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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, ladies and gentlemen, welcome to the Genworth Financial's First Quarter 2016 Earnings Conference Call. My name is Jim, and I'll be your coordinator today. At this time, all participants are in a listen-only mode. We will facilitate a question-and-answer towards the end of the conference call. As a reminder, the conference is being recorded for replay purpose. Also, we ask that you refrain from using cell phones, speaker phones or headsets during the Q&A portion of today's call.

I would now like to turn the presentation over to David Rosenbaum, Head of Investor Relations. Mr. Rosenbaum, you may proceed.

David Rosenbaum
VP, Investor Relations, Genworth Financial, Inc.

Thank you, operator. Good morning, everyone, and thank you for joining Genworth's first quarter 2016 earnings call. Our press release and financial supplement were released last night, and this morning our earnings presentation was posted to our website, and will be referenced during our call. We encourage you to review all of these materials.

Today, you will hear from our President and Chief Executive Officer, Tom McInerney; followed by Kelly Groh, our Chief Financial Officer. Following our prepared comments, we will open the call up for a question-and-answer period. In addition to our speakers, Kevin Schneider, Chief Operating Officer and Dan Sheehan, Chief Investment Officer will be available to take your questions.

During the call this morning, we may make various forward-looking statements. Our actual results may differ materially from such statements. We advise you to read the cautionary notes regarding forward-looking statements in our earnings release and related presentation, as well as the risk factors of our most recent Annual Report on Form10-K as filed with the SEC.

This morning's discussion also includes non-GAAP financial measures that we believe may be meaningful to investors. In our financial supplement, earnings release and investor materials, non-GAAP measures have been reconciled to GAAP, where required in accordance with SEC rules.

Also, when we talk about the results of our international businesses, please note that all percentage changes exclude the impact of foreign exchange. And finally, references to statutory results are estimates, due to the timing of the filing of the statutory statements.

And now I'll turn the call over to our CEO, Tom McInerney.

Thomas J. McInerney

President, Chief Executive Officer & Director

Thank you, David, and good morning, everyone. This morning, I will provide some perspectives on four areas. First, our first quarter 2016 financial results. Second, how we're working to maximize opportunities in our Mortgage Insurance businesses. Third, our continued focus on our Long Term Care Insurance business and efforts to reshape the industry, and lastly, the progress made on the U.S. Life Insurance Restructuring Plan, which includes the separation and potential isolation of our Long Term Care business. I will then turn the call over to Kelly to provide more details on the quarter's financial results.

As you know, U.S. and global markets continue to experience slow growth, fluctuating oil and commodity prices and very low interest rates. So, we're facing some macroeconomic headwinds. In the face of those challenges, we have persisted in our efforts to restore shareholder value. We remain committed to improving our operating and financial performance, executing our U.S. Life Restructuring Plan, and maximizing opportunities in our Mortgage Insurance businesses.

Turning to first quarter results, we were pleased with our overall performance in the quarter. Loss ratios in our three Mortgage Insurance businesses remain solid at levels consistent with our target ranges for the year. We continue to see premium rate actions significantly benefit Long Term Care Insurance earnings. Also, we recently financed a term life reinsurance treaty, which is expected to save Genworth approximately $15 million to $20 million after-tax on an annual basis.

Now, let me turn to our Mortgage Insurance businesses. One of our goals for 2016 is to continue to grow and strengthen each of our Mortgage Insurance platforms, by taking advantage of accretive market opportunities and to optimize the use of our capital. We have taken a number of steps towards this goal in the first quarter. The U.S. Mortgage Insurance business is one of our strongest businesses. We've seen continued earnings improvement from solid execution of our commercial strategy and a continued reduction in the delinquencies from the 2005 through 2008 books of business.

New insurance written remain strong in the quarter, in part we believe from our differentiated services in the market such as our underwriting turnaround times. Additionally, our U.S. Mortgage Insurance business introduced new rate card pricing in the quarter. We believe this change positions us well from a competitive standpoint, aligns us more closely with the PMIERs capital requirements, and generates returns that are expected to be in the low to mid-teens in aggregate.

In Canada, the housing market remains resilient overall, although we are seeing low oil prices creating pockets of economic and housing market softness in Alberta. We continue to actively manage the risk profile of new business, and the target underwriting changes we made last year were a factor in flow new insurance written in the quarter, being down compared to the last year.

During the first quarter, the business selectively entered into $3.2 billion of bulk transactions, and in the first three weeks of April, they entered into approximately $16 billion of bulk transactions. This volume is primarily driven by demand from large banks, as regulatory changes on July 1st of this year will likely decrease the volume of these transactions after that time. Future bulk volumes, of course will vary from quarter-to-quarter.

In Genworth Mortgage Australia, or GMA, regulatory and lender actions that tighten lending standards in the latter half of 2015 continue to impact the size and mix of the high loan-to-value market. For 2016, we expect the share those mortgages as a proportion of the total mortgage originations to be lower than in 2015. As a result, a smaller amount of GMA's capital will be used to fund new business and GMA will continue to look for opportunities to optimize capital.

Consistent with that, in March, GMA announced a capital reduction initiative of A$202 million, which, subject to shareholder approval at its Annual Meeting, would be a source of future cash to our holding company. There is also the potential for additional share repurchases, also subject to shareholder and board approval. Finally, we expect to close the sale of our European Mortgage Insurance business in the second quarter. The $50 million of expected net proceeds will benefit U.S. MI.

Moving on to Long Term Care Insurance. I'll get into the mechanics of the business momentarily, but before I do that, I want to say something about the Long Term Care industry more broadly as I think we sometimes lose perspective on the societal and budgetary imperatives that drive the future of this line of business.

