Report

of the

Examination of

Verex Assurance, Inc.

Raleigh, North Carolina

As of December 31, 2005

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

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December 15, 2006

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Commissioners:

In accordance with your instructions, a compliance examination has been made of the affairs and financial condition of:

VEREX ASSURANCE, INC.
Raleigh, North Carolina

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of Verex Assurance, Inc. (Verex or the company), was conducted in 2002 as of December 31, 2000. The current examination covered the intervening period ending December 31, 2005, and included a review of such 2006 transactions as deemed necessary to complete the examination.

The examination consisted of a review of all major phases of the company's operations and included the following areas:

History
Management and Control
Corporate Records
Conflict of Interest
Fidelity Bonds and Other Insurance
Affiliated Companies
Run-off of Company
Reinsurance
Financial Statements
Accounts and Records
Data Processing

Emphasis was placed on the audit of those areas of the company's operations accorded a high priority by the examiner-in-charge when planning the examination. Special attention was given to the action taken by the company to satisfy the recommendations and comments made in the previous examination report.

The company is exempt from filing annually audited financial statements as prescribed by s. Ins 50.16, Wis. Adm. Code.

II. HISTORY AND PLAN OF OPERATION

The company was incorporated in Wisconsin in 1961 under the name Continental Mortgage Insurance, Inc. (CMI). In 1970 CMI Investment Corporation (CMI Investment) was formed to serve as the holding company for CMI and its affiliates and through 1977 CMI Investment held 99.9% ownership of the company. CMI Investment transacted a reverse stock split on October 31, 1977, that eliminated the minority interest in CMI, and CMI Investment became the sole stockholder of the company.

CMI Investment changed its name to Verex Corporation on December 31, 1977, and CMI's name was changed to Verex Assurance, Inc., the name presently used by the company. Verex Corporation was purchased by Greyhound Dial Corporation effective March 31, 1978. Greyhound Dial Corporation changed its name to The Dial Corporation on May 14, 1991. GFC Financial Corporation was incorporated in 1991 in Delaware as a holding company subsidiary of The Dial Corporation, and ownership of Verex Corporation was transferred to GFC Financial Corporation on March 18, 1992.

Effective July 16, 1993, GE Capital Mortgage Corporation, a subsidiary of the General Electric Company, purchased 100% ownership interest of Verex Corporation, and ultimate ownership and control of Verex Assurance, Inc., was thereby transferred to the General Electric Company (GE). Verex operations were subsequently moved to the offices of General Electric Mortgage Insurance Corporation in Raleigh, North Carolina. Verex Corporation was merged into GE Capital Mortgage Corporation as of November 7, 1994, and it held the capital stock of Verex Assurance, Inc., through June 1, 2001. Effective June 1, 2001, GE Capital Mortgage Corporation was liquidated and merged into its immediate parent, General Electric Capital Corporation. Upon the GE Capital Mortgage Corporation liquidation and merger, its former subsidiaries including Verex were ultimately contributed to GE Mortgage Holdings, LLC, a North Carolina holding company. GE Financial Assurance Holdings, Inc., a Delaware holding company, was the immediate parent of GE Mortgage Holdings, LLC.

Genworth Financial, Inc., was incorporated in Delaware on October 23, 2003, in preparation for a corporate reorganization. On November 18, 2003, GE announced its decision to pursue an initial public offering of Genworth Financial, Inc., which would take over all the life and mortgage insurance business that were operating at that time under GE Financial Assurance Holdings, Inc.

On May 24, 2004, GE Financial Assurance Holdings, Inc., transferred substantially all of its assets and liabilities to Genworth Financial, Inc., including Verex and its immediate parent, GE Mortgage Holdings, LLC. The next day the class A common stock of Genworth Financial, Inc., began trading on the New York Stock Exchange. The initial public offering of Genworth Financial, Inc., raised about $2.8 billion which the General Electric Company used to decrease the debt of its subsidiary, General Electric Capital, which was the parent of GE Financial Assurance Holdings, Inc. Genworth Financial, Inc., did not receive any of the proceeds of the initial public offering, but it received a contribution of certain businesses that had been owned by other subsidiaries of the General Electric Company. By December 31, 2004, GE owned approximately 70% of the outstanding common stock of Genworth Financial, Inc., with the remainder held by public investors. All of the common stock held by GE was categorized as Class B common stock and all of the common stock held by public investors was categorized as Class A common stock. Class B common stock was automatically converted to Class A common stock upon its sale to public investors.

In March, September, and December of 2005, the General Electric Company completed a series of secondary public offerings of 80.5 million, 116.2 million and 40.9 million shares of the common stock of Genworth Financial, Inc., respectively. Concurrent with the March 2005 offering, Genworth Financial, Inc., repurchased 19.4 million Class B common shares from GE. On December 31, 2005, GE owned approximately 18% of Genworth Financial, Inc. During 2005, GE Mortgage Holdings, LLC, was renamed Genworth Mortgage Holdings, LLC.

In March of 2006, the General Electric Company sold all of its remaining shares of Genworth Financial, Inc., thereby terminating its affiliation with Genworth Financial, Inc.

Verex does not have any employees, and all the company's business operations are conducted by affiliates pursuant to intercompany relationships and agreements. Further discussion of the holding company system led by Genworth Financial, Inc., is located in the section of this examination report captioned, “Affiliated Companies.”

Verex Assurance, Inc., purchased Home Guaranty Insurance Corporation effective December 2, 1992, and held whole ownership of it until it was sold to an unaffiliated third party on April 16, 1996. Under the terms of the purchase, the buyer acquired 100% of the capital stock of Home Guaranty and certain other assets of Verex Assurance, Inc., and Verex assumed 100% of Home Guaranty’s run-off mortgage insurance liabilities through an assumption reinsurance agreement.

Verex is authorized as a monoline mortgage guaranty insurer, and its in-force business consists solely of run-off residential mortgage guaranty insurance. The company insures first-lien residential mortgage loans on owner-occupied one- to four-family homes. Mortgage guaranty insurance protects mortgage lenders against certain losses resulting from nonpayment of loans secured by mortgages, deeds of trust, or other instruments constituting a lien on real estate.

