

GENWORTH MORTGAGE HOLDINGS, INC.

Condensed Consolidated Financial Statements

For the Nine Months Ended September 30, 2020 and 2019

Genworth Mortgage Holdings, Inc.

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GENWORTH MORTGAGE HOLDINGS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS
(Amounts in thousands, except share and per share amounts)

	<u>September 30,</u> <u>2020</u>	<u>December 31,</u> <u>2019</u>
	<u>(Unaudited)</u>	
Assets		
Fixed maturity securities available-for-sale, at fair value	\$ 4,808,379	\$ 3,764,432
Cash and cash equivalents	556,734	585,058
Accrued investment income	28,965	24,159
Deferred acquisition costs	33,228	30,332
Premiums receivable	37,917	41,161
Other assets	44,993	54,811
Deferred tax asset	—	2,971
Total assets	<u>\$ 5,510,216</u>	<u>\$ 4,502,924</u>
Liabilities and equity		
Liabilities:		
Loss reserves	\$ 474,744	\$ 235,062
Unearned premiums	328,369	383,458
Other liabilities	171,751	57,329
Long-term borrowings	737,622	—
Deferred tax liability	<u>31,100</u>	<u>—</u>
Total liabilities	<u>1,743,586</u>	<u>675,849</u>
Equity:		
Common stock (\$0.01 par value, 1,000 shares authorized, 100 shares issued and outstanding)	—	—
Additional paid-in capital	2,369,259	2,363,606
Accumulated other comprehensive income	183,747	93,431
Retained earnings	<u>1,213,624</u>	<u>1,370,038</u>
Total equity	<u>3,766,630</u>	<u>3,827,075</u>
Total liabilities and equity	<u>\$ 5,510,216</u>	<u>\$ 4,502,924</u>

See Notes to Condensed Consolidated Financial Statements

GENWORTH MORTGAGE HOLDINGS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Amounts in thousands)
(Unaudited)

	Nine months ended September 30,	
	2020	2019
Revenues:		
Premiums	\$ 720,474	\$ 619,083
Net investment income	97,890	86,900
Net investment gains (losses).....	(1,953)	174
Other income.....	4,534	3,209
Total revenues.....	820,945	709,366
Losses and expenses:		
Losses incurred	290,785	39,288
Acquisition and operating expenses, net of deferrals.....	155,473	141,977
Amortization of deferred acquisition costs and intangibles	11,453	11,415
Interest expense.....	5,512	—
Total losses and expenses	463,223	192,680
Income before income taxes and change in fair value of unconsolidated affiliate	357,722	516,686
Provision for income taxes.....	78,482	110,774
Income before change in fair value of unconsolidated affiliate	279,240	405,912
Change in fair value of unconsolidated affiliate, net of taxes	—	81,929
Net income.....	\$ 279,240	\$ 487,841

See Notes to Condensed Consolidated Financial Statements

GENWORTH MORTGAGE HOLDINGS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Amounts in thousands)
(Unaudited)

	Nine months ended	
	September 30,	
	2020	2019
Net income.....	\$ 279,240	\$ 487,841
Other comprehensive income, net of taxes:		
Net unrealized gains on securities not other-than-temporarily impaired	90,316	118,778
Total other comprehensive income	90,316	118,778
Total comprehensive income	<u>\$ 369,556</u>	<u>\$ 606,619</u>

See Notes to Condensed Consolidated Financial Statements

GENWORTH MORTGAGE HOLDINGS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Amounts in thousands)
(Unaudited)

Nine months ended September 30, 2020

	<u>Common stock</u>	<u>Additional paid-in capital</u>	<u>Accumulated other comprehensive income</u>	<u>Retained earnings</u>	<u>Total equity</u>
Balances as of December 31, 2019.....	\$ —	\$ 2,363,606	\$ 93,431	\$ 1,370,038	\$ 3,827,075
Comprehensive income:					
Net income.....	—	—	—	279,240	279,240
Other comprehensive income, net of taxes.....	—	—	90,316	—	90,316
Total comprehensive income.....					369,556
Dividends.....	—	—	—	(435,654)	(435,654)
Capital contributions.....	—	5,653	—	—	5,653
Balances as of September 30, 2020.....	<u>\$ —</u>	<u>\$ 2,369,259</u>	<u>\$ 183,747</u>	<u>\$ 1,213,624</u>	<u>\$ 3,766,630</u>

Nine months ended September 30, 2019

	<u>Common stock</u>	<u>Additional paid-in capital</u>	<u>Accumulated other comprehensive income (loss)</u>	<u>Retained earnings</u>	<u>Total equity</u>
Balances as of December 31, 2018.....	\$ —	\$ 2,357,851	\$ (26,522)	\$ 942,410	\$ 3,273,739
Comprehensive income:					
Net income.....	—	—	—	487,841	487,841
Other comprehensive income, net of taxes.....	—	—	118,778	—	118,778
Total comprehensive income.....					606,619
Capital contributions.....	—	3,271	—	—	3,271
Balances as of September 30, 2019.....	<u>\$ —</u>	<u>\$ 2,361,122</u>	<u>\$ 92,256</u>	<u>\$ 1,430,251</u>	<u>\$ 3,883,629</u>

See Notes to Condensed Consolidated Financial Statements

GENWORTH MORTGAGE HOLDINGS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in thousands)
(Unaudited)

	Nine months ended September 30,	
	2020	2019
Cash flows from operating activities:		
Net income	\$ 279,240	\$ 487,841
Adjustments to reconcile net income to net cash from operating activities:		
Amortization of fixed maturity securities discounts and premiums	(2,551)	(1,678)
Net investment (gains) losses	1,953	(174)
Acquisition costs deferred	(9,291)	(7,923)
Amortization of deferred acquisition costs and intangibles	11,453	11,415
Deferred income taxes	12,593	42,077
Stock-based compensation expense	2,913	1,806
Change in fair value of unconsolidated affiliate	—	(74,196)
Other, net	5,653	3,271
Change in certain assets and liabilities:		
Accrued investment income	(4,806)	(3,243)
Premiums receivable	3,244	1,225
Other assets	5,173	(43,876)
Loss reserves	239,682	(48,878)
Unearned premiums	(55,089)	(8,925)
Other liabilities	70,379	25,146
Net cash from operating activities	<u>560,546</u>	<u>383,888</u>
Cash flows used by investing activities:		
Proceeds from maturities of fixed maturity securities	369,361	248,332
Proceeds from sales of fixed maturity securities	233,642	112,715
Purchases of fixed maturity securities	(1,494,972)	(718,118)
Net cash used by investing activities	<u>(891,969)</u>	<u>(357,071)</u>
Cash flows from financing activities:		
Proceeds from the issuance of long-term debt	738,753	—
Dividends paid	(435,654)	—
Net cash from financing activities	<u>303,099</u>	<u>—</u>
Net change in cash and cash equivalents	(28,324)	26,817
Cash and cash equivalents at beginning of period	585,058	159,051
Cash and cash equivalents at end of period	<u>\$ 556,734</u>	<u>\$ 185,868</u>
Supplementary disclosure of cash flow information:		
Non-cash contributions of capital	<u>\$ 5,653</u>	<u>\$ 3,271</u>

See Notes to Condensed Consolidated Financial Statements

GENWORTH MORTGAGE HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

(1) Nature of Business, Organization Structure and Basis of Presentation

The accompanying unaudited condensed consolidated financial statements include on a consolidated basis the accounts of Genworth Mortgage Holdings, Inc. (“GMHI”) and the affiliate companies in which it holds a majority voting interest, which we refer to as the “Company,” “we,” “us” or “our” unless the context otherwise requires. GMHI has been a wholly owned subsidiary of Genworth Financial, Inc. (“Genworth”) since GMHI’s incorporation in Delaware in 2012. On November 29, 2019, Genworth completed a holding company reorganization whereby Genworth contributed 100% of the issued and outstanding voting securities of GMHI to Genworth Holdings, Inc. (“Genworth Holdings”). Post-contribution, GMHI is a direct, wholly owned subsidiary of Genworth Holdings, and Genworth Holdings is still a direct, wholly owned subsidiary of Genworth. We are engaged in the business of writing and assuming residential mortgage guaranty insurance. The insurance protects lenders and investors against certain losses resulting from nonpayment of loans secured by mortgages, deeds of trust, or other instruments constituting a lien on residential real estate.

On October 21, 2016, Genworth entered into an agreement and plan of merger (the “Merger Agreement”) with Asia Pacific Global Capital Co., Ltd., a limited liability company incorporated in the People’s Republic of China and a subsidiary of China Oceanwide Holdings Group Co., Ltd., a limited liability company incorporated in the People’s Republic of China (together with its affiliates, “China Oceanwide”), and Asia Pacific Global Capital USA Corporation (“Merger Sub”), a Delaware corporation and a direct, wholly-owned subsidiary of Asia Pacific Insurance USA Holdings LLC (“Asia Pacific Insurance”), which is a Delaware limited liability company and owned by China Oceanwide, pursuant to which, subject to the terms and conditions set forth therein, Merger Sub would merge with and into Genworth with Genworth surviving the merger as a direct, wholly-owned subsidiary of Asia Pacific Insurance. China Oceanwide has agreed to acquire all of Genworth’s outstanding common stock for a total transaction value of approximately \$2.7 billion, or \$5.43 per share in cash. At a special meeting held on March 7, 2017, Genworth’s stockholders voted on and approved a proposal to adopt the Merger Agreement. The closing of the transaction remains subject to other closing conditions.

We offer mortgage insurance products predominantly insuring prime-based, individually underwritten residential mortgage loans (“primary mortgage insurance”). Our private mortgage insurance enables borrowers to buy homes with a down payment of less than 20% of the home’s value. Private mortgage insurance also facilitates the sale of these low down payment mortgage loans in the secondary mortgage market, most of which are sold to government sponsored enterprises. We also selectively enter into insurance transactions with lenders and investors, under which we insure a portfolio of loans at or after origination.

We operate our business through our primary insurance subsidiary, Genworth Mortgage Insurance Corporation (“GMICO”), with operations in all 50 states and the District of Columbia. GMICO is an approved insurer by the Federal National Mortgage Association (“Fannie Mae”) and the Federal Home Loan Mortgage Corporation (“Freddie Mac”). Fannie Mae and Freddie Mac are government-sponsored enterprises and we refer to them collectively as the “GSEs.”

We also perform fee-based contract underwriting services for mortgage lenders. The provision of underwriting services by mortgage insurers eliminates the duplicative lender and mortgage insurer underwriting activities and expedites the approval process.

We operate our business in a single segment, which is how our chief operating decision maker reviews financial performance and allocates resources. Our segment includes a run-off insurance block with reference properties in Mexico, which is immaterial to our condensed consolidated financial statements.

Our Company qualifies as an emerging growth company (“EGC”) as our total annual gross revenue for our most recent fiscal year end is less than \$1.07 billion and we have not sold common equity securities under a registration statement as defined by the Securities and Exchange Commission. As an EGC, we are permitted to apply new accounting standards under an extended transition period available to private companies. We have elected to apply the extended transition periods for new accounting standards applicable to private companies, further described in note 2. Should we issue securities registered under the Securities Act, we will continue to assess the qualification of our EGC status.

The accompanying condensed consolidated financial statements are unaudited and have been prepared in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”). Preparing financial statements in conformity with U.S. GAAP requires us to make estimates and assumptions that affect reported amounts and related disclosures. Actual results could differ from those estimates. These unaudited condensed consolidated financial statements include all adjustments (including normal recurring adjustments) considered necessary by management to present a fair statement of the financial position, results of operations and cash flows for the periods presented. The results reported in these unaudited condensed consolidated financial statements should not be regarded as

GENWORTH MORTGAGE HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

necessarily indicative of results that may be expected for the entire year. Potential impacts, risks and uncertainties of the coronavirus pandemic (“COVID-19”) may include declines in investment valuations and impairments, deferred acquisition cost or intangible assets impairments or the acceleration of amortization, deferred tax asset recoverability and increases to loss reserves, among other matters. The unaudited condensed consolidated financial statements included herein should be read in conjunction with the audited consolidated financial statements and related notes for the years ended December 31, 2019 and 2018.

On July 20, 2020, Genworth reached a settlement agreement with AXA S.A. (“AXA”) regarding a dispute over payment protection insurance mis-selling claims sold by Genworth’s former lifestyle protection insurance business that was acquired by AXA in 2015. As part of the settlement agreement, Genworth issued a secured promissory note agreeing to pay AXA in two installments in 2022, unless certain events occur that trigger mandatory prepayments, as well as a significant portion of future claims that are still being processed which will be part of the second installment payment in 2022. As of September 30, 2020, Genworth owes £424 million to AXA under the settlement agreement. To secure its obligation under the promissory note, Genworth pledged as collateral to AXA, a 19.9% security interest in the Company’s outstanding common stock. AXA does not have the right to sell or repledge the collateral, and the security interest does not entitle AXA to voting rights. The collateral will be released back to Genworth upon full repayment of the promissory note. Accordingly, the collateral arrangement has no impact on our unaudited condensed consolidated financial statements.

(2) Accounting Changes

Accounting Pronouncements Recently Adopted

On January 1, 2020, we adopted new accounting guidance related to disclosure requirements for defined benefit plans as part of the Financial Accounting Standards Board’s (the “FASB”) disclosure framework project. The guidance adds, eliminates and modifies certain disclosure requirements for defined benefit pension and other postretirement benefit plans. We adopted this new accounting guidance using the retrospective method, which did not have a significant impact on our condensed consolidated financial statements and disclosures.

On January 1, 2020, we adopted new accounting guidance related to fair value disclosure requirements as part of the FASB’s disclosure framework project. The guidance adds, eliminates and modifies certain disclosure requirements for fair value measurements. The guidance includes new disclosure requirements related to changes in unrealized gains and losses included in other comprehensive income (loss) for recurring Level 3 fair value measurements held at the end of the reporting period and the range and weighted-average of significant unobservable inputs used to develop Level 3 fair value measurements. We adopted this new accounting guidance using the prospective method for disclosures related to changes in unrealized gains and losses included in other comprehensive income (loss) for recurring Level 3 fair value measurements held at the end of the reporting period, the range and weighted-average of significant unobservable inputs used to develop Level 3 fair value measurements and the narrative description of measurement uncertainty and the retrospective method for all other disclosures. This accounting guidance did not impact our condensed consolidated financial statements but impacted our fair value disclosures.

In March 2020, the FASB issued new accounting guidance related to reference rate reform, which was effective for us on January 1, 2020. The guidance provides temporary guidance to ease the potential burden in accounting for, or recognizing the effects of, reference rate reform. This new guidance provides optional practical expedients and exceptions for applying generally accepted accounting principles to investments, derivatives, or other transactions that reference the London Interbank Offered Rate (“LIBOR”). In addition to the optional practical expedients, the guidance includes a general principle that permits an entity to consider contract modifications due to reference rate reform to be an event that does not require contract remeasurement at the modification date or reassessment of a previous accounting determination. We adopted this guidance prospectively and it did not have a significant impact on our condensed consolidated financial statements or disclosures. However, the amendments in this guidance may be elected over time through December 31, 2022 as reference rate reform activities occur and therefore, this guidance may impact our procedures as we implement measures to transition away from LIBOR.

Accounting Pronouncements Not Yet Adopted

In December 2019, the FASB issued new accounting guidance related to simplifying the accounting for income taxes. The guidance eliminates certain exceptions related to the approach for intraperiod tax allocation, the methodology for calculating income taxes in an interim period and the recognition of deferred tax liabilities for outside basis differences. As an EGC, this new accounting guidance is effective for us on January 1, 2022 using the retrospective method or modified retrospective method for certain changes and prospective method for all other changes, with early adoption permitted. For public companies, this new accounting guidance is

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

effective on January 1, 2021. We do not expect a significant impact from this guidance on our condensed consolidated financial statements and disclosures.

In June 2016, the FASB issued new accounting guidance related to accounting for credit losses on financial instruments. The guidance requires entities to recognize an allowance equal to its estimate of lifetime expected credit losses and applies to most debt instruments not measured at fair value. The new guidance retains most of the existing impairment guidance for available-for-sale debt securities but amends the presentation of credit losses to be presented as an allowance as opposed to a write-down and permits the reversal of credit losses when reassessing changes in the credit losses each reporting period. The new guidance further requires that expected credit losses on premiums receivable are measured in accordance with the credit loss requirements for financial instruments measured at amortized cost. Due to the short-term nature of our premiums receivable, we consider lifetime expected credit losses on premiums receivable to be consistent with our current allowance. As an EGC, this new guidance is effective for us on January 1, 2023, using the modified retrospective method, with early adoption permitted. As of September 30, 2020, if we had adopted this new accounting guidance as a public company on January 1, 2020, the impact on our financial statements would have been \$0.8 million of additional pre-tax credit losses primarily related to available-for-sale debt securities.

