	449	—	844	—
Total (2)	40,901	41,062	115,577	121,126
Provision for losses (1)	242	—	295	—
Cost of services	26,001	27,544	73,628	82,196
Other operating expenses before corporate allocations	14,772	12,781	39,531	38,188
Restructuring and other exit costs (3)	407	5,463	1,987	5,463
Total	41,422	45,788	115,441	125,847
Adjusted pretax operating income (loss) before corporate allocations	(521)	(4,726)	136	(4,721)
Allocation of corporate operating expenses	2,948	3,730	8,742	10,852
Allocation of interest expense	4,452	4,433	13,354	13,293
Adjusted pretax operating income (loss)	$(7,921)	$(12,889)	$(21,960)	$(28,866)

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(1) Results from inclusion of the operations of EnTitle Direct, a national title insurance and settlement services company, acquired in March 2018.

(2) Includes inter-segment revenues as follows:

(In thousands)	Three Months Ended September 30, 2018	2017	Nine Months Ended September 30, 2018	2017
Inter-segment revenues	$766	$1,491	$2,653	$5,726

(3) Does not include impairment of long-lived assets and loss from the sale of a business line, which are not components of adjusted pretax operating income.

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

(In thousands)	At September 30, 2018 Mortgage Insurance	Services	Total
Total assets	$6,095,101	$174,383	$6,269,484

(In thousands)	At December 31, 2017 Mortgage Insurance	Services	Total
Total assets	$5,733,918	$166,963	$5,900,881

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Notes to Unaudited Condensed Consolidated Financial Statements — (Continued)

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

(In thousands)	Three Months Ended September 30, 2018	2017	Nine Months Ended September 30, 2018	2017
Adjusted pretax operating income (loss):				
Mortgage Insurance (1)	$204,620	$168,508	$573,771	$473,502
Services (1)	(7,921)	(12,889)	(21,960)	(28,866)
Total adjusted pretax operating income	196,699	155,619	551,811	444,636
Net gains (losses) on investments and other financial instruments	(4,480)	2,480	(30,771)	4,960
Loss on induced conversion and debt extinguishment	—	(45,766)	—	(51,469)
Acquisition-related expenses (2)	(2)	(54)	(418)	(126)
Impairment of goodwill	—	—	—	(184,374)
Amortization and impairment of other acquired intangible assets	(3,472)	(2,890)	(8,968)	(25,042)
Impairment of other long-lived assets and loss from the sale of a business line (3)	(4,057)	(6,575)	(3,953)	(6,575)
Consolidated pretax income	$184,688	$102,814	$507,701	$182,010

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

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

(3) Included within restructuring and other exit costs. See Note 1.

On a consolidated basis, "adjusted pretax operating income" is a measure not determined in accordance with GAAP. Total adjusted pretax operating income is not a measure of total profitability, and therefore should not be considered in isolation or viewed as a substitute for GAAP pretax income. Our definition of adjusted pretax operating income may not be comparable to similarly-named measures reported by other companies.

4. Fair Value of Financial Instruments

Available for sale securities, trading securities, equity securities and certain other assets are recorded at fair value. All changes in the fair value of trading securities, equity 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 accumulated other comprehensive income. As a result of our implementation of the update to the standard for the accounting of financial instruments, we elected to measure certain other investments using the net asset value as a practical expedient. See Note 1 "—Significant Accounting Policies—*Recent Accounting Pronouncements—Accounting Standards Adopted During 2018*" for additional information. There were no other changes to our fair value methodologies during the nine months ended September 30, 2018.

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.

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Notes to Unaudited Condensed Consolidated Financial Statements — (Continued)

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 recurring and non-recurring fair value measurements in our audited financial statements and notes thereto included in our 2017 Form 10-K. These unaudited condensed consolidated financial statements should be read in conjunction with the audited financial statements and notes thereto included in our 2017
Form 10-K.