There are two principal types of mortgage guaranty insurance: primary insurance and pool insurance.

Primary insurance provides mortgage loan default protection on individual loans. The insurance covers unpaid loan principal, delinquent interest, and certain expenses associated with the default and subsequent foreclosure, in the event the mortgage borrower defaults on the mortgage loan. Verex is required to pay the lender the covered percentage of the claim amount specified in the primary policy, but it has the option to pay the lender an amount equal to the unpaid loan principal, delinquent interest, and expenses incurred with the default and foreclosure and acquire title to the property. During the years under examination, Verex has acquired title only on one property in 2001 and another in 2004. All the company’s primary insurance was issued with a loan-to-value ratio of greater than 75%, except for one treaty that was issued with a loan-to-value ratio of between 50% and 75%. The loan-to-value is the entire indebtedness expressed as a percentage of the value of the collateral property.

Pool insurance provides insurance coverage on a specified pool of loans, typically for 100% of the losses on every loan in the portfolio, subject to an aggregate loss limit. Effective January 1, 2000, the company assigned all of its direct pool risks to an affiliate, General Electric Mortgage Insurance Corporation, which has since been renamed Genworth Mortgage Insurance Corporation. Accordingly, as of the date of this examination the direct business of the company is comprised solely of primary insurance. The company assumes run-off direct and pool risks only from Genworth Mortgage Insurance Corporation.

Verex is licensed in every state of the United States and in the District of Columbia. In 2005, the company wrote direct premium in the following states:

Texas	$ 30,445	11.9%
Florida	23,509	9.2
South Carolina	22,366	8.8
New Jersey	21,910	8.6
Illinois	11,752	4.6
Connecticut	11,593	4.5
All others	133,877	52.4
Total	$255,452	100.0%

Verex discontinued direct writing of new business effective January 1, 1988, and the company's entire book of insurance in force has been in run-off for the past 19 years. The company's current direct, assumed, and ceded business consists solely of policy renewals. Mortgage guaranty insurance may not be terminated by a mortgage insurer except in the event of nonpayment of premiums; therefore, the policy remains renewable at the option of the insured lender. An insured lender may elect to cancel insurance coverages at any time, upon the repayment or termination of the insured loan or upon the mortgage borrower's attainment of sufficient equity in the mortgaged real estate. Verex's insured risks in force and annual premium revenues are decreasing from year to year, as existing insured mortgages mature and insured lenders terminate or non-renew the policies.

Verex had 3,126 policies in force as of year-end 2005 and as of October 31, 2006, only 2,446 policies remained in force. The company's current business plan is to continue the run-off of existing insurance policies and as of the date of this examination there are no plans to reactivate Verex as a direct writer. However, if management were to decide to begin writing new business, the company is required to submit a plan of action and receive the approval of the Wisconsin Office of the Commissioner of Insurance.

The following table is a summary of the net insurance premiums written by the company since the prior examination:

Year	Direct Premium Written	Written Premium Assumed	Written Premium Ceded	Net Premium Written	Net Premiums Written To Surplus
2000	$3,033,043	$70,996	$(123,114)	$3,227,153	1.9%
2001	1,755,768	41,446	199,605	1,597,609	0.9
2002	1,053,944	27,936	133,911	947,969	0.6
2003	568,262	14,814	75,571	507,505	6.9
2004	370,890	7,548	51,965	326,473	3.5
2005	255,452	4,451	38,738	221,165	2.7

Net premiums written decreased 93% since the date of the last examination. Direct premium written from 2001 to 2003 decreased significantly in comparison to 2000. This decrease is mainly attributable to the low interest rate environment, which encouraged a large number of borrowers to refinance their mortgage loans. Written premium ceded was negative in 2000 due to the assignment of the company's direct pool insurance risks to its affiliate, Genworth Mortgage Insurance Corporation, in that year. The ratio of net premiums written to surplus increased over the period under examination due to the decrease in surplus, which was the result of dividend payments to the company's sole shareholder, Genworth Mortgage Holdings, LLC.

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of six members. Directors are elected annually to serve a one-year term. During the period under examination, the sole shareholder of Verex has elected the directors annually by written consent resolutions in accordance with the company's bylaws and s. 180.0704, Wis. Stat. Members of the company's board of directors may also be members of other boards of directors in the holding company system, and each Verex director is an officer within the Genworth holding company system. The directors currently do not receive any compensation specific to their service on the company's board of directors.

During the period under examination, the board of directors and its committees held no meetings. Rather, all actions of the board of directors and its committees were undertaken by unanimous written consent resolutions in accordance with the company's bylaws and s. 180.0821, Wis. Stat.

Currently the board of directors consists of the following persons:

Name and Residence	Principal Occupation	Term Expires
Thomas Hill Mann Raleigh, North Carolina	Chairman, President and Chief Executive Officer Genworth Mortgage Holdings, LLC.	2007
Marcia Ann Dall Raleigh, North Carolina	Senior Vice President, Chief Financial Officer, and Treasurer Genworth Mortgage Holdings, LLC.	2007
Leslie Alison Deich Raleigh, North Carolina	Senior Vice President - Risk Management Genworth Mortgage Holdings, LLC.	2007
Cecil Lewis Fain Junior Raleigh, North Carolina	Senior Vice President - Marketing Genworth Mortgage Holdings, LLC.	2007
JoAnn Battagliese Rabitz Wake Forest, North Carolina	Senior Vice President - Human Resources Genworth Mortgage Holdings, LLC.	2007
Kevin Douglas Schneider Raleigh, North Carolina	President and Chief Executive Officer Genworth Mortgage Insurance Corporation	2007

Officers of the Company

The officers serving as of December 31, 2005, are as follows:

Name	Office	2005 Compensation
Thomas Hill Mann	President and Chief Executive Officer	$4,234,290 *
Marcia Ann Dall	Senior Vice President, Chief Financial Officer,and Treasurer	925,591 *
John Charles Taggart	Vice President and Secretary	368,459 *
Thomas Francis Kleissler	Senior Vice President and General Counsel	336,767 *

* Approximately 80% to 95% of the compensation was allocated to the General Electric Company and the rest was allocated to the Genworth Group. Verex does not directly compensate its executive officers but reimburses its affiliate for the portion of this expense allocated to the company.

