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EDITED TRANSCRIPT

GNW - Q1 2009 Genworth Financial, Inc. Earnings Conference Call

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OVERVIEW:

GNW reported 1Q09 results.

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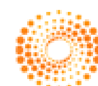

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PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to Genworth Financial's first-quarter earnings conference call. My name is Melissa and I will be your coordinator today. At this time all participants are in a listen-only mode. We will facilitate a question-and-answer session toward the end of the conference call.

As a reminder the conference is being recorded for replay purposes. 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 Alicia Charity, Senior Vice President, Investor Relations. Ms. Charity, you may proceed.

Alicia Charity - *Genworth Financial, Inc. - SVP, IR*

Thank you, Melissa, and welcome to Genworth Financial's first-quarter 2009 earnings conference call. Our press release and financial supplement were both released last evening and are now posted on our website. In addition, we posted some materials regarding our investment portfolio that we thought would be helpful as well.

This morning you will first hear from Mike Fraizer, our Chairman and CEO; followed by Pat Kelleher, our Chief Financial Officer; and then Ron Joelson, our Chief Investment Officer. Following our prepared comments we will open the call up for your questions.

Pam Schutz, Executive Vice President of Retirement & Protection; Tom Mann, Executive Vice President of our International segment; and Kevin Schneider, Senior Vice President of our US Mortgage Insurance segment, will be available to answer your questions.

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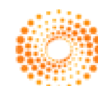

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With regard to forward-looking statements and the use of non-GAAP financial information some of the statements we make during the call may contain forward-looking statements. Our actual results may differ materially from such statements. We advise you read the cautionary language regarding forward-looking statements in our earnings release and the Risk Factors section of our most recent annual report, Form 10-K, filed with the SEC in March 2009.

This morning's discussion also includes non-GAAP financial measures that we believe may be meaningful to investors. In our financial supplement and earnings release non-GAAP measures have been reconciled to GAAP where required in accordance with SEC rules. Finally, when we talk about our International segment results, please note that all the percentage changes exclude the impact of foreign exchange.

And with that let me turn the call over to Mike Fraizer.

Mike Fraizer - *Genworth Financial, Inc. - Chairman, President & CEO*

Thanks, Alicia, and thanks, everyone, for your time today. While Genworth's first quarter reflects continued investment valuation challenges and US housing market pressures, we have made substantial progress on a number of fronts including capital and liquidity, performances of our Canadian and Australian platforms in a slowing global economy, execution of our refined specialist strategy, along with underlying product line performance in retirement and protection and active risk management.

This morning I will provide views on overall business positioning as well as capital strategies. Pat Kelleher will go deeper on business line performance along with specifics on capital, liquidity, and risk management. And Ron Joelson will share thoughts on key investment topics.

Starting with our business segments and their positioning, we have tailored our strategy to reflect today's market realities and leverage our strengths. In Retirement & Protection, as we said at our fourth-quarter earnings call, we refined our specialty strategy around main street life insurance coverage, long-term care insurance, wealth management products and support services to independent advisors, and selective retirement income offerings that fit our risk appetite.

A deeper focus on middle market and emerging affluent segments cuts across these four areas. Moreover, we positioned our strategy and business mix effectively to acknowledge our current ratings. This refinement and focus is reflected in the sales levels in the quarter. Retirement & Protection sales, while lower, achieved our overall targets and were consistent with our capital plans. I am pleased with our results here and we would expect these sales trends to continue during 2009.

We view 2009 as a transition year for the Retirement & Protection business and when they economy emerges from this period we will be positioned to build off this focused strategy.

In International we concentrated our efforts around mortgage insurance in Canada and Australia and Lifestyle Protection in Europe and select new markets, while mortgage insurance in Europe remained small and well-contained. As we see economic pressure increase globally we are running the lines with risk management and mitigation as a priority while targeting new business efforts selectively and for good profitability.

We see tangible success here with sound performance in Canada and Australia despite the economic environment. Lifestyle protection had a soft quarter given rapid deterioration of European economies and related unemployment claims, but we are managing the portfolio actively in what is a fairly short tale book and have numerous pricing and product actions underway.

This brings us to US Mortgage Insurance. Here new business reflects a lower risk profile with much higher returns driven by product, guideline, underwriting, and pricing changes. We focus extensively on loss mitigation with growing benefits seen each quarter. To date we have not seen any material benefit from new government or lender loan modification programs as these are just ramping up. Any benefit from these programs we would expect to be a second-half phenomenon.

Finally, we are running this business to be self-contained from a capital standpoint. So we are managing the business to handle unemployment scenarios near 10% in early 2010 along with significant additional home price declines and stay well within risk to capital targets.

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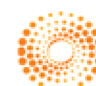

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As part of overall business positioning efforts we continue to strengthen the management team and we are very pleased to add two key members to the senior team during the quarter. First, Michel Perreault joined us as Genworth's Chief Risk Officer reporting to me, and Rob Vrolyk joined Pat Kelleher's team reporting to him as Chief Actuary.

Now let's turn to our capital strategies where we have continued our progress. Life company risk-based capital is estimated at approximately 390% and we continue to use reinsurance strategically. Our risk to capital ratio improved in US Mortgage Insurance. International operations maintained sound capitalization. We have managed new business levels effectively while pursuing price increases in targeted areas and our expense reduction activities are right on track.

On top of this foundation we have been pursuing additional strategies to gain another level of capital flexibility to handle various market conditions as we look forward. These include evaluating selected asset sales, working to create flexibility to write additional profitable US Mortgage Insurance business in a market characterized by clean traditional core business with attractive pricing, and evaluating various government programs.

As we looked at these we always kept in mind the goals of reinforcing our financial foundation, placing ourselves in the best possible position to manage risks while taking advantage of attractive new business and investment opportunities, and minimizing any potential dilution of shareholder book value while we work simultaneously to rebuild total shareholder value.

