GENWORTH MORTGAGE HOLDINGS, INC.

INDEX OF CONSOLIDATED FINANCIAL STATEMENTS

KPMG LLP
4242 Six Forks Road
Suite 850
Raleigh, NC 27609

Independent Auditors' Report

The Board of Directors
Genworth Mortgage Holdings, Inc.:

We have audited the accompanying consolidated financial statements of Genworth Mortgage Holdings, Inc. and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 2020 and 2019, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Genworth Mortgage Holdings, Inc. and its subsidiaries as of December 31, 2020 and 2019, and the results of their operations and their cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information in Schedule I and II is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and related directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respect in related to the consolidated financial statements as a whole.

KPMG LLP

Raleigh, North Carolina
March 23, 2021

GENWORTH MORTGAGE HOLDINGS, INC.

CONSOLIDATED BALANCE SHEETS

(Amounts in thousands, except par value and per share amounts)	December 31, 2020	December 31, 2019
Assets		
Fixed maturity securities available-for-sale, at fair value (amortized cost $4,781,916 and $3,643,347)	$ 5,046,596	$ 3,764,432
Cash and cash equivalents	452,794	585,058
Accrued investment income	29,210	24,159
Deferred acquisition costs	28,872	30,332
Premiums receivable	46,464	41,161
Other assets	48,774	54,811
Deferred tax asset	—	2,971
Total assets	**$ 5,652,710**	**$ 4,502,924**
Liabilities and equity		
Liabilities:		
Loss reserves	$ 555,679	$ 235,062
Unearned premiums	306,945	383,458
Other liabilities	133,302	57,329
Long-term borrowings	738,162	—
Deferred tax liability	36,811	—
Total liabilities	**1,770,899**	**675,849**
Equity:		
Common stock, $0.01 par value; 1,000 shares authorized; 100 shares issued and outstanding	—	—
Additional paid-in capital	2,370,327	2,363,606
Accumulated other comprehensive income (loss)	208,378	93,431
Retained earnings	1,303,106	1,370,038
Total equity	**3,881,811**	**3,827,075**
Total liabilities and equity	**$ 5,652,710**	**$ 4,502,924**

See Notes to Consolidated Financial Statements

GENWORTH MORTGAGE HOLDINGS, INC.

CONSOLIDATED STATEMENTS OF INCOME

(Amounts in thousands, except outstanding share amounts)	Years ended December 31, 2020	2019
Revenues:		
Premiums	$ 971,365	$ 856,976
Net investment income	132,843	116,927
Net investment gains (losses)	(3,324)	718
Other income	5,575	4,232
Total revenues	**1,106,459**	**978,853**
Losses and expenses:		
Losses incurred	379,834	49,850
Acquisition and operating expenses, net of deferrals	215,024	195,768
Amortization of deferred acquisition costs and intangibles	20,939	15,065
Interest expense	18,244	—
Total losses and expenses	**634,041**	**260,683**
Income before income taxes and change in fair value of unconsolidated affiliate	**472,418**	**718,170**
Provision for income taxes	101,997	155,832
Income before change in fair value of unconsolidated affiliate	**370,421**	**562,338**
Change in fair value of unconsolidated affiliate, net of tax	—	115,290
Net income	**$ 370,421**	**$ 677,628**
Net income per common share—basic and diluted	$ 3,704	$ 6,776
Weighted average common shares outstanding—basic and diluted	100	100

See Notes to Consolidated Financial Statements

GENWORTH MORTGAGE HOLDINGS, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in thousands)	Years ended December 31, 2020	Years ended December 31, 2019
Net income	$ 370,421	$ 677,628
Other comprehensive income, net of taxes:		
Net unrealized gains on securities not other-than temporarily impaired	114,947	119,953
Total comprehensive income	**$ 485,368**	**$ 797,581**

See Notes to Consolidated Financial Statements

GENWORTH MORTGAGE HOLDINGS, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Amounts in thousands)	Common stock	Additional paid-in capital	Accumulated other comprehensive income (loss)	Retained earnings	Total equity
Balance December 31, 2018	**$ —**	**$ 2,357,851**	**$ (26,522)**	**$ 942,410**	**$3,273,739**
Comprehensive income:					
Net income	—	—	—	677,628	677,628
Other comprehensive income, net of taxes	—	—	119,953	—	119,953
Dividends to Genworth	—	—	—	(250,000)	(250,000)
Capital contributions from Genworth	—	5,755	—	—	5,755
Balance December 31, 2019	**—**	**2,363,606**	**93,431**	**1,370,038**	**3,827,075**
Comprehensive income:					
Net income	—	—	—	370,421	370,421
Other comprehensive income, net of taxes	—	—	114,947	—	114,947
Dividends to Genworth	—	—	—	(437,353)	(437,353)
Capital contributions from Genworth	—	6,721	—	—	6,721
Balance December 31, 2020	**$ —**	**$ 2,370,327**	**$ 208,378**	**$1,303,106**	**$3,881,811**

See Notes to Consolidated Financial Statements

GENWORTH MORTGAGE HOLDINGS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in thousands)	Years ended December 31, 2020	2019
Cash flows from operating activities:		
Net income	$ 370,421	$ 677,628
Adjustments to reconcile net income to net cash provided by operating activities:		
Net (gains) losses on investments	3,324	(718)
Amortization of fixed maturity securities discounts and premiums	(5,354)	(2,594)
Amortization of deferred acquisition costs and intangibles	20,939	15,065
Acquisition costs deferred	(12,722)	(10,618)
Deferred income taxes	11,133	56,731
Change in fair value of investment in unconsolidated affiliate, excluding cash dividend	—	(85,491)
Other	6,720	6,220
Change in certain assets and liabilities:		
Accrued investment income	(5,051)	(2,237)
Premiums receivable	(5,303)	(1,155)
Other assets	5,031	(31,599)
Loss reserves	320,617	(62,817)
Unearned premiums	(76,513)	(38,330)
Other liabilities	71,108	(20,065)
Net cash provided by operating activities	**704,350**	**500,020**
Cash flows from investing activities:		
Purchases of fixed maturity securities available-for-sale	(1,942,464)	(951,281)
Proceeds from sales of fixed maturity securities available-for-sale	278,482	257,710
Maturities of fixed maturity securities available-for-sale	527,070	359,311
Proceeds from sale of investment in unconsolidated affiliate	—	510,247
Net cash provided by (used in) investing activities	**(1,136,912)**	**175,987**
Cash flows from financing activities:		
Proceeds from the issuance of long-term debt	737,651	—
Dividends paid to Genworth	(437,353)	(250,000)
Net cash provided by (used in) financing activities	**300,298**	**(250,000)**
Net (decrease) increase in cash and cash equivalents	(132,264)	426,007
Cash and cash equivalents at beginning of year	585,058	159,051
Cash and cash equivalents at end of year	**$ 452,794**	**$ 585,058**
Supplementary disclosure of cash flow information:		
Non-cash contributions of capital from Genworth	$ 6,721	$ 5,755

See Notes to Consolidated Financial Statements

(1) Nature of business and organization structure

Nature of Business

Genworth Mortgage Holdings, Inc. ("GMHI," together with its subsidiaries, the "Company," "we," "us," or "our") has been a wholly owned subsidiary of Genworth Financial, Inc. ("Genworth" or "Parent") 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 the Company to Genworth Holdings, Inc. ("Genworth Holdings"). Post-contribution, we are 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.

We offer private mortgage insurance products predominantly insuring prime-based, individually underwritten residential mortgage loans ("primary mortgage insurance"). Our primary mortgage insurance enables borrowers to buy homes with a down payment of less than 20% of the home's value. Primary 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 (who is our chief executive officer) reviews our financial performance and allocates resources. Our segment includes a run-off insurance block with reference properties in Mexico ("run-off business"), which is immaterial to our consolidated financial statements.

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 December 31, 2020, Genworth owed £425 million ($581 million) to AXA under the settlement agreement. Subsequent to the balance sheet date, on March 3, 2021, Genworth repaid the installment payment due to AXA in June 2022 and a portion of the installment payment due to AXA in September 2022 from cash proceeds received from the sale of Genworth's Australian mortgage insurance business (the "March 2021 Mandatory Payment"). After applying the March 2021 Mandatory Payment, Genworth owes approximately £247 million ($338 million) to AXA, which is subject to increase. Under the terms of the secured promissory note, as amended, Genworth pledged as collateral to AXA a 19.9% security interest in our outstanding common stock. Unless an event of default has occurred under the Promissory Note, 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 consolidated financial statements.

(2) Summary of significant accounting policies

Emerging Growth Company Status

We currently qualify as an "emerging growth company" ("EGC") because, at the time of initial confidential submission of our registration statement, our gross revenue for the then most recently ended fiscal year (the year ended December 31, 2019) was less than $1.07 billion. Because our gross revenue for the fiscal year ended December 31, 2020, exceeded $1.07 billion, we will cease to qualify as an EGC upon consummation of our initial public offering ("IPO"). As a result, we qualify as an EGC and will continue as such until the earlier of the date on which we consummate our IPO or the end of the one-year period beginning on the date we cease to be an EGC under a registration statement as defined by the Securities and Exchange Commission. Because we currently qualify as an EGC, we are permitted to apply new accounting standards under an extended transition period available to private companies and take advantage of reduced reporting requirements in these financial statements. We have elected to apply the extended transition periods for new accounting standards applicable to private companies, and reduced reporting requirements, as further described below.

Basis of Presentation

Our consolidated financial statements have been prepared on the basis of United States 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. Certain prior year amounts have been reclassified to conform to the current year presentation. Potential impacts, risks and uncertainties of the coronavirus pandemic ("COVID-19") may include declines in investment valuations and impairments, deferred acquisition cost ("DAC") or intangible assets impairments or the acceleration of amortization, deferred tax recoverability and increases to loss reserves, among other matters.

Our consolidated financial statements have been prepared on a standalone basis and were derived from the consolidated financial statements and accounting records of Genworth. The consolidated financial statements include the accounts of GMHI, its subsidiaries and those entities required to be consolidated under the applicable accounting standards. All intercompany transactions and balances have been eliminated.

The consolidated financial statements include allocations of certain Genworth expenses. We believe the assumptions and methodologies underlying the allocation of these expenses are reasonable. The allocated expenses relate to various services that have historically been provided to us by Genworth, including investment management, information technology services and administrative services (such as finance, human resources, employee benefit administration and legal). These allocations were made on a direct usage basis when identifiable, with the remainder allocated on the basis of equity, proportional effort or other relevant measures. Expenses allocated to us are not necessarily representative of the amounts that would have been incurred had we operated independently of Genworth. See Note 11 for further information regarding the allocation of Genworth expenses.

Premiums

For monthly insurance contracts, we report premiums as revenue over the period that coverage is provided. For single premium mortgage insurance contracts, we report premiums over the estimated policy life in accordance with the expected pattern of risk emergence as further described in our accounting policy for unearned premiums. In addition, we refund post-delinquent premiums received to the insured party if the delinquent loan goes to claim. We record a liability for premiums received on the delinquent loans consistent with our expectations of ultimate claim rates.

Net Investment Income and Net Investment Gains and Losses

Investment income is recognized when earned. Income or loss upon call or prepayment of available-for-sale fixed maturity securities is recognized in net investment income, except for hybrid securities where the income or loss upon call is recognized in net investment gains and losses. Investment gains and losses are calculated on the basis of specific identification on the trade date.

Investment income on asset-backed securities is initially based upon yield, cash flow and prepayment assumptions at the date of purchase. Subsequent revisions in those assumptions are recorded using the retrospective or prospective method. Under the retrospective method used for asset-backed securities of high credit quality (ratings equal to or greater than "AA" or that are backed by a U.S. agency) which cannot be contractually prepaid in such a manner that we would not recover a substantial portion of the initial investment, amortized cost of the security is adjusted to the amount that would have existed had the revised assumptions been in place at the date of purchase. The adjustments to amortized cost are recorded as a charge or credit to net investment income. Under the prospective method, which is used for all other asset-backed securities, future cash flows are estimated, and interest income is recognized going forward using the new internal rate of return.

Other Income

Other income primarily includes underwriting fee revenue and other revenue. Underwriting fee revenue is earned for underwriting services provided on a per-unit or per-diem basis, as defined in the underwriting agreements. Underwriting fee revenue is recognized at the point in time when the service obligation is satisfied.

Investments

Our investment portfolio is managed by Genworth. We conduct the purchases, sales, and related investment management decisions with the advice of Genworth. As part of these services, we are charged an investment management fee, as agreed between both parties. These fees are charged to investment expense and are included in net investment income in the consolidated statements of income. Refer to Note 11 for further details.

Fixed maturity securities classified as available-for-sale are reported in our consolidated balance sheets at fair value. Our portfolio of fixed maturity securities comprises primarily investment grade securities. Changes in the fair value of available-for-sale fixed maturity securities, net of deferred income taxes, are reflected as unrealized investment gains or losses in a separate component of accumulated other comprehensive income ("OCI").

Other-Than-Temporary Impairments on Available-For-Sale Securities

As of each balance sheet date, we evaluate securities in an unrealized loss position for other-than-temporary impairments. For debt securities, we consider all available information relevant to the collectability of the security, including information about past events, current conditions, and reasonable and supportable forecasts, when developing the estimate of cash flows expected to be collected. More specifically for asset-backed securities, we also utilize performance indicators of the underlying assets including default or delinquency rates, loan to collateral value ratios, third-party credit enhancements, current levels of subordination, vintage and other relevant characteristics of the security or underlying assets to develop our estimate of cash flows. Estimating the cash flows expected to be collected is a quantitative and qualitative process that incorporates information received from third-party sources along with certain internal assumptions and judgments regarding the future performance of the underlying collateral. Where possible, this data is benchmarked against third-party sources.

We recognize other-than-temporary impairments on debt securities in an unrealized loss position when one of the following circumstances exists:

- we do not expect full recovery of our amortized cost basis when due,
- the present value of cash flows expected to be collected is less than our amortized cost basis,
- we intend to sell a security, or
- it is more likely than not that we will be required to sell a security prior to recovery.

Total other-than-temporary impairments that emerged in the current period are calculated as the difference between the amortized cost and fair value. For other-than-temporarily impaired securities where we do not intend to sell the security and it is not more likely than not that we will be required to sell the security prior to recovery, total other-than-temporary impairments are adjusted by the portion of other-than-temporary impairments recognized in OCI (“non-credit”). Net other-than-temporary impairments recorded in net income (loss) represent the credit loss on the other-than-temporarily impaired securities with the offset recognized as an adjustment to the amortized cost to determine the new amortized cost basis of the securities.

For securities that were deemed to be other-than-temporarily impaired and a non-credit loss was recorded in OCI, the amount recorded as an unrealized gain (loss) represents the difference between the current fair value and the new amortized cost for each period presented. The unrealized gain (loss) on an other-than-temporarily impaired security is recorded as a separate component in OCI until the security is sold or until we record an other-than-temporary impairment where we intend to sell the security or will be required to sell the security prior to recovery.

To estimate the amount of other-than-temporary impairment attributed to credit losses on debt securities where we do not intend to sell the security and it is not more likely than not that we will be required to sell the security prior to recovery, we determine our best estimate of the present value of the cash flows expected to be collected from a security using the effective yield on the security prior to recording any other-than-temporary impairment. If the present value of the discounted cash flows is lower than the amortized cost of the security, the difference between the present value and amortized cost represents the credit loss associated with the security with the remaining difference between fair value and amortized cost recorded as a non-credit other-than-temporary impairment in OCI.

The evaluation of other-than-temporary impairments is subject to risks and uncertainties and is intended to determine the appropriate amount and timing for recognizing an impairment charge. The assessment of whether such impairment has occurred is based on management’s best estimate of the cash flows expected to be collected at the individual security level. We regularly monitor our investment portfolio to ensure that securities that may be other-than-temporarily impaired are identified in a timely manner and that any impairment charge is recognized in the proper period.

While the other-than-temporary impairment model for debt securities generally includes fixed maturity securities, there are certain hybrid securities that are classified as fixed maturity securities where the application of a debt impairment model depends on whether there has been any evidence of deterioration in credit of the issuer, such as a downgrade to below investment grade. Under certain circumstances, evidence of deterioration in credit of the issuer may result in the application of the equity securities impairment model where we recognize an impairment charge in the period in which we determine that the security would not recover to book value within a reasonable period of time. We determine what constitutes a reasonable period on a security-by-security basis based upon consideration of all the evidence available to us, including the magnitude of an unrealized loss and its duration. In any event, this period does not exceed 15 months. We measure other-than-temporary impairments based upon the difference between the amortized cost of a security and its fair value.