Committees of the Board

The company's bylaws allow for the formation of certain committees by the board of directors. Current members of the committees are listed below:

Executive Committee
Thomas Hill Mann, Chair
Marcia Ann Dall
Kevin Douglas Schneider
Leslie Alison Deich

Investment Committee *
Thomas Hill Mann
Samuel Dominick Marsico
Michael Fraizer
George Zippel
Pamela Schutz
Victor Moses
Mark Griffin
Jessie Puchon
Leon Roday
Marcia Ann Dall

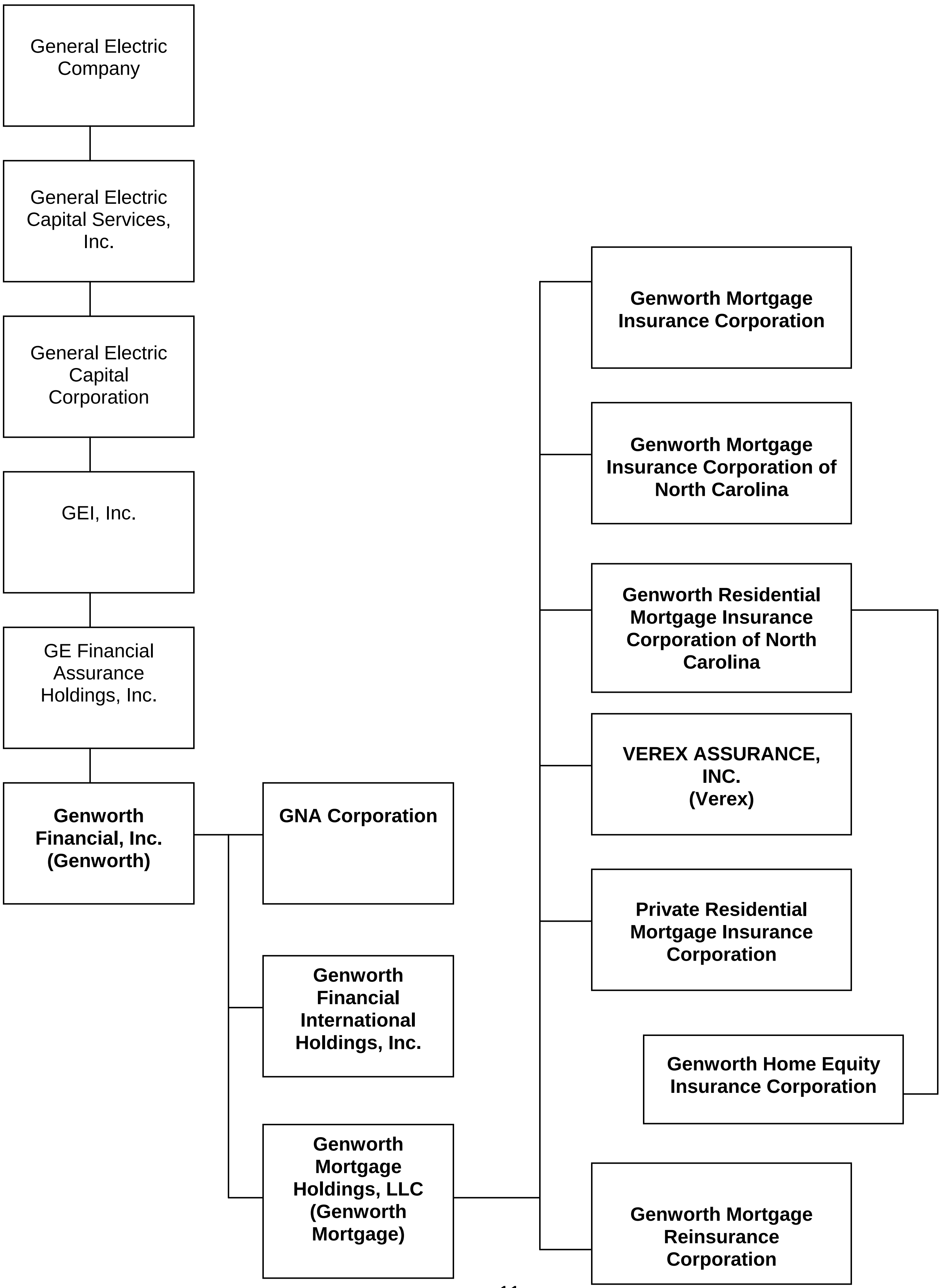
* No chair was elected. Marcia Ann Dall was appointed member subsequent to fieldwork. Additional information concerning the Investment Committee is located in the section of this report captioned, “Investment Committee Membership.”

IV. AFFILIATED COMPANIES

As previously noted in this report, the company was an affiliate of the General Electric Company until March 2006 when Genworth Financial, Inc., became 100% owned by public investors.

The organizational chart below depicts the relationships among Verex's parents and its United States mortgage guaranty insurance affiliates as of year-end 2005. Companies that are part of the current holding company are in bold and are briefly described, together with the affiliated contracts to which Verex is party, immediately following the organizational chart.

Organizational Chart as of December 31, 2005



Genworth Financial, Inc.