(3) Investments

(a) Net Investment Income

Sources of net investment income were as follows for the nine months ended September 30:

<u>(Amounts in thousands)</u>	<u>2020</u>	<u>2019</u>
Available-for-sale fixed maturity securities	\$ 99,621	\$ 87,117
Cash and cash equivalents	<u>2,135</u>	<u>2,943</u>
Gross investment income before expenses and fees	101,756	90,060
Expenses and fees	<u>(3,866)</u>	<u>(3,160)</u>
Net investment income	<u>\$ 97,890</u>	<u>\$ 86,900</u>

(b) Net Investment Gains (Losses)

The following table sets forth net investment gains (losses) for the nine months ended September 30:

<u>(Amounts in thousands)</u>	<u>2020</u>	<u>2019</u>
Available-for-sale fixed maturity securities:		
Realized gains.....	\$ 906	\$ 628
Realized losses	<u>(1,129)</u>	<u>(454)</u>
Net realized gains (losses) on available-for-sale fixed maturity securities.....	<u>(223)</u>	<u>174</u>
Impairments:		
Total other-than-temporary impairments.....	(1,730)	—
Portion of other-than-temporary impairments included in other comprehensive income (loss).....	<u>—</u>	<u>—</u>
Net other-than-temporary impairments	<u>(1,730)</u>	<u>—</u>
Net investment gains (losses)	<u>\$ (1,953)</u>	<u>\$ 174</u>

GENWORTH MORTGAGE HOLDINGS, INC.

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)**

(c) Unrealized Investment Gains and Losses

Net unrealized gains and losses on available-for-sale investment securities reflected as a separate component of accumulated other comprehensive income (loss) were as follows as of the dates indicated:

<u>(Amounts in thousands)</u>	<u>September 30, 2020</u>	<u>December 31, 2019</u>
Net unrealized gains (losses) on investment securities:		
Fixed maturity securities not other-than-temporarily impaired.....	\$ 232,878	\$ 121,085
Fixed maturity securities other-than-temporarily impaired.....	—	—
Subtotal	232,878	121,085
Income taxes	(49,131)	(27,654)
Net unrealized investment gains (losses)	<u>\$ 183,747</u>	<u>\$ 93,431</u>

The change in net unrealized gains (losses) on available-for-sale investment securities reported in accumulated other comprehensive income (loss) was as follows as of and for the nine months ended September 30:

<u>(Amounts in thousands)</u>	<u>2020</u>	<u>2019</u>
Beginning balance.....	\$ 93,431	\$ (26,522)
Unrealized gains (losses) arising during the period:		
Unrealized gains (losses) on investment securities	109,822	151,110
Provision for income taxes	(21,063)	(32,179)
Change in unrealized gains (losses) on investment securities	88,759	118,931
Reclassification adjustments to net investment (gains) losses, net of taxes of \$(414) and \$41	1,557	(153)
Ending balance.....	<u>\$ 183,747</u>	<u>\$ 92,256</u>

Amounts reclassified out of accumulated other comprehensive income (loss) to net investment gains (losses) include realized gains (losses) on sales of securities, which are determined on a specific identification basis.

(d) Fixed Maturity Securities

As of September 30, 2020, the amortized cost or cost, gross unrealized gains (losses) and fair value of our fixed maturity securities classified as available-for-sale were as follows:

<u>(Amounts in thousands)</u>	<u>Amortized cost or cost</u>	<u>Gross unrealized gains</u>		<u>Gross unrealized losses</u>		<u>Fair value</u>
		<u>Not other-than- temporarily impaired</u>	<u>Other-than- temporarily impaired</u>	<u>Not other-than- temporarily impaired</u>	<u>Other-than- temporarily impaired</u>	
Fixed maturity securities:						
U.S. government, agencies and government-sponsored enterprises.....	\$ 68,771	\$ 4,428	\$ —	\$ —	\$ —	\$ 73,199
State and political subdivisions	160,299	14,624	—	(15)	—	174,908
Non-U.S. government	29,653	1,190	—	—	—	30,843
U.S. corporate	2,691,609	178,520	—	(5,337)	—	2,864,792
Non-U.S. corporate	578,206	28,213	—	(6,893)	—	599,526
Other asset-backed	1,046,963	19,293	—	(1,145)	—	1,065,111
Total available-for-sale fixed maturity securities.....	<u>\$ 4,575,501</u>	<u>\$ 246,268</u>	<u>\$ —</u>	<u>\$ (13,390)</u>	<u>\$ —</u>	<u>\$ 4,808,379</u>

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(Unaudited)

As of December 31, 2019, the amortized cost or cost, gross unrealized gains (losses) and fair value of our fixed maturity securities classified as available-for-sale were as follows:

(Amounts in thousands)	Amortized cost or cost	Gross unrealized gains		Gross unrealized losses		Fair value
		Not other-than- temporarily impaired	Other-than- temporarily impaired	Not other-than- temporarily impaired	Other-than- temporarily impaired	
Fixed maturity securities:						
U.S. government, agencies and government-sponsored enterprises	\$ 90,815	\$ 1,535	\$ —	\$ (14)	\$ —	\$ 92,336
State and political subdivisions ..	88,482	9,706	—	(29)	—	98,159
Non-U.S. government.....	18,806	628	—	—	—	19,434
U.S. corporate.....	2,175,580	86,489	—	(623)	—	2,261,446
Non-U.S. corporate	349,975	14,525	—	(31)	—	364,469
Other asset-backed	919,689	9,923	—	(1,024)	—	928,588
Total available-for-sale fixed maturity securities	<u>\$ 3,643,347</u>	<u>\$ 122,806</u>	<u>\$ —</u>	<u>\$ (1,721)</u>	<u>\$ —</u>	<u>\$ 3,764,432</u>

The following table presents the gross unrealized losses and fair values of our fixed maturity securities, aggregated by investment type and length of time that individual fixed maturity securities have been in a continuous unrealized loss position, as of September 30, 2020:

(Dollar amounts in thousands)	Less than 12 months			12 months or more			Total		
	Fair value	Gross unrealized losses	Number of securities	Fair value	Gross unrealized losses	Number of securities	Fair value	Gross unrealized losses	Number of securities
Description of Securities									
Fixed maturity securities:									
State and political subdivisions	\$ 5,335	\$ (15)	3	\$ —	\$ —	—	\$ 5,335	\$ (15)	3
U.S. corporate	134,480	(4,806)	27	2,469	(531)	1	136,949	(5,337)	28
Non-U.S. corporate	79,730	(6,893)	18	—	—	—	79,730	(6,893)	18
Other asset-backed	143,148	(630)	29	23,193	(515)	6	166,341	(1,145)	35
Total for fixed maturity securities in an unrealized loss position	<u>\$ 362,693</u>	<u>\$ (12,344)</u>	<u>77</u>	<u>\$ 25,662</u>	<u>\$ (1,046)</u>	<u>7</u>	<u>\$ 388,355</u>	<u>\$ (13,390)</u>	<u>84</u>
% Below cost:									
<20% Below cost	\$ 353,881	\$ (8,257)	75	\$ 25,662	\$ (1,046)	7	\$ 379,543	\$ (9,303)	82
20%-50% Below cost.....	8,812	(4,087)	2	—	—	—	8,812	(4,087)	2
Total for fixed maturity securities in an unrealized loss position	<u>\$ 362,693</u>	<u>\$ (12,344)</u>	<u>77</u>	<u>\$ 25,662</u>	<u>\$ (1,046)</u>	<u>7</u>	<u>\$ 388,355</u>	<u>\$ (13,390)</u>	<u>84</u>
Investment grade.....	\$ 325,361	\$ (6,804)	65	\$ 23,193	\$ (515)	6	\$ 348,554	\$ (7,319)	71
Below investment grade	37,332	(5,540)	12	2,469	(531)	1	39,801	(6,071)	13
Total for fixed maturity securities in an unrealized loss position	<u>\$ 362,693</u>	<u>\$ (12,344)</u>	<u>77</u>	<u>\$ 25,662</u>	<u>\$ (1,046)</u>	<u>7</u>	<u>\$ 388,355</u>	<u>\$ (13,390)</u>	<u>84</u>

We did not recognize any other-than-temporary impairments on securities in an unrealized loss position. Based on a qualitative and quantitative review of the issuers of the securities, we believe the decline in fair value is largely due to recent market volatility and is not indicative of other-than-temporary impairment. The issuers continue to make timely principal and interest payments. For all securities in an unrealized loss position, we expect to recover the amortized cost based on our estimate of the amount and timing of cash flows to be collected. We do not intend to sell nor do we expect that we will be required to sell these securities prior to recovering our amortized cost.

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**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)**

The following table presents the gross unrealized losses and fair values of our fixed maturity securities, aggregated by investment type and length of time that individual fixed maturity securities have been in a continuous unrealized loss position, as of December 31, 2019:

(Dollar amounts in thousands)	Less than 12 months			12 months or more			Total		
	Fair value	Gross unrealized losses	Number of securities	Fair value	Gross unrealized losses	Number of securities	Fair value	Gross unrealized losses	Number of securities
Description of Securities									
Fixed maturity securities:									
U.S. government, agencies and government-sponsored enterprises	\$ 1,856	\$ (13)	1	\$ 2,129	\$ (1)	1	\$ 3,985	\$ (14)	2
State and political subdivisions	9,221	(29)	3	—	—	—	9,221	(29)	3
U.S. corporate	57,946	(623)	11	—	—	—	57,946	(623)	11
Non-U.S. corporate	4,976	(6)	1	6,007	(25)	2	10,983	(31)	3
Other asset-backed	169,880	(717)	29	48,759	(307)	13	218,639	(1,024)	42
Total for fixed maturity securities in an unrealized loss position	<u>\$ 243,879</u>	<u>\$ (1,388)</u>	<u>45</u>	<u>\$ 56,895</u>	<u>\$ (333)</u>	<u>16</u>	<u>\$ 300,774</u>	<u>\$ (1,721)</u>	<u>61</u>
% Below cost:									
<20% Below cost	<u>\$ 243,879</u>	<u>\$ (1,388)</u>	<u>45</u>	<u>\$ 56,895</u>	<u>\$ (333)</u>	<u>16</u>	<u>\$ 300,774</u>	<u>\$ (1,721)</u>	<u>61</u>
Total for fixed maturity securities in an unrealized loss position	<u>\$ 243,879</u>	<u>\$ (1,388)</u>	<u>45</u>	<u>\$ 56,895</u>	<u>\$ (333)</u>	<u>16</u>	<u>\$ 300,774</u>	<u>\$ (1,721)</u>	<u>61</u>
Investment grade	\$ 241,261	\$ (1,006)	44	\$ 56,895	\$ (333)	16	\$ 298,156	\$ (1,339)	60
Below investment grade	2,618	(382)	1	—	—	—	2,618	(382)	1
Total for fixed maturity securities in an unrealized loss position	<u>\$ 243,879</u>	<u>\$ (1,388)</u>	<u>45</u>	<u>\$ 56,895</u>	<u>\$ (333)</u>	<u>16</u>	<u>\$ 300,774</u>	<u>\$ (1,721)</u>	<u>61</u>

The scheduled maturity distribution of fixed maturity securities as of September 30, 2020 is set forth below. Actual maturities may differ from contractual maturities because issuers of securities may have the right to call or prepay obligations with or without call or prepayment penalties.

(Amounts in thousands)	Amortized cost or cost	Fair value
Due one year or less	\$ 179,912	\$ 181,589
Due after one year through five years	1,991,182	2,123,779
Due after five years through ten years	1,302,255	1,379,791
Due after ten years	55,189	58,109
Subtotal	3,528,538	3,743,268
Other asset-backed	1,046,963	1,065,111
Total	<u>\$ 4,575,501</u>	<u>\$ 4,808,379</u>

As of September 30, 2020, securities issued by finance and insurance, consumer—non-cyclical and technology and communications industry groups represented approximately 29%, 18% and 13%, respectively, of our domestic and foreign corporate fixed maturity securities portfolio. No other industry group comprised more than 10% of our investment portfolio.

As of September 30, 2020, we did not hold any fixed maturity securities in any single issuer, other than securities issued or guaranteed by the U.S. government, which exceeded 10% of equity.

GENWORTH MORTGAGE HOLDINGS, INC.

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(e) Investment in Unconsolidated Affiliate

As of September 30, 2019, we held 14.1 million, or approximately 16.4%, of outstanding common shares of Genworth MI Canada Inc. (“Genworth Canada”), a publicly traded company on the Toronto Stock Exchange. We concluded that we had significant influence over Genworth Canada primarily due to board representation, and therefore, classified our investment in Genworth Canada as an equity method investment. We elected to account for the investment in Genworth Canada under the fair value option because the investment had a readily determinable fair value.

On December 12, 2019, we completed the sale of our investment in Genworth Canada to an affiliate of Brookfield Business Partners L.P. (“Brookfield”) and received approximately \$501.8 million in net cash proceeds. We also received cash proceeds from the sale of common shares of Genworth Canada of \$8.4 million during the nine months ended September 30, 2019 related to share repurchases by Genworth Canada.

The fair value of the investment in Genworth Canada was \$499.0 million as of September 30, 2019. The pre-tax change in fair value of the investment in Genworth Canada, including dividends and the sale of common shares, was \$118.8 million during the nine months ended September 30, 2019. This was included within change in fair value of unconsolidated affiliate in the condensed consolidated statements of income, net of provision for income taxes of \$36.9 million during the nine months ended September 30, 2019.

The following table presents summarized statement of income information for our investment in Genworth Canada for the nine months ended September 30, 2019:

(Amounts in thousands)

Revenues.....	\$ 477,088
Expenses	<u>\$ 158,069</u>

(4) Fair Value

Recurring Fair Value Measurements

Fixed Maturity Securities Measured at Fair Value

We have fixed maturity securities, which are carried at fair value. The fair value of fixed maturity securities is estimated primarily based on information derived from third-party pricing services (“pricing services”), internal models and/or broker quotes, which use a market approach, income approach or a combination of the market and income approach depending on the type of instrument and availability of information. In general, a market approach is utilized if there is readily available and relevant market activity for an individual security. In certain cases where market information is not available for a specific security but is available for similar securities, that security is valued using market information for similar securities, which is also a market approach. When market information is not available for a specific security (or similar securities) or is available but such information is less relevant or reliable, an income approach or a combination of a market and income approach is utilized. For securities with optionality, such as call or prepayment features (including asset-backed securities), an income approach may be used. In addition, a combination of the results from market and income approaches may be used to estimate fair value. These valuation techniques may change from period to period, based on the relevance and availability of market data.

Further, while we consider the valuations provided by pricing services and broker quotes to be of high quality, management determines the fair value of our investment securities after considering all relevant and available information.

In general, we first obtain valuations from pricing services. If prices are unavailable for public securities, we obtain broker quotes. For all securities, excluding certain private fixed maturity securities, if neither a pricing service nor broker quotes valuation is available, we determine fair value using internal models. For certain private fixed maturity securities where we do not obtain valuations from pricing services, we utilize an internal model to determine fair value since transactions for similar securities are not readily observable and these securities are not typically valued by pricing services.

Given our understanding of the pricing methodologies and procedures of pricing services, the securities valued by pricing services are typically classified as Level 2 unless we determine the valuation process for a security or group of securities utilizes significant unobservable inputs, which would result in the valuation being classified as Level 3.

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Broker quotes are typically based on an income approach given the lack of available market data. As the valuation typically includes significant unobservable inputs, we classify the securities where fair value is based on our consideration of broker quotes as Level 3 measurements.

