

**NMI**  
HOLDINGS, INC.

# INVESTOR DAY 2020



# 2020 Virtual Investor Day



- Welcome to NMI Holdings, Inc. – 2020 Virtual Investor Day
- Presentation materials will be displayed on screen alongside a video of management through each section of today’s discussion
- Audience members have the opportunity to submit questions at any time through the course of the presentation in the dialogue box located on screen
- Submissions must include your name and organizational affiliation
- Questions will be aggregated and addressed during the Q&A session after formal presentations
- A replay of today’s meeting will be available on our website at <https://ir.nationalmi.com/events-and-presentations>

# Our Use of Forward-Looking Statements and Non-GAAP Financial Measures



During the course of this 2020 Investor Day discussion, we may make comments about our expectations for the future. Actual results could differ materially from those contained in these forward-looking statements.

Additional information about the factors that could cause actual results or trends to differ materially from those discussed today can be found on page 84 of this deck and on our website, or through our filings with the SEC, which are also on our website.

If, and to the extent, we make forward-looking statements, we do not undertake any obligation to update those statements in the future in light of subsequent developments. Further, no interested party should rely on the fact that the guidance of such statements is current at any time other than the time of this presentation.

Also note that we will refer to certain non-GAAP measures and provide a reconciliation in this presentation to the most comparable measures under GAAP on pages 82 and 83, and on the investor relations section of our website.

# Agenda

<b>Chairman's Message</b>	Brad Shuster	<i>Executive Chairman &amp; Chairman of the Board</i>
<b>Building on Our Success</b>	Claudia Merkle	<i>Chief Executive Officer</i>
<b>Customer Development</b>	Norm Fitzgerald	<i>Senior VP &amp; Chief Sales Officer</i>
<b>Risk Management</b>	Rob Smith	<i>Executive VP &amp; Chief Risk Officer</i>
<b>Financial Review</b>	Adam Pollitzer	<i>Executive VP &amp; Chief Financial Officer</i>
<b>Questions &amp; Answers</b>		



# INVESTOR DAY 2020

## Chairman's Message

Brad Shuster

*Executive Chairman and Chairman of the Board*

# Themes for Today

✓ Significant success to date provides strong foundation

✓ Immediate and decisive action in face of COVID crisis

✓ Housing market resiliency presents enormous opportunity

✓ Well positioned to survive and thrive through COVID and beyond

**National**Mi.

Delivering significant value for shareholders and securing future outperformance across all market cycles

# Founding Principles

- Help qualified borrowers achieve the **Dream of Home Ownership**
- Be a **Credible and Durable Counterparty** for our customers and policyholders
- Deliver a **Great Customer Experience** through people and technology
- **Manage Risk** to ensure strong performance across all market cycles
- Create a **Winning Culture** that allows us to attract and retain the very best talent
- Generate sustainable **Strong Mid-Teens Returns** for our shareholders

NationalMi.



# Executive Management

Highly experienced senior management team supported by a deep bench of talent



**Bradley Shuster**  
Executive Chairman,  
Chairman of the Board



**Claudia Merkle**  
Chief Executive Officer



**William Leatherberry**  
General Counsel



**Patrick Mathis**  
Chief Operating Officer



**Adam Pollitzer**  
Chief Financial Officer



**Robert Smith**  
Chief Risk Officer



**Norm Fitzgerald**  
Chief Sales Officer

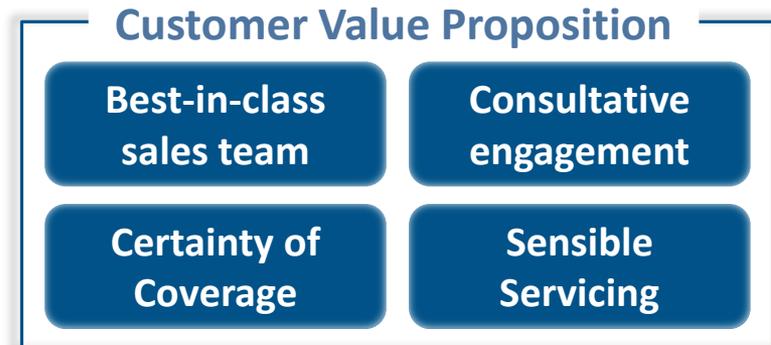
# Significant Success to Date

- **Performance Driven Culture**
- Winning with Customers
- Building High-Quality Portfolio
- Strong Financial Results

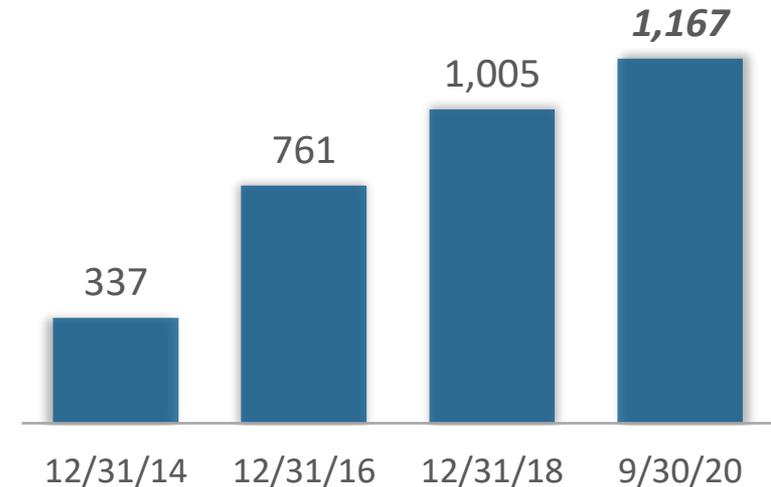


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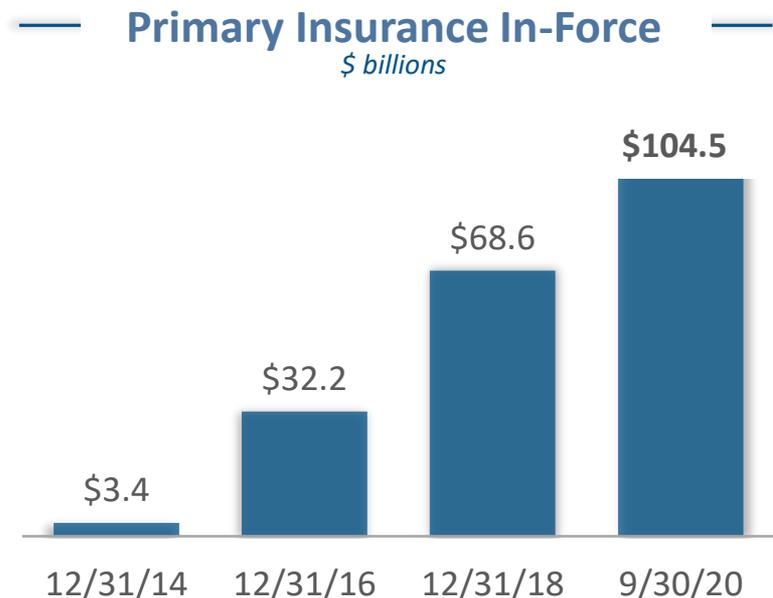
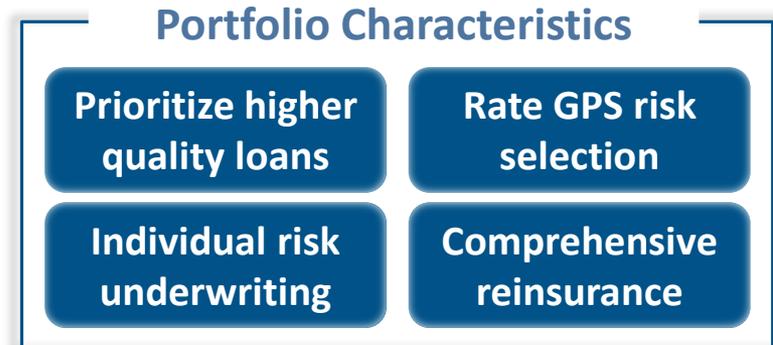


— Active Customer Relationships —



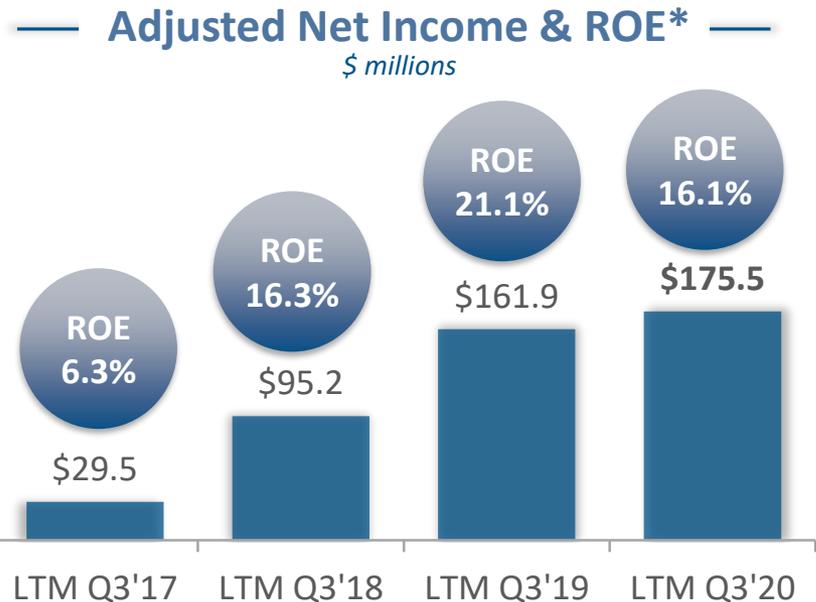
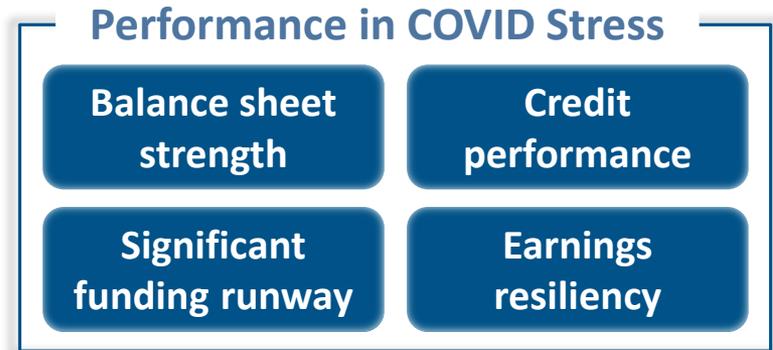
# Significant Success to Date

- Performance Driven Culture
- Winning with Customers
- **High-Quality Portfolio**
- Strong Financial Results



# Significant Success to Date

- Performance Driven Culture
- Winning with Customers
- Building High-Quality Portfolio
- **Strong Financial Results**



\* Adjusted net income and adjusted return on equity are non-GAAP measures. For a reconciliation to the most comparable GAAP measures, refer to the appendix or the company website at [www.nationalmi.com](http://www.nationalmi.com).

# Decisive Action at Outset of COVID Pandemic

## Discipline and strength prior to COVID outbreak provide strong foundation

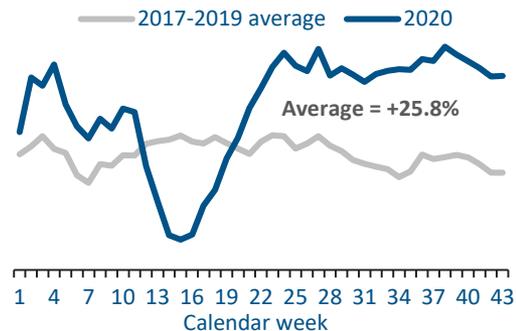
- Seamlessly transitioned to remote engagement
- Leveraged digital tools to sustain and enhance customer engagement
- Targeted guideline changes to increase underwriting rigor
- Immediately increased Rate GPS pricing in recognition of COVID risk
- Raised +\$1.4 billion in capital and reinsurance markets
- Rationalized expenses with launch of TCS partnership

Decisive action at earliest outset of pandemic sets up continued success

# Housing Market Resiliency

## Record purchase demand

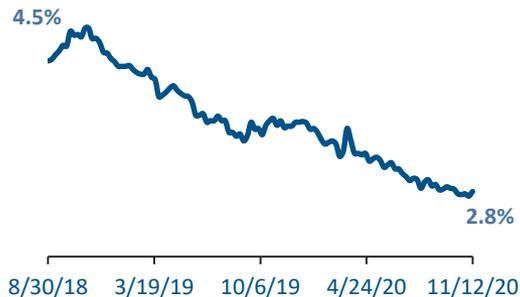
Purchase mortgage application index



Mortgage Bankers Association; Monthly, not seasonally adjusted

## All-time low mortgage rates

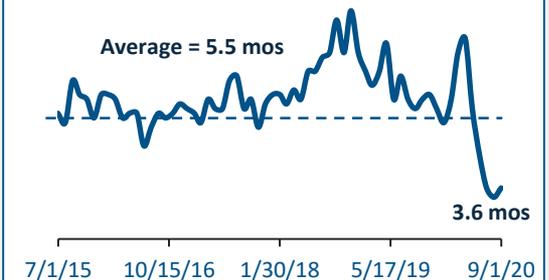
30-year fixed rate mortgage



St. Louis Federal Reserve Economic Data – 30-Year Fixed Rate Mortgage Average; weekly, not seasonally adjusted

## Constrained housing supply

Monthly housing supply



St. Louis Federal Reserve Economic Data – monthly supply of houses, seasonally adjusted

## National house price appreciation

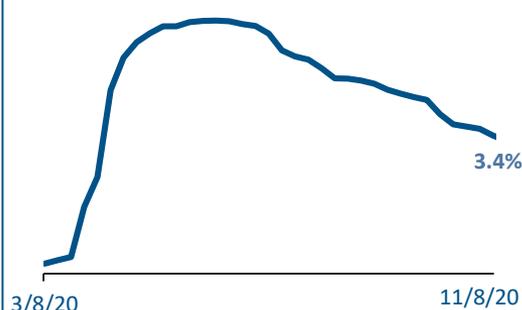
S&P / Case-Shiller U.S. National Home Price Index



St. Louis Federal Reserve Economic Data – S&P / Case-Shiller U.S. National Home Price Index, monthly, not seasonally adjusted; indexed to 7/1/18

## Encouraging credit performance

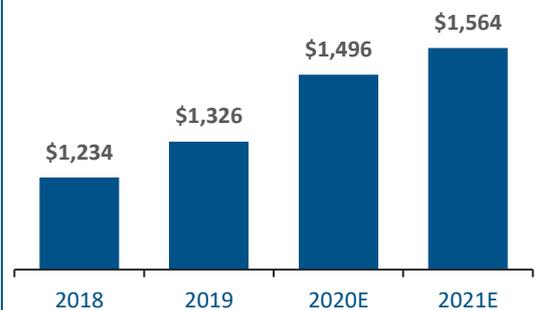
% of GSE loans in forbearance



Mortgage Bankers Association Forbearance and Call Volume Survey

## Mortgage origination volume

Purchase mortgage home originations volume (\$ billions)



Fannie Mae Housing Forecast – October 2020, 1-4 Unit Single Family Mortgage Originations

# Regulatory Environment

- Broad policy efforts aimed at assisting borrowers and keeping them in their homes
  - CARES Act
  - FHFA / GSE forbearance program and foreclosure moratorium
  - Expansion of loan modification waterfall
  
- Frequent and constructive engagement with FHFA and GSEs through pandemic
  - GSE amendments to PMIERS recognize unique nature of forbearance-related defaults
  - FHFA directive to focus GSEs on their core mission and curtail “charter creep”
  - *General recognition of the central role MI plays in functioning of housing market*
  
- FHFA released final Enterprise Regulatory Capital Framework for GSEs on November 18<sup>th</sup>
  - Significant capital required for full privatization
  - Risk transfer provided by private mortgage insurers even more valuable to privatization goals
  - Uncertainties around timeline to implementation

# Well-Positioned for the Future

**Strong foundation**

**Built to perform  
in all markets**

**Customer engagement & pipeline**

**Leading with  
technology**

**Comprehensive risk management framework**

**Unique approach and  
credit outperformance**

**Highest quality insured portfolio**

**Industry-best portfolio  
by any metric**

**Resilient housing market fundamentals**

**Housing is the  
“Bright Spot”**

**Uniquely valuable new business opportunity**

**Volume and value of new  
production**

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## Building On Our Success

Claudia Merkle

*Chief Executive Officer*

# National MI: Building on Our Success

## Culture

Talented and  
Committed People

## Customers

Building  
Durable  
Relationships

## Innovation

Technology and  
Thought Leadership

**National MI.** Built for Sustained Outperformance Across All Market Cycles

Comprehensive  
Credit Risk  
Management  
Framework

## Risk Management

Highest Quality,  
Best Performing  
Insured Portfolio

## Portfolio

Strong Balance Sheet  
and Resilient Earnings

## Financials

# Performance Driven Culture

- *Corporate culture – a key differentiator*
- 261 engaged, motivated employees
- Team driven and collaborative