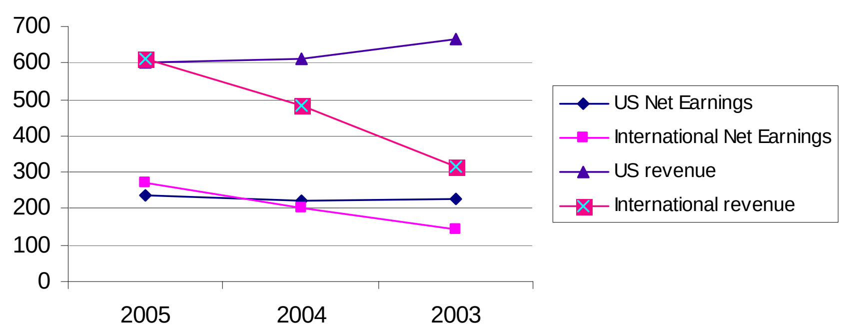
Genworth Financial, Inc. (Genworth), provides insurance and investment-related products and services in the United States and internationally. Genworth has four operating segments: Protection; Retirement Income and Investments; Mortgage Insurance; and Corporate and Other. These segments reported a $568 million, $247 million, $507 million, and $(101) million net income/(loss), respectively, as of December 31, 2005.

Genworth's Protection operating segment offers life insurance, long-term care insurance, and group life and health insurance for U.S. companies with less than one thousand employees. In Europe, this operating segment offers payment protection insurance due to illness, involuntary unemployment, disability or death.

Genworth's Retirement Income and Investments operating segment offers U.S. customers fixed and variable deferred annuities, fixed immediate annuities, variable life insurance, asset management and specialized products, including guaranteed investment contracts, funding agreements and structured settlements.

Genworth's Mortgage Insurance operating segment offers mortgage insurance products that facilitate home ownership through coverage of high loan-to-value mortgages, in the U.S., Canada, Australia, Europe, New Zealand, Mexico, and Japan. The international mortgage insurance revenue almost doubled over the last three years, which was due mainly to increases in business in Canada and Australia (refer to Figure 1).

Figure 1
Mortgage Insurance Revenue and Net Earnings (in millions)



Genworth's Corporate and Other operating segment consists of unallocated corporate income and expenses, the results of non-core business, interest and other financing expenses, and net realized investment gains or losses.

As of December 31, 2005, Genworth Financial, Inc., reported total assets of $105,292,000,000, liabilities of $91,982,000,000, shareholders' equity of $13,310,000,000, and net earnings of $1,221,000,000.

Genworth Mortgage Holdings, LLC (Genworth Mortgage)

Genworth Mortgage Holdings, LLC (Genworth Mortgage), is an insurance holding company that was established in 2001 to serve as the immediate parent holding company for the mortgage guaranty insurance companies that were then controlled by GE.

Effective June 1, 2001, GE Capital Mortgage Corporation, the former holding company for the General Electric mortgage guaranty insurers and immediate parent of Verex as of year-end 2000, was liquidated and merged into General Electric Capital Corporation (GE Capital), the immediate parent of GE Capital Mortgage Corporation. GE Capital subsequently contributed the capital stock of the insurers formerly held in GE Capital Mortgage Corporation to GE Financial Assurance Holdings, Inc., which in turn contributed the capital stock of the mortgage guaranty insurers to GE Mortgage Holdings, LLC. After November 1, 2005, GE Mortgage Holdings, LLC, changed its name to the one presently used (Genworth Mortgage Holdings, LLC) in connection with the Secondary Public Offering of Genworth Financial, Inc.

Genworth Mortgage wholly owns six mortgage guaranty insurers domiciled in North Carolina, in addition to Verex and other non-insurance companies.

Genworth Mortgage Insurance Corporation

Genworth Mortgage Insurance Corporation is the lead mortgage insurer for the U.S. mortgage insurance operations. After November 1, 2005, General Electric Mortgage Insurance Corporation changed its name to the one presently used. As of year-end 2005, the corporation reported admitted assets of $2,847,796,052, liabilities of $2,659,499,768, and capital and surplus of $188,296,284. In 2005, premiums earned totaled $402,627,422 and net income totaled $188,762,862.

Genworth Mortgage Insurance Corporation of North Carolina

General Electric Mortgage Insurance Corporation of North Carolina changed its name to Genworth Mortgage Insurance Corporation of North Carolina after November 1, 2005. As of year-end 2005, the corporation reported admitted assets of $170,009,206, liabilities of $141,083,153, and capital and surplus of $28,926,053. In 2005, premiums earned totaled $38,262,264 and net income totaled $27,171,107.

Genworth Residential Mortgage Insurance Corporation of North Carolina

Genworth Residential Mortgage Insurance Corporation of North Carolina, formerly known until November of 2005 as GE Residential Mortgage Insurance Corporation of North Carolina, provides reinsurance to Genworth Mortgage on primary coverage in excess of 25%. In 2004, it started writing direct business in New York and subsequently in other states. As of year-end 2005, the corporation had admitted assets of $46,885,407, liabilities of $35,509,347, and capital and surplus of $11,376,060. In 2005, premiums earned totaled $6,470,166 and net income totaled $2,486,887.

Private Residential Mortgage Insurance Corporation

Private Residential Mortgage Insurance Corporation outstanding insurance in force is comprised of run-off pool coverage for a product that Genworth Mortgage has written in limited circumstances since 1995. As of year-end 2005, the corporation reported admitted assets of $15,490,883, liabilities of $7,201,235, and capital and surplus of $8,289,648. In 2005, premiums earned totaled $100,697 and net income totaled $762,780.

Genworth Home Equity Insurance Corporation

Genworth Home Equity Insurance Corporation, formerly known as General Electric Home Equity Insurance Corporation of North Carolina until November 2005, is a wholly owned subsidiary of Genworth Residential Mortgage Insurance Corporation of North Carolina. Genworth Home Equity obtained its license in 1982 to write residential mortgage guaranty insurance on second mortgages and equity credit and it was in run-off from December 31, 1998, until October 20, 2006, when it was reactivated to write new business. As of year-end 2005, it reported admitted assets of $6,031,230, liabilities of $231,079, and capital and surplus of $5,800,151. In 2005, the corporation had no earned premiums and net income totaled $84,517.