Regarding potential asset sales, you saw our announcement of our intent to execute a minority IPO of our Canadian mortgage insurance business. After careful study and substantial preparatory work, including appropriate consultation with our insurance regulator and government officials, we feel we are well-positioned to move forward. Pat will provide some additional commentary on this area, but given securities regulations we are highly limited in what we can say regarding this topic. So I ask for your understanding in that regard.

Turning to US Mortgage Insurance, we have benefited from a combination of loss mitigation activity, lower new business levels, and lower persistency. In addition, we are encouraged by developments on the state and federal public policy fronts.

On the state front we have received clarification on the calculation of risk to capital from our North Carolina regulator, which improved our risk to capital ratio and our new business capacity. We will continue to work with state regulators to ensure that there is adequate flexibility to manage through this challenging market with desired levels of new business volume and see paths to do so.

We, like others in the industry, have had ongoing discussions with the US Treasury and FHFA regarding potential approaches to expand capital capacity for the US mortgage insurance industry to aid in the housing market recovery. Now while discussions remain ongoing and we are seeing good momentum with strong support from FHFA, we cannot predict what constructs might be made available or under what terms.

To wrap, we had a difficult quarter from an overall earnings perspective as we were impacted by equity housing and credit market declines. At the same time we made strong progress on a number of strategic fronts. From a business model and sales perspective our businesses are performing in line with our plans and we are taking the necessary steps to manage capital levels to maintain flexibility given today's realities.

This year promises to hold many of the same market challenges we saw in 2008 and we move ahead mindful of what we learned over the past 18 months, taking the actions necessary to position Genworth for the future. With that let me turn it over to Pat. Pat?

Pat Kelleher - *Genworth Financial, Inc. - CFO*

Thanks, Mike. First-quarter earnings were challenging, primarily from weak economic and market conditions. Despite this Genworth made tremendous progress on capital, liquidity, and risk management that is bearing results across the organization. And we achieved sales levels in line with expectations. Al-in I would characterize Genworth operating results for the quarter as mixed.

For example, International results demonstrated strong business performance in slowing economies in Canada and Australia while lifestyle protection saw increased unemployment related loss development, primarily in Ireland and Spain.

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In Retirement & Protection we enjoyed good underlying performance that was overshadowed by losses on limited partnership investments and DAC charges relating to equity market performance. In the investment portfolio credit impairments relating to structured and corporate debt declined materially from fourth-quarter levels, although we impaired several hybrid securities where we do not have credit related concerns but recorded impairments based on accounting guidelines that prescribe use of the equity model to determine impairments.

Finally, earnings in US Mortgage Insurance reflected weak market conditions. Prime delinquencies showed deterioration with rising unemployment, while we have seen a slowdown in the growth of delinquencies for subprime and Alt-A that began in the third quarter of 2008. While this is a small portion of our portfolio, it is where we have seen the majority of the delinquencies.

Sales across the Company were generally in line with expectations as we have narrowed our strategic focus within Retirement & Protection and US Mortgage Insurance and we saw the impact of slowing global mortgage originations and consumer lending that we anticipated internationally.

This morning I will focus on three areas -- business performance, including risk management actions and some views on sales outlook for 2009; capital and liquidity; and the impact we expect from recent accounting changes relating to investments.

Starting with the quarter our International segment recorded $101 million of net operating earnings with strong performance in Canada where earnings increased 8% over the prior year and book value increased to approximately $1.8 billion as of March 31.

In total, International results were down year-over-year with about half of the decline, or $30 million, from foreign exchange and the other half mostly attributable to increased economic stress particularly in the Lifestyle Protection business.

While loss ratios increased in Canada and Australia, the rate of increase in delinquencies is in line with expectations given the rapid rise in average unemployment. The loss ratio in Canada increased to 39% for the quarter. The average unemployment rate increased dramatically in the first quarter by 120 basis points to 7.6% and we saw an increase in delinquencies to about 3,400 from 2,400 in the fourth quarter.

Similarly in Australia the loss ratio increased to 59%. Here the unemployment rate increased 80 basis points to 5.2% in the first quarter and we saw delinquencies increase to about 6,400.

Lifestyle Protection results reflect the impact of the economic slowdown in Europe. The loss ratio in the first quarter was 29% and reflects higher than expected unemployment, particularly in Spain and Ireland where average unemployment increased to 15.9% and 10.3%, respectively. We are actively repricing both new and in force business and this combined with loss mitigation efforts should improve earnings gradually throughout the year.

Turning to International new business production we saw lower sales, as expected, from slowing global economies. In addition, we have taken several risk management actions that include tightened underwriting, product restrictions, and price increases in certain markets.

For example, we are no longer insuring above 95% loan to value products in Canada and Australia and have tightened underwriting guidelines on above 90% loan to value products, especially in areas we believe are more economically sensitive. In Europe mortgage insurance we have pulled back significantly with risk in force down 21% to $5.4 billion, particularly in Spain where risk in force dropped 54% to just $1.3 billion or about 1% of the total International.

Given the economic slowdown, we do expect smaller origination markets in all geographies and lower levels of retail credit in Europe going forward. Taking into account both of these factors, we expect higher quality new business but lower levels of new insurance written across the International segment with first-quarter production a reasonable proxy of what we would expect to see for the remainder of the year with the exception of Australia where the overall mortgage origination market may decline in the second half of 2009 as government homeownership programs expire in June.

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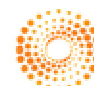

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In Retirement & Protection we saw solid fundamentals, in life insurance we saw good mortality, in long-term care the loss ratio remains at the low end of the range, the fixed annuity lapse rate trended down through the quarter, and finally we had lower expenses on target with the reductions made at the end of 2008.