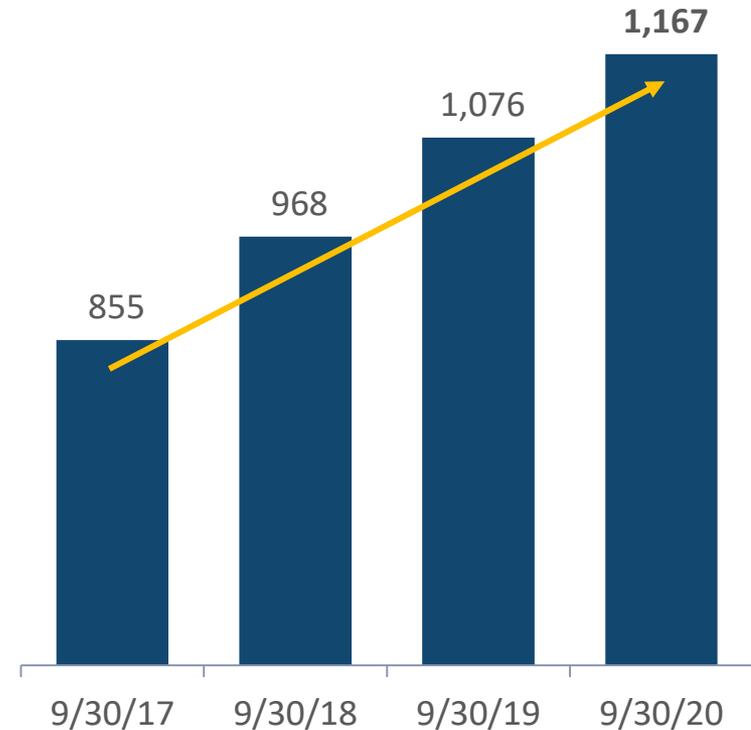


## The National MI Advantage

- Best-in-class sales force
- Unique customer value proposition – *Certainty and Service*
- Rate GPS leadership
- Differentiation through consultative selling
- Embracing technology at forefront of digital mortgage evolution
- *Consistent engagement on distanced basis through COVID pandemic*

## Growing Our Customer Base

### Active Customers



# Highest-Quality, Best Performing Insured Portfolio

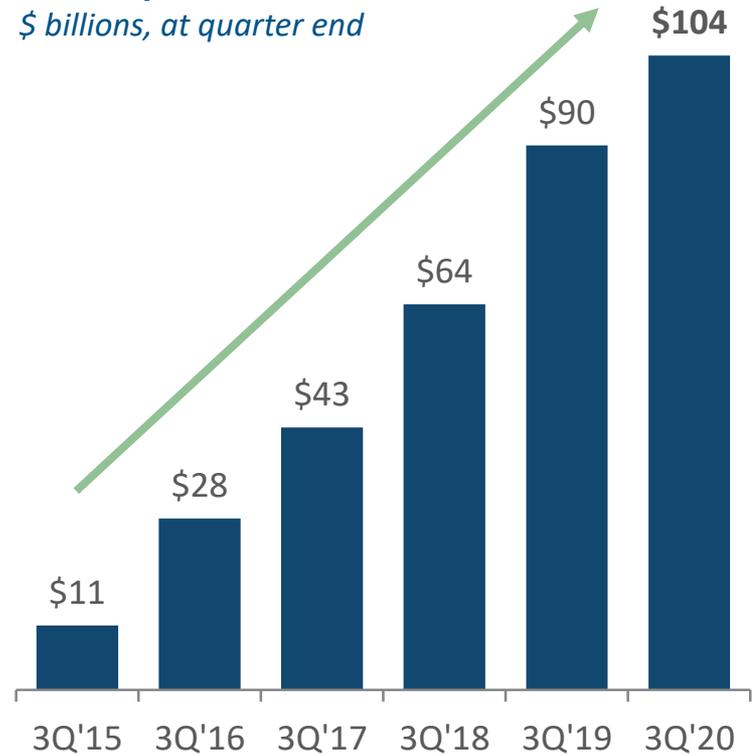
## Credit Risk Standards & Rigorous Underwriting Process

- Highest quality by FICO, LTV and DTI
- Minimal layered risk concentration
- Risk-based pricing – *Rate GPS*
- >85% underwritten or validated
- Lender diversification
- Geographic diversification
- No aggressive product types

## Highest Quality & Best Performing In-Force Portfolio

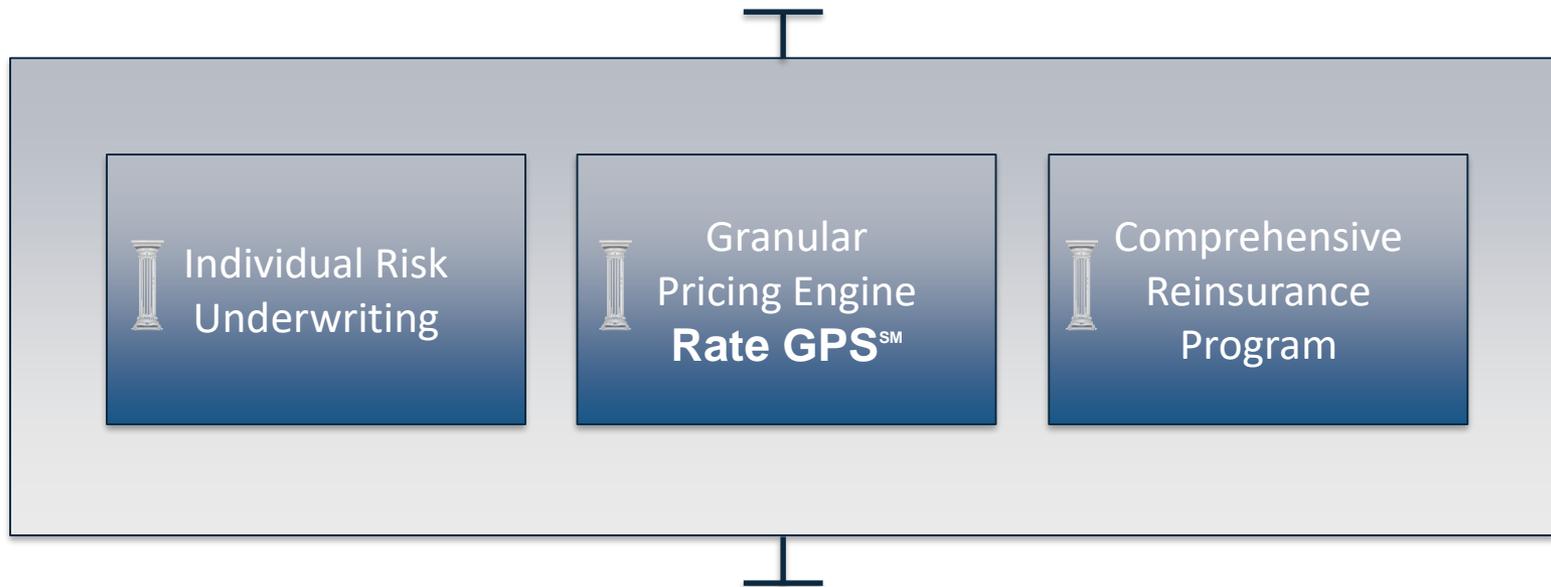
### Primary Insurance In-Force

*\$ billions, at quarter end*



# Comprehensive Credit Risk Management Framework

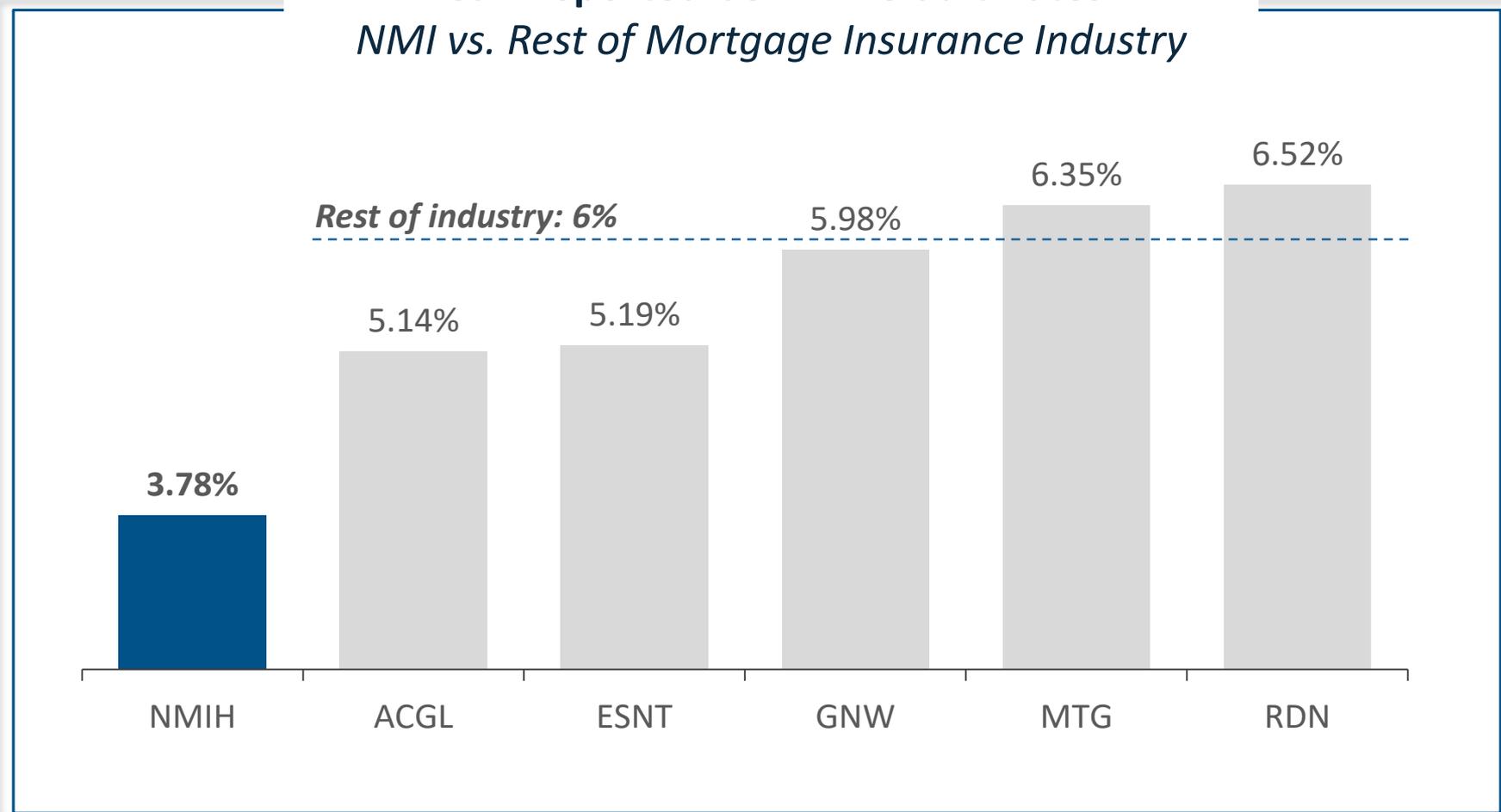
National MI has an industry-leading credit risk management approach, built on three-foundational pillars...



...and has delivered best-in-class credit performance since its formation

# Best-in-Class Credit Performance

**Peak Reported COVID Default Rates<sup>1</sup>**  
*NMI vs. Rest of Mortgage Insurance Industry*



(1) Default rates as reported by each individual company in SEC filings, earnings releases, financial supplements or press releases. Periods may not align and underlying definitions and calculations of default rate may not be uniform across companies

# Delivering Financial Success



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	Q1'20 LTM	Q3'20
✓ NIW	\$49.5 billion	\$18.5 billion
✓ IIF	\$98.5 billion	\$104.5 billion
✓ Revenue	\$405.3 million	\$107.8 million
✓ Adjusted net income*	\$196.7 million	\$40.4 million
✓ Adjusted return on equity*	22.8%	12.6%
✓ Book value	\$1.0 billion	\$1.3 billion
✓ Book value per share	\$14.15	\$15.42
✓ Loss ratio	4.2%	15.9%

\* Adjusted pre-tax income and adjusted return on equity are non-GAAP measures. For a reconciliation to the most comparable GAAP measures, refer to the investor relations section of the company's website at [www.nationalmi.com](http://www.nationalmi.com)

# Well-Positioned to Outperform Through the COVID Pandemic

**Our success to date provides the foundation for our future performance**

**Performance-Driven Team**

**Proven Credit Risk Management Framework**

**Strong Customer Engagement & Pipeline**

**Strong Financial Foundation**

**Highest Quality In-Force Portfolio**

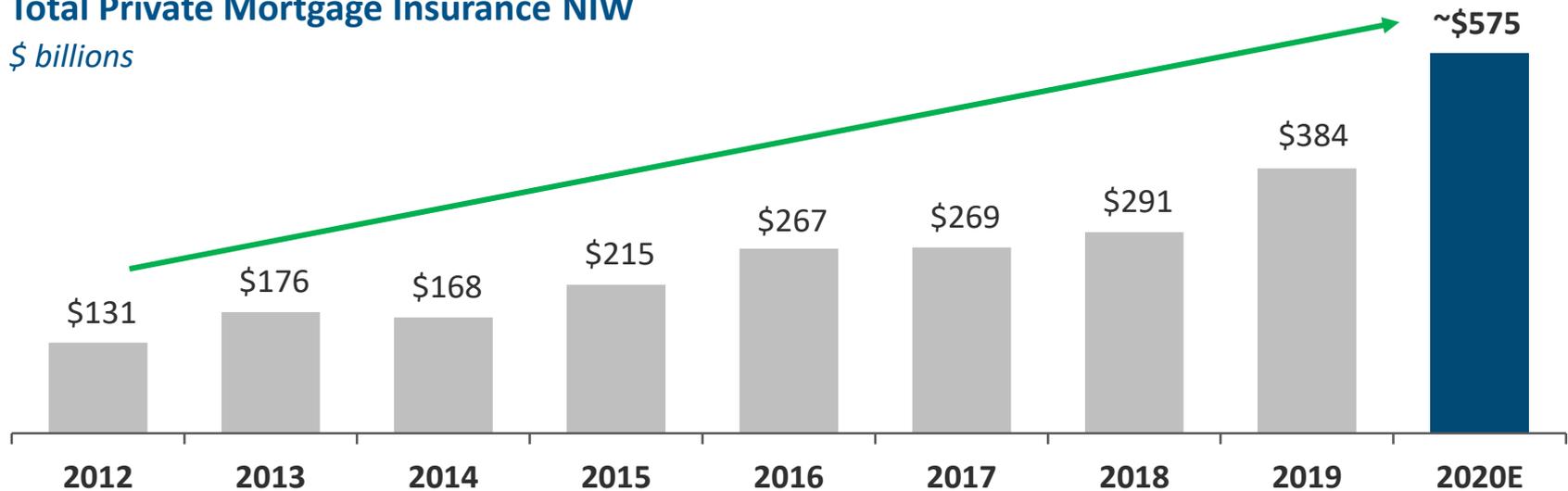
**Resilient Housing Market and Record Private MI Opportunity**

# Record Private Mortgage Insurance Market

- ✓ Skyrocketing demand for homeownership
- ✓ Record low interest rates
- ✓ Increasing mortgage origination volume
- ✓ Greater need for down payment support
- ✓ Expanding private MI penetration rates
- ✓ Record private mortgage insurance NIW opportunity

## Total Private Mortgage Insurance NIW

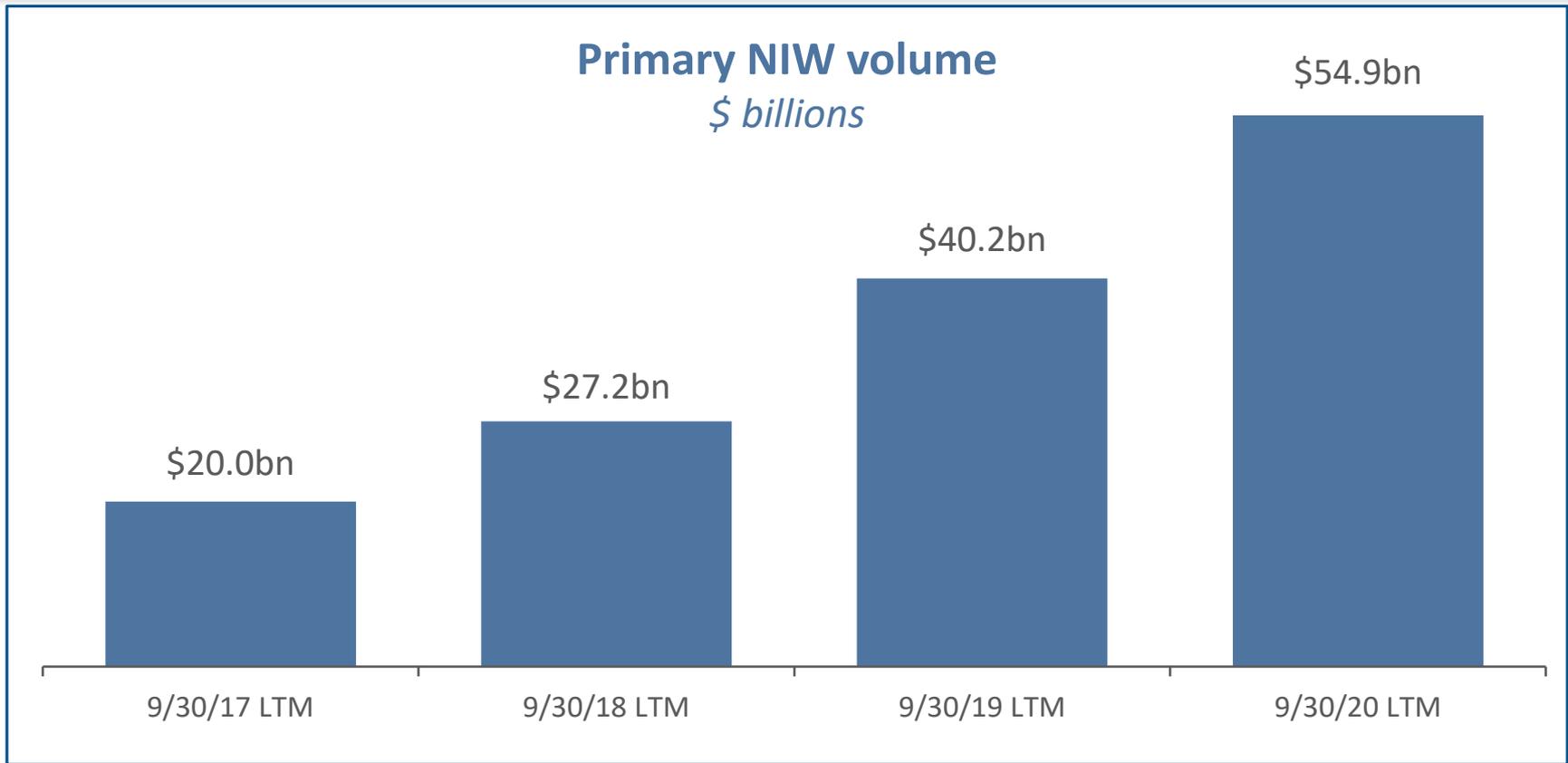
*\$ billions*



# Attractive Opportunity for Responsible, Profitable Growth

## Opportunity to Responsibly Scale NIW Volume and Build Embedded Value

Primary NIW volume  
*\$ billions*



# National MI: Building on Our Success

## Culture

Talented and  
Committed People

## Customers

Building  
Durable  
Relationships

## Innovation

Technology and  
Thought Leadership

**National MI.** Built for Sustained Outperformance Across All Market Cycles

Comprehensive  
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**Risk Management**

