

## Business Update

*First Quarter 2012*

At Genworth, we help millions of people around the world secure their financial lives, families, and futures. We focus on our strengths and the best opportunities for profitable growth. We provide products, services, and support to help our distribution partners meet their customers' needs. We carefully manage our resources to ensure we're here for our customers, today and tomorrow. And we're passionate about making a difference for our employees, communities, and industry.

### Highlights of our business performance include:

- The company reported net income<sup>1</sup> of \$47 million, or \$0.09 per diluted share, compared with net income of \$59 million, or \$0.12 per diluted share, including a loss of \$41 million from the life insurance block sale transaction, in the first quarter of 2011. Net operating income<sup>2</sup> for the first quarter of 2012 was \$31 million, or \$0.06 per diluted share, including a loss of \$41 million from the life insurance block sale transaction, compared with net operating income of \$75 million, or \$0.15 per diluted share, in the first quarter of 2011.
- Effective January 1, 2012, the company retrospectively adopted changes for new deferred acquisition cost accounting guidance related to the treatment of costs associated with acquiring or renewing insurance contracts and our accounting policy for benefit reserves of our level term life insurance products when the liability for an individual policy falls below zero. All prior periods have been re-presented reflecting these accounting changes.
- Our Insurance and Wealth Management Division earnings were \$81 million, compared with \$127 million a year ago, driven by U.S. Life Insurance results where the completion of our previously announced first life insurance block sale transaction in support of our capital management strategies resulted in a \$41 million GAAP after-tax net loss while generating an after-tax capital benefit of approximately \$170 million. Insurance and Wealth Management Division earnings were \$122 million, excluding the life insurance block sale transaction, compared with \$127 million a year ago.
- Our Global Mortgage Insurance Division had a net operating loss of \$36 million, compared with a net operating loss of \$13 million in the prior quarter and net operating income of \$16 million a year ago.

More information on our financial results and related measures is available in our [earnings release](#). Here is a look at the business performance behind the numbers.

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<sup>1</sup> Unless otherwise stated, all references in this document to net income, net income per share, net operating income (loss), net operating income per share, book value, book value per share, and stockholders' equity should be read as net income available to Genworth's common stockholders, net income available to Genworth's common stockholders per share, net operating income (loss) available to Genworth's common stockholders, net operating income available to Genworth's common stockholders per share, book value available to Genworth's common stockholders, book value available to Genworth's common stockholders per share, and stockholders' equity available to Genworth's common stockholders, respectively.

<sup>2</sup> This is a financial measure not calculated based on U.S. Generally Accepted Accounting Principles (Non-GAAP). See the Use of Non-GAAP Measures section of Genworth's Q1 earnings press release for additional information.

## **We focus on our strengths and the best opportunities for profitable growth.**

### **Insurance and Wealth Management Division**

In the first quarter, Insurance and Wealth Management earnings were \$81 million, compared with \$127 million a year ago, driven by U.S. Life Insurance results where the completion of our previously announced first life insurance block sale transaction in support of our capital management strategies resulted in a \$41 million GAAP after-tax net loss while generating an after-tax capital benefit of approximately \$170 million. Insurance and Wealth Management Division earnings were \$122 million, excluding the life insurance block sale transaction, compared with \$127 million a year ago.

#### **U.S. Life Insurance Segment**

- U.S. Life Insurance segment earnings increased to \$105 million, excluding the impact of the life insurance block sale transaction, from \$92 million in the prior year.
- As part of the company's strategy to actively manage new business volume for improved profitability and statutory earnings, segment sales were down sequentially from moderating fixed annuity and long term care sales. The company continues to utilize expanded levels of reinsurance across life and long term care insurance as part of our capital optimization strategies.
- Subsequent to the end of the quarter, the company received approval from Delaware for an extraordinary cash dividend of \$100 million which was paid in April to the holding company, representing a portion of the proceeds from the 2011 sale of the Medicare Supplement business. The company will evaluate additional related dividend requests later in 2012.