Investment in Unconsolidated Affiliate

Investments in which we are deemed to exert significant influence, but not control, are accounted for using the equity method of accounting except in cases where the fair value option has been elected. For such investments where we have elected the fair value option, the election is irrevocable and is applied on an investment by investment basis at initial recognition. The change in fair value of such investments is included within change in fair value of unconsolidated affiliate in the consolidated statements of income. See Note 3 for details.

Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. We have fixed maturity securities, which are carried at fair value, and previously had an investment in an unconsolidated affiliate for which the fair value option had been elected.

Fair value measurements are based upon observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect our view of market assumptions in the absence of observable market information. We utilize valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs.

All assets and liabilities carried at fair value are classified and disclosed in one of the following three categories:

- Level 1—Quoted prices for identical instruments in active markets.
- Level 2—Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations for which inputs are observable or where those significant value drivers are observable.
- Level 3—Instruments for which significant value drivers are unobservable.

Level 1 primarily consists of financial instruments whose value is based on quoted market prices such as equity securities and actively traded mutual fund investments.

Level 2 includes those financial instruments that are valued using industry-standard pricing methodologies, models or other valuation methodologies. These models are primarily industry-standard models that consider various inputs, such as interest rate, credit spread and foreign exchange rates for the underlying financial instruments. All significant inputs are observable, or derived from observable, information in the marketplace or are supported by observable levels at which transactions are executed in the marketplace. Financial instruments in this category primarily include: certain public and private corporate fixed maturity securities; government or agency securities; and certain asset-backed securities.

Level 3 comprises financial instruments whose fair value is estimated based on industry-standard pricing methodologies and internally developed models utilizing significant inputs not based on, nor corroborated by, readily available market information. In certain instances, this category may also utilize non-binding broker quotes. This category primarily consists of certain less liquid fixed maturity securities where we cannot corroborate the significant valuation inputs with market observable data.

As of each reporting period, all assets and liabilities recorded at fair value are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. Our assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability, such as the relative impact on the fair value as a result of including a particular input. We review the fair value hierarchy classifications each reporting period. Changes in the observability of the valuation attributes may result in a reclassification of certain financial assets or liabilities. Such reclassifications are reported as transfers in and out of Level 3 at the beginning fair value for the reporting period in which the changes occur. See Note 4 for additional information related to fair value measurements.

Cash and Cash Equivalents

Certificates of deposit, money market funds and other highly liquid investments with original maturities of three months or less are considered cash equivalents in the consolidated balance sheets and consolidated statements of cash flows. Items with maturities greater than three months but less than one year at the time of acquisition are generally considered short-term investments.

Accrued Investment Income

Accrued investment income consists primarily of interest. Interest is recognized on an accrual basis, and dividends are recorded as earned on the ex-dividend date. Interest income is not recorded on fixed maturity securities in default and fixed maturity securities delinquent more than 90 days or where collection of interest is improbable.

Deferred Acquisition Costs

Acquisition costs include costs that are directly related to the successful acquisition of new insurance contracts. Acquisition costs are deferred and amortized to the extent they are recoverable from future profits. Acquisition costs primarily consist of underwriting costs and are amortized in proportion to estimated gross profit. Judgment is used in evaluating these estimates and the assumptions on which they are based. The use of different assumptions may have a significant effect on the amortization of deferred acquisition costs.

Deferred acquisition costs were $28.9 million and $30.3 million for the years ended December 31, 2020 and 2019, respectively. Amortization of DAC was $14.2 million and $8.4 million for the years ended December 31, 2020 and 2019, respectively, and was included within amortization of deferred acquisition costs and intangibles in the consolidated statements of income.

Premium Deficiency Reserves ("PDR")

Premium deficiency reserves are established, if necessary, when the present value of expected future losses and expenses exceeds the present value of expected future premium and already established reserves. The discount rate used in the calculation is based upon our pretax investment yield. We do not utilize anticipated investment income on our assets when evaluating the need for a PDR. The calculation of premium deficiency reserves requires the use of significant judgments and estimates to determine the present value of future premium and present value of expected losses and expenses in our business. The differences between the actual results and our estimates could vary materially. We completed a PDR analysis as of December 31, 2020 and 2019, and determined that no PDR was required.

Reinsurance

Premium revenue, benefits and acquisition and operating expenses, net of deferrals, are reported net of the amounts relating to reinsurance ceded to other companies. The cost of reinsurance is accounted for over the terms of the related treaties using assumptions consistent with those used to account for the underlying reinsured policies. See Note 6 for details.

Loss Reserves

Loss reserves represents the amount needed to provide for the estimated ultimate cost of settling claims relating to insured events that have occurred on or before the end of the respective reporting period. The estimated liability includes requirements for future payments of: (a) losses that have been reported to the insurer; (b) losses related to insured events that have occurred but that have not been reported to the insurer as of the date the liability is estimated; and (c) loss adjustment expenses ("LAE"). Loss adjustment expenses include costs incurred in the claim settlement process such as legal fees and costs to record, process and adjust claims. Consistent with U.S. GAAP and industry accounting practices, we do not establish loss reserves for future claims on insured loans that are not in default or believed to be in default.

Estimates and actuarial assumptions used for establishing loss reserves involve the exercise of significant judgment, and changes in assumptions or deviations of actual experience from assumptions can have material impacts on our loss reserves and net income (loss). Because these assumptions relate to factors that are not known in advance, change over time, are difficult to accurately predict and are inherently uncertain, we cannot determine with precision the ultimate amounts we will pay for actual claims or the timing of those payments. The sources of uncertainty affecting the estimates are numerous and include factors internal and external to us. Internal factors include, but are not limited to, changes in the mix of exposures, loss mitigation activities and claim settlement practices. Significant external influences include changes in home prices, unemployment, government housing policies, state foreclosure timeline, general economic conditions, interest rates, tax policy, credit availability, and mortgage products. Small changes in assumptions or small deviations of actual experience from assumptions can have, and in the past have had, material impacts on our reserves, results of operations and financial condition.

We establish reserves to recognize the estimated liability for losses and LAE related to defaults on insured mortgage loans. Loss reserves are established by estimating the number of loans in our inventory of delinquent loans that will result in a claim payment, which is referred to as the claim rate, and further estimating the amount of the claim payment, which is referred to as claim severity. The estimates are determined using a factor-based approach, in which assumptions of claim rates for loans in default and the average amount paid for loans that result in a claim are calculated using traditional actuarial techniques. Over time, as the status of the underlying delinquent loans moves toward foreclosure and the likelihood of the associated claim loss increases, the amount of the loss reserves associated with the potential claims may also increase.

Management monitors actual experience, and where circumstances warrant, will revise its assumptions. Our liability for loss reserves is reviewed regularly, with changes in our estimates of future claims recorded through net income. Estimation of losses are based on historical claim and cure experience and covered exposures and is inherently judgmental. Future developments may result in losses greater or less than the liability for loss reserves provided.

Unearned Premiums

Premiums written on single premium policies and annual premium policies are initially deferred as unearned premium reserve and earned over the policy life. A portion of the revenue from single premium policies is recognized in premiums earned in the current period, and the remaining portion is deferred as unearned premiums and earned over the estimated expiration of risk of the policy. If single premium policies are cancelled and the premium is non-refundable, then the remaining unearned premium related to each cancelled policy is recognized to earned premiums upon notification of the cancellation. For borrower-paid mortgage insurance, coverage ceases at the earlier of prepayment, or when the original principal is amortized to a 78% loan-to-value ratio in accordance with the Homeowners Protection Act of 1998.

We periodically review our premium earnings recognition models with any adjustments to the estimates reflected as a cumulative adjustment on a retrospective basis in current period net income. These reviews include the consideration of recent and projected loss and policy cancellation experience, and adjustments to the estimated earnings patterns are made, if warranted. In 2019, the review resulted in an increase in earned premiums of $13.7 million.

Share-Based Compensation

Certain of our employees participate in Genworth's incentive plans, under which our employees may be granted share-based awards, including stock options. Compensation expense is recognized based on a grant date fair value, adjusted for expected forfeitures, through the income statement over the respective vesting period of the awards. See Note 10 for additional information related to share-based compensation.

Employee Benefit Plans

Our employees are provided a number of Genworth employee benefits. Genworth, as sponsor of these employee benefit plans, is ultimately responsible for maintenance of these plans in compliance with applicable laws. The plans are accounted for by Genworth in accordance with relevant accounting guidance. We account for these employee benefit plans as multiemployer benefit plans. Accordingly, we do not record an asset or liability to recognize the funded status of the employee benefit plans. Expenses related to employee benefits are included within acquisition and operating expenses, net of deferrals in the consolidated statements of income. See Note 9 for additional information related to employee benefits.

Income Taxes

We determine deferred tax assets and/or liabilities by multiplying the differences between the financial reporting and tax reporting bases for assets and liabilities by the enacted tax rates expected to be in effect when such differences are recovered or settled if there is no change in law. The effect on deferred taxes of a change in tax rates is recognized in net income (loss) in the period that includes the enactment date. Valuation allowances on deferred tax assets are estimated based on our assessment of the realizability of such amounts.

We have elected to participate in a single U.S. consolidated income tax return filing (the "Genworth consolidated return"). All Genworth companies domesticated in the United States are included in the Genworth consolidated return as allowed by the tax law and regulations. We have a tax sharing agreement in place and all intercompany balances related to this agreement are settled at least annually. Refer to Note 8 for further details.

Variable Interest Entities

We are involved in certain entities that are considered variable interest entities ("VIEs") as defined under U.S. GAAP, and, accordingly, we evaluate the VIE to determine whether we are the primary beneficiary and are required to consolidate the assets and liabilities of the entity. The primary beneficiary of a VIE is the enterprise that has the power to direct the activities of a VIE that most significantly impacts the VIE's economic performance and has the obligation to absorb losses or receive benefits that could potentially be significant to the VIE. The determination of the primary beneficiary for a VIE can be complex and requires management judgment regarding the expected results of the entity and how those results are absorbed by variable interest holders, as well as which party has the power to direct activities that most significantly impact the performance of the VIEs.

Our involvement with VIEs consists of excess of loss reinsurance agreements with special purpose insurers domiciled in Bermuda. Triangle Re 2019-1 Ltd. ("Triangle Re 2019-1") and Triangle Re 2020-1

Ltd. (“Triangle Re 2020-1”) finance the reinsurance coverage by issuing mortgage insurance-linked notes to unaffiliated investors. The assets of the VIEs are deposited in reinsurance trusts for our benefit that will be the source of reinsurance claim payments. Our involvement with these VIEs does not result in the unilateral power to direct the activities that most significantly affect the VIEs’ economic performance or result in the obligation to absorb losses or the right to receive benefits. Accordingly, consolidation of the VIEs is not required. See Note 6 for details.

Accounting Pronouncements Adopted

Fair Value 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 consolidated financial statements but impacted our fair value disclosures.

Reference Rate Reform

In March 2020 and January 2021, 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, which includes the transition away from the London Interbank Offered Rate (“LIBOR”) and other interbank offered rates to alternative reference rates, such as the Secured Overnight Financing Rate. This new guidance provides optional practical expedients and exceptions for applying generally accepted accounting principles to investments, derivatives or other transactions affected by reference rate reform. 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 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.

Amortization Period of Certain Callable Debt Securities Held at a Premium

On January 1, 2019, we adopted new accounting guidance related to shortening the amortization period of certain callable debt securities held at a premium. The guidance requires the premium to be amortized to the earliest call date. This change does not apply to securities held at a discount. We adopted this new accounting guidance using the modified retrospective method, which did not have a significant impact on our consolidated financial statements at adoption.

Accounting for Leases

On January 1, 2019, we adopted new accounting guidance related to the accounting for leases. The new guidance generally requires lessees to recognize both a right-of-use asset and a corresponding lease liability on the balance sheet. We adopted this new accounting guidance using the effective date transition method, which permits entities to apply the new lease standard using a modified retrospective transition approach at the date of adoption. The package of practical expedients was also elected upon adoption. Upon adoption we recorded a $22.6 million right-of-use asset related to operating leases and a $23.4 million lease liability. In addition, we de-recognized accrued rent expense of $0.8 million recorded under the previous accounting guidance. The right-of-use asset and the lease liability are included in other assets and other liabilities, respectively, and did not have a significant impact on our consolidated balance sheet as of December 31, 2019. The initial measurement of our right-of-use asset had no significant initial direct costs, prepaid lease payments or lease incentives; therefore, a cumulative-effect adjustment was not recorded to the opening retained earnings balance as a result of the change in accounting principle.

Our leased assets are classified as operating leases and consist of office space in two locations in the United States. Lease payments included in the calculation of our lease liability include fixed amounts contained within each rental agreement and variable lease payments that are based upon an index or rate. We have elected to combine lease and non-lease components, as permitted under this new accounting guidance, and as a result, non-lease components are included in the calculation of our lease liability as opposed to being separated and accounted for as consideration under the new revenue recognition standard. Our remaining lease terms ranged from less than 2 years to 7 years and had a weighted-average remaining lease term of 7.0 years as of December 31, 2020. The implicit rate of our lease agreements was not readily determinable; therefore, we utilized our incremental borrowing rate to discount future lease payments. The weighted-average discount rate was 7.1% as of December 31, 2020.

In 2020, under this new accounting guidance, annual rental expense was $3.4 million. Annual rental expense and future minimum lease payments were not significantly different under this new accounting guidance as compared to the previous guidance. See Note 12 for details.

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. We early adopted this new accounting guidance on January 1, 2021, using the retrospective method or modified retrospective method for certain changes and prospective method for all other changes, which did not have a significant impact on our 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. We early adopted this new accounting guidance on January 1, 2021, using the modified retrospective method, which did not have a significant impact on our consolidated financial statements. 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 and as a result the new accounting guidance did not have an impact on premiums receivable upon adoption.

(3) Investments

Net Investment Income

Sources of net investment income were as follows for the year ended December 31:

(Amounts in thousands)	2020	2019
Fixed maturity securities available-for-sale	$ 136,143	$ 117,407
Cash and cash equivalents	2,180	3,881
Gross investment income before expenses and fees	138,323	121,288
Investment expenses and fees	(5,480)	(4,361)
Net investment income	**$ 132,843**	**$ 116,927**

Net Investment Gains (Losses)

The following table sets forth net investment gains (losses) for the years ended December 31:

(Amounts in thousands)	2020	2019
Fixed maturity securities available-for-sale:		
Gross realized gains	$ 1,884	$ 1,270
Gross realized (losses)	(3,478)	(552)
Net realized gains (losses)	(1,594)	718
Impairments:		
Total other-than-temporary impairments	(1,730)	—
Portion of other-than-temporary impairments included in other comprehensive income (loss)	—	—
Net other-than-temporary impairments	(1,730)	—
Net investment gains (losses)	**$ (3,324)**	**$ 718**

Unrealized Investment Gains and Losses

Net unrealized gains and losses on available-for-sale securities reflected as a separate component of accumulated other comprehensive income (loss) were as follows as of December 31:

(Amounts in thousands)	2020	2019
Net unrealized gains (losses) on investment securities:		
Fixed maturity securities not other-than-temporarily impaired	$ 264,680	$ 121,085
Fixed maturity securities other-than-temporarily impaired	—	—
Subtotal	264,680	121,085
Income taxes	(56,302)	(27,654)
Net unrealized investment gains (losses)	**$ 208,378**	**$ 93,431**

The change in net unrealized gains (losses) on available-for-sale securities reported in accumulated other comprehensive income (loss) was as follows as of and for the years ended December 31:

(Amounts in thousands)	2020	2019
Beginning balance	**$ 93,431**	**$ (26,522)**
Unrealized gains (losses) arising during the period:	—	
Unrealized gains (losses) on investment securities	140,253	153,062
Provision for income taxes	(27,946)	(32,557)
Change in unrealized gains (losses) on investment securities	112,307	120,505
Reclassification adjustments to net investment (gains) losses, net of taxes of $(702) and $147, respectively	2,640	(552)
Change in net unrealized investment gains (losses)	114,947	119,953
Ending balance	**$ 208,378**	**$ 93,431**

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.