Many of you listening to this call are currently in New York City. I encourage you to take a look out at Manhattan. 3 million people live and work on that island and 70% of all of those who reach 65-years old will need long-term care of some kind at some point. So, that's about 2 million people just outside your window. In New York State, a private room at a nursing home costs $136,000 a year.

Far too many people still believe that Medicare will cover these costs, but it does not in most circumstances. Neither do most health insurance plans. That puts the burden on the shoulders of an already overburdened Medicaid system and state budgets. And say what you will about our current political environment, there is a growing bipartisan understanding that the long-term care issue will dramatically impact state budgets and that private long-term care insurance plays an important role in helping manage these impacts.

Given our experience, we believe our Long Term Care Insurance business is well-positioned to be an important part of the solution, but we must continue our efforts to urge regulators to make changes to the current model for premium rate actions.

As I have said before, premium rate actions are the single most significant lever we have to improve the performance of our LTC business over time. Our dedicated team continues to spend a meaningful amount of time working with state insurance departments and others to improve the performance of our older blocks. We believe this work is having a positive impact towards regulators' appreciation of the importance of actuarially justified rate increases.

In addition, the insolvency of Penn Treaty has significantly raised regulator awareness for the need for actuarially justified rate actions. Penn Treaty's insolvency could ultimately cost state guarantee funds several billion dollars.

The premium rate increases we are seeking on the older generation policies help us to reduce future losses on these policies and move them closer to breakeven on a go-forward basis. We are committed to improving the performance of these blocks, and we are pleased with the progress we have made and are making.

So with that as context, let me say that we continue to make good progress executing our premium rate action strategy. Earnings year-over-year were favorably impacted by a net $48 million from increased premiums and reduced benefits related to rate actions. Future LTC earnings will benefit from the implementation of premium rate action approvals in the quarter from 21 prior filings impacting roughly $140 million of in-force premium with an average approval increase of 30%. We continue to see that over 80% of our policyholders are accepting the higher premiums.

That said, given our financial strength ratings and other headwinds, our LTC sales were low in the quarter. While we expect near-term sale levels to remain at low levels, we are working on developing new products focused on segments where we haven't historically participated and we are also considering a number of credit enhancement options. We are currently piloting an individual LTC product aimed at expanding the market by offering lower-cost lower-benefit pre-packaged plans.

Over time, we expect to develop additional products and services that complement these offerings and we are geared towards addressing the financial challenges of aging for a broader segment of American consumers, their families and their caregivers. For example, earlier this year we launched a new immediate needs annuity product to address the over-80 year-olds in need of long-term care services but who were not eligible for traditional long-term care insurance. Early reaction to this alternative LTC funding solution has been very well received by national healthcare facilities and advisors.

Finally, as we restructure our U.S. Life Insurance businesses and work through the changes that this initiative requires, there is one constant. We are committed to servicing our existing policyholders and being there when they need us most. Our claimants and their families regularly express gratitude for the value of their policies and the services we provide.

Let me now turn to progress on our U.S. Life Restructuring Plan. As we discussed on our fourth quarter earnings call, we suspended sales of traditional Life and Annuity products, which took effect on March 7. This is expected to allow us to achieve additional cash expense reductions of approximately $50 million and will preserve significant statutory capital.

Sales volumes will continue to decline through May, as the existing pipeline of submitted policies go through the underwriting process. We are focused on reducing overall U.S. Life Insurance and headquarters expenses on an annualized basis by $150 million by the end of the second quarter of 2016. We made substantial progress towards that goal, as through the first quarter our annualized savings are approximately $135 million.

We have also taken additional steps towards the separation and isolation of our LTC Insurance business. As I said last quarter, there are three primary benefits of taking these actions. First, to isolate the LTC downside risk that is pressuring our holding company and subsidiary ratings; second, to allow any future dividends from our Life and Annuity company to be paid directly to the holding company; and third, to give state regulators a clearer picture of the necessity of LTC rate actions.

This will be a multi-phase process with regulatory filings through the first half of 2017. We continue to have frequent, constructive discussions with the regulators and they continue to work with us on this process. To that end, we recently completed the recapture of the UL business in BLAIC, our Bermuda subsidiary to the U.S. Life

Insurance companies, and also filed for the termination of an Excess of Loss treaty provided by BLAIC for a Term Life Insurance Block.

We expect to complete the recapture of the remaining Term Life Insurance business in BLAIC in the third quarter. Finally, we expect to repatriate the BLAIC LTC and Annuity business in the fourth quarter. These are very important steps in reducing the interdependencies across our corporate structure.

Another important initiative towards the isolation of LTC risk from Genworth Holdings and our Mortgage Insurance businesses was the successful completion of the bond consent process. This process permitted us to amend our bond indentures to provide clarity on how Genworth Holdings' debt will be treated in a sale or disposition of our Life Insurance, Annuity and LTC businesses, eliminating uncertainty, which impeded potential transaction efforts in the past.

We remain open to strategic alternatives and are actively pursuing options that would accomplish the goal of separating and isolating the Long Term Care Insurance business from our other businesses, and ultimately separating the Mortgage Insurance businesses from the U.S. Life Insurance businesses.

The successful completion of the bond consent process, our efforts to reduce our holding company debt and our continuing progress in executing the U.S. Life Restructuring Plan to simplify our organization and reduce interdependencies are expected to provide additional strategic and financial flexibility.

In assessing strategic options, we are considering many factors, including the level of debt capacity, tax considerations, the views of regulators and rating agencies, and resulting impacts to book value, liquidity and other financial metrics. Progress has been made, and we are continuing this work with a sense of urgency.

With that, let me turn the call over to Kelly, to provide a deeper overview of the quarterly financial results.