For private fixed maturity securities, we utilize an income approach where we obtain public bond spreads and utilize those in an internal model to determine fair value. Other inputs to the model include rating and weighted-average life, as well as sector which is used to assign the spread. We then add an additional premium, which represents an unobservable input, to the public bond spread to adjust for the liquidity and other features of our private placements. We utilize the estimated market yield to discount the expected cash flows of the security to determine fair value. We utilize price caps for securities where the estimated market yield results in a valuation that may exceed the amount that would be received in a market transaction. When a security does not have an external rating, we assign the security an internal rating to determine the appropriate public bond spread that should be utilized in the valuation. While we generally consider the public bond spreads by sector and maturity to be observable inputs, we evaluate the similarities of our private placement with the public bonds, any price caps utilized, liquidity premiums applied, and whether external ratings are available for our private placements to determine whether the spreads utilized would be considered observable inputs. We classify private securities without an external rating or public bond spread as Level 3. In general, a significant increase (decrease) in credit spreads would have resulted in a significant decrease (increase) in the fair value for our fixed maturity securities as of September 30, 2020.

For remaining securities priced using internal models, we determine fair value using an income approach. We maximize the use of observable inputs but typically utilize significant unobservable inputs to determine fair value. Accordingly, the valuations are typically classified as Level 3.

Our assessment of whether or not there were significant unobservable inputs related to fixed maturity securities was based on our observations obtained through the course of managing our investment portfolio, including interaction with other market participants, observations related to the availability and consistency of pricing and/or rating, and understanding of general market activity such as new issuance and the level of secondary market trading for a class of securities. Additionally, we considered data obtained from pricing services to determine whether our estimated values incorporate significant unobservable inputs that would result in the valuation being classified as Level 3.

A summary of the inputs used for our fixed maturity securities based on the level in which instruments are classified is included below. We have combined certain classes of instruments together as the nature of the inputs is similar.

Level 1 measurements

There were no fixed maturity securities classified as Level 1 as of September 30, 2020 and December 31, 2019.

Level 2 measurements

Third-party pricing services

In estimating the fair value of fixed maturity securities, approximately 91% of our portfolio was priced using third-party pricing services as of September 30, 2020. These pricing services utilize industry-standard valuation techniques that include market-based approaches, income-based approaches, a combination of market-based and income-based approaches or other proprietary, internally generated models as part of the valuation processes. These third-party pricing vendors maximize the use of publicly available data inputs to generate valuations for each asset class. Priority and type of inputs used may change frequently as certain inputs may be more direct drivers of valuation at the time of pricing. Examples of significant inputs incorporated by pricing services may include sector and issuer spreads, seasoning, capital structure, security optionality, collateral data, prepayment assumptions, default assumptions, delinquencies, debt covenants, benchmark yields, trade data, dealer quotes, credit ratings, maturity and weighted-average life. We conduct regular meetings with our pricing services for the purpose of understanding the methodologies, techniques and inputs used by the third-party pricing providers.

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The following table presents a summary of the significant inputs used by our pricing services for certain fair value measurements of fixed maturity securities that are classified as Level 2 as of September 30, 2020:

<u>(Amounts in thousands)</u>	<u>Fair value</u>	<u>Primary methodologies</u>	<u>Significant inputs</u>
U.S. government, agencies and government-sponsored enterprises	\$ 73,199	Price quotes from trading desk, broker feeds	Bid side prices, trade prices, Option Adjusted Spread ("OAS") to swap curve, Bond Market Association OAS, Treasury Curve, Agency Bullet Curve, maturity to issuer spread
State and political subdivisions..	\$ 174,908	Multi-dimensional attribute-based modeling systems, third-party pricing vendors	Trade prices, material event notices, Municipal Market Data benchmark yields, broker quotes
Non-U.S. government	\$ 30,843	Matrix pricing, spread priced to benchmark curves, price quotes from market makers	Benchmark yields, trade prices, broker quotes, comparative transactions, issuer spreads, bid-offer spread, market research publications, third-party pricing sources
U.S. corporate	\$ 2,604,699	Multi-dimensional attribute-based modeling systems, broker quotes, price quotes from market makers, internal models, OAS-based models	Bid side prices to Treasury Curve, Issuer Curve, which includes sector, quality, duration, OAS percentage and change for spread matrix, trade prices, comparative transactions, Trade Reporting and Compliance Engine ("TRACE") reports
Non-U.S. corporate	\$ 453,094	Multi-dimensional attribute-based modeling systems, OAS-based models, price quotes from market makers	Benchmark yields, trade prices, broker quotes, comparative transactions, issuer spreads, bid-offer spread, market research publications, third-party pricing sources
Other asset-backed	\$ 1,037,303	Multi-dimensional attribute-based modeling systems, spread matrix priced to swap curves, price quotes from market makers	Spreads to daily updated swap curves, spreads derived from trade prices and broker quotes, bid side prices, new issue data, collateral performance, analysis of prepayment speeds, cash flows, collateral loss analytics, historical issue analysis, trade data from market makers, TRACE reports

Internal models

A portion of our U.S. corporate and non-U.S. corporate securities are valued using internal models. The fair value of these fixed maturity securities was \$132.6 million and \$45.0 million, respectively, as of September 30, 2020. Internally modeled securities are primarily private fixed maturity securities where we use market observable inputs such as an interest rate yield curve, published credit spreads for similar securities based on the external ratings of the instrument and related industry sector of the issuer. Additionally, we may apply certain price caps and liquidity premiums in the valuation of private fixed maturity securities. Price caps and liquidity premiums are established using inputs from market participants.

Level 3 measurements

Broker quotes

A portion of our U.S. corporate, non-U.S. corporate and other asset-backed securities are valued using broker quotes. Broker quotes are obtained from third-party providers that have current market knowledge to provide a reasonable price for securities not routinely priced by pricing services. Brokers utilized for valuation of assets are reviewed annually. The fair value of our Level 3 fixed maturity securities priced by broker quotes was \$72.2 million as of September 30, 2020.

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Internal models

A portion of our U.S. corporate, non-U.S. corporate and other asset-backed securities are valued using internal models. The primary inputs to the valuation of the bond population include quoted prices for identical assets, or similar assets in markets that are not active, contractual cash flows, duration, call provisions, issuer rating, benchmark yields and credit spreads. Certain private fixed maturity securities are valued using an internal model using market observable inputs such as the interest rate yield curve, as well as published credit spreads for similar securities, which includes significant unobservable inputs. Additionally, we may apply certain price caps and liquidity premiums in the valuation of private fixed maturity securities. Price caps are established using inputs from market participants. For structured securities, the primary inputs to the valuation include quoted prices for identical assets, or similar assets in markets that are not active, contractual cash flows, weighted-average coupon, weighted-average maturity, issuer rating, structure of the security, expected prepayment speeds and volumes, collateral type, current and forecasted loss severity, average delinquency rates, vintage of the loans, geographic region, debt service coverage ratios, payment priority with the tranche, benchmark yields and credit spreads. The fair value of our Level 3 fixed maturity securities priced using internal models was \$184.5 million as of September 30, 2020.

The following tables set forth our assets by class of instrument that are measured at fair value on a recurring basis as of the dates indicated:

<u>(Amounts in thousands)</u>	September 30, 2020			
	Total	Level 1	Level 2	Level 3
Assets				
Investments:				
Fixed maturity securities:				
U.S. government, agencies and government-sponsored enterprises	\$ 73,199	\$ —	\$ 73,199	\$ —
State and political subdivisions	174,908	—	174,908	—
Non-U.S. government.....	30,843	—	30,843	—
U.S. corporate.....	2,864,792	—	2,737,300	127,492
Non-U.S. corporate.....	599,526	—	498,081	101,445
Other asset-backed.....	1,065,111	—	1,037,303	27,808
Total fixed maturity securities	4,808,379	—	4,551,634	256,745
Total assets.....	\$ 4,808,379	\$ —	\$ 4,551,634	\$ 256,745

<u>(Amounts in thousands)</u>	December 31, 2019			
	Total	Level 1	Level 2	Level 3
Assets				
Investments:				
Fixed maturity securities:				
U.S. government, agencies and government-sponsored enterprises	\$ 92,336	\$ —	\$ 92,336	\$ —
State and political subdivisions	98,159	—	98,159	—
Non-U.S. government.....	19,434	—	19,434	—
U.S. corporate.....	2,261,446	—	2,161,584	99,862
Non-U.S. corporate.....	364,469	—	287,280	77,189
Other asset-backed.....	928,588	—	924,550	4,038
Total fixed maturity securities	3,764,432	—	3,583,343	181,089
Total assets.....	\$ 3,764,432	\$ —	\$ 3,583,343	\$ 181,089

We did not have any liabilities recorded at fair value as of September 30, 2020 and December 31, 2019.

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The following tables present additional information about assets measured at fair value on a recurring basis and for which we have utilized significant unobservable (Level 3) inputs to determine fair value as of or for the dates indicated:

(Amounts in thousands)	Beginning balance as of January 1, 2020	Total realized and unrealized gains (losses)		Purchases	Sales	Issuances	Settlements	Transfer into Level 3 ⁽¹⁾	Transfer out of Level 3 ⁽¹⁾	Ending balance as of September 30, 2020	Total gains (losses) attributable to assets still held	
		Included in net income	Included in OCI								Included in net income	Included in OCI
Fixed maturity securities:												
U.S. corporate	\$ 99,862	\$ 193	\$ 3,120	\$ 46,553	\$ —	\$ —	\$ (5,333)	\$ 5,016	\$ (21,919)	\$ 127,492	\$ (73)	\$ 4,330
Non-U.S. corporate	77,189	(14)	(1,987)	25,000	—	—	(981)	23,468	(21,230)	101,445	(14)	(3,278)
Other asset-backed	4,038	—	(69)	29,867	—	—	(1,182)	—	(4,846)	27,808	—	(185)
Total fixed maturity securities ..	181,089	179	1,064	101,420	—	—	(7,496)	28,484	(47,995)	256,745	(87)	867
Total Level 3 assets.....	\$ 181,089	\$ 179	\$ 1,064	\$ 101,420	\$ —	\$ —	\$ (7,496)	\$ 28,484	\$ (47,995)	\$ 256,745	\$ (87)	\$ 867

⁽¹⁾ The transfers into and out of Level 3 for fixed maturity securities were related to changes in the primary pricing source and changes in the observability of external information used in determining the fair value, such as external ratings or credit spreads.

(Amounts in thousands)	Beginning balance as of January 1, 2019	Total realized and unrealized gains (losses)		Purchases	Sales	Issuances	Settlements	Transfer into Level 3 ⁽¹⁾	Transfer out of Level 3 ⁽¹⁾	Ending balance as of September 30, 2019	Total gains (losses) included in net income attributable to assets still held	
		Included in net income	Included in OCI								Included in net income	Included in OCI
Fixed maturity securities:												
U.S. corporate	\$ 76,532	\$ (71)	\$ 4,739	\$ 21,000	\$ —	\$ —	\$ (13,611)	\$ 5,341	\$ (5,298)	\$ 88,632	\$ (71)	\$ (71)
Non-U.S. corporate	65,534	(13)	4,969	4,000	—	—	(316)	—	—	74,174	(14)	(14)
Other asset-backed	3,930	—	483	16,797	—	—	(508)	—	(16,671)	4,031	—	—
Total fixed maturity securities ...	145,996	(84)	10,191	41,797	—	—	(14,435)	5,341	(21,969)	166,837	(85)	(85)
Total Level 3 assets.....	\$ 145,996	\$ (84)	\$ 10,191	\$ 41,797	\$ —	\$ —	\$ (14,435)	\$ 5,341	\$ (21,969)	\$ 166,837	\$ (85)	\$ (85)

⁽¹⁾ The transfers into and out of Level 3 for fixed maturity securities were related to changes in the primary pricing source and changes in the observability of external information used in determining the fair value, such as external ratings or credit spreads.

The following table presents the gains and losses included in net income from assets measured at fair value on a recurring basis and for which we have utilized significant unobservable (Level 3) inputs to determine fair value and the related income statement line item in which these gains and losses were presented for the nine months ended September 30:

(Amounts in thousands)	2020	2019
Total realized and unrealized gains (losses) included in net income:		
Net investment income.....	\$ 179	\$ (84)
Net investment gains (losses)	—	—
Total.....	\$ 179	\$ (84)
Total gains (losses) included in net income attributable to assets still held:		
Net investment income.....	\$ (87)	\$ (85)
Net investment gains (losses)	—	—
Total.....	\$ (87)	\$ (85)

The amount presented for realized and unrealized gains (losses) included in net income for fixed maturity securities primarily represents amortization and accretion of premiums and discounts on certain fixed maturity securities.

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The following table presents a summary of the significant unobservable inputs used for certain asset fair value measurements that are based on internal models and classified as Level 3 as of September 30, 2020:

(Amounts in thousands)	Valuation technique	Fair value	Unobservable input	Range	Weighted-average ⁽¹⁾
Assets					
Fixed maturity securities:					
U.S. corporate	Internal models	\$ 123,270	Credit spreads	78bps - 199bps	123bps
Non-U.S. corporate	Internal models	\$ 58,463	Credit spreads	89bps - 199bps	150bps

⁽¹⁾ Unobservable inputs weighted by the relative fair value of the associated instrument.

Certain classes of instruments classified as Level 3 are excluded above as a result of not being material or due to limitations in being able to obtain the underlying inputs used by certain third-party sources, such as broker quotes, used as an input in determining fair value.

Liabilities Not Required to Be Carried at Fair Value

The following table provides fair value information for financial instruments that are reflected in the accompanying unaudited condensed consolidated financial statements at amounts other than fair value. We have certain financial instruments that are not recorded at fair value, including cash and cash equivalents and accrued investment income, the carrying value of which approximate fair value due to the short-term nature of these instruments and are not included in this disclosure.

The following represents our estimated fair value of financial liabilities not required to be carried at fair value, classified as Level 2, as of September 30, 2020:

(Amounts in thousands)	Carrying amount	Fair value
Long-term borrowings	\$ 737,622	\$ 774,560

(5) Loss Reserves

The following table sets forth changes in the liability for loss reserves for the nine months ended September 30:

(Amounts in thousands)	2020	2019
Beginning balance.....	\$ 235,062	\$ 297,879
Less reinsurance recoverables and run-off reserves.....	(1,597)	(2,059)
Net beginning balance.....	233,465	295,820
Losses and LAE ⁽¹⁾ incurred:		
Current accident year	281,621	81,925
Prior accident years.....	10,222	(42,714)
Total incurred ⁽²⁾	291,843	39,211
Losses and LAE paid:		
Current accident year	(1,130)	(1,076)
Prior accident years.....	(49,889)	(87,008)
Total paid ⁽²⁾	(51,019)	(88,084)
Net ending balance.....	474,289	246,947
Add reinsurance recoverables and run-off reserves	455	2,054
Ending balance.....	\$ 474,744	\$ 249,001

⁽¹⁾ Loss adjustment expenses.

⁽²⁾ Incurred losses and paid claims exclude amounts related to our run-off business.

The liability for loss reserves represents our current best estimate; however, there may be future adjustments to this estimate and related assumptions. Such adjustments, reflecting any variety of new and adverse trends, could possibly be significant, and result in future increases to reserves by amounts that could be material to our results of operations, financial condition and liquidity.

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Losses incurred related to insured events of the current accident year relate to defaults that occurred in that year and represent the estimated ultimate amount of losses to be paid on such defaults. Losses incurred related to insured events of prior accident years represent the (favorable) or unfavorable development of reserves as a result of actual claim rates and claim amounts being different than those we estimated when originally establishing the reserves. Such estimates are based on our historical experience, which we believe is representative of expected future losses at the time of estimation. As a result of the extended period of time that may exist between the reporting of a delinquency and the claim payment, as well as changes in economic conditions and the real estate market, significant uncertainty and variability exist on amounts ultimately paid.

For the nine months ended September 30, 2020, losses and LAE incurred of \$281.6 million related to insured events of the current accident year was primarily attributable to a significant increase in the number of new delinquencies driven mostly by borrower forbearance as a result of COVID-19. When establishing loss reserves for borrower forbearance, we assume a lower rate of delinquencies becoming active claims, which has the effect of producing a lower reserve compared to delinquencies that are not in forbearance. Historical experience with localized natural disasters, such as hurricanes, indicates a higher cure rate for borrowers in forbearance. As COVID-19 is an ongoing health crisis, unlike a hurricane that occurs at a point in time with the rebuild starting soon afterward, our prior hurricane experience was one consideration, among many, in the establishment of loss reserves. Loss reserves recorded on these new delinquencies have a high degree of estimation due to the level of uncertainty regarding whether delinquencies in forbearance will ultimately cure or result in claim payments. We also strengthened reserves on existing delinquencies related to insured events of the current and prior accident years primarily due to a deterioration in early cure emergence patterns and modest increases to claim severity.