Fixed Maturity Securities Available-For-Sale

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

2020 (Amounts in thousands)	Amortized cost	Gross unrealized Gains: Not other-than-temporarily impaired	Gross unrealized Gains: Other-than-temporarily impaired	Gross unrealized losses: Not other-than-temporarily impaired	Gross unrealized losses: Other-than-temporarily impaired	Fair value
U.S. government, agencies and GSEs	$ 134,215	$ 4,009	$ —	$ —	$ —	$ 138,224
State and political subdivisions	172,631	14,749	—	(3)	—	187,377
Non-U.S. government	29,592	1,439	—	—	—	31,031
U.S. corporate	2,695,009	194,961	—	(1,345)	—	2,888,625
Non-U.S. corporate	578,295	32,251	—	(2,877)	—	607,669
Other asset-backed	1,172,174	21,830	—	(334)	—	1,193,670
Total fixed maturity securities available-for-sale	**$4,781,916**	**$ 269,239**	**$ —**	**$ (4,559)**	**$ —**	**$5,046,596**

2019 (Amounts in thousands)	Amortized cost	Gross unrealized Gains: Not other-than-temporarily impaired	Gross unrealized Gains: Other-than-temporarily impaired	Gross unrealized losses: Not other-than-temporarily impaired	Gross unrealized losses: Other-than-temporarily impaired	Fair value
U.S. government, agencies and GSEs	$ 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 fixed maturity securities available-for-sale	**$3,643,347**	**$ 122,806**	**$ —**	**$ (1,721)**	**$ —**	**$3,764,432**

Gross Unrealized Losses and Fair Values of Fixed Maturity Securities Available-For-Sale

The following tables present 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, 2020:

2020 (Amounts in thousands)	Less than 12 months: Fair value	Less than 12 months: Gross unrealized losses	Less than 12 months: Number of securities	12 months or more: Fair value	12 months or more: Gross unrealized losses	12 months or more: Number of securities	Total: Fair value	Total: Gross unrealized losses	Total: Number of securities
Fixed maturity securities:									
U.S. government, agencies and GSEs	$ —	$ —	—	$ —	$ —	—	$ —	$ —	—
State and political subdivisions	4,717	(3)	2	—	—	—	4,717	(3)	2
Non-U.S. government	—	—	—	—	—	—	—	—	—
U.S. corporate	44,296	(1,231)	8	2,886	(114)	1	47,182	(1,345)	9
Non-U.S. corporate	32,533	(2,877)	8	—	—	—	32,533	(2,877)	8
Other asset-backed	24,823	(60)	5	26,028	(274)	6	50,851	(334)	11
Total for fixed maturity securities in an unrealized loss position	**$ 106,369**	**$ (4,171)**	**23**	**$ 28,914**	**$ (388)**	**7**	**$ 135,283**	**$ (4,559)**	**30**
% Below cost:									
<20% Below cost	$ 98,694	$ (1,846)	22	$ 28,914	$ (388)	7	$ 127,608	$ (2,234)	29
20%-50% Below cost	7,675	(2,325)	1	—	—	—	7,675	(2,325)	1
Total for fixed maturity securities in an unrealized loss position	**$ 106,369**	**$ (4,171)**	**23**	**$ 28,914**	**$ (388)**	**7**	**$ 135,283**	**$ (4,559)**	**30**
Investment grade	$ 98,694	$ (1,846)	22	$ 26,028	$ (274)	6	$ 124,722	$ (2,120)	28
Below investment grade	7,675	(2,325)	1	2,886	(114)	1	10,561	(2,439)	2
Total for fixed maturity securities in an unrealized loss position	**$ 106,369**	**$ (4,171)**	**23**	**$ 28,914**	**$ (388)**	**7**	**$ 135,283**	**$ (4,559)**	**30**

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.

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:

	Less than 12 months			12 months or more			Total		
2019 (Amounts in thousands)	**Fair value**	**Gross unrealized losses**	**Number of securities**	**Fair value**	**Gross unrealized losses**	**Number of securities**	**Fair value**	**Gross unrealized losses**	**Number of securities**
Fixed maturity securities:									
U.S. government, agencies and GSEs	$ 1,856	$ (13)	1	$ 2,129	$ (1)	1	$ 3,985	$ (14)	2
State and political subdivisions	9,221	(29)	3	—	—	—	9,221	(29)	3
Non-U.S. government	—	—	—	—	—	—	—	—	—
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	**$ 243,879**	**$ (1,388)**	**45**	**$ 56,895**	**$ (333)**	**16**	**$ 300,774**	**$ (1,721)**	**61**
% Below cost:									
<20% Below cost	$ 243,879	$ (1,388)	45	$ 56,895	$ (333)	16	$ 300,774	$ (1,721)	61
20%-50% Below cost	—	—	—	—	—	—	—	$ —	—
Total for fixed maturity securities in an unrealized loss position	**$ 243,879**	**$ (1,388)**	**45**	**$ 56,895**	**$ (333)**	**16**	**$ 300,774**	**$ (1,721)**	**61**
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	**$ 243,879**	**$ (1,388)**	**45**	**$ 56,895**	**$ (333)**	**16**	**$ 300,774**	**$ (1,721)**	**61**

Contractual Maturities of Fixed Maturity Securities Available-For-Sale

The scheduled maturity distribution of fixed maturity securities as of December 31, 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.

2020 (Amounts in thousands)	**Amortized cost**	**Fair value**
Due in one year or less	$ 155,569	$ 157,139
Due after one year through five years	2,085,094	2,237,162
Due after five years through ten years	1,320,283	1,406,381
Due after ten years	48,796	52,244
Subtotal	3,609,742	3,852,926
Other asset-backed	1,172,174	1,193,670
Total fixed maturity securities available-for-sale	**$ 4,781,916**	**$ 5,046,596**

As of December 31, 2020, securities issued by finance and insurance, consumer—non-cyclical and technology and communications industry groups represented approximately 29%, 17%, and 14%, 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 December 31, 2020 and 2019, 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.

As of December 31, 2020 and 2019, $27.8 million and $26.1 million, respectively, of securities were on deposit with various state insurance commissioners in order to comply with relevant insurance regulations.

Investment in Unconsolidated Affiliate

Prior to December 12, 2019, we held 14.1 million, or approximately 16.4%, of the 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, we 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. 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 in 2019 related to share repurchases by Genworth Canada.

The pre-tax change in fair value of the investment in Genworth Canada, including dividends and the sale of common shares, was $127.4 million in 2019. This was included within change in fair value of unconsolidated affiliate in the consolidated statements of income, net of provision for income taxes of $12.1 million in 2019.

The following table presents summarized statement of income information from January 1, 2019, to December 12, 2019, the period we held an equity method investment in Genworth Canada:

(Amounts in thousands)		
Revenue	$	585,066
Expense	$	197,889

(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 its 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, it obtains 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.

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 its 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 December 31, 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 its observations obtained through the course of managing its 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 its 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

We had no fixed maturity securities classified as Level 1 as of December 31, 2020 and 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 December 31, 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. 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 December 31, 2020:

2020 (Amounts in thousands)	Fair value	Primary methodologies	Significant inputs
U.S. government, agencies and GSEs	$ 138,224	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	$ 187,377	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	$ 31,031	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

2020 (Amounts in thousands)	Fair value	Primary methodologies	Significant inputs
U.S. corporate	$2,583,990	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	$ 463,664	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	$1,179,889	Multi-dimensional attribute-based modeling systems, spread matrix priced to swap curves, price quotes from market makers, internal models	Spreads to daily updated swaps 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 $185.3 million and $48.3 million, respectively, as of December 31, 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 $59.1 million as of December 31, 2020.

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 $169.8 million as of December 31, 2020.

The following tables set forth our assets by class of instrument that are measured at fair value on a recurring basis as of December 31:

2020 (Amounts in thousands)	Total	Level 1	Level 2	Level 3
Fixed maturity securities:				
U.S. government, agencies and GSEs	$ 138,224	$ —	$ 138,224	$ —
State and political subdivisions	187,377	—	187,377	—
Non-U.S. government	31,031	—	31,031	—
U.S. corporate	2,888,625	—	2,769,252	119,373
Non-U.S. corporate	607,669	—	511,918	95,751
Other asset-backed	1,193,670	—	1,179,889	13,781
Total fixed maturity securities	5,046,596	—	4,817,691	228,905
Total	**$ 5,046,596**	**$ —**	**$ 4,817,691**	**$ 228,905**

2019 (Amounts in thousands)	Total	Level 1	Level 2	Level 3
Fixed maturity securities:				
U.S. government, agencies and GSEs	$ 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	**$ 3,764,432**	**$ —**	**$ 3,583,343**	**$ 181,089**

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

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:

		Total realized and unrealized gains (losses)									Total gains (losses) attributable to assets still held	
2020 (Amounts in thousands)	Balance as of January 1, 2020	Included in net income	Included in OCI	Purchases	Sales	Issuance	Settlement	Transfers into Level 3[(1)]	Transfers out of Level 3[(1)]	Balance as of December 31, 2020	Included in net income	Included in OCI
Fixed maturity securities:												
U.S. corporate	$ 99,862	$ 162	$ 2,663	$ 70,552	$ —	$ —	$ (13,332)	$ 18,216	$ (58,750)	$ 119,373	$ (103)	$ 4,694
Non-U.S. corporate	77,189	1,683	(889)	32,000	—	—	(16,471)	27,641	(25,402)	95,751	(18)	(1,219)
Other asset-backed	4,038	—	304	40,868	—	—	(1,946)	—	(29,483)	13,781	—	(122)
Total	**$ 181,089**	**$ 1,845**	**$ 2,078**	**$ 143,420**	**$ —**	**$ —**	**$ (31,749)**	**$ 45,857**	**$(113,635)**	**$ 228,905**	**$ (121)**	**$ 3,353**

(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.

		Total realized and unrealized gains (losses)									
2019 (Amounts in thousands)	Balance as of January 1, 2019	Included in net income	Included in OCI	Purchases	Sales	Issuance	Settlement	Transfers into Level 3[(1)]	Transfers out of Level 3[(1)]	Balance as of December 31, 2019	Total gains (losses) included in net income attributable to assets still held
Fixed maturity securities:											
U.S. corporate	$ 76,532	$ (99)	$ 5,082	$ 38,000	$(5,003)	$ —	$ (13,663)	$ 5,341	$ (6,328)	$ 99,862	$ (102)
Non-U.S. corporate	65,534	(18)	5,594	6,500	—	—	(422)	3,015	(3,014)	77,189	(18)
Other asset-backed	3,930	—	490	16,797	—	—	(507)	—	(16,672)	4,038	—
Total	**$ 145,996**	**$ (117)**	**$ 11,166**	**$ 61,297**	**$(5,003)**	**$ —**	**$ (14,592)**	**$ 8,356**	**$ (26,014)**	**$ 181,089**	**$ (120)**

(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.

Purchases, sales, issuances and settlements represent the activity that occurred during the period that results in a change of the asset but does not represent changes in fair value for the instruments held at the beginning of the period. Such activity consists of purchases, sales and settlements of fixed maturity securities.

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 years ended December 31:

(Amounts in thousands)	2020	2019
Total realized and unrealized gains (losses) included in net income:		
Net investment income	$ 1,845	$ (117)
Net investment gains (losses)	—	—
Total	**$ 1,845**	**$ (117)**
Total gains (losses) included in net income attributable to assets still held:		
Net investment income	$ (121)	$ (120)
Net investment gains (losses)	—	—
Total	**$ (121)**	**$ (120)**

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.

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 December 31, 2020:

(Amounts in thousands)	Valuation technique	Fair value (1)	Unobservable input	Range (bps)	Weighted-average (2) (bps)
Fixed maturity securities:					
U.S. corporate	Internal models	$115,019	Credit spreads	66–133	98
Non-U.S. corporate	Internal models	$52,004	Credit spreads	75–161	107

(1) Certain classes of instruments classified as Level 3 are excluded 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.
(2) Unobservable inputs weighted by the relative fair value of the associated instrument.

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 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 December 31, 2020:

(Amounts in thousands)	Carrying amount	Fair value
Long-term borrowings	$ 738,162	$ 800,367

(5) Loss reserves

Activity for the liability for loss reserves is summarized as follows:

(Amounts in thousands)	2020	2019
Loss reserves, beginning of year	$ 235,062	$ 297,879
Run-off reserves	(1,597)	(2,059)
Net loss reserves, beginning of year	233,465	295,820
Losses and LAE incurred related to current accident year	364,548	105,734
Losses and LAE incurred related to prior accident years	16,202	(55,917)
Total incurred (1)	380,750	49,817
Losses and LAE paid related to current accident year	(1,103)	(1,871)
Losses and LAE paid related to prior accident years	(58,087)	(110,301)
Total paid (1)	(59,190)	(112,172)
Net loss reserves, end of year	555,025	233,465
Run-off reserves	654	1,597
Loss reserves, end of year	**$ 555,679**	**$ 235,062**

(1) Losses and LAE incurred and paid exclude losses 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.

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.

In 2020, losses and LAE incurred of $364.5 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.

During 2020, we experienced unfavorable reserve development of $16.2 million in incurred losses attributable to prior years, primarily from higher expected claim rates due to economic conditions occurring in the COVID-19 environment. Included within this increase to incurred losses attributable to prior years, we recorded $28.4 million in unfavorable reserves adjustments, primarily associated with higher expected, future claim rates, partially offset by a $12.2 million decrease, primarily due to higher than expected delinquency cures.

During 2019, we experienced favorable reserve development of $55.9 million in incurred losses attributable to prior years, primarily from lower actual and expected claim rates due to improvements in the overall housing market. Included within these reductions to incurred losses attributable to prior years, we recorded $22.7 million favorable reserves adjustments in 2019, primarily associated with lower expected claim rates. The remaining reduction of $33.2 million in 2019 was primarily the result of higher than expected delinquency cures.

The following table sets forth information about incurred claims, as well as cumulative number of reported delinquencies and the total of incurred-but-not-reported ("IBNR") liabilities plus expected development on reported claims included within the net incurred claims as of December 31, 2020. The information about the incurred claims development for the years ended December 31, 2011 to 2019, is presented as supplementary information.

(Amounts in thousands)	Incurred claims and allocated loss adjustment expenses, net of reinsurance (2)										Total IBNR liabilities including expected development on reported claims as of December 31, 2020	Number of reported delin-quencies (3)
	For the years ended December 31,											
Accident year (1)	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020		
	Unaudited											
2011	$909,973	$930,551	$912,975	$929,309	$937,647	$938,802	$939,275	$938,513	$938,232	$ 938,816	$ 104	69,314
2012	—	717,871	675,230	670,773	673,660	671,492	668,452	666,673	665,775	666,351	80	48,575
2013	—	—	475,120	407,106	391,523	386,794	383,366	382,231	380,949	381,546	103	34,412
2014	—	—	—	327,857	287,865	268,980	260,752	258,872	258,172	259,006	127	26,726
2015	—	—	—	—	235,251	208,149	186,077	180,923	179,650	179,599	230	21,724
2016	—	—	—	—	—	198,121	161,041	138,784	136,381	136,754	612	19,158
2017	—	—	—	—	—	—	170,713	120,568	101,755	105,079	1,204	19,497
2018	—	—	—	—	—	—	—	116,842	83,959	84,138	977	14,779
2019	—	—	—	—	—	—	—	—	105,734	111,089	300	15,710
2020										364,547	19,073	38,863
Total incurred										**$ 3,226,925**	**$ 22,810**	

(1) Represents the year in which first monthly mortgage payments have been missed by the borrower.
(2) Excludes incurred claims and allocated LAE related to run-off business.
(3) Represents reported and outstanding delinquencies less actual cures as of December 31 for each respective accident year.

The following table sets forth paid claims development, net of reinsurance, for the year ended December 31, 2020, and a reconciliation to our total loss reserves as of December 31, 2020. The information about paid claims development for the years ended December 31, 2011 to 2019, is presented as supplementary information.

(Amounts in thousands)	Cumulative paid claims and allocated claim adjustment expenses, net of reinsurance (2)									
	For the years ended December 31,									
Accident year (1)	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
	Unaudited									
2011	$ 65,370	$ 496,623	$ 721,879	$ 815,610	$ 874,509	$ 906,028	$ 926,518	$ 934,632	$ 937,397	$ 938,517
2012	—	92,445	390,527	532,768	601,530	634,301	650,031	658,438	661,974	663,088
2013	—	—	44,334	202,095	297,029	340,031	361,973	372,374	375,243	376,138
2014	—	—	—	21,494	126,404	195,461	232,502	246,963	252,549	254,218
2015	—	—	—	—	12,688	84,706	145,362	167,458	172,825	174,561
2016	—	—	—	—	—	9,593	63,585	109,793	123,800	126,893
2017	—	—	—	—	—	—	5,733	45,879	77,297	87,272
2018	—	—	—	—	—	—	—	3,134	31,625	48,183
2019	—	—	—	—	—	—	—	—	1,871	17,595
2020										1,104
Total paid										**$2,687,569**
Total incurred										$3,226,925
Total paid										2,687,569
All outstanding liabilities before 2011, net of reinsurance										15,669
Run-off reserves										654
Total loss reserves										$ 555,679

(1) Represents the year in which first monthly mortgage payments have been missed by the borrower.
(2) Excludes cumulative paid claims and allocated claim adjustment expenses related to run-off business.