Earnings were impacted by lower investment income from both lower valuations of limited partnership investments and the yield impact from holding higher cash balances. We had a loss on the fee income business as a result of lower equity markets and the related DAC charges. Together these totaled about $140 million, and excluding these market impacts both revenues and earnings would have been in line with 2008 levels underscoring the otherwise good fundamental performance.

Turning to sales, Retirement & Protection new business was in line with our expectations as we said last quarter. Given our product and distribution strategies, capital management plans, our risk appetite, and the market environment, we will sell less in 2009 than we have in the past particularly in fixed and variable annuities. We would expect full-year total annuity sales in the $1.5 billion to $2 billion range reflecting our refined targeted strategy to focus on the independent channels and select distributors.

In life insurance we saw the expected lower sales levels from shifting our focus to the smaller case size market, $1 million and under, with average face amounts around $250,000. Here our policy counts are strong and average policy sizes lower. We would expect full-year sales in the $225 million to $250 million range.

Long-term care sales were down, much of which we attribute to a decline in total market sales associated with the economy. Our career sales team continues to outperform the market while sales through financial intermediaries was more challenged. For the full year we expect our sales in the $100 million to $120 million range.

Finally, in Wealth Management net flows were negative and gross flows were lower than we would have expected, primarily from the equity market performance early in the quarter. The trends in April were better and we saw net flows turn positive over the last five weeks. We expect full-year gross sales to be in the $3.5 billion to $4.0 billion range and we continue to perform at or above the market given our investment in this strong platform.

To summarize for Retirement & Protection, we expect 2009 overall sales to be down based on our refined business focus, risk and capital management actions, and slowing origination markets. But we certainly view this as a transitional year and expect to build from this base as the economy comes out of the recession.

US Mortgage Insurance segment results reflected difficult housing market conditions. There were two dynamics we focused on. First, on a monthly basis we saw the delinquency growth rate decline through the first quarter. We are encouraged by the sequential slowing of growth in delinquencies of specialty products in addition to the historic seasonal delinquency decline.

Second, we have seen steady increases in our loss mitigation results. In the quarter total mitigation savings increased to $153 million compared with $20 million a year ago. Here our analytic capabilities and productivity have improved, which coupled with the increased resources will drive higher loss mitigation savings in 2009.

We are generating high-quality new business in US Mortgage Insurance while ensuring we stay appropriately capitalized at levels well below statutory limits. Given the sequential improvement in risk to capital levels coupled with declining trends and persistency, new business levels are expected to trend up from the first quarter as we have the capital flexibility to take advantage of strengthening market conditions as we move through 2009.

Turning to capital and liquidity. At the holding company we received dividends during the quarter of $210 million, had about $200 million of commercial paper mature, repurchased $79 million of debt, and ended the quarter with $768 million of cash. Looking ahead we expect to dividend an additional $200 million from our non-US companies in 2009. We are well-positioned to repay our $660 million of debt maturities and to meet ongoing holding company obligations. We expect to end the year with more than $150 million of cash, which is in line with historic levels.

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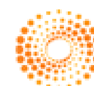

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Separately our plans to sell up to 49% of our Canadian mortgage insurance business in an initial public offering affords both financial flexibility and the opportunity to continue our participation in this business. We expect this transaction to generate a meaningful level of capital at the holding company and provide additional flexibility we have been seeking to handle unforeseen contingencies through the global economic downturn.

We have not included potential proceeds into the estimates we have discussed this morning, so benefits from the transaction would be additional.

Finally, I am pleased with the progress we made to free up additional capacity under our credit facilities. We recently canceled a letter of credit that frees up about $170 million of additional capacity. This increases the total available capacity to over $825 million.

Turning to capital levels at our operating segment. In Retirement & Protection we ended the quarter with an estimated risk-based capital ratio of approximately 390%. This is roughly in line with our expectation and we expect to finish the year at or above our targeted 350%.

In Mortgage Insurance our plans to keep this business self-contained from a capital perspective are right on track. We are achieving this through a combination of lower new business in the quarter, declines in persistency, and effective loss mitigation. In addition, changes in regulatory risk to capital requirements now consistent across the industry effectively reduced our reported risk to capital level, improving the ratio to 13.8 to 1 which represents about $1 billion of capital cushion below the regulatory requirement.

As a result, we may increase the level of flow NIW as we move through 2009 from what we saw in the first quarter and still retain an appropriate risk to capital ratio. We believe that this high-quality business will improve portfolio returns over time given improved new business pricing and the strength of underwriting and other guidelines behind the core new business we are originating.

In our International business capital levels improved in Canada and Australia mortgage insurance and we maintain strong capital levels, about twice regulatory required levels, in our lifestyle protection business in Europe where we have seen some higher unemployment related claims levels in certain markets. Across the enterprise we are taking the risk management actions to manage capital and maintain flexibility given today's realities.

Before I turn it over to Ron I wanted to touch on the impacts we expect from the new accounting standards for investments. As you know, we did not early adopt the new fair value and OTTI guidance during the first quarter and we will adopt this guidance in the second quarter. We thought it would be helpful to preview what we expect to see with one caveat, these numbers do not reflect any DAC impacts.

Of the $388 million of total after-tax impairments recorded in the first quarter, about $156 million was other than credit-related impairments and this amount will be added back to our retained earnings in the second quarter with an offset in accumulated other comprehensive income. We estimate that the total cumulative effect adjustment will be about $400 million after tax.

This adjustment will effectively reverse all historical non-credit-related impairments taken under the old rules, including those taken in the current quarter. When we make this adjustment we will also be writing up invested asset book values by approximately $600 million, the pretax equivalent of our $400 million cumulative effect adjustment.

Turning to the impact of SSAP 98. This statutory accounting standard was proposed to bring statutory impairment accounting in line with US GAAP accounting standards in place at the end of 2008. Upon implementation of SSAP 98 newly impaired securities would be written down to market value. After the new GAAP rules were issued in April SSAP 98 was deferred to third quarter. We expect that SSAP 98 may be modified to bring it into line with the new GAAP standards which recognize only credit-related impairments in earnings.