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**Financials**



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# Sales and Customer Development

Norm Fitzgerald

*Senior Vice President and Chief Sales Officer*

# Sales and Customer Development

✓ Significant success to date

✓ Digital transformation driving account engagement and salesforce efficiency

✓ Heightened engagement amidst COVID and record volume

✓ Strategy and tactics focused on a large opportunity

# Significant Success to Date

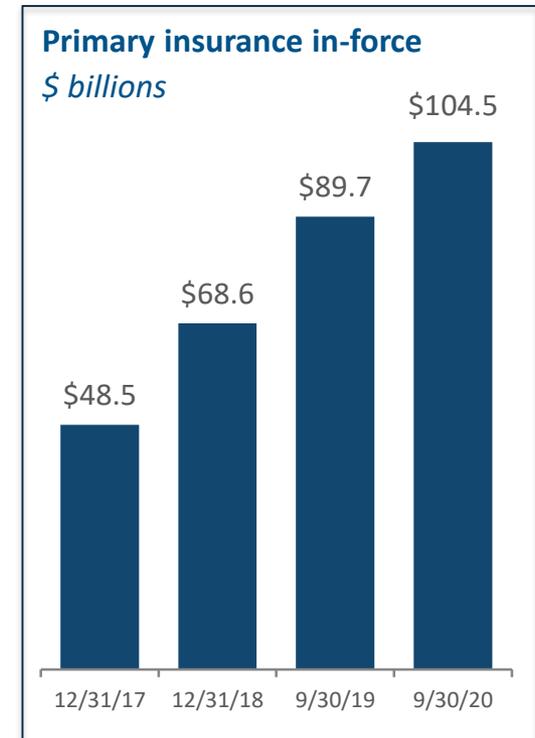
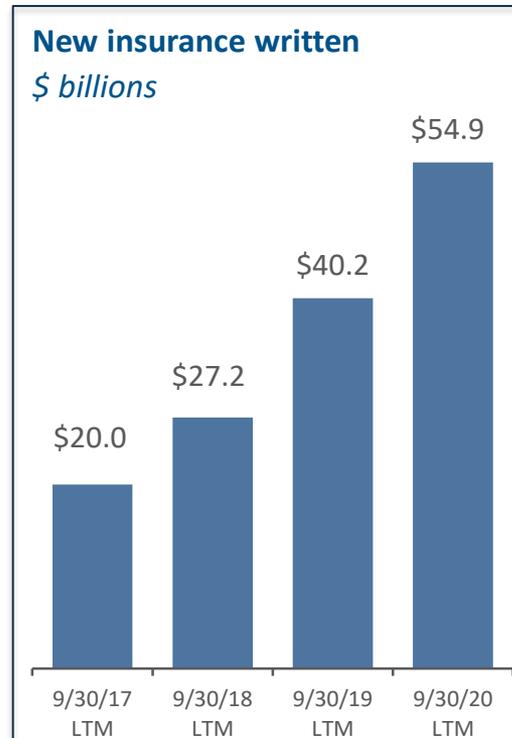
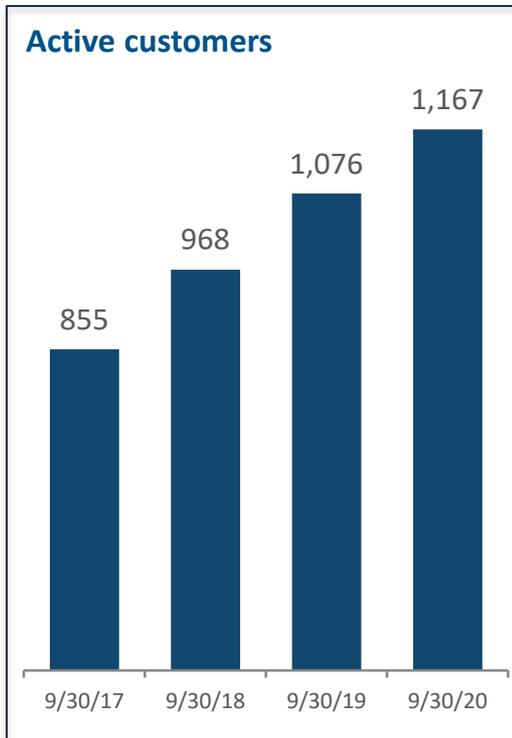
Growing customer base and access to the market



Driving significant NIW growth



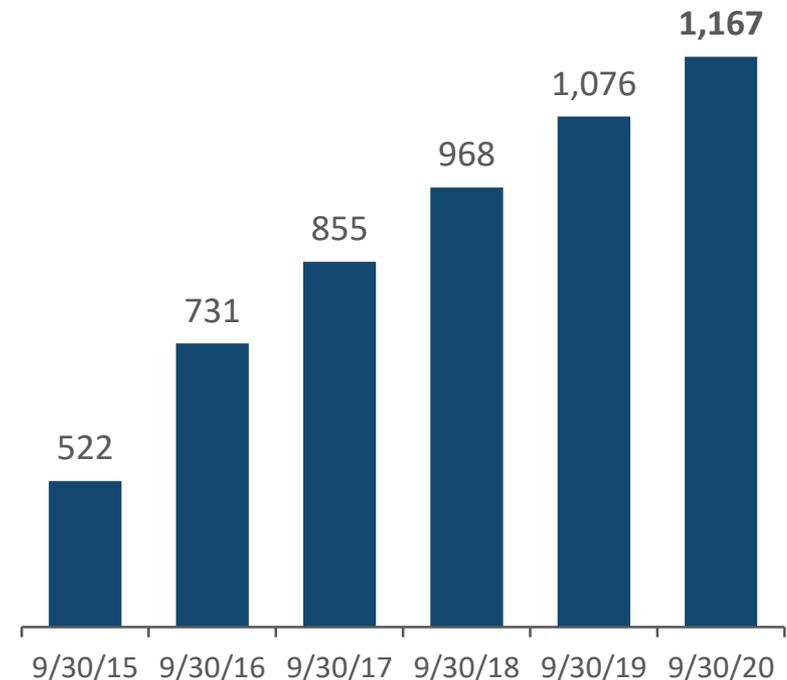
Industry leading growth in high-quality insurance in-force



### Strong customer engagement and activation pipeline

- Nearly 1,200 active customer relationships
- Current accounts represent ~80% of total mortgage insurance industry NIW
- 58 new account activations since COVID outbreak – 421 new account activations since 2017 – represents +\$70bn of NIW opportunity
- Track record of growing wallet share within accounts steadily over time
- Large opportunity remains to both grow wallet share and activate new accounts

### Active customer development



# Why We Win

## People and Value Proposition

### Certainty of Coverage

- Standing behind our commitments
- *“Iron Clad” rescission relief*

### Sensible Servicing

- Sensible Servicing® – customer-centric claims management process

### Consultative Engagement

- Feedback loop – sharing best practices and insights from upfront underwrite
- *Focus on digital mortgage roadmap and Rate GPS*

### Value-added Programs

- Educational programs for lenders
- Webinars, roundtables and onsite events, access to industry experts



# Digital Mortgage Transformation

- Customers and borrowers becoming more digital
- Technology disrupts customer “habit” and legacy relationships – huge benefit to NMI as newest entrant
- Technology driving efficiency and flexibility for NMI and our customers
- Through technology leadership, NMI can target and serve a broader opportunity set (Top 600 Lenders)

## Seamless NMI Integration

- Technology leadership shortens cycle from Master Policy to NIW
- Broad connectivity with third-party loan origination systems
- Leading with Rate GPS

## Electronic Customer Engagement

- Virtual meetings, training, webinars
- Sophisticated communication tools and leveraging of social media
- Digital account and relationship management

# Heightened Engagement Amidst COVID and Record Origination Volumes

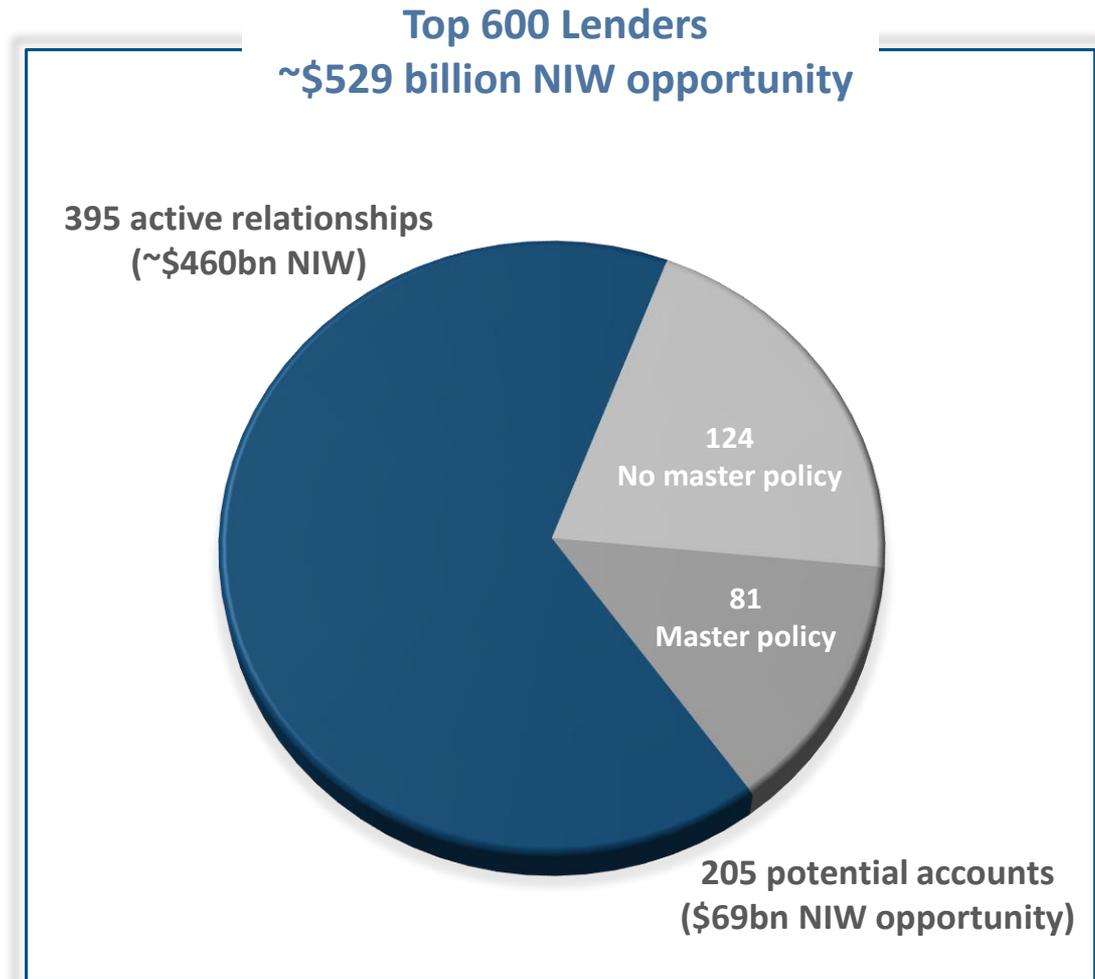


- COVID has forced rapid transition to digital tools and virtual engagement
- NMI leveraging technology to expand customer outreach, stay current and connected in a “no-contact” way
- Being creative to enhance relevance and support customer productivity – critically important when customers are swamped by volume
- 58 new account activations since COVID speak to quality of our team and NMI engagement model

# Strategy and Tactics

## Focused on a Large Opportunity

- Top 600 lenders in the country represent ~92% of ~\$575 market opportunity
- Significant penetration and active relationships with many leading lenders
- Also a sizeable opportunity remaining to continue adding new accounts and building wallet share with existing lenders



# Sustaining Our Positive Momentum

## Top 600 Focus

- Know your customer – Win, Grow, Maintain

## New Account Activation

- Continue to leverage our success in client acquisition

## NMI Technology Leadership

- Lead with technology to drive salesforce efficiency and enhanced engagement

## Maintain Service Excellence

- Consultative engagement and value-added orientation



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# Risk Management

Rob Smith

*Executive Vice President & Chief Risk Officer*

# Prioritizing Risk Management

✓ Enterprise Risk Management Focus

✓ “Three Pillars” of NMI’s Credit Risk Management Framework

✓ Resiliency Through COVID Stress

**National** 

Deploying a robust risk management program to secure performance across all market cycles

# Enterprise Risk Management Framework

## Strong Origination and Oversight Environment

Strong Borrower  
Credit Profile

Regulatory Guardrails on  
Origination Quality

PMIERS Capital  
Standards

Regulatory & Rating  
Agency Oversight

## National MI has established the industry-leading risk management framework

Board & management  
risk committees dictate  
policy

Defined risk appetite &  
portfolio concentration  
limits

Formal underwriting  
guidelines

Real-time portfolio  
monitoring & stress  
testing

Lender approval &  
monitoring

Comprehensive privacy  
protection & data  
security program

# Prioritizing Risk Management

✓ Enterprise Risk Management Focus

✓ “Three Pillars” of NMI’s Credit Risk Management Framework

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**National**  **Mi.**

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# Credit Risk Management Framework

## – Three Foundational Pillars

*National MI takes an “all seasons” approach to risk – developed and deploy our comprehensive credit risk management framework well before the onset of COVID*



### Individual risk underwriting

- ✓ Losses occur at a loan level – credit risk management requires **loan-level knowledge**
- ✓ NMI **individually underwrites or validates >85% of loans we insure**
- ✓ Rest of industry relies on portfolio QC reviews



### Rate GPS Granular Pricing System

- ✓ All buyers, lenders and homes are different – these differences impact loan performance
- ✓ **Rate GPS considers a broad range of risk variables** – far beyond FICO and LTV
- ✓ **Prioritizes high-quality loans** from high-quality lenders



### Comprehensive reinsurance program

- ✓ Broad reinsurance program spanning traditional quota share and capital markets ILN issuance
- ✓ **Enhances return profile and mitigates impact of credit volatility** under stress scenarios

# Underwriting Matters

% YTD Q3'20 NIW

**Non-Delegated**

33%

## Non-Delegated

- NMI underwrites loan before close

**Delegated Assurance Review**

58%

## Delegated with Independent Validation

- NMI innovation
- Underwriting is delegated to lender
- NMI performs post-close validation

**Total Underwritten / Validated**

91%



**Traditional Delegated**

9%

## Traditional Delegated Underwriting

- Underwriting is delegated to lender
- NMI performs post-close QC review

# Individual Risk Underwriting Advantage

- Capture and assess full loan file
- Increased knowledge of individual loan characteristics and emerging risk trends
- Opportunity for corrective action before underwriting defects become defaults
- Embeds positive selection bias in client selection and delegated flow
- Supports sensible servicing approach and customer feedback loop

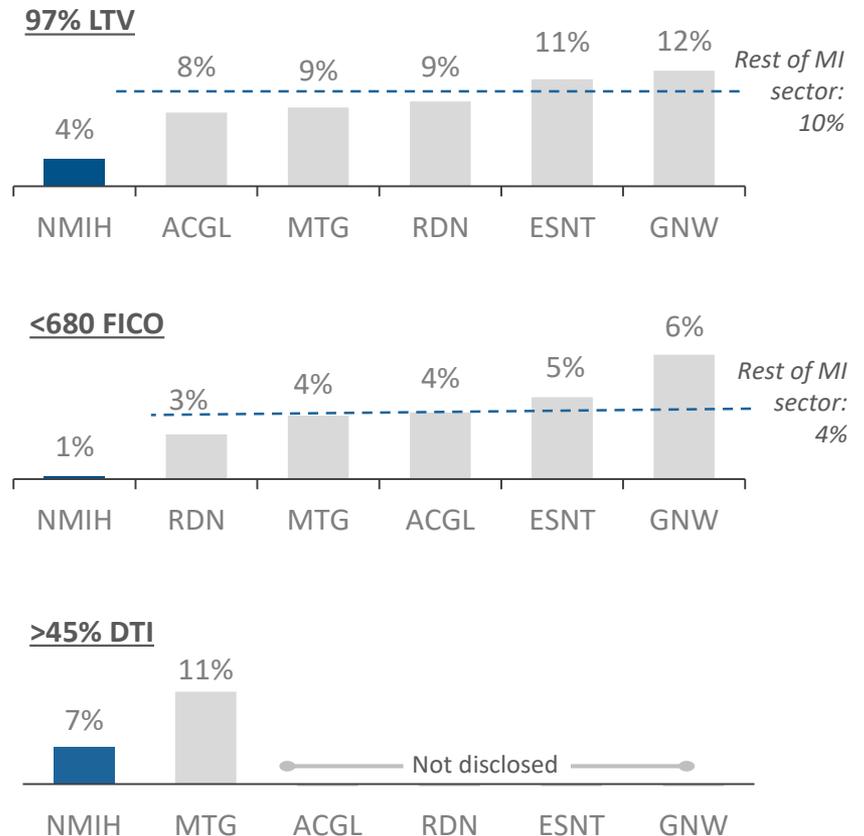
- ★ **Best-in-class credit performance**
- ★ **Improved data capture and cycle awareness**
- ★ **Superior customer engagement**
- ★ **Cost efficient structure**