Genworth Mortgage Reinsurance Corporation

Genworth Mortgage Reinsurance Corporation, formerly known as GE Mortgage Reinsurance Corporation of North Carolina until November 2005, was incorporated in 1999 to reinsure residential mortgage guaranty insurance written by Genworth Mortgage and originated by a specific customer under a joint venture partnership. However, the corporation has never entered into any such arrangement and it has not underwritten any insurance risks. As of year-end 2005, Genworth Mortgage Reinsurance Corporation reported admitted assets of $1,479,118, liabilities of $102,912, capital and surplus $1,376,206, and net income of $126,206.

Affiliated Agreements

Verex's relationship to its affiliates is affected by various written agreements. The company's day-to-day operations are handled by Genworth Mortgage. An agreement with GNA Corporation exists in the event that Verex were to receive services from that affiliate. GNA Corporation outsources its investment accounting responsibilities to a branch of State Street Bank in Kansas City, Missouri. Reinsurance agreements with affiliates are described in section V of the report titled "Reinsurance." A brief summary of the other affiliated agreements and the Amended and Restated Investment Management and Services Agreement with GE Asset Management follows.

Tax Allocation Agreement

Effective date:	May 24, 2004
Parties:	Genworth Financial, Inc., and its subsidiaries, including Verex
Description:	Consolidated federal income tax liability of the group is allocated to each participating company without exceeding the tax liability of each entity as computed on a separate return basis. For quarterly estimated tax payments Genworth Financial, Inc., is authorized to prepare and make available to each subsidiary a written report estimating each participating company's share of the estimated tax payments. Balances are due within 90 days of the payment of the estimated or actual consolidated federal income tax liability.

Termination:	The agreement shall remain in effect until terminated by any party upon 60 days' written notification or until the group fails to file a consolidated federal income tax return for any taxable year.

Verex reported a federal income tax payable of $320,842 under this agreement in its Form B – Insurance Holding Company System Annual Registration Statement for 2005, which amount agreed with the federal income taxes incurred balance reported in its 2005 annual statement.

Amended and Restated Investment Management and Services Agreement

Effective date:	May 24, 2004
Parties:	GE Asset Management, Inc., and Verex
Description:	GE Asset Management, Inc., provides discretionary investment management services that include, but are not limited to: searching for investment opportunities; exercising voting rights; purchasing and disposing of investments within the company's written Investment Guidelines; preparing a summary of all purchases and sales not less than quarterly and other reports upon request to support monthly, quarterly and annual closing of activities; assisting in the overall investment strategy; and cash flow forecasting. GE Asset Management, Inc., is not authorized to take custody or possession of any assets; all transactions are consummated and the assets held at a designated custodian.
Termination:	The initial termination date is May 24, 2007, with an additional extension to May 24, 2008. Both periods require one year prior written notification by either party to terminate.
Compensation:	0.046% of the value of the account at the end of the quarter divided by 4, revised annually.

Verex reported $10,504 in fees paid to GE Asset Management, Inc., under this agreement in its Form B – Insurance Holding Company System Annual Registration Statement for 2005, which agreed with the supporting detail for this item on the 2005 Schedule Y – Part 2. Effective March 2006, the company is no longer affiliated with the General Electric group, but this agreement remains in effect until terminated.

Shared Services Agreement

Effective date:	January 1, 2002
Parties:	Genworth Mortgage Insurance Corporation and Verex
Description:	Genworth Mortgage provides services on behalf of Verex that include: processing of renewals, cancellations and refunds; underwriting administration; claims adjustment services; and financial administration, and on a monthly basis notifies Verex of the amounts due. The net balances are to be paid within 90 days following a calendar quarter-end.

	Interest is charged on the average monthly balance owed, at a rate that approximates Genworth Mortgage's return on its short-term investments.
Termination:	By either party at any time with 30 days' prior written notice.
Compensation:	$2,000 per month for services provided by the Administration, Accounting, Systems and Data Processing and Legal Departments. Costs for claim adjustment services are reimbursed based on the number of claims paid and delinquencies processed related to Verex.

Verex reported $94,661 in fees paid to Genworth Mortgage under this agreement in its Form B – Insurance Holding Company System Annual Registration Statement for 2005, which agreed with the supporting detail for this item on the 2005 Schedule Y – Part 2.

Amended and Restated Services and Shared Expenses Agreement

Effective date:	January 1, 2004
Parties:	GNA Corporation and certain of its affiliates, including Verex
Description:	GNA Corporation may provide services including, but not limited to: data communications; marketing, public relations and advertising; investment; human resources and payroll; finance, accounting, tax and treasury services; actuarial and legal services; claims; and underwriting.
Termination:	Initial term until January 1, 2009, with automatic renewals for one-year periods unless there is 30 days' prior written notice by all parties or 90 days' prior written notice by one party to all other parties.
Compensation:	Based on the company's share of the common cost, reviewed annually. Prepayments of the company's estimated share shall be made not less than quarterly within 30 days following the end of the calendar quarter. Actual payments shall be compared with the estimates annually within 60 days of the end of each year.

Verex reported no expenses under this agreement in its Form B – Insurance Holding Company System Annual Registration Statement for 2005.

V. REINSURANCE

The company's reinsurance portfolio and strategy is described below. The company has neither written nor assumed any liability for new insurance risks since January 1, 1988, and its business has been in run-off since that date. Each reinsurance treaty to which the company is party contains proper insolvency provisions.

The company is involved in various reinsurance assumption and ceding treaties for reinsurance transactions that are usual and customary to the mortgage guaranty insurance industry. The treaties provide for the cession of a portion of various risks written on a direct basis by the company and for Verex assumption of a portion of risks written by other mortgage guaranty insurers, for both primary and pool mortgage insurance policies.

Each reinsurance agreement of the company was undertaken for regulatory compliance purposes to satisfy limitations established by various jurisdictions regarding the amount of risk that a mortgage insurer is allowed to retain for its own account. In certain jurisdictions a mortgage guaranty insurer is limited to a maximum retention equal to 25% of the indebtedness of the borrower on the insured loan.

In 2000, the company assigned all of its rights and obligations for direct pool policies to an affiliate, Genworth Mortgage; therefore, the company no longer has direct or ceded pool risks.