Kelly L. Groh

Chief Financial Officer & Executive Vice President

Thanks, Tom, and good morning, everyone. Today, I'll give an overview of our first quarter results and the key drivers as well as provide some additional context to what Tom mentioned on our efforts to build strategic and financial flexibility, and the impact of those efforts in the quarter.

Let's start with this quarter's financial performance. In the quarter, we reported net operating income of $103 million, reflecting solid loss performance across our Mortgage Insurance businesses, as well as improved results in the U.S. Life Insurance businesses.

Net income available to Genworth's shareholders for the quarter was $53 million. The difference between net income and net operating income was primarily driven by transactional expenses related to actions taken in the quarter. These included the bond consent solicitation, debt repayment, restructuring charges related to expense reductions and the life block sale completion. I'll touch on those items as we move through our discussion this morning.

Moving to operating revenue, our sequential results, which were down from the prior quarter, reflect a reduction in life insurance premiums as a result of the Life block transaction that closed in the quarter, with an offsetting reduction in benefits and changes in reserves, and minimal overall earnings impact.

Additionally, the impact of unfavorable foreign exchange rates was partially offset by favorable investment income from prepayment speed adjustments on residential mortgage-backed securities in U.S. Life.

Turning to our ongoing expense management efforts in the quarter, operating expenses across all of Genworth were $394 million. This includes approximately $130 million for items such as higher legal settlements and expenses, a make-whole expense on our retired debt, and the payment of bond consent solicitation fees.

We continue to make meaningful progress on our expense reduction initiatives for our U.S. Life Insurance businesses and headquarters functions, with our efforts to-date, realizing a run rate reduction of approximately $135 million of our target of the $150 million or more in annual savings by the end of the second quarter of 2016.

While these cost savings could be partially offset by additional temporary expenses as we work on our plan to increase financial flexibility and potentially isolate our Long Term Care business, we expect to achieve our overall run rate goal by the end of next quarter.

Moving to our underwriting results for the quarter, we saw solid loss performance across all of our businesses. Beginning with our MI platforms, Canada's loss ratio increased one point from the prior quarter to 24%, reflecting an increase in new delinquencies net of cures primarily from the oil-producing regions like Alberta. We continue to closely monitor performance and take actions to further strengthen the credit quality standards for new borrowers that we insure within these regions.

Looking forward, we could see pressure on losses in Canada during the rest of the year that we still anticipate being within our previously communicated 25% to 40% loss ratio range. We will continue to evaluate our range as we move through 2016.

In Australia, the loss ratio for the quarter was 26%, up nine points sequentially driven by typical seasonality in new delinquencies. We continue to see elevated losses in Queensland and Western Australia, and will continue to closely monitor these areas and take any appropriate actions to maintain the overall credit quality of new business.

As with Canada, we may see pressure for the rest of the year, though we still expect our full-year loss ratio to be in the previously provided range of 25% to 35%. We will continue to evaluate our loss ratio levels, and provide updates as appropriate.

In U.S. MI, our first quarter loss ratio was 24%, which is below our full-year outlook of 30% to 40%. While below our expected range, we typically see higher cure activity in the first half of the year, followed by seasonal pressure in the second half. As a result, we still expect that our full-year U.S. MI loss ratio performance will fall within this range.

Moving to U.S. Life Insurance segment, our first quarter results reflect relatively stable mortality in life insurance overall, and improved mortality in fixed annuity sequentially. In our Long Term Care Insurance business, we saw a favorable impact from seasonally higher first quarter mortality, which drove higher policy and claim terminations. While termination levels can vary based on a number of factors, we generally expect and have experienced higher terminations in the first quarter, and lower terminations over the remainder of the year.

Although, new claims did not pressure earnings in the quarter, we anticipate a growth in new claim counts and severity as our blocks continue to age. We expect the remaining quarterly benefits of our in-force rate actions in aggregate to continue around the levels we saw this quarter. We do however; anticipate some degree of volatility in the rate action earnings impact from quarter-to-quarter due to timing and status of various implementations and policyholder behavior.

As we've discussed in prior quarters, the impact to earnings are different, if a policyholder elects to maintain current benefits at a higher premium level, or if he or she chooses to accept a reduced benefit or nonforfeiture option. Accepting a reduced benefit or nonforfeiture option translates into a reduction of risk and as a result, we do release a portion of the reserves that could create some quarter-to-quarter variation.

Looking forward, we anticipate full-year LTC earnings to be modestly above those in 2015, absent any impacts including those that could result from our annual review of the claims reserve assumption in the third quarter and our Annual Margin Testing in the fourth quarter.

Similar to last year, we also plan to review and update our assumptions as appropriate on our other U.S. Life Insurance products during the fourth quarter. Given the decline in interest rates, and the high number of downgrades on energy, metals and mining-related bonds, there was a deterioration in the margin for a single-premium immediate annuity business.

Our loss recognition margin remains near zero on a $5.8 billion block. While the margin is slightly positive, persistent low interest rates over the near-term, as well as net yield declines in the portfolio from downgrades, bond calls or prepayments could push the margin negative. We will continue to monitor this quarterly, given the very low margin in our current book.

I'll turn now to capital levels, where our mortgage insurance businesses continue to maintain strong capital positions across all platforms. U.S. MI finished the first quarter with available assets of approximately 113% of the PMIERs' required assets, which is up from approximately 109% in the fourth quarter of 2015. The increase was driven primarily by an increase in the valuation of the U.S. MI's holding in MI Canada's stock, the impact of foreign exchange, and the reduction of non-performing risk. We intend to continue to manage our PMIERs compliance with a prudent management buffer going forward.

Our Canadian MI business had an estimated capital ratio of 234% and continues to remain above the company's operating MCT or Minimum Capital Test target of 220%. Canada continues to experience solid underlying performance, paying $13 million of ordinary dividends to the holding company during the quarter.