The following table sets forth our average payout of incurred claims by age as of December 31, 2020:

Average annual percentage payout of incurred claims, net of reinsurance, by age (unaudited) (1)

Years	1	2	3	4	5	6	7	8	9	10
Percentage of payout	6.6 %	37.6 %	26.8 %	11.1 %	4.6 %	2.3 %	1.2 %	0.5 %	0.2 %	0.1 %

(1) Excludes run-off business.

(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 years ended December 31:

(Amounts in thousands)	2020	2019
Net premiums written:		
Direct	$ 943,504	$ 840,086
Assumed	432	625
Ceded	(49,083)	(22,065)
Net premiums written	**$ 894,853**	**$ 818,646**
Net premiums earned:		
Direct	$ 1,020,016	$ 878,416
Assumed	432	625
Ceded	(49,083)	(22,065)
Net premiums earned	**$ 971,365**	**$ 856,976**

The difference of $76.5 million between written premiums of $894.9 million and earned premiums of $971.4 million represents the decrease in unearned premiums for the year ended December 31, 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 2020.

Insurance-linked notes excess of loss reinsurance treaties

On October 22, 2020, we obtained $349.6 million of excess of loss reinsurance coverage from Triangle Re 2020-1 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 2020-1, we concluded that the risk transfer requirements for reinsurance accounting were met as Triangle Re 2020-1 is assuming significant insurance risk and a reasonable possibility of significant loss. For the reinsurance coverage, we retain the first layer of aggregate losses up to $521.8 million. Triangle Re 2020-1 provides 67.0% reinsurance coverage for losses above our retained first layer up to $349.6 million.

On November 25, 2019, we obtained $302.8 million of excess of loss reinsurance coverage with Triangle Re 2019-1, on a portfolio of existing mortgage insurance policies written from January 2019 through September 2019. In connection with entering into the reinsurance agreement with Triangle Re 2019-1, we concluded that the risk transfer requirements for reinsurance accounting were met as Triangle Re 2019-1 is assuming significant insurance risk and a reasonable possibility of significant loss. For the reinsurance coverage, we retain the first layer of aggregate losses up to $237.7 million. Triangle Re 2019-1 provides 63.7% reinsurance coverage for losses above our retained first layer up to $302.8 million.

Other 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 COVID-19.

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 the then current and expected new insurance written for the 2020 book year. We also entered into excess of loss reinsurance agreements with other external panels of reinsurers covering our 2016 through 2019 books of business.

(7) Borrowings

The following table sets forth long-term borrowings as of December 31:

(Amounts in thousands)	2020	2019
6.5% Senior Notes, due 2025	$ 750,000	$ —
Deferred borrowing charges	(11,838)	—
Total	$ 738,162	$ —

On August 21, 2020, we issued $750 million in aggregate principal amount of 6.5% senior notes due in 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 that can be drawn down exclusively for our debt service or to contribute to GMICO to meet its regulatory capital needs.

(8) Income taxes

Income before income taxes and change in fair value of unconsolidated affiliate of $472.4 million and $718.2 million in 2020 and 2019, respectively, was domestic.

The total provision for income taxes was as follows for the years ended December 31:

(Amounts in thousands)	2020	2019
Current federal income taxes	$ 89,940	$ 152,748
Deferred federal income taxes	9,619	(562)
Total federal income taxes	**99,559**	**152,186**
Current state income taxes	924	294
Deferred state income taxes	1,514	3,352
Total state income taxes	**2,438**	**3,646**
Total provision for income taxes	**$ 101,997**	**$ 155,832**

We had current income taxes receivable of $5.4 million and $41.1 million as of December 31, 2020 and 2019.

We paid federal taxes of $55.4 million and state taxes of $1.6 million for the year ended December 31, 2020, and paid federal taxes of $166.2 million and state taxes of $0.3 million for the year ended December 31, 2019.

The reconciliation of the federal statutory tax rate to the effective income tax rate was as follows for the years ended December 31:

	2020	2019
Statutory U.S. federal income tax rate	21.0 %	21.0 %
Increase (reduction) in rate resulting from:		
State income tax, net of federal income tax effect	0.4	0.4
Other, net (1)	0.2	0.3
Effective rate	**21.6 %**	**21.7 %**

(1) "Other, net" is comprised primarily of prior year true-ups.

The components of the deferred income taxes were as follows as of December 31:

(Amounts in thousands)	2020	2019
Assets:		
Accrued commissions and general expenses	$ 6,813	$ 5,254
Net operating loss carry forwards	850	2,021
Capital loss carry forwards	—	10,720
Unearned premium and loss reserves	36,917	35,280
Other	271	—
State income taxes	7,166	7,922
Gross deferred income tax assets	52,017	61,197
Valuation allowance	(6,443)	(6,104)
Total deferred income tax assets	**45,574**	**55,093**
Liabilities:		
Deferred acquisition costs	6,042	6,347
Net unrealized gains on investment securities	56,302	25,340
Investments	17,937	17,409
Other	2,104	3,026
Total deferred income tax liabilities	**82,385**	**52,122**
Net deferred income tax asset (liability)	**$ (36,811)**	**$ 2,971**

The above valuation allowance of $6.4 million and $6.1 million as of December 31, 2020 and 2019, respectively, related to state deferred tax assets. The state deferred tax assets related primarily to the future deductions associated with non-insurance and insurance net operating loss ("NOL") carryforwards.

U.S. federal NOL carryforwards amounted to $4.0 million as of December 31, 2020, and, if unused, will expire beginning in 2032. The benefits of the NOL carryforwards have been recognized in our consolidated financial statements.

Our ability to realize our total deferred income tax assets of $45.6 million as of December 31, 2020, which includes deferred tax assets related to NOL carryforwards, is primarily dependent upon generating sufficient taxable income in future years. Management has concluded that there is sufficient positive evidence to support the expected realization of the net operating losses. This positive evidence includes the fact that: (i) We are currently in a cumulative three-year income position; (ii) Our U.S. operating forecasts are profitable; and (iii) We are able to generate capital gains if needed. After consideration of all available evidence, we have concluded that it is more likely than not that our deferred tax assets, with the exception of state deferred tax assets for which a valuation allowance has been established, will be realized. If our actual results do not validate the current projections of pre-tax income, we may be required to record an additional valuation allowance which could have a material impact on our consolidated financial statements in future periods.

The total amount of unrecognized tax benefits was $0 as of December 31, 2020 and 2019.

We recognize accrued interest and penalties related to unrecognized tax benefits as components of the provision for income taxes. We have recorded $0 of benefits related to interest and penalties for 2020 and 2019.

As previously discussed, we have elected to participate in the Genworth consolidated return. All Genworth companies domesticated in the United States are included in the Genworth consolidated return as allowed by the tax law and regulations. We have a tax sharing agreement in place and all intercompany balances related to this agreement are settled at least annually. With possible exceptions, we are no longer subject to U.S. federal tax examinations for years through 2016. Any exposure with respect to these pre-2017 years has been sufficiently recorded in the financial statements. Potential state and local examinations for those years are generally restricted to results that are based on closed U.S. federal examinations.

We are part of a tax allocation agreement (together with amendments to the tax allocation agreement, the “TAA”) between Genworth and certain of our subsidiaries. The TAA was approved by state insurance regulators and our Board of Directors. The tax allocation methodology is based on the separate return liabilities with offsets for losses and credits utilized to reduce the current consolidated tax liability as allowed by applicable law and regulation. Our policy is to settle intercompany tax balances quarterly, with a final settlement after filing of Genworth’s federal consolidated U.S. corporate income tax return.

Additionally, Genworth Mortgage Insurance Corporation, Genworth Mortgage Reinsurance Corporation, Genworth Mortgage Insurance Corporation of North Carolina and Genworth Financial Assurance Corporation (collectively, the “MI Group”), is party to a supplemental tax sharing agreement that allows them to accelerate the utilization of benefits as if they filed a stand-alone MI Group federal income tax return, even if those benefits would not have been utilized in the consolidated federal return (“deemed used losses”). If any deemed used losses are subsequently actually used in a consolidated return, the members of the MI Group which receive the benefit for such deemed used losses will not receive a second benefit for such losses. Also, if any member of the MI Group receives benefit for any deemed used losses and leaves the consolidated group before such deemed used losses are actually used in a consolidated return, such member will repay such benefit received.

The TAA prevents any allocation of tax to a separate company that is greater than the tax incurred on a separate company basis, subject to consolidated loss carry-forward adjustments. The total tax refund allocated to the MI Group, therefore, may exceed the consolidated tax refund received.

Separate Return Method

If during the year ended December 31, 2020, we had computed taxes using the separate return method, the unaudited pro forma provision for income taxes would remain unchanged.

(9) Employee benefits

As a consolidated company within Genworth, our employees are generally provided a number of Genworth employee benefits. Genworth, as sponsor of the plans described below (collectively, “Shared Plans”), is ultimately responsible for maintenance of these plans in compliance with applicable laws. Our obligation results from an allocation of our share of expenses from Genworth’s plans based on benefits eligible earnings. Benefits eligible earnings includes base pay, overtime, annual incentives and sales commissions.

We account for such Shared Plans as multiemployer benefit plans. Accordingly, we do not record an asset or liability to recognize the funded status of the Shared Plans. We recognize a liability only for any required contributions to the Shared Plans that are accrued and unpaid at the balance sheet date, which is included within other liabilities in the consolidated balance sheets.

Pension and Retiree Health and Life Insurance Benefit Plans

Most of our employees are enrolled in a qualified defined contribution pension plan sponsored by Genworth. The plan is 100% funded by Genworth. Genworth makes annual contributions to each employee's pension plan account based on the employee's age, service and eligible pay. Employees are vested in the plan after three years of service. Expenses associated with the qualified defined contribution pension plan were $2.7 million in both 2020 and 2019.

In addition, certain employees also participate in non-qualified defined contribution plans and qualified and non-qualified defined benefit pension plans sponsored by Genworth. Expenses associated with non-qualified defined contribution plans were $0.8 million and $0.6 million for 2020 and 2019, respectively. Expenses allocated to us for qualified and non-qualified defined benefit pension plans were $0.3 million in both 2020 and 2019.

Genworth provides retiree health benefits to our employees hired prior to January 1, 2005, who meet certain service requirements. Under this plan, retirees over 65 years of age receive a subsidy towards the purchase of a Medigap policy, and retirees under 65 years of age receive medical benefits similar to our employees' medical benefits. In December 2009, Genworth announced that eligibility for retiree medical benefits will be limited to associates who were within 10 years of retirement eligibility as of January 1, 2010. Genworth also provides retiree life and long-term care insurance benefits. Expenses allocated to us for retiree health and life insurance benefits plans were $0.5 million and $0.6 million for the years ended December 31, 2020 and 2019, respectively.

Savings Plans

Our employees participate in qualified and non-qualified defined contribution savings plans that allow employees to contribute a portion of their pay to the plan on a pre-tax basis. Genworth makes matching contributions equal to 100% of the first 4% of pay deferred by an employee and 50% of the next 2% of pay deferred by an employee so that our matching contribution does not exceed 5% of an employee's pay. Employees do not vest immediately in Genworth matching contributions but fully vest in the matching contributions after two complete years of service. One option available to employees in the defined contribution savings plan is the ClearCourse® variable annuity option offered by certain of Genworth's life insurance subsidiaries.

Prior to January 2021, employees also had the option of purchasing a fund which invests primarily in Genworth stock as part of the defined contribution savings plan. Several years ago, Genworth had contracted with Newport Trust Company ("Newport") to act as an independent fiduciary and investment manager with respect to Genworth stock in the defined contribution savings plan. The independent fiduciary's role is to act on behalf of a plan to protect the interests of participants and beneficiaries. As part of its on-going process, on January 8, 2021, Newport froze the fund due to uncertainty around the feasibility of Genworth executing on its strategic plans. Accordingly, future investments or transfers into the fund are no longer permitted.

Our cost associated with these plans was $3.2 million and $3.1 million for the years ended December 31, 2020 and 2019, respectively.

Health and Welfare Benefits for Active Employees

We provide health and welfare benefits to our employees, including health, life, disability dental and long-term care insurance, among others. Our long-term care insurance is provided through Genworth's long-term care insurance products.

(10) Share based compensation

As of December 31, 2020, all share-based awards held by our employees, including stock options, were granted under Genworth's incentive plans described below. We have not issued any share-based awards.

Prior to May 2012, share-based awards were granted to employees and directors, including stock options, stock appreciation rights ("SARs") and restricted stock units ("RSUs") under the 2004 Genworth Financial, Inc. Omnibus Incentive Plan (the "2004 Omnibus Incentive Plan"). In May 2012, the 2012 Genworth Financial, Inc. Omnibus Incentive Plan (the "2012 Omnibus Incentive Plan") was approved by Genworth's stockholders. Under the 2012 Omnibus Incentive Plan, Genworth was authorized to grant 16 million equity awards, plus a number of additional shares not to exceed 25 million underlying awards outstanding under the 2004 Omnibus Incentive Plan. In December 2018, the 2018 Genworth Financial, Inc. Omnibus Incentive Plan (the "2018 Omnibus Incentive Plan") was approved by Genworth's stockholders. Under the 2018 Omnibus Incentive Plan, Genworth is authorized to grant 25 million equity awards, plus a number of additional shares not to exceed 20 million underlying awards outstanding under the prior Plans. The 2004 Omnibus Incentive Plan together with the 2012 Omnibus Incentive Plan and the 2018 Omnibus Incentive Plan are referred to collectively as the "Omnibus Incentive Plans."

Share-based compensation expense under the Omnibus Incentive Plans was $4.4 million and $2.9 million for the years ended December 31, 2020 and 2019, respectively, and was included within acquisition and operating expenses, net of deferrals in the consolidated statements of income. For awards issued prior to January 1, 2006, share-based compensation expense was recognized on a graded vesting attribution method over the awards' respective vesting schedule. For awards issued after January 1, 2006, share-based compensation expense was recognized evenly on a straight-line attribution method over the awards' respective vesting period.

For purposes of determining the fair value of share-based payment awards on the date of grant, Genworth has historically used the Black-Scholes Model. However, no SARs or stock options were granted during 2020 and 2019, and therefore the Black-Scholes Model was not used in those respective years. The Black-Scholes Model requires the input of certain assumptions that involve judgment. Circumstances may change, and additional data may become available over time, which could result in changes to these assumptions and methodologies.

During 2020 and 2019, Genworth issued RSUs to our employees with average restriction periods of three years, with a fair value of $3.53 and $3.36, respectively, which were measured at the market price of a share of Genworth's Class A Common Stock on the grant date.

During 2020 and 2019, Genworth granted performance stock units ("PSUs") to our employees with a fair value of $3.03 and $4.61, respectively. The PSUs were granted at market price as of the approval date by Genworth's Board of Directors. PSUs may be earned over a three-year period based upon the achievement of certain performance goals.

The PSUs granted in 2020 have a three-year measurement period starting on January 1, 2020, going through December 31, 2022. The performance metrics are based on adjusted operating income of Genworth's U.S. Mortgage Insurance and Australia Mortgage Insurance segments and gross incremental annual premiums in Genworth's long-term care insurance business, defined as approved weighted-average premium rate increases multiplied by the annualized in-force premiums.

The PSUs granted in 2019 have a three-year measurement period starting on January 1, 2019 going through December 31, 2021. The performance metric is based on consolidated Genworth's adjusted operating income.

For all PSU awards granted, the compensation committee of Genworth's Board of Directors determines and approves no later than March 15, following the end of the three-year performance period for each applicable performance period, the number of units earned and vested for each distinct performance period.

For the years ended December 31, 2020 and 2019, we recorded less than $1.0 million of expense in each year associated with our PSUs.

In 2020 and 2019, Genworth granted cash awards with a fair value of $1.00. Genworth has performance-based cash awards, which vest and payout after three years. Genworth also has time-based cash awards, which vest over three years, with a third of the payout occurring per year as determined by the vesting period, beginning on the first anniversary of the grant date. The following table summarizes cash award activity as of December 31, 2020 and 2019:

(Number of awards in thousands)	Performance-based cash awards	Time-based cash awards
Balance as of January 1, 2019	**2,597**	**4,733**
Granted	489	3,439
Vested	(1,443)	(2,232)
Forfeited	(190)	(370)
Balance as of January 1, 2020	**1,453**	**5,570**
Granted	—	3,607
Performance adjustment	261	—
Vested	(1,178)	(2,340)
Forfeited	(6)	(214)
Balance as of December 31, 2020	**530**	**6,623**

The following table summarizes stock option activity as of December 31, 2020 and 2019:

(Shares in thousands)	Shares subject to option	Weighted-average exercise price
Balance as of January 1, 2019	**103**	**$ 11.36**
Granted	—	$ —
Exercised	(25)	$ 2.46
Expired and forfeited	—	$ —
Balance as of January 1, 2020	**78**	**$ 14.18**
Granted	—	$ —
Exercised	—	$ —
Expired and forfeited	(78)	$ 14.18
Balance as of December 31, 2020	**—**	**$ —**
Exercisable as of December 31, 2020	**—**	**$ —**

There were no stock options outstanding as of December 31, 2020.