For the nine months ended September 30, 2019, the favorable development of \$42.7 million related to insured events of prior accident years was primarily attributable to lower actual claim rates due to improvements in the overall housing market and higher than expected delinquency cures.

(6) Reinsurance

We reinsure a portion of our policy risks to other companies in order to reduce our ultimate losses, diversify our exposures and comply with regulatory requirements. We also assume certain policy risks written by other companies.

Reinsurance does not relieve us from our obligations to policyholders. In the event that the reinsurers are unable to meet their obligations, we remain liable for the reinsured claims. We monitor both the financial condition of individual reinsurers and risk concentrations arising from similar geographic regions, activities and economic characteristics of reinsurers to lessen the risk of default by such reinsurers.

The following table sets forth the effects of reinsurance on premiums written and earned for the nine months ended September 30:

(Amounts in thousands)	Written		Earned	
	2020	2019	2020	2019
Direct	\$ 698,628	\$ 624,713	\$ 753,717	\$ 633,638
Assumed	343	487	343	487
Ceded	(33,586)	(15,042)	(33,586)	(15,042)
Net premiums.....	\$ 665,385	\$ 610,158	\$ 720,474	\$ 619,083
Percentage of amount assumed to net			—%	0.1 %

The difference of \$55.1 million between written premiums of \$665.4 million and earned premiums of \$720.5 million represents the decrease in unearned premiums for the nine months ended September 30, 2020. The decrease in unearned premiums was mainly the result of an increase in policy cancellations in our single premium mortgage insurance product driven by low interest rates and higher mortgage refinancing which resulted in lower persistency in the current year.

Excess of loss reinsurance treaties

Effective April 1, 2020, we executed an excess of loss reinsurance transaction with a panel of reinsurers covering a portion of the loss tier on subject loans written between book years 2009 and 2019 to help mitigate higher levels of delinquencies as a result of

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COVID-19. Under this reinsurance transaction we ceded premiums of approximately \$9.0 million for the nine months ended September 30, 2020.

Effective January 1, 2020, we executed an excess of loss reinsurance transaction with a panel of reinsurers covering a portion of the loss tier on current and expected new insurance written for the 2020 book year. Under this reinsurance transaction we ceded premiums of approximately \$3.2 million for the nine months ended September 30, 2020. We have also entered into excess of loss reinsurance agreements with other external panels of reinsurers covering our 2016 through 2019 books of business.

On November 25, 2019, we obtained \$302.8 million of excess of loss reinsurance coverage with Triangle Re 2019-1 Ltd. (“Triangle Re 2019”), on a portfolio of existing mortgage insurance policies written from January 2019 through September 2019. The excess of loss reinsurance coverage is fully collateralized by a reinsurance trust agreement that provides that the trust assets may only be invested in (i) money market funds; (ii) U.S. treasury securities; and (iii) uninvested cash. In connection with entering into the reinsurance agreement with Triangle Re 2019, we concluded that the risk transfer requirements for reinsurance accounting were met as Triangle Re 2019 is assuming significant insurance risk and a reasonable possibility of significant loss. Triangle Re 2019 is a variable interest entity (“VIE”) and special purpose insurer domiciled in Bermuda. For the reinsurance coverage, we retain the first layer of aggregate losses up to \$237.7 million. Triangle Re 2019 and other reinsurers provide 95% reinsurance coverage for losses above our retained first layer up to \$713.0 million of total losses. We are responsible for losses on the portfolio above the reinsurance coverage amount of \$713.0 million.

Premiums ceded under all these reinsurance agreements were \$33.6 million and \$15.0 million for the nine months ended September 30, 2020 and 2019, respectively.

On October 22, 2020, we obtained \$349.6 million of excess of loss reinsurance coverage from Triangle Re 2020-1 Ltd. (“Triangle Re 2020”) on a portfolio of existing mortgage insurance policies written from January 2020 through August 2020. In connection with entering into the reinsurance agreement with Triangle Re 2020, we believe that the risk transfer requirements for reinsurance accounting were met as Triangle Re 2020 is assuming significant insurance risk and a reasonable possibility of significant loss. Triangle Re 2020 is a VIE and special purpose insurer domiciled in Bermuda and financed the reinsurance coverage by issuing mortgage insurance-linked notes to unaffiliated investors. The notes are non-recourse to us and our affiliates. The excess of loss reinsurance coverage is fully collateralized by a reinsurance trust account which requires funds received by the trust to be invested in eligible investments in accordance with the reinsurance trust agreement. The collateralized trust serves to cover reinsurance obligations if losses exceed our first loss tier. For the reinsurance coverage, we retain the first layer of aggregate losses up to \$521.8 million. Triangle Re 2020 provides 67% reinsurance coverage for losses above our retained first layer up to \$349.6 million.

(7) Borrowings

On August 21, 2020, we issued \$750 million aggregate principal amount of 6.500% senior notes due 2025. We incurred \$12.6 million of borrowing costs that were deferred and were netted against the principal amount of the notes. Interest on the notes is payable semi-annually in arrears on February 15 and August 15 of each year, commencing on February 15, 2021. These notes mature on August 15, 2025. We may redeem the notes, in whole or in part, at any time prior to February 15, 2025 at our option, by paying a make-whole premium, plus accrued and unpaid interest, if any. At any time on or after February 15, 2025, we may redeem the notes, in whole or in part, at our option, at 100% of the principal amount, plus accrued and unpaid interest. The notes contain customary events of default, which subject to certain notice and cure conditions, can result in the acceleration of the principal and accrued interest on the outstanding notes if we breach the terms of the indenture.

We committed to retain \$300 million of the net proceeds from the issuance of these notes for general corporate purposes, including to pay interest on the notes, and for potential capital contributions to support GMICO. We paid a dividend of \$435.7 million to Genworth from the net proceeds of the offering. The amount and timing of future dividends will depend on the economic recovery from COVID-19, among other factors.

(8) Income Taxes

We compute the provision for income taxes on a separate return with benefits for loss method. If during the nine months ended September 30, 2020, we had computed taxes using the separate return method, the provision for income taxes would have been unchanged.

GENWORTH MORTGAGE HOLDINGS, INC.

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)**

(9) Related Party Transactions

We have various agreements with Genworth that provide for reimbursement to and from Genworth of certain administrative and operating expenses that include, but are not limited to, information technology services and administrative services (such as finance, human resources, employee benefit administration and legal). These agreements provide for an allocation of corporate expenses to all Genworth businesses or subsidiaries. We incurred costs for these services of \$35.1 million and \$26.7 million for the nine months ended September 30, 2020 and 2019, respectively.

Our investment portfolio is managed by Genworth. Under the terms of the investment management agreement we are charged a fee by Genworth. All fees paid to Genworth are charged to investment expense and are included in net investment income in the condensed consolidated statements of income. The total investment expenses paid to Genworth were \$3.9 million and \$3.2 million for the nine months ended September 30, 2020 and 2019, respectively.

Our employees participate in certain benefit plans sponsored by Genworth and certain share-based compensation plans that utilize shares of Genworth common stock and other incentive plans.

We provide certain information technology and administrative services (such as facilities and maintenance) to Genworth. We charged Genworth \$1.1 million and \$1.2 million for these services for the nine months ended September 30, 2020 and 2019, respectively.

We held an investment in common shares of Genworth Canada as of September 30, 2019. Genworth Canada was consolidated within Genworth until its sale on December 12, 2019. We received dividends from Genworth Canada of \$20.7 million during the nine months ended September 30, 2019, which is included within change in fair value of unconsolidated affiliate, net of taxes in the condensed consolidated statements of income. Refer to Note 3 for further information.

We have a tax sharing agreement in place with Genworth, such that we participate in a single U.S. consolidated income tax return filing. All intercompany balances related to this agreement are settled at least annually.

The condensed consolidated financial statements include the following amounts due to and from Genworth relating to recurring service and expense agreements as of September 30:

<u>(Amounts in thousands)</u>	<u>2020</u>	<u>2019</u>
Amounts payable to Genworth	\$ 9,588	\$ 9,001
Amounts receivable from Genworth	\$ 1,318	\$ 801

(10) Changes in Accumulated Other Comprehensive Income (Loss)

The following tables show the changes in accumulated other comprehensive income (loss), net of taxes, by component as of and for the periods indicated:

<u>(Amounts in thousands)</u>	<u>Net unrealized investment gains (losses)</u>	<u>Total</u>
Balance as of January 1, 2020.....	\$ 93,431	\$ 93,431
OCI before reclassifications.....	88,759	88,759
Amounts reclassified from (to) OCI	1,557	1,557
Current period OCI	90,316	90,316
Balance as of September 30, 2020	<u>\$ 183,747</u>	<u>\$ 183,747</u>

GENWORTH MORTGAGE HOLDINGS, INC.

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)**

<u>(Amounts in thousands)</u>	<u>Net unrealized investment gains (losses)</u>	<u>Total</u>
Balance as of January 1, 2019.....	\$ (26,522)	\$ (26,522)
OCI before reclassifications.....	118,931	118,931
Amounts reclassified from (to) OCI	(153)	(153)
Current period OCI	118,778	118,778
Balance as of September 30, 2019	<u>\$ 92,256</u>	<u>\$ 92,256</u>

The following table shows reclassifications in (out) of accumulated other comprehensive income (loss), net of taxes, for the nine months ended September 30:

<u>(Amounts in thousands)</u>	<u>Amount reclassified from accumulated other comprehensive income (loss)</u>		<u>Affected line item in the condensed consolidated statements of income</u>
	<u>2020</u>	<u>2019</u>	
Net unrealized investment (gains) losses:			
Unrealized (gains) losses on investments	\$ 1,971	\$ (194)	Net investment (gains) losses
Income taxes	(414)	41	Provision for income taxes
Total	<u>\$ 1,557</u>	<u>\$ (153)</u>	

Management’s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of our consolidated financial condition and results of operations should be read in conjunction with our unaudited condensed consolidated financial statements and related notes for the nine months ended September 30, 2020 and 2019 included herein and with our audited consolidated financial statements and related notes for the years ended December 31, 2019 and 2018 issued on August 19, 2020. This discussion includes forward-looking statements and involves numerous risks, uncertainties and assumptions that could cause actual results to differ materially from management’s expectations, all of which may be exacerbated by the coronavirus pandemic (“COVID-19”). Factors that could cause such differences are discussed in this section. For additional information, refer to the sections entitled “Industry and Market Data,” “Forward-Looking Statements” and “Risk Factors” in the Business and Financial Disclosures of Genworth Mortgage Holdings, Inc. dated August 19, 2020. We are not undertaking any obligation to update any forward-looking statements or other statements we may make in the following discussion even though these statements may be affected by events or circumstances occurring after the forward-looking statements or other statements were made. Future results could differ significantly from the historical results presented in this section. References to Genworth Mortgage Holdings, Inc. (“GMHI”), the “Company,” “we” or “our” herein are, unless the context otherwise requires, to GMHI on a consolidated basis.

Key Factors Affecting Our Results

There have been no material changes to the factors affecting our results other than the impact of COVID-19 as discussed below in “—Trends and Conditions.”

Trends and Conditions

The United States economy and consumer confidence improved in the third quarter of 2020 compared to the second quarter of 2020 as state economies reopened; however, certain geographies and industries have experienced slower recoveries because of the virus, the mitigation steps taken to control its spread or changed consumer behavior. The unemployment rate decreased to 7.9% in September 2020 after reaching a peak of 14.7% in April 2020. The economy remains weak compared to pre-COVID-19. Even after the recovery in the third quarter of 2020, the number of unemployed Americans stands at approximately 12.6 million, which is 6.8 million higher than February 2020. Among the unemployed, those on temporary layoff continued to decrease to 4.6 million from a peak of 18.1 million in April 2020, but the number of permanent job losses increased to 3.8 million. In addition, the number of long term unemployed over 26 weeks increased to 2.4 million. Specific to housing, mortgage origination activity remained robust in the third quarter of 2020 fueled by refinance activity and a strong surge in home sales. Refinance activity remained robust but relatively flat as compared to the second quarter of 2020. After experiencing a slowdown in sales during the second quarter of 2020, the purchase market improved in the third quarter of 2020 with sales of previously owned homes increasing 37% compared to the second quarter of 2020 and inventories declined from 4.1 months to 3.3 months. The pandemic continued to affect our financial results in the third quarter of 2020 but to a lesser extent than the second quarter of 2020 as primarily evidenced by the elevated, but declining, servicer reported forbearance and new delinquencies during the third quarter of 2020.

The impact of the COVID-19 pandemic on our future business results is difficult to predict. We have performed and have periodically revised our scenario planning to help us better understand and tailor our actions to help mitigate the potential adverse effects of the pandemic on our financial results. While our current financial results to date fall within the range of our current scenarios, the ultimate outcomes and impact on our business will depend on the spread and length of the pandemic. Of similar importance will be the amount, type and duration of government stimulus and its impact on borrowers, regulatory and government actions to support housing and the economy, spread mitigating actions to curb the current increase in cases, the possible resurgence of the virus in the future and the shape of economic recovery, all of which are unknown at present. It is difficult to predict how long borrowers will need to use forbearance to assist them during the pandemic. Given that current forbearance plans may be extended up to a year, the resolution of a delinquency in a plan, whether it ultimately results in a cure or a claim, is difficult to estimate and may not be known for several quarters, if not longer. We are continuing to monitor COVID-19 developments, regulatory and government actions, and the potential financial impacts on our business. However, given the specific risks to our business, it is possible the pandemic could have a significant adverse impact on our business, including our results of operations and financial condition.

Specific to housing finance, the Coronavirus Aid, Relief, and Economic Security (“CARES”) Act requires mortgage servicers to provide up to 180 days of deferred or reduced payments (forbearance) for borrowers with a federally backed mortgage loan who assert they have experienced a financial hardship related to COVID-19. Forbearance may be extended for an additional 180 days up to a year in total or shortened at the request of the borrower. Federally backed mortgages include Federal Housing Administration (“FHA”) and U.S. Department of Veterans Affairs (“VA”) backed loans and those purchased by Federal National Mortgage Association (“Fannie Mae”) and Federal Home Loan Mortgage Corporation (“Freddie Mac”). The CARES Act also prohibited foreclosures on all federally backed mortgage loans, except for vacant and abandoned properties, for a 60-day period that began on March 18, 2020. Since the introduction of the CARES Act, the government-sponsored enterprises (“GSEs”) as well as most servicers of non-federally backed mortgage loans have extended similar relief to their respective portfolios of loans. The Federal Housing Finance Agency (“FHFA”)

extended the foreclosure moratorium until at least December 31, 2020 for mortgages that are purchased by Fannie Mae and Freddie Mac. At the conclusion of the forbearance term, a borrower may either bring their loan current, defer any missed payments until the end of their loan, or the loan can be modified through a repayment plan or extension of the mortgage term. Many servicers have updated and improved their reporting to private mortgage insurers for when a loan is covered by forbearance. Servicer reported forbearance slowed meaningfully beginning in June 2020 and ended the third quarter of 2020 with approximately 6.7% or 61,183 of our active primary policies reported in a forbearance plan, of which approximately 63% were reported as delinquent. Forbearance to date has been a leading indicator of future new delinquencies; however, it is difficult to predict the future level of reported forbearance and how many of the policies in a forbearance plan that remain current on their monthly mortgage payment will go delinquent.

The level of mortgage originations requiring private mortgage insurance (“market penetration”) and eventual market size are affected in part by actions that impact housing or housing finance policy taken by the GSEs and the U.S. government, including but not limited to, the FHA and the FHFA. In the past, these actions have included announced changes, or potential changes, to underwriting standards, including changes to the GSEs’ automated underwriting systems, FHA pricing, GSE guaranty fees, loan limits and alternative products, such as those offered through Freddie Mac’s Integrated Mortgage Insurance (“IMAGIN”) and Fannie Mae’s Enterprise Paid Mortgage Insurance (“EPMI”) pilot programs, as well as low down payment programs available through the FHA or GSEs. On May 20, 2020, the FHFA re-proposed the Enterprise Regulatory Capital Framework (“Enterprise Framework”) for Fannie Mae and Freddie Mac. The comment period expired on August 31, 2020. As proposed, the Enterprise Framework would significantly increase regulatory capital requirements for the GSEs over current requirements. If the Enterprise Framework is finalized in its current form, higher capital requirements could ultimately lead to increased costs to borrowers for GSE loans, which in turn could shift the market away from the GSEs to the FHA or lender portfolios. Such a shift could result in a smaller market for private mortgage insurance. For more information about the potential future impact, see “Risk Factors—Risks Relating to Our Business—Changes to the role of the GSEs or to the charters or business practices of the GSEs, including actions or decisions to decrease or discontinue the use of mortgage insurance, could adversely affect our business, results of operations and financial condition” and “Risk Factors—Risks Relating to Our Business—The amount of mortgage insurance we write could decline significantly if alternatives to private mortgage insurance are used or lower coverage levels of mortgage insurance are selected” in the Business and Financial Disclosures of Genworth Mortgage Holdings, Inc. dated August 19, 2020.