For our Australia MI business, the estimated capital ratio was 168% at the end of the first quarter, which is above the high-end of our 144% PCA, or Prescribed Capital Amount management target. Both ordinary and special dividends were paid by Australia MI to the holding company during the quarter, totaling $47 million. Additionally, the business has recently announced several capital management initiatives. These transactions while subject to relevant consents and approvals, would ultimately benefit holding company cash.

Our original dividend expectation for 2016 was $100 million to $150 million from our Canada and Australia MI businesses. The planned capital management initiatives in our Australia MI business could push total international dividends to our holding company to approximately $200 million for the year, if the transactions are approved and executed. We will provide a further update on this expectation at our next quarterly earnings call.

Turning to U.S. Life statutory performance, unassigned surplus and the RBC ratio were both in line with the prior quarter as the favorable impact from fixed annuity performance in the quarter was offset by the Life block transaction and the impact of lower interest rates primarily affecting the variable annuity products. The RBC ratio was also impacted by unfavorable credit migration in our energy, and metals and mining securities.

On the subject of our energy and metals and mining holdings, our current exposure is manageable, despite low prices and recent volatility in these sectors. Our current exposure to the energy sector is 5% of our investment portfolio with a net unrealized loss of only $51 million at the end of the quarter.

After recent downgrades, approximately 80% of our energy exposure is investment grade with an average rating of BBB. Our exposure to the metals and mining sector is even smaller, making up less than 1% of the portfolio, with a net unrealized loss of $38 million at the end of the first quarter. The average rating of our metals and mining portfolio is also BBB, with approximately 75% investment grade.

Additionally, our commodities investments benefited from the strong market performance in March. We were able to conduct exposure management and optimization trades to enhance the quality and stability of our portfolio and exit some higher-risk exposures.

Before I get into liquidity and holding company cash levels, I wanted to provide an update on the capital impact of the Life block transaction. First, the transaction is expected to generate in excess of $150 million of capital for Genworth, which is slightly above our initial expectations. Second, the estimated tax payment to the holding company is now expected to be approximately $175 million, down from our previous estimate, as more of the tax benefits will be retained in the U.S. Life Insurance companies. This tax payment is still earmarked to facilitate the internal restructuring transactions to separate and potentially isolate Long Term Care.

Finally, this transaction had a slightly unfavorable impact on unassigned surplus in the quarter. Lastly, as we work through the U.S. Life Insurance Restructuring Plan, some of the additional important steps we are taking, such as reinsurance, refinancing and legal entity moves, may have initial impacts to statutory capital. For example, as Tom mentioned, we recently completed a refinancing of a reinsurance treaty. This transaction provides earnings improvement of approximately $15 million to $20 million after-tax on an annual basis, but is expected to modestly reduce statutory unassigned surplus in the second quarter as we needed to capitalize the reinsurance structure.

Everything I've covered so far leads into my final topic for the morning: liquidity and our holding company cash levels. We ended the quarter with approximately $760 million of cash and liquid assets, which represents a buffer of approximately $300 million in excess of our 1.5 times annual debt service and restricted cash.

This is a decrease of over $600 million from the previous quarter, driven by a number of factors. In the quarter, we received $60 million in dividends and paid $61 million in interest expense. We also utilized $345 million in holding company cash for the redemption of our senior notes due in 2016, as well as the repurchase of additional 2018 and 2021 outstanding senior notes at a discount. As a result of this reduction in debt, our interest expense will decrease by about $25 million pre-tax in 2016.

Additionally, our hybrid debt will transition from fixed rate to floating rate in November. While we put hedges in place several years ago for a portion of this debt in anticipation of the transition, our ratings downgrade in the quarter had us move these trades from bilateral status to cleared. As a result, we were required to post $67 million of cash instead of the treasuries we had posted in the past. So while it created a near-term drag on our holding company cash levels, we are comfortable with the trade-off as our hybrid debt interest expense will be lower than the current levels over time, given today's rates.

Also in the quarter we paid $69 million towards the settlement of our LTC securities class-action lawsuit, $61 million in fees and expenses related to the bond consent solicitation, and $71 million in intercompany payments, expenses and taxes, the majority of which are generally reimbursed by the operating companies over time.

Additionally, we decided to terminate our credit facility, given its near-term expiration date in September, which will allow us to save on both expenses and administration. All of this brings us to the fact that we ended the quarter approximately $50 million below our stated management holding company cash target of 1.5 times annual debt service plus a buffer of $350 million.

I want to be clear that this was a deliberate and conscious decision that we made to address our liabilities as we continue to work towards increasing our strategic options. We previously established a cash buffer to give us flexibility so that we have some space to make strategic decisions without jeopardizing our ability to meet our obligations. And while the buffer has served as a guidepost, it is ultimately cash that's meant to be used if the circumstances warrant.

The holding company continues to receive cash through dividends coming in from our Canada and Australia MI businesses, potential future intercompany tax payments from U.S. Life segment as well as the expected dividends from U.S. MI beginning next year or later. We also believe the separation of GLAIC and GLIC and the isolation of the Long Term Care business will increase our financial flexibility across many fronts and is key to our ongoing credit story. So as we look forward to debt maturing in 2018 and later, we continue to consider our options to fund those redemptions, including cash at the holding company, ongoing subsidiary capital optimization efforts or additional asset sales.

This past quarter, however, presented an opportunity to use holding company cash to address several overhanging liabilities that could potentially limit our strategic choices over time. We had the chance and the means to reduce our leverage, eliminate some pending litigation and secure bondholder consent as we work to separate and isolate Long Term Care, and we took it.