# Rate GPS Is a Powerful Credit Risk Management Tool



- ✓ Considers broad range of variables with proven impact on credit performance
- ✓ Dynamically considers relationship between multiple risk variables
- ✓ Prioritizes and attracts higher quality loans from high quality lenders
- ✓ Utilize to tactically shape insured portfolio – with immediate impact
- ✓ Allows for quick changes to address risks that may emerge in future
- ✓ Leverages NMI’s individual risk underwriting approach

## 9M’20 NIW risk concentration



Source: Public company SEC filings, earnings releases and financial supplements

# National MI has the Highest Quality Insured Portfolio in the MI Industry

## Credit Risk Standards & Rigorous Underwriting Process

- **No pre-financial crisis exposure**
- High quality by FICO, LTV and DTI
- Minimal layered risk concentration
- 100% fully documented loan files
- No aggressive product types
- Geographic diversification
- ~85% underwritten or validated
- Risk-based pricing – *Rate GPS*

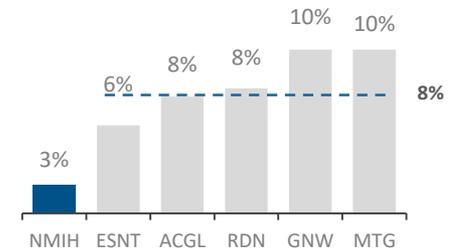
## Highest Quality In-Force Portfolio - \$26.6bn RIF

### Primary RIF by FICO

Weighted average FICO = 754

>760	51%
740-759	16%
720-739	14%
700-719	10%
680-699	6%
<679	3%

### MI industry comparison: <680 FICO RIF concentration

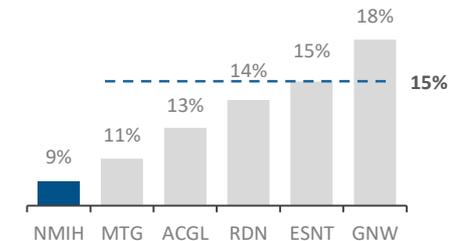


### Primary RIF by LTV

Weighted average LTV = 93%

<85%	6%
85-90%	32%
90-95%	53%
>95%	9%

### MI industry comparison: 97% LTV<sup>1</sup> RIF concentration

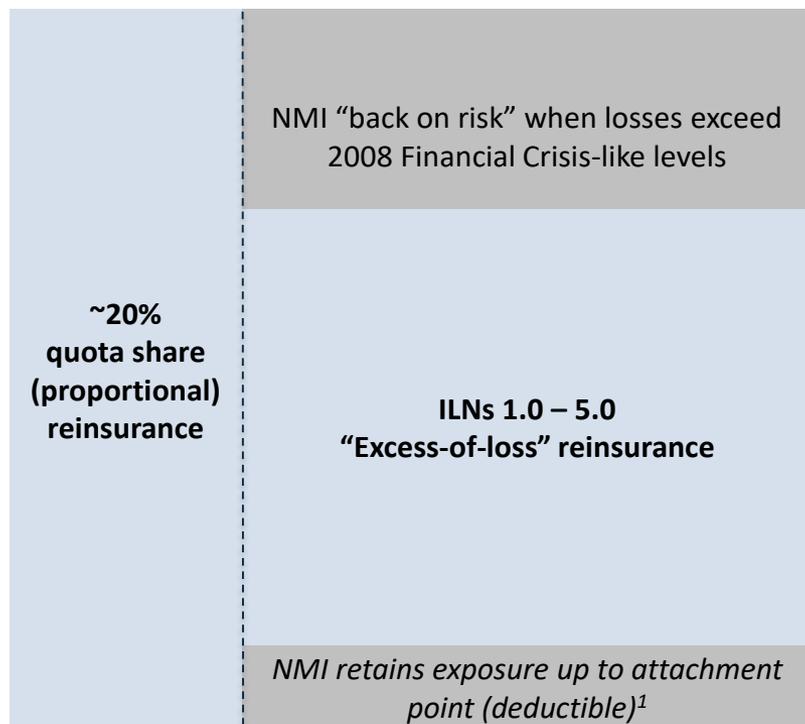


<sup>1</sup> Represents 95.01% and above, as reported by NMIH and peers  
 Note: Data as of 9/30/20 as disclosed in SEC filings and/or quarterly financial supplements

# National MI – Comprehensive Reinsurance Program

## Reinsurance “Tower” Illustration

*Comprehensive reinsurance coverage on nearly all risk ever written*



- National MI utilizes reinsurance as both:
  - Source of efficient funding for its PMIERS, Standard & Poor’s and state regulatory capital needs; *and*
  - Risk management tool to limit the potential volatility of its credit portfolio across market cycles
- National MI has secured reinsurance coverage from both traditional reinsurers and capital markets investors
  - 2016, 2018 and 2020 QSRs
  - 2017, 2018, 2019 and 2020 ILNs
- **National MI intends to be active in both markets on a consistent basis going forward – we view the traditional and ILN markets as complimentary**

(1) Attachment points may vary for each ILN transaction and National MI’s retained exposure for each transaction is considered individually

# Reinsurance – Protects Against Loss in Stress Scenarios

- Evaluated a number of scenarios to test ultimate claims exposure in a severe stress environment
- NMI's best-in-class reinsurance program provides significant loss mitigation, substantially reducing expected net claim rates
- Best-in-class credit quality and comprehensive reinsurance position NMI to continue to thrive through COVID stress



# Reinsurance – Provides Regulatory Capital Buffer in Stress Scenarios

## Quota share reinsurance

- Three treaties covering ~20% of our risk in-force
- Quota share coverage also known as “proportional coverage” because the reinsurer assumes a proportional amount of loss exposure (on a first dollar basis)
- Quota share treaties effectively “accordion” up to absorb any amount of increased regulatory capital need (regardless of delinquency level)

## Insurance-linked notes

- ILN coverage in place on nearly all risk ever written
- Structures are deliberately overcollateralized upfront and amount of excess funding grows upon a lock-out event
- \$361 million aggregate overcollateralization across all five Oaktown Re

### Insurance-Linked Notes – Coverage Details

As of September 30 <sup>th</sup>	ILN 1	ILN 2	ILN 3	ILN 4	ILN 5 <sup>1</sup>
<b>Covered RIF</b>	<b>\$2.3 billion</b>	<b>\$2.7 billion</b>	<b>\$3.4 billion</b>	<b>\$6.1 billion</b>	<b>\$6.1 billion</b>
Eligible coverage <sup>2</sup>	\$161.8 million	\$281.8 million	\$354.9 million	\$491.6 million	\$363.5 million
Subordinate coverage <sup>3</sup>	7.11%	10.43%	10.57%	8.00%	6.00%
PMIERS charge on covered RIF	5.93%	7.48%	7.79%	6.13%	5.33%
“Overcollateralization”	\$26.9 million	\$79.6 million	\$93.3 million	\$120.4 million	\$40.6 million
Delinquency trigger	4.0%	4.0%	4.0%	6.0%	4.5%

<sup>1</sup> ILN 5 completed on 10/29/20

<sup>2</sup> Eligible coverage represents the current reinsurance coverage including current first layer retained loss

<sup>3</sup> Subordinate coverage is the ratio of eligible coverage to covered RIF

# Prioritizing Risk Management

✓ Enterprise Risk Management Focus

✓ “Three Pillars” of NMI’s Credit Risk Management Framework

✓ Resiliency Through COVID Stress

**National**  **MI.**

Deploying a robust risk management program to secure performance across all market cycles

# Comparison to 2008 Financial Crisis

## Housing market is in a fundamentally better position at outset of the COVID-crisis than in the lead up to the financial crisis

- Balanced home prices driven by real market fundamentals – no risk of a deflating “bubble”
- High-quality borrower base accessing plain vanilla loan products – drives sustainability of homeownership
- Tight underwriting standards – requiring fully-documented income and asset positions
- Well-developed (and expanding) toolkit to provide borrower relief – proven value of forbearance and other programs
- No moral hazard issues – paves way for immediate and widespread assistance for homeowners and others
- *PMIERS fundamentally different framework – contemplates and requires funding of “perpetual” lifetime stress*

### Mortgage Insurance Market Risk Profile

% RIF	Pre-crisis MI group <sup>1</sup>	Current NMI
≥97% LTV <sup>2</sup>	27%	9%
<680 FICO <sup>3</sup>	39%	4%
<620 FICO <sup>4</sup>	10%	0%
Average FICO <sup>5</sup>	713	754
ARM & I/O <sup>6</sup>	22%	2%
Cash out refi <sup>7</sup>	17%	0%

<sup>1</sup> Average of MGIC and Radian as of 12/31/07 (include both bulk and flow RIF)  
<sup>2</sup> 95.01%+ primary RIF distribution by LTV for Radian; 97-100% total original LTV for MGIC; 95.01% and above for NMI  
<sup>3</sup> <=619 and 620-679 primary RIF distribution by FICO for Radian; <575, 575-619, and 620-679 original FICO for MGIC; <=679 primary RIF by FICO for NMI  
<sup>4</sup> <=619 primary RIF distribution by FICO for Radian; <575 and 575-619 original FICO for MGIC  
<sup>5</sup> Average current credit score for entire mortgage market entering 2007 per BlackKnight Financial COVID-19 Special Briefing  
<sup>6</sup> ARM and Interest Only/Negative Amortization for Radian; Includes ARM, Option ARM, ARM I/O, and FRM I/O for MGIC; NMIH has essentially no interest only loans and all ARM have a reset period >5years  
<sup>7</sup> Cashout loan purpose for Radian; Refi Equity loan purpose for MGIC  
 Source: Radian 2017 Investor Day (11/6/17) and MGIC Q4'07 Portfolio Supplement

Immediate and decisive action to protect credit performance from the outset of the COVID pandemic

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## Underwriting Guidelines



Tightening of the credit box to limit incremental exposure to higher risk loans

## Underwriting Process



Increased rigor around employment verification and income continuance determination

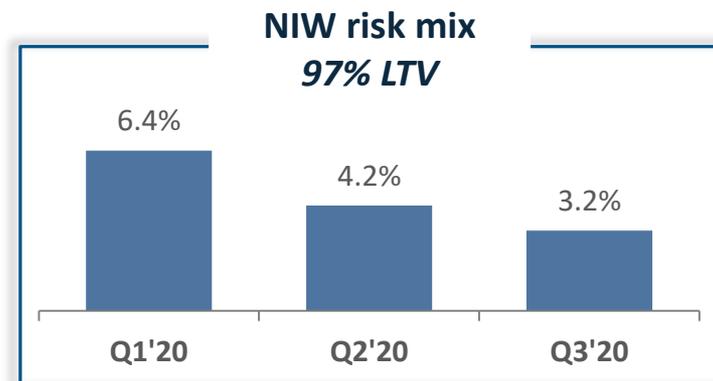
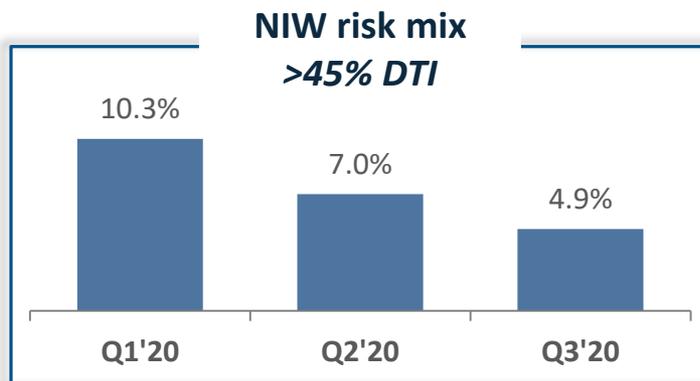
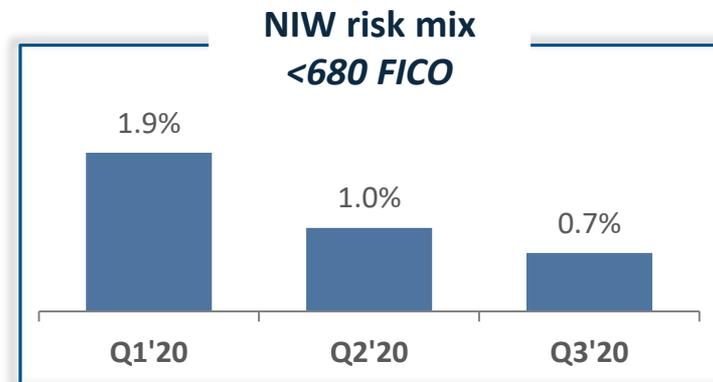
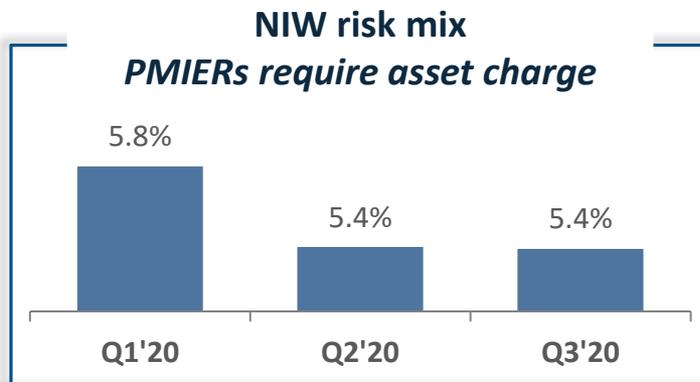
## Premium Rates



Immediate increase to account for unprecedented macro stress and reduce exposure to certain risk cohorts

# Rapid Response – Underwriting & Pricing

Immediate and decisive underwriting and pricing actions have had a dramatic and positive impact



Immediate and decisive action to secure additional credit protection and funding runway in the capital and reinsurance markets

## 2020 Quota Share Treaty



21% proportional coverage for policies originated from 4/1/20-12/31/20

First quota share treaty secured in the MI market post-COVID

## ILN 4.0 Oaktown Re IV



\$322mm excess-of-loss coverage for policies originated from 7/1/19-3/31/20

First “regular way” ILN issuance in the MI market post-COVID

## ILN 5.0 Oaktown Re V



\$242mm excess-of-loss coverage for policies primarily originated from 4/1/20-9/30/20

Most favorable terms and risk protection of all ILNs issued post-COVID

# Rapid Response – Policy Stimulus

Immediate and overwhelming policy response to the COVID pandemic – driving social and economic outcomes, and resiliency in the housing market

## Federal Reserve & Treasury Department



Fed Funds rate – near zero  
(for extended period)  
Supporting functioning  
financial markets  
Encouraging free flow  
of credit  
Direct small business and  
corporate support

## Congress & the White House



\$2.3 trillion CARES Act to  
provide aid, relief and  
economic security  
Additional assistance  
may still come

## FHFA & GSEs



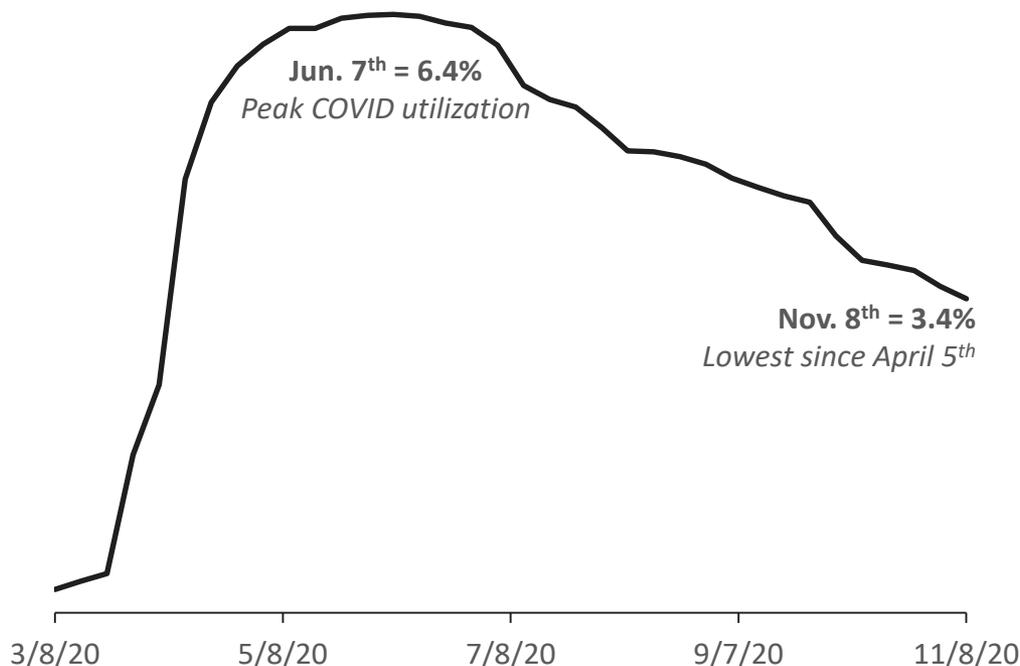
National forbearance  
program and foreclosure  
moratorium  
Modification waterfall –  
new payment deferral  
PMIERS bulletins  
(recognizing unique needs)