The following is a list of assets that are measured at fair value by hierarchy level as of September 30, 2018:

(In thousands)	Level I	Level II	Total
Assets at Fair Value			
Investment Portfolio:			
U.S. government and agency securities	$234,507	$21,545	$256,052
State and municipal obligations	—	345,029	345,029
Money market instruments	156,396	—	156,396
Corporate bonds and notes	—	2,480,097	2,480,097
RMBS	—	272,125	272,125
CMBS	—	576,829	576,829
Other ABS	—	674,509	674,509
Equity securities	145,198	3,514	148,712
Other investments (1)	—	149,265	149,265
Total Investments at Fair Value (2)	536,101	4,522,913	5,059,014 (3)
Total Assets at Fair Value	$536,101	$4,522,913	$5,059,014 (3)

(1) Comprising short-term certificates of deposit and commercial paper.

(2) Does not include certain other invested assets ($3.6 million), primarily invested in limited partnership investments valued using the net asset value as a practical expedient. Includes cash collateral held under securities lending agreements ($31.8 million) reinvested in money market instruments.

(3) Includes $34.4 million of securities loaned to third-party Borrowers under securities lending agreements, classified as other assets in our consolidated balance sheets. See Note 5 for more information.

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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 December 31, 2017:

(In thousands)	Level I	Level II	Total
Assets at Fair Value			
Investment Portfolio:			
U.S. government and agency securities	$124,969	$8,023	$132,992
State and municipal obligations	—	386,111	386,111
Money market instruments	213,357	—	213,357
Corporate bonds and notes	—	2,304,017	2,304,017
RMBS	—	216,749	216,749
CMBS	—	503,955	503,955
Other ABS	—	676,158	676,158
Foreign government and agency securities	—	36,448	36,448
Equity securities	175,205	860	176,065
Other investments (1)	—	25,720	25,720
Total Investments at Fair Value (2)	513,531	4,158,041	4,671,572 (3)
Total Assets at Fair Value	$513,531	$4,158,041	$4,671,572 (3)

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(1) Comprising short-term certificates of deposit and commercial paper.

(2) Does not include certain other invested assets ($0.3 million), primarily invested in limited partnerships, accounted for as cost-method investments and not measured at fair value. Includes cash collateral held under securities lending agreements ($19.4 million) reinvested in money market instruments.

(3) Includes $28.0 million of securities loaned to third-party Borrowers under securities lending agreements, classified as other assets in our consolidated balance sheets. See Note 5 for more information.

There were no Level III assets measured at fair value at September 30, 2018 or December 31, 2017, and no Level III liabilities. There were no investment transfers between Level I, Level II or Level III for the three and nine months ended September 30, 2018 and 2017.

Other Fair Value Disclosure

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

	September 30, 2018		December 31, 2017	
(In thousands)	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Assets:				
Other invested assets (1)	$ —	$ —	$334	$ 3,226
Liabilities:				
Senior notes	1,029,510	1,053,528	1,027,074	1,093,934

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(1) As a result of implementing the update to the standard for the accounting of financial instruments effective January 1, 2018, other invested assets are no longer carried at amortized cost.

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Radian Group Inc.
Notes to Unaudited Condensed Consolidated Financial Statements — (Continued)

5. Investments

Available for Sale Securities

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

	September 30, 2018			
(In thousands)	Amortized Cost	Fair Value	Gross Unrealized Gains	Gross Unrealized Losses
Fixed-maturities available for sale:				
U.S. government and agency securities	$75,369	$72,645 (1)	$ —	$2,724
State and municipal obligations	140,877	139,986	1,859	2,750
Corporate bonds and notes	2,158,991	2,108,779	4,262	54,474
RMBS	258,152	250,056 (2)	4	8,100
CMBS	536,982	525,858	363	11,487
Other ABS	675,686	673,418	967	3,235
Total securities available for sale	$3,846,057	$3,770,742 (3)	$ 7,455	$82,770

(1) Includes securities with a fair value of $10.5 million serving as collateral for FHLB advances.
(2) Includes securities with a fair value of $66.1 million serving as collateral for FHLB advances.
(3) Includes $7.0 million of fixed-maturity securities loaned to third-party Borrowers under securities lending agreements, classified as other assets in our condensed consolidated balance sheets, as further described below.