We're not abandoning our holding company cash target, as we understand its value to provide us more flexibility and as a marker of financial strength. However, as our situation evolves, it's important that we view our holding company cash balance, even at levels below our stated target, not as untouchable, but as a resource that should be carefully conserved and deployed such as to reduce debt to support flexibility for the enterprise.

To sum things up, I was pleased with our overall performance and the steps we took to improve our financial flexibility in the quarter. While we still have a lot of work ahead of us, we remain focused on the operational progress and strategic actions intended to rebuild shareholder value over time.

With that, let's open it up for questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] We will take our first question from Michael Kovac, Goldman Sachs.

Michael Kovac
Goldman Sachs & Co.

Q

Great. Thanks for taking the question. Tom, I wanted to follow up on some comments that you made in the prepared remarks, specifically around ultimately separating the Mortgage business from the U.S. Life Insurance business. I believe I heard that correctly, I just wanted to hear kind of your thoughts on what is core, in terms of International MIs, U.S. MIs, and kind of the remaining Life companies.

Thomas J. McInerney
President, Chief Executive Officer & Director

A

Thanks for the question, Michael. And we have been saying for a period of time that our ultimate goal is to separate the Mortgage Insurance businesses from our U.S. Life division, and we think, the unstacking plan that we're pursuing really sets the basis for that.

And now going forward, clearly from an MI perspective, U.S. MI, we think is one of our strongest businesses. We have said that in regards to Australia to the extent that there are opportunities to sell-down and it make sense, we would look to do that.

I think, you've seen in the announcement that we made, and that GMA made that, there's significant opportunity for capital management in GMA. And so, for now, given the proceed, we could receive if we sold shares versus the dividend and capital management capacity, we think that's – the better options to stick with our 52%, and take our share out of the capital management that GMA is able to do.

Michael Kovac
Goldman Sachs & Co.

Q

Thanks. That's helpful. And then if I could, following-up on some of the conversations, you mentioned that you're having with regulators, have you submitted a plan to them or that sounds likes that's maybe in 2017, but I'm kind of curious, what their take has been so far on the process that you have outlined, that you gave us today, and then the incremental detail which is very helpful, as well as the capital levels that were discussed, specifically the $200 million that you had earmarked. And now, how do you think about that level relative to the tax sharing payments that are – maybe a little bit lower than they were a quarter ago?

Thomas J. McInerney
President, Chief Executive Officer & Director

A

Very good questions. First of all, the overall unstacking plan, you should not think of that as, that we do one overall master filing. We file each of the pieces of that. So in the first quarter, we talked about the UL repatriation we did from BLAIC.

I think, for a good part of 2016, a lot of the filings we will do, will be with BLAIC and the U.S. legal entities, and that we will over the course of the next few quarters, with ultimately repatriating the Annuity and LTC business in the fourth quarter. We will also on the unstacking itself, to have the dividend of GLAIC from GLIC, and then reinsuring the life and annuity business from GLIC, and potentially GLICNY to GLAIC, those will also be filed going forward.

So what I want you to understand is, we will be making a series of filings, it's a multi-phase process that will be done over time, each quarter, ultimately, we expect that the final filings will be made some time in the first half of 2017.

I would say that, we've had many conversations with all of the impacted regulators so Bermuda, and then our legal entities in the U.S., obviously are, the state of domiciles are New York, Delaware, Virginia, and then GMICO is in North Carolina.

So, we've updated all four of those regulators on our unstacking plan. I think they generally support it. A key part of the unstacking plan is to – because GLAIC has significant RBC and a positive unassigned surplus, and it should have a steadier earnings stream. We think that moving GLAIC out from GLIC allows GLAIC to pay ordinary dividends over time. And we have said to the regulators, all four of them that they are aware, we have $4 billion of debt at the holding company, they're definitely aware of our ratings, they're also aware of our CDS spreads and the challenges, and they read all of your reports. And so, I do think that they do, we've said, we need U.S. MI and GLAIC to pay dividends going forward, because we can't continue to rely just on Canada and Australia to pay the dividends.

You know we have $250 million of annual interest expenses, and so, our goal would be over time to have the four subsidiaries paying dividends. Obviously GLIC, and GLICNY because of the need and the long-term nature of the turnaround there, we won't be able to take dividends from those two entities. And so, the unstacking really allows us to take dividends from GLAIC if we're able to do that, which is important from managing our overall liquidity and debt position. And then on the $175 million; I'll let, Kelly, address that.

Kelly L. Groh
Chief Financial Officer & Executive Vice President

A

Yeah, Michael, thanks for the question. To put the $175 million in context, the expected tax payment from the holding company life block transaction decreased, since the last quarter, because a larger portion of the tax benefits were actually retained within the U.S. Life companies.

So as a result, the capital remaining in the U.S. Life companies is higher than previously anticipated, because, it wasn't paid or it's not intended to be paid to the holding companies. So really, when we think of the $175 million that actually puts the U.S. Life companies in a better capital position, just given all the movements through the transaction than the original life block transaction that we previously had proposed.

So net-net we're obviously still discussing it with the regulators, we wouldn't put the capital down into the U.S. Life companies until the unstacking would be approved, but I think, it's appropriate and we've shared all the information related to the projected transaction with them.

Michael Kovac
Goldman Sachs & Co.

Q

Thanks. That's helpful. Just one small follow-up there, so the additional capital that's being held, can you tell us, which entity, it's being held in?

Kelly L. Groh
Chief Financial Officer & Executive Vice President

A

Well, I mean, it really is part of our tax sharing arrangements across all of our U.S. Life entities. So as we looked at the forecast for the year, and looked at the tax settlement that's going to happen in the third quarter, it was based on the kind of combination of projected statutory income for all of those.

Michael Kovac
Goldman Sachs & Co.

Q

Okay. Thanks.