# Forbearance Programs – Significant Positive for the Market

- Housing security is more important than ever
- Providing borrowers (who are facing challenges through no fault of their own) an opportunity to stay in their homes is the right policy
- Forbearance and foreclosure moratoriums offer a “bridge” to a better environment in the future
- Well-defined (and expanded) set of modification alternatives eases the transition back to performing status
- All efforts to keep borrowers in their homes are favorable for National MI credit performance

## Borrower reliance on GSE forbearance programs declining as recovery takes hold

MBA, weekly servicer forbearance and call volume summary,  
*% of GSE loans estimated to be in forbearance*



# Forbearance Programs Significant Positive for the Market

## Fannie Mae Forbearance Outcomes

Entered forbearance since March and exited by July								
Never Missed Payment (38%)		Missed Payments (62%)						
Resolution method	Exit/cancel	Prepay (PIF)	Prepay (PIF)	Reinstate	Payment Plan	Payment Deferral	Flex Mod*	Liquidation Options*
Typical circumstances	Forbearance was not needed / temporary hardship shorter than expected	Could be loan refinance or property sale	Primarily property sale	Temporary hardship resolved. Borrower has adequate reserves to catch up missed payments.	Temporary hardship resolved. Borrower can manage slightly higher monthly payment for a finite period.	Temporary hardship resolved. Borrower can resume prior payment, but not more.	Hardship unresolved; new income is lower than previous income. A lower payment is deemed necessary	Borrower hardship is permanent. Liquidation options include Short-Sale, Deed-in Lieu or Foreclosure
To-date share of COVID forbearance exits	30.5%	7.1%	8.5%	30.9%	1.7%	20.5%	0.6%	0.3%

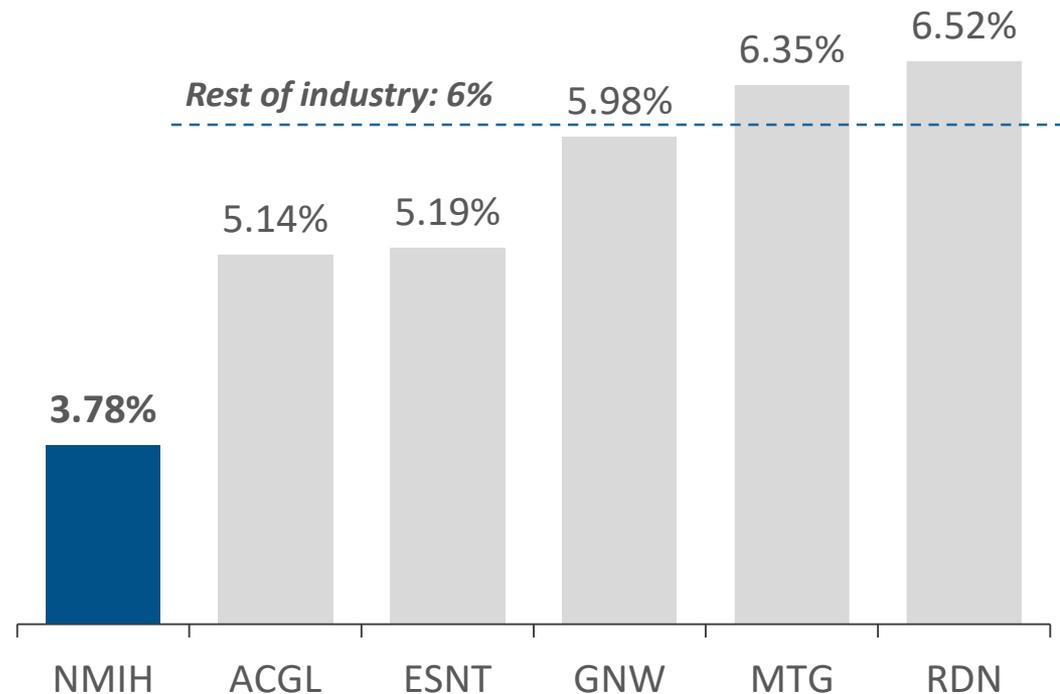
Source: Fannie Mae Single-Family Credit Risk Transfer Update October 20,2020.

\* Modifications and other liquidations may result in losses to CRT investors/reinsurers.

# Strong Credit Performance Through COVID Stress

- Strategic focus on high-quality risk paying off in face of COVID stress
- Encouraging default experience and forbearance utilization thus far
- Nearly all defaults relate to COVID crisis:
  - Borrowers directly benefiting from forbearance and other assistance programs
  - Paired with strong national house price appreciation
  - *Currently expected to drive significant benefit in our ultimate claim experience*

**Peak Reported COVID Default Rates**  
*NMI vs. Rest of Mortgage Insurance Industry*

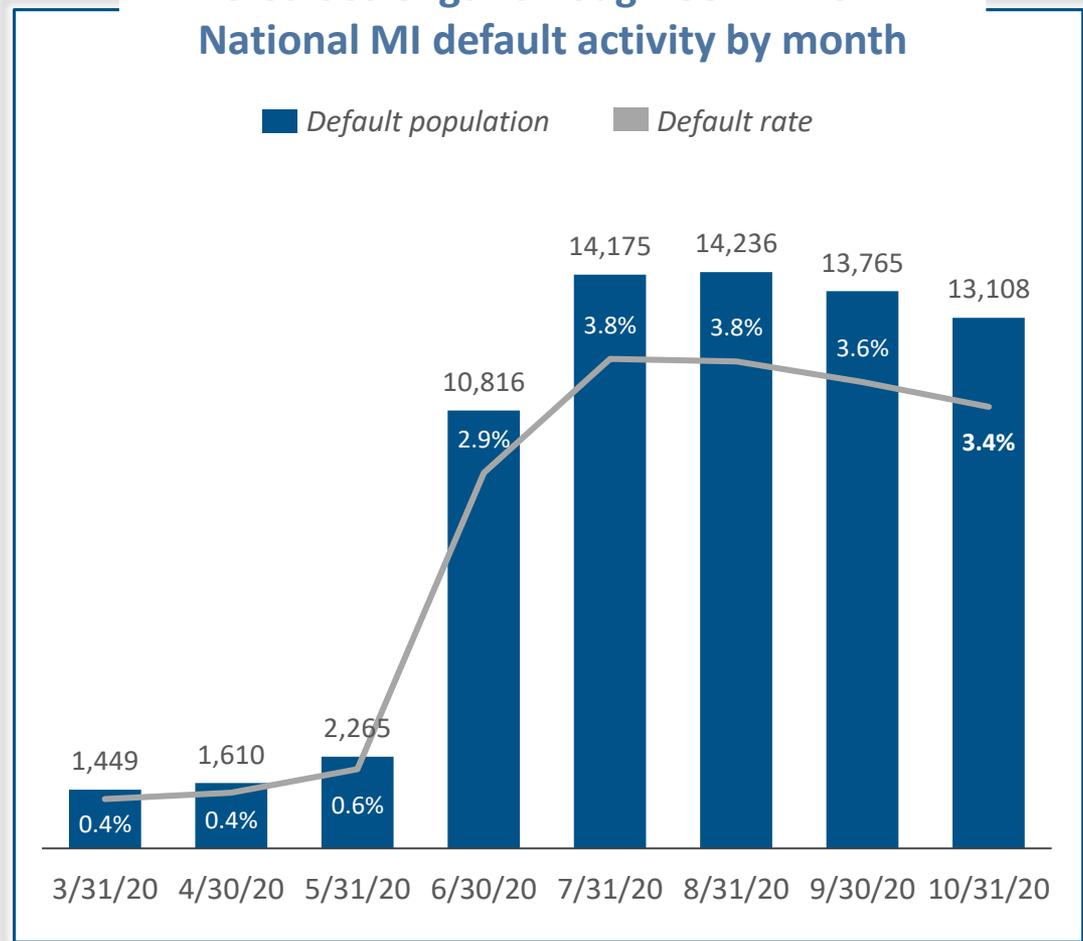


(1) Default rates as reported by each individual company in SEC filings, earnings releases, financial supplements or press releases. Periods may not align and underlying definitions and calculations of default rate may not be uniform across companies

# Encouraging Credit Trends in In-Force Portfolio

- Encouraging credit trends eight months into pandemic
- Defaults peaked at low absolute level (particularly when considered against magnitude of COVID stress)
- Forbearance program and expanded modification waterfall are working – easing the transition for borrowers
- Performance quickly improving with rising number of cures by COVID-impacted borrowers
- Population of borrowers who have missed one payment, but not progressed to default declining even more dramatically

## Credit strength through COVID-19 – National MI default activity by month



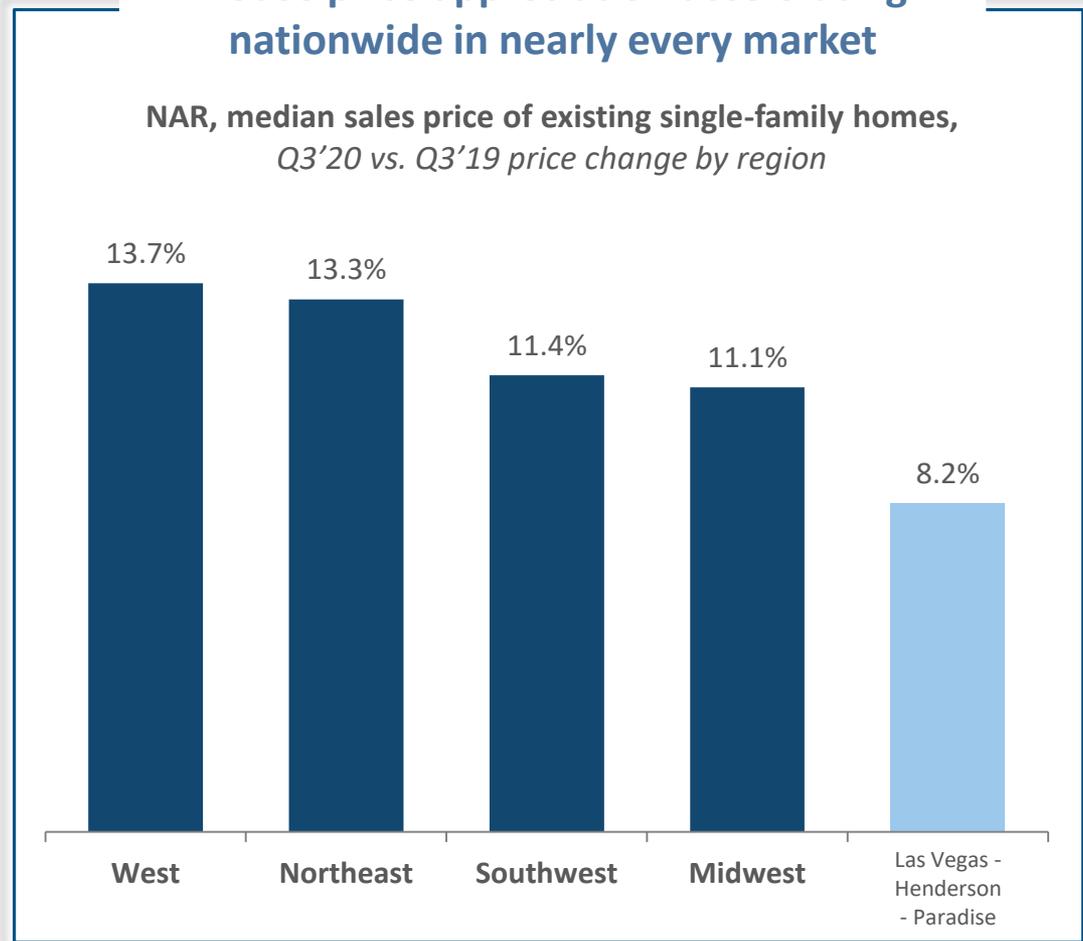
# Housing Market Resiliency – Nationwide House Price Appreciation

National Association of Realtors,  
*Quarterly Metropolitan Median  
Area Price Report – November 2020*

- Median single-family home prices grew year-over-year in all 181 metropolitan statistical areas tracked by NAR
- 65% of metros – 117 areas out of 181 – had double-digit price growth year-on-year
- At end of the third quarter, housing inventory totals were equivalent to 2.7 months at the current sales pace

## House price appreciation accelerating nationwide in nearly every market

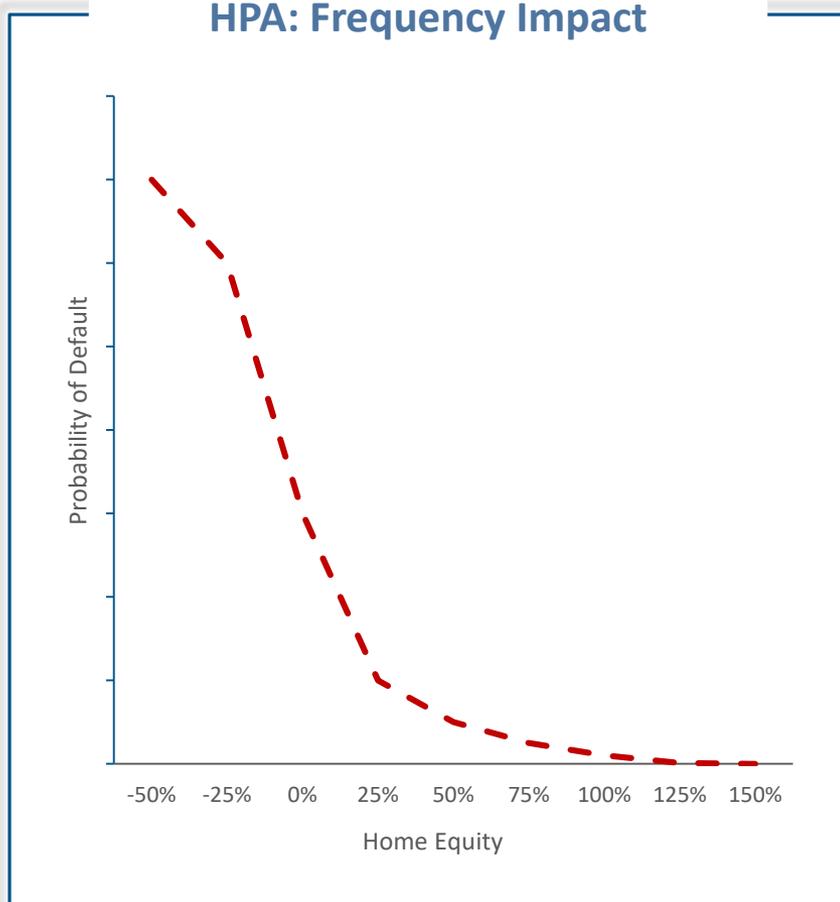
NAR, median sales price of existing single-family homes, Q3'20 vs. Q3'19 price change by region



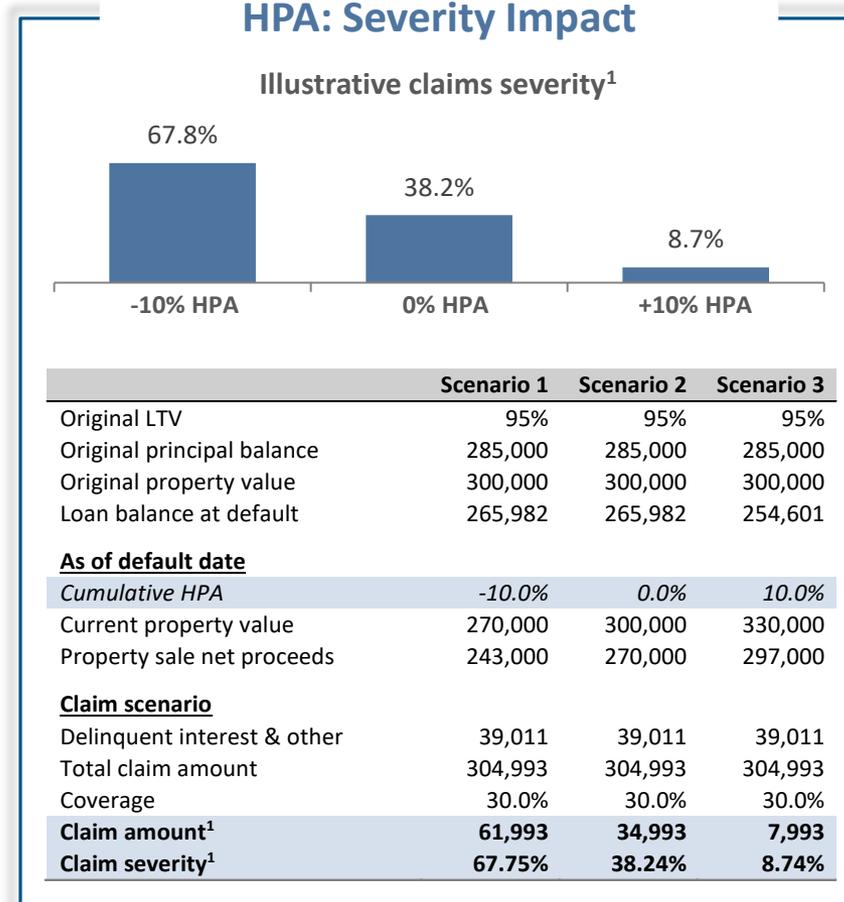
# Home Prices are a Key Driver of Mortgage Credit Performance