Estimated mortgage origination volume increased during the first nine months of 2020 compared to the first nine months of 2019 primarily as lower interest rates resulted in higher refinance origination volumes. The estimated private mortgage insurance available market increased driven by higher refinance originations and higher purchase market penetration. Given the volume to date, we expect mortgage originations to remain strong for the remainder of 2020 fueled by sustained low interest rates driving refinances and by continued strength in the purchase originations market.

Our primary persistency declined to 64% for the nine months ended September 30, 2020 compared to 80% for the nine months ended September 30, 2019. Lower persistency is impacting business performance trends in several ways including, but not limited to, offsetting insurance in-force (“IIF”) growth from new insurance written (“NIW”), elevating single premium policy cancellations along with single premiums earned and accelerating the amortization of our existing reinsurance transactions reducing their associated PMIERs capital credit in the current year.

The U.S. private mortgage insurance industry is highly competitive. There are currently six active mortgage insurers, including us. The majority of our NIW is priced using our proprietary risk-based pricing engine, GenRATE, which provides lenders with a granular approach to pricing for borrowers. All active U.S. mortgage insurers utilize proprietary risk-based pricing engines. Given evolving market dynamics, we expect price competition to remain highly competitive. For more information on the potential impacts due to competition, see “Risk Factors—Risks Relating to Our Business—Competition within the mortgage insurance industry could result in the loss of market share, loss of customers, lower premiums, wider credit guidelines and other changes that could have a material adverse effect on our business, results of operations and financial condition” in the Business and Financial Disclosures of Genworth Mortgage Holdings, Inc. dated August 19, 2020. At the same time, we believe mortgage insurers, including us, consider many variables when pricing their NIW including the prevailing and future macroeconomic conditions. We made pricing adjustments in the third quarter of 2020 taking into account improving market conditions, portfolio performance to date through the pandemic and competitive factors.

New insurance written of \$72.9 billion increased 65% in the nine months ended September 30, 2020 compared to the same period in 2019 primarily due to higher mortgage refinancing originations, a larger private mortgage insurance market and our higher estimated market share. Our market share is influenced by the execution of our go to market strategy, including but not limited to, pricing competitiveness relative to our peers and our selective participation in forward commitment transactions. Our market share remains impacted by the negative ratings differential relative to our competitors, concerns expressed about Genworth Financial, Inc.’s (“Genworth”) financial condition and the proposed transaction with China Oceanwide Holdings Group Co., Ltd (together with its affiliates, “China Oceanwide”). We continue to manage the quality of new business through pricing and our underwriting guidelines, which we modify from time to time when circumstances warrant.

Net earned premiums increased in the nine months ended September 30, 2020 compared to the same period in 2019 primarily from growth in our IIF and from an increase in single premium policy cancellations driven largely by higher mortgage refinancing, partially offset by higher ceded premiums from reinsurance transactions executed in the current year and lower average premium

rates. As a result of COVID-19, we experienced a significant increase in the number of reported delinquent loans during the second and third quarters of 2020 as compared to recent quarters prior to COVID-19. During this time and consistent with prior years, servicers continued the practice of remitting premium during the early stages of default. As a result, we did not experience an impact to earned premiums during the first nine months of 2020. Additionally, we have a business practice of refunding the post-delinquent premiums to the insured party if the delinquent loan goes to claim. We record a liability and a reduction to net earned premiums for the post-delinquent premiums we expect to refund. The post-delinquent premium liability recorded in the second and third quarters of 2020 associated with the increased number of delinquent loans was not significant to the change in earned premiums for the nine months ended September 30, 2020 as a result of the high concentration of new delinquencies being subject to a servicer reported forbearance plan and the lower estimated rates at which delinquencies go to claim (“roll rates”) for these loans. The post-default premium liability increased by \$1.7 million as a result of COVID-19 delinquencies and the total liability for all delinquencies was \$7.7 million as of September 30, 2020. As a result of COVID-19, certain state insurance regulators have issued orders or provided guidance to insurers requiring or requesting the provision of grace periods of varying lengths to insureds in the event of non-payment of premium. Regulators differ greatly in their approaches but generally focus on the avoidance of cancellation of coverage for non-payment. We currently comply with all state regulatory requirements and requests. If timely payment is not made, future premiums could decrease and the certificate of insurance could be subject to cancellation after 60 days, or such longer time as required under applicable law. During the first nine months of 2020, servicers also continued to remit premium on non-delinquent loans and therefore we did not experience a significant change to earned premiums.

While COVID-19 is unique in that it is a sudden, global economic disruption stemming from a health crisis, we have experience with the financial impacts of sudden, unexpected economic events on our business. Prior localized natural disasters, such as hurricanes, have helped inform our view of the severity and potential duration of the economic shock caused by the efforts to contain the spread of COVID-19. Similar to our hurricane experience, borrowers who have experienced a financial hardship including, but not limited to, the loss of income due to the closing of a business or the loss of a job have taken advantage of available forbearance programs and payment deferral options. As a result, we have seen elevated new delinquencies, but as in past natural disasters, those delinquencies may cure at a higher rate than traditional delinquencies should economic activity quickly return to pre-COVID-19 levels. Severity of loss on loans that do go to claim, however, may be negatively impacted by the extended forbearance timeline, the associated elevated expenses such as accumulated interest, the higher loan amount of the recent new delinquencies and home price depreciation, if any. Unlike a hurricane where the natural disaster occurs at a point in time and the rebuild starts soon after, COVID-19 is an ongoing health crisis and we do not know when it will end, making it more difficult to determine the effectiveness of forbearance and the resulting roll rates for new delinquencies in forbearance plans. Given this difference, our prior hurricane experience was relied upon as one consideration, of many, in the establishment of an appropriate roll rate estimate for new delinquencies in forbearance plans that have emerged as a result of COVID-19.

Our losses for the nine months ended September 30, 2020 were \$291 million with an associated loss ratio of 40% as compared to \$39 million of losses and a loss ratio of 6% for the nine months ended September 30, 2019 largely from higher new delinquencies driven primarily by an increase in borrower forbearance as a result of COVID-19 in the current year. We also strengthened reserves on existing delinquencies by an additional \$28 million during the nine months ended September 30, 2020 driven primarily by the deterioration of early cure emergence patterns impacting claim frequency along with a modest increase in claim severity. This reserve strengthening compares to a favorable reserve adjustment of \$10 million in the nine months ended September 30, 2019 mostly associated with lower expected claim rates. In addition, we experienced lower net benefits from cures and aging of existing delinquencies in the current year. New primary delinquencies of 73,151 contributed \$258 million of loss expense for the nine months ended September 30, 2020, of which \$231 million of loss expense in the second and third quarters of 2020 was calculated by applying a blended estimated roll rate between the estimate for existing pre-COVID-19 early stage delinquencies and our past hurricane related roll rates, which were materially lower given the effectiveness of forbearance and government assistance programs. Approximately 85% of our primary new delinquencies during the second and third quarters of 2020 were subject to a forbearance plan as compared to less than 5% in recent quarters prior to COVID-19. For the nine months ended September 30, 2019, we had \$90 million of loss expense from 24,577 new primary delinquencies. Prior to COVID-19, traditional measures of credit quality, such as Fair Isaac Company (“FICO”) score and whether a loan had a prior delinquency were most predictive of new delinquencies. Because the pandemic has affected a broad portion of the population, attribution analysis of COVID-19 new delinquencies revealed that additional factors such as higher debt to income, geographic regions more affected by the virus or with a higher concentration of affected industries, loan size, and servicer process differences rose in significance.

As of September 30, 2020, Genworth Mortgage Insurance Corporation’s (“GMICO”) risk-to-capital ratio under the current regulatory framework as established under North Carolina law and enforced by the North Carolina Department of Insurance (“NCDOI”), GMICO’s domestic insurance regulator, was approximately 12.3:1, compared with a risk-to-capital (“RTC”) ratio of 12.5:1 as of December 31, 2019. GMICO’s risk-to-capital ratio remains below the NCDOI’s maximum risk-to-capital ratio of 25:1. North Carolina’s calculation of risk-to-capital excludes the risk-in-force (“RIF”) for delinquent loans given the established loss reserves against all delinquencies. As a result, we do not expect any immediate, material pressure to GMICO’s risk-to-capital ratio in the short term as a result of COVID-19. GMICO’s ongoing risk-to-capital ratio will depend principally on the magnitude of future losses incurred by GMICO, the effectiveness of ongoing loss mitigation activities, new business volume and profitability, the amount of policy lapses and the amount of additional capital that is generated or distributed by the business or capital support (if any) that we provide.

Under the private mortgage insurer eligibility requirements (“PMIERS”), we are subject to operational and financial requirements that private mortgage insurers must meet in order to remain eligible to insure loans that are purchased by the GSEs. Each approved mortgage insurer is required to provide the GSEs with an annual certification and a quarterly report evidencing its compliance with PMIERS. On June 29, 2020, the GSEs issued guidance amending PMIERS in light of COVID-19 (the “PMIERS Amendment”), which included both temporary and permanent amendments to PMIERS and became effective on June 30, 2020. The GSEs issued a revised and restated version of the PMIERS Amendment on September 11, 2020. With respect to loans that became non-performing due to a COVID-19 hardship, PMIERS was temporarily amended with respect to each non-performing loan that (i) has an initial missed payment occurring on or after March 1, 2020 and prior to January 1, 2021 or (ii) is subject to a forbearance plan granted in response to a COVID-19 hardship, the terms of which are materially consistent with terms of forbearance plans offered by the GSEs. The risk-based required asset amount factor for the non-performing loan will be the greater of (a) the applicable risk-based required asset amount factor for a performing loan were it not delinquent, and (b) the product of a 0.30 multiplier and the applicable risk-based required asset amount factor for a non-performing loan. In the case of (i), absent the loan being subject to a forbearance plan described in (ii) above, the 0.30 multiplier will be applicable for no longer than three calendar months beginning with the month in which the loan became non-performing due to having missed two monthly payments. The PMIERS Amendment also imposes temporary capital preservation provisions through March 31, 2021 that require an approved insurer to obtain prior written GSE approval before paying any dividends, pledging or transferring assets to an affiliate or entering into any new, or altering any existing, arrangements under tax sharing and intercompany expense-sharing agreements, even if such insurer has a surplus of available assets. Lastly, the PMIERS Amendment imposes permanent revisions to the risk-based required asset amount factor for non-performing loans for properties located in future Federal Emergency Management Agency (“FEMA”) Declared Major Disaster Areas eligible for individual assistance.

In September 2020, the GSEs imposed certain restrictions (“GSE Restrictions”) with respect to capital on our business. These restrictions will remain in effect until the later of six quarters or until the following collective (“GSE Conditions”) are met: a) approval of GMICO’s plan to secure additional capital, if needed, b) GMICO obtains “BBB+”/“Baa1” (or higher) rating from S&P, Moody’s or Fitch for two consecutive quarters and c) certain Genworth financial metrics are achieved. Prior to the satisfaction of the GSE Conditions, the GSE Restrictions require:

- GMICO to maintain 115% of PMIERS minimum required assets through 2021, 120% during 2022 and 125% thereafter;
- GMHI to retain \$300 million of its holding company cash that can be drawn down exclusively for its debt service or to contribute to GMICO to meet its regulatory capital needs including PMIERS; and
- written approval must be received from the GSEs prior to any additional debt issuance by either GMICO or GMHI.

As of September 30, 2020, we had estimated available assets of \$4,451 million against \$3,377 million net required assets under PMIERS compared to available assets of \$4,218 million against \$2,943 million net required assets as of June 30, 2020. The estimated sufficiency as of September 30, 2020 was \$1,074 million or 132% above the published PMIERS requirements, compared to \$1,275 million or 143% above the published PMIERS requirements as of June 30, 2020. PMIERS sufficiency is based on the published requirements applicable to private mortgage insurers and does not give effect to the GSE Restrictions recently imposed on our business. The reduction in the published PMIERS sufficiency was driven in part by elevated NIW in the third quarter of 2020, partially offset by elevated lapses driven by prevailing low interest rates. In addition, elevated lapses drove an acceleration of the amortization of our existing reinsurance transactions reducing their PMIERS capital credit in the third quarter of 2020. These factors were partially offset by growth in business cash flows in the third quarter of 2020. In addition, our PMIERS required assets as of September 30, 2020 benefited from the application of a 0.30 multiplier applied to the risk-based required asset amount factor for certain non-performing loans. The application of the 0.30 multiplier to all eligible delinquencies provided \$1,217 million of benefit to our September 30, 2020 PMIERS required assets compared to \$1,057 million benefit as of June 30, 2020.

Our credit risk transfer program provided an estimated aggregate of \$777 million of PMIERS capital credit as of September 30, 2020. On October 22, 2020 we obtained \$350 million of fully collateralized excess of loss reinsurance coverage from Triangle Re 2020-1 Ltd. on a portfolio of existing mortgage insurance policies written from January 2020 through August 2020. For additional details see note 6 to our unaudited condensed consolidated financial statements. If we gave effect to this transaction in the third quarter of 2020, our PMIERS sufficiency would have increased to \$1,424 million or 147% above the published PMIERS requirements. We may execute future credit risk transfer transactions to maintain a prudent level of financial flexibility in excess of the PMIERS capital requirements in response to potential changes in performance and PMIERS requirements over time.

The GSE Restrictions govern the period prior to the close of the planned China Oceanwide transaction. For additional details related to the acquisition of Genworth by China Oceanwide see note 1 to our unaudited condensed consolidated financial statements. The GSEs issued separate conditions and restrictions in September 2020, which place identical restrictions on our business, if the China Oceanwide transaction closes (the “Oceanwide Restrictions”). Specifically, the Oceanwide Restrictions must remain in effect until the later of: a) six quarters after the China Oceanwide transaction closes, b) the conditions in our mitigation agreement with Committee on Foreign Investment in the United States are met and certified, or c) until the GSE Conditions imposed in connection with the GSE Restrictions are met. Prior to the satisfaction of these conditions, the Oceanwide Restrictions contain the same restrictions as the aforementioned GSE Restrictions. However, if China Oceanwide remits the \$1.5 billion contribution to Genworth in

connection with the capital investment plan, GMHI can distribute the \$300 million of its holding company cash held for debt service and GMICO capital needs, less 13.5% of GMHI's then current outstanding debt. Until the GSE Conditions imposed in connection with the GSE Restrictions are met, GMHI's liquidity must not fall below 13.5% of its outstanding debt.

We paid dividends of \$436 million in the third quarter of 2020 generated from the net cash proceeds of the offering of our 6.500% senior notes due 2025 ("2025 Senior Notes"). As a result of the uncertainty regarding the impact of COVID-19 and the recently imposed GSEs' PMIERS Amendment and GSE Restrictions on our business, we intend to preserve PMIERS available assets. Accordingly, we intend to defer the payment of additional dividends in 2020. The amount and timing of future dividends will depend on the economic recovery from COVID-19, among other factors.