The following table summarizes the status of other equity-based awards as of December 31, 2020 and 2019:

	RSUs		PSUs		SARs	
Awards in thousands	Number of awards	Weighted-average grant date fair value	Number of awards	Weighted-average grant date fair value	Number of awards	Weighted-average grant date fair value
Balance as of January 1, 2019	**94**	**$ 7.38**	**—**	**$ —**	**666**	**$ 2.76**
Granted	135	$ 3.36	135	$ 4.61	—	$ —
Exercised	(85)	$ 7.38	—	$ —	—	$ —
Terminated	(9)	$ 7.38	—	$ —	(24)	$ 2.76
Balance as of January 1, 2020	**135**	**$ 3.36**	**135**	**$ 4.61**	**642**	**$ 2.76**
Granted	134	$ 3.53	134	$ 3.03	—	$ —
Exercised	(45)	$ 3.36	—	$ —	—	$ —
Terminated	—	$ —	—	$ —	(97)	$ 2.77
Balance as of December 31, 2020	**224**	**$ 3.46**	**269**	**$ 3.82**	**545**	**$ 2.76**

As of December 31, 2020, and 2019, total unrecognized share-based compensation expense related to non-vested awards not yet recognized was $1.4 million and $0.9 million, respectively. This expense is expected to be recognized over a weighted-average period of approximately two years and less than one year, respectively.

In 2020 and 2019, there was no cash received from stock options exercised in each year. New shares were issued to settle all exercised awards. The actual tax benefit realized for the tax deductions from the exercise of share-based awards was $0.8 million and $0.9 million as of December 31, 2020 and 2019, respectively.

(11) Related party transactions

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 $50.3 million and $37.0 million in 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 consolidated statements of income. The total investment expenses paid to Genworth were $5.2 million and $4.1 million for the years ended December 31, 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. See Note 9 and Note 10 for further information.

We provide certain information technology and administrative services (such as facilities and maintenance) to Genworth. We charged Genworth $1.3 million and $1.5 million for these services in 2020 and 2019, respectively.

We previously held an investment in common shares of Genworth Canada. Genworth Canada was consolidated within Genworth until its sale on December 12, 2019. We received dividends from Genworth Canada of $41.9 million in 2019, which is included within change in fair value of unconsolidated affiliate, net of tax in the consolidated statements of income.

We paid cash dividends of $437.4 million and $250.0 million to Genworth in 2020 and 2019, respectively. The amount and timing of future dividends will depend on the economic recovery from COVID-19, among other factors. Refer to Note 13 for further details on dividend restrictions.

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. Refer to Note 8 for further details.

The consolidated financial statements include the following amounts due to and from Genworth relating to recurring service and expense agreements as of December 31:

(Amounts in thousands)	2020	2019
Amounts payable to Genworth	$ 12,371	$ 8,119
Amounts receivable from Genworth	$ 371	$ 997

(12) Commitments and contingencies

Leases

We lease certain office facilities, equipment and automobiles under operating leases. Operating lease expenses were approximately $4.0 million and $4.2 million for the years ended December 31, 2020 and 2019, respectively. See Note 2 for additional information related to operating leases. The following table presents future minimum rent payments under operating leases as of December 31, 2020:

(Amounts in thousands)	Future minimum payments under operating leases
2021	$ 3,518
2022	3,632
2023	3,601
2024	3,682
2025	3,765
2026 and thereafter	7,785
Total lease payments	25,983
Imputed interest	(5,549)
Operating lease liabilities	$ 20,434

Litigation and Regulatory Matters

We face the risk of litigation and regulatory investigations and actions in the ordinary course of operating our business and are also subject to litigation arising out of our general business activities, such as our contractual and employment relationships. Past legal and regulatory actions include proceedings specific to us and others generally applicable to business practices in the mortgage insurance industry in which we operate. We have been, or may become, subject to lawsuits or regulatory investigations alleging, among other things, issues relating to violations of the Real Estate Settlement and Procedures Act of 1974 (“RESPA”) or related state anti-inducement laws, mortgage insurance policy rescissions and curtailments, pricing structures and general business practices, and breaching duties related to the privacy and information security of customer information. Plaintiffs in lawsuits against us may seek very large or indeterminate amounts which may remain unknown for substantial periods of time. In addition, we are also subject to various regulatory inquiries, such as information requests, subpoenas, books and record examinations and market conduct and financial examinations from state and federal regulators and other authorities. A substantial legal liability or a significant regulatory action against us could have an adverse effect on our business, financial condition and results of operations. Moreover, even if we ultimately prevail in the litigation, regulatory action or investigation, we could suffer significant reputational harm, which could have an adverse effect on our business, financial condition or results of operations.

(13) Statutory information

Statutory Accounting Principles

We prepare our statutory financial statements in accordance with the accounting practices required or permitted, if applicable, by the insurance departments of the respective states of domicile of our insurance subsidiaries. These statements of statutory accounting principles (“SSAP”) are established by a variety of National Association of Insurance Commissioners ("NAIC") publications, as well as state laws, regulations and general administrative rules. In addition, insurance departments have the right to permit other specific practices that may deviate from prescribed practices. As of December 31, 2020, we did not have any prescribed or permitted statutory accounting practices that resulted in reported statutory surplus or risk-to-capital ratios being different from what would have been reported had NAIC statutory accounting practices been followed.

The key areas where SSAP financial statements differ from financial statements presented on a U.S. GAAP basis include:

(a) Under SSAP, mortgage insurance companies are required each year to establish a special contingency reserve in their statutory financial statements to provide for losses in the event of significant economic declines. Annual additions to the statutory contingency reserve must be at least 50% of net earned premiums earned in such year. Such amount must be maintained in the contingency reserve for 10 years, after which time it is released to unassigned surplus. Prior to 10 years, the contingency reserve may be reduced with regulatory approval to the extent that losses in any calendar year exceed 35% of earned premiums for such year.

(b) Under SSAP, insurance policy acquisition costs are charged against operations in the year incurred. Under U.S. GAAP, such costs are deferred and amortized.

(c) Under SSAP, income tax expense is calculated on the basis of amounts currently payable. Generally, deferred tax assets are recognized under both SSAP and U.S. GAAP when it is more likely than not that the deferred tax asset will be realized. However, SSAP standards impose additional admissibility requirements whereby deferred tax assets are only recognized to the extent they are expected to be recovered within a one- to three-year period subject to a capital and surplus limitation. Changes in deferred tax assets and liabilities are recognized as a direct benefit or charge to unassigned surplus, whereas under U.S. GAAP changes in deferred tax assets and liabilities, except for changes in unrealized gains and losses on available-for-sale securities, are recorded as a component of income tax expense.

(d) Under SSAP, investment grade fixed-maturity investments are valued at amortized cost and below-investment grade securities are carried at the lower of amortized cost or market value. Under U.S. GAAP, those investments that we do not have the ability or intent to hold to maturity are considered to be either available for sale or trading securities and are recorded at fair value, with the unrealized gain or loss recognized, net of tax, as an increase or decrease to equity or current operations, as applicable.

(e) Under SSAP, certain assets, designated as non-admitted assets, are charged directly against statutory surplus. Such assets are reflected in our U.S. GAAP financial statements.

The table below presents statutory net income, statutory policyholders' surplus and contingency reserve for the combined insurance subsidiaries as of and for the years ended December 31:

(Amounts in thousands)	2020	2019
Statutory net income	$ 404,315	$ 847,384
Statutory policyholders' surplus	$ 1,555,035	$ 1,632,518
Contingency reserve	$ 2,518,194	$ 2,031,563

Statutory Capital Requirements

Mortgage insurers are not subject to the NAIC's risk-based capital ("RBC") requirements, but certain states and other regulators impose another form of capital requirement on mortgage insurers requiring maintenance of a risk-to-capital ratio not to exceed 25:1. Our insurance subsidiaries are domiciled in North Carolina. Fifteen other states maintain similar risk-to-capital requirements. As of December 31, 2020 and 2019, the risk-to-capital ("RTC") ratio for our combined insurance subsidiaries under the current regulatory framework as established under North Carolina law and enforced by the North Carolina Department of Insurance ("NCDOI") was approximately 12.1:1 and 12.2:1, respectively. Each of our insurance subsidiaries met its respective capital requirement as of December 31, 2020.

PMIERs Regulatory Requirements

Mortgage insurers must meet the private mortgage insurer eligibility requirements ("PMIERs") as set forth by each GSE 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 as to its compliance with PMIERs.

On June 29, 2020, the GSEs issued guidance amending PMIERs further, in light of COVID-19, effective June 30, 2020 (the "PMIERs Amendment"). In September 2020, the GSEs issued an amended and restated version of the PMIERs Amendment that clarifies Section I (Risk-Based Required Asset Amount Factors), which became effective retroactively on June 30, 2020, and includes a new Section V (Delinquency Reporting), which became effective on December 31, 2020. On December 4, 2020, the GSEs issued a revised and restated version of the PMIERs Amendment that revised and replaced the version issued in September 2020. The December 4, 2020 version extended the application of reduced PMIERs capital factors to each non-performing loan that has an initial missed monthly payment occurring on or after March 1, 2020 and prior to April 1, 2021 and capital preservation period from March 31, 2021 to June 30, 2021.

The PMIERs include financial requirements for mortgage insurers under which a mortgage insurer's "Available Assets" (generally only the most liquid assets of an insurer) must meet or exceed "Minimum Required Assets" (which are based on an insurer's risk-in-force ("RIF") and are calculated from tables of factors with several risk dimensions and are subject to a floor amount) and otherwise generally establish when a mortgage insurer is qualified to issue coverage that will be acceptable to the respective GSE for acquisition of high loan-to-value ("LTV") mortgages. The GSEs may amend or waive PMIERs at their discretion, impose additional conditions or restrictions on us and also have broad discretion to interpret PMIERs, which could impact the calculation of our “Available Assets” and/or “Minimum Required Assets.” The amount of capital that GMICO may be required in the future to maintain the “Minimum Required Assets” as defined in PMIERs, and operate our business is dependent upon, among other things: (i) the way PMIERs are applied and interpreted by the GSEs and the Federal Housing Finance Agency (“FHFA”) as and after they are implemented; (ii) the future performance of the housing market, including as a result of COVID-19 and the length and speed of recovery; (iii) our generation of earnings in our business, “Available Assets” and “Minimum Required Assets,” reducing RIF and reducing delinquencies as anticipated, and writing anticipated amounts and types of new mortgage insurance business; and (iv) our overall financial performance, capital and liquidity levels. Depending on our actual experience, the amount of capital required under PMIERs may be higher than currently anticipated. In the absence of a premium increase for new business, if we hold more capital relative to insured loans, our returns will be lower. We may be unable to increase premium rates for various reasons, principally due to competition. Our inability, on the other hand, to increase the capital as required in the anticipated timeframes and on the anticipated terms, and to realize the anticipated benefits, could have a material adverse impact on our business, results of operations and financial condition. More particularly, our ability to continue to meet the PMIERs financial requirements and maintain a prudent amount of capital in excess of those requirements, given the dynamic nature of asset valuations and requirement changes over time, is dependent upon, among other things: (i) our ability to complete credit risk transfer (“CRT”) transactions on our anticipated terms and timetable, which, as applicable, are subject to market conditions, third-party approvals and other actions (including approval by the GSEs), and other factors that are outside of our control and (ii) our ability to contribute holding company cash or other sources of capital to satisfy the portion of the financial requirements that are not satisfied through these transactions.

The PMIERs Amendment implemented both permanent and temporary revisions to PMIERs. For 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 monthly payment occurring on or after March 1, 2020 and prior to April 1, 2021 or (ii) is subject to a forbearance plan granted in response to a financial hardship related to COVID-19, 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) above, 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 a non-performing loan due to having missed two monthly payments. Loans subject to a forbearance plan described in (ii) above include those that are either in a repayment plan or loan modification trial period following the forbearance plan unless reported to the approved insurer that the loan is no longer in such forbearance plan, repayment plan, or loan modification trial period. The PMIERs Amendment also imposes temporary capital preservation provisions through June 30, 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. Therefore, the PMIERs Amendment may restrict or prevent GMICO from paying us dividends.

The PMIERs Amendment additionally 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.

Our assessment of PMIERs compliance is based on a number of factors, including our understanding of the GSEs’ interpretation of the PMIERs financial requirements. The GSEs require our mortgage insurance subsidiaries to maintain a maximum statutory RTC ratio of 18:1 or they reserve the right to reevaluate the amount of PMIERs credit for reinsurance and other CRT transactions available under PMIERs indicated in their approval letters. Freddie Mac has also imposed additional requirements on our option to commute these reinsurance agreements. Both GSEs reserved the right to periodically review the reinsurance transactions for treatment under PMIERs. If we are unable to continue to meet the requirements mandated by PMIERs, the GSE Restrictions (as defined herein) and any additional restrictions imposed on us by the GSEs, whether 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.

We have met all PMIERs reporting requirements as required by the GSEs. As of December 31, 2020, we had available assets of $4,588 million against $3,359 million net required assets under PMIERs, compared to available assets of $3,811 million against $2,754 million net required assets as of December 31, 2019. The sufficiency above the published PMIERs financial requirements as of December 31, 2020, was $1,229 million, compared to $1,057 million above the published PMIERs requirements as of December 31, 2019, resulting in a PMIERs sufficiency ratio of 137% and 138% as of December 31, 2020 and 2019, respectively, which in each case, was above the requirement imposed by the GSE Restrictions that required us to maintain a PMIERs sufficiency ratio of 115% in 2020. In addition, our PMIERs required assets as of December 31, 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 $1,046 million of benefit to our December 31, 2020 PMIERs required assets. Our credit risk transfer transactions provided an estimated aggregate of $936 million of PMIERs capital credit as of December 31, 2020.

Dividend Restrictions

The majority of our investments are held by our regulated U.S. mortgage insurance subsidiaries which may be limited in their ability to make dividends or distributions to a holding company in the future due to restrictions related to their capital levels. Our U.S. mortgage insurance subsidiaries are required to maintain minimum capital on a statutory basis, as well as pursuant to the PMIERs promulgated by the GSEs. Moreover, even where such dividends or distributions would not cause capital to fall below the minimum levels required by state insurance regulators and the GSEs, all proposed dividends or distributions, regardless of amount and source, by our U.S. mortgage insurance subsidiaries are subject to review and potential disapproval by the N.C. Commissioner of Insurance (the "Commissioner"). Within that general regulatory right of review process, there are three (3) minor procedural variances depending on (i) the amount of the dividend or distribution as well as (ii) the source thereof. As regards amount, dividends and distributions may be classified as either "ordinary" or "extraordinary." (1) The review standard for an "ordinary" dividend or distribution is that notice must be given to the Commissioner 30 days in advance of the proposed payment date, during which period the Commissioner may disapprove the proposed dividend or distribution. An "extraordinary dividend or distribution" is defined by statute as one, which combined with all others made in the preceding 12 months, exceeds the greater of (i) 10% of the insurer's surplus as regards policyholders as of the preceding December 31, or (ii) net income, excluding realized capital gains, for the 12-month period ending the preceding December 31. (2) The review standard for an "extraordinary" dividend or distribution is effectively the same as that for an "ordinary" dividend or distribution that the insurer must give 30 days' notice and the Commissioner has not disapproved the proposal in that 30-day period. For both "ordinary" and "extraordinary" dividends, the Commissioner has the option to affirmatively grant approval prior to the expiration of the 30-day notice period. (3) Finally, as regards source of funds, the payment of any dividend or distribution from any source other than unassigned surplus, regardless of the amount, requires prior written approval of the Commissioner. In each of the three (3) instances, approval or non-disapproval of any dividend or distribution is based upon the reasonableness of the insurer's surplus in relation to its outstanding liabilities and the adequacy of its surplus relative to its financial needs. Based on estimated statutory results as of December 31, 2020, in accordance with applicable dividend restrictions, our U.S. mortgage insurance subsidiaries could pay dividends or distributions from unassigned surplus of approximately $199.0 million in 2021 without obtaining prior regulatory approval, although notice of the intent to pay must be provided to the Commissioner 30 days in advance thereof.