## House Prices Impact Both the Frequency and Severity of National MI's Ultimate Claim Experience

HPA: Frequency Impact



HPA: Severity Impact

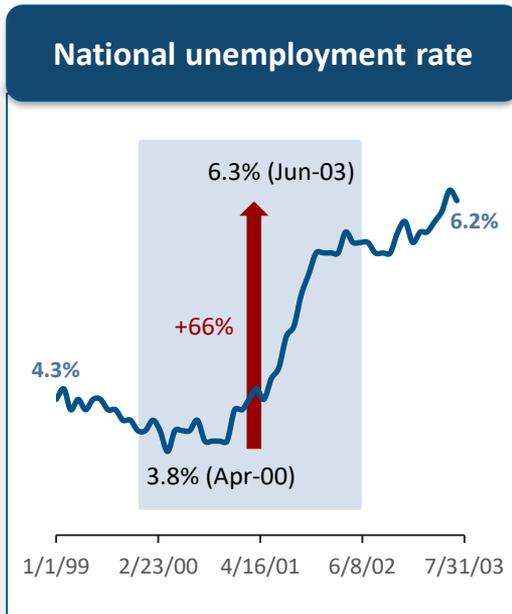


Footnote: Foote, Christopher L., Kristopher Gerard, and Paul S. Willen, "Negative Equity and Foreclosure: Theory and Evidence," Journal of Urban Economics 64, 2008, pp. 234-345

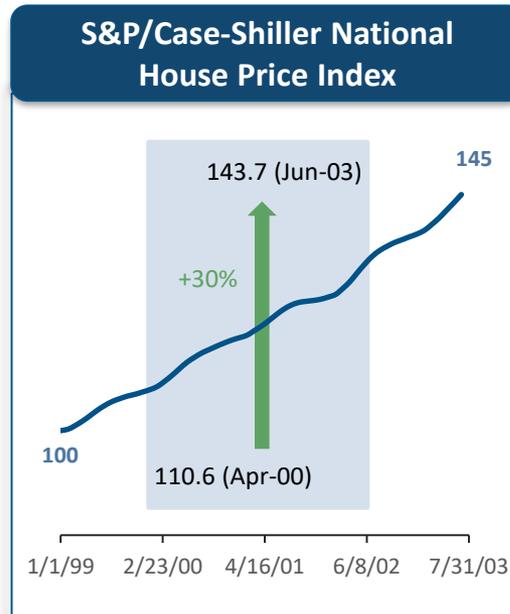
<sup>1</sup> Assumes settlement under the third-party sale option

# Case Study: Early 2000s (Dotcom Recession)

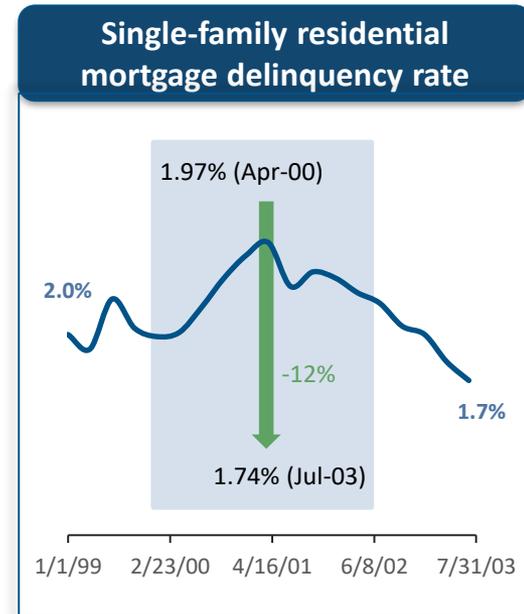
- National unemployment spiked by 66% (at peak) in the early 2000s following the burst of the late-1990s tech bubble and emergence of accounting scandals at Enron, WorldCom and other large firms
- Despite the significant increase in unemployment and a broad national recession, housing demand grew and house prices continued to rise (substantially) from 2000-2003 – aided by a significant drop in mortgage rates (8% in 2000 to 5% in 2003)
- Mortgage credit performance was strong through the entirety of this period – actually improving through the recession



\* St. Louis Federal Reserve Economic Data – unemployment rate, monthly data; seasonally adjusted



\* St. Louis Federal Reserve Economic Data – S&P / Case-Shiller U.S. National Home Price Index, monthly, not seasonally adjusted; indexed to 1/1/99



\* St. Louis Federal Reserve Economic Data – delinquency rate on single family residential mortgages (all commercial banks); seasonally adjusted

# Perspective on Ultimate COVID-Related Loss Exposure

Highest quality insured portfolio

Nationwide house price appreciation provides equity buffer to potential losses

Forbearance programs and foreclosure moratoriums extending “cure runway”

Comprehensive reinsurance program absorbs loss

- High-quality portfolio and encouraging credit trends thus far – modest level of default experience and rising cure activity
- Forbearance, foreclosure and other assistance programs providing significant time for borrowers to find their footing and shallow runway for them to resume timely payment
- Resiliency of the housing market and accelerating house price appreciation nationwide provide a dramatic buffer from both frequency and severity of loss
- Our ultimate loss exposure is driven by foreclosure activity – claims are paid when title is taken, not upon a default
- ***Altogether, we expect COVID to be far more of a default event than a claims event for National MI***



# INVESTOR DAY 2020

## Financial Review

Adam Pollitzer

*Executive Vice President & Chief Financial Officer*

# Delivering Financial Success



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**Standout Success to Date**

**Financial “Sweet Spot”**  
*High-Growth, High>Returns,  
Low Volatility*

**Balance Sheet Strength and  
Earnings Resiliency through COVID**

**Navigating Through Stress**  
*Delivering Resilient  
Financial Performance*

**Significant Long-term  
Opportunity Remains Intact**

**Long-Term Opportunity**  
*Positioning to Achieve Strong  
Mid-Teen Returns*

# Summary Financial Snapshot

	Q1'20 LTM	Q3'20
✓ NIW	\$49.5 billion	\$18.5 billion
✓ IIF	\$98.5 billion	\$104.5 billion
✓ Revenue	\$405.3 million	\$107.8 million
✓ Adjusted net income*	\$196.7 million	\$40.4 million
✓ Adjusted return on equity*	22.8%	12.6%
✓ Book value	\$1.0 billion	\$1.3 billion
✓ Book value per share	\$14.15	\$15.42
✓ Loss ratio	4.2%	15.9%

\* Adjusted net income and adjusted return on equity are non-GAAP measures. For a reconciliation to the most comparable GAAP measures, refer to the appendix or the company website at [www.nationalmi.com](http://www.nationalmi.com)

# COVID-19 Financial Impact

## ■ COVID is impacting our financial performance – introducing certain direct and derivative “costs”

### Credit performance

- Driving increase in forbearance-related default experience
- GAAP claims expense elevated compared what we otherwise would have incurred

Impact clears  
post-COVID?



### Record low interest rates / mortgage note rates

- Persistency – acceleration in portfolio turnover impacts premium revenue
- Investment yield – declining new money rates average down portfolio yield
- Operating expenses – portfolio turnover drives accelerated DAC recognition



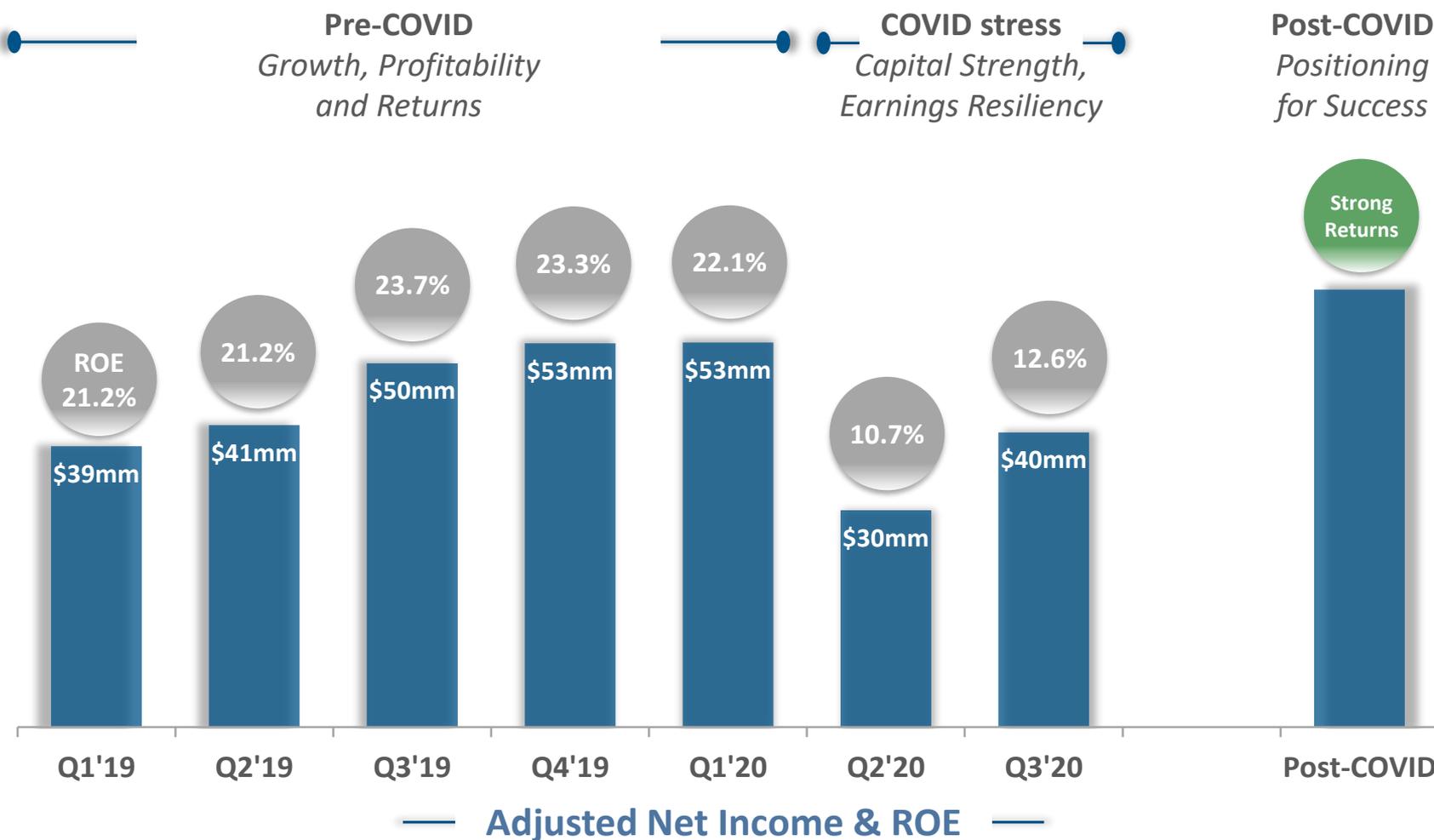
### Capital needs / costs

- Capital needs increased immediately to support record NIW production
- Cost of capital (debt, ILN and quota share reinsurance) increased
- Leverage profile evolved with increased equity funding contribution
- ILN lockout introduces “negative carry” on higher trust balances



## ■ While some of these “costs” will stay with us going forward, many will begin to clear quickly and allow performance to more fully rebound

# Continued Performance in the Face of COVID Stress



Note: "Post-COVID" markers are not a forecast - for illustrative purposes only. Adjusted net income and adjusted return on equity are non-GAAP measures. For a reconciliation to the most comparable GAAP measures, refer to the appendix or the company website at [www.nationalmi.com](http://www.nationalmi.com).

# Effectively Navigating through COVID Stress



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## New Business

Record volume and value  
Driving IIF growth despite heightened  
refinancing activity

## In-force Portfolio

Fully-deployed credit risk framework  
pre-COVID  
Reinsurance largely ring-fences tail  
exposure

## Positioning National MI for financial outperformance post-COVID

Capital and reinsurance activity  
provide funding and risk protection

Conservative investment and  
reserving posture

## Balance Sheet

COVID driving lasting change in  
operating needs and expense footprint

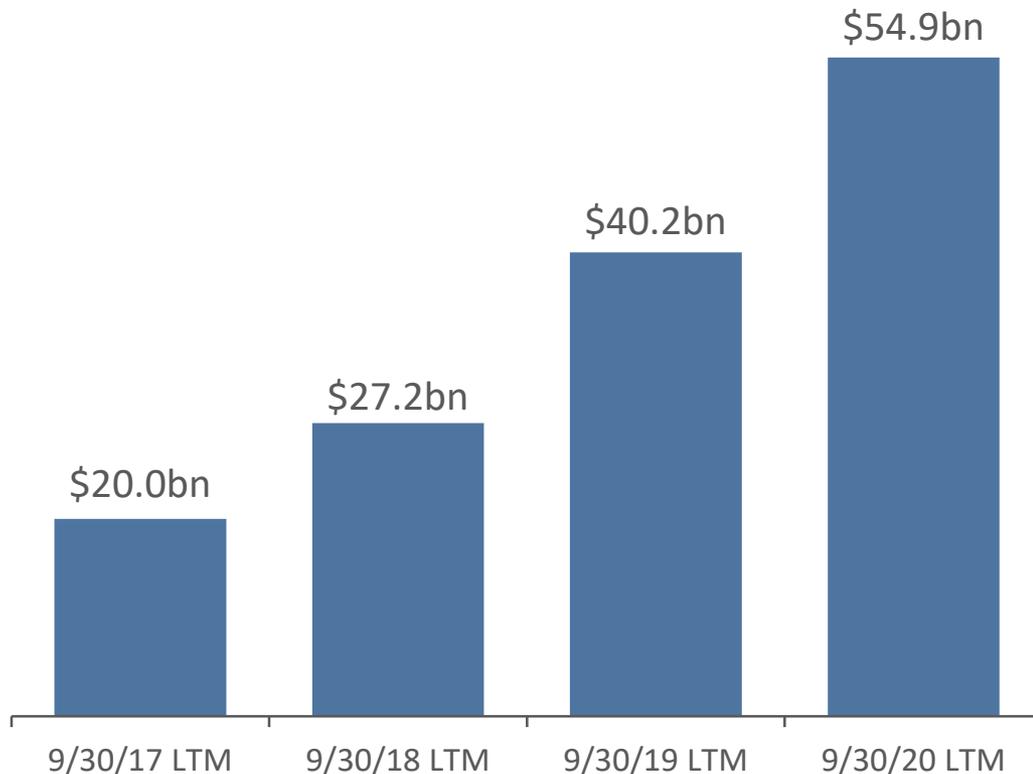
Continued focus on efficiency and long-  
term value from TCS engagement

## Expenses

# Building Significant Incremental Embedded Value

## Responsibly Scaling New Business Production and Building Embedded Value

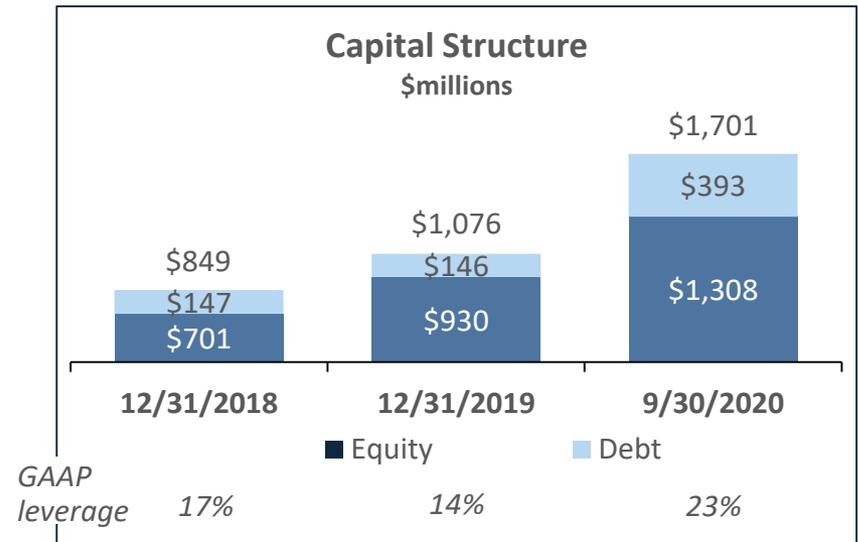
Primary NIW, \$ billions



- Pricing**  
+10% nominal rate increase
- Credit quality**  
10bps layered risk concentration\*
- Capital**  
5.35% PMIERS charge\*
- “Stickiness”**  
3.16% average note rate\*

\* NIW production from 4/1/20-10/31/20

# Strong Balance Sheet



\$ millions	12/31/18	12/31/19	PF 9/30/20 <sup>1</sup>
Available assets	\$734	\$1,016	\$1,672
Required assets	511	773	791
PMIERS excess	\$223	\$243	\$881
PMIERS sufficiency	144%	131%	211%

<sup>1</sup> Pro Forma for ILN of \$242 million aggregate principal amount of 10-year mortgage insurance-linked notes issued by Oaktown Re V Ltd. on October 29<sup>th</sup> providing an estimated \$200mm of PMIERS credit.