Operator: Moving on, we'll take our next question from Sean Dargan from Macquarie.

Sean Dargan
Macquarie Capital (USA), Inc.

Q

Thank you, and good morning. I just want to follow-up on Michael's question, because something that I've struggled with is, why would GLIC's primary regulator Delaware essentially allow for that entity's call on GLAIC's capital to no longer be there.

And Tom, would it be a correct characterization to say that, perhaps the Delaware regulator understands the constraints that the holding company is facing. And net-net, perhaps the policyholders for which that body is responsible for, would be better off in an unstacking?

Thomas J. McInerney
President, Chief Executive Officer & Director

A

Well, I would say, Sean, certainly all the operating subsidiary regulators understand that the parent has a heavy debt load, $4 billion of debt. And that we need dividends from the operating subsidiaries to service the interest and principal payments. So, all of the regulators – the last thing they want is a problem at the holding company to create an issue for all of Genworth, and then ultimately that puts the pressure on the operating subsidiary in terms of how you deal that, if there's a problem at the holding company. So, I do think, one, we have very constructive relationships with all four regulators.

I think, we've done a good job over the years of being very clear with them as to what our challenges are. And I think, in the end, the regulators want Genworth to succeed, particularly Delaware which oversees GLIC, which has most of the LTC. They want us to remain and lead the private LTC business. They understand that we or no – no owner of the business will continue to put capital in LTC without getting the actuarially justified rate increases. And so, I think they support us and support us with the other regulators to get those increases.

And so, I do think that they understand that we can't continue to rely on just two operating subsidiaries to pay all the dividends and the debt of the holding company, and that GLAIC has to share in making those principle interest payments. And so, I think there is a big pro that they see for the unstacking plan.

Now, having said all that, there's a balance and they've a got balance all of that and they obviously have a more important focus on managing policyholder issues. Management and the board have a focus on policyholders, bondholders and shareholders. So, we got to balance all of that, and I think they do see at the concept that the unstacking is an extremely important benefit to overall Genworth, and that it's a good balance, I think, as we propose it to them to allow us to the balance the needs of all those stakeholders.

Sean Dargan
Macquarie Capital (USA), Inc.

Q

Okay. Thank you. And just, turning to U.S. MI, I you're your contingency reserves will not be in a position, which will allow you to pay regular ordinary dividends for at least a couple of years, but some of the standalone private MIs have been receiving approval from their primary state regulator for extraordinary dividends. Is there any way to size what the capacity of extraordinary dividends that North Carolina would approve for the holding company in the near term?

Kevin D. Schneider
Executive Vice President & Chief Operating Officer

A

Sean, despite what some of our other competitors might be doing at this point in time, we're still expecting that we'd be in a position to begin returning dividends in 2017 or later, that could be conservative, but we think it's the prudent approach at this point.

We're trying to make sure, we can continue to manage our risk to capital down and demonstrate that trend. We want to continue to demonstrate a nice strong growing statutory income profile, and we're – in 2017, we'll be about five years of that run. Our PMIERs compliance, in making sure we got sufficient cushion there is important to us. And we continue to reduce our reliance on affiliate assets in our capital base.

So any dividend in 2017, and for the few next years, because of the contingency reserve issue that you observed is going to require extraordinary approval by the DOI. I think, I mentioned on our last call, 2017, you can probably think, as I mentioned last quarter, I think, it's going to be in the $50 million type range, that's sort of the way you can size it and think about it, and then it would grow from there. But, we'll continue to evaluate that and update you on it when we have more certainty on it, but our initial discussions with our regulator are supportive.

Sean Dargan
Macquarie Capital (USA), Inc.

Q

Thank you.

Operator: Moving on, we'll take our next question from Ryan Krueger from KBW.

Ryan Krueger
Keefe, Bruyette & Woods, Inc.

Q

Hey, thanks. Good morning. First question was, what is the DAC balance that's backing the single premium annuity block, where you mentioned the margin is low?

Kelly L. Groh
Chief Financial Officer & Executive Vice President

A

Yeah. The DAC balance is roughly about (sic) $60 million [$16 million] (44:47).

Ryan Krueger
Keefe, Bruyette & Woods, Inc.

Q

Okay.

Kelly L. Groh
Chief Financial Officer & Executive Vice President

A

I'm sorry, $16 million, I misstated that.

Ryan Krueger
Keefe, Bruyette & Woods, Inc. Q

Okay. So, is $16 million the risk we should think about, or is there also potential for reserve addition?

Kelly L. Groh
Chief Financial Officer & Executive Vice President A

Really, the way it works is, you would first write-off your DAC and then you would set up reserves. But to give you an idea on sensitivities, we did include some sensitivities in the 10-K and we're planning on doing it in the 10-Q this quarter as well. So if rates overall from obviously a very low basis that we have right now, decreased about 50 basis points, it would have about a $27 million impact in total on the margin. So a small charge. We're not looking at huge numbers, but we've included some sensitivities there for your help.

Ryan Krueger
Keefe, Bruyette & Woods, Inc. Q

Got it. Thanks. And then I think you said full-year Long Term Care earnings up modestly from 2015. And I guess so am I thinking about it right that that implies roughly flat or roughly breakeven earnings for the rest of year?

Kelly L. Groh
Chief Financial Officer & Executive Vice President A

Ryan, there's going to some level of volatility, like I mentioned in my prepared remarks, just given how policyholders elect to take either premium rate increases or reduced benefit options. We did see some seasonal benefit this quarter that we wouldn't really expect to see for the rest of the year. So our best estimate at this point is moderately positive earnings, but, again, there's going to be some level of variation there.

Ryan Krueger
Keefe, Bruyette & Woods, Inc. Q

Okay, thanks. And then my last question was, how do you think about an appropriate RBC target for GLAIC in run-off if you were able to capitalize it as you saw appropriate on a standalone basis?