(14) Accumulated other comprehensive income (loss)

The following table presents a roll-forward of accumulated other comprehensive income (loss):

(Amounts in thousands)	Net unrealized gains (losses) on investments	Total
Balance January 1, 2019, net of tax	**$ (26,522)**	**$ (26,522)**
Other comprehensive income (loss) before reclassifications	120,505	120,505
Amounts reclassified (from) to other comprehensive income (loss)	(552)	(552)
Total other comprehensive income (loss)	119,953	119,953
Balance January 1, 2020, net of tax	**93,431**	**93,431**
Other comprehensive income (loss) before reclassifications	112,307	112,307
Amounts reclassified (from) to other comprehensive income (loss)	2,640	2,640
Total other comprehensive income (loss)	114,947	114,947
Balance December 31, 2020, net of tax	**$ 208,378**	**$ 208,378**

The following table presents the effect of the reclassification of significant items out of accumulated other comprehensive income (loss) on the respective line items of the consolidated statements of income:

	Amounts reclassified from accumulated other comprehensive income (loss)		
(Amounts in thousands)	2020	2019	Affected line item in consolidated statement of income
Net unrealized gains (losses) on investments	$ (3,342)	$ 698	Net investment gains (losses)
Benefit (expense) for income taxes	702	(147)	Provision for income taxes

(15) Earnings per share

The basic earnings per share computation is based on the weighted average number of shares of common stock outstanding. For the years ended December 31, 2020 and 2019, we had no instruments outstanding that would be dilutive to earnings per share.

The following table presents the computation of earnings per share for the years ended December 31:

(Amounts in thousands, except outstanding share amounts)	2020	2019
Net income available to GMHI common shareholders	$ 370,421	$ 677,628
Weighted average common shares outstanding—basic and diluted	100	100
Net income per common share—basic and diluted	**$ 3,704**	**$ 6,776**

(16) Subsequent events

On February 4, 2021, we executed an excess of loss reinsurance transaction with a panel of reinsurers, which will provide up to $210.4 million of reinsurance coverage on a portion of current and expected new insurance written for the 2021 book year, effective January 1, 2021.

On March 2, 2021, we obtained $495.0 million of excess of loss reinsurance coverage from Triangle Re 2021-1 Ltd. ("Triangle Re 2021-1") on a portfolio of existing seasoned mortgage insurance policies written from January 2014 through December 2018 and from October 2019 through December 2019. In connection with entering into the reinsurance agreement with Triangle Re 2021-1, we concluded that the risk transfer requirements for reinsurance accounting were met as Triangle Re 2021-1 is assuming significant insurance risk and a reasonable possibility of significant loss. For the reinsurance coverage, we retain the first layer of aggregate losses up to $212.1 million. Triangle Re 2021-1 provides 100.0% reinsurance coverage for losses above our retained first layer up to $495.0 million.

We considered subsequent events through the date on which the financial statements were issued, March 23, 2021.

SCHEDULE I

GENWORTH MORTGAGE HOLDINGS, INC.

Summary of Investments—Other Than Investments in Related Parties

As of December 31, 2020, the amortized cost, fair value and carrying value of our invested assets were as follows:

(Amounts in thousands)	Amortized cost	Fair value	Carrying value
U.S. government, agencies and GSEs	$ 134,215	$ 138,224	$ 138,224
State and political subdivisions	172,631	187,377	187,377
Non-U.S. government	29,592	31,031	31,031
U.S. corporate	2,695,009	2,888,625	2,888,625
Non-U.S. corporate	578,295	607,669	607,669
Other asset-backed	1,172,174	1,193,670	1,193,670
Total	**$ 4,781,916**	**$ 5,046,596**	**$ 5,046,596**

See Report of Independent Registered Public Accounting Firm

SCHEDULE II

GENWORTH MORTGAGE HOLDINGS, INC.
(PARENT COMPANY ONLY)

Balance Sheets

(Amounts in thousands)	December 31, 2020	December 31, 2019
Assets		
Investments in subsidiaries	$ 4,333,551	$ 3,827,072
Cash and cash equivalents	300,318	3
Other assets	3,832	—
Total assets	**$ 4,637,701**	**$ 3,827,075**
Liabilities and equity		
Liabilities:		
Other liabilities	$ 17,728	$ —
Long-term borrowings	738,162	—
Total liabilities	**755,890**	**—**
Equity:		
Common stock	—	—
Additional paid-in capital	2,370,327	2,363,606
Accumulated other comprehensive income (losses)	208,378	93,431
Retained earnings	1,303,106	1,370,038
Total equity	**3,881,811**	**3,827,075**
Total liabilities and equity	**$ 4,637,701**	**$ 3,827,075**

See Notes to Schedule II

See Report of Independent Registered Public Accounting Firm

SCHEDULE II

GENWORTH MORTGAGE HOLDINGS, INC.
(PARENT COMPANY ONLY)

Statements of Income

(Amounts in thousands)	Years ended December 31, 2020	2019
Revenues:		
Net investment income	$ 23	$ —
Total revenues	23	—
Expenses:		
Acquisition and operating expenses, net of deferrals	1	—
Interest expense	18,244	—
Total expenses	18,245	—
Loss before income taxes and equity in income of subsidiaries	**(18,222)**	**—**
Benefit for income taxes	(3,831)	—
Loss before equity in income of subsidiaries	**(14,391)**	**—**
Equity in income of subsidiaries	384,812	677,628
Net income	**$ 370,421**	**$ 677,628**

See Notes to Schedule II
See Report of Independent Registered Public Accounting Firm

SCHEDULE II

GENWORTH MORTGAGE HOLDINGS, INC.
(PARENT COMPANY ONLY)

Statements of Comprehensive Income

(Amounts in thousands)	Years ended December 31, 2020	2019
Net income	$ 370,421	$ 677,628
Other comprehensive income, net of taxes:		
Net unrealized gains on securities not other-than temporarily impaired	114,947	119,953
Total comprehensive income	**$ 485,368**	**$ 797,581**

See Notes to Schedule II
See Report of Independent Registered Public Accounting Firm

SCHEDULE II

GENWORTH MORTGAGE HOLDINGS, INC.
(PARENT COMPANY ONLY)

Statements of Cash Flows

(Amounts in thousands)	Years ended December 31, 2020	2019
Cash flows from operating activities:		
Net income	$ 370,421	$ 677,628
Adjustments to reconcile net income to net cash provided by operating activities:		
Equity in income from subsidiaries	(384,812)	(677,628)
Dividends from subsidiaries	—	250,008
Change in certain assets and liabilities:		
Other assets	(3,832)	—
Other liabilities	18,240	(8)
Net cash provided by operating activities	**17**	**250,000**
Cash flows from investing activities:		
Net cash provided by investing activities	—	—
Cash flows from financing activities:		
Proceeds from the issuance of long-term debt	737,651	—
Dividends paid to Genworth	(437,353)	(250,000)
Net cash provided by (used in) financing activities	**300,298**	**(250,000)**
Net increase in cash and cash equivalents	300,315	—
Cash and cash equivalents at beginning of year	3	3
Cash and cash equivalents at end of year	**$ 300,318**	**$ 3**
Supplementary disclosure of cash flow information:		
Non-cash capital contributions from Genworth	$ 6,721	$ 5,755
Non-cash capital contributions to subsidiaries	$ (6,721)	$ (5,755)

See Notes to Schedule II
See Report of Independent Registered Public Accounting Firm

SCHEDULE II

GENWORTH MORTGAGE HOLDINGS, INC.
(PARENT COMPANY ONLY)

Notes to Schedule II
Years Ended December 31, 2020 and 2019

(1) Organization and purpose

Genworth Mortgage Holdings, Inc. ("GMHI") has been a wholly owned subsidiary of 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. GMHI is a holding company whose subsidiaries offer U.S. mortgage insurance products.

(2) Summary of significant accounting policies

The accompanying GMHI financial statements have been prepared on the same basis and using the same accounting policies as described in the consolidated financial statements included herein. These financial statements should be read in conjunction with our consolidated financial statements and the accompanying notes thereto.

GMHI includes in its statements of income equity in income of subsidiaries, which represents the net income of each of its subsidiaries.

(3) Borrowings

The following table sets forth long-term borrowings as of December 31:

(Amounts in thousands)	2020	2019
6.5% Senior Notes, due 2025	$ 750,000	$ —
Deferred borrowing charges	(11,838)	—
Total	$ 738,162	$ —

On August 21, 2020, GMHI issued $750 million in aggregate principal amount of 6.5% senior notes due in 2025. GMHI 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. GMHI may redeem the notes in whole or in part at any time prior to February 15, 2025, at GMHI's option by paying a make-whole premium plus accrued and unpaid interest, if any. At any time on or after February 15, 2025, GMHI may redeem the notes in whole or in part at its 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 GMHI breaches the terms of the indenture.

GMHI committed to retain $300 million of the net proceeds from the issuance of these notes that can be drawn down exclusively for its debt service or to contribute to GMICO to meet its regulatory capital needs.

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 audited consolidated financial statements and related notes for the years ended December 31, 2020 and 2019. 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 COVID-19. See “—Trends and Conditions” below. Factors that could cause such differences are discussed in this section. For additional information, refer to the sections entitled “Industry and Market Data,” “Cautionary Note Regarding 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 or elsewhere in this document 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 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 second half of 2020 compared to the first half of 2020 as state economies reopened in varying degrees; 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. While the economy remains weak compared to pre-COVID-19, the unemployment rate was elevated at 6.7% in December 2020 compared to the pre-pandemic level of 3.5% in February 2020, but has decreased from a peak of 14.8% in April 2020. Even after the recovery in the second half of 2020, the number of unemployed Americans stands at approximately 11 million, which is 5 million higher than in February 2020. Among the unemployed, those on temporary layoff continued to decrease to 3 million from a peak of 18 million in April 2020, but the number of permanent job losses increased to 3 million. In addition, the number of long term unemployed over 26 weeks increased to 4 million. Specific to housing finance, mortgage origination activity remained robust in the fourth 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 third quarter of 2020. After experiencing a slowdown in sales during the second quarter of 2020, the purchase market improved in the second half of 2020 with sales of previously owned homes increasing 10% in the fourth quarter of 2020 compared to the third quarter of 2020 and inventories declining from 2.8 months to 2.1 months. The pandemic continued to affect our financial results in the fourth quarter of 2020 as primarily evidenced by reserve strengthening and the elevated, but declining, servicer reported forbearance and new delinquencies during the fourth 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 the length of time current forbearance plans may be extended, 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 continue to monitor COVID-19 developments and regulatory and government actions. However, given the specific risks to our business, it is possible the pandemic could have a significant adverse impact on our results of operations and financial condition.

Specific to housing finance, the Coronavirus Aid, Relief, and Economic Security Act (the "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. On February 25, 2021, the FHFA announced that borrowers with a mortgage backed by the GSEs who are in an active COVID-19 forbearance plan as of February 28, 2021 and have reached a cumulative term of 12 months of forbearance may be granted an extension of up to three months and thereafter one or more forbearance plan term extensions of no more than three months each, provided the plan term does not exceed 18 months of total delinquency or a cumulative term of 18 months, whichever is shorter. 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 GSEs as well as most servicers of non-federally backed mortgage loans have extended similar relief to their respective portfolios of loans. On February 25, 2021, the FHFA announced an extension until June 30, 2021 of the foreclosure moratorium that was originally set to expire on March 31, 2021 for mortgages that are purchased by the GSEs. 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. In addition, the CARES Act provides that furnishers of credit reporting information, including servicers, should continue to report a loan as current to credit reporting agencies if the loan is subject to a payment accommodation, such as forbearance, so long as the borrower abides by the terms of the accommodation. 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 fourth quarter of 2020 with approximately 5.4% or 50,018 of our active primary policies reported in a forbearance plan, of which approximately 63% were reported as delinquent. 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.

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 United States government, including but not limited to, the Federal Housing Administration ("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 December 17, 2020, the FHFA promulgated the Enterprise Capital Framework Final Rule for Fannie Mae and Freddie Mac, which includes significantly increased regulatory capital requirements for the GSEs over current requirements. Higher GSE 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. On January 20, 2021, the White House issued a memorandum establishing a plan for managing the federal regulatory process which included, among other things, a request that the heads of executive departments and agencies postpone the effective dates of newly-issued rules for sixty days. Since then, on February 23, 2021, the Consumer Financial Protection Bureau ("CFPB") published a statement entitled "Statement on Mandatory Compliance Date of General QM Final Rule and Possible Reconsideration of General QM Final Rule and Seasoned QM Final Rule" in which it announced the CFPB was considering rulemaking to reconsider the Seasoned QM Final Rule and would also propose a rule to delay the July 1, 2021 mandatory compliance date of the Amended QM Rule.

Subsequently, on March 5, 2021, the CFPB promulgated a Notice of Proposed Rulemaking to delay the mandatory compliance date of the Amended QM Rule until October 1, 2022. As proposed under the Notice of Proposed Rulemaking, the prior 43% debt-to-income ("DTI")-based QM Rule definition, the new price-based (APOR) definition and the QM Patch (the QM Patch permits loans that exceed a debt to income ratio of 43% to be eligible for QM status) will all remain available to lenders for loan applications received prior to October 1, 2022. On January 14, 2021, the FHFA and the Treasury Department agreed to amend the Preferred Stock Purchase Agreements ("PSPAs") between the Treasury Department and each of the GSEs to increase the amount of capital each GSE may retain. In addition, among other things, the PSPAs limit the amount of certain mortgages the GSEs may acquire with two or more prescribed risk factors, including certain mortgages with combined loan-to-value ratios above 90%. Because these limits are based on the current market size, we do not expect any material impact to the private mortgage market in the near term.

Estimated mortgage origination volume increased during 2020 compared to 2019 primarily as lower interest rates resulted in higher refinance origination volumes and to a lesser degree higher purchase originations. The estimated private mortgage insurance available market increased driven by higher refinance originations and higher purchase market penetration. Given the volume experienced in 2020, we expect mortgage originations to remain strong into the first quarter of 2021 fueled by historically low interest rates driving refinances and by continued strength in the purchase originations market.

Our primary persistency rate declined to 59% for the year ended December 31, 2020 compared to 76% for the year ended December 31, 2019. Lower persistency has impacted 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 resulting in higher earned premiums, accelerating the amortization of our existing reinsurance transactions reducing their associated PMIERs capital credit in 2020 and shifting the concentration of primary IIF. For the year ended December 31, 2020, our primary IIF has less than 10% concentration in 2014 and prior book years. Our 2005 through 2008 book year concentration is approximately 5%. In contrast, our 2020 book year is 45% of our Primary IIF concentration at December 31, 2020.

The United States 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 United States mortgage insurers utilize proprietary risk-based pricing engines. Given evolving market dynamics, we expect price competition to remain highly competitive. At the same time, we believe mortgage insurers, including us, consider many variables when pricing their NIW including the prevailing and future macroeconomic conditions.

NIW of $99.9 billion in 2020 increased 60% compared to 2019 primarily due to higher mortgage refinancing originations and a larger private mortgage insurance market. Our largest customer accounted for 12% and 16% of our total NIW during 2020 and 2019, respectively. No other customer exceeded 10% of our NIW during 2020 and 2019. Additionally, no customer had earned premiums that accounted for more than 10% of our total revenues for the years ended December 31, 2020 and 2019.

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 our Parent's financial condition and the execution of our Parent's strategic plans. 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 2020 compared to 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 lower average premium rates. The year ended December 31, 2019 included a favorable adjustment of $14 million related to our single premium earnings pattern review. As a result of COVID-19, we experienced a significant increase in the number of reported delinquent loans between the second and fourth quarters of 2020 as compared to recent pre-COVID-19 quarters. 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 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 liability recorded in 2020 was not significant to the change in earned premiums for the year ended December 31, 2020 as a result of the high concentration of new delinquencies being subject to forbearance and their lower estimated claim rates. The post-default premium liability increased by $3 million primarily as a result of COVID-19 delinquencies and the total liability for all delinquencies was $9 million as of December 31, 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 2020, servicers also continued to remit premium on non-delinquent loans and therefore we did not experience a significant change to earned premiums.

Our loss reserves and loss ratio continue to be negatively impacted by COVID-19. 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 which may ultimately cure at a higher rate than traditional delinquencies should economic activity return to pre-COVID-19 levels. 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 claim rates for new delinquencies in forbearance plans. Given this difference, our prior hurricane experience was leveraged as one of many considerations in the establishment of an appropriate claim rate estimate for new delinquencies in forbearance plans that have emerged as a result of COVID-19. Severity of loss on loans that do go to claim, however, may be negatively impacted by the extended forbearance timeline, the associated elevated expenses, the higher loan amount of the recent new delinquencies and the potential for home price depreciation.