Pursuant to its authority under the Dodd-Frank Wall Street Reform and Consumer Protection Act, the Consumer Financial Protection Bureau ("CFPB") issued regulations (the "QM Rule") that became effective on January 10, 2014, establishing underwriting and product feature requirements for mortgages to be deemed Qualified Mortgages ("QM"). The regulations also include a temporary category (the "QM Patch") for mortgages that comply with certain prohibitions and limitations and meet the GSE underwriting and product guidelines. Mortgages that meet these requirements are deemed to be QMs until the earlier of the time in which the GSEs exit FHFA conservatorship or January 10, 2021. The QM Patch permits loans that exceed a debt to income ratio of 43% to be eligible for QM status. Many of the loans that qualify under the QM Patch require credit enhancement, of which private mortgage insurance is the predominate form of coverage. On June 22, 2020, the CFPB issued two Notices of Proposed Rulemaking seeking comments on proposed amendments to its QM regulations, and they extended the QM Patch until the earlier of the effective date of the revised QM Rule (which is not expected to occur prior to April 1, 2021) or when the GSEs exit conservatorship. The comment periods ended on August 10, 2020 and September 8, 2020, respectively. On October 20, 2020, the CFPB issued a final rule extending the QM Patch until the compliance date for the final QM Rule. It is too early to determine what the final QM Rule will include, when or if it will become effective or the impact it will have on our business. On August 18, 2020, the CFPB issued an additional Notice of Proposed Rulemaking adding a "seasoning" approach to the QM "safe harbor." The proposed rule exempts lenders from liability when they make a reasonable, good faith determination of a consumer's ability to repay any non-QM that has experienced minimal delinquencies within the first three years after origination prior to approving the underwriting.

Results of Operations and Key Metrics

Results of Operations

Nine Months Ended September 30, 2020 Compared to Nine Months Ended September 30, 2019

The following table sets forth our consolidated results for the periods indicated:

(Amounts in thousands)	Nine months ended September 30,		Increase (decrease) and percentage change	
	2020	2019	2020 vs. 2019	
Revenues:				
Premiums	\$ 720,474	\$ 619,083	\$ 101,391	16 %
Net investment income	97,890	86,900	10,990	13 %
Net investment gains (losses).....	(1,953)	174	(2,127)	(1,222)%
Other income.....	4,534	3,209	1,325	41 %
Total revenues	820,945	709,366	111,579	16 %
Losses and expenses:				
Losses incurred	290,785	39,288	251,497	640 %
Acquisition and operating expenses, net of deferrals.....	155,473	141,977	13,496	10 %
Amortization of deferred acquisition costs and intangibles	11,453	11,415	38	— %
Interest expense.....	5,512	—	5,512	NM ⁽¹⁾
Total losses and expenses	463,223	192,680	270,543	140 %
Income before income taxes and change in fair value of				
unconsolidated affiliate	357,722	516,686	(158,964)	(31)%
Provision for income taxes.....	78,482	110,774	(32,292)	(29)%
Income before change in fair value of unconsolidated affiliate	279,240	405,912	(126,672)	(31)%
Change in fair value of unconsolidated affiliate, net of taxes	—	81,929	(81,929)	(100)%
Net income	\$ 279,240	\$ 487,841	\$ (208,601)	(43)%
Loss ratio ⁽²⁾	40 %	6 %		
Expense ratio (net earned premiums) ⁽³⁾	23 %	25 %		

⁽¹⁾ Not measurable.

⁽²⁾ Loss ratio is calculated by dividing losses incurred by net earned premiums.

⁽³⁾ Expense ratio (net earned premiums) is calculated by dividing acquisition and operating expenses, net of deferrals, plus amortization of DAC and intangibles by net earned premiums.

Revenues

Premiums increased mainly attributable to higher IIF and an increase in policy cancellations in our single premium mortgage insurance product driven largely by higher mortgage refinancing, partially offset by higher ceded premiums from reinsurance transactions executed in the current year and lower average premium rates.

Net investment income increased primarily from higher average invested assets in the current year mainly driven by the purchase of fixed maturity securities using net proceeds from the sale of Genworth MI Canada Inc. (“Genworth Canada”) in December 2019.

Net investment losses in the current year were primarily driven by other-than-temporary impairments related to U.S. corporate available-for-sale fixed maturity securities and realized losses from the sale of fixed maturity securities. Net investment gains in the prior year were largely from realized gains from the sale of fixed maturity securities.

Other income primarily includes underwriting fee revenue charged on a per-unit or per-diem basis, as defined in the underwriting agreement. Other income increased primarily due to higher contract underwriting revenue mainly from a larger mortgage insurance market in the current year.

Losses and expenses

Losses incurred increased largely from \$258 million of losses from new delinquencies driven primarily by a significant increase in borrower forbearance as a result of COVID-19 and strengthening of existing reserves of \$28 million in the current year primarily driven by the deterioration of early cure emergence patterns impacting claim frequency along with a modest increase in claim severity. We also experienced lower net benefits from cures and aging of existing delinquencies in the current year. The prior year included a \$10 million favorable reserve adjustment mostly associated with lower expected claim rates.

The following table shows incurred losses related to current and prior accident years for the nine months ended September 30:

<u>(Amounts in thousands)</u>	<u>2020</u>	<u>2019</u>
Losses and LAE ⁽¹⁾ incurred related to current accident year	\$ 281,621	\$ 81,925
Losses and LAE incurred related to prior accident years.....	10,222	(42,714)
Total incurred ⁽²⁾	<u>\$ 291,843</u>	<u>\$ 39,211</u>

⁽¹⁾ Loss adjustment expenses.

⁽²⁾ Excludes run-off insurance block with reference properties in Mexico (“run-off business”).

Acquisition and operating expenses, net of deferrals, increased primarily attributable to higher costs allocated by Genworth, our indirect parent company (“Parent”), an increase in acquisition costs mainly driven by increased NIW and higher information technology and other operating expenses in the current year.

Our expense ratio (net earned premiums) decreased primarily from higher net earned premiums, partially offset by higher operating costs in the current year.

Interest expense in the current year relates to our 2025 Senior Notes issued in August 2020. For additional details see note 7 to our unaudited condensed consolidated financial statements.

Provision for income taxes

The effective tax rate was 21.9% and 21.4% for the nine months ended September 30, 2020 and 2019, respectively, consistent with the United States corporate federal income tax rate.

Change in fair value of unconsolidated affiliate, net of taxes

Change in fair value of unconsolidated affiliate consists of the change in the fair value of our previously held investment in Genworth Canada, which also includes dividends and the sale of common shares, net of taxes. The decrease resulted from the sale of Genworth Canada, which closed on December 12, 2019.

Use of Non-Generally Accepted Accounting Principles (“GAAP”) Measures

We use a non-GAAP financial measure entitled “adjusted operating income.” This non-GAAP financial measure aligns with the way our business performance is evaluated by both management and by our board of directors (our “Board”). This measure has been established in order to increase transparency for the purposes of evaluating our core operating trends and enabling more meaningful comparisons with our peers. Although “adjusted operating income” is a non-GAAP financial measure, for the reasons discussed above we believe this measure aids in understanding the underlying performance of our operations. Our senior management, including our chief operating decision maker, uses “adjusted operating income” as the primary measure to evaluate the fundamental financial performance of our business and to allocate resources.

“Adjusted operating income” is defined as GAAP net income excluding the effects of (i) net investment gains (losses), (ii) change in fair value of unconsolidated affiliate and (iii) infrequent or unusual non-operating items.

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

(ii) Change in fair value of unconsolidated affiliate – The change in fair value of our previously held investment in Genworth Canada could vary significantly across periods and was highly dependent on the performance of the Canadian housing market and Genworth Canada’s operating results. We managed the investment in Genworth Canada separately from our remaining investments portfolio through and up until the sale of our ownership interest in Genworth Canada in December 2019. Prior to the sale, we did not view the results of our investment in Genworth Canada as part of our fundamental operating activities. Therefore, this item is excluded from our calculation of adjusted operating income. Additionally, given the divestiture of Genworth Canada on December 12, 2019, we will no longer have any impact from Genworth Canada in our financial statements going forward.

(iii) Infrequent or unusual non-operating items are also excluded from adjusted operating income if, in our opinion, they are not indicative of overall operating trends.

In reporting non-GAAP measures in the future, we may make other adjustments for expenses and gains we do not consider reflective of core operating performance in a particular period. We may disclose other non-GAAP operating measures if we believe that such a presentation would be helpful for investors to evaluate our operating condition by including additional information.

Total adjusted operating income is not a measure of total profitability, and therefore should not be considered in isolation or viewed as a substitute for GAAP net income. Our definition of adjusted operating income may not be comparable to similarly named measures reported by other companies, including our peers.

Adjustments to reconcile net income to adjusted operating income assume a 21% tax rate (unless otherwise indicated).

The following table includes a reconciliation of net income to adjusted operating income for the nine months ended September 30:

<u>(Amounts in thousands)</u>	<u>2020</u>	<u>2019</u>
Net income.....	\$ 279,240	\$ 487,841
Adjustments to net income:		
Net investment (gains) losses.....	1,953	(174)
Change in fair value of unconsolidated affiliate	—	(118,799)
Taxes on adjustments.....	(410)	36,906
Adjusted operating income	<u>\$ 280,783</u>	<u>\$ 405,774</u>

The change in fair value of the investment in Genworth Canada was \$118.8 million for the nine months ended September 30, 2019 and is included within change in fair value of unconsolidated affiliate in the condensed consolidated statements of income, net of provision for income taxes of \$36.9 million. There were no infrequent or unusual items excluded from adjusted operating income during the periods presented.

Adjusted operating income decreased primarily attributable to higher losses largely from new delinquencies driven in large part by a significant increase in borrower forbearance as a result of COVID-19, reserve strengthening on existing delinquencies and from lower net benefits from cures and aging of existing delinquencies in the current year. These decreases were partially offset by higher premiums largely driven by higher insurance in-force and an increase in policy cancellations in our single premium mortgage insurance product primarily due to higher mortgage refinancing in the current year.

Key Metrics

Management reviews the key metrics included within this section when analyzing the performance of our business. The metrics provided in this section exclude activity related to our run-off business, which is immaterial to our consolidated results of operations.

The following table sets forth selected operating performance measures on a primary basis as of or for the nine months ended September 30:

<u>(Dollar amounts in millions)</u>	<u>2020</u>	<u>2019</u>
New insurance written	\$ 72,854	\$ 44,260
Insurance in-force	\$ 212,436	\$ 185,364
Risk in-force	\$ 51,393	\$ 44,903
Persistency rate	64 %	80 %
Policies in-force (count).....	913,974	833,215
Delinquent loans (count).....	49,692	15,758
Delinquency rate	5.44 %	1.89 %

New insurance written

NIW for the nine months ended September 30, 2020 increased 65% compared to the nine months ended September 30, 2019 primarily due to higher mortgage refinancing originations and a larger private mortgage insurance market in the current year. We manage the quality of new business through pricing and our underwriting guidelines, which we modify from time to time as circumstances warrant.

The following table presents NIW by product for the nine months ended September 30:

<u>(Amounts in millions)</u>	<u>2020</u>		<u>2019</u>	
Primary	\$ 72,854	100 %	\$ 44,260	100 %
Pool	—	—	—	—
Total.....	<u>\$ 72,854</u>	<u>100 %</u>	<u>\$ 44,260</u>	<u>100 %</u>

The following table presents primary NIW by underlying type of mortgage for the nine months ended September 30:

<u>(Amounts in millions)</u>	<u>2020</u>		<u>2019</u>	
Purchases	\$ 49,343	68 %	\$ 37,404	85 %
Refinances.....	23,511	32	6,856	15
Total.....	<u>\$ 72,854</u>	<u>100 %</u>	<u>\$ 44,260</u>	<u>100 %</u>

The following table presents primary NIW by policy payment type for the nine months ended September 30:

<u>(Amounts in millions)</u>	<u>2020</u>		<u>2019</u>	
Monthly.....	\$ 65,422	90 %	\$ 38,485	87 %
Single	7,066	10	5,225	12
Other	366	—	550	1
Total.....	<u>\$ 72,854</u>	<u>100 %</u>	<u>\$ 44,260</u>	<u>100 %</u>

The following table presents primary NIW by FICO score for the nine months ended September 30:

<u>(Amounts in millions)</u>	<u>2020</u>		<u>2019</u>	
Over 760	\$ 31,104	42 %	\$ 17,415	39 %
740-759	12,085	17	7,364	17
720-739	10,338	14	6,431	14
700-719	8,632	12	5,602	13
680-699	6,090	8	4,288	10
660-679 ⁽¹⁾	2,681	4	1,680	4
640-659	1,369	2	1,042	2
620-639	555	1	438	1
<620	—	—	—	—
Total.....	<u>\$ 72,854</u>	<u>100 %</u>	<u>\$ 44,260</u>	<u>100 %</u>

⁽¹⁾ Loans with unknown FICO scores are included in the 660-679 category.

Loan-to-value (“LTV”) ratio is calculated by dividing the original loan amount, excluding financed premium, by the property’s acquisition value or fair market value at the time of origination. Certain prior period amounts have been reclassified to conform to this definition. The following table presents primary NIW by LTV ratio for the nine months ended September 30:

<u>(Amounts in millions)</u>	<u>2020</u>		<u>2019</u>	
95.01% and above.....	\$ 8,720	12 %	\$ 7,623	17 %
90.01% to 95.00%.....	31,665	44	19,134	43
85.01% to 90.00%.....	20,681	28	12,236	28
85.00% and below.....	11,788	16	5,267	12
Total.....	<u>\$ 72,854</u>	<u>100 %</u>	<u>\$ 44,260</u>	<u>100 %</u>

The following table presents primary NIW by debt-to-income ratio for the nine months ended September 30:

<u>(Amounts in millions)</u>	<u>2020</u>		<u>2019</u>	
45.01% and above.....	\$ 10,570	15 %	\$ 9,805	22 %
38.01% to 45.00%.....	25,521	35	15,197	34
38.00% and below.....	36,763	50	19,258	44
Total.....	<u>\$ 72,854</u>	<u>100 %</u>	<u>\$ 44,260</u>	<u>100 %</u>

Insurance in-force and Risk in-force

IIF increased largely from NIW, partially offset by lapses and cancellations as we experienced lower persistency during the current year. Primary persistency was 64% and 80% for the nine months ended September 30, 2020 and 2019, respectively. This decrease in persistency resulted in elevated single premium policy cancellations in the current year. RIF increased primarily as a result of higher IIF.

The following table sets forth IIF and RIF as of the dates indicated:

<u>(Amounts in millions)</u>	<u>September 30, 2020</u>		<u>December 31, 2019</u>		<u>September 30, 2019</u>	
Primary IIF.....	\$ 212,436	100 %	\$ 191,284	99 %	\$ 185,364	99 %
Pool IIF.....	985	—	1,142	1	1,195	1
Total IIF.....	<u>\$ 213,421</u>	<u>100 %</u>	<u>\$ 192,426</u>	<u>100 %</u>	<u>\$ 186,559</u>	<u>100 %</u>
Primary RIF.....	\$ 51,393	100 %	\$ 46,246	100 %	\$ 44,903	100 %
Pool RIF.....	156	—	188	—	201	—
Total RIF.....	<u>\$ 51,549</u>	<u>100 %</u>	<u>\$ 46,434</u>	<u>100 %</u>	<u>\$ 45,104</u>	<u>100 %</u>

The following table sets forth primary IIF by policy year as of the dates indicated:

<u>(Amounts in millions)</u>	<u>September 30, 2020</u>		<u>December 31, 2019</u>		<u>September 30, 2019</u>	
2004 and prior.....	\$ 870	1 %	\$ 1,003	1 %	\$ 1,067	1 %
2005 to 2008.....	12,940	6	15,477	8	16,353	9
2009 to 2012.....	1,858	1	2,837	1	3,184	2
2013.....	2,567	1	3,808	2	4,276	2
2014.....	4,944	2	7,000	4	7,630	4
2015.....	10,336	5	14,397	8	15,529	8
2016.....	19,715	9	26,695	14	28,607	15
2017.....	20,541	10	29,243	15	31,414	17
2018.....	21,282	10	31,454	16	34,328	19
2019.....	46,638	22	59,370	31	42,976	23
2020.....	70,745	33	—	—	—	—
Total.....	<u>\$ 212,436</u>	<u>100 %</u>	<u>\$ 191,284</u>	<u>100 %</u>	<u>\$ 185,364</u>	<u>100 %</u>

The following table sets forth primary RIF by policy year as of the dates indicated:

(Amounts in millions)	September 30, 2020		December 31, 2019		September 30, 2019	
2004 and prior	\$ 212	— %	\$ 247	— %	\$ 262	1 %
2005 to 2008	2,932	6	3,523	8	3,744	8
2009 to 2012	404	1	645	1	732	2
2013	613	1	927	2	1,043	2
2014	1,174	2	1,693	4	1,854	4
2015	2,465	5	3,471	8	3,753	8
2016	4,727	9	6,427	14	6,894	15
2017	4,938	10	7,091	15	7,635	17
2018	5,119	10	7,655	17	8,388	19
2019	11,346	22	14,567	31	10,598	24
2020	17,463	34	—	—	—	—
Total	<u>\$ 51,393</u>	<u>100 %</u>	<u>\$ 46,246</u>	<u>100 %</u>	<u>\$ 44,903</u>	<u>100 %</u>

The following table presents the development of primary IIF for the nine months ended September 30:

(Amounts in millions)	2020	2019
Beginning balance	\$ 191,284	\$ 165,658
NIW	72,854	44,260
Cancellations, principal repayments and other reductions ⁽¹⁾	(51,702)	(24,554)
Ending balance	<u>\$ 212,436</u>	<u>\$ 185,364</u>

⁽¹⁾ Includes the estimated amortization of unpaid principal balance of covered loans.