# Funding Capacity and Risk Protection – Capital and Reinsurance Activity



- Raised ~\$1.4 billion across six capital markets and reinsurance transactions
- Secured reinsurance protection on nearly all risk ever written – ring-fencing pre-COVID exposure
- Dramatically expanded our funding runway – 211% PMIERS sufficiency at 9/30/20<sup>1</sup>
- Proven durability of our preferred funding markets
- Seeing a rapid normalization of structures, terms and price in the capital and reinsurance markets
- Meaningfully compressed our ILN “cycle time”

## 2020 activity

- Revolving credit facility – refinanced and upsized
- \$230 million common equity
- \$400 million high yield notes
- \$322 million ILN 4.0 (Oaktown Re IV)
- \$242 million ILN 5.0 (Oaktown Re V)
- 2020 quota share reinsurance (21% cession)

## 2021 expectations

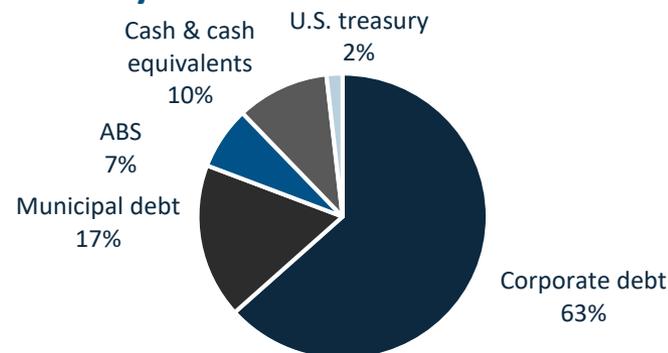
- Quota share renewal
- ILNs 6.0 & 7.0

<sup>1</sup> Pro Forma for ILN of \$242 million aggregate principal amount of 10-year mortgage insurance-linked notes issued by Oaktown Re V Ltd. on October 29<sup>th</sup> providing an estimated \$200mm of PMIERS credit.

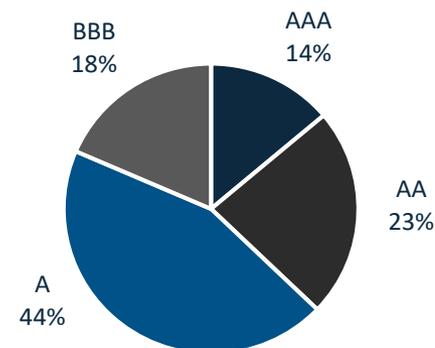
# High Quality Investment Portfolio

- Cash and invested assets = \$1.9 billion at 9/30/20
  - \$1.7 billion actively managed fixed income portfolio and \$194 million cash/equivalents
  - \$64.8 million aggregate unrealized gain
- Investment strategy prioritizes capital preservation alongside income generation
  - 100% fixed income portfolio
  - 100% investment grade holdings – average A+ across portfolio
  - Highly diversified by issuer, sector and asset type – largest single issuer concentration = 1.6%
  - Highly liquid – all level 1 & 2 assets
  - Weighted average duration = 4.53 years
- **Limited exposure to individual issuers, sectors or asset classes in COVID-19 risk categories<sup>1</sup>**

## Portfolio by asset class



## Portfolio ratings at fair value



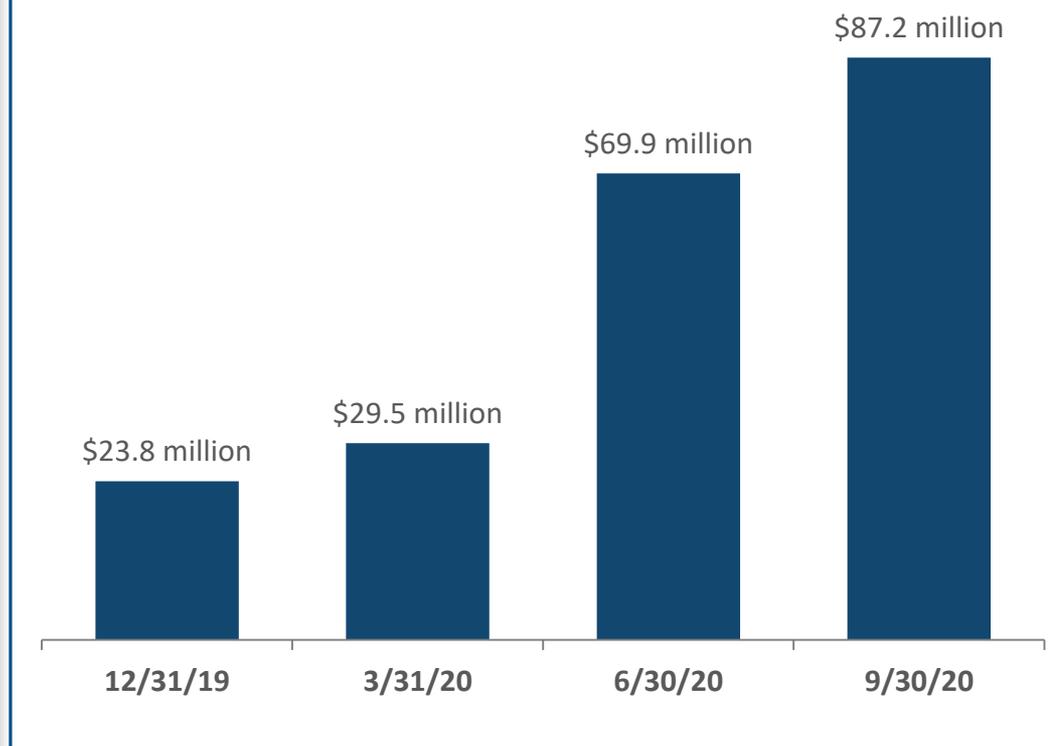
<sup>1</sup> Potential COVID-19 risk categories include airline and aircraft ABS, retail and REIT, oil & energy, consumer credit ABS and rental car ABS; NMI has no gaming, lodging, auto & related, metals & mining, CLO, CMBS or RMBS holdings.  
Note: Amounts presented on charts may not foot due to rounding.

# Loss Reserve Snapshot

- Carry reserves based on individual assessment of each defaulted loan
- Utilize econometric model that considers borrower and loan risk attributes, as well as key macro factors
- Aimed to establish conservative reserves given unprecedented nature of COVID stress
  - Assume national decline in house prices through 2021
  - Have not released reserves held on COVID-related cures (as yet)
  - Have not accounted for positive impact of forbearance for pre-COVID defaults (~50% accessed)

## COVID stress driving growth in default population and increased reserving need

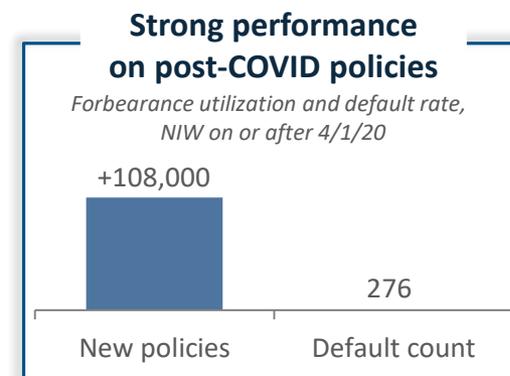
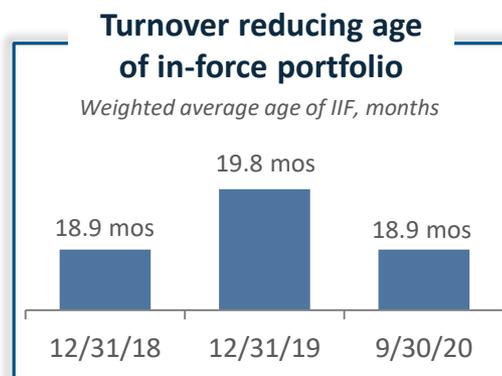
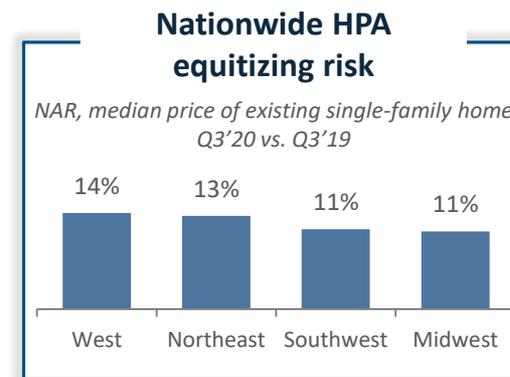
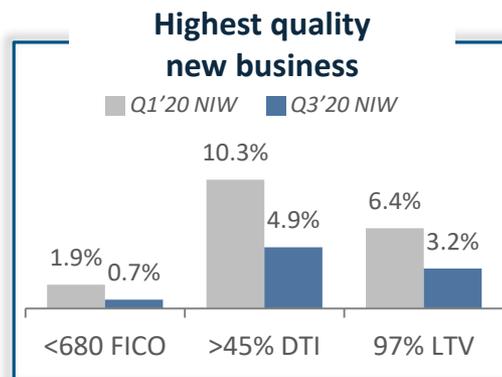
Gross claims and claims expense reserves  
*(for primary insurance)*



# Post-COVID Loss Perspective

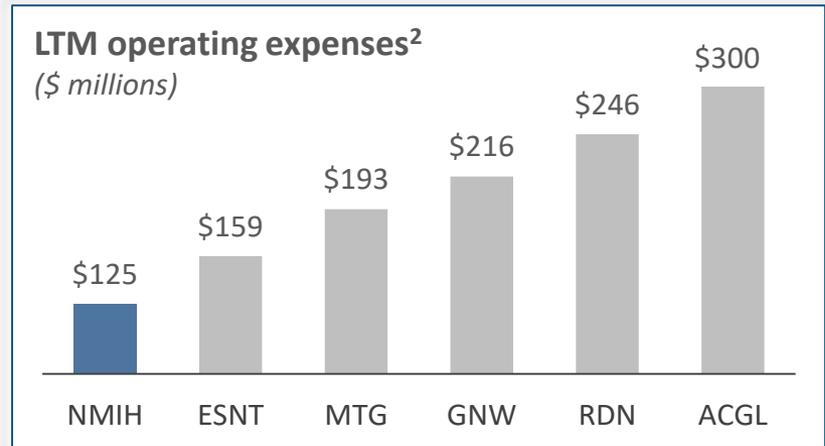
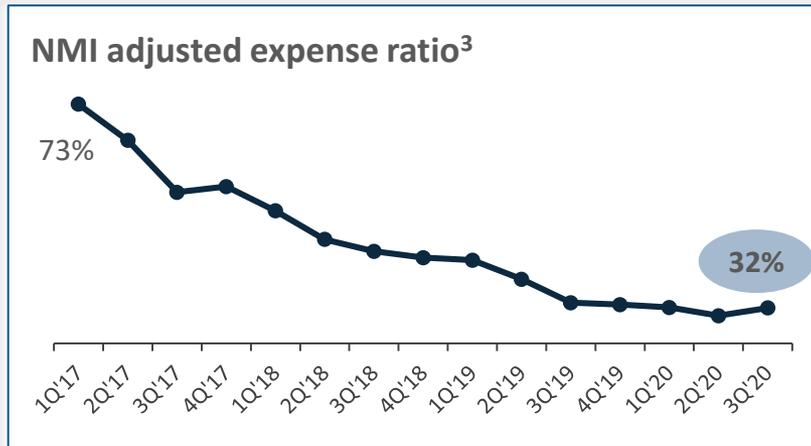
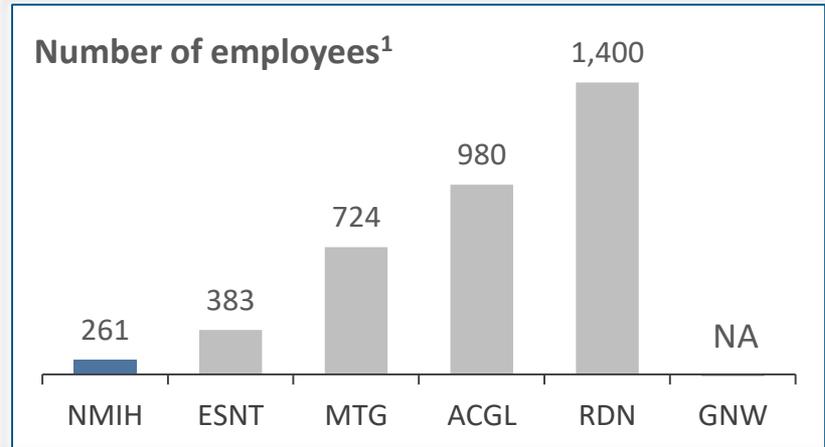
## Opportunity for continued credit strength over long-term

- Highest quality new business ever originated
- Most rigorous underwriting environment ever seen
- Accelerating HPA quickly equitizing exposure on new policies
- Turnover is reducing average age of in-force policies
- New borrowers demonstrating performance through stress



# Focus on Efficiency and Expense Management

- Smallest headcount and expense base in industry (by wide margin)
- TCS (Tata Consultancy) IT partnership provides long-term expense benefits
- COVID changing the way we operate and positively impacting expense outlook
- Increased recognition of DAC expenses given portfolio turnover



<sup>1</sup> Employee count as of most recent available reporting period; NMIH as of 9/30/20; ESNT as of 9/30/20; MTG and RDN as of 12/31/19 (MTG excludes "on call" employees, RDN includes all employees – MI only employee base not disclosed); ACGL represents Mortgage Segment employees as of 2/21/18 per 2017 10K. <sup>2</sup> NMIH presented on adjusted basis; ESNT and MTG total company as reported; RDN MI segment as reported – including RDN's allocation of corporate items; ACGL and GNW MI segment as reported – excluding corporate allocation. <sup>3</sup> Presented on an adjusted basis which is a non-GAAP measure. For a reconciliation of non-GAAP measures to the most comparable GAAP measures are available in the addendum, and on the company's website at [www.nationlmi.com](http://www.nationlmi.com).

# Post-COVID Opportunity – Rebounding Performance and Returns



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## “Decomposition” of Adjusted Return on Equity

	2019	3Q'20	Long-term outlook
<b>Underwriting contribution</b>			
Net premiums earned	\$345.0mm	\$98.8mm	
Adjusted combined ratio	39.6%	48.0%	40.0-50.0%
Underwriting leverage (NPE / equity)	0.42x	0.31x	0.35-0.40x
<b>Pre-tax underwriting RoE contribution</b>	<b>25.5%</b>	<b>16.0%</b>	<b>17.5-25.0%</b>
<b>Asset contribution</b>			
Net investment income	\$30.9mm	\$8.3mm	
Net investment yield	3.0%	2.2%	1.5-2.0%
Asset leverage (invested assets / equity)	1.26x	1.18x	1.20-1.30x
<b>Pre-tax investment RoE contribution</b>	<b>3.8%</b>	<b>2.6%</b>	<b>2.0-2.5%</b>
<b>Financing cost</b>			
Interest expense	\$12.1mm	\$7.8mm	
Cost of debt (all in GAAP)	8.1%	7.8%	7.8%
Financial leverage (debt / equity)	18.2%	31.2%	15.0-20.0%
<b>Pre-tax financing RoE impact</b>	<b>-1.5%</b>	<b>-2.4%</b>	<b>-1.0-1.5%</b>
<b>Adjusted pre-tax return on equity</b>	<b>27.9%</b>	<b>16.2%</b>	<b>+20.0%</b>
Effective tax rate	19.8%	22.4%	23.0%
<b>Adjusted return on equity</b>	<b>22.4%</b>	<b>12.6%</b>	<b>+15.0%</b>

Note: Long-term outlook for illustration purposes; does not represent a forecast. Adjusted combined ratio, pre-tax return on equity and return on equity are non-GAAP measures. For a reconciliation to the most comparable GAAP measures, refer to the appendix or the company website at [www.nationalmi.com](http://www.nationalmi.com).

# Delivering Financial Success

**Standout Success to Date**

**Financial “Sweet Spot”**  
*High-Growth, High>Returns,  
Low Volatility*

**Balance Sheet Strength and  
Earnings Resiliency through COVID**

**Navigating Through Stress**  
*Delivering Resilient  
Financial Performance*

**Significant Long-term  
Opportunity Remains Intact**

**Long-Term Opportunity**  
*Positioning to Achieve Strong  
Mid-Teen Returns*

# Concluding Remarks



**Delivering significant value for shareholders and securing future outperformance across all market cycles**



**Significant success to date provides strong foundation**



**Immediate and decisive action in face of the COVID crisis**



**Housing market resiliency presents enormous opportunity**



**Well positioned to survive and thrive through COVID and beyond**

**NMI**  
HOLDINGS, INC.

**INVESTOR**  
**DAY 2020**

# Questions & Answers

**NMI**  
HOLDINGS, INC.

**INVESTOR**  
**DAY 2020**

# Appendix

# Insured Portfolio Snapshot

## \$104.5 billion In-Force Portfolio

### Current Portfolio Composition

<u>Weighted Average Composition</u>	<u>9/30/20 IIF</u>
FICO	754
LTV	91.6%
DTI	34.9%
	% of
<u>In-Focus Risk Segments</u>	<u>9/30/20 RIF</u>
95.01-97.0% LTV	8.7%
620-659 FICO	1.1%
>45% DTI	8.9%
ARMS with Reset < 5 years	0.0%
Cash-Out Refinance	0.0%
Second Home	2.8%
Investor-Owned Home	0.2%

### Portfolio Metrics by Vintage as of 9/30/20

Vintage	Policies ever in force	Current policies in force	WA FICO score <sup>1</sup>	WA original LTV <sup>1</sup>	WA current LTV <sup>1</sup>	# loans in default	# claims paid	Delinquency rate <sup>2</sup>
2013	655	82	752	91.3%	59.3%	4	1	4.88%
2014	14,786	3,172	746	92.5%	61.9%	139	48	4.38%
2015	52,548	17,706	752	92.5%	65.8%	674	108	3.81%
2016	83,626	36,731	756	92.6%	69.8%	1,609	116	4.38%
2017	85,897	44,498	746	93.0%	75.6%	2,584	79	5.81%
2018	104,043	52,967	742	93.2%	81.1%	3,246	49	6.13%
2019	148,423	105,991	751	92.7%	86.2%	4,327	4	4.08%
2020	125,639	120,752	761	91.8%	89.8%	1,182	0	0.98%
<b>Total</b>	<b>615,617</b>	<b>381,899</b>	<b>754</b>	<b>92.4%</b>	<b>83.9%</b>	<b>13,765</b>	<b>405</b>	<b>3.60%</b>

<sup>1</sup> Weighted average shown on a RIF basis and Current LTV includes amortization and assumed home price appreciation per Corelogic

<sup>2</sup> Ratio of loans in default to current policies in force

# Use of Non-GAAP Financial Measures



INVESTOR  
DAY 2020

We believe the use of the non-GAAP measures of adjusted operating expense, adjusted expense ratio, adjusted combined ratio, adjusted pre-tax income, adjusted net income, adjusted pre-tax return-on-equity, adjusted effective tax rate and adjusted return-on-equity enhances the comparability of our fundamental financial performance between periods, and provides relevant information to investors. These non-GAAP financial measures align with the way the company's business performance is evaluated by management. These measures are not prepared in accordance with GAAP and should not be viewed as alternatives to GAAP measures of performance. These measures have been presented to increase transparency and enhance the comparability of our fundamental operating trends across periods. Other companies may calculate these measures differently; their measures may not be comparable to those we calculate and present.