#### **International Protection Segment**

- Reported earnings were \$5 million, compared with \$19 million in the prior quarter and \$25 million in the prior year. Operating expenses declined by \$8 million after-tax from the prior quarter. Results in the current quarter were impacted by a higher premium tax adjustment related to a tax court ruling and lower tax benefits of \$7 million versus the prior quarter and \$6 million versus the prior year.
- Reported sales declined 10 percent from the prior year while the loss ratio increased seven points from the prior quarter to 23 percent and the underwriting margin<sup>3</sup> decreased seven points from the prior year and prior quarter to 14 percent, all reflecting a slow European economic environment.
- Regulatory capital ratio increased three points to 311 percent<sup>4</sup>, well in excess of regulatory requirements.

#### **Wealth Management Segment**

- Earnings were \$12 million, compared with \$10 million in the prior year and \$12 million in the prior quarter.
- On April 2, 2012, the company completed the sale of our tax and accounting advisors unit, Genworth Financial Investment Services (GFIS), to Cetera Financial. The proceeds from the sale were approximately \$79 million with the opportunity for an additional earnout payment. We expect to recognize a realized gain of approximately \$15 million related to the sale in the second quarter of 2012.

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<sup>3</sup> See "Definition of Selected Operating Performance Measures" in Genworth's Q1 Earnings Press Release for definition of underwriting margin.

<sup>4</sup> Company estimate for the first quarter of 2012, due to timing of the filing of statutory statements.

## Global Mortgage Insurance Division

In the first quarter of 2012, the Global Mortgage Insurance Division had a net operating loss of \$36 million, compared with a net operating loss of \$13 million in the prior quarter and net operating income of \$16 million a year ago. Results reflected a \$53 million after-tax impact from a reserve strengthening in Australia.

### International Mortgage Insurance Segment

- Reported International Mortgage Insurance segment operating earnings were \$7 million, compared with \$99 million a year ago, from the current quarter reserve strengthening in Australia.
- In Australia, flow new insurance written (NIW) was down 5 percent<sup>5</sup> sequentially from seasonal variation and up 35 percent<sup>5</sup> year over year as the current year originations market was larger. The loss ratio was 154 percent including the current quarter reserve strengthening.
- In Canada, flow NIW was down 33 percent<sup>5</sup> sequentially from seasonal variation and 18 percent<sup>5</sup> year over year from a smaller originations market as the first quarter of 2011 benefitted from increased activity prior to government guarantee product changes. The loss ratio was 38 percent, down two points sequentially and flat year over year.
- We continue to maintain solid capital positions across the Canadian and Australian businesses.
- Other Countries had a net operating loss of \$9 million, an improvement over the prior quarter from a slight decline in new delinquencies in Ireland and lender settlements.

### U.S. Mortgage Insurance Segment

- U.S. Mortgage Insurance segment net operating loss improved to \$43 million, compared with \$83 million in the prior year, reflecting a decrease in new delinquency development, modest changes in aging of existing delinquencies, and effective loss mitigation programs.
- Total flow delinquencies of 76,478 decreased 11 percent from the prior year and 9 percent sequentially. New flow delinquencies declined approximately 23 percent from the prior year and decreased approximately 18 percent from the prior quarter.
- Loss mitigation savings were \$158 million in the current quarter. The company remains on track to achieve full year loss mitigation savings of \$300 to \$400 million.
- Flow NIW increased 50 percent from the prior year, reflecting an increase in overall private mortgage insurance penetration, and decreased 6 percent sequentially, reflecting industry pricing and competition. Overall private mortgage insurance market penetration was up approximately two points year over year and flat versus the prior quarter.
- The combined risk-to-capital ratio as of March 31, 2012 is estimated to be 28.6:1.<sup>4</sup>

## Corporate and Runoff Division

In the first quarter of 2012, the Corporate and Runoff Division net operating loss was \$14 million, compared with \$7 million in the prior quarter and \$68 million in the prior year.

### Runoff Segment

- The Runoff Segment's net operating income was \$35 million, compared with \$15 million in the prior quarter and \$1 million in the prior year. Results in the prior year included a \$7 million exit charge associated with the company's discontinuation of sales of individual variable and group annuities. Results in the current quarter reflected improved equity market conditions and favorable taxes over both the prior quarter and prior year.

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<sup>5</sup> Percent change excludes the impact of foreign exchange.