Summing up, overall earnings clearly remain pressured in the near term. However, there are some positive trends emerging, particularly in our Retirement & Protection business and our investment portfolio. We made great progress on the capital and liquidity fronts and are well-positioned from a capital perspective to manage the impacts of the substantial economic decline.

In sum, we are prepared to take Genworth through this difficult period. With that I will turn it over to Ron.

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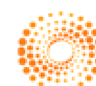

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Ron Joelson - *Genworth Financial, Inc. - SVP & Chief Investment Officer*

Thanks, Pat. Difficult economic conditions continued to impact the investment portfolio in the first quarter of 2009, although we are seeing market improvements and risk management actions taken to defensively position the portfolio are evident in our results.

This morning my comments are focused on four areas -- impairments, both in the quarter and some emerging trends; performance of the commercial mortgage-backed securities portfolio and commercial mortgage loan portfolio; bank hybrids; and finally net investment income for the period.

GAAP impairments and realized losses for the quarter were $410 million after tax and statutory impairments were $232 million after tax. Of the $410 million of GAAP net impairments and realized losses taken during the first quarter $22 million relate to asset sales and $388 million are other than temporary impairments. The OTTI amount includes $155 million of hybrid securities.

I would like to make two points here. First, valuation moves due to recent downgrades caused a shift from the debt to the equity impairment model based on recent clarification of accounting guidance. And second, our credit analysis indicates full principal recovery is anticipated.

The remaining $233 million of impairments include $50 million from corporate, government, and equity securities, and $183 million from structured securities. This $50 million compares to about $230 million taken in the fourth quarter of '08 and about $190 million taken in the third quarter of 2008. We believe that active selling of prior risk positions in prior periods has contributed to this improvement. And we continue to reduce our weighting in banks, financials, and high-yield assets, and sold over $400 million of securities during the quarter.

Of the $183 million of impairments and structured securities, $83 million were Alt-A securities, down from $97 million in the prior quarter, and subprime RMBS impairments were $48 million, down significantly from $122 million in the fourth quarter. This decline is the result of the smaller portfolio and ongoing paydowns since many written-down securities continued to make payments.

$24 million came from prime securities compared with $71 million in the prior quarter and $19 million came from CMBS, up from $5 million in the fourth quarter.

Net total unrealized losses before tax and other adjustments were unchanged at about $7 billion. Bank hybrid and RMBS unrealized losses increased and offset improvements in the remaining bond portfolio. We have seen unrealized losses plateau in the first quarter and directionally we have seen an improvement in market value of approximately $1 billion since March 31.

Now turning to our CMBS portfolio. The CMBS portfolio continues to perform well despite recent downgrades in the sector reflecting recognition of weakening fundamentals. Our $3.7 billion portfolio was minimally impacted by downgrades with 87% currently rated AAA or AA versus 88% in the prior quarter. Average loan to value is about 63% and debt service coverage remains at about 1.7 times. Nearly 70% of our holdings are from 2005 and prior vintages.

As Alicia mentioned, we posted some investment slides on our website. One shows the ability of the CMBS portfolio to withstand stress losses as calculated by a number of Street firms. Stress losses are calculated assuming an average 40% drop in commercial real estate values depending on rent and vacancy forecast by property type.

In the first quarter the stress loss assumptions were more severe reflecting further declines in real estate markets, higher vacancy, and loss severity assumptions. 85% of our portfolio can withstand four times these revised stress losses and 97% can withstand two times.

Turning to commercial mortgages. Our $8 billion portfolio has continued to perform well during the quarter. Delinquent properties totaled only $9 million and the loan loss reserve increased by $6 million pretax bringing the total to $29 million. Average loan to value is about 56%, up from 54% at year-end, and we would expect this number to grow in 2009 as property value declines outpace amortization.

Average occupancy remains at about 92%. Our average debt service coverage ratio is 1.98 and 91% of the portfolio has coverage greater than 1.2 times. We continue to actively manage this portfolio and update property values at least annually.

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Finally, we have little refinance risk in our portfolio as only 2% of the loans are scheduled to mature in 2009 and 4% in 2010. In short, the portfolio is well-positioned to withstand significant further property declines.

Turning to bank hybrids. In accordance with accounting guidance we have taken $155 million of GAAP impairments. We do not expect economic loss on these securities and therefore do not impair them for statutory purposes. On a GAAP basis these securities were impaired because of the length of time the market value has been below amortized cost.

We define bank hybrids as Tier 1 and upper Tier 2 capital securities and slide five in our investor presentation breaks out the detail. Of our total exposure we focus on approximately $180 million because they're holdings of US banks subject to stress tests and may need significant capital or they are foreign banks where there is risk of actions that would affect our securities or they are holdings which are securities lower in the capital structure.

The portfolio is well-diversified with our two largest US exposures, JPMorgan and Bank of America, having a market value of $50 million each and our largest foreign exposures are to Royal Bank of Canada, $78 million, and Barclays, $69 million.

Government stress tests were released last night and identified a number of names where the stress test indicated additional capital may be required. Specifically, our hybrid holdings in these names are Bank of America, $54 million; SunTrust, $23 million; Citigroup, $20 million; PNC Financial, $15 million; Wells Fargo, $13 million; and Fifth Third Bancorp, $7 million.

Turning to net investment income NII declined sequentially, about $150 million pretax, to $711 million. This decline was primarily from floating-rate assets whose impact was partially mitigated by a reduction in interest credited on floating-rate liabilities and a decline in the market value of our limited partnership investments. The limited partnership portfolio totals $658 million and consists of infrastructure funds, mezz funds, private equity limited partnership, and real estate debt and equity funds. Our hedge fund exposure is about $100 million and includes long short, event-driven, and distressed funds.