**Adjusted operating expense** is defined as GAAP operating expense, excluding the periodic costs recorded to GAAP operating expense incurred in connection with capital markets transactions and discrete, non-recurring and non-operating items in the periods in which such items are incurred.

**Adjusted operating expense ratio** is defined as GAAP operating expense, excluding the periodic costs recorded to GAAP operating expense incurred in connection with capital markets transactions and discrete, non-recurring and non-operating items in the periods in which such items are incurred divided by net premiums earned during such periods.

**Adjusted combined ratio** is defined as the total of GAAP underwriting and operating expenses, excluding the pre-tax effects of periodic costs incurred in connection with capital markets transactions and insurance claims and claims expenses, divided by net premiums earned.

**Adjusted pre-tax income** is defined as GAAP income before tax, excluding the effects of the gain or loss related to the change in fair value of our warrant liability, periodic costs incurred in connection with capital markets transactions, net realized gains or losses from our investment portfolio, and discrete, non-recurring and non-operating items in the periods in which such items are incurred.

**Adjusted net income** is defined as GAAP net income excluding the after-tax effects of the gain or loss related to the change in fair value of our warrant liability, periodic costs incurred in connection with capital markets transactions, net realized gains or losses from our investment portfolio, and discrete, non-recurring and non-operating items in the periods in which such items are incurred. Adjustments to components of pre-tax income are tax effected using the applicable federal statutory tax rate for the respective periods.

**Adjusted pre-tax return-on-equity** is calculated by dividing adjusted pre-tax income on an annualized basis by the average shareholders' equity for the period.

**Adjusted return-on-equity** is calculated by dividing adjusted net income on an annualized basis by the average shareholders' equity for the period.

**Adjusted effective tax rate** is calculated by dividing GAAP income tax expense adjusted for the tax-effects of net realized gains or losses from our investment portfolio, periodic costs incurred in connection with capital market transaction and discrete, non-recurring and non-operating items in the periods in which such items are incurred, using the applicable federal statutory tax rate for the respective periods by adjusted pre-tax income for the period.

Although adjusted operating expense, adjusted expense ratio, adjusted combined ratio, adjusted pre-tax income, adjusted net income, adjusted pre-tax return-on-equity, adjusted effective tax rate and adjusted return-on-equity exclude certain items that have occurred in the past and are expected to occur in the future, the excluded items: (1) are not viewed as part of the operating performance of our primary activities; or (2) are impacted by market, economic or regulatory factors and are not necessarily indicative of operating trends, or both. These adjustments, and the reasons for their treatment, are described below.

- (1) Change in fair value of warrant liability. Outstanding warrants at the end of each reporting period are revalued, and any change in fair value is reported in the statement of operations in the period in which the change occurred. The change in fair value of our warrant liability can vary significantly across periods and is influenced principally by equity market and general economic factors that do not impact or reflect our current period operating results. We believe trends in our operating performance can be more clearly identified by excluding fluctuations related to the change in fair value of our warrant liability.
- (2) Capital markets transaction costs. Capital markets transaction costs result from activities that are undertaken to improve our debt profile or enhance our capital position through activities such as debt refinancing and capital markets reinsurance transactions that may vary in their size and timing due to factors such as market opportunities, tax and capital profile, and overall market cycles.
- (3) Net realized investment gains and losses. The recognition of the net realized investment gains or losses can vary significantly across periods as the timing is highly discretionary and is influenced by factors such as market opportunities, tax and capital profile, and overall market cycles that do not reflect our current period operating results.
- (4) Infrequent or unusual non-operating items. Items that are the result of unforeseen or uncommon events, which occur separately from operating earnings and are not expected to recur in the future. Identification and exclusion of these items provides clarity about the impact special or rare occurrences may have on our current financial performance. Past adjustments under this category include the effects of the release of the valuation allowance recorded against our net federal and certain state net deferred tax assets in 2016 and the re-measurement of our net deferred tax assets in connection with tax reform in 2017. We believe such items are non-recurring in nature, are not part of our primary operating activities and do not reflect our current period operating results.

# Financial Highlights and Non-GAAP Reconciliation



## Non-GAAP reconciliation

(\$ in thousands, except per share values)	2018				2019				2020		
	First Quarter 3/31/2018	Second Quarter 6/30/2018	Third Quarter 9/30/2018	Fourth Quarter 12/31/2018	First Quarter 3/31/2019	Second Quarter 6/30/2019	Third Quarter 9/30/2019	Fourth Quarter 12/31/2019	First Quarter 3/31/2020	Second Quarter 6/30/2020	Third Quarter 9/30/2020
<b>As Reported:</b>											
<b>Revenues</b>											
Net premiums earned	\$ 54,914	\$ 61,615	\$ 65,407	\$ 69,261	\$ 73,868	\$ 83,249	\$ 92,381	\$ 95,517	\$ 98,717	\$ 98,944	\$ 98,802
Net Investment Income	4,574	5,735	6,277	6,952	7,383	7,629	7,882	7,962	8,104	7,070	8,337
Net realized investment gains (losses)	-	59	(8)	6	(187)	(113)	81	264	(72)	711	(4)
Other revenues	64	44	85	40	42	415	1,244	1,154	900	1,223	648
<b>Total revenues</b>	<b>\$ 59,552</b>	<b>\$ 67,453</b>	<b>\$ 71,761</b>	<b>\$ 76,259</b>	<b>\$ 81,106</b>	<b>\$ 91,180</b>	<b>\$ 101,588</b>	<b>\$ 104,897</b>	<b>\$ 107,649</b>	<b>\$ 107,948</b>	<b>\$ 107,783</b>
<b>Expenses</b>											
Insurance claims and claims expenses	\$ 1,569	\$ 643	\$ 1,099	\$ 2,141	\$ 2,743	\$ 2,923	\$ 2,572	\$ 4,269	\$ 5,697	\$ 34,334	\$ 15,667
Underwriting and operating expenses	28,346	28,958	30,323	29,339	30,800	32,190	32,335	31,296	32,277	30,370	33,969
Service expenses	107	62	56	45	49	353	909	937	734	1,090	557
Interest expense	3,419	5,560	2,972	3,028	3,061	3,071	2,979	2,974	2,744	5,941	7,796
Loss (Gain) from change in fair value of warrant liability	\$(420)	\$(109)	\$ 5,464	\$(3,538)	\$ 5,479	\$ 1,685	\$(1,139)	\$ 2,632	\$(5,959)	\$ 1,236	\$ 437
<b>Total expenses</b>	<b>\$ 33,021</b>	<b>\$ 35,114</b>	<b>\$ 39,914</b>	<b>\$ 31,015</b>	<b>\$ 42,132</b>	<b>\$ 40,222</b>	<b>\$ 37,656</b>	<b>\$ 42,108</b>	<b>\$ 35,493</b>	<b>\$ 72,971</b>	<b>\$ 58,426</b>
<b>Income before income taxes</b>	<b>\$ 26,531</b>	<b>\$ 32,339</b>	<b>\$ 31,847</b>	<b>\$ 45,244</b>	<b>\$ 38,974</b>	<b>\$ 50,958</b>	<b>\$ 63,932</b>	<b>\$ 62,789</b>	<b>\$ 72,156</b>	<b>\$ 34,977</b>	<b>\$ 49,357</b>
Income tax expense (benefit)	4,176	7,098	7,036	9,724	6,075	11,858	14,169	12,594	13,885	8,129	11,178
<b>Net income</b>	<b>\$ 22,355</b>	<b>\$ 25,241</b>	<b>\$ 24,811</b>	<b>\$ 35,520</b>	<b>\$ 32,899</b>	<b>\$ 39,100</b>	<b>\$ 49,763</b>	<b>\$ 50,195</b>	<b>\$ 58,271</b>	<b>\$ 26,848</b>	<b>\$ 38,179</b>
<b>Adjustments:</b>											
Loss (Gain) from change in fair value of warrant liability	\$(420)	\$(109)	\$ 5,464	\$(3,538)	\$ 5,479	\$ 1,685	\$(1,139)	\$ 2,632	\$(5,959)	\$ 1,236	\$ 437
Capital markets transaction costs	-	2,921	1,871	102	-	664	1,689	-	474	2,790	2,254
Net realized investment (gains) losses	-	(59)	8	(6)	187	113	(81)	(264)	72	(711)	4
<b>Adjusted income before income taxes</b>	<b>\$ 26,111</b>	<b>\$ 35,092</b>	<b>\$ 39,190</b>	<b>\$ 41,802</b>	<b>\$ 44,640</b>	<b>\$ 53,420</b>	<b>\$ 64,401</b>	<b>\$ 65,157</b>	<b>\$ 66,743</b>	<b>\$ 38,292</b>	<b>\$ 52,052</b>
Income tax expense (benefit) on adjustments	\$(88)	\$ 578	\$ 395	\$ 20	\$ 39	\$ 163	\$ 338	\$(55)	\$ 115	\$ 437	\$ 474
Deferred tax (expense) benefit adjustments	-	-	-	-	-	-	-	-	-	-	-
<b>Adjusted Net income</b>	<b>\$ 22,023</b>	<b>\$ 27,416</b>	<b>\$ 31,759</b>	<b>\$ 32,058</b>	<b>\$ 38,526</b>	<b>\$ 41,399</b>	<b>\$ 49,894</b>	<b>\$ 52,618</b>	<b>\$ 52,743</b>	<b>\$ 29,726</b>	<b>\$ 40,400</b>
Weighted average diluted shares outstanding	65,697	68,616	68,844	69,013	68,996	69,590	70,137	70,276	70,401	74,174	85,599
Dilutive effect of non-vested shares and warrants	-	-	-	-	-	-	-	-	-	-	-
<b>Weighted average diluted shares outstanding – Adjusted</b>	<b>65,697</b>	<b>68,616</b>	<b>68,844</b>	<b>69,013</b>	<b>68,996</b>	<b>69,590</b>	<b>70,137</b>	<b>70,276</b>	<b>70,401</b>	<b>74,174</b>	<b>85,599</b>
Diluted EPS – Reported	\$ 0.34	\$ 0.37	\$ 0.36	\$ 0.46	\$ 0.48	\$ 0.56	\$ 0.69	\$ 0.71	\$ 0.74	\$ 0.36	\$ 0.45
Diluted EPS – Adjusted	\$ 0.34	\$ 0.40	\$ 0.46	\$ 0.46	\$ 0.56	\$ 0.59	\$ 0.71	\$ 0.75	\$ 0.75	\$ 0.40	\$ 0.47
Shareholders' equity	\$ 601,944	\$ 629,642	\$ 660,493	\$ 701,500	\$ 751,881	\$ 812,379	\$ 873,487	\$ 930,420	\$ 974,890	\$ 1,257,037	\$ 1,307,556
Return on equity – Reported	16.1%	16.4%	15.4%	20.9%	18.1%	20.0%	23.6%	22.3%	24.5%	9.6%	11.9%
Return on equity – Adjusted	15.9%	17.8%	19.7%	18.8%	21.2%	21.2%	23.7%	23.3%	22.1%	10.7%	12.6%
Expense ratio - Reported	51.6%	47.0%	46.4%	42.4%	41.7%	38.7%	35.0%	32.8%	32.7%	30.7%	34.4%
Expense ratio - Adjusted	51.6%	45.9%	43.5%	42.2%	41.7%	37.9%	33.2%	32.8%	32.2%	30.5%	32.1%
Loss ratio - Reported and Adjusted	2.9%	1.0%	1.7%	3.1%	3.7%	3.5%	2.8%	4.5%	5.8%	34.7%	15.9%
Combined ratio - Reported	54.5%	48.0%	48.0%	45.5%	45.4%	42.2%	37.8%	37.2%	38.5%	65.4%	50.2%
Combined ratio - Adjusted	54.5%	46.9%	45.2%	45.3%	45.4%	41.4%	36.0%	37.2%	38.0%	65.2%	48.0%

# Cautionary Note Regarding Forward-Looking Statements



Certain statements contained in this presentation or any other written or oral statements made by or on behalf of the Company in connection therewith may constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and the U.S. Private Securities Litigation Reform Act of 1995 (the "PSLRA"). The PSLRA provides a "safe harbor" for any forward-looking statements. All statements other than statements of historical fact included in or incorporated by reference in this release are forward-looking statements, including any statements about our expectations, outlook, beliefs, plans, predictions, forecasts, objectives, assumptions or future events or performance. These statements are often, but not always, made through the use of words or phrases such as "anticipate," "believe," "can," "could," "may," "predict," "assume," "potential," "should," "will," "estimate," "plan," "project," "continuing," "ongoing," "expect," "intend" and similar words or phrases. All forward-looking statements are only predictions and involve estimates, known and unknown risks, assumptions and uncertainties that may turn out to be inaccurate and could cause actual results to differ materially from those expressed in them. Many risks and uncertainties are inherent in our industry and markets. Others are more specific to our business and operations. Important factors that could cause actual events or results to differ materially from those indicated in such statements include, but are not limited to: uncertainty relating to the coronavirus ("COVID-19") pandemic and the measures taken by governmental authorities and other third parties to combat it, including their impact on the global economy, the U.S. housing, real estate, housing finance and mortgage insurance markets, and the Company's business, operations and personnel, changes in the business practices of Fannie Mae and Freddie Mac (collectively, the "GSEs"), including decisions that have the impact of decreasing or discontinuing the use of mortgage insurance as credit enhancement generally, or with first time homebuyers or on very high loan-to-value mortgages; our ability to remain an eligible mortgage insurer under the private mortgage insurer eligibility requirements ("PMIERS") and other requirements imposed by the GSEs, which they may change at any time; retention of our existing certificates of authority in each state and the District of Columbia ("D.C.") and our ability to remain a mortgage insurer in good standing in each state and D.C.; our future profitability, liquidity and capital resources; actions of existing competitors, including other private mortgage insurers and government mortgage insurers, such as the Federal Housing Administration, U.S. Department of Agriculture's Rural Housing Service and the U.S. Department of Veterans Affairs, and potential market entry by new competitors or consolidation of existing competitors; developments in the world's financial and capital markets and our access to such markets, including reinsurance; adoption of new or changes to existing laws and regulations that impact our business or financial condition directly or the mortgage insurance industry generally or their enforcement and implementation by regulators, including any action by the Consumer Financial Protection Bureau to address the planned expiration of the "QM Patch" under the Dodd-Frank Act Ability to Repay/Qualified Mortgage Rule; legislative or regulatory changes to the GSEs' role in the secondary mortgage market or other changes that could affect the residential mortgage industry generally or mortgage insurance industry in particular; potential future lawsuits, investigations or inquiries or resolution of current lawsuits or inquiries; changes in general economic, market and political conditions and policies, interest rates, inflation and investment results or other conditions that affect the housing market or the markets for home mortgages or mortgage insurance; our ability to successfully execute and implement our capital plans, including our ability to access the capital, credit and reinsurance markets and to enter into, and receive approval of, reinsurance arrangements on terms and conditions that are acceptable to us, the GSEs and our regulators; our ability to implement our business strategy, including our ability to write mortgage insurance on high quality low-down payment residential mortgage loans, implement successfully and on a timely basis, complex infrastructure, systems, procedures, and internal controls to support our business and regulatory and reporting requirements of the insurance industry; our ability to attract and retain a diverse customer base, including the largest mortgage originators; failure of risk management or pricing or investment strategies; emergence of unexpected claim and coverage issues, including claims exceeding our reserves or amounts we had expected to experience; potential adverse impacts arising from natural disasters, including, with respect to affected areas, a decline in new business, adverse effects on home prices, and an increase in notices of default on insured mortgages; the inability of our counterparties, including third party reinsurers, to meet their obligations to us; failure to maintain, improve and continue to develop necessary information technology systems or the failure of technology providers to perform; and, our ability to recruit, train and retain key personnel. These risks and uncertainties also include, but are not limited to, those set forth under the heading "Risk Factors" detailed in Item 1A of Part I of our Annual Report on Form 10-K for the year ended December 31, 2019 and in Part II, Item 1A of our Quarterly Reports on Form 10-Q for the quarters ended June 30, 2020 and September 30, 2020, as subsequently updated through other reports we file with the SEC. All subsequent written and oral forward-looking statements attributable to the Company or persons acting on its behalf are expressly qualified in their entirety by these cautionary statements. We caution you not to place undue reliance on any forward-looking statement, which speaks only as of the date on which it is made, and we undertake no obligation to publicly update or revise any forward-looking statement to reflect new information, future events or circumstances that occur after the date on which the statement is made or to reflect the occurrence of unanticipated events except as required by law.