Our loss ratio was 39% for the year ended December 31, 2020, compared to 6% for the year ended December 31, 2019. The increase was largely from higher new delinquencies in 2020 driven primarily from an increase in borrower forbearance as a result of COVID-19. We also strengthened reserves on existing delinquencies by $65 million during 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 favorable reserve adjustments of $23 million in 2019 mostly associated with lower expected claim rates. The favorable reserve adjustments of $23 million along with a $14 million favorable adjustment to earned premiums from our single premium earnings pattern review reduced the loss ratio by three percentage points in 2019. In addition, we experienced lower net benefits from cures and aging of existing delinquencies in 2020. New primary delinquencies of 85,074 contributed $308 million of loss expense during 2020 largely determined by applying a claim rate estimate which considers the emergence of cures on forbearance and non-forbearance delinquencies and the ongoing economic impact due to the pandemic. Approximately 82% of our primary new delinquencies between the second and fourth quarters of 2020 were subject to a forbearance plan as compared to less than 1% in recent quarters prior to COVID-19. For the year ended December 31, 2019, we had $120 million of loss expense from 33,236 new primary delinquencies. Prior to COVID-19, traditional measures of credit quality, such as Fair Isaac Corporation ("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 new delinquencies revealed that additional factors such as higher DTI ratios, 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 December 31, 2020, GMICO's RTC ratio under the current regulatory framework as established under North Carolina law and enforced by the NCDOI, GMICO's domestic insurance regulator, was approximately 12.3:1 and 12.5:1 as of December 31, 2020 and 2019, respectively. This RTC ratio remains below the NCDOI's maximum RTC ratio of 25:1. North Carolina's calculation of RTC excludes the 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 RTC ratio in the short term as a result of COVID-19. GMICO's ongoing RTC 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 provided.

Under 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 the PMIERs Amendment. In September 2020, the GSEs issued an amended and restated version of the PMIERs Amendment that clarifies Section I (Risk-Based Required Asset Amount Factors), which became effective retroactively on June 30, 2020, and includes a new Section V (Delinquency Reporting), which became effective on December 31, 2020. On December 4, 2020, the GSEs issued a revised and restated version of the PMIERs Amendment that revised and replaced the version issued in September 2020. The December 4, 2020 version extended the application of reduced PMIERs capital factors to each non-performing loan that has an initial missed monthly payment occurring on or after March 1, 2020 and prior to April 1, 2021 and capital preservation period from March 31, 2021 to June 30, 2021.

The PMIERs Amendment implemented both permanent and temporary revisions to PMIERs. For 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 monthly payment occurring on or after March 1, 2020 and prior to April 1, 2021 or (ii) is subject to a forbearance plan granted in response to a financial hardship related to COVID-19, 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) above, 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 a non-performing loan due to having missed two monthly payments. Loans subject to a forbearance plan described in (ii) above include those that are either in a repayment plan or loan modification trial period following the forbearance plan unless reported to the approved insurer that the loan is no longer in such forbearance plan, repayment plan, or loan modification trial period. The PMIERs Amendment also imposes temporary capital preservation provisions through June 30, 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. In addition, the PMIERs Amendment imposes permanent revisions to the risk-based required asset amount factor for non-performing loans for properties located in future FEMA-Declared Major Disaster Areas eligible for individual assistance.

In September 2020, subsequent to the issuance of our 2025 Senior Notes, the GSEs imposed certain 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: (i) approval of GMICO's plan to secure additional capital, if needed, (ii) GMICO obtains "BBB+"/"Baa1" (or higher) rating from Standard & Poor's, Moody's or Fitch for two consecutive quarters and (iii) our Parent achieves a debt leverage ratio (excluding U.S. life business equity) that is less than 25% and a cash coverage ratio that is at least 2.5 for two consecutive quarters. Prior to the satisfaction of the GSE Conditions, the GSE Restrictions require (a) GMICO to maintain 115% of PMIERs Minimum Required Assets through 2021, 120% during 2022 and 125% thereafter, (b) the Company to retain $300 million of its holding company cash that can be drawn down exclusively for the Company debt service or to contribute to GMICO to meet its regulatory capital needs including PMIERs and (c) prior written approval must be received from the GSEs before any additional debt issuance by either GMICO or the Company. In addition, GMICO is not permitted to make any dividend payments, capital withdrawals or changes to capital deployments that would cause the PMIERs Minimum Required Assets to fall below the percentages set forth in clause (a) above.

As of December 31, 2020, we had available assets of $4,588 million against $3,359 million net required assets under PMIERs, compared to available assets of $4,451 million against $3,377 million net required assets as of September 30, 2020 and available assets of $3,811 million against $2,754 million net required assets as of December 31, 2019. The estimated sufficiency above the published PMIERs financial requirements as of December 31, 2020 was $1,229 million, compared to $1,074 million above the published PMIERs requirements as of September 30, 2020 and $1,057 million above the published PMIERs requirements as of December 31, 2019, resulting in a PMIERs sufficiency ratio of 137%, 132% and 138%, respectively, which, was above the requirement imposed by the GSE Restrictions that required us to maintain a PMIERs sufficiency ratio of 115% in 2020. The increase in the PMIERs sufficiency compared to September 30, 2020 was driven in part by the completion of an insurance linked note transaction in October 2020, which added $311 million of additional PMIERs capital credit as of December 31, 2020, and elevated lapse driven by prevailing low interest rates, partially offset by elevated NIW. In addition, elevated lapse continued to drive an acceleration of the amortization of our existing reinsurance transactions, which caused a reduction in PMIERs capital credit in the fourth quarter of 2020. In addition, our PMIERs required assets as of December 31, 2020 benefited from the application of a 0.30 multiplier applied to the risk-based required asset amount factor for certain non-performing loans.

Our CRT transactions provided an estimated aggregate of $936 million of PMIERs capital credit as of December 31, 2020. On October 22, 2020, we obtained $350 million of fully collateralized excess-of-loss ("XOL") reinsurance coverage from Triangle Re 2020-1 on a portfolio of existing mortgage insurance policies written from January 2020 through August 2020. Triangle Re 2020-1 financed the reinsurance coverage by issuing mortgage insurance-linked notes ("MILNs") in an aggregate amount of $350 million to unaffiliated investors. The notes are non-recourse to us and our affiliates. For additional details see Note 6 to our consolidated financial statements.

On February 4, 2021, we executed an XOL reinsurance transaction with a panel of reinsurers, which will provide up to $210 million of reinsurance coverage on a portion of current and expected NIW for the 2021 book, effective January 1, 2021. On March 2, 2021, we obtained $495 million of fully collateralized XOL reinsurance coverage from Triangle Re 2021-1 Ltd. ("Triangle Re 2021-1") on a portfolio of existing seasoned mortgage insurance policies written from January 2014 through December 2018 and from October 2019 through December 2019. Triangle Re 2021-1 financed the reinsurance coverage by issuing MILNs in an aggregate amount of $495 million to unaffiliated investors. The notes are non-recourse to us and our affiliates. We may execute future CRT 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.

We paid dividends of $437 million in 2020 generated from the net cash proceeds of GMHI's 2025 Senior Notes offering. As a result of the uncertainty regarding the impact of COVID-19 and the recently imposed PMIERs Amendment and GSE Restrictions on our business, we intend to preserve PMIERs available assets. The amount and timing of future dividends will depend on the economic recovery from COVID-19, among other factors.

On December 29, 2020, the CFPB promulgated two final rules (i) the Amended QM Rule and (ii) Seasoned QM Final Rule. The effective date of both rules was March 1, 2021, with a mandatory compliance date for the Amended QM Rule of July 1, 2021. However, on February 23, 2021, the CFPB published a statement entitled "Statement on Mandatory Compliance Date of General QM Final Rule and Possible Reconsideration of General QM Final Rule and Seasoned QM Final Rule" in which it announced the CFPB was considering rulemaking to reconsider the Seasoned QM Final Rule and would also propose a rule to delay the July 1, 2021 mandatory compliance date of the Amended QM Rule. Subsequently, on March 5, 2021, the CFPB promulgated a Notice of Proposed Rulemaking to delay the mandatory compliance date of the Amended QM Rule until October 1, 2022. As proposed under the Notice of Proposed Rulemaking, the prior 43% DTI-based QM Rule definition, the new price-based (APOR) definition and the QM Patch will all remain available to lenders for loan applications received prior to October 1, 2022.

Results of Operations and Key Metrics

Results of Operations

Year Ended December 31, 2020 Compared to Year Ended December 31, 2019

The following table presents our consolidated results for the periods indicated:

(Amounts in thousands)	Years ended December 31 2020	Years ended December 31 2019	Increase (decrease) and percentage change 2020 vs. 2019	
Revenues:				
Premiums	$ 971,365	$ 856,976	$ 114,389	13 %
Net investment income	132,843	116,927	15,916	14 %
Net investment gains (losses)	(3,324)	718	(4,042)	(563)%
Other income	5,575	4,232	1,343	32 %
Total revenues	1,106,459	978,853	127,606	13 %
Losses and expenses:				
Losses incurred	379,834	49,850	329,984	662 %
Acquisition and operating expenses, net of deferrals	215,024	195,768	19,256	10 %
Amortization of deferred acquisition costs and intangibles	20,939	15,065	5,874	39 %
Interest expense	18,244	—	18,244	NM [(1)]
Total losses and expenses	634,041	260,683	373,358	143 %
Income before income taxes and change in fair value of unconsolidated affiliate	472,418	718,170	(245,752)	(34)%
Provision for income taxes	101,997	155,832	(53,835)	(35)%
Income before change in fair value of unconsolidated affiliate	370,421	562,338	(191,917)	(34)%
Change in fair value of unconsolidated affiliate, net of taxes	—	115,290	(115,290)	(100)%
Net income	$ 370,421	$ 677,628	$ (307,207)	(45)%
Loss ratio [(2)]	39 %	6 %		
Expense ratio (net earned premiums) [(3)]	24 %	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 higher policy cancellations in our single premium mortgage insurance product driven largely by higher mortgage refinancing, partially offset by lower average premium rates in 2020. The year ended December 31, 2019 also included a favorable adjustment of $14 million related to our single premium earnings pattern review driven by our revised assessment of recent claim and cancellation experience and the refinement of loan attributes.

Net investment income increased primarily due to higher average invested assets partially offset by lower investment yields in 2020.

Net investment losses in 2020 were primarily driven by impairments and net losses from the sale of fixed maturity securities. Net investment gains in 2019 were largely from net 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 from a larger mortgage insurance market.

Losses and expenses

Losses incurred increased largely from new delinquencies driven primarily by a significant increase in borrower forbearance as a result of COVID-19 and strengthening of existing reserves of $65 million in 2020 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 2020. Included in 2019 were favorable reserve adjustments of $23 million mostly associated with lower expected claim rates. Our loss ratio increased primarily from higher losses, partially offset by higher net earned premiums in 2020.

The following table shows incurred losses related to current and prior accident years for the years ended December 31:

(Amounts in thousands)	**2020**	**2019**
Losses and LAE incurred related to current accident year	$ 364,548	$ 105,734
Losses and LAE incurred related to prior accident years	16,202	(55,917)
Total incurred [(1)]	$ 380,750	$ 49,817

(1) Excludes run-off business.

Acquisition and operating expenses, net of deferrals, increased primarily driven by higher acquisition costs mainly driven by increased NIW in 2020 and higher information technology and other expenses due to continued investment in modernization of the business.

Amortization of DAC and intangibles consists primarily of the amortization of acquisition costs that are capitalized and capitalized software. Amortization of DAC and intangibles increased primarily due to accelerated DAC amortization of $6 million driven by elevated lapses in 2020.

Our expense ratio decreased slightly primarily from higher earned premiums, mostly offset by higher acquisition and operating expenses, and higher DAC amortization in 2020.

Interest expense in 2020 relates to our 2025 Senior Notes issued in August 2020. For additional details, refer to Note 7 in our consolidated financial statements.

Provision for income taxes

The effective tax rate was 21.6% and 21.7% for the years ended December 31, 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 was driven by the sale of of our investment in Genworth Canada, which closed on December 12, 2019. See Note 3 to our consolidated financial statements for additional information.

Use of Non-GAAP Measures

We use a non-U.S. GAAP ("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. 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 U.S. 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. After this offering, 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 U.S. 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 years ended December 31:

(Amounts in thousands)	2020	2019
Net income	$ 370,421	$ 677,628
Adjustments to net income:		
Net investment (gains) losses	3,324	(718)
Change in fair value of unconsolidated affiliate	—	(127,397)
Taxes on adjustments	(698)	12,259
Adjusted operating income	$ 373,047	$ 561,772

The change in fair value of the investment in Genworth Canada was $127.4 million for the year ended December 31, 2019, and is included within change in fair value of unconsolidated affiliate in the consolidated statements of income, net of provision (benefit) for income taxes of $12.1 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 of $51 million on existing delinquencies and from lower net benefits from cures and aging of existing delinquencies in 2020. These decreases were partially offset by higher premiums largely driven by higher IIF and an increase in policy cancellations in our single premium mortgage insurance product primarily due to higher mortgage refinancing in 2020. The year ended December 31, 2019 included favorable reserve adjustments of $18 million mostly associated with lower expected claim rates and a favorable adjustment of $11 million related to our single premium earnings pattern review.

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 years ended December 31:

(Dollar amounts in millions)	2020	2019
New insurance written	$ 99,871	$ 62,431
Insurance in-force[1]	$ 207,947	$ 181,785
Risk in-force	$ 52,475	$ 46,246
Persistency rate	59%	76%
Policies in-force (count)	924,624	851,070
Delinquent loans (count)	44,904	16,392
Delinquency rate	4.86%	1.93%

(1) Represents the aggregate unpaid principal balance for loans we insure. Original loan balances are primarily used to determine premiums.

New insurance written

NIW for the year ended December 31, 2020 increased 60% compared to the year ended December 31, 2019 primarily due to higher mortgage refinancing originations and a larger private mortgage insurance market in 2020 partially offset by lower persistency in 2020. 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 years ended December 31:

(Amounts in millions)	2020		2019	
Primary	$ 99,871	100%	$ 62,431	100%
Pool	—	—	—	—
Total	$ 99,871	100%	$ 62,431	100%

The following table presents primary NIW by underlying type of mortgage for the years ended December 31:

(Amounts in millions)	2020		2019	
Purchases	$ 67,183	67%	$ 50,267	81 %
Refinances	32,688	33	12,164	19
Total	$ 99,871	100%	$ 62,431	100 %

The following table presents primary NIW by policy payment type for the years ended December 31:

(Amounts in millions)	2020		2019	
Monthly	$ 90,147	90 %	$ 54,666	88 %
Single	9,251	9	7,047	11
Other	473	1	718	1
Total	$ 99,871	100 %	$ 62,431	100 %

The following table presents primary NIW by FICO score for the years ended December 31:

(Amounts in millions)	2020		2019	
Over 760	$ 41,584	42 %	$ 24,805	40 %
740-759	16,378	16	10,624	17
720-739	14,305	14	9,154	15
700-719	12,193	12	7,888	13
680-699	8,813	9	5,851	9
660-679 (1)	3,846	4	2,204	3
640-659	1,955	2	1,338	2
620-639	796	1	567	1
<620	1	—	—	—
Total	$ 99,871	100 %	$ 62,431	100 %

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

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. The following table presents primary NIW by LTV ratio for the years ended December 31:

(Amounts in millions)	2020		2019	
95.01% and above	$ 11,625	11 %	$ 9,652	15 %
90.01% to 95.00%	42,753	43	26,961	43
85.01% to 90.00%	28,750	29	17,874	29
85.00% and below	16,743	17	7,944	13
Total	$ 99,871	100 %	$ 62,431	100 %

The following table presents primary NIW by DTI ratio for the years ended December 31:

(Amounts in millions)	2020		2019	
45.01% and above	$ 13,672	14 %	$ 13,587	22 %
38.01% to 45.00%	35,729	36	21,354	34
38.00% and below	50,470	50	27,490	44
Total	$ 99,871	100 %	$ 62,431	100 %

Insurance in-force and Risk in-force

IIF increased largely from NIW, partially offset by lapses and cancellations as we experienced lower persistency in 2020. Primary persistency rate was 59% and 76% for the years ended December 31, 2020 and 2019, respectively. This decrease in persistency resulted in elevated single premium policy cancellations in 2020. RIF increased primarily as a result of higher IIF.