Thomas J. McInerney
President, Chief Executive Officer & Director A

I think, Ryan, that we have talked to the regulators about what is an appropriate RBC for a run-off block of life and annuity business. And obviously, life and annuity, while there are some issues with SPIAs and other things, it is more steady stream. So we would expect ultimately to agree with the regulators that we could hold less RBC in life and annuity business than what we have historically done.

And so we're still working with them and so I don't want to prejudge where we may them out with them. But certainly it would be consistent with what regulators would want in a run-off situation with life and annuity. And there's some other examples of that out there.

Ryan Krueger
Keefe, Bruyette & Woods, Inc. Q

Okay.

Kelly L. Groh
Chief Financial Officer & Executive Vice President A

Yeah, one thing I would add to that. This is Kelly. Obviously, we're not going to forecast an RBC target associated with the transaction. But what I would say is if you look at dividend payment history over the last few years from GLAIC, we've paid over the last three years about $340 million in dividends from GLAIC. So on a go-forward basis in terms of capital generation, the unstacking transaction would likely reduce the unassigned surplus and could turn it negative. So any dividends would require regulatory approval, but you could expect capital generation from the life and annuity blocks in the $100 million to $200 million range, depending on the year.

Ryan Krueger
Keefe, Bruyette & Woods, Inc.

Q

Okay. Great. Thank you very much.

Operator: Moving on, we'll take our next question from Suneet Kamath from UBS.

Suneet L. Kamath
UBS Securities LLC

Q

Thanks. Good morning. I wanted to follow up, if I could, on Sean's question and specifically, Tom, your answer to Sean's question. So if there's a problem with the holding company, I guess I'm trying to figure out what issues does that create for regulated life insurance entities that have RBC ratios that are well above regulatory minimums?

Thomas J. McInerney
President, Chief Executive Officer & Director

A

First of all, I want to say I think we're working very constructively with the regulators and we're working towards the unstacking. If there's an issue with the parent holding company, then it could be the case that the regulators would have to step in and take over the operating subsidiaries.

And I will say that I mentioned a little bit the Penn Treaty situation in my prepared remarks, Penn Treaty, that insolvency was created because they didn't get premium increases. And it's a big issue. They have 100,000 policyholders; we have 1.2 million. And the assumption in terms of discussions, because the state guarantee funds and, therefore, insurers are going to have to make that whole, is it could be several billion.

So I do think that another big advantage of the unstacking is that by having all of the LTC business in GLIC, it allows both Delaware as well as all the other 49 states to clearly see the results and I think it makes it easier for them to give the actuarially justified premium increases. And we've been very clear with all the regulators that, given the issues we have with liquidity and capital and given where the high-yield market and where our spreads are, it's very unlikely without progress in LTC that we can refinance the debt. And we need more than two subsidiaries to pay the debt service.

And so, again I think that they would like us to be able to manage the debt and the P&I at the holding company and they know that we can't keep going with no dividends from any of the Life subsidiaries.

Suneet L. Kamath
UBS Securities LLC

Q

Okay. I get that. But I guess I always thought about risk-based capital as the minimum capital that a subsidiary needs to satisfy all of its obligations. And based on your disclosures, it seems like your Life entities are all well above what those minimums are. So I guess I still struggle with why they would be so concerned with the holding company.

Thomas J. McInerney
President, Chief Executive Officer & Director

A

They're concerned about the holding company because the holding company, if we can't pay principle and interest then there's an insolvency and that puts pressure then on the operating subsidiaries. And while it's true that GLAIC is very well capitalized and GLIC and GLICNY are well capitalized, they know that without future premium increases, the RBC of GLIC is not enough to meet the claim obligations of the future.

Suneet L. Kamath
UBS Securities LLC

Q

Okay. And then just a couple others on the holding company cash. I guess in the first quarter, the net other items was a negative $71 million. And I thought, Kelly, on the last call, you said the target for the full year was a negative $70 million. So is that target still reasonable? And then should we expect this net other items line item will be breakeven for the rest of the year?

Kelly L. Groh
Chief Financial Officer & Executive Vice President

A

Suneet, I guess the way I would think about it is, there were two, what I would call extraordinary items that occurred in the first quarter that wouldn't be part of our normal run rate. Obviously, we talked about the TMA payment or Tax Matters Agreement payment to GE is a part of our original IPO that will be ongoing. The LTC class-action lawsuit litigation settlement was not part of that overall $70 million estimate that won't be reimbursed from our subsidiary companies. The bank consents also were a holding company obligation, that were not in that forecast as well. While we do have ongoing litigation, and there could be some legal expenses associated with that, that come throughout the year, I would hope that would be within our overall holding company expense levels.

So, really taxes for the rest of the year we anticipate to be positive to offset some of the first quarter tax payments, but in terms of expenses, I would anticipate it being a much lower level unless there was some other type of extraordinary item like class-action lawsuit settlement.

Suneet L. Kamath
UBS Securities LLC

Q

Okay. And just the last one on holding company cash is, given we're all so focused on this. What was the rationale for terminating the credit facility, and if there's some holding company cash savings that result from that?

Kelly L. Groh
Chief Financial Officer & Executive Vice President

A

Yeah, the rationale was really – the facility is expiring in September. We had no plans on drawing on it between now and then, just given our overall liquidity needs. We pay about 62 basis points in fees on an annual basis related to a $300 million facility that we weren't planning on drawing on. And frankly from an administrative perspective, over the next two quarters, there's activities that go on within the company, probably 40 hours, 50 hours of work to just verify compliance with that. And so, at this point in time, we just really didn't see a need for it, and it had really no impact on our ratings given the short maturity.