## Corporate and Other

- Corporate and Other's net operating loss was \$49 million, compared with \$22 million in the prior quarter and \$69 million in the prior year. Results in the current quarter reflected \$13 million of favorable interest expense associated with an adjustment related to the tax matters agreement with our former parent and favorable tax benefits versus the prior year. Results in the prior quarter included a \$19 million after-tax impairment of all the goodwill associated with our reverse mortgage business and favorable taxes.

## We help millions of people around the world secure their financial lives, families, and futures.

In the first quarter, working with our partners:

- Genworth's U.S. life insurance companies paid more than \$930 million in insurance benefits, delivering protection and peace of mind to our life insurance, long term care insurance, and annuity policyholders and beneficiaries.
- We facilitated the closing of more than 7,600 mortgage loan workouts through our global homeownership assistance programs, helping borrowers stay in their homes or avoid foreclosure.
- We helped more than 47,000 people maintain regular repayments on their financial commitments through our lifestyle protection insurance program.

## We carefully manage our resources to ensure we're here for our customers, today and tomorrow.

Our financial position is strong, with a path to become even stronger:

- Our holding company ended the quarter with approximately \$1.4 billion of cash and highly liquid securities, up approximately \$465 million sequentially from the company's \$350 million debt offering in March 2012 and a temporary increase related to tax sharing agreements with the operating companies. This is well above our target of maintaining cash balances of at least two times our annual debt service expense. We have \$222 million of debt maturities in June 2012 and no debt maturities in 2013.
- We continue to carefully manage our portfolio in a low interest rate environment. Investment income increased modestly, with net investment income of \$832 million, compared with \$827 million in the fourth quarter. The core yield<sup>2</sup> remained unchanged at 4.6 percent.
- In this quarter, we continued to focus on business portfolio strategies to improve capital deployment and build shareholder value, including the agreement to sell our GFIS accounting advisors unit, the completion of our first life insurance block sale transaction, growth into new geographies, and the planned minority share Initial Public Offering of our Australia Mortgage Insurance business.

## We are passionate about making a difference for our employees, communities, and industry.

- We developed "[This Is the Story of a Step](#)," an animated video designed to inspire people to take small steps every day to keep their financial promises.
- After acquiring the former Ramada Hotel adjacent to our campus in Richmond, we donated the fixtures and furniture to the CARITAS furniture bank, providing them with more than six months' worth of inventory for those most in need in the area.
- We launched AARP Caregiving Help and Advice from Genworth, a national program offering comprehensive caregiving support services to AARP members and their families to help them make informed choices about long term care.
- In Canada, we published *The Meaning of Home*, a compilation of winning essays from the past five years of our Meaning of Home contest, with all proceeds going to Habitat for Humanity Canada.

## **We provide products, services, and support to help our distribution partners meet their customers' needs.**

- Our Wealth Management segment upgraded the online platform used by financial advisors working with Genworth, delivering new features and functionality to improve their efficiency in working with clients and managing their business.
- Our U.S. Mortgage Insurance segment improved their website to expedite loan submission, reducing data entry requirements, giving customers a single portal to deliver all loans submitted for mortgage insurance coverage, and significantly enhancing the customer experience.
- In our Lifestyle Protection Insurance segment, we are building new distribution capabilities to strengthen our current franchise with clients.
- Our Canada Mortgage Insurance team hosted a full-day seminar for lenders and other partners, featuring guest speakers from government agencies addressing a variety of fraud prevention topics.

### **Genworth Quick Facts**

- Genworth Financial, Inc. (NYSE: GNW) is a leading Fortune 500<sup>®</sup> insurance holding company dedicated to helping people secure their financial lives, families, and futures. Genworth has leadership positions in offerings that assist consumers in protecting themselves, investing for the future, and planning for retirement – including life insurance, long term care insurance, financial protection coverages, and independent advisor-based wealth management – and mortgage insurance that helps consumers achieve home ownership while assisting lenders in managing their risk and capital.
- Genworth has approximately 6,400 employees. Our products and services are offered through financial intermediaries, advisors, independent distributors, and sales specialists.
- Genworth Financial, Inc., which traces its roots back to 1871, became a public company in 2004 and is headquartered in Richmond, Virginia. For more information, visit [genworth.com](http://genworth.com).