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

(Amounts in millions)	December 31, 2020		December 31, 2019	
Primary IIF	$ 207,947	100 %	$ 181,785	99 %
Pool IIF	883	—	1,084	1
Total IIF	$ 208,830	100 %	$ 182,869	100 %
Primary RIF	$ 52,475	100 %	$ 46,246	100 %
Pool RIF	146	—	188	—
Total RIF	$ 52,621	100 %	$ 46,434	100 %

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

(Amounts in millions)	December 31, 2020		December 31, 2019	
2004 and prior	$ 708	—%	$ 865	1 %
2005 to 2008	10,614	5	13,775	8
2009 to 2012	1,210	1	2,360	1
2013	1,820	1	3,296	2
2014	3,699	2	6,269	3
2015	7,887	4	13,109	7
2016	15,385	7	24,807	14
2017	16,289	8	27,839	15
2018	17,235	8	30,589	17
2019	39,463	19	58,876	32
2020	93,637	45	—	—
Total	$ 207,947	100%	$ 181,785	100 %

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

(Amounts in millions)	December 31, 2020		December 31, 2019	
2004 and prior	$ 202	— %	$ 247	— %
2005 to 2008	2,716	5	3,523	8
2009 to 2012	320	1	645	1
2013	512	1	927	2
2014	999	2	1,693	4
2015	2,104	4	3,471	8
2016	4,063	8	6,427	14
2017	4,180	8	7,091	15
2018	4,322	8	7,655	17
2019	9,840	19	14,567	31
2020	23,217	44	—	—
Total	$ 52,475	100 %	$ 46,246	100 %

The following table presents the development of primary IIF for the years ended December 31:

(Amounts in millions)	2020	2019
Beginning balance	$ 181,785	$ 157,103
NIW	99,871	62,431
Cancellations, principal repayments and other reductions (1)	(73,709)	(37,749)
Ending balance	$ 207,947	$ 181,785

(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)	December 31, 2020 $	December 31, 2020 %	December 31, 2019 $	December 31, 2019 %
95.01% and above	$ 34,520	17 %	$ 32,502	18 %
90.01% to 95.00%	92,689	45	83,189	46
85.01% to 90.00%	80,637	39	65,978	36
85.00% and below	101	—	116	—
Total	$ 207,947	100 %	$ 181,785	100 %

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

(Amounts in millions)	December 31, 2020 $	December 31, 2020 %	December 31, 2019 $	December 31, 2019 %
95.01% and above	$ 9,279	18 %	$ 8,365	18 %
90.01% to 95.00%	26,774	51 %	23,953	52
85.01% to 90.00%	16,401	31 %	13,903	30
85.00% and below	21	— %	25	—
Total	$ 52,475	100 %	$ 46,246	100 %

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

(Amounts in millions)	December 31, 2020		December 31, 2019	
Over 760	$ 78,488	38 %	$ 69,129	38 %
740-759	33,635	16	29,961	16
720-739	30,058	14	26,184	14
700-719	25,870	12	21,567	12
680-699	20,140	10	16,936	9
660-679 [(1)]	9,819	5	8,504	5
640-659	5,935	3	5,379	3
620-639	2,902	1	2,794	2
<620	1,100	1	1,332	1
Total	$ 207,947	100 %	$ 181,785	100 %

(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:

(Amounts in millions)	December 31, 2020		December 31,2019	
Over 760	$ 19,691	37 %	$ 17,606	38 %
740-759	8,497	16	7,685	17
720-739	7,673	15	6,717	14
700-719	6,579	12	5,464	12
680-699	5,100	10	4,286	9
660-679 (1)	2,442	5	2,113	5
640-659	1,472	3	1,322	3
620-639	737	1	709	1
<620	284	1	344	1
Total	$ 52,475	100 %	$ 46,246	100 %

(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, the 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 years ended December 31:

(Loan count)	2020	2019
Number of delinquencies, beginning of period	16,392	16,860
New defaults	85,074	33,236
Cures	(55,396)	(31,363)
Claims paid	(1,148)	(2,323)
Rescissions and claim denials	(18)	(18)
Number of delinquencies, end of period	44,904	16,392

The following table sets forth changes in our direct primary case loss reserves for the years ended December 31:

(Amounts in thousands) (1)	2020	2019
Loss reserves, beginning of period	$ 204,749	$ 262,171
Claims paid	(52,389)	(103,578)
Increase in reserves	364,503	46,156
Loss reserves, end of period	$ 516,863	$ 204,749

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

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

	December 31, 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	10,484	$ 43	$ 549	8%
4 - 11 payments	30,324	331	1,853	18%
12 payments or more	4,096	143	204	70%
Total	44,904	$ 517	$ 2,606	20%

	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%

(1) Direct primary case reserves exclude loss adjustment expenses, incurred but not reported and reinsurance reserves.

As of December 31, 2020, we have experienced an 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 18 months, therefore, it is possible we could experience elevated delinquencies in this aged category during 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.

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 claim rate estimate which considers the emergence of cures on forbearance and non-forbearance delinquencies and the ongoing economic impact due to the pandemic. 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 December 31, 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 December 31, 2020:

	Percent of RIF	Percent of direct primary case reserves	Delinquency rate
By State:			
California	11 %	11 %	6.20%
Texas	8	8	5.82%
Florida (1)	7	10	6.92%
Illinois (1)	5	6	5.21%
New York (1)	5	11	6.92%
Michigan	4	2	2.93%
Washington	4	3	5.37%
Pennsylvania (1)	4	3	4.11%
North Carolina	4	2	3.84%
Arizona	3	2	4.54%
All other states (2)	45	42	4.32%
Total	100 %	100 %	4.86%

(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 states by our primary RIF as of December 31, 2019:

	Percent of RIF	Percent of direct primary case reserves	Delinquency rate
By State:			
California	11 %	6 %	1.42 %
Texas	7	5	2.02 %
Florida (1)	6	11	2.13 %
New York (1)	5	16	2.98 %
Illinois (1)	5	6	2.25 %
Washington	4	2	1.10 %
Michigan	4	2	1.43 %
Pennsylvania (1)	4	4	2.12 %
North Carolina	4	2	1.79 %
Ohio (1)	3	3	1.87 %
All other states (2)	47	43	1.92 %
Total	100 %	100 %	1.93 %

(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 December 31, 2020:

	Percent of RIF	Percent of direct primary case reserves	Delinquency rate
By MSA or MD:			
Chicago-Naperville, IL MD	3 %	4 %	6.36 %
Phoenix, AZ MSA	3	2	4.63 %
New York, NY MD	3	8	10.25 %
Atlanta, GA MSA	2	3	6.68 %
Washington-Arlington, DC MD	2	2	6.09 %
Houston, TX MSA	2	3	7.59 %
Riverside-San Bernardino CA MSA	2	2	7.08 %
Los Angeles-Long Beach, CA MD	2	2	7.57 %
Dallas, TX MD	2	2	5.10 %
Seattle-Bellevue, WA MD	2	2	6.33 %
All Other MSAs/MDs	77	70	4.43 %
Total	100 %	100 %	4.86 %

The table below sets forth our primary delinquency rates for the ten largest MSAs or MDs by our primary RIF as of December 31, 2019:

	Percent of RIF	Percent of direct primary case reserves	Delinquency rate
By MSA or MD:			
Chicago-Naperville, IL MD	3 %	5 %	2.50%
New York, NY MD	3	10	3.68%
Phoenix, AZ MSA	2	1	1.38%
Atlanta, GA MSA	2	2	2.14%
Washington-Arlington, DC MD	2	1	1.47%
Seattle-Bellevue, WA MD	2	1	0.98%
Los Angeles-Long Beach, CA MD	2	1	1.35%
Houston, TX MSA	2	2	2.62%
Riverside-San Bernardino CA MSA	2	2	2.08%
Nassau County-Suffolk County, NY MD	2	5	3.47%
All Other MSAs/MDs	78	70	1.86%
Total	100 %	100 %	1.93%

The frequency of delinquencies may 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 direct primary case reserves by policy year and delinquency rates as of December 31, 2020:

	Percent of RIF	Percent of direct primary case reserves	Delinquency rate	Cumulative delinquency rate (1)
Policy Year:				
2004 and prior	— %	3 %	16.82 %	3.62 %
2005 to 2008	5	25	13.35 %	18.79 %
2009 to 2012	1	1	6.31 %	0.95 %
2013	1	1	4.84 %	0.82 %
2014	2	3	6.06 %	1.57 %
2015	4	5	5.66 %	1.97 %
2016	8	9	5.46 %	2.49 %
2017	8	12	6.51 %	3.34 %
2018	8	14	7.70 %	4.01 %
2019	19	19	5.60 %	3.93 %
2020	44	8	1.09 %	1.04 %
Total portfolio	100 %	100 %	4.86 %	4.86 %

(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.

The following table sets forth the dispersion of primary RIF and loss reserves by policy year and delinquency rates as of December 31, 2019:

	Percent of RIF	Percent of direct primary case reserves	Delinquency rate	Cumulative delinquency rate (1)
Policy Year:				
2004 and prior	1 %	7 %	14.62 %	3.61 %
2005 to 2008	8	51	8.47 %	18.48 %
2009 to 2012	1	2	2.42 %	0.87 %
2013	2	2	1.72 %	0.58 %
2014	4	4	2.04 %	0.94 %
2015	7	6	1.59 %	0.93 %
2016	14	9	1.22 %	0.89 %
2017	15	10	1.29 %	1.05 %
2018	17	7	1.05 %	0.88 %
2019	31	2	0.19 %	0.18 %
Total portfolio	100 %	100 %	1.93 %	4.69 %

(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 COVID-19 given their significant representation of RIF. As of December 31, 2020, our 2013 and newer policy years represented approximately 94% of our primary RIF and 71% 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 of directors to our Parent's investment committee and chief investment officer. Our Parent's investment team, with oversight from our board of directors 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:

	December 31, 2020		December 31, 2019	
(Amounts in thousands)	**Fair value**	**% of total**	**Fair value**	**% of total**
U.S. government, agencies and government-sponsored enterprises	$ 138,224	2.7 %	$ 92,336	2.4 %
State and political subdivisions	187,377	3.7	98,159	2.6
Non-U.S. government	31,031	0.6	19,434	0.5
U.S. corporate	2,888,625	57.3	2,261,446	60.1
Non-U.S. corporate	607,669	12.0	364,469	9.7
Other asset-backed	1,193,670	23.7	928,588	24.7
Total available-for-sale fixed maturity securities	**$ 5,046,596**	**100.0 %**	**$ 3,764,432**	**100.0 %**

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

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

	December 31 2020	December 31, 2019
AAA	11.3 %	11.2 %
AA	12.6	12.0
A	35.5	36.4
BBB	38.2	39.3
BB & below	2.4	1.1
Total	**100.0 %**	**100.0 %**

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

	December 31, 2020	December 31, 2019
Duration (in years)	3.4	3.1
Pre-tax yield (% of average investment portfolio assets)	2.8 %	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 consolidated cash flows for the years ended December 31:

(Amounts in thousands)	2020	2019
Net cash provided by (used in):		
Operating activities	$ 704,350	$ 500,020
Investing activities	(1,136,912)	175,987
Financing activities	300,298	(250,000)
Net increase (decrease) in cash and cash equivalents	$ (132,264)	$ 426,007

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 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. We had cash outflows from investing activities in 2020 primarily as a result of purchases of fixed maturity securities using net proceeds from the December 2019 sale of our investment in Genworth Canada and our operating cash flows, partially offset by higher maturities and sales of our fixed maturity securities. We had cash inflows from investing activities in 2019 primarily from the sale of our investment in Genworth Canada, partially offset by net purchases of fixed maturity securities.

Financing activities in 2020 reflect $738 million net proceeds from the issuance of our 2025 Senior Notes, discussed below, partially offset by a $437 million dividend paid to our Parent from the net proceeds of the offering. We paid dividends of $250 million in 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 in aggregate principal amount of 6.5% senior notes due in 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.

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 and distributions to us is restricted by certain provisions of North Carolina insurance laws. Our insurance subsidiaries may pay dividends only from unassigned surplus; payments made from sources other than unassigned surplus are categorized as distributions. Notice of all dividends must be submitted to the Commissioner of the NCDOI (the “Commissioner”) within 5 business days after declaration of the dividend or distribution, and at least 30 days before payment thereof. No dividend may be paid until 30 days after the Commissioner has received notice of the declaration thereof and (i) has not within that period disapproved the payment or (ii) has approved the payment within the 30-day period. Any distribution, regardless of amount, requires that same 30-day notice to the Commissioner, but also requires the Commissioner’s affirmative approval before being paid. Based on our estimated statutory results and in accordance with applicable dividend restrictions, our regulated insurance operating subsidiaries currently have capacity to pay dividends from unassigned surplus of $199 million in 2021, with GMICO comprising $197 million of the unassigned surplus, 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 or non-disapproval 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 June 30, 2021 before paying any dividends. In addition, 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. We may become subject to additional requirements or conditions imposed by the GSEs, which directly or indirectly could impair the ability of GMICO to pay dividends to us.

In addition, we review multiple other considerations 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 on 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 and 12.5:1 as of December 31, 2020 and 2019, respectively, 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 U.S. 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 December 31, 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:

(Dollar amounts in millions)	December 31, 2020	December 31, 2019
Statutory policyholders' surplus	$ 1,555	$ 1,632
Contingency reserves	2,518	2,032
Combined statutory capital	**4,073**	**3,664**
Adjusted RIF[1]	$ 49,104	$ 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 in this prospectus. In accordance with NCDOI requirements, adjusted RIF excludes delinquent policies.

Liquidity

As of December 31, 2020, we maintained liquidity in the form of cash and cash equivalents of $453 million compared to $585 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. On August 21, 2020, we issued the 2025 Senior Notes. The GSE Restrictions require us 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, until the GSE Conditions are satisfied. See "—Trends and Conditions" for additional details. We distributed $437 million of the net proceeds to Genworth Holdings, Inc. at the closing of the offering of our 2025 Senior Notes. The 2025 Senior Notes were issued to persons reasonably believed to be qualified institutional buyers in a private offering exempt from registration pursuant to Rule 144A under the Securities Act and to non-U.S. persons outside of the United States in compliance with Regulation S under the Securities Act.

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 2025 Senior 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 NCDOI may seek to prevent GMICO from returning that capital to GMHI in the form of a dividend, distribution or an intercompany loan. In addition, with certain exceptions, the settlement agreement between our Parent and AXA S.A. ("AXA") requires proceeds from any future debt and equity issuance by us and/or our subsidiaries to be used to prepay the secured promissory note issued by our Parent to AXA (as amended, the "Promissory Note"). 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 consolidated financial statements 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

The following ratings have been independently assigned by third-party rating organizations and represent our current ratings, which are subject to change. On August 19, 2020, Moody's affirmed the "Baa3" (Adequate) insurance financial strength ("IFS") rating and stable outlook of GMICO. Additionally, Moody's assigned a "Ba3" issuer rating to GMHI. On August 19, 2020, Fitch assigned a "BBB-" IFS rating to GMICO with a stable outlook and assigned a "BB" issuer default rating to GMHI. On November 20, 2020, Standard & Poor's affirmed its "BB+" long-term financial strength and issuer credit rating of GMICO with an outlook of Creditwatch Negative.

Contractual Obligations and Commitments

We enter into agreements and other relationships with third parties in the ordinary course of our operations. However, we do not believe that our cash flow requirements can be assessed based upon this analysis of these obligations, as the funding of these future cash obligations will be from future cash flows from premiums and investment income that are not reflected in the following table. Future cash outflows, whether they are contractual obligations or not, also will vary based upon our future needs. Although some outflows are fixed, others depend on future events. An example of obligations that are fixed include future lease payments. An example of obligations that will vary include insurance liabilities that depend on losses incurred.

The following table presents our payments due under contractual obligations by period as of December 31, 2020:

	Payments due by period				
(Amounts in thousands)	**Total**	**Less than 1 year**	**1—3 years**	**3—5 years**	**More than 5 years [3]**
Borrowings and Interest [1]	$ 992,938	$ 47,938	$ 97,500	$ 847,500	$ —
Operating lease obligations [2]	25,983	3,518	7,233	7,447	7,785
Estimated loss reserves [3]	516,863	79,080	282,207	108,024	47,552
Total	1,535,784	130,536	386,940	962,971	55,337

(1) Includes payments of principal and interest on our long-term borrowings.

(2) Includes the undiscounted lease payments required under our operating leases. The related operating lease liability is recorded in our consolidated balance sheet net of imputed interest of $5.5 million. See Note 2 to our consolidated financial statements for additional information related to operating leases.

(3) Our estimate of loss reserves reflects the application of accounting policies described in Note 2 in our consolidated financial statements. The payments due by period are based on management's estimates and assume that all of the loss reserves included in the table will result in payments. Due to the significance of assumptions used in management's estimates, the amounts presented could materially differ from actual results. See Note 5 in our consolidated financial statements for additional information on our loss reserves.

New Accounting Standards

Refer to Note 2 in our consolidated financial statements 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 United States markets.

We manage market risk via our defined investment policy guidelines implemented by our Parent's investment team with oversight from our board of directors 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 December 31, 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 3.4 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.