Suneet L. Kamath
UBS Securities LLC

Q

All right. Thanks.

Operator: Moving on, we'll take our next question from Steven Schwartz from Raymond James & Associates.

Steven D. Schwartz
Raymond James & Associates, Inc.
Q

Hey, good morning everybody. First a couple of follow-ups. Kelly, the discussion of the SPIA margin, I'm taking away from your discussion with Ryan that this discussion was GAAP; is there any STAT to think about?

Kelly L. Groh
Chief Financial Officer & Executive Vice President
A

Not at this time. We have adequate cash flow testing margins based on what we're looking at. From a statutory perspective, we aggregate all our products within the GLIC entities. So, as long as we've got margin overall, we're comfortable with it from a STAT perspective that is really a GAAP impact only.

Steven D. Schwartz
Raymond James & Associates, Inc.
Q

Okay. And then a follow-up again, just to make sure, here the LTC guidance that you're – that you've given is on a post-reserve release basis, I guess is the way to put it?

Kelly L. Groh
Chief Financial Officer & Executive Vice President
A

I'm not quite sure exactly what you mean by that, but I guess from a GAAP income perspective, that's the guidance I was giving. We are not anticipate – or we're not assuming any assumption updates or anything like that, obviously we would keep you informed if something like that came up.

Steven D. Schwartz
Raymond James & Associates, Inc.
Q

No. What I was suggesting was, for example, you had the $77 million benefit in this quarter, this would include benefits for unreserveds going forward?

Kelly L. Groh
Chief Financial Officer & Executive Vice President
A

It does include the benefit of...

Steven D. Schwartz
Raymond James & Associates, Inc.
Q

Okay. All right.

Kelly L. Groh
Chief Financial Officer & Executive Vice President
A

...any reduced benefit option reserve impacts going forward.

Steven D. Schwartz
Raymond James & Associates, Inc.
Q

Okay. And then just two new ones; did the BLAIC UL repatriation affect RBC at all in the quarter?

Kelly L. Groh
Chief Financial Officer & Executive Vice President

A

It did not – affected in the quarter, it actually was done in April.

Steven D. Schwartz
Raymond James & Associates, Inc.

Q

Okay.

Kelly L. Groh
Chief Financial Officer & Executive Vice President

A

And we wouldn't anticipate that to have a significant impact on RBC, maybe two points or so.

Steven D. Schwartz
Raymond James & Associates, Inc.

Q

Okay. And then one more; we'll see this in the 10-K, but until it's out, how much of the 2018 debt did you buyback in the quarter?

Kelly L. Groh
Chief Financial Officer & Executive Vice President

A

We bought back $1 million.

Steven D. Schwartz
Raymond James & Associates, Inc.

Q

$1 million. Okay. So, just little bit. All right. Thank you very much, Kelly.

Operator: Ladies and gentlemen, we have time for one final question, that will come from Jimmy Bhullar from JPMorgan.

Jamminder Singh Bhullar
JPMorgan Securities LLC

Q

Hi, good morning. So, some of my questions were asked, but just on the U.S. MI business, can you discuss, what your views are on when you can actually start taking dividends out of that, and how that ramps up over time?

Kevin D. Schneider
Executive Vice President & Chief Operating Officer

A

Yeah, Jimmy, this is Kevin. As I mentioned to one of the other questioners, our view is, it'll be in 2017 or later. Just to size it initially, I think something in the $50 million type range. It will require extraordinary dividend approval by the regulator, but we think, we have a good case for that discussion and that request from the regulator. And then think about it ramping up over time as our statutory income continues to grow over time, and we continue to strengthen our balance sheet.

Jamminder Singh Bhullar
JPMorgan Securities LLC

Q

And then just on the Long Term Care business, like if we are in this type of rate environment through the end of the year assuming no changes in claims patterns, do you expect to have to add to STAT or to GAAP reserves?

Kelly L. Groh
Chief Financial Officer & Executive Vice President

A

Right now, given our GAAP margin of $2.5 billion to $3 billion, if we did anticipate that just given the rates, we would have actually evaluated it and taken a charge this quarter, we don't anticipate that at this time based on the rate environment, but we'll continue to look at it, and monitor our experience as we go through the year.

Jamminder Singh Bhullar
JPMorgan Securities LLC

Q

And then just lastly on investment income, it seems like you had higher prepayment income in the Life business, but overall, as well. Can you quantify, what prepayment income was relative to normal, what you've seen like an average over the last few quarters?

Kelly L. Groh
Chief Financial Officer & Executive Vice President

A

I'd be happy to. Really to tell you the amount in the quarter, in the Life Insurance segment, it was about $6 million after-tax, which was to be clear on the phone, it was a prepayment speed adjustment related to our residential mortgage-backed securities. So, for Life it was $6 million; for Long Term Care it was about a $3 million benefit; and for Annuities about $1 million; so $10 million in total.

Jamminder Singh Bhullar
JPMorgan Securities LLC

Q

Okay. Thank you.

Operator: Ladies and gentlemen, I'll now turn the call back over to Mr. McInerney for closing comments.

Thomas J. McInerney
President, Chief Executive Officer & Director

Thank you, Jim, and thanks to all of you for your time and questions, today. Just to sum up, we're pleased with the continued strong performance of our MI businesses, and the improved results in U.S. Life Insurance during the quarter. As we've said, we've made progress on our as U.S. Life Insurance Restructuring Plan. We are proactively reducing debt, and we believe with the bond consent, we enhanced our strategic and financial flexibility. We remain focused on rebuilding shareholder value, and I want to thank you again for your continued interest in Genworth.

Operator: Ladies and gentlemen, this concludes Genworth Financial's first quarter earnings conference call. Thank you for your participation.