	December 31, 2017			
(In thousands)	Amortized Cost	Fair Value	Gross Unrealized Gains	Gross Unrealized Losses
Fixed-maturities available for sale:				
U.S. government and agency securities	$69,667	$69,396	$96	$367
State and municipal obligations	156,587	161,722	5,834	699
Corporate bonds and notes	1,869,318	1,894,886	33,620	8,052
RMBS	189,455	187,229	636	2,862
CMBS	451,595	453,394	3,409	1,610
Other ABS	672,715	674,548	2,655	822
Foreign government and agency securities	31,417	32,207	823	33
Total fixed-maturities available for sale	3,440,754	3,473,382 (1)	47,073	14,445
Equity securities available for sale (2)	176,349	176,065 (1)	1,705	1,989
Total debt and equity securities available for sale	$3,617,103	$3,649,447	$48,778	$16,434

(1) Includes $14.7 million of fixed maturity securities and $13.2 million of equity securities loaned to third-party Borrowers under securities lending agreements, classified as other assets in our condensed consolidated balance sheets, as further described below.
(2) Primarily consists of investments in fixed-income and equity exchange-traded funds and publicly-traded business development company equities.

For the nine months ended September 30, 2018, we did not transfer any securities from the available for sale or trading categories.

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Gross Unrealized Losses and Fair Value of Available for Sale Securities

For securities deemed "available for sale" and that are in an unrealized loss position, the following tables show the gross unrealized losses and fair values, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, as of the dates indicated. Included in the amounts as of September 30, 2018 and December 31, 2017 are loaned securities under securities lending agreements that are classified as other assets in our condensed consolidated balance sheets, as further described below.

	September 30, 2018								
	Less Than 12 Months			12 Months or Greater			Total		
(**$ in thousands**) Description of Securities	# of securities	Fair Value	Unrealized Losses	# of securities	Fair Value	Unrealized Losses	# of securities	Fair Value	Unrealized Losses
U.S. government and agency securities	9	$39,342	$1,944	5	$11,758	$780	14	$51,100	$2,724
State and municipal obligations	25	76,914	2,166	6	13,172	584	31	90,086	2,750
Corporate bonds and notes	383	1,619,774	43,840	35	157,323	10,634	418	1,777,097	54,474
RMBS	23	169,259	3,271	28	80,158	4,829	51	249,417	8,100
CMBS	78	423,684	10,098	11	26,830	1,389	89	450,514	11,487
Other ABS	118	461,978	3,002	16	24,890	233	134	486,868	3,235
Total	636	$2,790,951	$64,321	101	$314,131	$18,449	737	$3,105,082	$82,770

	December 31, 2017								
	Less Than 12 Months			12 Months or Greater			Total		
(**$ in thousands**) Description of Securities	# of securities	Fair Value	Unrealized Losses	# of securities	Fair Value	Unrealized Losses	# of securities	Fair Value	Unrealized Losses
U.S. government and agency securities	6	$23,309	$ 129	3	$9,799	$ 238	9	$33,108	$ 367
State and municipal obligations	21	65,898	699	—	—	—	21	65,898	699
Corporate bonds and notes	152	672,318	4,601	32	139,105	3,451	184	811,423	8,052
RMBS	8	19,943	204	26	101,812	2,658	34	121,755	2,862
CMBS	35	139,353	1,395	4	3,518	215	39	142,871	1,610
Other ABS	92	260,864	777	7	8,297	45	99	269,161	822
Foreign government and agency securities	5	7,397	33	—	—	—	5	7,397	33
Equity securities	13	149,785	1,989	—	—	—	13	149,785	1,989
Total	332	$1,338,867	$						