As of the date of fieldwork the company assumed primary and pool excess of loss coverage from Genworth Mortgage and ceded direct primary risks to Genworth Mortgage Insurance Corporation of North Carolina, Genworth Residential Mortgage Insurance Corporation of North Carolina and Genworth Mortgage. For efficiency purposes, Verex has commuted all its ceding treaties with nonaffiliates and the previously mentioned affiliates were substituted for those nonaffiliated reinsurers with identical coverage.

VI. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported to the Commissioner of Insurance in the December 31, 2005, annual statement. Also included in this section are schedules that reflect the run-off of the company, NAIC Insurance Regulatory Information System (IRIS) ratio results for the period under examination, and the minimum policyholder position calculation. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Surplus per Examination."

Verex Assurance, Inc.
Assets
As of December 31, 2005

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	$24,043,762	$	$24,043,762
Common stocks	1		1
Cash and short- term investments *	(174,941)		(174,941)
Receivables for securities	606,560		606,560
Investment income due and accrued	369,061		369,061
Uncollected premiums and agents' balances in course of collection	3,074		3,074
Current federal and foreign income tax recoverable and interest thereon	448,259		448,259
Net deferred tax asset	5,599,619	5,548,548	51,071
Receivable from parent, subsidiaries, and affiliates	146,271		146,271
Write-ins for other than invested assets:			
Promissory notes receivable	162,183	162,183	
Accounts receivable	1,258	1,258	
Total Assets	$31,205,107	$5,711,989	$25,493,118

* This consists of cash in the amount of $(1,827,839) and short-term investments in the amount of $1,652,898.

Liabilities, Surplus, and Other Funds
As of December 31, 2005

Losses		$ 774,451
Reinsurance payable on paid loss and loss adjustment expenses		5,552
Loss adjustment expenses		17,067
Commissions payable, contingent commissions, and other similar charges		4,445
Current federal and foreign income taxes		291,696
Unearned premiums		120,309
Advance premium		5,812
Ceded reinsurance premiums payable (net of ceding commissions)		10,694
Write-ins for liabilities-Contingency Reserve		15,971,107
Total Liabilities		17,201,133
Common capital stock	$3,425,000	
Gross paid in and contributed surplus	3,000,000	
Unassigned funds (surplus)	1,866,985	
Surplus as regards policyholders		8,291,985
Total Liabilities and Surplus		$25,493,118

Verex Assurance, Inc.
Summary of Operations
For the Year 2005

Underwriting Income		
Premiums earned		$ 277,302
Deductions:		
Losses incurred	$ (191,066)	
Loss expenses incurred	69,911	
Other underwriting expenses incurred	(11,194)	
Total underwriting deductions		(132,349)
Net underwriting gain		409,651
Investment Income		
Net investment income earned	1,186,233	
Net realized capital gains	223,927	
Net investment gain		1,410,160
Other Income		
Write-ins for miscellaneous income--miscellaneous income		136,157
Net income before dividends to policyholders and before federal and foreign income taxes		1,955,968
Federal and foreign income taxes incurred		320,842
Net Income		$1,635,126

Verex Assurance, Inc.
Cash Flow
For the Year 2005

Premiums collected net of reinsurance			$ 229,020
Net investment income			1,304,853
Miscellaneous income			136,157
Total			1,670,030
Benefit- and loss-related payments		$ 31,058	
Commissions, expenses paid, and aggregate write-ins for deductions		61,394	
Federal and foreign income taxes paid		430,858	
Total deductions			523,310
Net cash from operations			1,146,720
Proceeds from investments sold, matured, or repaid:			
Bonds	$3,287,979		
Total investment proceeds		3,287,979	
Cost of investments acquired (long-term only):			
Bonds	1,201,929		
Miscellaneous applications	507,547		
Total investments acquired		1,709,476	
Net cash from investments			1,578,503
Cash from financing and miscellaneous sources:			
Dividends to stockholders		(3,000,000)	
Other cash (applied)		(1,890,935)	
Net cash from financing and miscellaneous sources			(4,890,935)
Reconciliation:			
Net change in cash and short-term investments			(2,165,712)
Cash, cash equivalents, and short-term investments:			
Beginning of year			1,990,771
End of year			$ (174,941)

Verex Assurance, Inc.
Minimum Policyholders' Position Calculation
December 31, 2005

Surplus as regards policyholders	$ 8,291,985	
Contingency reserve	15,971,107	
Total policyholders' position		$24,263,092
Individual loans:		
Loan-to-value more than 75%	714,205	
Loan-to-value 50-75%	1,080	
Total individual loans	715,285	
Group of loans:		
Equity 20-25%, or equity plus prior insurance or a deductible 25-55%	5,655	
Total group of loans	5,655	
Total minimum policyholders' position		720,940
Excess of Minimum Policyholders' Position		$23,542,152

Verex Assurance, Inc.
Reconciliation and Analysis of Surplus
For the Five-Year Period Ending December 31, 2005

The following schedule is a reconciliation of total surplus during the period under examination as reported by the company in its filed annual statements:

	2005	**2004**	**2003**	**2002**	**2001**
Surplus, beginning of year	$9,300,147	$7,313,792	$163,586,562	$183,165,554	$169,604,762
Net income	1,635,126	2,293,236	8,453,024	10,494,111	12,525,485
Change in net deferred income tax	(265,406)	(163,346)	5,338,138	(1,883,633)	(249,956)
Change in nonadmitted assets	364,969	294,577	(5,401,510)	1,481,767	(1,760,310)
Cumulative effect of changes in accounting principles *					2,823,821
Surplus adjustments:					
Paid in			(47,339,038)		
Dividends to stockholders	(3,000,000)	(731,379)	(117,705,582)	(30,000,000)	
Write-ins for gains and (losses) in surplus:					
Increase in contingency reserve	(138,651)	(214,906)	(372,757)	(691,441)	(1,115,412)
Ten-year release contingency reserve	395,800	508,173	754,955	1,020,204	1,337,164
Surplus, end of year	$8,291,985	$9,300,147	$ 7,313,792	$163,586,562	$183,165,554

* Changes in accounting principles correspond to the implementation of codification.