The current quarter decline in market value of $107 million reflects poor equity and real estate fundamentals and overall declining economic trends which impacted our infrastructure funds. While these losses reflect a tough economic environment, they are also likely to react early to market improvements.

In sum, our investment portfolio is holding up well in this difficult environment. Impairments were higher than we would have expected due to the treatment of bank hybrid securities. The trends in commercial real estate, structured securities, and other corporate impairments were in line with our expectations and I was pleased with our ability to reposition portions of the portfolio primarily through asset sales during the quarter.

And with that we will open it up to your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Eric Berg, Barclays Capital.

Eric Berg - *Barclays Capital - Analyst*

Thanks very much and good morning to everyone. My first question concerns your relationship with your distributors and just in general the perception of third parties. It's encouraging to see that the lapse rate did not change in your fixed annuity business; that is encouraging. But in this difficult period how are you doing in terms of maintaining relationships with your major distributors of life insurance and annuities? Are you on the shelf, are you off the shelf? How does that stand? And then I have one follow up.

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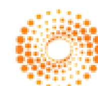

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Mike Fraizer - *Genworth Financial, Inc. - Chairman, President & CEO*

Thanks, Eric. Let me hand that over to Pam Schutz.

Pam Schutz - *Genworth Financial, Inc. - President & CEO, Retirement & Protection*

Hi, Eric. Let me start before I talk about specific distributor relationships and talk about our overall strategy and our results in the quarter. The first-quarter sales results really reflect our refined strategy to focus on Main Street Life, our wealth management business and long-term care, and we are pleased with the results in the quarter. If you look at our investment products, including annuities and wealth management, we sold over $1.2 billion. And if you look at our premium-based products of life and long-term care roughly $103 million.

Despite the market contraction in long-term care, we are pleased with our progress. Our career system held up well and we continue to make progress on getting new accounts in long-term care. We also had solid performance in our BGA channel in low-face term and continue to outperform the market in wealth management.

In our annuity business in particular we have narrowed our focus to a smaller footprint, really focusing on the independent channels and select distributors. However, we are projecting that we will do between $1.5 billion and $2 billion in sales.

With respect to our distribution, obviously our ratings have impacted certain channels and certain distributors, but that has largely been in the annuity side in bank and wires. But, overall, we are really pleased with how we are positioned and our growth going forward.

Eric Berg - *Barclays Capital - Analyst*

Thanks. I have one more question and then I will turn it over to the next questioner. To Joel, and that has to do with something you dwelled on a little bit, this accounting for the hybrids. My understanding is that under US GAAP the equity method, in particular under guidance from the SEC as laid out in the letter that I think it wrote to the FASB last October, that you don't need to use the equity method unless the securities have been downgraded to below investment grade status. Is that what happened in this instance or did you go to the equity method of impairment, equity impairment method for other reasons than downgrade? Thanks.

Mike Fraizer - *Genworth Financial, Inc. - Chairman, President & CEO*

Let me turn that over to Pat.

Pat Kelleher - *Genworth Financial, Inc. - CFO*

In this particular instance some of the securities that we downgraded were clearly below investment grade. In addition we had some split-rated securities which in our judgment should be treated under the equity accounting method for valuation purposes.

Eric Berg - *Barclays Capital - Analyst*

Thanks very much. I am all set.

Pat Kelleher - *Genworth Financial, Inc. - CFO*

Thanks, Eric.

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Operator

Donna Halverstadt, Goldman Sachs.

Donna Halverstadt - *Goldman Sachs - Analyst*

Good morning. Question about the assumption you gave about life RBC ending the year at or above 350%. What is the embedded assumption you are using on equity market performance?

Mike Fraizer - *Genworth Financial, Inc. - Chairman, President & CEO*

Pat do you want to take that please?

Pat Kelleher - *Genworth Financial, Inc. - CFO*

I'll take that. We would assume that equity markets are around current levels in that assumption. But I would also remind you that we don't have a lot of equity exposure in the portfolio overall because our variable annuity block is relatively small relative to our overall business in force. So it doesn't have that much impact on our capital projections.

Donna Halverstadt - *Goldman Sachs - Analyst*

Okay. Then I also had a question on the US MI business. You talked about executing a number of strategies to pursue new business while maintaining the risk to cap and you talked about slowing new business growth and picking it back up; rescissions, modifications, etc. Are there any other types of strategies you are thinking about that would allow you to write additional business there?

Mike Fraizer - *Genworth Financial, Inc. - Chairman, President & CEO*

Let me turn that over to Kevin Schneider. Kevin?

Kevin Schneider - *Genworth Financial, Inc. - President & CEO, US Mortgage Insurance*

Donna, I think there are really three things one could think about. One is we are working directly with our state regulator to achieve capital flexibility going forward in this environment. That is a potential to give us additional room against our current risk to capital statutory levels.

The second alternative has been widely written that the industry continues to really engage and work with Treasury and the FHFA; potential proposals to provide capital support to the mortgage insurance industry. FHA Director Lockhart has been supportive of that and I think we have made significant progress as an industry around structures that would benefit the industry and that work within the existing legislative and regulatory authority. So I think that is under active consideration at Treasury.

Then lastly we continue to consider reinsurance possibilities of those -- our approach there has really shifted over time, where initially when we started talking about this -- give or take a year ago, we were talking about securing reinsurance that gave us rating agency relief. We are now focused on potential reinsurance structures that would also give us statutory capital relief, so we would need both of those to pursue a reinsurance strategy and at the right price.

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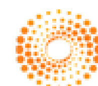

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Donna Halverstadt - *Goldman Sachs - Analyst*

Follow up on your point one, the regulatory capital flexibility, is that relaxation of risk to cap rules temporarily and/or is it thinking about new co, old co structures along the lines that MGIC is thinking about?