The following table sets forth primary IIF by LTV ratio at origination as of the dates indicated:

(Amounts in millions)	September 30, 2020		December 31, 2019		September 30, 2019	
95.01% and above	\$ 36,504	17 %	\$ 34,459	18 %	\$ 34,028	18 %
90.01% to 95.00%	95,798	45	87,580	46	85,204	46
85.01% to 90.00%	79,991	38	69,093	36	65,977	36
85.00% and below	143	—	152	—	155	—
Total	<u>\$ 212,436</u>	<u>100 %</u>	<u>\$ 191,284</u>	<u>100 %</u>	<u>\$ 185,364</u>	<u>100 %</u>

The following table sets forth primary RIF by LTV ratio at origination as of the dates indicated:

(Amounts in millions)	September 30, 2020		December 31, 2019		September 30, 2019	
95.01% and above	\$ 9,196	18 %	\$ 8,365	18 %	\$ 8,238	18 %
90.01% to 95.00%	26,403	51	23,953	52	23,309	52
85.01% to 90.00%	15,772	31	13,903	30	13,331	30
85.00% and below	22	—	25	—	25	—
Total	<u>\$ 51,393</u>	<u>100 %</u>	<u>\$ 46,246</u>	<u>100 %</u>	<u>\$ 44,903</u>	<u>100 %</u>

The following table sets forth primary IIF by FICO score at origination as of the dates indicated:

(Amounts in millions)	September 30, 2020		December 31, 2019		September 30, 2019	
Over 760	\$ 81,255	38 %	\$ 72,930	38 %	\$ 70,670	38 %
740-759	34,705	16	31,468	16	30,226	16
720-739	30,558	15	27,469	14	26,462	14
700-719	25,746	12	22,574	12	21,638	12
680-699	19,964	9	17,755	9	17,183	9
660-679 ⁽¹⁾	9,873	5	9,004	5	9,010	5
640-659	6,038	3	5,662	3	5,655	3
620-639	3,018	1	2,960	2	2,986	2
<620	1,279	1	1,462	1	1,534	1
Total	<u>\$ 212,436</u>	<u>100 %</u>	<u>\$ 191,284</u>	<u>100 %</u>	<u>\$ 185,364</u>	<u>100 %</u>

⁽¹⁾ Loans with unknown FICO scores are included in the 660-679 category.

The following table sets forth primary RIF by FICO score at origination as of the dates indicated:

<u>(Amounts in millions)</u>	<u>September 30, 2020</u>		<u>December 31, 2019</u>		<u>September 30, 2019</u>	
Over 760	\$ 19,549	38 %	\$ 17,606	38 %	\$ 17,093	38 %
740-759	8,424	16	7,685	17	7,395	16
720-739	7,489	15	6,717	14	6,489	14
700-719	6,288	12	5,464	12	5,247	12
680-699	4,864	9	4,286	9	4,156	9
660-679 ⁽¹⁾	2,331	5	2,113	5	2,120	5
640-659	1,423	3	1,322	3	1,323	3
620-639	725	1	709	1	717	2
<620	300	1	344	1	363	1
Total	<u>\$ 51,393</u>	<u>100 %</u>	<u>\$ 46,246</u>	<u>100 %</u>	<u>\$ 44,903</u>	<u>100 %</u>

⁽¹⁾ Loans with unknown FICO scores are included in the 660-679 category.

Delinquent loans and claims

Our delinquency management process begins with notification by the loan servicer of a delinquency on an insured loan. “Delinquency” is defined in our master policies as the borrower’s failure to pay when due an amount equal to the scheduled monthly mortgage payment under the terms of the mortgage. Generally, our master policies require an insured to notify us of a delinquency if the borrower fails to make two consecutive monthly mortgage payments prior to the due date of the next mortgage payment. We generally consider a loan to be delinquent and establish required reserves after the insured notifies us that the borrower has failed to make two scheduled mortgage payments. Borrowers default for a variety of reasons, including a reduction of income, unemployment, divorce, illness/death, inability to manage credit, falling home prices and interest rate levels. Borrowers may cure delinquencies by making all of the delinquent loan payments, agreeing to a loan modification, or by selling the property in full satisfaction of all amounts due under the mortgage. In most cases, delinquencies that are not cured result in a claim under our policy.

The following table shows a roll forward of the number of primary loans in default for the nine months ended September 30:

<u>(Loan count)</u>	<u>2020</u>	<u>2019</u>
Number of delinquencies, beginning of period	16,392	16,860
New defaults	73,151	24,577
Cures	(38,848)	(23,899)
Claims paid	(996)	(1,765)
Rescissions and claim denials	<u>(7)</u>	<u>(15)</u>
Number of delinquencies, end of period	<u>49,692</u>	<u>15,758</u>

The following table sets forth changes in our direct primary case loss reserves for the nine months ended September 30:

<u>(Amounts in thousands)</u>	<u>2020</u>	<u>2019</u>
Loss reserves, beginning of period	\$ 204,749	\$ 262,171
Claims paid	(45,923)	(81,523)
Increase (decrease) in reserves	<u>277,233</u>	<u>36,100</u>
Loss reserves, end of period	<u>\$ 436,059</u>	<u>\$ 216,748</u>

The following tables set forth primary delinquencies, direct case reserves and RIF by aged missed payment status as of the dates indicated:

September 30, 2020				
(Dollar amounts in millions)	Delinquencies	Direct case reserves ⁽¹⁾	Risk in-force	Reserves as % of risk in-force
Payments in default:				
3 payments or less.....	13,904	\$ 49	\$ 763	6 %
4 - 11 payments.....	32,366	264	2,014	13 %
12 payments or more.....	3,422	123	168	73 %
Total.....	49,692	\$ 436	\$ 2,945	15 %

December 31, 2019				
(Dollar amounts in millions)	Delinquencies	Direct case reserves ⁽¹⁾	Risk in-force	Reserves as % of risk in-force
Payments in default:				
3 payments or less.....	8,618	\$ 28	\$ 386	7 %
4 - 11 payments.....	4,876	78	225	35 %
12 payments or more.....	2,898	99	146	68 %
Total.....	16,392	\$ 205	\$ 757	27 %

September 30, 2019				
(Dollar amounts in millions)	Delinquencies	Direct case reserves ⁽¹⁾	Risk in-force	Reserves as % of risk in-force
Payments in default:				
3 payments or less.....	8,294	\$ 29	\$ 370	8 %
4 - 11 payments.....	4,360	76	200	38 %
12 payments or more.....	3,104	112	155	72 %
Total.....	15,758	\$ 217	\$ 725	30 %

⁽¹⁾ Direct primary case reserves exclude LAE, IBNR and reinsurance reserves.

As of September 30, 2020, we have experienced a material increase in total missed payments and payments that are delinquent for 4 – 11 months due in large part to borrowers entering a forbearance plan driven by COVID-19. Forbearance plans may be extended up to a year, therefore, it is possible we could experience elevated delinquencies in this aged category for the remainder of 2020 and the first half of 2021. Resolution of a delinquency in a plan, whether it ultimately results in a cure or a claim, is difficult to estimate and may not be known for several quarters, if not longer.

Throughout 2019, actual claim and cure performance of pre-foreclosure delinquencies improved, which led to favorable adjustments to our loss reserves in 2019. This favorable development contributed to the decrease in the December 31, 2019 reserves as a percentage of RIF as compared to September 30, 2019. However, beginning in the second quarter of 2020, total primary delinquencies started to increase considerably driven primarily by a significant increase in borrower forbearance as a result of COVID-19. We estimated the loss reserve for forbearance delinquencies by applying a blended estimated roll rate between the estimate for existing pre-COVID-19 early stage delinquencies and our past hurricane related roll rates, which were materially lower given the effectiveness of forbearance and government assistance programs. The large volume of additional forbearance delinquencies combined with lower loss expectations on delinquencies subject to a forbearance plan drove the decrease in reserves as a percentage of RIF as of September 30, 2020.

Primary insurance delinquency rates differ from region to region in the United States at any one time depending upon economic conditions and cyclical growth patterns. Delinquency rates are shown by region based upon the location of the underlying property, rather than the location of the lender. The table below sets forth our primary delinquency rates for the ten largest states by our primary RIF as of September 30, 2020:

	Percent of RIF	Percent of direct primary case reserves	Delinquency rate
By State:			
California	11 %	11 %	7.13 %
Texas	7	7	6.57 %
Florida ⁽¹⁾	7	10	8.04 %
Illinois ⁽¹⁾	5	6	5.90 %
New York ⁽¹⁾	5	12	7.78 %
Michigan	4	2	3.53 %
Washington	4	3	5.60 %
Pennsylvania ⁽¹⁾	4	3	4.52 %
North Carolina	3	3	4.47 %
Arizona	3	2	5.01 %
All other states ⁽²⁾	47	41	4.75 %
Total	<u>100 %</u>	<u>100 %</u>	5.44 %

⁽¹⁾ Jurisdiction predominantly uses a judicial foreclosure process, which generally increases the amount of time it takes for a foreclosure to be completed.

⁽²⁾ Includes the District of Columbia.

The table below sets forth our primary delinquency rates for the ten largest Metropolitan Statistical Areas (“MSA”) or Metro Divisions (“MD”) by our primary RIF as of September 30, 2020:

	Percent of RIF	Percent of direct primary case reserves	Delinquency rate
By MSA or MD:			
Chicago-Naperville	3 %	4 %	7.30 %
Phoenix	3	2	5.09 %
New York	3	8	11.37 %
Atlanta	2	3	7.57 %
Washington DC-Arlington	2	2	7.06 %
Houston	2	3	8.25 %
Riverside-San Bernardino	2	2	8.08 %
Los Angeles-Long Beach	2	2	8.88 %
Seattle-Bellevue	2	1	6.31 %
Dallas	2	2	6.14 %
All Other MSAs/MDs	77	71	4.95 %
Total	<u>100 %</u>	<u>100 %</u>	5.44 %

The frequency of delinquencies often does not correlate directly with the number of claims received because delinquencies may cure. The rate at which delinquencies cure is influenced by borrowers’ financial resources and circumstances and regional economic differences. Whether a delinquency leads to a claim correlates highly with the borrower’s equity at the time of delinquency, as it influences the borrower’s willingness to continue to make payments, the borrower’s or the insured’s ability to sell the home for an amount sufficient to satisfy all amounts due under the mortgage loan, and the borrower’s financial ability to continue making payments. When we receive notice of a delinquency, we use our proprietary model to determine whether a delinquent loan is a candidate for a modification. When our model identifies such a candidate, our loan workout specialists prioritize cases for loss mitigation based upon the likelihood that the loan will result in a claim. Loss mitigation actions include loan modification, extension of credit to bring a loan current, foreclosure forbearance, pre-foreclosure sale and deed-in-lieu. These loss mitigation efforts often are an effective way to reduce our claim exposure and ultimate payouts.

The following table sets forth the dispersion of primary RIF and loss reserves by policy year and delinquency rates as of September 30, 2020:

Policy Year:	Percent of RIF	Percent of direct primary case reserves	Delinquency rate	Cumulative delinquency rate ⁽¹⁾
2004 and prior	— %	3 %	16.85 %	3.62 %
2005 to 2008	6	28	13.22 %	18.86 %
2009 to 2012	1	1	5.51 %	0.97 %
2013	1	1	4.87 %	0.91 %
2014	2	3	5.80 %	1.68 %
2015	5	5	5.56 %	2.19 %
2016	9	9	5.53 %	2.85 %
2017	10	12	6.59 %	3.86 %
2018	10	14	7.73 %	4.63 %
2019	22	18	5.79 %	4.56 %
2020 (through September 30, 2020)	34	6	1.24 %	1.21 %
Total portfolio.....	100 %	100 %	5.44 %	4.99 %

⁽¹⁾ Calculated as the sum of the number of policies where claims were ever paid to date and number of policies for loans currently in default divided by policies ever in-force.

Loss reserves in policy years 2005 through 2008 are outsized compared to their representation of RIF. The size of these policy years at origination combined with the significant decline in home prices led to significant losses in policy years prior to 2009. Although uncertainty remains with respect to the ultimate losses we will experience on these policy years, they have become a smaller percentage of our total mortgage insurance portfolio. The largest portion of loss reserves has shifted to newer book years as a result of the COVID-19 pandemic given their significant representation of RIF. As of September 30, 2020, our 2013 and newer policy years represented approximately 93% of our primary RIF and 68% of our total direct primary case reserves.

Investment Portfolio

Our investment portfolio is affected by factors described below, each of which in turn may be affected by COVID-19 as noted above in “—Trends and Conditions.” Management of our investment portfolio has been delegated by our Board to our Parent’s investment committee and chief investment officer. Our Parent’s investment team, with oversight from our Board and our senior management team, is responsible for the execution of our investment strategy. Our investment portfolio is an important component of our consolidated financial results and represents our primary source of claims paying resources. Our investment portfolio primarily consists of a diverse mix of highly rated fixed income securities and is designed to achieve the following objectives:

- Meet policyholder obligations through maintenance of sufficient liquidity;
- Preserve capital;
- Generate investment income;
- Maximize statutory capital; and
- Increase value to our Parent and its stockholders, among other objectives.

To achieve our portfolio objectives, our investment strategy focuses primarily on:

- Our business outlook, current and expected future investment conditions;
- Investments selection based on fundamental, research-driven strategies;
- Diversification across a mix of fixed income, low-volatility investments while actively pursuing strategies to enhance yield;
- Regular evaluation and optimization of our asset class mix;
- Continuous monitoring of investment quality, duration, and liquidity;
- Regulatory capital requirements; and
- Restriction of investments correlated to the residential mortgage market.

Fixed Maturity Securities Available-for-Sale

The following table presents the fair value of our fixed maturity securities available-for-sale as of the dates indicated:

(Amounts in thousands)	September 30, 2020		December 31, 2019	
	Fair value	% of total	Fair value	% of total
U.S. government, agencies and government-sponsored enterprises.....	\$ 73,199	1.5 %	\$ 92,336	2.4 %
State and political subdivisions.....	174,908	3.6	98,159	2.6
Non-U.S. government.....	30,843	0.6	19,434	0.5
U.S. corporate.....	2,864,792	59.6	2,261,446	60.1
Non-U.S. corporate.....	599,526	12.5	364,469	9.7
Other asset-backed.....	1,065,111	22.2	928,588	24.7
Total available-for-sale fixed maturity securities.....	<u>\$ 4,808,379</u>	<u>100.0 %</u>	<u>\$ 3,764,432</u>	<u>100.0 %</u>

Our investment portfolio did not include any direct residential real estate or whole mortgage loans as of September 30, 2020 and December 31, 2019. We have no derivative financial instruments in our investment portfolio.

As of September 30, 2020 and December 31, 2019, 98% and 99% of our investment portfolio was rated investment grade, respectively. The following table presents the security ratings of our fixed maturity securities as of the dates indicated:

	September 30, 2020	December 31, 2019
AAA.....	9.2 %	11.2 %
AA.....	12.3	12.0
A.....	36.9	36.4
BBB.....	39.1	39.3
BB & below.....	2.5	1.1
Total.....	<u>100.0 %</u>	<u>100.0 %</u>

The table below presents the effective duration and investment yield on our investments available-for-sale, excluding cash and cash equivalents, as of September 30:

	2020	2019
Duration (in years).....	3.5	3.3
Pre-tax yield (% of average investment portfolio assets).....	3.0	3.3

We manage credit risk by analyzing issuers, transaction structures and any associated collateral. We also manage credit risk through country, industry, sector and issuer diversification and prudent asset allocation practices.