Verex Assurance, Inc.
Insurance Regulatory Information System
For the Five-Year Period Ending December 31, 2005

The company's NAIC Insurance Regulatory Information System (IRIS) results for the period under examination are summarized below. Unusual IRIS results are denoted with asterisks and discussed below the table.

	Ratio	**2005**	**2004**	**2003**	**2002**	**2001**
#1	Gross Premium to Surplus	3%	4%	8%	1%	1%
#2	Net Premium to Surplus	3	4	7	1	1
#3	Change in Net Writings	-32	-36 *	-46 *	-41 *	-50 *
#4	Surplus Aid to Surplus	0	0	0	0	0
#5	Two-Year Overall Operating Ratio	0	0	0	0	0
#6	Investment Yield	4.6	4.4 *	3.2 *	4.8	5.1
#7	Gross Change in Surplus	-11 *	23	-95 *	-11 *	8
#8	Net Change in Adjusted Surplus (first used in 2005)	-11*				
#9	Liabilities to Liquid Assets	69	69	75	16	13
#10	Agents' Balances to Surplus	0	0	0	0	0
#11	One-Year Reserve Development to Surplus	-5	-14	-1	-2	-3
#12	Two-Year Reserve Development to Surplus	-17	-1	-2	-4	-7
#13	Estimated Current Reserve Deficiency to Surplus	0	0	-14	0	0

The exceptional results for IRIS Ratio No. 3, "Change in Net Writings," from 2001 to 2004 are attributable to the significant decreases in premiums written during this period due to the company's run-off status.

The exceptional results for IRIS Ratio No. 6, "Investment Yield," for 2003 and 2004 are attributable to the disposition of a large portion of the company's investment portfolio to pay extraordinary dividends in 2003 and the low interest rate environment in recent years.

The exceptional results for IRIS Ratio No. 7, "Gross Change in Surplus," for 2002, 2003, and 2005 and IRIS Ratio No. 8, "Net Change in Surplus," for 2005 was due to sizable dividend payments in those years, which were approved by Wisconsin's Office of the Commissioner of Insurance. As the company's run-off progresses, capital and surplus in excess of its needs have been redeployed as directed by the holding company system. Dividends in 2002, 2003, and 2005 amounted to $30,000,000, $117,705,582, and $3,000,000, respectively.

Run-off of Verex Assurance, Inc.

Year	Admitted Assets	Liabilities	Surplus As Regards Policyholders	Net Income
2005	$ 25,493,118	$17,201,133	$ 8,291,985	$ 1,635,126
2004	29,010,662	19,710,515	9,300,147	2,293,236
2003	28,956,217	21,642,425	7,313,792	8,453,024
2002	195,297,833	31,711,271	163,586,562	10,494,111
2001	209,603,930	26,438,376	183,165,554	12,525,485
2000	202,216,058	32,611,296	169,604,762	15,591,060

Year	Gross Premium Written	Net Premium Written	Premium Earned	Loss And LAE Ratio	Expense Ratio	Combined Ratio
2005	$ 259,903	$ 221,165	$ 277,302	(43.7)%	(66.6)%	(110.3)%
2004	378,438	326,473	429,813	(123.8)	17.5	(106.3)
2003	583,076	507,505	745,513	(130.9)	88.5	(42.4)
2002	1,081,880	947,969	1,382,881	(126.1)	14.1	(112.0)
2001	1,797,214	1,597,609	2,230,823	(81.6)	16.9	(64.7)
2000	3,104,038	3,227,151	4,011,388	(77.6)	17.1	(60.5)

Reconciliation of Surplus per Examination

No adjustments were made to surplus as a result of the examination. The amount of surplus reported by the company as of December 31, 2005, is accepted.

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were two specific comments and recommendations in the previous examination report. Comments and recommendations contained in the last examination report and actions taken by the company are as follows:

1. Conflict of Interest Disclosures—It is recommended that the company's officers, directors, and fiduciary employees annually complete and file with the company a conflict of interest disclosure, in conformity with the directive of the Commissioner. It is further recommended that the company maintain files of individual conflict of interest disclosure filings from examination to examination, so that the disclosures may be available for independent regulatory review and evaluation.

   Action—Noncompliance.

2. Biographical Disclosures—It is recommended that the company timely provide biographical disclosure upon the appointment or election of new officers and directors, in conformity with s. 611.54, Wis. Stat., and s. Ins 6.52 (5), Wis. Adm. Code.

   Action—Partial compliance.

Summary of Current Examination Results

This section contains comments and elaboration on those areas where adverse findings were noted or where unusual situations existed. Comment on the remaining areas of the company's operations is contained in the examination work papers.

Conflict of Interest Disclosures

A directive issued by the Commissioner requires that each director, senior executive officer, or fiduciary employee of an insurer annually disclose to the board of directors any personal circumstances that could potentially give rise to conflict of interest. The Genworth group has a conflict of interest disclosure procedure in which all employees annually complete a conflict of interest disclosure representation. The disclosures are filed electronically each year and are reviewed and evaluated by Genworth management.

The examiners determined that the company’s procedures for conflict of interest disclosure appear to be comprehensive and to adequately inform management of potential conflict of interests. However, the company did not retain documentation of the electronically filed disclosures for all the key officers and directors for all the years under examination; therefore the examiners were unable to perform an independent review of the disclosures for the complete period under examination. The company’s effort to comply with the prior exam recommendation was observed as all the disclosures were retained for the year 2005 but not for the prior years under examination. It is again recommended that the company’s officers, directors, and fiduciary employees annually complete and file with the company a conflict of interest disclosure, in conformity with the directive of the Commissioner. It is further recommended that the company maintain records of individual conflict of interest filings from examination to examination, so that the disclosures are available for independent regulatory review and evaluation.

Biographical Data

The examiners determined that, during the period under examination, the company partially complied with the required disclosures of biographical information. The company is required to provide biographical affidavits for any new director, trustee or officer elected or appointed within 15 days after such appointment or election pursuant to s. Ins 6.52 (5), Wis. Adm.