Kevin Schneider - *Genworth Financial, Inc. - President & CEO, US Mortgage Insurance*

At this point in time, while we are pursuing and evaluating a number of options, the first piece has been the regulatory clarification we got from our state regulator that resulted in the improved risk to capital levels that we reported this quarter. Basically what that was was really a more appropriate reflection of your unexposed risk taking the delinquent risk in force out of the calculations. So we got some benefit there that took us to the 13.8 reported risk to capital levels.

The second piece would be potential statutory relief that would allow our regulator to have additional discretion above the 25 to 1 level going forward. So that is the second piece. And then while we are evaluating additional options we are not currently pursuing the approach that you referenced our competitor is.

Donna Halverstadt - *Goldman Sachs - Analyst*

Okay. Then the last question I had was could you just update us on the current outstanding balances of the GIC and FA-backed notes and also curious whether or not you continue to look at opportunistic early retirement of some of those?

Mike Fraizer - *Genworth Financial, Inc. - Chairman, President & CEO*

Let me just give you an introduction and then I will hand it over to Pam for some more detail. Yes, we look at it opportunistically. You saw that in some prior periods, you saw that in the first quarter as well. That is sort of point one.

Point two, again, also in that whole institution area. We have basically seen planned redemptions. We haven't seen any other abnormal activity in that area. Pam, do you want to go through the numbers specifically, please?

Pam Schutz - *Genworth Financial, Inc. - President & CEO, Retirement & Protection*

Yes. Our current balances on our GICs and funding agreements is roughly $6.6 billion and as you would expect they are down.

Donna Halverstadt - *Goldman Sachs - Analyst*

All right. Thank you, everybody.

Operator

Suneet Kamath, Sanford Bernstein.

Suneet Kamath - *Sanford Bernstein - Analyst*

Great, thank you. Two questions, please. First, Pat, if you could go back to your commentary on the holding company. I think as you were walking through your cash ebbs and flows I think you said something to the effect of sufficient cash to meet other holding company obligations. Can we just drill down on exactly how much, other than the debt repayments that you mentioned, the holding company has in terms of cash needs?

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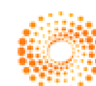

Second, just on the commentary around the US MI business. I guess I am sort of scratching my head a little bit about the Treasury programs that you referred to given that you have just got some capital relief from the North Carolina regulators. It just seems like if the regulators are moving in that direction, why would the Treasury want to give the industry more capital at a time when clearly they are pretty tapped out there?

And if that happens, would you be able to use some of that capital to support some of your other businesses through intercompany loans or would it all have to stay in the US MI subsidiary? Thanks.

Mike Fraizer - *Genworth Financial, Inc. - Chairman, President & CEO*

Pat, you want to start out please?

Pat Kelleher - *Genworth Financial, Inc. - CFO*

Okay. With respect to your first question, we ended the quarter with about $770 million of cash in the holding company. I noted that we had completed about half of our dividend plan for the year. We are well-positioned to complete the remaining half, which is a little over $200 million.

The main service obligations we have in the holding company for the year are the $660 million of long-term debt maturing in May and June. We have, I will say, debt service and other obligations which in total amount to about $170 million. And that leaves us pretty well-positioned with $150 million at year-end with some additional flexibility to raise additional cash at the holding company via a network of borrowing agreements that we have in place with affiliates. So we feel very comfortable about that.

Mike Fraizer - *Genworth Financial, Inc. - Chairman, President & CEO*

Let me give you just a couple of thoughts and turn it over to Kevin. First of all, as you walk through the levers I think you are correct to point out we have things that are clearly under our control right now. We have been using to pursue to create capital capacity to write very attractive new business, and we are going to continue to pursue that.

Secondly is when you talk about backstop or capital support or capital capacity support programs for the MI industry I think you have to recognize you look at that on an industry basis. Different players are in different situations and that the industry you can really help when you think about the housing market recovery.

If you look at the math, in general if you bring $1 billion of capital capacity to the industry and you turn around at sort of a 20 to 1 risk to capital, you can take $20 billion of risk and you turn that around on a loan to value basis you can support $80 billion of loans. Those are loans that can help this market recover. So I think the administration has certainly been proactive on the housing recovery front and this can be one additional piece to that and benefit through the entire industry.

To your specific question about if you ever decided to go down and access that type of support program it would certainly be focused solely at that business line.

Suneet Kamath - *Sanford Bernstein - Analyst*

Got it. And if I could, just one quick follow-up in terms of maybe for Pat. In terms of your RBC at 390 does that include any permitted practices from your regulators? And if so, does the projection at year-end of 350% plus include any assumption that whatever permitted practice benefit goes away? Thanks.

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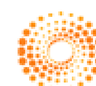

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Pat Kelleher - *Genworth Financial, Inc. - CFO*

Our 390% RBC ratio at the first quarter does not include any permitted practices from regulators, nor have we projected in our current plans the use of new permitted practices.

Suneet Kamath - *Sanford Bernstein - Analyst*

Great. Thank you.

Operator

[Joel Gross], ICMA Retirement.

Joel Gross - *ICMA Retirement - Analyst*

Good morning. Thank you. Do you have a preliminary figure for the statutory surplus at the life insurance companies as of March 31?

Mike Fraizer - *Genworth Financial, Inc. - Chairman, President & CEO*

You were just asking about the risk-based capital ratio, I am sorry? Or the actual surplus?

Joel Gross - *ICMA Retirement - Analyst*

No, (multiple speakers) not the risk-based capital, the actual statutory surplus.

Mike Fraizer - *Genworth Financial, Inc. - Chairman, President & CEO*

Yes, that is $3.1 billion.

Joel Gross - *ICMA Retirement - Analyst*

Okay. I am just curious, in the financial supplement there is a page with -- where they have a consolidated balance sheet by segment; the Retirement & Protection business has allocated stockholders' equity of $6.7 billion. And I am wondering to what extent Retirement & Protection has investment in the other business segments, International and US Mortgage Insurance?