We primarily mitigate interest rate risk by employing a buy and hold investment philosophy that seeks to match fixed income maturities with expected liability cash flows in modestly adverse economic scenarios.

Liquidity and Capital Resources

Cash Flows

The following table summarizes our unaudited condensed consolidated cash flows for the nine months ended September 30:

(Amounts in thousands)	2020	2019
Net cash from (used by):		
Operating activities.....	\$ 560,546	\$ 383,888
Investing activities.....	(891,969)	(357,071)
Financing activities.....	303,099	—
Net increase (decrease) in cash and cash equivalents.....	<u>\$ (28,324)</u>	<u>\$ 26,817</u>

Our most significant source of operating cash flows is from premiums received from our insurance policies, while our most significant uses of operating cash flows are generally for claims paid on our insured policies and our operating expenses. Net cash

from operating activities increased principally from timing of tax payments made to Genworth, higher premiums received from a larger IIF balance and lower claims paid in the current year.

Investing activities are primarily related to purchases, sales, and maturities of our investment portfolio. Net cash used by investing activities increased primarily as a result of purchases of fixed maturity securities in the current year using net proceeds from the December 2019 sale of our investment in Genworth Canada, partially offset by higher maturities and sales of our fixed maturity securities.

Financing activities in the current year reflect \$738.8 million net proceeds from the issuance of our 2025 Senior Notes, discussed below, partially offset by a \$435.7 million dividend paid to Genworth from the net proceeds of the offering. No dividends were paid during the nine months ended September 30, 2019. The amount and timing of future dividends will depend on the economic recovery from COVID-19, among other factors as described below.

Capital Resources and Financing Activities

On August 21, 2020, we issued \$750 million aggregate principal amount of 6.500% senior notes due 2025 and incurred \$12.6 million of borrowing costs that were deferred. Interest on the notes is payable semi-annually in arrears on February 15 and August 15 of each year, commencing on February 15, 2021. These notes mature on August 15, 2025. We may redeem the notes, in whole or in part, at any time prior to February 15, 2025 at our option, by paying a make-whole premium, plus accrued and unpaid interest, if any. At any time on or after February 15, 2025, we may redeem the notes, in whole or in part, at our option, at 100% of the principal amount, plus accrued and unpaid interest. The notes contain customary events of default, which subject to certain notice and cure conditions, can result in the acceleration of the principal and accrued interest on the outstanding notes if we breach the terms of the indenture.

Pursuant to the GSE Restrictions, we are required to retain \$300 million of our holding company cash that can be drawn down exclusively for our debt service or to contribute to GMICO to meet its regulatory capital needs including PMIERS. See “—Trends and Conditions” for additional information regarding the GSE Restrictions.

Restrictions on the Payment of Dividends

The ability of our regulated insurance operating subsidiaries to pay dividends to us is restricted by certain provisions of North Carolina insurance laws. Notice of all dividends, both ordinary and extraordinary, must be submitted to the Commissioner of the NCDI (the “Commissioner”) 30 days in advance, and may be subsequently paid if (i) approved or (ii) not disapproved in that timeframe. An extraordinary dividend is defined as one, which combined with all other dividends made in the preceding twelve months, exceeds the greater of (i) 10% of our policyholder surplus as of the prior December 31 or (ii) net income, excluding realized capital gains, for the twelve-month period ending on the prior December 31. In addition, the payment of dividends is also restricted by other North Carolina insurance laws including the provision requiring prior written Commissioner approval for a dividend from any source other than unassigned surplus. Based on our statutory results and, in accordance with applicable dividend restrictions, including the restriction on dividends being limited by the unassigned surplus amount reported in our most recent quarterly statutory financial statement, our regulated insurance operating subsidiaries currently have capacity to pay dividends from unassigned surplus of approximately \$200 million in 2020 with 30 day advance notice to the Commissioner of the intent to pay. However, due to changes in the regulatory and economic landscape as a result of COVID-19, we may be unable to obtain the requisite consent necessary from insurance regulators or the GSEs to make any such dividends. For example, the GSEs recently implemented the PMIERS Amendment, which requires our approved insurer (GMICO) to obtain the GSEs’ prior written consent through March 31, 2021 before paying any dividends. See “Risk Factors—Risks Relating to our Business—If we are unable to continue to meet the requirements mandated by PMIERS because the GSEs amend them or the GSEs’ interpretation of the financial requirements requires us to hold amounts of capital that are higher than we have planned or otherwise, we may not be eligible to write new insurance on loans acquired by the GSEs, which would have a material adverse effect on our business, results of operations and financial condition” and “Regulation—United States Insurance Regulation—Insurance Holding Company Regulation” in the Business and Financial Disclosures of Genworth Mortgage Holdings, Inc. dated August 19, 2020.

In addition, we review multiple other considerations in parallel to determine a prospective dividend strategy for our regulated insurance operating subsidiaries. Given the regulatory focus on the reasonableness of an insurer’s surplus in relation to its outstanding liabilities and the adequacy of its surplus relative to its financial needs for any dividend, our insurance subsidiaries consider the minimum amount of policyholder surplus after giving effect to any contemplated future dividends. Regulatory minimum policyholder surplus is not codified in North Carolina law and limitations may vary based on prevailing business conditions including, but not limited to, the prevailing and future macroeconomic conditions. We estimate regulators would require a minimum policyholder surplus of approximately \$300 million to meet their threshold standard. Given (i) we are subject to statutory accounting requirements that establish a contingency reserve of at least 50% of net earned premiums annually for ten years, after which time it is released into policyholder surplus and (ii) that no material 10-year contingency reserve releases are scheduled before 2024, we expect modest

growth in policyholder surplus through 2024. As a result, minimum policyholder surplus could be a limitation in the future dividends of our regulated operating subsidiaries. If, however, incurred losses and incurred loss expenses continue to grow due to COVID-19 and exceed 35% of net earned premium, we may seek approval for a contingency reserve release.

As mentioned above, another consideration in the development of the dividend strategies for our regulated insurance operating subsidiaries is our expected level of compliance with PMIERS. Under PMIERS, GMICO is subject to operational and financial requirements that approved insurers must meet in order to remain eligible to insure loans purchased by the GSEs. Refer to “—Trends and Conditions” for recent updates related to these requirements.

Our regulated insurance operating subsidiaries are also subject to statutory RTC requirements that affect the dividend strategies of our regulated operating subsidiaries. GMICO’s domiciliary regulator, the NCDOI, requires the maintenance of a statutory RTC ratio not to exceed 25:1. GMICO had an RTC ratio of 12.3:1 as of September 30, 2020 and 12.5:1 as of December 31, 2019, well within the regulatory standard. Given other dividend constraints are currently more capital intensive than statutory RTC standards, RTC is not expected to have a significant impact on future dividend strategies for our regulated operating subsidiaries. See “—Risk-to-Capital Ratio” for additional RTC trend analysis.

We consider potential future dividends compared to the prior year statutory net income in the evaluation of dividend strategies for our regulated operating subsidiaries. We also consider the dividend payout ratio, or the ratio of potential future dividends compared to the estimated GAAP net income, in the evaluation of our dividend strategies. In either case, we do not have prescribed target or maximum thresholds, but we do evaluate the reasonableness of a potential dividend relative to the actual or estimated income generated in the proceeding or preceding calendar year after giving consideration to prevailing business conditions including, but not limited to the prevailing and future macroeconomic conditions. In addition, the dividend strategies of our regulated operating subsidiaries are made in consultation with our Parent.

Risk-to-Capital Ratio

We compute our RTC ratio on a separate company statutory basis, as well as for our combined insurance operations. The RTC ratio is net RIF divided by policyholders’ surplus plus statutory contingency reserve. Our net RIF represents RIF, net of reinsurance ceded, and excludes risk on policies that are currently delinquent and for which loss reserves have been established. Statutory capital consists primarily of statutory policyholders’ surplus (which increases as a result of statutory net income and decreases as a result of statutory net loss and dividends paid), plus the statutory contingency reserve. The statutory contingency reserve is reported as a liability on the statutory balance sheet.

Certain states have insurance laws or regulations that require a mortgage insurer to maintain a minimum amount of statutory capital (including the statutory contingency reserve) relative to its level of RIF in order for the mortgage insurer to continue to write new business. While formulations of minimum capital vary in certain states, the most common measure applied allows for a maximum permitted RTC ratio of 25:1.

As of September 30, 2020, GMICO’s RTC ratio was approximately 12.3:1, compared to 12.5:1 as of December 31, 2019. This RTC ratio remains below the NCDOI’s maximum RTC ratio of 25:1.

The following table presents the calculation of our RTC ratio for our combined insurance subsidiaries as of the dates indicated:

<u>(Dollar amounts in millions)</u>	<u>September 30,</u> <u>2020</u>	<u>December 31,</u> <u>2019</u>
Statutory policyholders’ surplus	\$ 1,556	\$ 1,632
Contingency reserves	2,408	2,032
Total statutory capital	<u>\$ 3,964</u>	<u>\$ 3,664</u>
Adjusted RIF ⁽¹⁾	\$ 47,847	\$ 44,832
Combined risk-to-capital ratio	12.1	12.2

⁽¹⁾ Adjusted RIF for purposes of calculating combined statutory RTC differs from RIF presented elsewhere herein. In accordance with NCDOI requirements, adjusted RIF excludes delinquent policies.

The following table presents the calculation of our RTC ratio for our principal insurance company, GMICO, as of the dates indicated:

(Dollar amounts in millions)	September 30, 2020	December 31, 2019
Statutory policyholders' surplus	\$ 1,477	\$ 1,555
Contingency reserves	2,408	2,032
Total statutory capital.....	<u>\$ 3,885</u>	<u>\$ 3,587</u>
Adjusted RIF ⁽¹⁾	\$ 47,782	\$ 44,811
GMICO risk-to-capital ratio	12.3	12.5

⁽¹⁾ Adjusted RIF for purposes of calculating GMICO statutory RTC differs from RIF presented elsewhere herein. In accordance with NCDI requirements, adjusted RIF excludes delinquent policies.

Liquidity

As of September 30, 2020, we maintained liquidity in the form of cash and cash equivalents of \$556.7 million compared to \$585.1 million as of December 31, 2019, and we also held significant levels of investment-grade fixed maturity securities that can be monetized should our cash and cash equivalents be insufficient to meet our obligations.

The principal sources of liquidity in our business currently include insurance premiums, net investment income and cash flows from investment sales and maturities. We believe that the operating cash flows generated by our mortgage insurance subsidiary will provide the funds necessary to satisfy our claim payments, operating expenses and taxes. However, our subsidiaries are subject to regulatory and other capital restrictions with respect to the payment of dividends. The \$300 million of the net proceeds of the 2025 Senior Notes offering retained by GMHI comprises substantially all of the cash and cash equivalents held directly by GMHI and initially available to pay interest on the notes. To the extent the \$300 million of net proceeds retained from the offering is used to provide capital support to GMICO, the GSEs and the NCDI may seek to prevent GMICO from returning that capital to GMHI in the form of a dividend, distribution or intercompany loan. See "Risk Factors—Risks Relating to the Offering and the Notes—We are a holding company and our only material assets are our equity interests in our subsidiaries. As a consequence, our ability to satisfy our obligations under the notes will depend on the ability of our subsidiaries to pay dividends and distributions to us, which is restricted by law or PMIERS for some subsidiaries" in the Business and Financial Disclosures of Genworth Mortgage Holdings, Inc. dated August 19, 2020. In addition, with certain exceptions, the settlement agreement between Genworth and AXA S.A. ("AXA") requires proceeds from any future debt and equity issuance by GMHI and/or its subsidiaries to be used to prepay the promissory note issued by Genworth to AXA. Therefore, we are limited in our ability to finance our capital needs from debt and equity offerings until the promissory note is fully repaid. See note 1 in our unaudited condensed consolidated financial statements and "Risk Factors—Risks Relating to Our Parent's Ownership of Us—The AXA Settlement may negatively affect our ability to finance our business with additional debt, equity or other strategic transactions" in the Business and Financial Disclosures of Genworth Mortgage Holdings, Inc. dated August 19, 2020 for additional information. We currently have no material financing commitments, such as lines of credit or guarantees, that are expected to affect our liquidity over the next five years, other than the 2025 Senior Notes.

Financial Strength Ratings

On May 15, 2020, Moody's affirmed the "Baa3" (Adequate) financial strength rating of GMICO but changed their outlook from positive to stable. On May 15, 2020, Standard & Poor's affirmed the "BB+" (Marginal) financial strength rating of GMICO but modified its outlook from Creditwatch developing to Creditwatch negative.

Contractual obligations and commitments

We experienced a significant increase in loss reserves during the nine months ended September 30, 2020 driven mostly by higher new delinquencies from borrower forbearance programs due to COVID-19. We expect a large portion of these delinquencies to cure before becoming an active claim; however, reserves recorded related to borrower forbearance have a high degree of estimation. Therefore, it is possible we could have higher contractual obligations related to these loss reserves if they do not cure as we expect. We also have contractual amounts due under our 2025 Senior Notes, including interest payments. In addition, subsequent to December 31, 2019, we received certain rent holidays and other lease incentives associated with an office lease. These amounts will be included in our future operating lease obligations as a reduction to our total contractual amounts due under operating leases. Lease incentives and other changes in estimated lease payments are determined at lease inception with changes in estimates accounted for prospectively. Accordingly, further changes in operating lease obligations will be disclosed annually. Other than the aforementioned loss reserves, 2025 Senior Notes and operating lease obligations, there have been no material additions or changes to our contractual

obligations as compared to the amounts disclosed within our audited consolidated financial statements for the years ended December 31, 2019 and 2018.

New Accounting Standards

Refer to note 2 in our unaudited condensed consolidated financial statements for the nine months ended September 30, 2020 and 2019 and in our audited consolidated financial statements for the years ended December 31, 2019 and 2018 for a discussion of recently adopted and not yet adopted accounting standards.

Quantitative and Qualitative Disclosures About Market Risk

We own and manage a large investment portfolio of various holdings, types and maturities. Investment income is one of our material sources of revenues and the investment portfolio represents the primary source of cash flows supporting operations and claim payments. The assets within the investment portfolio are exposed to the same factors that affect overall financial market performance. While our investment portfolio is exposed to factors affecting markets worldwide, it is most sensitive to fluctuations in the drivers of U.S. markets.

We manage market risk via our defined investment policy guidelines implemented by our Parent's investment team with oversight from our Board and our senior management. Important drivers of our market risk exposure monitored and managed by us include but are not limited to:

- *Changes to the level of interest rates.* Increasing interest rates may reduce the value of certain fixed-rate bonds held in the investment portfolio. Higher rates may cause variable-rate assets to generate additional income. Decreasing rates will have the reverse impact. Significant changes in interest rates can also affect persistency and claim rates that may require that the investment portfolio be restructured to better align it with future liabilities and claim payments. Such restructuring may cause investments to be liquidated when market conditions are adverse.
- *Changes to the term structure of interest rates.* Rising or falling rates typically change by different amounts along the yield curve. These changes may have unforeseen impacts on the value of certain assets.
- *Market volatility/changes in the real or perceived credit quality of investments.* Deterioration in the quality of investments, identified through changes to our own or third-party (e.g., rating agency) assessments, will reduce the value and potentially the liquidity of investments.
- *Concentration Risk.* If the investment portfolio is highly concentrated in one asset, or in multiple assets whose values are highly correlated, the value of the total portfolio may be greatly affected by the change in value of just one asset or a group of highly correlated assets.
- *Prepayment Risk.* Bonds may have call provisions that permit debtors to repay prior to maturity when it is to their advantage. This typically occurs when rates fall below the interest rate of the debt.

Market risk is measured for all investment assets at the individual security level. Market risks that are not fully captured by the quantitative analysis are highlighted. In addition, material market risk changes that occur from the last reporting period to the current are discussed. Changes to how risks are managed will also be identified and described.

At September 30, 2020, the effective duration of our investments available-for-sale was 3.4 years, which means that an instantaneous parallel shift (movement up or down) in the yield curve of 100 basis points would result in a change of 3.4% in fair value of our investments available-for-sale. Excluding cash and cash equivalents, the effective duration on our investments available-for-sale was 3.5 years, which means that an instantaneous parallel shift (movement up or down) in the yield curve of 100 basis points would result in a change of 3.5% in fair value of our investments available-for-sale.