Code. Furthermore, s. 611.54 (1), Wis. Stat., requires that the name of any person selected as director or principal officer of a corporation, together with the biographical data, shall be reported to the Commissioner immediately after the selection. Biographical affidavits were submitted to this office with the holding company filings or upon request during the quarterly and annual statement reviews, not within 15 days of the appointments or elections. The biographical affidavits of two persons who held directorship positions at the company during some of the years under examination were not on file and the examiners did not request that the company file them since both were no longer directors at the time of fieldwork. Biographical affidavits of current directors and officers at the time of fieldwork are on file, but these were not filed within 15 days of the individuals' appointment or election. It is again recommended that the company timely provide biographical disclosure upon the appointment or election of new officers and directors in conformity with s. Ins 6.52 (5), Wis. Adm. Code, and s. 611.54 (1), Wis. Stat.

Permitted Practice Disclosure

Wisconsin mortgage guaranty insurers are required to disclose the contingency reserve as a liability in their annual statements. This liability may be reported as unpaid losses or as a liability write-in item and the change in the contingency reserve as a deduction from the underwriting income, per s. Ins 3.09 (12) (c), Wis. Adm. Code.

The company reports its contingency reserve as a write-in liability but the change in the contingency reserve as a direct charge to unassigned funds (surplus).

Verex has requested approval from this office to disclose the changes in the contingency reserve as a direct charge to surplus for consistency in reporting with its North Carolina mortgage guaranty affiliates. Approval for this permitted practice was granted on October 30, 1997.

The prior report of examination as of December 31, 2000, indicated that the company employed the Wisconsin permitted practice from 1997 to 2000 without making disclosure in the notes to the financial statements. The company was notified of this disclosure oversight and since 2001 it has properly disclosed this permitted practice.

The permitted practice is in compliance with the NAIC Accounting and Procedures Manual, SSAP 58, paragraph 22; therefore, no prior notification to the other states in which the company had business was needed pursuant to NAIC Preamble, section IX Permitted Accounting Practices. A comparison between the Wisconsin Administrative Code and the NAIC Accounting and Procedures Manual requirements is described below, and the balances reflect the company's balances as of year-end 2005.

Change in the Contingency Reserve	Wis. Code	NAIC SSAP 58
50% earned premiums	$ 138,651	$(138,651)
Ten-year release	(395,800)	395,800
Total	$(257,149)	$ 257,149

The permitted practice affects only the presentation of the financial statements. Under the methodology required by the Wisconsin Administrative Code, a negative deduction from the underwriting income causes the net income to be higher than it would be otherwise, and the increase in the net income is then translated to an increase in surplus. Under the permitted practice, which is consistent with NAIC SSAP No. 58, the $257,149 is reported directly as a write-in gain to surplus.

Investment Committee Membership

The examination noted that the company was not in compliance with its bylaws in regards to the number of members of the Investment Committee. During fieldwork, the Investment Committee was composed of nine members and only one member was a director of Verex when the company's bylaws, as of May 9, 2006, required that at least three members be from its board.

Pursuant to s. 180.0825 (1), Wis. Stat., unless the articles of incorporation or bylaws provide otherwise, a board of directors may create one or more committees, appoint members of the board of directors to serve on the committees, and designate other members of the board of directors to serve as alternates. Each committee must have two or more members.

Subsequent to fieldwork the company provided a copy of a unanimous consent resolution as of January 1, 2007, pursuant to which Marcia Ann Dall was appointed to the

Investment Committee and the board amended its bylaws to require that at least two members of its committees be elected from its board. Since the company is already in compliance with its bylaws, as of January 1, 2007, and with the Wisconsin Statutes, no recommendation on this matter is considered necessary.

VIII. CONCLUSION

Verex Assurance, Inc., is a Wisconsin-domiciled insurer authorized to conduct the run-off of its mortgage insurance policies. All policies were issued prior to January 1, 1988, and all risks assumed or ceded under reinsurance contracts relate to prior to that date. As the existing portfolio is comprised solely of policy renewals, premium volume is decreasing from year to year. Net premiums written decreased 93% since the date of the last examination. As of October 31, 2006, the company had 2,446 policies in force.

Surplus as regards policyholders also decreased noticeably, from $169,604,762 as of December 31, 2000, to $8,291,985 as of December 31, 2005, due to large dividends distributed during the period under examination, especially in 2002 and 2003, in which $30 million and $118 million were distributed, respectively. Despite the dividends made in recent years, the company is well-capitalized to support the run-off activity. Capital and surplus and contingency reserves in excess of the company's minimum policyholder position was almost $24 million as of December 31, 2005. The contingency reserve exists to provide protection for policyholders from adverse economic cycles.

The company underwent significant changes in its holding structure. In 2004, the General Electric Company spun-off portions of its insurance business and created a new company, Genworth Financial, Inc., to take over its life and mortgage insurance business. GE held an ownership stake in Genworth Financial, Inc., until March of 2006, when Genworth became wholly owned by public investors.

The examination resulted in two recommendations, both of which were repeated from the report of examination as of December 31, 2000. There were no reclassifications or adjustments to surplus made by this examination.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 28 - Conflict of Interest Disclosures—It is again recommended that the company's officers, directors, and fiduciary employees annually complete and file with the company a conflict of interest disclosure, in conformity with the directive of the Commissioner. It is further recommended that the company maintain records of individual conflict of interest filings from examination to examination, so that the disclosures are available for independent regulatory review and evaluation.

2. Page 29 - Biographical Data—It is again recommended that the company timely provide biographical disclosure upon the appointment or election of new officers and directors in conformity with s. Ins 6.52 (5), Wis. Adm. Code, and s. 611.54 (1), Wis. Stat.

X. ACKNOWLEDGMENT

The courtesy and cooperation extended during the course of the examination by the officers and employees of the company are acknowledged.

In addition to the undersigned, the following representatives of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination:

Name	Title
Thomas E. Rust	Senior Financial Examiner

Respectfully submitted,

Carina Toselli
Examiner-in-Charge