Mike Fraizer - *Genworth Financial, Inc. - Chairman, President & CEO*

Pat?

Pat Kelleher - *Genworth Financial, Inc. - CFO*

The Retirement & Protection segment is self-contained. It doesn't have investments in the other segments.

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Joel Gross - *ICMA Retirement - Analyst*

Okay. So when there is -- the consolidation of the three businesses then the Retirement & Protection doesn't have any stock investments in any or bond investment in any of the other two segments?

Pat Kelleher - *Genworth Financial, Inc. - CFO*

That would be correct.

Joel Gross - *ICMA Retirement - Analyst*

Okay. All right, very good. Just one additional question, on the US Mortgage Insurance -- excuse me, on the Canadian mortgage insurance business how much capital does Genworth Financial have invested in that right now?

Mike Fraizer - *Genworth Financial, Inc. - Chairman, President & CEO*

As Pat said in his comments, the book value of that business is approximately $1.8 billion.

Joel Gross - *ICMA Retirement - Analyst*

Okay, $1.8 billion. Okay, very good. Are any other asset sales being considered at this time?

Mike Fraizer - *Genworth Financial, Inc. - Chairman, President & CEO*

We have basically gone through a number of strategic alternatives and we have laid out the ones that we think are best for the Company.

Joel Gross - *ICMA Retirement - Analyst*

Okay, very good. All right, thank you very much.

Mike Fraizer - *Genworth Financial, Inc. - Chairman, President & CEO*

Great - thanks for the time.

Operator

Ed Shen, Ivory.

Ed Shen - *Ivory Investment Management - Analyst*

Just had a quick question on the US Mortgage Insurance business. It looks like the benefit from the captive reinsurance went down this quarter versus prior quarters. Can you explain why that happened this quarter and whether or not you expect that trend to continue?

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Mike Fraizer - *Genworth Financial, Inc. - Chairman, President & CEO*

Kevin please take that.

Kevin Schneider - *Genworth Financial, Inc. - President & CEO, US Mortgage Insurance*

Just as a reminder, we have got a little over $1 billion in funds in the captive trusts. Our 2008 benefit was roughly $500 million and our expectation would be that '09 would run in the $250 million to $300 million range. That was expected; we have talked about it in the past.

Basically, as the captives -- in particular the 25 excess of lost captives which have a narrow range of captive support tier -- as you fill up those ranges the expected benefit resultant is that you use it up. So we have got about 500 in last year; we will get close to 250, 300 this year and that would continue to trail down over time going forward.

There is some potential favorable impact to that going forward as some of the loan modifications and loss mitigation work plays out. But our expectation would be you continue to see that trail down over time.

Ed Shen - *Ivory Investment Management - Analyst*

Okay, thank you. And in terms of the -- I think you had some figures in the press release regarding the benefits of some of the modifications. Could you review that with me and explain and give a little more color on where those are coming from?

Kevin Schneider - *Genworth Financial, Inc. - President & CEO, US Mortgage Insurance*

On the modification front we, I think, talked in the -- we had roughly $55 million worth of modification benefit in the plan. Those are modifications that had been associated with loan modifications that had been put in place by the various servicers. So we work with the borrowers and with the servicers to help them modify the loans and that benefit is reflective of those loans that were made current through those modifications in the quarter.

Ed Shen - *Ivory Investment Management - Analyst*

And are you getting benefits from rescissions as well?

Kevin Schneider - *Genworth Financial, Inc. - President & CEO, US Mortgage Insurance*

Yes, the rescission benefit I think is described is roughly $96 million on the quarter.

Ed Shen - *Ivory Investment Management - Analyst*

Do you happen to know what that was last quarter?

Kevin Schneider - *Genworth Financial, Inc. - President & CEO, US Mortgage Insurance*

I do know what that was the last quarter. I think it was -- in the first quarter of '09 again was about $96 million, the fourth quarter of '08 the total benefit was $85 million.

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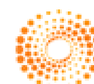

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Ed Shen - *Ivory Investment Management - Analyst*

Okay, got it. And then if I could just ask a question on the investment portfolio. It looks like the unrealized loss in total is about, I believe, $7 billion on a pretax basis. Can you just help us understand on a high level how you expect those losses to be taken or not taken over the next couple of years?

Understand that there are a lot of macro factors that would drive that. But if you could just help us frame the right way to think about that; very helpful.

Mike Fraizer - *Genworth Financial, Inc. - Chairman, President & CEO*

Let me turn that over to Ron Joelson.

Ron Joelson - *Genworth Financial, Inc. - SVP & Chief Investment Officer*

Sure. First of all, the fourth quarter -- from the fourth quarter to the first quarter was essentially unchanged, as I said in my comments. What has essentially happened is that our hybrid holdings we have seen an increase in unrealized losses, but that was very much offset by improvements pretty much all over the portfolio.

As you look toward the first quarter or look past the first quarter into April, we have seen improvements in unrealized losses of about $1 billion. Most of that is giving back what we took in losses from hybrids, so we have seen improvements in that.

So at this point we are across the portfolio seeing steady improvements in pretty much all of our asset classes. And so I would expect that as we go through recovery and the economy improves that that trend would continue.

Ed Shen - *Ivory Investment Management - Analyst*

Okay, great. Thank you.

Operator

Andrew Kligerman, UBS.

Andrew Kligerman - *UBS - Analyst*

Good morning. A lot of my questions were asked, but one thing that I thought was of interest also though is the Australian mortgage insurance business. The loss ratio jumped up from 47% last quarter to 59% this quarter. I think over the long haul you would like to keep it in the 40% range.

So maybe you could talk a little bit more about the dynamics there and where you think that is going. Are we in for another US type situation or how do you think that plays out?

Mike Fraizer - *Genworth Financial, Inc. - Chairman, President & CEO*

Thanks Andrew. Let me turn that over to Tom Mann.

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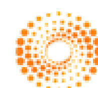

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Tom Mann - *Genworth Financial, Inc. - President & CEO, International*

Andrew, this is Tom. Let me make a quick comment on the last part of your question first and then I will talk to you specific about the loss ratio. We clearly do not see a situation anywhere in the world similar to what you have seen in the United States. I want to remind you again that the mortgage markets around the world are distinctly different from what we have seen in the United States.

There has been comparatively low levels, if not nonexistent levels, of nonprime originations particularly in Canada and Australia. It's a banking environment versus a non-banking environment. You saw very little use of mortgage-backed securities which facilitates some of the issues we saw in the United States. So these environments from a mortgage perspective are very, very different.

However, from an economic perspective as the issues we have in this country begin to move globally, you are going to see some economic pressures in all our environments. And Australia is no exception to that. Specifically, with regard to your loss ratio, it is up 12 points sequentially. And that is really driven by two things.

First is that the revenue in the business sequentially is down. So five points of that loss ratio issue is related to revenue and we believe that is a very good use in the sense that there are only seven points of loss ratio increase driven by losses. So as I indicated just a few minutes ago we have seen a material increase in the unemployment rates, really around the world, and it was very pronounced during the first quarter.

Now Australia was not impacted to the degree that other environments were, but yes there was an increase in unemployment in Australia. It did increase our flow delinquencies up. Flow delinquencies increased about 700, which was more than we saw in the fourth quarter.

However, offsetting that is when you think about the housing market there as well there is a very favorable home appreciation environment. We have seen comparatively low levels of decreases in home price depreciation. In fact if you use the peak to trough measure that we use, it's down about 4%. That is primarily in Western Australia. And actually in the first quarter we see some signs of even that stabilizing.

Also, when you think about the going forward look for Australia there are acute housing supply shortages there. The lower mortgage rates that are in place as a result of the actions by the Reserve Bank of Australia are very pronounced and there are other government programs in place to support that market. So we did see the increase from 47% to 59%.

We certainly do not want to operate our business at loss ratios at that level, but again we are in a very challenged global environment. Going forward we do expect the Australian economy to remain under pressure, although not to the degree that you see in many other environments. We do expect our losses and loss ratios to be pressured.

However, there are four offsetting factors I will remind you of. Number one, the lower mortgage rates, which we believe will continue to have a positive impact on that environment. In fact, those mortgage rates are at the lowest levels we have seen since we entered the business. I will remind you in 2008 that we raised our prices substantially and I believe that the environment could prevent further actions in that regard.

We have taken very proactive underwriting steps in Australia that we have talked about in the past. Similar to what you have heard in the United States we have launched some very extensive loan modification programs, and loan modifications globally are much easier to execute because again these loans are not in mortgage-backed securities.

So capital is strong, but we do expect some pressure. But, again, solid performance from this business in what is indeed a very challenging environment.

Andrew Kligerman - *UBS - Analyst*

Tom, that was really helpful. So just kind of the conclusion on it. It sounds like despite the pressure you can kind of at least hold in there and maintain a profitability level. Maybe even stay around the levels where you are right now for a while. Is that the way to kind of think about it?

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Tom Mann - *Genworth Financial, Inc. - President & CEO, International*

Well, I am not going to give you as specific of an answer to your question as you may be looking for. But, again, this is a stable housing environment and the Australian economy is actually stable compared to others. With the actions that I laid out for you, we clearly view that this business will continue to be profitable and soundly capitalized and will emerge from this recessionary environment very nicely.

Andrew Kligerman - *UBS - Analyst*

Thanks a lot.

Operator

Suneet Kamath, Sanford Bernstein. (Follow-up)

Suneet Kamath - *Sanford Bernstein - Analyst*

Thanks. Just a quick question on the Canadian MI IPO, and I realize that you are constrained in terms of what you can say about it. But, Mike, if you could just go through that thought process of IPO versus private sale or something along those lines. It just seems that executing an IPO perhaps in the current environment might be a little challenging, certainly uncertain, versus maybe a sale. But any thoughts around that would be helpful. Thanks.

Mike Fraizer - *Genworth Financial, Inc. - Chairman, President & CEO*

Thanks for the questions, Suneet. Certainly and you have heard us talk on prior calls we have been thoughtful about looking at lots of strategic alternatives. Again, with the criteria that I outlined in my prepared remarks. So we were equally thorough in thinking about alternatives when we looked at the Canadian mortgage insurance business and certainly have laid out what we think is clearly the best strategic alternative.

Listen, let me give you some perspectives. We worked on hard on this for a period of time and we have done our homework on this whole area. Second, as part of the preparatory work we also conducted appropriate preview and consultation work with both our insurance regulator and government officials to be in a position to move forward.

The other thing I would ask you to reflect upon is that there are some clear differences between the Canadian and the US capital markets and that is a very important consideration as you look at this economic cycle. Of course, there is some more work to do here as we complete things like our prospectus drafting and there is some additional customary regulatory reviews that we have to complete.

But while, of course, we have to look at market conditions in the weeks ahead, we are working efficiently and believe that our plans are achievable.

Suneet Kamath - *Sanford Bernstein - Analyst*

Just briefly, what are some of the things that are different about the Canadian capital markets?

Mike Fraizer - *Genworth Financial, Inc. - Chairman, President & CEO*

Well, I think you can take a pretty clear look at the Canadian financial markets and how they have performed. And I think I will leave it at that.

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Suneet Kamath - *Sanford Bernstein - Analyst*

Okay, thanks.

Operator

Ladies and gentleman, that does conclude today's Genworth Financial's first quarter earnings conference call. Thank you for your participation. The call will end at this time.

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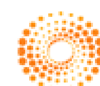

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